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COUNTY OF MODOC, CALIFORNIA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2008

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COUNTY OF MODOC, CALIFORNIA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors
County of Modoc, California

We were engaged to audit the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Modoc, California (the County), as of and for the year ended June 30, 2008, 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.

Due to the inadequacy of the accounting records for capital assets, we were unable to form an opinion regarding the amounts reported in the accompanying statement of financial position of the governmental activities for capital assets, not being depreciated in the amount of \$726,597 and capital assets, being depreciated, net of accumulated depreciation in the amount of \$34,787,989.

In addition, we did not observe the taking of the physical inventories at June 30, 2008 (stated at \$306,686, \$172,601, \$306,686 and \$172,601 in the governmental activities, business-type activities, Road fund and the Modoc Medical Center fund, respectively) since that date was prior to the time we were initially engaged as auditors for the County. We were unable to satisfy ourselves about the inventory quantities by means of other auditing procedures.

Further, due to the inadequacy of accounting records for compensated absences, we were unable to form an opinion regarding the amounts reported in the accompanying statement of financial position of the governmental activities, business-type activities, Waste Management fund and aggregate remaining fund information, as applicable (stated at \$2,850,450, \$260,801, \$0, \$0, respectively).

In addition, the fund balances and net assets (opening equity balances) of the governmental activities, the business-type activities, each major fund excluding the Modoc Medical Center, and the aggregate remaining fund information as of July 1, 2007 have not been audited. The County was unable to reconcile its opening equity balances and did not perform procedures to ensure that opening assets, liabilities and equity balances were fairly stated. Also, the County's management determined that various adjustments were required to assets, liabilities, revenues, expenses/expenditures and fund classifications in order to conform to generally accepted accounting principles. As disclosed in Note 17, such adjustments were recorded to the opening equity balances.

Because of the significance of the matters discussed in the preceding paragraphs, and we were unable to apply other auditing procedures regarding management's assertions over capital assets, inventory, compensated absences, opening equity balances, revenues and expenditures, expenses where applicable, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph.

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As disclosed in Note 2 and 14 the County has allowed cash and investments in various County funds to be spent into a deficit cash and investment position. This has resulted in the County utilizing available cash from other funds, restricted and unrestricted, and external investment pool participants to cover warrants issued for the County's ongoing operations. The County did not formally establish any borrowing or loan arrangements for the cash utilized from other funds and external investment pool participants. As a result, the County cannot identify which funds advanced cash to cover the County funds with negative cash balances. Accordingly, funds with negative cash balances have not been reclassified as interfund borrowing, which is a departure from generally accepted accounting principles in the United States of America.

The accompanying financial statements have been prepared assuming that the County will continue as a going concern. As disclosed in Notes 2, 14 and 19 the County had a negative cash and investment pool equity position at June 30, 2008 of \$(1,022,116) and \$(1,718,635), respectively. The General Fund and Modoc Medical Center had negative cash positions of \$(361,003) and \$(11,059,834), respectively. This has resulted in the County utilizing available cash from other funds, restricted and unrestricted, and external investment pool participants. As a result of the deficit positions in the General Fund, Modoc Medical Center and the County, in the aggregate, the County is unable to meet its ongoing obligations without the use of cash in restricted funds and external investment pool participants. The impact of the County's unauthorized use of funds for purposes other than the purposes allowed for such restricted funds is unknown. The conditions raise substantial doubt about the County's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 19. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note 1 to the financial statements, the County has adopted the provisions of GASB Statement No. 50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, as of July 1, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated _____ on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 County has not presented management's discussion and analysis and budgetary comparison information for the General Fund and major Special Revenue Funds that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The schedule of funding progress on page 51 is not a required part of the basic financial statements but is 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 required supplementary information. However, we did not audit the information and express no opinion on it.

The supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. As noted in the sixth paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements of the County of Modoc. Therefore the scope of our work was not sufficient to enable us to express an opinion on the supplementary schedules in relation to the basic financial statements taken as a whole.

Rancho Cucamonga, California

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GOVERNMENTAL-WIDE FINANCIAL STATEMENTS

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COUNTY OF MODOC, CALIFORNIA

STATEMENT OF NET ASSETS
JUNE 30, 2008

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	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and investments	\$ 9,263,109	\$ (10,755,283)	\$ (1,492,174)	\$ 582,934
Restricted cash and investments		470,058	470,058	
Receivables:				
Accounts	2,809,233	2,779,827	5,589,060	82,669
Inventory	306,686	172,601	479,287	
Internal balances	(2,440)	2,440		
Due from third-party payor		368,648	368,648	
Due from other governments		116,691	116,691	
Prepaid items		79,975	79,975	
Capital Assets:				
Capital assets not being depreciated	726,597	240,151	966,748	
Capital assets being depreciated, net of accumulated depreciation	34,787,989	2,216,252	37,004,241	
Total Assets	<u>47,891,174</u>	<u>(4,308,640)</u>	<u>43,582,534</u>	<u>665,603</u>
LIABILITIES				
Accounts payable	1,156,544	811,856	1,968,400	149,280
Salaries payable		241,320	241,320	
Retentions payable		5,520	5,520	
Deferred revenue	395,327		395,327	
Long-term liabilities:				
Portion due within one year:				
Compensated absences	712,613	26,080	738,693	
Loans	13,729		13,729	
Capital lease obligations		303,432	303,432	
Closure/postclosure care costs		7,925	7,925	
Portion due beyond one year:				
Compensated absences	2,137,837	234,721	2,372,558	
Loans	69,001		69,001	
Capital lease obligations		283,184	283,184	
Closure/postclosure care costs		1,998,412	1,998,412	
Total Liabilities	<u>4,485,051</u>	<u>3,912,450</u>	<u>8,397,501</u>	<u>149,280</u>
NET ASSETS				
Invested in capital assets, net of related debt	35,431,856	1,869,787	37,301,643	
Restricted for:				
Capital improvements and acquisitions	16,229	547,354	563,583	
Public protection	266,997		266,997	
Public ways and facilities	4,990,419		4,990,419	
Health and sanitation	4,520,982		4,520,982	
Recreation and cultural services	323,046		323,046	
Grants and other purposes	314,804		314,804	
Modoc County Children and Families Commission				516,323
Unrestricted	(2,458,210)	(10,638,231)	(13,096,441)	
Total Net Assets (Deficit)	<u>\$ 43,406,123</u>	<u>\$ (8,221,090)</u>	<u>\$ 35,185,033</u>	<u>\$ 516,323</u>

See accompanying notes to financial statements.

COUNTY OF MODOC, CALIFORNIA

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

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Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Primary Government				
Governmental Activities:				
General government	\$ 3,795,232	\$ 1,439,250	\$ 747,864	
Public protection	6,591,461	1,509,383	2,262,022	
Public ways and facilities	5,713,971	1,865,693	4,339,890	\$ 1,026,330
Public assistance	4,520,176	108,467	804,616	3,194,441
Health and sanitation services	4,854,552	2,279,259	3,276,388	
Recreation and cultural services	567,783	424,757	123,877	
Education	446,101	8,471	329,962	
Interest on long-term debt	7,910			
Total Governmental Activities	<u>26,497,186</u>	<u>7,635,280</u>	<u>11,884,619</u>	<u>4,220,771</u>
Business-Type Activities:				
Modoc Medical Center	12,518,246	9,527,032	143,250	713,812
Waste Management	1,002,140	935,299		
Water Master	119,647	186,975		
Total Business-Type Activities	<u>13,640,033</u>	<u>10,649,306</u>	<u>143,250</u>	<u>713,812</u>
Total Primary Government	<u>\$ 40,137,219</u>	<u>\$ 18,284,586</u>	<u>\$ 12,027,869</u>	<u>\$ 4,934,583</u>
Component Unit				
Modoc County Children and Families Commission	\$ 571,118	\$ -	\$ 429,276	\$ -

General Revenues:

Taxes:

- Property tax, levied for General Fund
- Property tax in lieu of Vehicle License Fees
- Sales tax
- Franchise tax
- Transient occupancy taxes

Investment income

Other

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets, Beginning of Year (as restated)

Net Assets, End of Year

See accompanying notes to financial statements.

Net Revenue (Expense) and Change in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Component Unit</u>
\$ (1,608,118)		\$ (1,608,118)	
(2,820,056)		(2,820,056)	
1,517,942		1,517,942	
(412,652)		(412,652)	
701,095		701,095	
(19,149)		(19,149)	
(107,668)		(107,668)	
(7,910)		(7,910)	
<u>(2,756,516)</u>		<u>(2,756,516)</u>	
	\$ (2,134,152)	(2,134,152)	
	(66,841)	(66,841)	
	67,328	67,328	
	<u>(2,133,665)</u>	<u>(2,133,665)</u>	
<u>(2,756,516)</u>	<u>(2,133,665)</u>	<u>(4,890,181)</u>	
			<u>\$ (141,842)</u>
3,113,722		3,113,722	
1,007,089		1,007,089	
159,884		159,884	
67,620		67,620	
33,075		33,075	
77,021	33,712	110,733	19,531
113,433	(47,138)	66,295	
7,663	(7,663)		
<u>4,579,507</u>	<u>(21,089)</u>	<u>4,558,418</u>	<u>19,531</u>
1,822,991	(2,154,754)	(331,763)	(122,311)
41,583,132	(6,066,336)	35,516,796	638,634
<u>\$ 43,406,123</u>	<u>\$ (8,221,090)</u>	<u>\$ 35,185,033</u>	<u>\$ 516,323</u>

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FUND FINANCIAL STATEMENTS

COUNTY OF MODOC, CALIFORNIA

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008

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	Special Revenue		
	General Fund	Roads	Public Health
ASSETS			
Cash and investments	\$ (361,003)	\$ 4,142,067	\$ 1,730,968
Accounts receivable	1,020,569	518,769	393,584
Inventory		306,686	
Due from other funds	345,283	36,306	25,233
Advances to other funds			
Total Assets	<u>\$ 1,004,849</u>	<u>\$ 5,003,828</u>	<u>\$ 2,149,785</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 511,151	\$ 147,732	\$ 40,332
Due to other funds	95,598		
Deferred revenue	79,600		
Advances from other funds	160,408		
Total Liabilities	<u>846,757</u>	<u>147,732</u>	<u>40,332</u>
FUND BALANCES			
Reserved for:			
Advances to other funds			
Inventory		306,686	
Unreserved, reported in:			
General fund	158,092		
Special revenue funds		4,549,410	2,109,453
Total Fund Balances	<u>158,092</u>	<u>4,856,096</u>	<u>2,109,453</u>
Total Liabilities and Fund Balances	<u>\$ 1,004,849</u>	<u>\$ 5,003,828</u>	<u>\$ 2,149,785</u>

See accompanying notes to financial statements.

