

**COUNTY OF MARIN**

**AUDIT REPORT**

**JUNE 30, 2007**

**COUNTY OF MARIN  
AUDIT REPORT  
For the Year Ended June 30, 2007**

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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, 2007, which collectively comprise the County’s basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the County’s management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Marin County Redevelopment Agency, the Housing Authority of the County of Marin, and the Marin County Transit District, which represent the following percentages of assets and revenues/additions as of and for the fiscal year ended June 30, 2007:

<u>Opinion Unit</u>	<u>Assets</u>	<u>Revenues/ Additions</u>
Governmental Activities	0.14%	7.48%
Business-Type Activities	80.66%	88.92%
Aggregate Remaining Fund Information	2.01%	28.55%

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

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

To the Board of Supervisors  
County of Marin

presentation. We believe that our audit and the report of other auditors provide 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, 2007, and the respective changes in financial position and cash flows where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued under separate cover, our report dated April 21, 2009, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

*Gallina LLP*

Roseville, California  
April 21, 2009

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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, 2007

In this section of the County of Marin (County) annual financial report, County management discusses financial results for the fiscal year ended June 30, 2007, and certain financial events subsequent to that date. It should be read in conjunction with the County's financial statements following this section.

### I. FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at the close of fiscal year 2006-07 by \$1,620,242,602. Of this amount, \$115,083,124 (unrestricted net assets) may be used to meet the County's ongoing obligations to citizens and creditors.
- The County's total net assets increased by \$59,449,086. Additional information on the changes in net assets can be found at page 7.
- As of June 30, 2007 the County's governmental funds reported ending fund balances of \$294,147,598, an increase of \$21,288,205. The increase is primarily due to the inclusion of funds previously reported as agency funds and now reported as other governmental funds.
- At the end of fiscal year 2006-07, unreserved/undesignated fund balance of the General Fund was \$26,629,522.

### II. OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis in this section are intended to serve as an introduction to the basic financial statements of the County of Marin and include the following:

- 1) Management Discussion and Analysis which provides the financial highlights;
- 2) The County's basic financial statements, which consist of the Government-Wide financial statements; the Fund financial statements and the Notes to the financial statements;
- 3) Required Supplementary Information.

#### A. Government-Wide Financial Statements

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

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

## COUNTY OF MARIN

### Management's Discussion and Analysis For the Year Ended June 30, 2007

As for the County, the financial position has been consistently improving over the past fiscal years: the unrestricted net assets have increased from \$103 million at June 30, 2006 to \$115 million at June 30, 2007, an increase of 10% in fiscal year 2007 as compared to fiscal year 2006.

The *statement of activities* presents information on expenses and revenues to show how the County's net assets changed during the fiscal year according to the accrual basis of accounting. 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.

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, economic development, public assistance, education and recreation. The business-type activities of the County are the activities of the Housing Authority, County Transit, County Box Office, County Fair and the County Airport.

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

#### **B. Fund Financial Statements**

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

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

The County maintains many individual governmental funds. On the financial statements for governmental funds, information is presented separately for two major fund types: the General Fund and the Capital Projects Funds. Data from the Special Revenues Funds and the Debt Service Funds are aggregated into a third, single column, the Other Governmental Funds.

## COUNTY OF MARIN

### Management's Discussion and Analysis For the Year Ended June 30, 2007

**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 Housing Authority, County Transit, County Center, Airport and Fair operations. The County also uses an internal service fund to accumulate and allocate costs internally among the County's various functions for its workers compensation insurance. This internal service fund is presented in a single column of the proprietary fund financial statements.

**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.

**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 funds financial statement, the County presents in two columns, one for several Agencies Funds and all other outside agencies in one Investment Trust Fund column. The accounting used for fiduciary funds is similar to that used for proprietary funds.

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

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

#### **D. Required Supplementary Information**

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



## COUNTY OF MARIN

### Management's Discussion and Analysis For the Year Ended June 30, 2007

### III. FINANCIAL ANALYSIS COUNTY-WIDE

Hereunder is the comparative analysis of government-wide data for fiscal year 2006-07:

#### Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities*		Total	
	2007	2006	2007	2006	2007	2006
<b>Assets:</b>						
Current and other assets	\$ 437,457,432	\$ 404,176,374	\$ 18,217,846	\$ 1,631,103	\$ 455,675,278	\$ 405,807,477
Capital assets, net	1,410,287,077	1,401,112,426	31,323,459	8,112,368	1,441,610,536	1,409,224,794
Total assets	<u>1,847,744,509</u>	<u>1,805,288,800</u>	<u>49,541,305</u>	<u>9,743,471</u>	<u>1,897,285,814</u>	<u>1,815,032,271</u>
<b>Liabilities:</b>						
Current and other liabilities	50,349,002	53,283,904	4,638,335	395,290	54,987,337	53,679,194
Noncurrent liabilities	217,922,374	200,455,299	4,133,501	104,242	222,055,875	200,559,541
Total liabilities	<u>268,271,376</u>	<u>253,739,203</u>	<u>8,771,836</u>	<u>499,532</u>	<u>277,043,212</u>	<u>254,238,735</u>
<b>Net Assets:</b>						
Invested in capital assets, net of related debt	1,366,596,633	1,353,606,333	26,603,775	7,945,295	1,393,200,408	1,361,551,628
Restricted	106,455,016	95,461,868	5,504,054	--	111,959,070	95,461,868
Unrestricted	106,421,484	102,481,396	8,661,640	1,298,644	115,083,124	103,780,040
Total Net Assets	<u>\$ 1,579,473,133</u>	<u>\$ 1,551,549,597</u>	<u>\$ 40,769,469</u>	<u>\$ 9,243,939</u>	<u>\$ 1,620,242,602</u>	<u>\$ 1,560,793,536</u>

\* See page 11 for proprietary fund comments.

The largest portion of the County's net assets (87%) reflect its investments in capital assets (e.g. land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding.

An additional portion of the County's net assets (7%) represent resources that are subject to external restrictions on how they may be used according to government rules and regulations. The remaining balance of unrestricted net assets, \$115,083,124, may be used to meet the County's ongoing obligations to citizens and creditors.

# COUNTY OF MARIN

## Management's Discussion and Analysis For the Year Ended June 30, 2007

### Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 61,579,767	\$ 36,107,362	\$ 14,512,817	\$ 2,222,411	\$ 76,092,584	\$ 38,329,773
Operating grants and contributions	179,763,216	198,395,425	44,180,894	--	223,944,110	198,395,425
Capital grants and contributions	--	--	1,085,801	1,652,309	1,085,801	1,652,309
General revenues:						
Property taxes	165,848,803	129,167,317	2,906,523	--	168,755,326	129,167,317
Sales and use taxes	2,980,581	2,204,765	--	--	2,980,581	2,204,765
Other taxes	9,830,520	10,221,974	--	--	9,830,520	10,221,974
Interest and investment earnings	14,711,655	12,126,671	534,171	20,347	15,245,826	12,147,018
Tobacco settlement revenues	2,545,345	2,453,651	--	--	2,545,345	2,453,651
Other revenue	14,525,509	83,885,177	--	--	14,525,509	83,885,177
Total revenues	451,785,396	474,562,342	63,220,206	3,895,067	515,005,602	478,457,409
<b>Expenses:</b>						
General government	89,662,322	106,491,393	--	--	89,662,322	106,491,393
Public protection	128,292,008	153,128,925	--	--	128,292,008	153,128,925
Public ways and facilities	36,194,234	17,253,370	--	--	36,194,234	17,253,370
Health and sanitation	86,269,400	105,809,981	--	--	86,269,400	105,809,981
Public assistance	53,747,450	53,549,563	--	--	53,747,450	53,549,563
Education	12,685,835	10,525,176	--	--	12,685,835	10,525,176
Recreation and culture services	14,395,195	9,106,603	--	--	14,395,195	9,106,603
Interest on long-term debt	8,816,207	10,713,008	--	--	8,816,207	10,713,008
Housing	--	--	33,441,426	--	33,441,426	--
Other business-type activities	--	--	27,634,512	2,264,493	27,634,512	2,264,493
Total Expenses	430,062,651	466,578,019	61,075,938	2,264,493	491,138,589	468,842,512
Change in net assets	21,722,745	7,984,323	2,144,268	1,630,574	23,867,013	9,614,897
Net assets, beginning	1,551,549,597	1,421,354,902	9,243,939	7,613,365	1,560,793,536	1,428,968,267
Prior period adjustment	6,200,791	122,210,372	29,381,262	--	35,582,053	122,210,372
Net assets, beginning as restated	1,557,750,388	1,543,565,274	38,625,201	7,613,365	1,596,375,589	1,551,178,639
Net assets, ending	\$ 1,579,473,133	\$ 1,551,549,597	\$ 40,769,469	\$ 9,243,939	\$ 1,620,242,602	\$ 1,560,793,536

# COUNTY OF MARIN

## Management's Discussion and Analysis For the Year Ended June 30, 2007

### 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, 2007, the County's governmental funds reported combined ending fund balance of \$294,147,598, a net increase of \$21,288,205 as compared to fiscal year 2006. This increase represents \$24.2 million increase in encumbrances, \$6.6 million increase in Notes Receivable, \$0.4 million increase in budget uncertainties, \$32.5 million increase in fund balance unreserved, undesignated, and \$0.6 million increase in reserves for prepaid expense, inventory and advances to other funds, partially offset by \$39.4 million decrease in fund balance designated by management for future expenditures, \$1.5 million decrease in tax loss reserves and \$2.2 million decrease in designations for debt service. The increase in encumbrances is due to the increase in spending for capital projects, specifically for the construction of the Health and Wellness Center of Marin and other road and public facilities improvement projects. The increase in Notes Receivable mainly represents several loans for low-income housing projects. The decrease in future spending is due to budget cuts the County has implemented to meet with the expected decrease in funding from the State. Fiscal year 2006-07 is the fourth year the County paid Pension Obligation Bond (POB) semi-annual interest. Prior year interest was partially paid by the fiscal agent. Annual POB principal payment will start in fiscal year 08-09.

A total of \$39,259,178 of fund balance is reserved to indicate that funds are not available for new spending because it has been committed: (1) to pay for contracted obligations from vendors invoices (\$29.5 million), (2) to reflect the uncertainty of collection of Notes Receivable (\$6.6 million), (3) to reflect inventories and thus does not represent available spendable resources (\$1.4 million), (4) to provide funds to Marin City Transit District (\$0.74 million) and to various other funds (\$0.7 million).

The general fund is the main operating fund of the County. At June 30, 2007, unreserved and undesignated fund balance of the general fund is \$26,629,522, while total fund balance is \$143,779,769. As measures of the general fund's liquidity, it is useful to note that unreserved and undesignated fund balance represents 7.89% total fund expenditures, while total fund balance represents 42.61% of that same amount.

Revenues for governmental funds totaled \$438,446,903, representing a decrease of \$35 million as compared to fiscal year 2006.

