

INDEPENDENT AUDITOR'S REPORT

Honorable Board of Supervisors
County of Humboldt
Eureka, California

I have audited the accompanying basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Humboldt, California, (the County), as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. My responsibility is to express opinions on these financial statements based on my audit.

Except as discussed in the following paragraph, I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for our opinions.

The capital asset balances of the governmental funds of the County have not been audited, and I was not engaged to audit the capital asset balances as part of our audit of the County's basic financial statements. Capital asset balances are included in the County's basic financial statements in the Governmental Activities column in the Statement of Net Assets and represent approximately 53 percent of the assets of the County's governmental activities column.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the capital assets been audited, 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 as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Honorable Board of Supervisors
County of Humboldt

In accordance with Government Auditing Standards, I have also issued under separate cover, my report dated January 20, 2006, on my consideration of the County's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The purpose of that report is to describe the scope of my 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 my audit.

The Management's Discussion and Analysis (MD & A) and the required supplementary information other than MD & A, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the County of Humboldt's basic financial statements. The accompanying information identified in the table of contents as combining and individual fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had I been able to audit the County's capital assets, such information is fairly stated in all material respects in relation to the basic financial statements taken as whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I express no opinion on it.

Donald R. Reynolds
Certified Public Accountant
January 20, 2006

BASIC FINANCIAL STATEMENTS -
GOVERNMENT-WIDE FINANCIAL STATEMENTS

NOTES TO THE BASIC FINANCIAL STATEMENTS

The notes provided in the Financial Statements of this report are considered an integral and essential part of adequate disclosure and fair presentation of this report. The notes include a Summary of Significant Accounting Policies for the County, and other necessary disclosure of pertinent matters relating to the financial position of the County. The notes express significant insight to the financial statements and are conjunctive to understanding the rationale for presentation of the financial statements and information contained in this document.

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 1: DESCRIPTION OF REPORTING ENTITY

The County of Humboldt (the "County") is a political subdivision created by the State of California. As such, it can exercise the powers specified by the Constitution and statutes of the State. The County is governed by a five member elected Board of Supervisors. The accompanying financial statements present the County's primary government and component units over which the County exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the County (as distinct from legal relationships). Blended component units, although legally separate entities, are, in substance, part of the County's operations.

The reporting entity excludes certain separate legal entities which may have "Humboldt" in their title, or which are required to keep their funds in the County Treasury or receive their tax apportionment from the County. Some examples are school districts, the community college district, cities, various redevelopment agencies established by local city governments and a variety of special purpose districts for cemeteries, recreation and parks. These entities are autonomous organizations with their own governmental powers and constituencies and over which the Board of Supervisors has no oversight responsibility. Accordingly, they are not included in the accompanying combined financial statements, except as to their assets held by the County (principally cash and investments held by the County Treasurer) as discussed under "fiduciary funds".

Reporting for component units on the County's financial statements can be blended or discretely presented. Blended component units, although legally separate entities, are in substance, part of the government's operations. Blended component units are an extension of the County and so data from these units are combined with the data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the County. The County has no discretely presented component units. Each component unit has a June 30th year end.

Blended Component Unit

The Public Facilities Corporation (the "Corporation") is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State on December 11, 1985. The Corporation's Board of Directors was appointed by the County's Board of Supervisors. The Corporation has no employees. The County's Auditor-Controller functions as an agent of the Corporation. He does not receive additional compensation for work performed in this capacity. The County exercises significant influence over operations of the Corporation as it is anticipated that the County will be the sole lessee of all facilities owned by the Corporation. All major financing arrangements, contracts, and other transactions of the Corporation must have the consent of the County. Any deficits incurred by the Corporation will be reflected in the lease payments of the County. Any surpluses of the Corporation revert to the County at the end of the lease

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 1: DESCRIPTION OF REPORTING ENTITY (continued)

Blended Component Unit(continued)

period. The County has assumed a "moral obligation", and potentially a legal obligation, for any debt incurred by the Corporation. The Corporation was formed to provide financing assistance to the County for construction and acquisition of major capital facilities. Upon completion, the County intends to occupy all Corporation facilities. The Corporation has assigned certain rights under the lease agreement to Bank of New York, Union Bank of California, and First Interstate Bank as Trustees. The Corporation has deposited with the Trustee the proceeds from the sales of Certificates of Participation which were used to finance various projects. The bond retirement costs have been factored into the County's lease payment amounts. The Corporation's financial activity is presented in the financial statements as the Debt Service Fund. Certificates of Participation issued by the Corporation are included in the Statement of Net Assets - Governmental Activities column. Capital Assets acquired or constructed by the Corporation are included in the Statement of Net Assets - Governmental Activities column.