Special Revenue		Non-major Governmental Funds		Total
Mental Health	Social Service			
\$ 1,315,759	\$ 638,245	\$ 1,797,073	\$ 9,263,109	
363,163	24,000	489,148	2,809,233	
			306,686	
17,934		80,504	505,260	
		350,597	350,597	
<u>\$ 1,696,856</u>	<u>\$ 662,245</u>	<u>\$ 2,717,322</u>	<u>\$ 13,234,885</u>	
\$ 36,443	\$ 124,711	\$ 296,175	\$ 1,156,544	
	66,819	345,283	507,700	
	379,502	15,825	474,927	
	190,189		350,597	
<u>36,443</u>	<u>761,221</u>	<u>657,283</u>	<u>2,489,768</u>	
		350,597	350,597	
			306,686	
			158,092	
<u>1,660,413</u>	<u>(98,976)</u>	<u>1,709,442</u>	<u>9,929,742</u>	
<u>1,660,413</u>	<u>(98,976)</u>	<u>2,060,039</u>	<u>10,745,117</u>	
<u>\$ 1,696,856</u>	<u>\$ 662,245</u>	<u>\$ 2,717,322</u>	<u>\$ 13,234,885</u>	

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COUNTY OF MODOC, CALIFORNIA

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

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Fund Balances of Governmental Funds	\$ 10,745,117
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Long-term assets are not available to pay for current period expenditures and therefore, are not reported as revenues in the governmental funds.	
Taxes receivable not collected within the period of availability are deferred in the fund statements.	79,600
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.	
Capital assets not being depreciated	726,597
Capital Assets being depreciated, net of accumulated depreciation	34,787,989
Long-term liabilities applicable to governmental activities are not due and payable in the current period, and accordingly, are not reported as governmental fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Assets.	
1999 Aviation Loan	(14,736)
2001 Aviation Loan	(67,994)
Compensated absences	(2,850,450)
Net Assets of Governmental Activities	<u>\$ 43,406,123</u>

See accompanying notes to financial statements.

COUNTY OF MODOC, CALIFORNIA

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2008

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	General Fund	Special Revenue	
		Roads	Public Health
REVENUES:			
Taxes	\$ 4,419,297		
Intergovernmental	1,541,952	\$ 6,241,629	\$ 1,875,742
Licenses and permits	168,370		5,154
Fines and forfeitures	300,963		
Use of money and property	77,021	87,320	25,234
Charges for services	543,634	2,726	2,214
Other	1,464,519	197,736	53,474
Total Revenues	<u>8,515,756</u>	<u>6,529,411</u>	<u>1,961,818</u>
EXPENDITURES:			
Current:			
General government	3,334,854		
Public ways and facilities	729,283	5,225,848	
Public protection	5,672,544		
Health and sanitation services	46,226		1,823,708
Public assistance	467,673		
Education			
Recreation and cultural services	532,232		
Capital outlay	1,265		
Debt Service:			
Principal	90,000		
Interest	2,970		
Total Expenditures	<u>10,877,047</u>	<u>5,225,848</u>	<u>1,823,708</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(2,361,291)	1,303,563	138,110
Other Financing Sources (Uses):			
Transfers in	2,034,347	20,000	23,440
Transfers out	(83,695)	(38,811)	(98,043)
Total Other Financing Sources (Uses)	<u>1,950,652</u>	<u>(18,811)</u>	<u>(74,603)</u>
Net Change in Fund Balances	(410,639)	1,284,752	63,507
Fund Balances at Beginning of Year (As Restated)	568,731	3,571,344	2,045,946
Fund Balances (Deficit) at End of Year	<u>\$ 158,092</u>	<u>\$ 4,856,096</u>	<u>\$ 2,109,453</u>

See accompanying notes to financial statements.

Special Revenue		Non-major Governmental Funds		Total
Mental Health	Social Service			
		\$ 49,902	\$ 4,469,199	
\$ 1,610,199	\$ 3,682,975	4,273,978	19,226,475	
		5,164	178,688	
		67,284	368,247	
26,100	13,383	39,109	268,167	
		328,289	876,863	
570,523	40,457	518,566	2,845,275	
2,206,822	3,736,815	5,282,292	28,232,914	
		552,460	3,887,314	
		542,431	6,497,562	
		1,015,518	6,688,062	
1,742,592		1,212,255	4,824,781	
	3,156,406	850,177	4,474,256	
		437,087	437,087	
		32,058	564,290	
			1,265	
		12,750	102,750	
		4,940	7,910	
1,742,592	3,156,406	4,659,676	27,485,277	
464,230	580,409	622,616	747,637	
	89,668	911,266	3,078,721	
(25,773)	(1,027,291)	(1,797,445)	(3,071,058)	
(25,773)	(937,623)	(886,179)	7,663	
438,457	(357,214)	(263,563)	755,300	
1,221,956	258,238	2,323,602	9,989,817	
\$ 1,660,413	\$ (98,976)	\$ 2,060,039	\$ 10,745,117	

COUNTY OF MODOC, CALIFORNIA

RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

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Net Change in Fund Balances - Total Governmental Funds		\$ 755,300
Amounts reported for the governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays 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.		
Acquisition of capital assets	\$ 3,516,014	
Depreciation expense	<u>(2,324,199)</u>	
		1,191,815
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Tax revenue not collected within the period of availability		79,600
Compensated absences 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.		
Change in compensated absences		(306,474)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
Principal repayments:		
Certificates of participation		90,000
1999 Aviation Loan		6,958
2001 Aviation Loan		<u>5,792</u>
Change in Net Assets of Governmental Activities		<u>\$ 1,822,991</u>

See accompanying notes to financial statements.

COUNTY OF MODOC, CALIFORNIA

PROPRIETARY FUNDS
STATEMENT OF FUND NET ASSETS
JUNE 30, 2008

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	Business-Type Activities			Total
	Enterprise Fund			
	Major Funds		Non-Major	
	Modoc Medical Center	Waste Management	Water Master	
ASSETS				
Current assets:				
Cash and investments	\$ (11,107,188)	\$ 283,524	\$ 68,381	\$ (10,755,283)
Receivables:				
Accounts, net of allowance	2,258,718	21,109		2,279,827
Due from third-party payors	368,648			368,648
Due from other governments	116,691			116,691
Contributions receivable	500,000			500,000
Prepaid expenses and other assets	79,975			79,975
Inventory	172,601			172,601
Due from other funds			2,440	2,440
Total Current Assets	(7,610,555)	304,633	70,821	(7,235,101)
Non-current assets:				
Restricted cash and investments	47,354	422,704		470,058
Capital assets:				
Depreciable	1,973,174	243,078		2,216,252
Non depreciable	225,480	14,671		240,151
Total Non-Current Assets	2,246,008	680,453		2,926,461
Total Assets	(5,364,547)	985,086	70,821	(4,308,640)
LIABILITIES				
Current liabilities:				
Accounts payable	711,259	99,544	1,053	811,856
Salaries payable	241,320			241,320
Compensated absences	26,080			26,080
Other accrued liabilities	5,520			5,520
Capital lease obligations	303,432			303,432
Closure / postclosure care costs		7,925		7,925
Total Current Liabilities	1,287,611	107,469	1,053	1,396,133
Noncurrent Liabilities				
Long-term compensated absences	234,721			234,721
Capital lease obligations, less current	283,184			283,184
Closure / postclosure care costs		1,998,412		1,998,412
Total Noncurrent Liabilities	517,905	1,998,412		2,516,317
Total Liabilities	1,805,516	2,105,881	1,053	3,912,450
Fund Net Assets:				
Invested in capital assets, net of related debt	1,612,038	257,749		1,869,787
Restricted for capital acquisitions	547,354			547,354
Unrestricted	(9,329,455)	(1,378,544)	69,768	(10,638,231)
Total Fund Net Assets	\$ (7,170,063)	\$ (1,120,795)	\$ 69,768	\$ (8,221,090)

See accompanying notes to financial statements.

COUNTY OF MODOC, CALIFORNIA

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2008**

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	Business-type Activities- Enterprise Fund			
	Major Funds		Non-Major	
	Modoc	Waste	Water	Total
	Medical Center	Management	Master	
Operating revenues:				
Changes for services	\$ 9,465,267	\$ 891,902	\$ 186,975	\$ 10,544,144
Other	61,765	43,397		105,162
Total Operating Revenues	<u>9,527,032</u>	<u>935,299</u>	<u>186,975</u>	<u>10,649,306</u>
Operating expenses:				
Salaries and benefits	5,989,653		67,167	6,056,820
Services and supplies	1,038,291	127,115	52,480	1,217,886
Professional services	3,019,401			3,019,401
Purchased services	853,925	858,926		1,712,851
Insurance	200,221			200,221
Repairs and maintenance	147,586			147,586
Utilities	261,615	2,114		263,729
Depreciation	263,838	13,985		277,823
Rent	117,520			117,520
Other	332,091			332,091
Total Operating Expenses	<u>12,224,141</u>	<u>1,002,140</u>	<u>119,647</u>	<u>13,345,928</u>
Operating Income (Loss)	<u>(2,697,109)</u>	<u>(66,841)</u>	<u>67,328</u>	<u>(2,696,622)</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment income	8,686	22,586	2,440	33,712
Interest expense	(294,105)			(294,105)
Other non-operating revenues (expenses), net	(47,138)			(47,138)
Noncapital grants and contributions	143,250			143,250
Total Non-operating Revenues (Expenses)	<u>(189,307)</u>	<u>22,586</u>	<u>2,440</u>	<u>(164,281)</u>
Net income (loss) before capital contributions and transfers	(2,886,416)	(44,255)	69,768	(2,860,903)
Capital contributions	713,812			713,812
Transfers out		(7,663)		(7,663)
Change in Fund Net Assets	<u>(2,172,604)</u>	<u>(51,918)</u>	<u>69,768</u>	<u>(2,154,754)</u>
Fund Net Assets (deficit) at Beginning of Year (as restated)	(4,997,459)	(1,068,877)		(6,066,336)
Fund Net Assets (deficit) at End of Year	<u>\$ (7,170,063)</u>	<u>\$ (1,120,795)</u>	<u>\$ 69,768</u>	<u>\$ (8,221,090)</u>

See accompanying notes to financial statements.