## COUNTY OF MARIN

### Management's Discussion and Analysis For the Year Ended June 30, 2007

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

#### Revenues in the Governmental Funds

	FY 2007		FY 2006		Change	
	Amount	% of total	Amount	% of total	Amount	% of total
Taxes	\$ 177,645,895	40.52%	\$ 141,594,056	29.87%	\$ 36,051,839	25.46%
Licenses and permits	8,921,535	2.03%	9,631,043	2.03%	(709,508)	-7.37%
Intergovernmental revenues	170,386,619	38.86%	200,849,076	42.37%	(30,462,457)	-15.17%
Charges for services	41,553,660	9.48%	17,615,944	3.72%	23,937,716	135.89%
Fines and forfeits	8,177,045	1.87%	8,860,375	1.87%	(683,330)	-7.71%
Use of money and property	14,711,655	3.36%	11,555,169	2.44%	3,156,486	27.32%
Miscellaneous	17,050,494	3.89%	83,885,177	17.70%	(66,834,683)	-79.67%
Total Revenues	<u>\$ 438,446,903</u>	<u>100.00%</u>	<u>\$ 473,990,840</u>	<u>100.00%</u>	<u>\$ (35,543,937)</u>	<u>-7.50%</u>

The County's total revenues in fiscal year 2007 decreased by \$35 million as compared to fiscal year 2006. This decrease is mainly due to \$30 million decrease in Intergovernmental revenues and \$67 million decrease in Miscellaneous revenues, partially offset by \$36 million increase in Taxes revenues and \$24 million increase in Charges for Services revenues. Significant changes for major revenue sources are explained below:

- **Taxes revenues**, representing 40% of the County's total revenues, are property tax revenues, special taxes, fees and assessments revenues, sales tax revenues, and Transient Occupancy Tax revenues. The \$36 million increase in taxes revenues in fiscal year 2007, as compared to fiscal year 2006, is mainly due to an increase in property tax rate and property fair market value as well as an increase in other taxes.
- **Intergovernmental revenues**, representing 38.9% of total revenues, provide funding sources to the County for various services to the citizens, such as health services, social services and public protections services. The \$30 million decrease in Intergovernmental revenues in fiscal year 2007, as compared to fiscal year 2006, is mainly due to a decrease in funding from State and Federal grants.
- **Charges for Services**, representing 9.4% of total revenues, increased by \$24 million in fiscal year 2007, as compared to fiscal year 2006.
- **Miscellaneous revenues**, representing 4% of the County's total revenues, decreased by \$67 million in fiscal year 2007, as compared to fiscal year 2006, due to an one time reclassification of the County's trust funds to governmental funds in 2006.

## COUNTY OF MARIN

### Management's Discussion and Analysis For the Year Ended June 30, 2007

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

#### Expenditures in the Governmental Funds

	FY 2007		FY 2006		Change	
	Amount	% of total	Amount	% of total	Amount	%
Current:						
General government	\$ 84,263,526	18.96%	\$ 99,449,922	22.03%	\$ (15,186,396)	-15.27%
Public protection	125,217,313	28.17%	149,987,737	33.23%	(24,770,424)	-16.51%
Public ways	26,946,567	6.06%	7,937,008	1.76%	19,009,559	239.51%
Health & sanitation	85,683,169	19.28%	104,075,435	23.06%	(18,392,266)	-17.67%
Public assistance	53,709,223	12.08%	52,127,970	11.55%	1,581,253	3.03%
Education	12,688,534	2.85%	10,160,507	2.25%	2,528,027	24.88%
Culture and recreation	13,830,438	3.11%	8,329,191	1.85%	5,501,247	66.05%
Capital outlay	29,087,206	6.54%	4,711,677	1.04%	24,375,529	517.34%
Debt service:						
Principal	3,892,833	0.88%	3,901,055	0.86%	(8,222)	-0.21%
Interest	8,495,748	1.91%	10,732,387	2.38%	(2,236,639)	-20.84%
Issuance costs	628,378	0.14%	-	0.00%	628,378	-
Total	<u>\$ 444,442,935</u>	<u>100.00%</u>	<u>\$ 451,412,889</u>	<u>100.00%</u>	<u>\$ (6,969,954)</u>	<u>-1.54%</u>

The County's total expenses in fiscal year 2007 decreased by \$7 million as compared to fiscal year 2006. This decrease is mainly due to \$25 million decrease in Public Protection, \$18 million decrease in Health & Sanitation, \$15 million decrease in General Government, partially offset by \$3 million increase in Education, \$24 million increase in Capital Outlay, \$19 million increase in Public Ways, and \$6 million increase in Culture and Recreation expenditures. Significant changes for major expenditures functions in the governmental funds are explained below:

- **General Government** expenditures, representing 19% of the County's total expenditures, decreased by \$15 million in fiscal year 2007 as compared to fiscal year 2006. This decrease reflected the County's budget cut implemented to meet the expected downturn economy in California.
- **Public Protection** expenditures, representing 28% of the County's total expenditures, decreased by \$25 million in fiscal year 2007 as compared to fiscal year 2006. This decrease reflected the decrease in funding sources from Intergovernmental revenues.
- **Health and Sanitation** expenditures, representing 19% of the County's total expenditures, decreased by \$18 million in fiscal year 2007, as compared to fiscal year 2006. This decrease reflected to the decrease in funding sources from Intergovernmental revenues.
- **Capital Outlay** expenditures, representing 7% of the County's total expenditures, increased by \$24 million in fiscal year 2007, as compared to fiscal year 2006. This increase is mainly due to the purchase of buildings and construction of the County's Health and Wellness Center.

## COUNTY OF MARIN

### Management's Discussion and Analysis For the Year Ended June 30, 2007

- **Public Ways** expenditures, representing 6% of the County's total expenditures, increased by \$19 million in fiscal year 2007, as compared to fiscal year 2006. This increase is mainly due to Road and Storm damage repair program to provide immediate and on going response to two declared storm disasters, major flooding and continuous storm conditions, implementation of a five-year Road resurfacing and Bridge repair program, and implementation of the County's disability access program.
- **Cultural and Recreation** expenditures, representing 2% of the County's total expenditures, increased by \$6 million in fiscal year 2007 as compared to fiscal year 2006. This increase reflected the increased funding for the County's Marin Center, Park & Open Space and Farm Advisors programs.

**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 five Enterprise funds: the Housing Authority, the Marin County Transit District, the Marin Center, the County Airport and the County Fair. In addition to these Enterprise funds, the Proprietary Funds statement also includes one Internal Service fund, which is the Marin County's Workers' Compensation fund. Factors affecting the financial results of these funds were discussed earlier in the business-type activities of the County.

The Marin County Housing Authority with assets of \$34,451,543 and revenues of \$32,887,870 and the Marin County Transit District with assets of \$5,509,843 and revenues of \$22,261,529 were not included in the FY 2006 Marin County Financial Statements. The addition of these funds to the FY 2007 Marin County Financial Statements would account for the significant increase in Business-type Activities as compared to the prior year.

### GENERAL FUND BUDGETARY HIGHLIGHTS

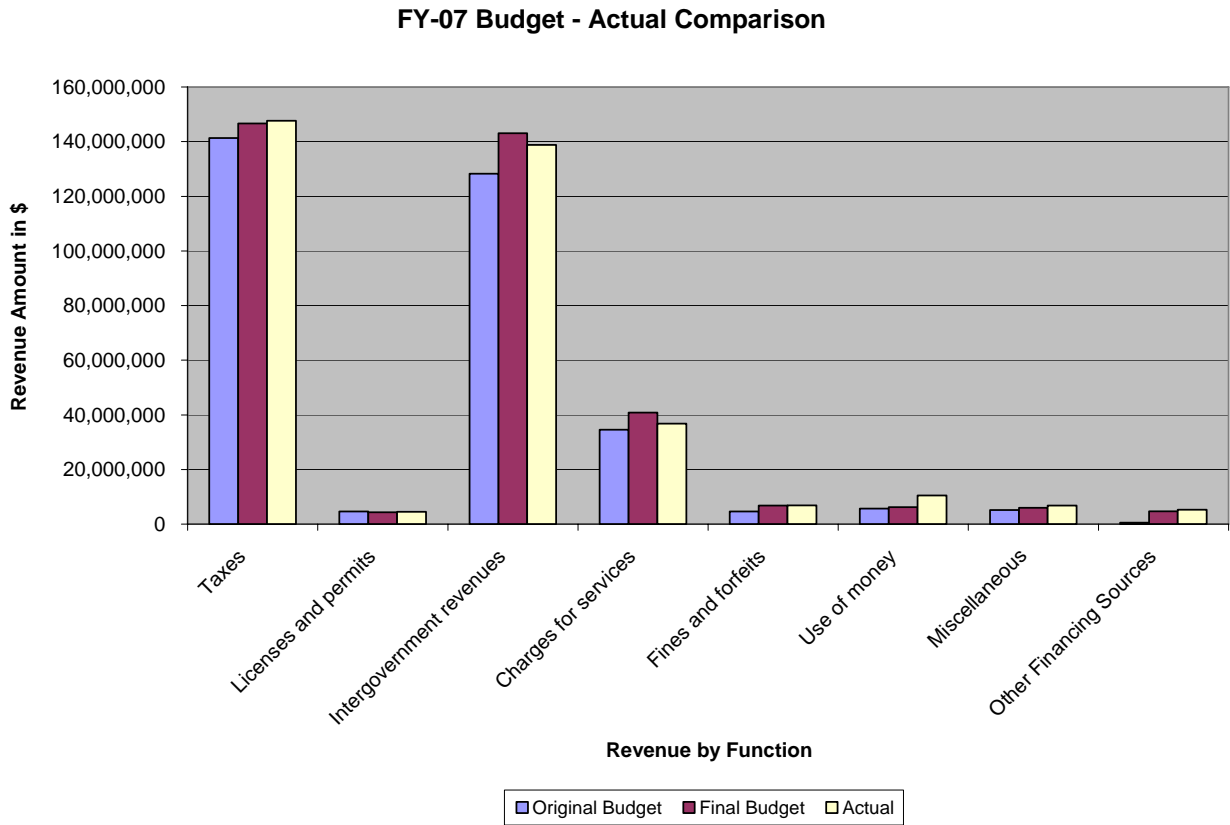
During fiscal year 2007, actual general fund resource inflow was less than final budgeted resource inflow by \$1.5 million while on the financial outflow, actual general fund spending was less than the final budgeted appropriation by \$29.3 million. This variance between the final budgeted spending and the actual spending was mainly due to a reduction of \$34.3 million in General Government spending, resulting from overall reduction of the County's spending due to the budget cut, partially offset by \$12.7 million of non-budgeted transfers out from the General Fund to the Capital Project Funds for funding of capital projects.

Resources (revenues & other financing sources) and appropriations (expenditures & other financing uses) represent the legal level of budgetary controls. In fiscal year 2006-07, the final budgeted resources of the general fund are \$358,748,774. This is \$33,857,613 or 10.4% higher than the original budget of \$324,891,161. The final budgeted appropriation for the General Fund is \$417,331,582 or \$64,531,192 or 18.3% higher than the original budgeted appropriation of \$352,800,390.