The County has 14 special districts referred to as Special Districts Under the Board of Supervisors. Each is established for the purpose of providing specific services in a defined geographic area. Their board members are the same as the County Board of Supervisors. These agencies are reported in the Special Districts Under the Board of Supervisors special revenue fund. These districts are as follows: Fortuna Fire Protection District, Loleta Fire Protection District, Whitethorn Fire Protection District, Garberville Lighting District, Hydesville Lighting District, Loleta Lighting District, Rohnerville Lighting District, Weott Maintenance and Lighting District, Redcrest Lighting District, Myers Flat Lighting District, Pacific Manor Street Maintenance and Lighting District, Humboldt County Flood Control District - Subzone 1-1, Janes Creek Drainage District, and Reclamation District Number 768.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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 and between the County and its discretely presented component unit.

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation (continued)

Government-Wide Financial Statements (continued)

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. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

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

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

Fund Financial Statements (continued)

- The *Headwaters Mitigation* Fund is used to reimburse the County for the loss of property and timber tax revenues subsequent to the Headwaters Forest purchase by State and Federal agencies. The Fund is also used to provide seed money for local economic development projects.

The County reports the following major enterprise fund:

- The *Humboldt County Airport* Fund is used to fund general Airport operations, office and administrative expenses and the maintenance of Airport facilities, including the replacement of exterior lighting fixtures, runway, taxiway and ramp lighting, heating and air conditioning service. Major revenue sources include fuel flow fees, rents, land leases, Airport royalties and interest earnings.

The County reports the following additional fund types:

- *Internal Service Funds* account for the County's fleet maintenance and other services provided to other departments or other governments, and self-insurance programs - worker's compensation, dental, medical, unemployment and general liability 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, agency and investment trust fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting (continued)

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

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

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

D. Non-Current Governmental Assets/Liabilities

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Cash and Cash Equivalents

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

F. Inventories

Inventories are stated at cost (first-in, first-out basis) for governmental funds and lower of average cost or market for proprietary funds. Inventory recorded by governmental funds includes postage and materials and supplies for roads. Governmental fund inventories are recorded as expenditures at the time the inventory is consumed. Reported inventories of governmental funds are equally offset by a fund balance reservation to indicate that portion of fund balance not available for future appropriation.

Inventory recorded in the proprietary funds mainly consists of maintenance supplies. Inventory is expensed as the supplies are consumed.

G. 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 proprietary funds. Depreciation begins when the asset is placed in service and ends in the fiscal year that it is retired from service or is fully depreciated.

The estimated useful lives are as follows:

Infrastructure (except for the maintained pavement subsystem)	20 to 50 years
Structures and improvements	20 to 50 years
Equipment	3 to 15 years

Motor pool vehicles are depreciated using historical cost as required by accounting principles generally accepted in the United States of America.

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Capital Assets (continued)

The County has five networks of infrastructure assets - roads, water/sewer, lighting, drainage, and flood control. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, water/sewer, lighting, drainage and flood control. These infrastructure assets are likely to be the largest asset class of the County. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2006. The County elected to implement the general provisions of GASB No. 34 in the year ended June 30, 2002, and will implement the retroactive infrastructure provisions in the fiscal year ending June 30, 2006. Amounts reported as infrastructure in these financial statements include only those projects completed and placed in service since the County implemented GASB 34 in fiscal year 2001-2002

H. Compensated Absences

County employees are granted vacation, holiday, comp time and sick leave in varying amounts. In the event of termination, an employee is reimbursed for accumulated vacation, holiday and comp time at 100%. Employees are reimbursed for accumulated sick leave based on years of service and date of hire.

The County accrues accumulated unpaid compensated absences when earned (or estimated to be earned) by the employee. The liability for governmental funds is reflected in the government-wide statement of net assets. In the proprietary funds, accumulated compensated absences is recorded as an expense and liability as the benefits accrue to employees.

I. 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 t-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources. Services provided, deemed to be at market or' near market rates, are treated as revenues and expenditures/expenses. Reimbursements

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Interfund Transactions (continued)

are when one fund incurs a cost, charges the appropriate benefitting 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.

J. 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 3: CASH AND INVESTMENTS

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

Treasury cash on hand and in banks (deposits)	\$ 3,131,802
Investments (detailed below)	212,399,986
Less: outstanding warrants	(12,544,459)
Add: pending items	<u>38,279</u>
Total Cash and Investments	\$ <u>203,025,608</u>

Cash and investments were reported in the Basic Financial Statements as follows:

Primary Government:	
Governmental activities	\$ 49,367,583
Business-type activities	1,385,179
Investment trust fund	122,296,059
Agency funds	<u>29,976,787</u>
Totals	\$ <u>203,025,608</u>

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 3: CASH AND INVESTMENTS (continued)

The cash balances of substantially all funds are pooled and invested by the County Treasurer for the purpose of maximizing investment earnings. As permitted by the Government Code, depositing entities may direct the County Treasurer to make specific investments separate from the pool. At June 30, 2005, there were no such investments. Interest earnings are distributed to all participating funds based on their average daily balance within the pool.