COUNTY OF MODOC, CALIFORNIA

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2008

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	Business-type Activities- Enterprise Fund			
	Major Funds		Non-Major	
	Modoc	Waste	Water	Total
	Medical Center	Management	Master	
Cash Flows from Operating Activities:				
Cash received from customers	\$ 8,694,526	\$ 960,360	\$ 186,975	\$ 9,841,861
Cash payments to suppliers for goods and services	(5,741,936)	(942,210)	(72,009)	(6,756,155)
Cash payments for employee services	(5,875,469)		(67,167)	(5,942,636)
Other receipts and payments, net	61,765	74,619		136,384
Net Cash Provided By (Used For) Operating Activities	(2,861,114)	92,769	47,799	(2,720,546)
Cash Flows from Non-Capital Financing Activities:				
Interest on deficit cash position	(287,542)			(287,542)
Transfers to other funds		(7,663)		(7,663)
Other nonoperating income (expense)	96,112		(2,440)	93,672
Net Cash Provided By (Used For) Non-Capital Financing Activities	(191,430)	(7,663)	(2,440)	(201,533)
Cash Flows from Capital and Related Financing Activities:				
Purchase of capital assets	(297,007)			(297,007)
Capital and grant contributions	210,312			210,312
Principal payments on capital lease obligations	(180,847)			(180,847)
Interest paid on debt	(6,563)			(6,563)
Net Cash (Used For) Capital and Related Financing Activities	(274,105)			(274,105)
Cash Flows from Investing Activities:				
Interest on investments	8,686	22,586	2,440	33,712
Investments activity, net	206,310			206,310
Net Cash Provided By Investing Activities	214,996	22,586	2,440	240,022
Net Increase (Decrease) in Cash and Cash Equivalents	(3,111,653)	107,692	47,799	(2,956,162)
Cash and cash equivalents at beginning of year	(7,995,535)	598,536	20,582	(7,376,417)
Cash and cash equivalents at end of year	\$ (11,107,188)	\$ 706,228	\$ 68,381	\$ (10,332,579)
Cash per Statement of Fund Net Assets:				
Cash and investments	\$ (11,107,188)	\$ 283,524	\$ 68,381	\$ (10,755,283)
Restricted cash and cash investments		422,704		422,704
	\$ (11,107,188)	\$ 706,228	\$ 68,381	\$ (10,332,579)

See accompanying notes to financial statements.

COUNTY OF MODOC, CALIFORNIA

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS, (CONTINUED)
YEAR ENDED JUNE 30, 2008

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	Business-type Activities-			Total
	Enterprise Fund			
	Major Funds		Non-Major	
	Modoc Medical Center	Waste Management	Water Master	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss):	\$ (2,697,109)	\$ (66,841)	\$ 67,328	\$ (2,696,622)
Adjustments to reconcile operating income to net income provided by operating activities:				
Depreciation	263,838	13,985		277,823
(Increase) decrease in accounts receivable	(651,702)	68,458		(583,244)
(Increase) decrease in due from other governments	(108,204)			(108,204)
(Increase) decrease in due from third party payors	(10,835)			(10,835)
(Increase) decrease in supplies inventories	(19,901)			(19,901)
(Increase) decrease in prepaid expenses and other assets	40,742			40,742
Increase (decrease) in accounts payable	207,873	45,945	(19,529)	234,289
Increase (decrease) in salaries payable	88,104			88,104
Increase (decrease) in accrued liabilities	26,080			26,080
Increase (decrease) in closure/postclosure care costs		31,222		31,222
Total Adjustments	(164,005)	159,610	(19,529)	(23,924)
Net Cash Provided By (Used By) Operating Activities	\$ (2,861,114)	\$ 92,769	\$ 47,799	\$ (2,720,546)
Schedule of non-cash financing, capital and investing activities:				
Capital leases entered into during the fiscal year	\$ 766,437	\$ -	\$ -	\$ -

See accompanying notes to financial statements.

COUNTY OF MODOC, CALIFORNIA

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2008

DRAFT COPY 01/10/11.1

	Investment Trust	Agency
	<u> </u>	<u> </u>
ASSETS		
Cash and investments	\$ 12,125,898	\$ 388,961
Receivables:		
Accounts		394,205
Taxes		1,206,137
Total Assets	<u>12,125,898</u>	<u>1,989,303</u>
 LIABILITIES		
Accounts payable	13,825	691,699
Held on behalf of others		1,297,604
Total Liabilities	<u>13,825</u>	<u>\$ 1,989,303</u>
 NET ASSETS		
Net assets held in trust for investment pool participants	<u>\$ 12,112,073</u>	

See accompanying notes to financial statements.

COUNTY OF MODOC, CALIFORNIA

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

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	Investment Trust
ADDITIONS	
Contributions:	
Contributions to investment pool	\$ 39,348,926
Total Contributions	<u>39,348,926</u>
Net investment income:	
Interest income	504,371
Total Additions	<u>39,853,297</u>
DEDUCTIONS	
Distribution to pooled participants	38,425,282
Total Deductions	<u>38,425,282</u>
Change in Net Assets	1,428,015
Net Assets - Beginning (as restated)	<u>10,684,058</u>
Net Assets - Ending	<u><u>\$ 12,112,073</u></u>

See accompanying notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS

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COUNTY OF MODOC, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the County of Modoc, California (the County) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The significant County accounting policies are described below.

A. Reporting Entity

The County of Modoc, California is a legal subdivision of the State of California and was incorporated on February 17, 1874 under the general laws of the State of California. The County's powers are exercised through an elected five-member Board of Supervisors (the Board), which, as the governing body is responsible for the legislative and executive control of the County. The County provides a broad range of services including: general government (administration), public ways and facilities (roads and airports), public protection (sheriff, probation and county jail), health and sanitation (mental health and public health), public assistance (CalWorks and social services), education (library) and recreation and cultural services (museum).

As required by GAAP, these financial statements present the County of Modoc and its component units, entities for which the County is considered to be financially accountable. The County is considered to be financially accountable for an organization if the County appoints a voting majority of that organization's governing body and the County is able to impose its will on that organization or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the County. The County is also considered to be financially accountable for an organization if that organization is fiscally dependent (i.e. it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the County). In certain cases, other organizations are included as component units if the nature and significance of their relationship with the County are such that their exclusion would cause the County's financial statements to be misleading or incomplete. The County's component units are as follows:

The Adin Lighting, Bidwell Lighting, Canby Lighting, Cedarville Lighting, Eagleville Lighting and Air Pollution Control Districts are special districts that are governed by the Board. As the Board is the governing body, these entities have been blended with the activities of the County.

The Modoc County Children and Families First Commission (Commission) was established in December, 1998, under the authority of the California Children and Families First Act of 1998 and sections 130100, et seq., of the Health and Safety Code. The Commission accounts for receipts and disbursements of California Children and Families First Trust Fund allocations and appropriations to the Commission. The Commission is a discretely presented component unit as the County Board appoints the members of the Commission's governing body and can remove appointed members at will. The separate financial statements may be obtained from the Modoc County Children and Families First Commission, 802 N. East Street, Room 103, Alturas, California, 96101.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements

The *basic financial statements* of the County are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

The government-wide financial statements are prepared using the accrual basis of accounting and the economic resources measurement focus. The government-wide financial statements include capital assets, long-term liabilities, depreciation, and accumulated depreciation.

The statement of net assets and statement of activities display information about the primary government (the County) and its component units. These statements distinguish between the governmental and business-type activities of the County. Governmental activities, which are primarily 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 presents a comparison between direct expenses and program revenues for each function of the County's governmental activities and for each segment (different identifiable activities) of the business-type activities of the County. Direct expenses are those that are specifically associated with a program or function and are clearly identifiable to a particular function. 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.

The accounts of the County are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity wherein the operations of each fund are accounted for in a separate set of self-balancing accounts that records resources, related liabilities, obligations, reserves and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The governmental fund financial statements are prepared under the modified accrual basis of accounting and the current financial resources measurement focus. The proprietary and fiduciary fund financial statements are prepared using the accrual basis of accounting and the economic resources measurement focus, except agency funds which have no measurement focus. They 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 is displayed in a separate column. All remaining governmental and enterprise funds are separately aggregated and reported as non-major governmental and non-major enterprise funds.

Because the governmental fund financial statements are presented on a different measurement focus and basis of accounting than the government-wide financial statements, a reconciliation is presented which explains the adjustments necessary to reconcile fund financial statements to the government-wide financial statements.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

DRAFT COPY 01/10/11.1

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

B. Government-wide and Fund Financial Statements, (Continued)

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. Operating expenses, including salaries and benefits, services and supplies, and depreciation, represent the costs of providing goods and services to customers. Nonoperating expenses are those expenses such as losses from disposal of capital assets and interest expense that do not result from the principal activity of the fund but from secondary or auxiliary activities.

The following is a summary of the fund types utilized by the County:

Governmental Fund Types

- a. The General Fund is the general operating fund of the County. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Expenditures of this fund include the general operating expenses and capital improvement costs which are not paid through other funds.
- b. Special Revenue Funds are used to account for the proceeds of specific revenue sources that are usually required by law or administrative regulation to be accounted for in separate funds.
- c. Debt Service Funds are used to account for the accumulation of resources for and the payment of long-term debt principal and interest.
- d. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by Proprietary Fund Types.

The County reports the following major governmental funds:

General Fund – To account for all of the general revenues of the County not specifically levied or collected for other County funds and for expenditures related to the rendering of general services by the County.

Roads – To account for revenues and expenditures related to the maintenance of the County’s roads. This fund includes revenues collected from the highway user’s tax.