# COUNTY OF MARIN

## Management's Discussion and Analysis For the Year Ended June 30, 2007

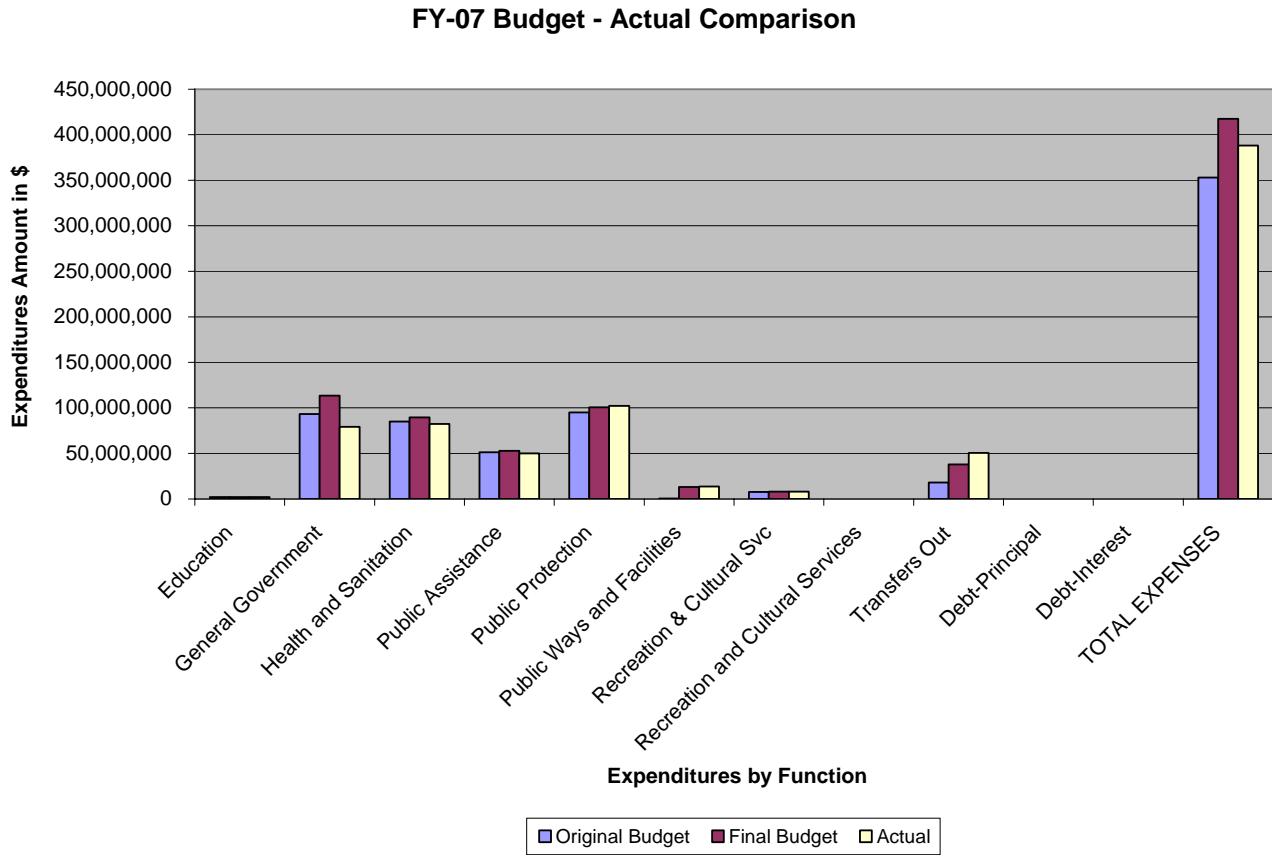
The following chart provides a comparison of budgeted resources with final budget and actuals by revenue type:



# COUNTY OF MARIN

## Management's Discussion and Analysis For the Year Ended June 30, 2007

The following chart provides a comparison of budgeted expenditures with final budget and actual expenditures by function:



## V. CAPITAL ASSETS AND DEBT ADMINISTRATION

### A. Capital Assets

The County's investment in capital assets for its governmental and business type activities as of June 30, 2007, amounts to \$1,441,610,536 (net of accumulated depreciation). This investment in capital assets includes land, structures and improvements, equipment and general infrastructure (i.e. roads, bridges, flood control networks, and sewage systems).



## COUNTY OF MARIN

### Management's Discussion and Analysis For the Year Ended June 30, 2007

The following table provides a comparison of County's capital assets net of accumulated depreciation in fiscal year 2006/07 compared with fiscal year 2005/06:

#### Capital Assets

(Net of Depreciation)

	Governmental Activities		Business-type Activities		Total		Change Inc (Dec)
	2007	2006	2007	2006	2007	2006	
Land and infrastructure land	\$ 1,220,623,366	\$ 1,216,948,901	\$ 6,324,264	\$ 3,541,837	\$ 1,226,947,630	\$ 1,220,490,738	\$ 6,456,892
Structures and improvements	73,433,372	85,070,078	20,522,063	1,659,503	93,955,435	86,729,581	7,225,854
Equipment	7,358,703	8,405,086	605,621	89,338	7,964,324	8,494,424	(530,100)
Infrastructure	80,085,125	79,539,949	--	--	80,085,125	79,539,949	545,176
Depreciable land improvement	--	--	--	607,712	--	607,712	(607,712)
Other property	--	--	2,568,438	--	2,568,438	--	2,568,438
Construction in progress	28,786,511	11,148,412	1,303,073	2,213,978	30,089,584	13,362,390	16,727,194
Total	<u>\$1,410,287,077</u>	<u>\$1,401,112,426</u>	<u>\$31,323,459</u>	<u>\$8,112,368</u>	<u>\$1,441,610,536</u>	<u>\$1,409,224,794</u>	<u>\$32,385,742</u>

Additional information regarding capital assets can be found in Note 6 on page 46.

#### B. Long-Term Debt

At June 30, 2007, the County had total long-term debt outstanding of \$257,445,238 consisting of \$173,729,386 in bonds payable, \$42,085,000 in outstanding certificates of participation, \$1,509,358 in capitalized lease obligations, \$5,800,360 in loans payable, \$12,211,134 in compensated absences payable, and \$22,110,000 in claims liability.

Additional information on the County's long-term liabilities can be found in Note 6 on page 46.

#### VII. Economic Factors and FY 2007-08 Budget

As the momentum of the real estate market in the Bay Area slowed, Marin's local business activities showed continued stability. Several factors predicted a downturn in Marin's economy: 1) over-consumption of housing equity by homeowners has encouraged excessive spending and spiked up household debt burdens; 2) ease of access to credit made mortgage lending more accessible to an even wider audience of borrowers under the climate of low interest rates and relaxed underwriting requirements; this practice, however, has invited many housing speculators into the market causing housing price to overvalue; 3) the lack of regulatory oversight for the financial market on the trading and investing of Mortgage Backed Securities and Credit Default Swaps has furnished us yet another indicator that the economy is booming at too fast a pace. The above factors along with our traditional cautionary discipline led us to conservatively plan the County's fiscal affairs.

## COUNTY OF MARIN

### Management's Discussion and Analysis For the Year Ended June 30, 2007

As for the landscape in California's economy, the over-extending of state's credit capacity is of primary concern to us. And there is always a risk of revenue reductions from State sources during the next and subsequent fiscal years. Hence, the County has developed budget goals that address these conditions, in particular by developing contingency plans for possible reductions in State revenues. In addition to contingency planning, the County has designated \$24,000,000 Governmental Fund balance to address budget uncertainties.

All of these factors were considered in preparing the County's budget for the fiscal year 2007-08. The estimated financing sources increased from \$352.8 million to \$384.6 million or 9% and proposed financing requirements grew 8% or from \$384.9 million to \$415.8 million for the County-Wide Funds for 2006-07 compared to 2007-08.

#### **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:

Bryon A. Karow  
Assistant 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, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and investments in County pool	\$ 282,519,408	\$ 6,144,611	\$ 288,664,019
Other outside investments	--	3,220,164	3,220,164
Receivables:			
Accounts and other - net	9,443,034	94,231	9,537,265
Taxes	1,014,009	57,329	1,071,338
Due from other agencies	18,667,024	1,514,223	20,181,247
Employee loans	1,072,438	--	1,072,438
Other loans	9,883,406	4,281,747	14,165,153
Inventories	1,396,571	--	1,396,571
Prepaid items and other assets	289,127	1,108,273	1,397,400
Internal balances	740,000	(740,000)	--
Restricted cash held with trustee	14,194,174	--	14,194,174
Other restricted cash		2,537,268	2,537,268
Deferred fiscal charges	4,234,081	--	4,234,081
Net pension asset	94,004,160	--	94,004,160
Capital assets:			
Nondepreciable	1,249,409,877	7,627,337	1,257,037,214
Depreciable, net	160,877,200	23,696,122	184,573,322
<b>Total assets</b>	<u>\$ 1,847,744,509</u>	<u>\$ 49,541,305</u>	<u>\$ 1,897,285,814</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 5,427,730	\$ 3,102,125	\$ 8,529,855
Salaries and benefits payable	4,658,270	145,748	4,804,018
Accrued interest payable	3,559,489	686,410	4,245,899
Unearned revenues	68,077	10,256	78,333
Other liabilities	1,389,708	550,161	1,939,869
Estimated claims	22,110,000	--	22,110,000
Compensated absences:			
Due within one year	9,215,321	42,885	9,258,206
Due beyond one year	2,820,475	132,453	2,952,928
Long-term liabilities:			
Due within one year	3,920,407	100,750	4,021,157
Due beyond one year	215,101,899	4,001,048	219,102,947
<b>Total liabilities</b>	<u>268,271,376</u>	<u>8,771,836</u>	<u>277,043,212</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,366,596,633	26,603,775	1,393,200,408
Restricted:			
Economic development	9,413,069	--	9,413,069
General government	22,659,199	--	22,659,199
Health and sanitation	16,650,987	--	16,650,987
Public assistance	1,984,890	--	1,984,890
Public protection	6,449,898	--	6,449,898
Public ways & facilities	26,848,849	--	26,848,849
Recreation	10,576,658	--	10,576,658
Debt service	11,600,660	5,504,054	17,104,714
Capital assets acquisition	270,806	--	270,806
Unrestricted	106,421,484	8,661,640	115,083,124
<b>Total net assets</b>	<u>1,579,473,133</u>	<u>40,769,469</u>	<u>1,620,242,602</u>
<b>Total liabilities and net assets</b>	<u>\$ 1,847,744,509</u>	<u>\$ 49,541,305</u>	<u>\$ 1,897,285,814</u>

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

**COUNTY OF MARIN**

Statement of Activities  
For the Year Ended June 30, 2007

Functions/Programs	Program Revenues			
	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	
<b>Primary Government</b>				
Governmental Activities:				
General government	\$ 89,662,322	\$ 27,098,290	\$ 6,462,024	\$ --
Public protection	128,292,008	23,839,244	34,794,734	--
Public ways and facilities	36,194,234	2,969,253	21,040,763	--
Health and sanitation	86,269,400	3,196,864	67,812,753	--
Public assistance	53,747,450	748,938	48,323,414	--
Education	12,685,835	1,381,536	1,247,737	--
Recreation and cultural services	14,395,195	2,345,642	81,791	--
Debt Service:				
Interest and fiscal charges	8,816,207	--	--	--
Total governmental activities	<u>430,062,651</u>	<u>61,579,767</u>	<u>179,763,216</u>	<u>--</u>
Business-Type Activities:				
Housing Authority	33,441,426	2,492,476	30,117,079	1,068,445
Other business-type activities	27,634,512	12,020,341	14,063,815	17,356
Total business-type activities	<u>61,075,938</u>	<u>14,512,817</u>	<u>44,180,894</u>	<u>1,085,801</u>
Total primary government	<u>\$ 491,138,589</u>	<u>\$ 76,092,584</u>	<u>\$ 223,944,110</u>	<u>\$ 1,085,801</u>

General Revenues:

Taxes:

Property taxes

Sales and use taxes

Other

Unrestricted interest and investment earnings

Tobacco settlement

Miscellaneous

Total general revenues and transfers

Change in net assets

Net assets, beginning of year

Prior period adjustment

Net assets, end of year

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

Net (Expenses) Revenues and  
Changes in Net Assets

Primary Government		
Governmental Activities	Business- Type Activities	Total
\$ (56,102,008)	\$ --	\$ (56,102,008)
(69,658,030)	--	(69,658,030)
(12,184,218)	--	(12,184,218)
(15,259,783)	--	(15,259,783)
(4,675,098)	--	(4,675,098)
(10,056,562)	--	(10,056,562)
(11,967,762)	--	(11,967,762)
(8,816,207)	--	(8,816,207)
(188,719,668)	--	(188,719,668)
--	236,574	236,574
--	(1,533,000)	(1,533,000)
--	(1,296,426)	(1,296,426)
(188,719,668)	(1,296,426)	(190,016,094)
165,848,803	2,906,523	168,755,326
2,980,581	--	2,980,581
9,830,520	--	9,830,520
14,711,655	534,171	15,245,826
2,545,345	--	2,545,345
14,525,509	--	14,525,509
210,442,413	3,440,694	213,883,107
21,722,745	2,144,268	23,867,013
1,551,549,597	9,243,939	1,560,793,536
6,200,791	29,381,262	35,582,053
\$ 1,579,473,133	\$ 40,769,469	\$ 1,620,242,602