The County Treasurer's pool is an external investment pool, managed and directed by the County Treasurer and is not registered with the Securities and Exchange Commission. A Treasury Oversight Committee provides oversight to the management of the pool. Pooled investments are carried at cost or amortized cost. In accordance with Government Accounting Standards Board Statement Number 31, the County calculated the fair value of all investments included in the pooled investments based upon quoted market prices. County management deemed that the difference between book value and fair value was immaterial in relation to each investment account included in the pool. Based on this determination the unrealized decrease in fair value of the investments was not recognized and is not included in the balances reported in the financial statements.

A. Deposits

Deposits were as follows:

Bank deposits	\$ 3,129,402
Cash on hand	<u>2,400</u>
Total Deposits	\$ <u>3,131,802</u>

At June 30, 2005, the carrying amount of the County's cash deposits (checking account) was \$3,129,402 and the bank balance was \$3,129,402. The difference between the carrying amount and the bank balance is due to deposits in transit, warrants outstanding and other reconciling items.

Of the deposit balance, \$100,000 was covered by federal depository insurance,, The remaining \$3,029,402 was collateralized according to State statutes. The California Government Code requires California banks and savings and loan associations to secure local governmental agency's deposits by pledging government securities as collateral. The market value of pledged securities must equal at least 110 percent of an agency's deposits. California's law also allows financial institutions to secure an agency's deposit by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposits. The agency may waive collateral requirements for deposits which are fully insured up to \$100,000 by federal deposit insurance.

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 3: CASH AND INVESTMENTS (continued)

B. Investments

State statutes authorize the County to invest in obligations of the U.S. Treasury, obligations of the State of California and any local agency within the State, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers acceptances, repurchase and reverse repurchase agreements, and negotiable certificates of deposit issued by national and State licensed or chartered banks or federal or state savings and loan associations.

The County's pro-rata share of investment in the State Treasurer's Local Agency Investment Fund (LAIF) at June 30, 2005 was \$19,133,097. The total amount invested by all public agencies in the State's pooled money investment account was \$57 billion. Of that \$57 billion managed by the State Treasurer, 100% was invested in non-derivative financial products. However, 1.603% was invested in structured notes and assets - backed securities. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the County's portion of the pool

Credit Risk, Carrying Amount, and Fair Value of Investments

Investments of the County are summarized below. The investments that are represented by specific identifiable investment securities are classified as to custodial credit risk by three categories as follows:

Category 1 - includes investments that are insured or registered, or for which securities are held by the County or its agent in the County's name.

Category 2 - includes uninsured and unregistered investments for which the securities are held by the counterparty trust department or agent in the County's name. The County held no Category 2 investments at June 30, 2005.

Category 3 - includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name. The County held no Category 3 investments at June 30, 2005.

COUNTY OF HUMBOLDT
Notes to the Basic Financial Statements
June 30, 2005

NOTE 3: CASH AND INVESTMENTS (continued)

B. Investments (continued)

	Carrying Value	Fair Value	Par Value	Interest Rate Range (%)	Maturity Range
Category 1 Investments:					
Federal agencies	\$ 189,686,743	\$ 188,270,076	\$ 187,275,000	2.00-13.69%	4/1/05 - 5/15/17
Medium term notes	3,580,146	3,540,040	3,500,000	3.28-6.04%	7/15/04 - 2/15/06
	\$ 193,266,889	\$ 191,810,116	\$ 190,775,000		
Noncategorized:					
Local Agency Investment Fund	19,123,097	19,123,097	19,123,097		
	\$212,390,986	\$ 210,933,213	\$ 209,908,097		

The following are condensed statements of net assets and changes in net assets, for the County's investment pool as of June 30, 2005 and for the year then ended:

<u>Statement of Net Assets</u>	
Net assets held for pool participants	\$ 203,025,608
Equity of internal pool participants	\$ 80,729,549
Equity of external pool participants	122,296,059
Total Equity	\$ 203,025,608
<u>Statement of Changes in Net Assets</u>	
Net assets at July 1, 2004	\$ 184,541,413
Investment income	5,334,104
Investment costs	-
Net withdrawals by pool participants	13,150,091
Net assets at June 30, 2005	\$ 203,025,608

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 4: PROPERTY TAX

The County is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property which is situated in the County based on the assessed values as of the preceding January 1. January 1 is also the lien date. Tax rates are set no later than the first workday in September. Property taxes on the secured roll are due in two installments: November 1 and February 1. If unpaid, such taxes become delinquent after December 10 and April 10, respectively. Supplemental property taxes are levied based on changes in assessed values between the date of real property sales and construction and the next normal assessment date. The additional supplemental property taxes are prorated from the first of the month following the date of such occurrence. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent, if unpaid, on August 31.