Public Health – This fund is used to account for revenues and expenditures related to the activities of assisting the public with health related issues.

Mental Health – This fund is used to account for financial resources for the maintenance and well being of the County’s constituents. Financial resources include proceeds from the mental health services act.

Social Service – This fund is used to account for financial resources for public assistance to families and individuals. Financial resources include federal and state grants.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

B. Government-wide and Fund Financial Statements, (Continued)

Proprietary Fund Types –

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The County reports the following major enterprise funds:

Medical Center – This fund is used to account for revenues and expenses of the operations for the County's medical center. All activities necessary to provide this service are accounted for in this fund, including administration, operations, maintenance, billing collection and depreciation. The separate financial statements of the Medical Center may be obtained from the 228 West McDowell Avenue Alturas, California, 96101.

Waste Management – This fund is used to account for the revenues and expenses for the maintenance, and operation of the County's landfills. This fund is also used to account for liabilities associated with the County's closure and post-closure care costs.

The County's Fund structure also includes the following fund types:

Investment Trust Fund - (a single cash pool managed by the Treasury) accounts for the assets of legally separate entities that deposit cash with the County Treasurer. The entities include school districts and special districts governed by local boards. These funds represent the assets, primarily cash and investments, and the related liability of the County to disburse these monies on demand. The County follows procedures of GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Detailed information about the major legal entities included in the Investment Trust Fund is provided in the Schedule of Fiduciary Net Assets and Schedule of Changes in Fiduciary Net Assets in the Supplementary Information section.

Agency Funds are used to account for assets held by the County as an agent for individuals or private organizations and other governmental units. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

C. Measurement Focus and Basis of Accounting

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units). Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the County.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

C. Measurement Focus and Basis of Accounting, (Continued)

Government-wide financial statements are presented using the *economic resources measurement focus* and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non exchange transactions were recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services, special assessments, and payments made by parties outside the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Fund Financial Statements

The underlying accounting system of the County is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental, proprietary and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and non-major fund in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds of the County primarily represent assets held by the County in a custodial capacity for other individuals or organizations.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

C. Measurement Focus and Basis of Accounting, (Continued)

Governmental Funds

In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The County considers all revenues available if they are collected within 180 days after year end except for property taxes, which are considered available if collected within 60 days. Significant revenues subject to accrual under the measurable and available criteria include property taxes, sales taxes and utility user taxes.

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction takes place. Imposed non-exchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate that they should not be considered "available spendable resources" since they do not represent net current assets. Recognition of governmental fund type revenue represented by non-current receivables are deferred until they become current receivables. Non-current portions of long-term receivables are offset by fund balance reserve accounts.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

C. Measurement Focus and Basis of Accounting, (Continued)

Proprietary Funds and Fiduciary Funds

The County's Enterprise Funds are proprietary funds. In the fund financial statements, proprietary funds and fiduciary funds are presented using the *accrual basis of accounting*. Revenues are recognized when they are earned and expenses are recognized when the related goods or services are delivered. In the fund financial statements, proprietary funds are presented using the *economic resources measurement focus*. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net assets.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses result from providing goods and services related to the fund's ongoing operations. The principal operating revenue of the County's proprietary funds is charges for service. Operating expenses include the cost of services provided, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Amounts paid to acquire capital assets are capitalized as assets in the proprietary funds financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the proprietary funds financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the proprietary funds are reported as a reduction of the related liability, rather than as an expenditure.

The County applies all applicable GASB pronouncements in accounting and reporting for its proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure. The County has elected not to apply FASB pronouncements issued after November 30, 1989.

D. Cash and Investments

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. The fair value of the investments is generally based on published market prices.

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The County pools cash and investments of all funds, except for assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

E. Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates, and have an original maturity date of 3 months or less. Cash equivalents represent the proprietary funds' share in the cash and investment pool of the County.

F. Accounts Payable

County warrants are deducted from the County carrying value of cash at the time the warrants are presented for payment to the bank. There is no timing difference between when the County records the warrants as presented for payment and when the bank is authorized to honor the warrants by the County; therefore, the carrying balance of deposits at June 30, 2008 equals the bank balance. All expenditures for which warrants have been issued at June 30, 2008 are recognized in the funds at the time the warrants are issued. The liability for the issuance of the warrants and the cash is recorded in each respective fund. At the time that warrants are presented to the bank for payment, the cash and warrants liability are reduced.

Outstanding warrants as of June 30, 2008 totaling \$1,101,455 are included in the line item Accounts Payable and were comprised of the following:

	Outstanding Warrants	Accounts Payables
Governmental Funds	\$ 214,588	\$ 1,156,544
Enterprise Funds	179,404	811,856
Discretely Presented Component Unit	2,150	149,280
Fiduciary Funds:		
Investment Trust	13,825	13,825
Agency	691,488	691,699
	\$ 1,101,455	\$ 2,823,204

G. Inventories

Inventories consist of expendable supplies valued at cost (principally on a first-in, first-out basis). The County uses the purchase method to record inventories as expenditures when purchased by governmental funds. Significant supplies on hand at year-end are recorded as assets with a corresponding reservation of fund balances to indicate that such amounts are not available for appropriation.

H. Capital Assets

Acquisitions of capital assets (including infrastructure) are recorded at historical cost at the time of purchase or at estimated historical cost if actual historical cost is not available. Assets acquired from gift or donation are valued at their estimated fair market value on the date contributed. Capital assets components consist of land, furniture and fixtures, structures and improvements, machinery and equipment, vehicles, computers and components, and infrastructure. The County has two networks of infrastructure assets – roads (paved and unpaved) and bridges. The County defines capital assets as assets with an estimated useful life in excess of one year.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2008

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

H. Capital Assets, (Continued)

Acquisitions of capital assets are recorded as expenditures in the governmental funds statement. Capital assets are capitalized and depreciated on the government-wide and the proprietary funds statements. Land and construction in progress are not depreciated.

The capitalization level and estimated useful lives are as follows:

Category	Capitalization Level	Useful Life
Furniture and fixtures	\$ 5,000	3 -5
Structures and improvements	5,000	30 - 75
Machinery and equipment	5,000	2 - 30
Vehicles	5,000	2 - 25
Computers and components	5,000	3 - 10
Infrastructure	5,000	20 - 50

I. Compensated Absences

In accordance with GASB Statement No. 16, a liability is recorded for compensated absences (unpaid vacation, sick leave and compensatory time) since the employees' entitlement to these balances are attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

J. Deferred Revenue

Deferred revenue in the fund financial statements represents receivables earned but not collected within the period of availability or advances received as of year end that have not been earned. Deferred revenue consists of the following at June 30:

	<u>Unavailable</u>	<u>Unearned</u>
General Fund:		
Property taxes receivable	\$ 79,600	
Resources received that do not yet meet the criteria for revenue recognition		
Social Services		\$ 379,502
Non-major governmental funds		15,825
	<u>\$ 79,600</u>	<u>\$ 395,327</u>

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

K. Property Taxes

Under California law, property taxes are assessed and collected up to 1 percent of assessed value, plus other increases approved by the voters. Property is originally assessed at 100 percent of full cash or market value at the date of transfer or completion of construction pursuant to Article XIII (A) of the California State Constitution and statutory provisions by the County Assessor and State Board of Equalization. Annual increases are limited to 2 percent of base year values.

The property tax levy to support general operations of various jurisdictions is limited to one percent of full cash value and is distributed in accordance with statutory formulas. Amounts levied each fiscal year to finance the annual requirements of voter approved debt are excluded from this limitation and are calculated and levied each fiscal year. The rates are formally adopted by either the Board or the city councils and, in some instances, the governing board of a special district.

The County is divided into approximately 65 tax rate areas, which are unique combinations of various jurisdictions serving a specific geographic area. Property taxes are levied on both real and personal property. Secured property taxes are levied July 1 and payable in two equal installments: the first is generally due November 1 and delinquent with penalties after December 10; the second is generally due on February 1 and delinquent with penalties after April 10. Unsecured property taxes become delinquent with penalties after August 31. Secured property taxes become a lien on the property on January 1 or the date on which title to the property transfers or improvements to the property are completed.

The County apportions secured property taxes under the alternative property tax treatment (Teeter Plan), whereby the County, purchases the current secured unpaid taxes from participating agencies. In return, the participating agencies, including the County, certain special districts, and the school districts, in turn, receive their full tax distribution with no liability for uncollected taxes. Therefore, for participating agencies, revenue is measurable and available and is recorded in the period the payment of current secured unpaid taxes is received prior to fiscal year end.

L. Interfund Transfers

In the fund financial statements, transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as transfers out in the reimbursing fund and as transfers in the fund that is reimbursed.

Nonrecurring or non-routine permanent transfers of equity are also reported as transfers.

M. Advances to Other Funds

Non-current portions of long-term interfund loan receivables are reported in the fund financial statements as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

N. Use of Restricted Resources

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first, and then unrestricted resources as they are needed.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

O. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The consumption method is used by the County to report prepaids.

P. New GASB Pronouncements

GASB Statement No. 45 – In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers. This statement is not effective until fiscal year June 30, 2009. The County has not determined its effect on the financial statements.

GASB Statement No. 48 – In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Equity Transfers of Assets and Future Revenues*, effective for periods beginning after December 15, 2006, establishes criteria to determine whether certain transactions constitute a sale or a collateralized borrowing resulting in a liability. The County determined that this statement did not have a material effect on the financial statements.

GASB Statement No. 49 – In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This Statement is effective for periods beginning after December 15, 2007. The County has not determined its effect on the financial statements.

GASB Statement No. 50 – In May 2007, GASB issued Statement No. 50, *Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27*, effective for periods beginning after June 15, 2007, requires defined benefit pension plans and sole and agent employers to present certain information related to note disclosures or Required Supplementary Information (RSI). The County implemented this statement effective July 1, 2007.

GASB Statement No. 51 – In June 2008, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement is not effective until June 30, 2010. The County has not determined its effect on the financial statements.

GASB Statement No. 52 – In November 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. This statement did not significantly impact the financial statements of the County.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

P. New GASB Pronouncements, (Continued)

GASB Statement No. 53 – In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This statement is not effective until June 30, 2010. The County has not determined its effect on the financial statements.