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, 2007

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
Cash and investments in County pool	\$ 124,943,226	\$ 58,270,000	\$ 79,096,507	\$ 262,309,733
Cash with fiscal agent	6,618,956	2,640,190	4,935,028	14,194,174
Receivables:				
Taxes	1,014,009	--	--	1,014,009
Accounts	8,913,990	248,348	280,696	9,443,034
Notes receivable	2,927,527	203,554	6,752,325	9,883,406
Employee loans receivable	1,072,438	--	--	1,072,438
Due from other funds	8,570	--	--	8,570
Due from other governmental agencies	17,981,404	85,038	592,012	18,658,454
Advances to other funds	1,460,190	--	--	1,460,190
Prepaid expenses	3,450	285,677	--	289,127
Inventory of supplies	1,245,098	--	151,473	1,396,571
	<u>166,188,858</u>	<u>61,732,807</u>	<u>91,808,041</u>	<u>319,729,706</u>
Total assets				
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued expenses	\$ 3,467,594	\$ 1,170,448	\$ 789,688	\$ 5,427,730
Accrued salaries and benefits	4,236,335	--	421,935	4,658,270
Advances payable	--	--	720,190	720,190
Deferred revenue	13,318,133	--	68,077	13,386,210
Fiduciary liabilities	--	--	2,681	2,681
Other liabilities	1,387,027	--	--	1,387,027
Total liabilities	<u>22,409,089</u>	<u>1,170,448</u>	<u>2,002,571</u>	<u>25,582,108</u>
<b><u>FUND BALANCES</u></b>				
Reserved for:				
Encumbrances	15,744,951	8,782,289	4,940,725	29,467,965
Prepaid expenses	3,450	285,677	--	289,127
Advances to other funds	1,460,190	--	--	1,460,190
Inventories	1,245,098	--	151,473	1,396,571
Notes receivable	--	110,000	6,535,325	6,645,325
Unreserved:				
Designated:				
Subsequent expenditures	54,881,989	30,188,834	1,312,845	86,383,668
Self-insurance	20,814,569	--	--	20,814,569
Retirement rate stabilization	4,000,000	--	--	4,000,000
Budget uncertainties	19,000,000	--	5,000,000	24,000,000
Debt service	--	--	1,584,438	1,584,438
Undesignated				
Reported in the General Fund	26,629,522	--	--	26,629,522
Reported in Special Revenue Funds	--	--	56,704,953	56,704,953
Reported in Capital Projects Funds	--	21,195,559	--	21,195,559
Reported in Debt Service Funds	--	--	13,575,711	13,575,711
Total fund balances	<u>143,779,769</u>	<u>60,562,359</u>	<u>89,805,470</u>	<u>294,147,598</u>
Total liabilities and fund balances	<u>\$ 166,188,858</u>	<u>\$ 61,732,807</u>	<u>\$ 91,808,041</u>	<u>\$ 319,729,706</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, 2007

Fund Balance - total governmental funds (page 19) \$ 294,147,598

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	1,220,623,366	
Construction in progress	28,786,511	
Infrastructure, net of accumulated depreciation	80,085,125	
Buildings and improvements, net of accumulated depreciation	73,433,372	
Equipment, net of accumulated depreciation	7,358,703	
Total capital assets		1,410,287,077

Long-term assets used in Governmental Activities, such as the net pension asset and deferred fiscal charges, are not current financial resources and, therefore, are not reported in the Governmental Funds. 98,238,241

Deferred revenue represents amounts that are not available to fund current expenditures and, therefore, are not reported in the Governmental Funds. 13,318,133

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. 20,209,675

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	(217,617,189)	
Capital leases	(1,405,117)	
Accrued interest on long-term debt	(3,559,489)	
Compensated absences	(12,035,796)	
Claims and judgments	(22,110,000)	
Total long-term liabilities		(256,727,591)

Net assets of governmental activities (page 16) \$ 1,579,473,133

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, 2007

	General	Capital Projects	Other Governmental Funds	Total
<b>Revenues:</b>				
Taxes	\$ 147,659,544	\$ --	\$ 29,986,351	\$ 177,645,895
Licenses and permits	4,523,448	--	4,398,087	8,921,535
Intergovernmental revenues	138,783,827	644,777	30,958,015	170,386,619
Charges for services	36,766,235	1,625,450	3,161,975	41,553,660
Fines and forfeits	6,899,410	585,504	692,131	8,177,045
From use of money and property	10,511,155	64,237	4,136,263	14,711,655
Miscellaneous	6,829,452	205,590	10,015,452	17,050,494
Total revenues	<u>351,973,071</u>	<u>3,125,558</u>	<u>83,348,274</u>	<u>438,446,903</u>
<b>Expenditures:</b>				
Current:				
General government	79,050,243	557,934	4,655,349	84,263,526
Public protection	102,236,367	--	22,980,946	125,217,313
Public ways and facilities	13,740,066	308,812	12,897,689	26,946,567
Health and sanitation	82,376,174	--	3,306,995	85,683,169
Public assistance	50,053,202	--	3,656,021	53,709,223
Education	1,909,889	--	10,778,645	12,688,534
Recreation and cultural services	8,034,738	--	5,795,700	13,830,438
Capital outlay	--	29,087,206	--	29,087,206
Debt Service:				
Principal	12,833	--	3,880,000	3,892,833
Interest	8,295	--	8,487,453	8,495,748
Issuance costs	--	--	628,378	628,378
Total expenditures	<u>337,421,807</u>	<u>29,953,952</u>	<u>77,067,176</u>	<u>444,442,935</u>
Excess (deficiency) of revenues over (under) expenditures	<u>14,551,264</u>	<u>(26,828,394)</u>	<u>6,281,098</u>	<u>(5,996,032)</u>
Other Financing Sources (Uses):				
Transfers in	5,251,580	64,589,245	8,234,533	78,075,358
Transfers out	(50,652,604)	(2,479,890)	(24,942,864)	(78,075,358)
Sale of capital assets	20,360	--	--	20,360
Debt refunding to escrow agent	--	--	(32,767,063)	(32,767,063)
Issuance of debt	--	--	48,937,193	48,937,193
Total other financing sources (uses)	<u>(45,380,664)</u>	<u>62,109,355</u>	<u>(538,201)</u>	<u>16,190,490</u>
Net change in fund balances	(30,829,400)	35,280,961	5,742,897	10,194,458
Fund balances, beginning of year	209,350,955	25,550,304	37,958,134	272,859,393
Prior period adjustment	(34,741,786)	(268,906)	46,104,439	11,093,747
Fund balances, beginning of year - restated	<u>174,609,169</u>	<u>25,281,398</u>	<u>84,062,573</u>	<u>283,953,140</u>
Fund balances, end of year	<u>\$ 143,779,769</u>	<u>\$ 60,562,359</u>	<u>\$ 89,805,470</u>	<u>\$ 294,147,598</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, 2007

Net change to fund balance - total governmental funds (page 21)		\$ 10,194,458
Amounts reported for governmental activities in the statement of activities are different because:		
<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	\$ 31,596,680	
Less: current year depreciation	<u>(19,128,740)</u>	12,467,940
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		13,318,133
<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>		
Issuance of refunding certificates of participation	(49,870,081)	
Discount on refunding certificates of participation	932,888	
Payments to refunding agent	32,767,063	
Debt issuance costs	628,377	
Amortization of bond discount	(62,193)	
Amortization of deferred fiscal charges	(140,194)	
Amortization of loss on refunding	(146,574)	
Accretion of loan payable	(46,675)	
Repayment of bonds, certificates of participation, and notes	<u>3,892,833</u>	
Net adjustment		(12,044,556)
<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>		
Repayment of capital lease obligations		947,816
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds</p>		
Change in compensated absences	(756,832)	
Amortization of net pension asset	(4,700,210)	
Accrued interest on long-term debt	<u>75,178</u>	
Net adjustment		(5,381,864)
<p>Internal service funds are used by the County to charge the cost of worker's compensation insurance to individual funds. The net revenue of internal service fund is reported with governmental activities.</p>		
		<u>2,220,818</u>
Change in net assets of governmental activities (page 18)		<u>\$ 21,722,745</u>

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

**COUNTY OF MARIN**

Statement of Fund Net Assets  
Proprietary Funds  
June 30, 2007

	Business-type Activities			Governmental
	Housing Authority	Nonmajor	Total	Activities
		Enterprise Funds		Internal
				Service Funds
<b>ASSETS</b>				
Current Assets:				
Cash and investments in County pool	\$ --	\$ 6,144,611	\$ 6,144,611	\$ 20,209,675
Other cash	3,220,164	--	3,220,164	--
Receivables:				
Taxes	--	57,329	57,329	--
Accounts	94,231	--	94,231	--
Prepaid items and other assets	132,048	884,000	1,016,048	--
Deposits with others	--	92,225	92,225	--
Short-term notes receivable	1,117	--	1,117	--
Due from other governments	800,995	713,228	1,514,223	--
Total current assets	<u>4,248,555</u>	<u>7,891,393</u>	<u>12,139,948</u>	<u>20,209,675</u>
Noncurrent Assets:				
Restricted cash	2,537,268	--	2,537,268	--
Long-term notes receivable	4,280,630	--	4,280,630	--
Capital assets:				
Nondepreciable	4,085,499	3,541,838	7,627,337	--
Depreciable, net	19,299,591	4,396,531	23,696,122	--
Total noncurrent assets	<u>30,202,988</u>	<u>7,938,369</u>	<u>38,141,357</u>	<u>--</u>
<b>Total assets</b>	<u>\$ 34,451,543</u>	<u>\$ 15,829,762</u>	<u>\$ 50,281,305</u>	<u>\$ 20,209,675</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Vouchers and accounts payable	\$ 277,565	\$ 1,979,528	\$ 2,257,093	\$ --
Interest payable	--	22,733	22,733	--
Accrued salaries and benefits	142,556	3,192	145,748	--
Due to other agencies	550,161	--	550,161	--
Deferred revenues	10,256	--	10,256	--
Compensated absences	36,888	5,997	42,885	--
Mortgages payable	42,300	--	42,300	--
Capital leases	--	58,450	58,450	--
Total current liabilities	<u>1,059,726</u>	<u>2,069,900</u>	<u>3,129,626</u>	<u>--</u>
Long-Term Liabilities:				
Security deposits and escrows payable (payable from restricted assets:)	845,032	--	845,032	--
Advances from other funds	--	740,000	740,000	--
Compensated absences	110,659	21,794	132,453	--
Deferred interest due on long-term debt	663,677	--	663,677	--
Long-term debt	3,955,257	--	3,955,257	--
Capital leases	--	45,791	45,791	--
Estimated claims	--	--	--	17,781,000
Total noncurrent liabilities	<u>5,574,625</u>	<u>807,585</u>	<u>6,382,210</u>	<u>17,781,000</u>
Total liabilities	<u>6,634,351</u>	<u>2,877,485</u>	<u>9,511,836</u>	<u>17,781,000</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	18,723,856	7,879,919	26,603,775	--
Restricted	5,504,054	--	5,504,054	--
Unrestricted	3,589,282	5,072,358	8,661,640	2,428,675
Total net assets	<u>27,817,192</u>	<u>12,952,277</u>	<u>40,769,469</u>	<u>2,428,675</u>
<b>Total liabilities and net assets</b>	<u>\$ 34,451,543</u>	<u>\$ 15,829,762</u>	<u>\$ 50,281,305</u>	<u>\$ 20,209,675</u>

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

**COUNTY OF MARIN**

Statement of Revenues, Expenses and  
Changes in Net Assets  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2007