On September 21, 1993, the County adopted the Teeter Plan. The Teeter Plan provides for a tax distribution procedure in which secured roll taxes, excluding assessments and debt repayment levies, are distributed to participating County taxing agencies on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and interest, and a complex tax redemption distribution system for all taxing agencies is avoided. In connection with its adoption of the Teeter Plan, the County advanced to the participating taxing agencies an amount equal to 95 percent of the total prior years' delinquent secured property taxes, penalties and interest (not including assessments and debt replacement levies) outstanding at June 30, 1993.

Once adopted by the County, the Teeter Plan remains in effect unless the County orders its discontinuance or prior to the commencement of any subsequent fiscal year the County receives a petition for its discontinuance adopted by resolution of two-thirds of the participating revenue districts in the County. Further, the County may, by resolution adopted not later than July 15 of any subsequent fiscal year after a public hearing, discontinue the Teeter Plan as to any tax levying or assessment levying agency if the rate of secured tax delinquency in that agency in any year exceeds three percent of the total of all taxes and assessments levied on the secured rolls for that agency.

By resolution the County has covenanted that, except for the purpose of securing borrowings, the proceeds of which would be deposited to the General Fund, the County will take no action to sell, assign, or otherwise encumber the future delinquent tax payments, penalties and interest receivable by the County under the Teeter Plan.

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 5: DEFERRED REVENUES

Governmental funds report deferred revenue in connection with receivables for revenues not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received; but not yet earned.

As of June 30, 2005, the various components of unavailable deferred revenue and unearned revenue reported were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Governmental Activities:		
General Fund:		
Various grants and charges	\$ 5,767,876	\$ -
Property taxes	1,860,636	-
Internal Service Funds:		
Insurance premiums	-	906,860
Total Governmental Activities	\$ 7,628,512	\$ 906,860

NOTE 6: INTERFUND TRANSACTIONS

Interfund Receivables/Payables

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

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Internal Service Fund	General Fund	\$ 1,652,899
	Nonmajor Governmental Funds	17,308
		\$ 1,670,207

Vehicle License Revenue was reduced by the State during FY 03/04. Motor Pool advanced funds to the General Fund and Library Fund to cover the revenue shortfall.

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 6: INTERFUND TRANSACTIONS (continued)

Interfund Receivables/Payables (continued)

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

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Funds	Agency Funds	\$ 60,141
	Nonmajor Governmental Funds	<u>255,442</u>
		<u>315,583</u>
Nonmajor Governmental Funds	Nonmajor Governmental Funds	<u>80,388</u>
Internal Service Funds	Internal Service Funds	<u>2,758,956</u>
Investment Trust Funds	Agency Funds	<u>2,040</u>
Agency Funds	Nonmajor Governmental Funds	75,200
	Investment Trust Funds	45,914
	Agency Funds	<u>695,431</u>
		<u>816,545</u>
Enterprise Fund - Aviation	Enterprise Funds	26,045
	Nonmajor Governmental Funds	<u>44,699</u>
		<u>70,744</u>
		<u>\$ 4,044,256</u>

Transfers

Receivable Fund	Payable Fund	Amount	Purpose
General Funds	Nonmajor Governmental Funds	\$ 1,195,572	Transfer funds for Debt service payments.
General Fund	Nonmajor Governmental Funds	208,000	Transfer funds for Library operating subsidy.
Headwaters Fund	General Fund	489,501	Timber yield tax loss, charges for services.
Nonmajor Governmental Funds	General Fund	2,300,000	Transfer reserve funds for operations.
Nonmajor Governmental Funds	General Fund	92,761	Reimbursement of asset additions.
Nonmajor Governmental Funds	Nonmajor Government Funds	176,200	Transfer funds for debt service payments
Nonmajor Governmental Funds	Enterprise Funds	<u>626,415</u>	Transfer of asset addition
		<u>\$ 4,462,042</u>	