GASB Statement No. 54 – In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement is not effective until June 30, 2011. The County has not determined its effect on the financial statements.

GASB Statement No. 55 – In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to incorporate the hierarchy of general accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. This statement was effective upon issuance (March 2009). This statement did not significantly impact the financial statements of the County.

GASB Statement No. 56 – In March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of this Statement is to incorporate into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This statement was effective upon issuance (March 2009). This statement did not significantly impact the financial statements of the County.

GASB Statement No. 57 – In December 2009, The GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans. This Statement also amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2011. The County has not determined its effect on the financial statements.

GASB Statement No. 58 – In December 2009, The GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This Statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms a new payment plan. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The County has not determined its effect on the financial statements.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Q. 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 sponsors an Investment Pool that is managed by the County Treasurer for the purpose of increasing interest earnings through investment activities. Cash and investments for most County activities are included in the Investment Pool. The respective funds' shares of the total pool are included in the accompanying basic financial statements under the captions "Cash and investments" and "Restricted cash and investments".

The Investment Pool is comprised of internal and external pool participants. The internal pool participants include the funds and component units of the reporting entity and are reported in the various County funds. The external pool participants include legally separate entities, which are not part of the sponsor's reporting entity. The external investment component of the Investment Pool is reported in the accompanying financial statements as an investment trust fund within the fiduciary funds and uses the economic resources measurement focus and accrual basis of accounting.

The County has adopted an Investment Policy (Policy) which complies with the requirements of California Government Code, and serves as the basis for the type of investments, maturity limit, credit rating, and diversification of securities comprising the Investment Pool. The objectives of the Policy are safety of principal, maintenance of liquidity, and earning a competitive rate of return.

Deficit Cash

The County has allowed cash and investments in various County funds to be spent into a deficit cash and investment position. This has resulted in the County utilizing available cash from other funds, restricted and unrestricted, and external investment pool participants to cover warrants issued for the County's ongoing operations.

The County did not formally establish any borrowing or loan arrangements for the cash utilized from other funds and external investment pool participants. As a result, the County cannot identify which funds advanced cash to cover the County funds with negative cash balances. Accordingly, funds with negative cash balances have not been reclassified as interfund borrowings, which is a departure from generally accepted accounting principles (GAAP).

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 2 – CASH AND INVESTMENTS, (Continued)

The following is a summary of the County’s cash and investments, and restricted cash and investments by fund as of June 30, 2008:

Major Governmental Funds:		
General Fund		\$ (361,003)
<i>Special Revenue Funds:</i>		
Roads		4,142,067
Public Health		1,730,968
Mental Health		1,315,759
Social Service		638,245
Total Major Governmental Funds		<u>7,466,036</u>
Non-Major Governmental Funds		
<i>Special Revenue Funds:</i>		
CalWorks		(497,644)
Alcohol and Drug		577,738
Family Support		94,529
Other Special Revenue		1,159,635
Other Grant Funding		(131,989)
Special Aviation		32,929
Capital Improvement Funding		(53,229)
Art Council		1,201
Other Public Safety		173,769
Lights and Districts		17,693
Air Pollution		490
Pest Abatement		71,782
Library		350,169
Total Non-Major Governmental Funds		<u>1,797,073</u>
Major Proprietary Funds		
Modoc Medical Center		
Cash and investments	\$ (11,107,188)	
Restricted cash and investments	47,354	
	<u>(11,059,834)</u>	(11,059,834)
Waste Management		
Cash and investments	283,524	
Restricted cash and investments	422,704	
	<u>706,228</u>	706,228
Total Major Proprietary Funds		<u>(10,353,606)</u>
Non-Major Proprietary Funds		
Water Master		<u>68,381</u>
Total Non-Major Proprietary Funds		<u>68,381</u>
Total Governmental and Proprietary Funds (Primary Government)		<u>(1,022,116)</u>
Discretely Presented Component Unit		
Modoc County Children and Families Commission		<u>582,934</u>
Fiduciary Funds		
Investment Trust		12,125,898
Agency		388,961
Total Fiduciary Funds		<u>12,514,859</u>
Total Cash and Investments		<u>\$ 12,075,677</u>

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 2 – CASH AND INVESTMENTS, (Continued)

Investments Authorized by the California Government Code and the County’s Investment Policy

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	100%	None
U.S. Agency Securities	5 years	50%	None
Medium Term Corporate Notes	5 years	30%	10%
Negotiable Certificates of Deposit	5 years	20%	10%
Time Certificates of Deposit	5 years	40%	15%
Banker's Acceptances	180 days	40%	15%
Commercial Paper	270 days	40%	10%
Repurchase Agreements:			
Less than 30 days	30 days	30%	20%
Greater than 30 days	365 days	30%	10%
Local Agency Investment Fund	N/A	100%	100%

Total cash and investments (including restricted cash and investments) at fair value as reported at June 30, 2008 are as follows:

Governmental activities	\$ 9,263,109
Business-type activities	<u>(10,285,225)</u>
Total Primary Government	(1,022,116)
Discretely Presented Component Unit	<u>582,934</u>
Total Government Wide	<u>(439,182)</u>
Fiduciary funds:	
Investment trust fund	12,125,898
Agency fund	<u>388,961</u>
	<u>12,514,859</u>
Total Cash and Investments	<u><u>\$ 12,075,677</u></u>

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 2 – CASH AND INVESTMENTS, (Continued)

Cash and investments at fair value for County funds, including those funds managed separately from the Treasury, at June 30, 2008 are summarized as follows:

Cash:	
Cash on hand	\$ 3,239
Cash in bank	(563,679)
Total Cash	<u>(560,440)</u>
Investments in Treasurer's pool:	
Money market funds	1,066,265
Investments	4,519,852
Local Agency Investment Fund	7,050,000
Total Investments	<u>12,636,117</u>
Total Cash and Investments	<u>\$ 12,075,677</u>

Disclosures Relating to Credit Risk

State law and the County's Investment Policy limit investments in medium-term notes to the rating of A and A-1/P-1 for Commercial Paper by Standard & Poor's and Moody's Investors Service. Presented below is the rating as of year end for each investment type:

	<u>S&P</u>	<u>Moody's</u>	<u>Amount</u>
Investments in Investment Pool			
Medium term notes:			
Bristol-Meyer	A+	A1	\$ 499,596
American Honda Finance	A+	A1	498,519
Merrill Lynch	A+	Aa3	526,432
Local Government Investment Pool (LAIF)	Unrated	Unrated	7,050,000
Highmark money market fund*	A	A	1,066,265
Federal Agency Securities:			
Federal National Mortgage Association	AAA	Aaa	499,095
Federal Home Loan Bank	AAA	Aaa	1,997,782
Federal Home Loan Mortgage Corporation	AAA	Aaa	498,428
Total			<u>\$ 12,636,117</u>

*The investment in the Highmark money market fund was not included in the County's investment policy as of June 30, 2008.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 2 – CASH AND INVESTMENTS, (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of a loss attributed to the magnitude of a government’s investment in a single issuer. The County’s policy limits the amount that may be invested in any one issuer based on investment type. The following is a summary of investments in issuers that represent 5 percent or more of the County’s total Investment Pool at June 30, 2008:

Issuer	Investment Type	Percentage of Investment Pool	Reported Amount
Federal Home Loan Bank	Federal Agency Security	17%	\$ 1,997,782

Disclosures Relating to Interest Rate Risk

Investment Pool. As a means of limiting its exposure to interest rate risk, the County diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The County coordinates its investment maturities to match cash flow needs and restricts the maximum investment term to less than five years from the purchase date. Information about the sensitivity of the fair values of the County’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of the County’s investments by maturity:

Investment	Fair Value	Maturity	
		Less than 1 Year	1-5 Years
U.S. Agency Securities	\$ 2,995,305		\$ 2,995,306
Medium Term Corporate Notes	1,524,547	\$ 1,524,547	
Highmark Money Market Fund	1,066,265	1,066,265	
Local Agency Investment Funds (LAIF)	7,050,000	7,050,000	
Total	<u>\$ 12,636,117</u>	<u>\$ 9,640,812</u>	<u>\$ 2,995,306</u>

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the County's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits. As of June 30, 2008, the County's deposits with financial institutions were \$(633,375).

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 2 – CASH AND INVESTMENTS, (Continued)

California Local Agency Investment Fund

The County is a voluntary participant in the California Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the County’s investments in this pool is reported in the accompanying financial statements at amounts based upon the County’s pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio. The balance available for withdrawals is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

LAIF is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee comprised of California State officials and various participants provide oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer’s office. The County is a voluntary participant in the investment pool.

External Investment Pool

The Investment Pool does not issue financial statements separate from the County’s basic financial statements. The following represents a condensed statement of net assets and changes in net assets for the pool (internal and external) as of June 30, 2008:

<u>Statement of Net Assets</u>	<u>Total</u>
Net assets held for pool participants	<u>\$ 10,974,222</u>
Equity of internal pool participants	\$ (1,718,635)
Equity of discretely presented component unit	580,784
Equity of external pool participants	<u>12,112,073</u>
Total equity	<u>\$ 10,974,222</u>
<u>Statement of Changes in Net Assets</u>	
Net assets at July 1, 2007 (as restated)	\$ 12,541,681
Decrease in investment by pool participants, net	<u>(1,567,459)</u>
Net assets at June 30, 2008	<u>\$ 10,974,222</u>

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 3 – RECEIVABLES

Accounts receivable reported in the County’s financial statements at June 30, 2008 were comprised as follows:

	Governmental Funds					Enterprise Funds			Total
	General Fund	Roads	Public Health	Mental Health	Social Services	Non-major Governmental Funds	Modoc Medical Center	Waste Management	
Taxes receivable	\$ 248,982	\$ 265,108				\$ 79,389			\$ 593,479
Due from other governmental (federal and state) agencies	654,503	72,518	\$ 388,144	\$ 357,835		394,665		\$ 14,730	1,882,395
Accounts and other receivables	117,084	181,143	5,440	5,328	\$ 24,000	15,094	\$ 4,480,757	6,379	4,835,225
Gross receivables	1,020,569	518,769	393,584	363,163	24,000	489,148	4,480,757	21,109	7,311,099
Less: Allowance for uncollectible amounts							(2,222,039)		(2,222,039)
Total Receivables	\$ 1,020,569	\$ 518,769	\$ 393,584	\$ 363,163	\$ 24,000	\$ 489,148	\$ 2,258,718	\$ 21,109	\$ 5,089,060

NOTE 4 – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances consisted of the following at June 30, 2008:

Receivable Fund	Payable Fund	Amount
General Fund	Non-major Governmental Funds (Other Special Revenue)	\$ 345,283
Roads	General Fund	36,306
Public Health	General Fund	25,233
Mental Health	General Fund	17,934
Non-major Enterprise Funds	General Fund	2,440
Non-major Governmental Funds	Social Services	66,819
Non-major Governmental Funds	General Fund	13,685
	Total	\$ 507,700

Of the balance of \$345,283 owed to the General Fund from the Non-major governmental funds, \$342,843 represents a timing difference between when expenditures were recorded in the General Fund and the reimbursement from the Non-major governmental fund. The remaining interfund receivables/payables result from interest allocations owed to various funds at June 30, 2008.