	Business-Type Activities			Governmental Activities
	Housing Authority	Nonmajor Enterprise Funds	Total	Internal Service Funds
<b>Operating Revenues:</b>				
Charges for services	\$ 2,307,868	\$ 7,973,256	\$ 10,281,124	\$ 5,331,148
Miscellaneous	--	4,047,085	4,047,085	124,837
<b>Total operating revenues</b>	<b>2,307,868</b>	<b>12,020,341</b>	<b>14,328,209</b>	<b>5,455,985</b>
<b>Operating Expenses:</b>				
Salaries and employee benefits	--	670,126	670,126	--
Services and supplies	--	26,490,284	26,490,284	404,935
Housing assistance	32,060,062	--	32,060,062	--
Claims expense	--	--	--	2,826,954
Depreciation	1,125,965	441,441	1,567,406	--
<b>Total operating expenses</b>	<b>33,186,027</b>	<b>27,601,851</b>	<b>60,787,878</b>	<b>3,231,889</b>
<b>Operating Income (Loss)</b>	<b>(30,878,159)</b>	<b>(15,581,510)</b>	<b>(46,459,669)</b>	<b>2,224,096</b>
<b>Non-Operating Revenues (Expenses):</b>				
Property tax revenue	--	2,906,523	2,906,523	--
Intergovernmental revenue	30,285,946	14,063,815	44,349,761	--
Investment income	216,132	443,450	659,582	--
Loss on asset disposal	(2,758)	--	(2,758)	--
Other income	77,924	--	77,924	--
Other expense	(309,386)	--	(309,386)	--
Interest expense	(130,849)	(35,939)	(166,788)	--
<b>Total non-operating revenues (expenses)</b>	<b>30,137,009</b>	<b>17,377,849</b>	<b>47,514,858</b>	<b>--</b>
<b>Income (Loss) Before Capital Contributions</b>	<b>(741,150)</b>	<b>1,796,339</b>	<b>1,055,189</b>	<b>2,224,096</b>
Capital contributions	1,068,445	17,356	1,085,801	--
<b>Change in net assets</b>	<b>327,295</b>	<b>1,813,695</b>	<b>2,140,990</b>	<b>2,224,096</b>
Net assets, beginning of year	--	9,247,217	9,247,217	204,579
Prior period adjustment	27,489,897	1,891,365	29,381,262	--
Net assets, beginning of year - restated	27,489,897	11,138,582	38,628,479	204,579
Net assets, end of year	\$ 27,817,192	\$ 12,952,277	\$ 40,769,469	\$ 2,428,675

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, 2007

	Business-Type Activities - Enterprise Funds			Governmental
	Housing Authority	Nonmajor Enterprise Funds	Total	Internal Service Funds
<b>Cash Flows from Operating Activities</b>				
Cash receipts from customers	\$ 2,305,953	\$ 11,693,500	\$ 13,999,453	\$ --
Cash receipts from internal fund services provided	--	--	--	5,455,985
Cash paid to suppliers for goods and services	(27,742,075)	(24,683,815)	(52,425,890)	(3,231,889)
Cash paid to employee's for salaries and benefits	(4,085,168)	(691,513)	(4,776,681)	--
Net cash provided (used) by operating activities	(29,521,290)	(13,681,828)	(43,203,118)	2,224,096
<b>Cash Flows from Noncapital Financing Activities</b>				
Property tax revenues	--	2,906,523	2,906,523	--
Operating grants received	29,927,220	--	29,927,220	--
Intergovernmental revenues	--	14,063,815	14,063,815	--
Repayment of notes receivable	425,957	--	425,957	--
Notes receivable issued	(552,710)	--	(552,710)	--
Deposits held on behalf of another entity	(96,745)	--	(96,745)	--
Interest received on notes receivable	199,893	--	199,893	--
Other restricted receipts	77,923	--	77,923	--
Interest on restricted cash	41,557	--	41,557	--
Borrowing with related parties	32,917	--	32,917	--
Extra ordinary maintenance expenditures	(319,168)	--	(319,168)	--
Investment income	--	443,450	443,450	--
Interest expense	(30,052)	(35,939)	(65,991)	--
Net cash provided (used) by noncapital financing activities	29,706,792	17,377,849	47,084,641	--
<b>Cash Flows from Capital and Related Financing Activities</b>				
Capital contributions	1,068,445	17,356	1,085,801	--
Interest repayments related to capital purposes	(69,315)	--	(69,315)	--
Payments related to the acquisition of capital assets	(1,165,884)	--	(1,165,884)	--
Net cash provided (used) by capital and related financing activities	(166,754)	17,356	(149,398)	--
Net increase (decrease) in cash and cash equivalents	18,748	3,713,377	3,732,125	2,224,096
Cash and cash equivalents, beginning of year	5,738,684	2,431,234	8,169,918	17,985,579
Cash and cash equivalents, end of year	\$ 5,757,432	\$ 6,144,611	\$ 11,902,043	\$ 20,209,675

continued

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

**COUNTY OF MARIN**

Statement of Cash Flows (continued)  
 Proprietary Funds  
 For the Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds			Governmental Activities
	Housing Authority	Nonmajor Enterprise Funds	Total	Internal Service Funds
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>				
Operating income (loss)	\$ (30,878,159)	\$ (15,581,510)	\$ (46,459,669)	\$ 2,224,096
Adjustments to reconcile operating income (loss) to cash flows from operating activities:				
Depreciation	1,125,965	441,441	1,567,406	--
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	27,287	(30,851)	(3,564)	--
Prepaid items and other assets	(32,061)	(192,967)	(225,028)	--
Increase (decrease) in:				
Accounts payable	265,617	1,999,436	2,265,053	--
Salaries payable	(15,903)	(7,387)	(23,290)	--
Deferred revenue	(2,120)	(295,990)	(298,110)	--
Liability for compensated absences	(11,916)	(14,000)	(25,916)	--
<b>Net Cash Provided (Used) by Operating Activities</b>	<b>\$ (29,521,290)</b>	<b>\$ (13,681,828)</b>	<b>\$ (43,203,118)</b>	<b>\$ 2,224,096</b>

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

**COUNTY OF MARIN**

Statement of Fiduciary Net Assets  
Fiduciary Funds  
June 30, 2007

<b>ASSETS</b>	<u>Investment Trust</u>	<u>Agency Funds</u>
Current Assets:		
Cash and investments	\$ 499,318,220	\$ 39,317,575
Taxes receivable	--	14,877,352
Cash with fiscal agent	7,658,999	1,243,020
Interest receivable	38,386	--
Total current assets	<u>507,015,605</u>	<u>55,437,947</u>
 <b>LIABILITIES</b>		
Due to other funds	\$ --	\$ 8,570
Agency funds held for others	--	55,429,377
Total liabilities	<u>--</u>	<u>55,437,947</u>
 <b>NET ASSETS</b>		
Net assets held in trust for investment pool participants	<u>507,015,605</u>	<u>--</u>
Total net assets	<u>507,015,605</u>	<u>--</u>
 <b>Total liabilities and net assets</b>	<u>\$ 507,015,605</u>	<u>\$ 55,437,947</u>

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



**COUNTY OF MARIN**

Statement of Changes in Fiduciary Net Assets  
Investment Trust Fund  
June 30, 2007

**Additions:**

Contributions to investment pool	\$ 1,090,471,373
Total additions	<u>1,090,471,373</u>

**Deductions:**

Distributions from investment pool	974,953,322
Total deductions	<u>974,953,322</u>

Change in net assets 115,518,051

**Net assets, beginning** 391,497,554

**Net assets, ending** \$ 507,015,605

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, 2007

### Note 1: Summary of Significant Accounting Policies

#### A. Reporting Entity

The reporting entity refers to the scope of activities, organizations and functions included in the financial statements. The County of Marin (County) is a political subdivision created by the State of California and, as such, can exercise the powers specified by the Constitution and laws of the State of California. The County operates under the general laws of the State and is governed by an elected five member Board of Supervisors (Board).

The governmental reporting entity consists of the County (Primary Government) and its component units. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

For financial reporting purposes, the County's basic financial statements include all financial activities that are controlled by or are dependent upon actions taken by the County's Board.

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
  - o Murray Park
  - o San Quentin

# COUNTY OF MARIN

## Notes to the Basic Financial Statements For the Year Ended June 30, 2007

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

#### A. Reporting Entity (continued)

- County Service Area Districts
  - o #1 Loma Verde
  - o #6 Santa Venetia
  - o #9 Northbridge
  - o #13 Upper Lucas valley
  - o #14 Homestead Valley
  - o #16 Greenbrae
  - o #17 Kentfield
  - o #18 Gallinas Village
  - o #19 Civic Center Fire Protection
  - o #20 Indian Valley Park
  - o #27 Ross Valley Paramedic
  - o #28 West Marin Paramedic
  - o #29 Paradise Cay
  - o #31 County Fire
  - o #33 Stinson Beach
- Lighting Districts
  - o Marin County Lighting
  - o Rush Creek Lighting
- Flood Control Districts
  - o #1 Novato
  - o #3 Richardson Bay
  - o #4 Bel Aire
  - o #4A Strawberry Circle
  - o #5 Stinson Beach
  - o #6 San Rafael Meadows
  - o #7 Santa Venetia
  - o #9A Ross Valley/Corte Madera
  - o #9 Ross Valley
  - o #10 Inverness
- Permanent Road Divisions
  - o Bolinas Highlands
  - o Monte Cristo
  - o Inverness Subdivision #2
  - o Mt. View Ave. Lagunitas
  - o Paradise Estates
  - o Madrone Park Circle
- Marin County Redevelopment Agency
- Golden Gate Tobacco Funding Corporation
- In Home Supportive Services Public Authority of Marin
- Marin County Housing Authority
- Marin County Law Library
- Marin County Open Space
- Marin County Transit District

## COUNTY OF MARIN

### Notes to the Basic Financial Statements For the Year Ended June 30, 2007

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

A. **Reporting Entity** (continued)

The Golden Gate Tobacco Funding Corporation (Corporation) is a nonprofit public benefit corporation. Its purpose is to acquire from the County all of the rights of the County in relation to future tobacco settlement payments and to borrow money secured by the County tobacco assets on behalf of the California Tobacco Securitization Agency. The Corporation provides service solely to the County and is reported as a debt service fund.

The Housing Authority of the County of Marin (the Authority) is governed by a seven member Board of Commissioners. Five members of the Board of Commissioners are also members of the Marin County Board of Supervisors. The Board of Supervisors also appoints two tenant commissioners. The Authority was formed on January 26, 1942, by a resolution of the Marin County Board of Supervisors. The Authority uses the calendar year as its fiscal year; therefore, the financial information related to the Authority represents the year ended December 31, 2006. The financial statements of the Authority are available by contacting the Authority at 4020 Civic Center Drive , San Rafael, CA 94903.

The County also includes as a blended component unit the County Fair Operations which has a December 31 year-end. The financial information related to the Fair represents the same period as the primary government information. 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 activities. These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function, and allocated indirect expenses. Interest expense related to long term debt is reported as a direct expense. Program revenues include 1) fees, fines and charges paid by the recipients of

# COUNTY OF MARIN

## Notes to the Basic Financial Statements For the Year Ended June 30, 2007

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

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

*Government-Wide Financial Statements* (continued)

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.

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 *Housing Authority of the County of Marin* is used to account for the development and implementation of housing programs and activities within the County of Marin.

## COUNTY OF MARIN

### Notes to the Basic Financial Statements For the Year Ended June 30, 2007

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

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

*Fund Financial Statements* (continued)

The County reports the following additional fund types:

- *Internal Service Funds* are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the County on a cost-reimbursement basis.
- The *Investment Trust Fund* accounts for the assets of legally separate entities that deposit cash with the County Treasurer. These entities include school and community college districts, other special districts governed by local boards, regional boards and authorities and pass through funds for tax collections for cities. These funds represent the assets, primarily cash and investments, and the related liability of the County to disburse these monies on demand.
- The *Agency Funds* account for assets held by the County as an agent for various local governments.

**C. Basis of Accounting**

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

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

## COUNTY OF MARIN

### Notes to the Basic Financial Statements For the Year Ended June 30, 2007

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

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

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.

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.