COUNTY OF HUMBOLDT
Notes to the Basic Financial Statements
June 30, 2005

NOTE 7: CAPITAL ASSETS

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

	Balance			Transfers and	Balance
	July 1, 2004	Additions	Retirements	Adjustments	June 30, 2005
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 3,831,971	\$ 91,710	\$ -	\$ -	\$ 3,923,681
Construction in progress	9,504,704			(9,155,718)	348,986
Total capital assets, not being depreciated	13,336,675	91,710		(9,155,718)	4,272,667
Capital assets, being depreciated:					
Infrastructure	7,622,443	5,762,340		13,780,457	27,165,240
Structures and improvements	90,767,223	8,411,570		(12,487,174)	86,691,619
Equipment	10,552,669	897,435	(682,284)	20,712	10,796,532
Total capital assets, being depreciated	117,942,335	15,071,345	(682,284)	1,322,996	133,653,392
Less accumulated depreciation for:					
Infrastructure	(251,445)	(891,108)		(2,120,887)	(3,362,440)
Structures and improvements	(29,186,348)	(2,605,072)		2,712,597	(29,077,824)
Equipment	(14,052,196)	(1,477,770)	548,351	151,938	(14,829,686)
Total accumulated depreciation	(43,589,989)	(5,973,960)	548,351	1,744,648	(47,270,950)
Total capital assets, being depreciated, net	74,352,346	9,097,385	(134,933)	3,067,644	86,382,442
Government activities capital assets, net	\$ 87,689,021	\$ 9,189,095	\$ (134,933)	\$ (6,088,074)	\$ 90,655,109
Business-Type Activities					
Capital assets, not being depreciated:					
Land	\$ 1,948,810	\$ -	\$ -	\$ 27,367	\$ 1,976,177
Construction in progress	491,128	626,415		(702,825)	413,718
Total capital assets, not being depreciated	2,439,938	626,415		(676,458)	2,389,895
Capital assets, being depreciated:					
Structures and improvements	17,910,753			424,171	18,334,924
Equipment	919,915	920		262,287	1,182,131
Total capital assets, being depreciated	18,830,668	920		676,458	19,517,055
Less accumulated depreciation for:					
Structures and improvements	(10,084,540)	(761,792)			(10,846,342)
Equipment	(649,751)	(60,788)			(710,539)
Total accumulated depreciation	(10,734,300)	(822,581)			(11,565,881)
Total capital assets, being depreciated, net	8,096,368	(822,652)		676,458	7,951,174
Business-type activities capital assets, net	\$ 10,536,306	\$ (195,237)	\$ -	\$ -	\$ 10,341,069

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 7: CAPITAL ASSETS (continued)

Depreciation

Depreciation expense was charged to governmental functions as follows:

General government	\$ 4,513,454
Public protection	267,504
Public ways	923,564
Health and sanitation	129,872
Public assistance	96,734
Education	35,678
Recreation	<u>7,154</u>
Total Depreciation Expense - Governmental Functions	\$ <u>5,973,960</u>

Depreciation expense was charged to the business-type functions as follows:

Airport	\$ <u>831,581</u>
Total Depreciation Expense - Business-Type Functions	\$ <u>831,581</u>

NOTE 8: LEASE COMMITMENTS

Operating Leases

The County is committed under various noncancellable operating leases, primarily for office buildings.

At June 30, 2005, the future minimum rental payments required under operating leases for buildings and equipment were as follows:

Fiscal Year Ending June 30,	General Fund	Special Revenue Funds	Total
2006	\$ 1,840,826	\$ 361,615	\$ 2,202,441
2007	1,486,111	357,715	1,843,826
2008	1,031,065	357,715	1,388,780
2009	634,129	352,117	986,246
2010	601,244	352,117	953,361
2011-2014	<u>1,851,407</u>	<u>176,058</u>	<u>2,027,465</u>
	<u>\$ 7,444,782</u>	<u>\$ 1,957,337</u>	<u>\$ 9,402,119</u>

Rent expenditures were \$2,607,632 for the year ended June 30, 2005.

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 8: LEASE COMMITMENTS (continued)

Capital Leases

The County has entered into various lease agreements as lessee to finance the acquisition of certain buildings and remodeling, data processing equipment and various other types of equipment. These leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. The following is a summary of equipment leased under capital lease agreements by the County as of June 30, 2005:

	<u>Stated Interest Rate</u>	<u>Present Value of Remaining Payments as of June 30, 2005</u>
Governmental Activities:		
Building	4.98%	\$ -
Computer equipment	5.99%	133,635
Animal Shelter	2 - 4.4%	3,719,300
Building remodel	5.10%	<u>3,254,026</u>
Total		<u>\$ 7,106,961</u>

The cost of buildings and equipment under capital leases are as follows:

Building	\$ 220,000
Computer equipment	184,379
Animal shelter	3,752,300
Building remodel	3,619,628
Less: accumulated amortization	<u>(669,346)</u>
Total	<u>\$ 7,106,961</u>

As of June 30, 2005, future minimum lease payments under capital leases was as follows:

<u>Year Ending June 30,</u>	
2006	\$ 486,868
2007	619,386
2008	640,922
2009	630,137
2010	612,310
2011-2015	3,159,800
2016-2020	2,415,651
2021-2025	<u>1,323,983</u>
Total Future Minimum Lease Payments	9,889,057
Less: Interest (1)	<u>(2,782,096)</u>
Present Value of Minimum Lease Payments	<u>\$ 7,106,961</u>

(1) Interest on animal shelter lease is estimated. Interest will be computed daily at a variable rate in accordance with the contract.