Long-term interfund receivables and payables at June 30, 2008 are as follows:

Advances From:	Advances To:	Amount
General Fund	Non-major Governmental Funds (Cal Works)	\$ 160,408
Social Services	Non-major Governmental Funds (Cal Works)	190,189
	Total	\$ 350,597

The advance owed by the Cal Works Non-major governmental of \$350,597 is for prior year funding allocations received in the General and Social Services Funds. A repayment plan has been established to reimburse the Cal Works Fund for repayment of the advanced funds. Repayments are anticipated to be budgeted in the amount of \$87,649 (\$47,547 and \$40,102 from Social Services and the General Fund, respectively) in each fiscal year through 2011-2012.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2008 are as follows:

<u>Transfer out</u>	<u>Transfer in</u>	<u>Amount</u>
General Fund	Non-major Governmental Funds	\$ 63,395
	Roads	20,000
	Public Health	300
		<u>83,695</u>
Roads	General Fund	<u>38,811</u>
Public Health	General Fund	14,918
	Social Services	83,125
		<u>98,043</u>
Waste Management	General Fund	<u>7,663</u>
Social Services	General Fund	157,980
	Public Health	21,440
	Non-major Governmental	847,871
		<u>1,027,291</u>
Mental Health	General Fund	19,230
	Social Services	6,543
		<u>25,773</u>
Non-major Governmental Funds	General Fund	1,795,745
	Public Health	1,700
		<u>1,797,445</u>
	Total	<u>\$ 3,078,721</u>

Transfers are used to move funding from funds which receive the proceeds of various revenue sources to the funds that incur the expenditures for goods and services.

Transfers from the Social Services fund include \$847,871 to reimburse Cal Works expenditures on behalf of the Social Services fund and \$156,859 to fund Probation department programs in the General Fund.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 6 – CAPITAL ASSETS

A summary of capital asset activity for the year ended June 30, 2008 follows:

Governmental Activities:	Balance July 1, 2007 (as restated)	Additions	Deletions	Balance June 30, 2008
Capital Assets, Non-depreciated:				
Land	\$ 726,597			\$ 726,597
Total Capital Assets, Non-depreciated	726,597			726,597
Capital Assets, Being Depreciated:				
Equipment	9,485,763	\$ 903,242		10,389,005
Buildings and improvements	10,074,921	569,370		10,644,291
Infrastructure:				
Roads	46,994,359	2,043,402		49,037,761
Bridges	29,086,337			29,086,337
Total Capital Assets, Depreciated	95,641,380	3,516,014		99,157,394
Less Accumulated Depreciation for:				
Equipment	(7,833,548)	(645,728)		(8,479,276)
Buildings and improvements	(5,748,470)	(323,274)		(6,071,744)
Roads	(36,871,106)	(1,049,966)		(37,921,072)
Bridges	(11,592,082)	(305,231)		(11,897,313)
Total Accumulated Depreciation	(62,045,206)	(2,324,199)		(64,369,405)
Total Capital Assets, Depreciated, Net	33,596,174	1,191,815		34,787,989
Governmental Activities Capital Assets, Net	\$ 34,322,771	\$ 1,191,815	\$ -	\$ 35,514,586

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 6 – CAPITAL ASSETS, (Continued)

<u>Enterprise Fund (Medical Center)</u>	Balance July 1, 2007 (as restated)	Additions	Deletions	Balance June 30, 2008
Capital Assets, Non-depreciated:				
Land and improvements	\$ 214,986			\$ 214,986
Construction in progress	5,000	\$ 10,494	\$ (5,000)	10,494
Total Capital Assets, Non-depreciated	<u>219,986</u>	<u>10,494</u>	<u>(5,000)</u>	<u>225,480</u>
Capital Assets, Being Depreciated:				
Buildings and improvements	3,282,831	47,458		3,330,289
Equipment	1,916,845	1,014,121	(11,087)	2,919,879
Total Capital Assets, Depreciated	<u>5,199,676</u>	<u>1,061,579</u>	<u>(11,087)</u>	<u>6,250,168</u>
Less Accumulated Depreciation for:				
Buildings and improvements	(2,394,695)	(109,492)		(2,504,187)
Equipment	(1,629,418)	(154,346)	10,957	(1,772,807)
Total Accumulated Depreciation	<u>(4,024,113)</u>	<u>(263,838)</u>	<u>10,957</u>	<u>(4,276,994)</u>
Total Capital Assets, Depreciated, Net	<u>1,175,563</u>	<u>797,741</u>	<u>(130)</u>	<u>1,973,174</u>
Medical Center Capital Assets, Net	<u>\$ 1,395,549</u>	<u>\$ 808,235</u>	<u>\$ (5,130)</u>	<u>\$ 2,198,654</u>

<u>Enterprise Fund (Waste Management)</u>	Balance July 1, 2007 (as restated)	Additions	Deletions	Balance June 30, 2008
Capital Assets, Non-depreciated:				
Land	\$ 14,671			\$ 14,671
Total Capital Assets, Non-depreciated	<u>14,671</u>			<u>14,671</u>
Capital Assets, Being Depreciated				
Equipment	223,864			223,864
Buildings and improvements	329,120			329,120
Total Capital Assets, Depreciated	<u>552,984</u>			<u>552,984</u>
Less Accumulated Depreciation for:				
Equipment	(189,663)	\$ (8,121)		(197,784)
Structure and improvements	(106,257)	(5,865)		(112,122)
Total accumulated depreciation	<u>(295,920)</u>	<u>(13,986)</u>		<u>(309,906)</u>
Total capital assets, depreciated, net	<u>257,064</u>	<u>(13,986)</u>		<u>243,078</u>
Waste Management capital assets, net	<u>\$ 271,735</u>	<u>\$ (13,986)</u>	<u>\$ -</u>	<u>\$ 257,749</u>

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 6 – CAPITAL ASSETS, (Continued)

Depreciation Expense:

General Government:

General administration	\$ 85,055
Public protection	203,433
Public ways and facilities	1,938,590
Health and sanitation	59,858
Public assistance	33,770
Recreation and cultural services	3,493
Total Governmental Activities	<u>\$ 2,324,199</u>

Depreciation Expense:

Business-type activities:

Medical Center	\$ 263,838
Waste Management	13,986
Total Business-Type Activities	<u>\$ 277,824</u>

NOTE 7 – CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Beginning Balance (as restated)	Additions	Deletions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
1999 Aviation Loan (Note 9)	\$ 21,694		\$ 6,958	\$ 14,736	\$ 7,508
2001 Aviation Loan (Note 9)	73,786		5,792	67,994	6,221
Compensated Absences	2,543,976	\$ 1,234,670	928,196	2,850,450	712,613
Certificates of participation (Note 8)	90,000		90,000		
Total Governmental Activities	<u>2,729,456</u>	<u>1,234,670</u>	<u>1,030,946</u>	<u>2,933,180</u>	<u>726,342</u>
<u>Business Type Activities</u>					
Compensated Absences	214,912	45,889		260,801	26,080
Capital Lease Payable (Note 10)	1,026	766,437	180,847	586,616	303,432
Closure/postclosure care costs (Note 15)	1,975,115	39,147	7,925	2,006,337	7,925
Total Business-type Activities	<u>2,191,053</u>	<u>851,473</u>	<u>188,772</u>	<u>2,853,754</u>	<u>337,437</u>
Total	<u>\$ 4,920,509</u>	<u>\$ 2,086,143</u>	<u>\$ 1,219,718</u>	<u>\$ 5,786,934</u>	<u>\$ 1,063,779</u>

Payments for compensated absences are recorded in the respective fund that incurs the salary cost.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 8 – CERTIFICATES OF PARTICIPATION

1992 Certificates of Participation – Original Issue \$930,000

On October 22, 1992, the County issued \$930,000 in Certificates of Participation (COPs) Series 1992, bearing interest rates ranging from 3.4 percent to 6.6 percent and maturing on October 1, 2007. The proceeds were used to finance the acquisition of, and improvements to, the Modoc County Jail and Sheriff’s office, and the Modoc County Courthouse Annex. Principal payments ranging from \$40,000 to \$90,000 were due in annual installments. The final payment was during the fiscal year and the balance at June 30, 2008 is \$0.

NOTE 9 – LOANS

A. 1999 Aviation Loan

In November 1999, the County borrowed \$55,000 from the State of California Department of Transportation. The financing provided necessary matching funds to be used for improvements to the Alturas Airport runway. The loan is to be repaid over 10 years and bears interest at 5.399 percent. Principal is due annually on December 10 with final maturity on December 10, 2010. At June 30, 2008 the outstanding principal was \$14,736.

B. 2001 Aviation Loans

In October 2001, the County borrowed \$96,525 from the State of California Department of Transportation. The financing provided necessary matching funds to be used for improvements to the Alturas Airport runway. The loan is to be repaid over 15 years and bears interest at 5.108 percent. Principal is due annually on January 4 with final maturity on January 4, 2017. At June 30, 2008 the outstanding principal was \$67,994.