# COUNTY OF MARIN

## Notes to the Basic Financial Statements For the Year Ended June 30, 2007

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

### H. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

### I. Property Tax Revenue

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

Beginning in 1993-1994, the County of Marin adopted the “Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds” provided for in Revenue and Taxation Code Sections 4701-4717, which is commonly known as the “Teeter Plan”. The Teeter Plan has no impact on tax rates or collection procedures. It merely changes the way the collections of delinquent taxes and penalties are distributed among the taxing agencies. Those agencies participating in the Teeter Plan receive 100% of the secured property taxes billed each year without regard to delinquencies. The General Fund covers the delinquent amount to all agencies and, in return, receives the delinquent taxes, penalties and interest when collected. As a result of the Teeter Plan, secured property taxes receivable are recorded in the General Fund only, and there is no 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.

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, 2007 this amount was estimated as \$738,977.

### J. Long-Term Receivables

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

COUNTY OF MARIN

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2007

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

**K. Capital Assets**

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

The estimated useful lives are as follows:

Infrastructure	20 to 50 years
Structures and improvements	10 to 50 years
Equipment	5 to 25 years

**L. Compensated Absences**

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

**M. Interfund Transactions**

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance

## COUNTY OF MARIN

### Notes to the Basic Financial Statements For the Year Ended June 30, 2007

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

M. **Interfund Transactions** (continued)

reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

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

N. **Estimates**

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

Note 2: **Cash and Investments**

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

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

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

## COUNTY OF MARIN

### Notes to the Basic Financial Statements For the Year Ended June 30, 2007

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

The report covers the types of investments in the pool, maturity dates, par value, actual costs and fair value. Fair values were obtained from the County's investment custodian statement for all investments having greater than 90 days to maturity.

Cash and investments at June 30, 2007, consist of the following:

Cash and Investments in County Pool

Cash	\$ 4,640,134
Investments	769,482,339
Specific investment in treasury	<u>78,762,316</u>
	852,884,789
Less outstanding warrants and other reconciling items	<u>(25,584,975)</u>
Total Cash and Investments in County Pool	<u>827,299,814</u>

Cash and Investments Outside County Pool

Other deposits	5,757,432
Investments with fiscal agent	<u>23,096,193</u>
Total Cash and Investments	<u><u>\$ 856,153,439</u></u>

Total cash and investments at June 30, 2007 were presented on the County's financial statements as follows:

Primary Government	\$ 308,615,625
Investment Trust Fund	506,977,219
Agency Funds	<u>40,560,595</u>
	<u><u>\$ 856,153,439</u></u>

**Investments**

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

# COUNTY OF MARIN

## Notes to the Basic Financial Statements For the Year Ended June 30, 2007

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

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

At June 30, 2007, the County had the following investments:

	Interest Rates	Maturities	Par Value	Book Value	Fair Value	WAM (Years)
<b>Pooled Investments</b>						
Federal Agencies	5.00% - 5.65%	7/2/07 - 5/23/12	\$ 410,244,000	\$ 408,487,720	\$ 408,930,973	1.06
Commercial Paper-Discout	5.22% - 5.25%	7/2/07 - 7/31/07	55,700,000	55,443,754	55,575,012	0.04
Negotiable CDs	5.22% - 5.32%	7/2/07 - 9/21/07	77,100,000	77,100,000	77,097,788	0.10
US Treasury Securities	2.75% - 4.96%	7/5/07 - 12/15/08	170,000,000	166,237,108	168,037,748	0.36
Money Market	Variable	On Demand	23,008,880	23,008,880	23,008,880	0.00
California Local Agency Investment Fund (LAIF)	Variable	On Demand	39,204,877	39,204,877	39,204,877	0.00
<b>Total pooled investments</b>			<u>\$ 775,257,757</u>	<u>\$ 769,482,339</u>	<u>\$ 771,855,278</u>	0.65
<b>Pooled treasury weighted average maturity</b>						0.54
<b>Specific Investments in Treasury</b>						
California Local Agency Investment Fund (LAIF)	Variable	On Demand	\$ 5,567,370	\$ 5,567,370	\$ 5,567,370	0.00
Federal Agencies	2.63% - 5.12%	7/13/07 - 6/23/08	58,742,000	57,958,776	58,297,182	0.48
US Treasury Securities	4.91%	9/6/2007	15,600,000	15,236,169	15,252,064	0.18
			<u>\$ 79,909,370</u>	<u>\$ 78,762,315</u>	<u>\$ 79,116,616</u>	1.04
<b>Investments Outside Investment Pool</b>						
<i>Cash held with fiscal agent</i>						
California Asset Management Pool (CAMP)	Variable	On Demand	\$ 41,171	\$ 41,171	\$ 41,171	0.00
Money Market Mutual Funds	Variable	On Demand	8,251,979	8,251,979	8,251,979	0.00
Federal Agencies	2.59% - 5.75%	12/1/06 - 9/1/10	5,226,872	5,226,872	5,226,872	N/A
Municipal Bonds	3.00% - 5.50%	8/1/07 - 12/1/09	3,200,000	3,453,940	3,228,040	1.26
Investment Contracts	4.77% - 5.70%	8/15/21 - 6/1/47	4,801,180	4,801,180	4,801,180	28.46
Redevelopment agency - mutual funds	Variable	On Demand	1,321,051	1,321,051	1,321,051	--
<b>Total investments outside investment pool</b>			<u>\$ 22,842,253</u>	<u>\$ 23,096,193</u>	<u>\$ 22,870,293</u>	6.53

At June 30, 2007, book value was 99.7% of fair value. Therefore, an adjustment to fair value was not required.

## COUNTY OF MARIN

### Notes to the Basic Financial Statements For the Year Ended June 30, 2007

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

**Interest Rate Risk**

In accordance with its investment policy, the County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment pool to 540 days, or 1.5 years. At June 30, 2007, the County's investment pool had a weighted average maturity of .54 years, or less than 7 months.

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

**Credit Risk**

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

**Concentration of Credit Risk**

At June 30, 2007, in accordance with State law and the County's Investment Policy, the County did not have 5% or more of its net investment in Bankers' Acceptances or Negotiable Certificates of Deposit of a single organization, nor did it have 10% or more of its net investment in any one money market mutual fund. At June 30, 2007, the County held 5.25% of its net investment in commercial paper issued by Prudential.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each pool's fair value at June 30, 2007.

<b>Investments in Investment Pool</b>	<b>S&amp;P</b>	<b>Moody's</b>	<b>% of Portfolio</b>
Federal Agencies	AAA	Aaa	30.70%
Federal Agencies	A-1+	P-1	22.39%
Treasury Bills	AAA	P-1	21.60%
Commercial Paper	A-1+	P-1	5.25%
Commercial Paper	A-1	P-1	1.96%
Certificates of Deposit	A-1+	P-1	5.99%
Certificates of Deposit	A-1	P-1	3.38%
Certificates of Deposit	A-2	P-1	0.65%
Money Market Mutual Funds	Unrated	Unrated	2.99%
California Local Agency Investment Fund (LAIF)	Unrated	Unrated	5.09%
			<u>100.00%</u>

## COUNTY OF MARIN

### Notes to the Basic Financial Statements For the Year Ended June 30, 2007

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

#### Custodial Credit Risk

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

#### Local Agency Investment Fund

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

The value of the County's investment in this pool is reported in the accompanying financial statements at amortized cost. The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

At June 30, 2007, the County's investment position in the State of California Local Agency Investment Fund (LAIF) was \$39,204,877, which approximates fair value and is the same as value of the pool shares. The total amount invested by all public agencies in LAIF on that day was \$66.1 billion. Of that amount, 96.53% was invested in non-derivative financial products and 3.47% in structured notes and asset-backed securities. Fair value is based on information provided by the State for the Local Agency Investment Fund.

**COUNTY OF MARIN**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2007

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

County Investment pool Condensed Financial Statements

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2007:

**Statement of Net Assets**

Net assets held for pool participants	\$ 827,299,814
Equity of internal pool participants	\$ 327,981,594
Equity of external pool participants	499,318,220
Total net assets	<u>\$ 827,299,814</u>

**Statement of Changes in Net Assets**

Net assets, beginning of year	\$ 669,040,394
Net change in investments by pool participants	158,259,420
Net assets, end of year	<u>\$ 827,299,814</u>

Note 3: **Notes Receivable**

Notes receivable consists of various activities.

As a result of a court fees and distribution audit, the County found out that it had overpaid distributions to various local governments over several years while underpaying the State. The County repaid the State the amounts owed and the County and the agencies involved agreed to repayment plans over a five year period with interest on the amount owed at 3.87 percent.

Activity of the court fees notes receivable for the year ended June 30, 2007 was as follows:

	<u>Balance</u>		<u>Notes</u>		<u>Balance</u>
	July 1, 2006		Issued	Repayments	June 30, 2007
Court fees notes receivable	\$ --	\$ 3,520,962	\$ 593,436		\$ 2,927,526



## COUNTY OF MARIN

### Notes to the Basic Financial Statements For the Year Ended June 30, 2007

Note 3: **Notes Receivable** (continued)

The County issued various long-term notes receivable for affordable housing construction and rehabilitation. Notes totaling \$4,000,000 are due in 55 years and another \$145,000 is deferred for 30 years. Fund balance reserves have been set aside for the full amount of balance outstanding due to the long-term nature of these notes.

Activity of the housing and rehabilitation notes receivable for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Notes Issued	Repayments	Other Adjustments	Balance June 30, 2007
Housing construction and rehabilitation	\$ --	\$ 700,000	\$ --	\$ 5,835,325	\$ 6,535,325

Other notes receivable are for advances to the Housing Authority of Marin for \$217,000 and notes issued for low and moderate income housing projects by the Marin County Redevelopment Agency for \$203,554. In addition, business-type activities report \$4,281,747 in notes receivables for deferred payment loans to individuals and organizations as follows:

	Balance 12/31/05	Notes Issued	Repayments	Other Adjustments	Balance 12/31/06
Various programs	\$ 4,130,164	\$ 578,432	\$ (426,369)	\$ (480)	\$ 4,281,747

Note 4: **Deferred Revenue**

Governmental funds report unavailable revenue in connection with receivables for revenues considered unavailable to fund expenditures of the current period.

Governmental and enterprise funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of June 30, 2007, the various components of deferred revenue for governmental funds were as follows:

	Unavailable	Unearned
<b>Governmental activities:</b>		
General Fund:		
Courts notes receivable	\$ 2,927,527	\$ --
Reimbursable grants	9,376,597	--
Property taxes	1,014,009	--
Other Governmental Funds:		
Other revenues	--	68,077
	\$ 13,318,133	\$ 68,077

**COUNTY OF MARIN**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2007

Note 5: **Interfund Transactions**

The composition of interfund balances as of June 30, 2007, is as follows:

*Due to/from other funds:*

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General	Agency Fund	\$ 8,570	Close out Ventura Project

*Advances to/from other funds:*

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Marin County Transit	\$ 740,000	Temporary loan for operations
	Nonmajor Governmental Funds	<u>720,190</u>	Temporary loan for operations
Total		<u>\$ 1,460,190</u>	

**Transfers**

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

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Capital Projects	\$ 46,620,108	To fund capital projects
	Nonmajor Governmental Funds	1,709,438	To fund operations
	Nonmajor Governmental Funds	<u>2,323,058</u>	Debt service
		<u>50,652,604</u>	
Capital Projects	Nonmajor Governmental Funds	2,437,667	Debt service
	Nonmajor Governmental Funds	42,223	Debt service for Redevelopment Agency
		<u>2,479,890</u>	