COUNTY OF HUMBOLDT
Notes to the Basic Financial Statements
June 30, 2005

NOTE 9: LONG-TERM DEBT

The following is a summary of long-term liabilities transactions for the year ended June 30, 2005:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions/</u> <u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Governmental Activities					
Certificates of Participation	\$ 17,160,000	\$ -	\$ (670,000)	\$ 16,490,000	\$ 690,000
Unamortized premium	51,797	-	(2,372)	49,425	-
Accrued compensated absences	14,805,128	9,208,690	(8,915,718)	15,098,100	7,762,650
Capitalized lease obligations	7,409,277	-	(302,316)	7,106,961	254,473
Liability for unpaid claims	2,342,850	-	(89,000)	2,253,850	2,253,850
Total Governmental Activities					
Long-Term Liabilities	<u>\$ 41,769,052</u>	<u>\$ 9,208,690</u>	<u>\$ (9,979,406)</u>	<u>\$ 40,998,336</u>	<u>\$ 10,960,973</u>
Business-Type Activities:					
Notes payable	\$ 22,023	\$ -	\$ (2,447)	\$ 19,576	\$ 2,447
Accrued compensated absences	147,305	62,315	(35,951)	173,669	35,951
Total Business-Type Activities:					
Long-Term Liabilities	<u>\$ 169,328</u>	<u>\$ 62,315</u>	<u>\$ (38,398)</u>	<u>\$ 193,245</u>	<u>\$ 38,398</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Certificates of Participation</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 690,000	\$ 652,909
2007	605,000	635,659
2008	620,000	620,534
2009	635,000	605,034
2010	655,000	586,619
2011-2015	3,625,000	2,575,749
2016-2020	4,405,000	1,795,264
2021-2025	4,750,000	734,761
2026-2030	505,000	23,734
Total Liability at June 30, 2005	<u>\$ 16,490,000</u>	<u>\$ 8,230,263</u>

COUNTY OF HUMBOLDT
 Notes to the Basic Financial Statements
 June 30, 2005

NOTE 9: LONG-TERM DEBT (Continued)

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

Fiscal Year Ending June 30	Business-Type Activities	
	Notes Payable	
	Principal	Interest
2006	\$ 2,447	\$ 1,359
2007	2,447	1,189
2008	2,447	1,019
2009	2,447	850
2010	2,447	850
2011-2013	7,341	850
	<u>\$ 19,576</u>	<u>\$ 6,117</u>

Long-term liabilities at June 30, 2005, consisted of the following:

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 10: NET ASSETS/FUND BALANCES NET ASSETS

The government-wide and business-type activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets, Net of Related Debt - This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Assets - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - This category represents net assets of the County, not restricted for any project or other purpose.

Fund Balances

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and management and can be increased, reduced or eliminated by similar actions.

As of June 30, 2005, reservations of fund balance are described below:

The term "reserved" is used to indicate that a portion of reported fund balance is (1) legally restricted to a specific use or (2) not available for appropriation or expenditure. The County's management will sometimes designate portions of unreserved (available) fund balance based on tentative future spending plans. Designated portions of fund balance represent financial resources legally available for uses other than those tentatively planned.

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 10: NET ASSETS/FUND BALANCES (continued)

Fund Balances (continued)

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 orders and contracts signed by the County but not yet completed as of the close of the year. Encumbrance accounting is employed as an extension of the budgetary process. This method records purchase orders, contracts and other commitments for the expenditure of funds in order to reserve that portion of the applicable appropriation. Encumbrance carryover at year end as reserved fund balances.

Reserved for Department Cash was created to represent the portion of the fund balance that is not available for expenditure because the County maintains various levels of revolving funds for daily operations.

Inventories represents the portion of assets which do not represent available spendable resources.

Reserve for Prepaids and Other Assets represents resources set aside and not available as spendable resources.

Reserve for Loans Receivable represents loans due to the County that are long-term in nature.

Reserve for Capital Projects represents resources set aside for capital projects of the County.

Reserve for Debt Service represents funds held by trustees or fiscal agents for future payment of bond principal and interest. These funds are not available for general operations.

Reserve for Economic Development represents funds dedicated to alleviating property tax losses caused by the transfer of the Headwaters Forest into public ownership, and to provide financial resources for economic development projects that will be determined in future years.

Net assets held in trust for investment pool participants represents Investment funds held for external pool participants and do not represent available spending resources.

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 11: EMPLOYEES RETIREMENT SYSTEM

A. Plan Description

The County's defined benefit pension plans (the Miscellaneous Plan and the Safety Plan) provide profit retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Miscellaneous Plan and the Safety Plan are part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements are established by State statutes within the Public Employees' Retirement Law. The County selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office - 400 P Street - Sacramento, CA 95814.