As of June 30, 2008, annual debt service requirements of the loans were:

Fiscal Year Ending June 30,	1999 Loan		2001 Loan		Total
	Principal	Interest	Principal	Interest	
2009	\$ 7,508	\$ 796	\$ 6,221	\$ 3,473	\$ 17,998
2010	7,228	390	6,650	3,155	17,423
2011			7,079	2,816	9,895
2012			7,508	2,454	9,962
2013			7,937	2,071	10,008
2014-2017			32,599	4,009	36,608
	<u>\$ 14,736</u>	<u>\$ 1,186</u>	<u>\$ 67,994</u>	<u>\$ 17,978</u>	<u>\$ 101,894</u>

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2008

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NOTE 10 – LEASES

A. Operating Lease Obligations

The County is committed under various non-cancelable operating leases, primarily for office buildings. Future minimum operating lease commitments are as follows:

<u>Year Ending</u>	<u>Amount</u>
6/30/2009	\$ 204,980
6/30/2010	200,480
6/30/2011	137,428
Total	<u>\$ 542,888</u>

Rent expenditures were \$239,318 for the year ended June 30, 2008.

B. Capital Lease Obligations

The Medical Center has various lease agreements with financial institutions and medical equipment manufacturers expiring at various dates, providing for monthly payments at various interest rates. Equipment acquired under these agreements have been accounted for as capital leases.

Future minimum lease payments on capital leases as of June 30, 2008, are as follows:

<u>Fiscal Year</u>	
2009	\$ 315,332
2010	78,573
2011	78,573
2012	78,573
2013	<u>71,653</u>
Total minimum lease payments	622,704
Less amount representing interest	<u>(36,088)</u>
Present value of net minimum lease payments	586,616
Less current portion of Capital Lease Obligations	<u>(303,432)</u>
Capital Lease Obligations, excluding current portion	<u>\$ 283,184</u>

The net book value of equipment acquired under capitalized leases at June 30, 2008 was \$709,182 net of accumulated amortization of \$65,699.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 11 – LIABILITY, PROPERTY, AND WORKERS COMPENSATION PROTECTION

Description of Self-Insurance Pool Pursuant to Joint Powers Agreement

The County is a member of the Trindell Insurance Fund, a Joint Powers Authority (Authority). The Authority is composed of 9 California counties and is organized under a joint powers agreement pursuant to California Government Code Section 6500 et seq. The purpose of the Authority is to assist with the insurance needs of its members by providing the most stable cost-effective risk-financing mechanisms, insurance program monitoring and loss prevention services available. The Authority began covering claims of its members in 1980. Each county has one voting member as a representative on the Board of Directors. There is also an Executive Committee that includes the Board President, Board Vice-President and two at large members.

Self-Insurance Programs of the Authority

For general liability and workers compensation, the County pays a primary deposit to cover estimated losses for a fiscal year (claims year). The County's self insured retention (SIR) amounts are \$100,000 for liability and \$125,000 for workers compensation. For amounts above the SIR, excess insurance is purchased by the Authority through the CSAC-Excess Insurance Authority (CSAC-EIA). Excess insurance through CSAC-EIA is \$300,000,000 amounts for workers compensation are the difference between \$50,000,000 and the \$125,000 SIR. \$15,000,000 for CSAC-EIA liability amounts are the difference between \$13,000,000 and the \$100,000 SIR.

The Authority acts as a banking arrangement with its members wherein, over time, each member is fiscally responsible for their own losses and costs. Administration expenses are shared equally among the members. Should a member incur several large losses in any given year or time period the risk pooled cash will pay the claimsbills and the member will, over time, repay the Authority. Ten (10) percent of the deficit is added to the next year's premium until the amount is paid back.

The County also participates in the pollution legal liability and remediation legal liability insurance, which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the County. Coverage is on a claims-made basis. There is a \$100,000 deductible. The Authority has a limit of \$50,000,000 for the 3-year period from July 1, 2006 through July 1, 2009. Each member of the Authority has a \$10,000,000 limit during the 3-year term of the policy.

The County also purchases real property, crime, medical malpractice, aviation and watercraft coverage with deductibles between \$1,000 and \$25,000 and with excess coverage between \$1,000,000 and 25,000,000. The coverage is provided through the Authority.

For each of the past three fiscal (claim) years, no claims have had settlements or judgments that exceeded the insured coverage for either workers' compensation or general liability.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 12 – DEFINED BENEFIT PENSION PLANS

CalPERS Miscellaneous and Safety Plans

Plan Description - The County contributes to the California Public Employees Retirement System (CalPERS) Miscellaneous Plan, an agent multiple-employer public employee defined benefit plan. In addition, the County also contributes to the CalPERS Safety Plan risk pool, a cost-sharing employer plan.

CalPERS acts as a common investment and administrative agent for participating governmental entities in the state of California. Copies of PERS’ annual financial report may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814 (website at <http://www.calpers.ca.gov>).

County employees are eligible to retire at or after age 50 and having attained five years of credited service. Retirees are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to a percent of their highest annual salary for each year of service credit based on the 2 percent at 55 formula for Miscellaneous employees and 3 percent at 50 for Safety employees. PERS also provides death and disability benefits. These benefit provisions and all other requirements have been established by State statute and by specific Memorandums of Understanding (MOUs) with County labor groups.

Funding Policy – Active County employees are required by state statute to contribute 7 percent (9 percent for Safety) of their annual covered salary. During the fiscal year 2007-08, the County contributed the employees’ 7 percent (9 percent for Safety) portion through November 2007. Based on the June 30, 2005 actuarial valuations, the County was required to contribute an actuarially determined rate of 9.53 percent and 34.51 percent of annual covered payroll for Miscellaneous and Safety members, respectively, for fiscal year 2007-08. The contribution rates are actuarially established by CalPERS based on the benefit formula.

The contribution rates were established by CalPERS using the following assumptions: (a) an investment rate of return of 7.75, (b) projected salary increases of 3.25 to 14.45 percent depending on age, service and type of employment, 3.00 percent attributable to inflation, and 3.25 percent attributed to payroll growth. The actuarial cost method is the Entry Age Normal Cost Method that produces level annual cost as a percent of pay in each year from the date of hire to the assumed retirement age. The amortization method is the Level Percent of Payroll method. The amortization periods as of the June 30, 2008 valuation date was an average of 20 years and 16 years for Miscellaneous and Safety Plans, respectively, on a closed basis. A 15-year smoothing technique is used for asset valuation.

Trend Information

Three years of trend information regarding annual pension costs is summarized as follows:

Plan	Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
Miscellaneous	6/30/2006	\$ 740,581	100%	\$ -
	6/30/2007	659,109	100%	-
	6/30/2008	720,521	100%	-
Safety	6/30/2006	\$ 313,567	100%	\$ -
	6/30/2007	335,816	100%	-
	6/30/2008	382,959	100%	-

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 12 – DEFINED BENEFIT PENSION PLANS, (Continued)

Funded Status

The funded status of the Miscellaneous Plan as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Percentage of Covered Payroll ((b-a)/c)
6/30/2008	\$ 48,539,168	\$ 52,611,072	\$ 4,071,904	92.3%	\$ 12,413,317	32.8%

The Miscellaneous schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

LIUNA Pension Plan

Plan Description - The County contributes to the Laborers’ International Union of North America Pension Fund (LIUNA). The plan is managed by LIUNA as a cost-sharing employer plan. LIUNA is a joint labor-management trust maintained in accordance with the Labor Management Relations (“Taft-Harley”) Act and is subject to the provisions of the Internal Revenue Code. LIUNA is administered by a Board of Trustees.

Requests for additional plan provisions and financial reports may be obtained from Laborers’ National (Industrial) Pension Fund located at 905 16th Street N.W., Washington DC 2006-1765.

LIUNA provides regular pension, early retirement, deferred and disability benefits. County employees are eligible for regular pension benefits from LIUNA upon having attained age 62, earned at least five years of pension credit, and earned at least one year of pension credit during the period that his or her employer is contributing to LIUNA.

The benefits paid to eligible members are determined by the highest contribution rate at which he or she earned pension credit (years). The contribution rate is negotiated by the County and each bargaining unit (General, Safety, Medical Center, etc.) as documented in a Memorandum of Understanding (MOU).

Funding Policy – Per the MOU’s the County is required to contribute \$58, \$108 and \$10 per month per General, Safety and Medical Center employee, respectively. Employee contributions are not required or accepted by LIUNA. The rates are established by LIUNA in accordance with the Rules and Regulations of the pension fund. The County’s contribution rate and the corresponding benefits to County employees are determined by the bargaining process.

The County’s annual pension cost was equal to the County’s contractually required contributions.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 12 – DEFINED BENEFIT PENSION PLANS, (Continued)

Trend Information

Three years of trend information regarding annual pension costs is summarized as follows:

Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
6/30/2006	\$ 126,786	100%	\$ -
6/30/2007	145,102	100%	-
6/30/2008	175,531	100%	-

NOTE 13 – OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 12, the County provides postemployment health care benefits, in accordance with the health care regulations of the Public Employees Retirement System, to Confidential Management Employees who retire from the County on or after attaining age 55 with at least five years vested. Currently, 20 retirees meet those eligibility requirements. Expenditures for postemployment health care benefits are recognized on a pay-as-you-go basis. During the year, expenditures of \$20,350 were recognized for postemployment healthcare.

NOTE 14 – CONTINGENCIES

As described in Note 2 – CASH AND INVESTMENTS the County has allowed cash and investments in various County funds to be spent into a deficit position. This has resulted in the County utilizing available cash from other funds, restricted and unrestricted, and external pool participants to cover warrants issued for the County’s ongoing operations. The use of funds from restricted funds and external pool participants has resulted in the County having negative cash of \$(1,022,116) and a deficit equity position of \$(1,718,610) in the County investment pool.

The County’s management asserts that it is seeking a long term financing to restore the deficit cash and equity position in the County investment pool. Should the long term financing not materialize the effect on the County’s financial position would be material.

Further, as the County has utilized restricted funds for purposes other than the purposes allowed for such restricted funds, the impact from federal and/or state granting agencies is unknown.

In the opinion of the County’s management, there are no other material matters requiring disclosure or recognition in the financial statements.