**COUNTY OF MARIN**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2007

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

**Transfers** (continued)

Transfer from	Transfer to	Amount	Purpose
Nonmajor Governmental Funds	General Fund	3,468,494	Semi-annual transfer to General Fund (GF)
	General Fund	241,416	To transfer CSA #28 paramedic assessment fees to GF
	General Fund	589,561	To transfer CSA #31 County Fire assessment fees to GF
	General Fund	2,834	Transfer to meet expenditures
	General Fund	119,725	To transfer funds from PTAP Trust fund to GF to meet expenditures
	General Fund	64,460	To reimburse GF from COPE Asset Forfeiture for expenditures not covered by grant revenue
	General Fund	765,090	To record mental health revenue in correct year
	Capital Projects Fund	15,436,220	To fund Health and Wellness Center Project
	Capital Projects Fund	1,806,796	To fund road and bridge project
	Capital Projects Fund	726,121	Transfer Redevelopment Agency tax increment to capital projects fund
	Nonmajor Governmental Funds	42,000	to fund Health and Wellness Center Project
	Nonmajor Governmental Funds	678,352	Debt service
	Nonmajor Governmental Funds	111,551	Repay loan from traffic mitigation
	Nonmajor Governmental Funds	449	Correct account balance
	Nonmajor Governmental Funds	50,000	To pay fees for misc. capital projects
	Nonmajor Governmental Funds	105,630	Debt service for COP
	Nonmajor Governmental Funds	734,165	Debt service for Redevelopment Agency
		<u>24,942,864</u>	
Total		<u>\$ 78,075,358</u>	

# COUNTY OF MARIN

## Notes to the Basic Financial Statements For the Year Ended June 30, 2007

### Note 6: Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Audited Balance 6/30/06	Restated Balance 7/1/06	Additions	Deletions	Adjustments/ Transfers	Audited Balance 6/30/07
<b>Governmental Activities</b>						
Capital assets, not being depreciated:						
Land	\$ 11,985,477	\$ 12,795,477	\$ 262,092	\$ --	\$ 6,644	\$ 13,064,213
Infrastructure land	1,204,963,424	1,204,963,424	--	--	--	1,204,963,424
Easements	--	2,595,729	--	--	--	2,595,729
Construction in progress	11,148,412	5,424,953	27,608,179	--	(4,246,621)	28,786,511
Total capital assets, not being depreciated	<u>1,228,097,313</u>	<u>1,225,779,583</u>	<u>27,870,271</u>	<u>--</u>	<u>(4,239,977)</u>	<u>1,249,409,877</u>
Capital assets, being depreciated:						
Structures and improvements	150,336,928	149,778,100	215,278	(5,813)	(8,967,139)	141,020,426
Equipment	37,438,384	37,021,653	3,303,856	(343,314)	(83,584)	39,898,611
Infrastructure	282,690,482	282,690,482	55,578	--	13,207,115	295,953,175
Total capital assets, being depreciated	<u>470,465,794</u>	<u>469,490,235</u>	<u>3,574,712</u>	<u>(349,127)</u>	<u>4,156,392</u>	<u>476,872,212</u>
Less accumulated depreciation for:						
Structures and improvements	(65,266,850)	(65,266,850)	(5,752,742)	--	3,432,538	(67,587,054)
Equipment	(29,033,298)	(29,033,298)	(3,552,915)	340,393	(294,088)	(32,539,908)
Infrastructure	(203,150,533)	(203,150,533)	(9,823,083)	--	(2,894,434)	(215,868,050)
Total accumulated depreciation	<u>(297,450,681)</u>	<u>(297,450,681)</u>	<u>(19,128,740)</u>	<u>340,393</u>	<u>244,016</u>	<u>(315,995,012)</u>
Total capital assets, being depreciated, net	<u>173,015,113</u>	<u>172,039,554</u>	<u>(15,554,028)</u>	<u>(8,734)</u>	<u>4,400,408</u>	<u>160,877,200</u>
Governmental activities capital assets, net	<u>\$ 1,401,112,426</u>	<u>\$ 1,397,819,137</u>	<u>\$ 12,316,243</u>	<u>\$ (8,734)</u>	<u>\$ 160,431</u>	<u>\$ 1,410,287,077</u>
<b>Business-Type Activities</b>						
Capital assets, not being depreciated:						
Land	\$ 3,541,837	\$ 6,324,264	\$ --	\$ --	\$ --	\$ 6,324,264
Construction in progress	2,213,978	2,527,147	751,304	--	(1,975,378)	1,303,073
Total capital assets, not being depreciated	<u>5,755,815</u>	<u>8,851,411</u>	<u>751,304</u>	<u>--</u>	<u>(1,975,378)</u>	<u>7,627,337</u>
Capital assets, being depreciated:						
Structures and improvements	4,071,663	39,050,207	317,142	--	--	39,367,349
Equipment	187,556	2,328,303	40,517	(33,315)	--	2,335,505
Other property	1,451,514	1,475,413	--	--	1,975,378	3,450,791
Total capital assets, being depreciated	<u>5,710,733</u>	<u>42,853,923</u>	<u>357,659</u>	<u>(33,315)</u>	<u>1,975,378</u>	<u>45,153,645</u>
Less accumulated depreciation for:						
Structures and improvements	(2,412,160)	(17,695,474)	(1,149,812)	--	--	(18,845,286)
Equipment	(98,218)	(1,436,897)	(323,548)	30,561	--	(1,729,884)
Other property	(843,802)	(843,802)	(94,046)	--	55,495	(882,353)
Total accumulated depreciation	<u>(3,354,180)</u>	<u>(19,976,173)</u>	<u>(1,567,406)</u>	<u>30,561</u>	<u>55,495</u>	<u>(21,457,523)</u>
Total capital assets, being depreciated, net	<u>2,356,553</u>	<u>22,877,750</u>	<u>(1,209,747)</u>	<u>(2,754)</u>	<u>2,030,873</u>	<u>23,696,122</u>
Business-type activities capital assets, net	<u>\$ 8,112,368</u>	<u>\$ 31,729,161</u>	<u>\$ (458,443)</u>	<u>\$ (2,754)</u>	<u>\$ 55,495</u>	<u>\$ 31,323,459</u>

**COUNTY OF MARIN**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2007

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

**Depreciation**

Depreciation Expense – Governmental Activities:

General Government	\$ 8,259,108
Public Protection	890,962
Public Ways & Facilities	9,525,642
Health and Sanitation	76,175
Public Assistance	17,296
Recreation	150,061
Education	<u>209,496</u>
Total Depreciation Expense – Governmental Functions	<u>19,128,740</u>

Depreciation Expense – Business-Type Activities:

Housing Authority	1,125,965
County Fair	76,583
Airport	113,782
Transit	<u>251,076</u>
Total Depreciation Expense – Business-Type Activities	<u>1,567,406</u>

Total Depreciation Expense \$ 20,696,146

Note 7: **Liabilities Under Self-Insurance and Risk Management**

**Workers' Compensation**

The County is permissibly self-insured for the first \$500,000 of workers' compensation claims per occurrence. The County provides for excess workers' compensation insurance through the California Public Entity Insurance Authority (CSAC-EIA). Coverage in the Excess Workers' Compensation (EWC) Program is pooled to \$5 million and excess re-insurance purchased for a total limit of \$200 million above our SIR (self-insured retention). Activity related to the 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:

	2007	2006
Balance, Beginning of year claims liability	\$ 17,781,000	\$ 12,064,779
Current year claims and changes in estimates	2,787,448	9,030,542
Claims payments	<u>(2,787,448)</u>	<u>(3,314,321)</u>
Balance, End of year	<u>\$ 17,781,000</u>	<u>\$ 17,781,000</u>

## COUNTY OF MARIN

### Notes to the Basic Financial Statements For the Year Ended June 30, 2007

Note 7: **Liabilities Under Self-Insurance and Risk Management** (continued)

**General Liability**

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

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, 2007 is \$4,329,000.

The following represents changes in those aggregate liabilities for the fund at June 30, 2007.

	2007	2006
Balance, Beginning of year claims liability	\$ 4,329,000	\$ 3,680,000
Current year claims and changes in estimates	877,400	2,035,257
Claims payments	(877,400)	(1,386,257)
Balance, End of year	\$ 4,329,000	\$ 4,329,000

Note 8: **Long-Term Obligations**

The following table summarizes the changes in the County's long-term obligations for the fiscal year ended June 30, 2007:

	Balance July 1, 2006	Additions	Deletions	Adjustments	Balance June 30, 2007	Amounts Due Within One Year
<b>Governmental Activities</b>						
Revenue bonds payable	\$ 12,150,000	\$ --	\$ 225,000	\$ --	\$ 11,925,000	\$ 255,000
Taxable pension obligation bonds 2003	112,805,000	--	--	--	112,805,000	--
Tobacco settlement asset-backed bonds -2002	32,229,893	--	32,229,893	--	--	--
Less: unamortized discount	(861,444)	--	(861,444)	--	--	--
Tobacco settlement asset-backed bonds - 2007	--	49,870,081	--	--	49,870,081	--
Less: unamortized discount and issuance cost	--	(932,888)	(62,193)	--	(870,695)	--
Loans payable	213,160	46,675	12,833	1,555,801	1,802,803	13,324
Certificates of participation 2001	13,410,000	--	265,000	--	13,145,000	285,000
Certificates of participation 1998 Series A	20,090,000	--	775,000	--	19,315,000	805,000
Certificates of participation 1998 Series B	11,440,000	--	1,815,000	--	9,625,000	1,885,000
Capital leases payable	2,352,933	--	947,816	--	1,405,117	677,083
Compensated absences	11,278,964	10,957,279	10,200,447	--	12,035,796	9,215,321
Claims liability	22,110,000	3,664,848	3,664,848	--	22,110,000	--
Total Governmental Activities Long-term liabilities	\$ 237,218,506	\$ 63,605,995	\$ 49,212,200	\$ 1,555,801	\$ 253,168,102	\$ 13,135,728
<b>Business-type Activities</b>						
Notes payable - HCD	\$ --	\$ --	\$ --	\$ 2,861,319	\$ 2,861,319	\$ --
Mortgages payable - Housing	--	--	39,811	1,176,049	1,136,238	42,300
Capital leases payable	159,847	--	55,606	--	104,241	58,450
Compensated absences	30,291	58,968	57,068	143,147	175,338	42,885
Total Business-type Activities Long-term liabilities	\$ 190,138	\$ 58,968	\$ 152,485	\$ 4,180,515	\$ 4,277,136	\$ 143,635

# COUNTY OF MARIN

## Notes to the Basic Financial Statements For the Year Ended June 30, 2007

Note 8: **Long-Term Obligations** (continued)

The compensated absences liabilities attributable to the governmental activities are generally liquidated by the General Fund and related special revenue funds.

The following table summarizes the County's long-term obligations as of June 30, 2007:

	<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, 2007</u>
<b><u>Governmental Activities</u></b>						
<b>Certificates of Participation:</b>						
1998 Series A (finance various capital projects)	2022	4.00%-5.00%	\$685,000-\$1,645,000	1998	\$ 24,725,000	\$ 19,315,000
1998 Series B (advance refund of outstanding 1991 Certificates)	2011	4.00%-5.00%	\$1,615,000-\$2,135,000	1998	22,110,000	9,625,000
2001 Issue (finance capital improvement projects)	2032	4.70%-7.00%	\$215,000-\$880,000	2001	14,100,000	13,145,000
<b>Revenue Bonds:</b>						
1998 Refunding Revenue bonds – Marin County Redevelopment Agency	2025	4.00%-5.50%	\$160,000-\$1,320,000	1998	13,425,000	11,925,000
<b>Pension Obligation Bonds:</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>Asset-Backed Bonds:</b>						
Tobacco Settlement Asset-Backed Bonds Payable (Series 2007A & F)	2057	4.63%-6.90%	\$485,000-\$8,350,986	2007	49,870,081	49,870,081
<b>Loans Payable:</b>						
Energy Conservation Loan	2019	3.95%	\$1,615-\$10,360	2004	233,120	200,327
California Housing Finance Agency #1	2013	3%	Deferred	2003	500,000	568,444
California Housing Finance Agency #2	2014	3%	Deferred	2004	950,000	1,034,032
<b><u>Business-Type Activities</u></b>						
Notes payable – HCD	2014	0-3%	Deferred	2006	2,861,319	2,861,319
Mortgages payable – Office Building	2012	5.82%	Various	1997	1,200,000	1,047,134
Mortgages payable – Housing	2011	8%	Various	1999	194,000	89,104

### Refunding of Debt

The California County Tobacco Securitization Agency is a public entity created pursuant to a Joint Exercise of Powers Agreement, dated as of November 15, 2000, as amended by and among the County of Marin, California and eight other counties in the State of California. The Agency is a separate entity from the County and its debts, liabilities and obligations do not constitute debts, liabilities or obligations of the County or its members.