B. Funding Policy

Active plan members in the Miscellaneous Plan and the Safety Plan are required to contribute 7% and 9% of their annual covered salary, respectively. The County is required to contribute the actuarially determined remaining amounts necessary to fund the benefits of its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal 2004/05 was 5.177% for miscellaneous employees, and 8.675% for safety plan employees. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

C. Annual Pension Cost

For the Miscellaneous Plan for fiscal year 2004/2005, the County's annual pension cost was \$2,954,655 and the County actually contributed \$2,954,655. For the Safety Plan for fiscal year 2004/2005, the County's annual pension cost was \$1,025,777 and the County actually contributed \$1,025,777. The required Miscellaneous Plan and Safety Plan contributions for fiscal year 2004/2005 was determined as part of the June 30, 2002 actuarial valuations using the entry age normal actuarial cost method, with the contributions determined as a percent of pay. The actuarial assumptions include (a) 8.25% investment rate of return (net of administrative expense) for both plans; (b) projected salary increases that vary by duration of service ranging from 3.75% to 14.2% for the Miscellaneous Plan (4.27% to 11.59% for the Safety Plan);

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 11: EMPLOYEES RETIREMENT SYSTEM (continued)

C. Annual Pension Cost (continued)

and (c) 3.5% cost-of-living adjustment for both plans. The actuarial value of the assets of the Miscellaneous Plan and the Safety Plan were determined using a technique that smooths the effect of short-term volatility in the market value of the investments over a three-year period. The unfunded actuarial accrued liability (or excess assets) of both plans is being amortized as a level percentage of projected payroll. The remaining amortization periods at June 30, 2005 for the Miscellaneous Plan and the Safety Plan were 16 years and 17 years, respectively.

Three-Year Trend Information

			<u>Miscellaneous Plan</u>	
Fiscal Year	Annual	Percentage	Net	
<u>Ending</u>	<u>Cost (APC)</u>	<u>of APC</u>	<u>Pension</u>	
		<u>Contributed</u>	<u>Obligation</u>	
June 30, 2002	\$ -	100.00%	\$ -	-
June 30, 2003	867,997	100.00%	-	-
June 30, 2004	2,954,655	100.00%	-	-
<u>Safety Plan</u>				
Fiscal Year	Annual	Percentage	Net	
<u>Ending</u>	<u>Cost (APC)</u>	<u>of APC</u>	<u>Pension</u>	
		<u>Contributed</u>	<u>Obligation</u>	
June 30, 2002	\$ -	100.00%	\$ -	-
June 30, 2003	606,087	100.00%	-	-
June 30, 2004	1,025,777	100.00%	-	-

NOTE 12: POST RETIREMENT BENEFITS

The County pays post-retirement medical benefits for retirees who elect to continue coverage under the County's CalPERS medical insurance plan. Under CalPERS regulations, the County pays a fixed amount of the retiree's monthly premium until age 65. For the year ended June 30, 2005, this premium contribution averaged \$37.73 per month for 205 retirees at a total cost of \$92,811. In addition, those employees who were retired and entitled to additional benefits at the date the County elected participation in the CalPERS medical insurance program, January 1, 2001, receive an additional monthly premium contribution until age 65. For the year ended June 30, 2005, this contribution averaged \$107.31 per month for 12 retirees at a total cost of \$15,452.

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 13: RISK MANAGEMENT

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and health and welfare of employees. The County has established a self-insurance fund (an internal service fund) to account for and finance these possible risks of loss. Under this program, the Self-Insurance Fund provides the following coverage per occurrence:

Property	\$	5,000
Liability		150,000
Auto physical damage		10,000
Dental		1,000
Unemployment		Various

The County purchases excess insurance through risk pools and commercial carriers for claims in excess of coverage provided by the fund and all other risks of loss. The County pays an annual basic premium for coverage and is assessed an annual risk premium based on an actuarial review that estimates each of the program's participant's ultimate liabilities. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

All funds of the County participate in the program and make payments to the Self-Insurance Fund based on actuarial estimates of the amounts needed to pay prior- and current-year claims. Changes in the Fund's claims liability amounts for the past fiscal years were:

	Balance at June 30, 2004	Current Years Claims and Changes in Estimates	Claim Payments	Balance at June 30, 2005
Liability and auto	\$ 2,250,000	\$ (32,759)	\$ 106,241	\$ 2,111,000
Dental	95,000	931,133	931,133	95,000
Unemployment	136,850	236,655	236,635	136,850
	<u>\$ 2,481,850</u>	<u>\$ 1,135,009</u>	<u>\$ 1,274,009</u>	<u>\$ 2,342,850</u>

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 13: RISK MANAGEMENT (Continued)

	Balance at June 30, 2003	Current Years Claims and Changes in Estimates	Claim Payments	Balance at June 30, 2004
Liability and auto	\$ 2,111,000	\$ 186,251	\$ 275,251	\$ 2,022,000
Dental	95,000	90,264	90,264	95,000
Unemployment	136,850	278,116	278,116	136,850
	\$ 2,342,850	\$ 1,365,631	\$ 1,454,631	\$ 2,253,850

The claims liability, including incurred but not reported claims, were based on actuarial reviews. An actuarial review of the liability program was performed by Bickmore Risk Services in September 2005. Actuarial reviews of dental and unemployment programs were last performed by Total Compensation Systems, Inc. in March 2000.