## COUNTY OF MARIN

### Notes to the Basic Financial Statements For the Year Ended June 30, 2007

Note 8: **Long-Term Obligations** (continued)

In June 2007, the California County Tobacco Securitization Agency issued Tobacco Settlement Asset-Backed Bonds in the aggregate amount of \$49,870,871 on behalf of the Golden Gate Tobacco Funding Corporation, a blended component unit of the County of Marin. The bonds were issued in the following series:

2007A	\$ 35,365,000	Current interest turbo bonds
2007B	6,154,095	Convertible turbo bonds
2007C	2,337,139	Subordinate turbo capital appreciation bonds
2007D	2,237,592	Subordinate turbo capital appreciation bonds
2007E	1,913,225	Subordinate turbo capital appreciation bonds
2007F	1,863,030	Subordinate turbo capital appreciation bonds

The bonds were issued to provide resources, in part to establish an irrevocable escrow trust to refund the series 2002 Bonds and also to provide additional funds to be used by the County on selected projects. As a result, the refunded bonds are considered defeased and the liability has been removed from the statement of net assets. The outstanding balance on the refunded bonds is \$30,568,449 as of June 30, 2008. The reacquisition price exceeded the net carrying amount of the 2002 debt by \$2,198,614. This amount is being netted against the new debt and amortized over the remaining life of the old debt.

The capital appreciation bonds are debt securities on which the investment return on an initial principal amount is reinvested at a stated compounded rate until maturity, at which time the investor receives a single payment (the "maturity value") representing both the initial principal amount and the total investment return.

As of June 30, 2007, annual debt service requirements of governmental activities to maturity are as follows:

Year Ending June 30:	Governmental Activities					
	Bonds Payable		Certificates of Participation		Loans Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 255,000	\$ 9,051,633	\$ 2,975,000	\$ 1,892,364	\$ 13,324	\$ 54,922
2009	815,000	9,180,489	3,105,000	1,755,793	13,876	55,783
2010	1,275,000	9,174,775	3,245,000	1,613,241	14,429	56,686
2011	1,775,000	9,145,430	3,380,000	1,467,096	15,005	57,610
2012	2,155,000	9,094,959	3,535,000	1,314,721	15,589	58,571
2013-2017	20,230,000	43,921,709	7,510,000	5,356,509	1,690,333	145,693
2018-2022	41,885,000	37,839,631	9,560,000	3,316,388	40,247	2,008
2023-2027	70,780,000	25,009,548	4,780,000	1,373,953	--	--
2028-2032	4,969,095	17,044,989	3,995,000	492,694	--	--
2033-2057	30,460,986	161,754,136	--	--	--	--
Subtotal	<u>174,600,081</u>	<u>331,217,299</u>	<u>42,085,000</u>	<u>18,582,759</u>	<u>1,802,803</u>	<u>431,273</u>
Less Unamortized Discount	(870,695)	--	--	--	--	--
	<u>\$ 173,729,386</u>	<u>\$ 331,217,299</u>	<u>\$ 42,085,000</u>	<u>\$ 18,582,759</u>	<u>\$ 1,802,803</u>	<u>\$ 431,273</u>



**COUNTY OF MARIN**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2007

Note 8: **Long-Term Obligations** (continued)

As of June 30, 2007, annual debt service requirements of business-type activities to maturities are as follows:

<u>Year Ending June 30:</u>	Business-type Activities	
	Mortgages Payable	
	Principal	Interest
2008	42,300	66,464
2009	45,195	63,568
2010	48,197	60,567
2011	51,401	57,363
2012	53,018	53,732
2013-2017	896,127	38,609
	\$ 1,136,238	\$ 340,303

The Housing Authority (Authority) borrowed \$810,158 from the California Department of Housing and Community Development (HCD) to convert the Isabel Cook School into 18 units of low rent housing. The note, which is secured by a trust deed on the Isabel Cook project, is due on April 12, 2014. The loan is interest free. The Authority assumed a loan from HCD in the amount of \$2,051,161 when it acquired the Fairfax Vest Pocket housing project from a defunct nonprofit corporation. This loan accrues simple interest at a rate of three percent per annum. Principal and interest payments on this loan are payable to HCD only if the project generates surplus cash. Interest of \$61,535 was accrued and expensed for the fiscal year ended December 31, 2006. Total interest accrued on this loan as of December 31, 2006 is \$663,677.

**Capital Lease Obligation**

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

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

**COUNTY OF MARIN**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2007

Note 8: **Long-Term Obligations** (continued)

Capital Lease Obligation (continued)

The following is a schedule of future minimum lease payments under capital leases together with the present value of future minimum lease payments as of June 30, 2007:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2008	\$ 737,845	\$ 62,335
2009	338,292	46,750
2010	238,404	--
2011	<u>203,681</u>	<u>--</u>
Total Debt Service Requirements	1,518,222	109,085
Less Amount Representing Interest	<u>113,105</u>	<u>4,844</u>
Present Value of Remaining Payments	<u>\$ 1,405,117</u>	<u>\$ 104,241</u>

Note 9: **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 Prepaid Expenses* represents expenses paid in the financial statement year for services not yet performed.
- *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.

## COUNTY OF MARIN

### Notes to the Basic Financial Statements For the Year Ended June 30, 2007

#### Note 10: **Retirement Plan**

##### Plan Description

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

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

##### Funding Policy

Members are required to contribute to the County's plan, based on their age at the time of entry into the Plan. Under the provisions of the County's pension plan, pension benefits vest after five years of credited service. The County's annual contributions are actuarially determined. The following assumptions were used in the most recent actuarial valuation as of June 30, 2007.

- Real rate of return is assumed to be 4.0% per year.
- Cost of Living Adjustment is capped maximum at 3.8%
- Rates of salary increase is assumed to be 6.62% for the general plan (5.13% for the safety plan).

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

##### Annual Pension Cost

For the fiscal year ended June 30, 2006, the County's annual pension cost was \$36,870,000.

**COUNTY OF MARIN**

Notes to the Basic Financial Statements  
For the Year Ended June 30, 2007

Note 10: **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 20 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>
2006	\$ 36,870	100.0%	\$ --
2005	22,085	100.0%	--
2004	21,254	100.0%	--

Funded Status of Plan (in thousands)

<u>Valuation Date (Most Recent Data Available) June 30,</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Accrued Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
2006	\$ 908,767	\$ 1,086,491	\$ 177,724	84%	\$ 149,527	118.9%
2005	858,183	992,226	134,043	86%	141,272	94.9%
2004	843,169	938,211	95,042	90%	143,107	66.4%

Note 11: **Commitments and Contingent Liabilities**

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

# COUNTY OF MARIN

## Notes to the Basic Financial Statements For the Year Ended June 30, 2007

### Note 12: Restatement of Net Assets and Fund Balances

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

	Government-Wide Statement of Activities	Fund Financial Statements		
	Governmental Activities	Governmental Funds		
<u>Governmental Activities</u>	General	Capital Projects	Other Governmental Funds	
Fund balances/net assets, June 30, 2006, as previously reported	\$ 1,551,549,597	\$ 209,350,955	\$ 25,550,304	\$ 37,958,134
Prior period adjustments:				
To write off capital assets	(3,293,289)			
To adjust Community Development loans receivable/payable not reported previously	4,550,325			4,550,325
To adjust cash with fiscal agent balance	(2,843,916)			(2,843,916)
Reclassification of funds from General Fund to:				
Special revenue funds		(27,794,229)		27,794,229
Debt services funds		(5,852,972)		5,852,972
Fiduciary funds	8,443,005	(2,929,242)		11,372,247
Other revenue and expenditure accruals	(655,334)	1,834,657	(268,906)	(621,418)
Total restatements	6,200,791	(34,741,786)	(268,906)	46,104,439
Fund balances/net assets July 1, 2006 as restated	\$ 1,557,750,388	\$ 174,609,169	\$ 25,281,398	\$ 84,062,573

	Government-Wide Statement of Activities	Fund Financial Statements	
	Business-type Activities	Proprietary Funds	
<u>Business-Type Activities</u>	Housing Authority	Nonmajor Enterprise Funds	
Fund balances/net assets, June 30, 2006, as previously reported	\$ 9,243,939	\$ --	\$ 9,247,217
Prior period adjustments:			
To post beginning of year equity of Housing Authority not included as part of County in prior year	27,489,897	27,489,897	
To reclassify beginning of year equity from agency funds to nonmajor enterprise funds	1,340,157		1,340,157
Other	551,208		551,208
Total restatements	29,381,262	27,489,897	1,891,365
Fund balances/net assets July 1, 2006 as restated	\$ 38,625,201	\$ 27,489,897	\$ 11,138,582

## COUNTY OF MARIN

### Notes to the Basic Financial Statements For the Year Ended June 30, 2007

Note 13: **New Accounting Pronouncements**

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

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

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**COUNTY OF MARIN**

Schedule of Funding Progress  
For the Year Ended June 30, 2007

Funded Status of Plan (in thousands)

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



**COUNTY OF MARIN**

**Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Basis</u>	<u>(Negative)</u>
Budgetary fund balances, July 1, restated	\$ 174,609,169	\$ 174,609,169	\$ 174,609,169	\$ --
Resources (inflows):				
Taxes	141,300,595	146,668,577	147,659,544	990,967
Licenses and permits	4,639,970	4,375,702	4,523,448	147,746
Intergovernmental revenues	128,247,795	143,120,247	138,783,827	(4,336,420)
Charges for services	34,637,699	40,846,182	36,766,235	(4,079,947)
Fines and forfeits	4,625,391	6,785,026	6,899,410	114,384
From use of money and property	5,695,278	6,233,045	10,511,155	4,278,110
Miscellaneous	5,215,094	5,993,429	6,829,452	836,023
Other financing sources	529,339	4,726,567	5,271,940	545,373
Amounts available for appropriation	<u>324,891,161</u>	<u>358,748,775</u>	<u>357,245,011</u>	<u>(1,503,764)</u>
Charges to appropriations (outflows):				
Current:				
General government	93,198,034	113,397,073	79,050,243	34,346,830
Public protection	95,181,816	100,738,597	102,236,367	(1,497,770)
Public ways and facilities	497,825	13,051,501	13,740,066	(688,565)
Health and sanitation	84,862,679	89,377,469	82,376,174	7,001,295
Public assistance	51,361,036	52,736,607	50,053,202	2,683,405
Education	2,112,327	2,103,365	1,909,889	193,476
Culture and recreation	7,633,664	7,996,451	8,034,738	(38,287)
Debt Service				
Principal	--	--	12,833	(12,833)
Interest	--	--	8,295	(8,295)
Other financing uses	17,953,009	37,930,519	50,652,604	(12,722,085)
Total charges to appropriations	<u>352,800,390</u>	<u>417,331,582</u>	<u>388,074,411</u>	<u>29,257,171</u>
Budgetary fund balances, June 30	<u>\$ 146,699,940</u>	<u>\$ 116,026,362</u>	<u>\$ 143,779,769</u>	<u>\$ 27,753,407</u>
Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:				
<u>Sources/inflows of resources</u>				
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison statement				\$ 357,245,011
Differences - budget to GAAP:				
Transfers from other funds and proceeds from the sale of capital assets are inflows of budgetary resources but are not revenues for financial reporting purposes.				<u>(5,271,940)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds				<u>\$ 351,973,071</u>
<u>Uses/outflows of resources</u>				
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison statement				\$ 388,074,411
Differences - budget to GAAP:				
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.				<u>(50,652,604)</u>
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds				<u>\$ 337,421,807</u>

## COUNTY OF MARIN

### Note to Required Supplementary Information For the Fiscal Year Ended June 30, 2007

#### **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.