All claims are processed and administered by claims administrators as follows:

Property	Assigned by CSAC Excess Insurance Authority
Liability and Auto	County Risk Manager
Dental	Preferred Benefit Insurance Administration, Inc.
Unemployment	Talx Corporation

NOTE 14: JOINT VENTURES

The County participates in several joint ventures under joint powers agreement (JPAs). The relationship between the County and the JPAs is such that none of the JPAs is a component unit of the County for financial reporting purposes.

The County participated in the following JPAs at June 30, 2005:

- CSAC Excess Insurance Authority
- Humboldt Transit Authority
- North Coast Air Quality Management District
- Humboldt County Association of Government Trusts
- Redwood Regional Economic Development Commission
- North Coast Emergency Medical Services
- Humboldt County Waste Management Authority

Except for CSAC Excess Insurance Authority, condensed financial information of the JPAs at June 30, 2005 is not available for presentation.

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 14: JOINT VENTURES (continued)

The CSAC Excess Insurance Authority is a joint powers authority organized in accordance with Article 1, Chapter 5, Division 7, Title I of the California Government Code. The purpose of the entity is to develop and fund programs of primary and excess insurance for workers' compensation, comprehensive liability, and other insurance coverages for member counties. The Authority is under the control and direction of a board of directors consisting of representatives of the fifty-three member counties.

Financial statements for the Authority are produced annually and may be obtained by writing to the CSAC Excess Insurance Authority, 3017 Gold Canal Drive, Suite 300, Rancho Cordova, CA 95670.

Condensed financial information of CSAC Excess Insurance Authority for the year ended June 30, 2005 is as follows:

Total assets	\$ 305,678,697
Total liabilities and reserves	279,975,343
Total net assets	<u>\$ 25,673,349</u>
Total revenues	\$ 287,221,942
Total expenses	266,608,471
Net increase (decrease) in net assets	<u>20,613,471</u>
	<u>5,059,878</u>
Net assets, beginning of the year	
Net assets, end of the year	<u>\$ 25,673,349</u>

NOTE 15: COMMITMENTS AND CONTINGENCIES

A. Grants

The County participates in a number of Federal and State grant programs subject to financial and compliance audits by the grantors or their representatives. Audits of certain grant programs, including the year ended June 30, 2005, have not yet been conducted. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The County believes that such disallowances, if any, would not have a material effect on the combined financial statements.

COUNTY OF HUMBOLDT

Notes to the Basic Financial Statements

June 30, 2005

NOTE 15: COMMITMENTS AND CONTINGENCIES (continued)

B. Legal Actions

In the opinion of County Counsel, there are potential liabilities as of June 30, 2005 which could result in monetary awards against the County if unfavorable decisions are rendered. The County does not make provisions for potential awards.

NOTE 16: DEFICIT FUND BALANCE OR NET ASSETS

The following funds had a fund balance/net assets deficit as of the fiscal year end:

	Accumulated Deficit
Courthouse Construction Fund B	\$ 308,830
County insurance	34,857
Dental	352,385
Medical insurance	2,461,437
Information technology	383,828

The Internal Service fund deficits are due to expenses in excess of user charges. These deficits will be funded by increased user charges.

NOTE 17: PRIOR PERIOD ADJUSTMENT

In the County's continuing effort to comply with the requirements of GASB 34, certain adjustments were made to the valuations of the opening balances of Fixed Assets. The adjustments are necessary to correct fixed asset valuations at the beginning of the year based upon continuing detailed evaluations on the part of County's personnel regarding the estimated historical value of certain long-term assets. The effect of the adjustment is to increase the net assets of the County's governmental activities by \$4,307,460. In addition an adjustment in the amount of \$117,127 was necessary to increase the net assets of the County's governmental activities for unrecorded interest revenue in the year ended June 30, 2004.

COUNTY OF HUMBOLDT
 Required Supplementary Information
 For the Year Ended June 30, 2005

Schedule of Funding Progress

The tables below shows a three-year analysis of the actuarial value of assets as a percentage of the actuarial accrued liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30:

Funded Status by Plans						
Miscellaneous Plan						
Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
June 30, 1999	\$ 183,461,058	\$ 214,128,902	\$ (30,667,844)	116.70%	\$51,282,215	(59.80%)
June 30, 2000	201,401,266	202,001,833	(60,467)	100.30%	56,708,266	(1.10%)
June 30, 2001	239,619,674	206,697,459	32,922,215	86.30%	63,489,295	51.90%
Safety Plan						
Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded/ (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
June 30, 1999	\$ 69,119,696	\$ 74,451,201	\$ (5,331,505)	107.70%	\$10,518,421	(50.7%)
June 30, 2000	74,574,971	60,707,763	4,866,208	93.50%	11,485,019	42.40%
June 30, 2001	82,273,679	70,800,967	11,572,712	86.00%	12,362,567	93.60%