COUNTY OF MODOC, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

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NOTE 15 – CLOSURE AND POSTCLOSURE CARE COST

The County has closure and postclosure care responsibilities for the following landfill sites:

<u>Facility Name (City)</u>	<u>Status</u>	<u>Capacity Used as of June 30, 2008 %</u>	<u>Estimated Remaining Years</u>
Alturas	Active	48.52	26
Lake City	Closed	100.00	-
Eagleville	Closed	100.00	-
Cedarville	Closed	100.00	-
Bidwell	Closed	100.00	-

The State of California and Federal laws and regulations require that the County of Modoc place a final cover on its landfill sites when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure care costs is based on the amount the landfill used during the year. The estimated liability of landfill closure and postclosure care costs as of June 30, 2008 was \$2,006,337 based on the capacity of the landfills used to date (amount of landfill used). It is estimated that an additional \$1,652,920 will be recognized as closure and postclosure care expense between the date of the balance sheet and the date the Alturas landfill is expected to be filled to capacity (2034). The estimated total current cost of landfill closure and postclosure care, \$3,659,257, is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired at June 30, 2008. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations. The County is required by the State of California and Federal laws and regulations to make annual contributions to finance closure and postclosure care to an independent custodian or to the County treasurer as that custodian. This amount is shown on the Waste Management statement of net assets as restricted cash and investments of \$422,704 and is managed by the County Treasurer along with other pooled cash and investments according. It is anticipated that future inflation cost (including earnings on investments, if any) and additional cost that arises from changes in postclosure requirements (due to changes in technology, estimates or more rigorous environmental regulations, for example) may need to be covered by charges to future landfill users, taxpayers, or both.

As of June 30, 2008, the Alturas landfill had an estimate for closure costs in the amount of \$724,404 with contributions to finance closure costs in the amount of \$422,704.

For postclosure care costs, the County has established pledge of revenue agreements for the closed landfills with the California Integrated Waste Management Board.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 16 – FUND BALANCES

As of June 30, 2008, the County had deficit fund balance/net assets in the following reporting units:

	Deficit Fund Balance / Net Assets
Business-Type Activities	<u>\$ (8,221,090)</u>
Governmental Funds:	
Social Services	\$ (98,976)
CalWorks	(123,729)
Air Pollution	(1,117)
Total	<u>\$ (223,822)</u>
Enterprise Funds:	
Modoc Medical Center	\$ (7,170,063)
Waste Management	(1,120,795)
Total	<u>\$ (8,290,858)</u>

The deficits in the Business-type activities reporting unit is attributed to the deficits in the Modoc Medical Center and Waste Management as disclosed in the Enterprise Funds section above.

The General Fund is the chief operating fund of the County of Modoc. As the primary fund of discretionary revenues, this fund has the primary responsibility to cover deficits incurred in other governmental funds and enterprise funds. At June 30, 2008, the County General Fund had a fund balance of \$158,902. However, when considering the deficits of \$223,822 and \$8,290,858 in the governmental and enterprise funds, respectively, the General Fund does not maintain the ability to cover these deficits. Accordingly, there is substantial doubt about the County’s ability to continue as a going concern. Refer to Note 19 regarding the County’s ability to continue as a going concern.

NOTE 17 – OPENING BALANCES AND BEGINNING EQUITY

The County was unable to reconcile its beginning equity and opening balances as of July 1, 2007. Further, the County’s management determined that various adjustments were required to assets, liabilities, revenue, expenses/expenditures and fund classifications in order to conform to generally accepted accounting principles. The funds affected with prior period adjustments are presented as “restated” in the accompanying financial statements.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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NOTE 18 – SUBSEQUENT EVENTS

Proposition 1A Securitization Program

The State's 2009-10 budget package in July included the suspension of Proposition 1A. In 2004, California voters passed Proposition 1A to ensure that local property and sales tax revenues remained with local governments to fund local services. Proposition 1A could only be suspended under limited circumstances and if passed by a two-thirds majority vote of the legislature. Under the suspension, the State will borrow 8 percent of the amount of property tax revenue apportioned to cities, counties and special districts to be paid back by June 30, 2013. For the County, this equates to approximately \$327,000 in property taxes. To lessen the impact of the revenue loss, the State instituted a securitization program allowing local governments to sell their Proposition 1A Receivable to a joint powers authority sponsored by the California State Association of Counties and the League of California Cities. The joint powers authority will purchase the receivables and in turn issue bonds and provide local agencies with 100 percent of their property taxes in two equal installments on January 10 and May 2 of fiscal year 2010-2011. Under this program, all costs of issuance and interest will be paid by the State of California and agencies participating in the securitization will have no obligation on the bonds. The bonds are a debt of the State of California and bondholders will have no recourse to local governments if the State does not make the Proposition 1A repayments. On October 27, 2009, the Board of Supervisors approved the County's participation in the Proposition 1A securitization program. This will lessen any cash flow impact to the County.

Formation of Hospital District

On August 31, 2010, two measures were passed that 1) formed the Last Frontier Hospital District; and 2) created a special assessment of \$195 per unique property owner within the newly formed district to fund operations of the hospital. The District officially filed papers with the Board of Equalization and was considered a separate legal entity on October 12, 2010. The County and the District have an interim Operations Agreement in place, and are currently formalizing a Transfer Agreement that will terminate all County responsibility for operation of the hospital, and transfer responsibility formally to the District.

NOTE 19 – GOING CONCERN

As described in Notes 2 and 14 the County had a negative cash and investment pool equity position at June 30, 2008 of \$(1,022,116) and \$(1,718,635), respectively. The General Fund and Modoc Medical Center had negative cash positions of \$(361,003) and \$(11,059,834), respectively. This has resulted in the County utilizing available cash from other funds, restricted and unrestricted, and external investment pool participants to cover warrants issued for the County's ongoing operations. The County did not formally establish any borrowing or loan arrangements to utilize these funds for its ongoing operations.

COUNTY OF MODOC, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

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NOTE 19 – GOING CONCERN, (Continued)

As a result of the deficit cash positions in the General Fund, Modoc Medical Center and the County, in the aggregate, the County is unable to meet its ongoing obligations without the use of cash in restricted funds and external investment pool participants. The County's restricted funds are subject to provisions of laws, regulations, contracts and grant agreements. The funds held in the investment trust fund represent amounts held in a fiduciary capacity for other governmental agencies. The impact of the County's unauthorized use of funds for purposes other than the purposes allowed for such restricted funds is unknown.

This financial condition had continued subsequent to June 30, 2008. As of June 30, 2009, the County's General Fund and Modoc Medical Center had negative cash positions of \$(381,087) and \$(13,620,935), respectively. These factors create an uncertainty about the County's ability to continue as a going concern. Management is developing a plan to issue bonds in order to replenish the deficit cash positions in the County treasury. In addition, the County is also reviewing its budget to reduce its expenditures of ongoing services in order to generate savings which may be used for the repayment of debt service on the potential bonds. The ability of the County to continue as a going concern is dependent upon the issuance of bonds and the plan's success. The financial statements do not include any adjustments that might be necessary if the County is unable to continue as a going concern.

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REQUIRED SUPPLEMENTARY INFORMATION

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COUNTY OF MODOC, CALIFORNIA

SCHEDULE OF FUNDING PROGRESS
YEAR END JUNE 30, 2008

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The following schedule summarizes the County of Modoc's funding progress for the CalPERS Miscellaneous Pension Plan:

Actuarial Valuation June 30,	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Liability	Funded Ratio	Covered Payroll	Unfunded Liability as Percentage of Covered Payroll
2006	\$ 41,759,047	\$ 44,188,919	\$ 2,429,872	94.5%	\$ 10,769,675	22.6%
2007	45,191,515	47,378,191	2,186,676	95.4%	10,995,414	19.9%
2008	48,539,168	52,611,072	4,071,904	92.3%	12,413,317	32.8%

The County has less than 100 active members under the Safety Plan and is therefore required by CalPERS to participate in a risk pool. A schedule of funding progress for the Safety Plan risk pool is available from CalPERS.

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SUPPLEMENTARY SCHEDULES

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NON-MAJOR FUNDS

COUNTY OF MODOC, CALIFORNIA

NON-MAJOR GOVERNMENT FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2008

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	Special Revenue Funds					
	CalWorks	Alcohol and Drug	Family Support	Other Special Revenue	Other Grant Funding	Special Aviation
ASSETS						
Cash and investments	\$ (497,644)	\$ 577,738	\$ 94,529	\$ 1,159,635	\$ (131,989)	\$ 32,929
Receivables:						
Accounts	46	51,606		47,078	152,267	21,398
Due from other funds	66,819	9,737				
Advances to other funds	350,597					
Total Assets	<u>\$ (80,182)</u>	<u>\$ 639,081</u>	<u>\$ 94,529</u>	<u>\$ 1,206,713</u>	<u>\$ 20,278</u>	<u>\$ 54,327</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 43,547	\$ 27,900	\$ 139	\$ 73,159		\$ 19,250
Due to other funds				345,283		
Deferred revenue			15,825			
Total Liabilities	<u>43,547</u>	<u>27,900</u>	<u>15,964</u>	<u>418,442</u>		<u>19,250</u>
FUND BALANCES						
Reserved for:						
Advances to other funds	350,597					
Unreserved, reported in:						
Special revenue funds	<u>(474,326)</u>	<u>611,181</u>	<u>78,565</u>	<u>788,271</u>	<u>\$ 20,278</u>	<u>35,077</u>
Total Fund Balances	<u>(123,729)</u>	<u>611,181</u>	<u>78,565</u>	<u>788,271</u>	<u>20,278</u>	<u>35,077</u>
Total Liabilities and Fund Balances	<u>\$ (80,182)</u>	<u>\$ 639,081</u>	<u>\$ 94,529</u>	<u>\$ 1,206,713</u>	<u>\$ 20,278</u>	<u>\$ 54,327</u>

Special Revenue Funds

Capital Improvement Funding	Art Council	Other Public Safety	Lights and Districts	Air Pollution	Pest Abatement	Library	Total
\$ (53,229)	\$ 1,201	\$ 173,769	\$ 17,693	\$ 490	\$ 71,782	\$ 350,169	\$ 1,797,073
128,319	6,563	81,871 3,948					489,148 80,504 350,597
<u>\$ 75,090</u>	<u>\$ 7,764</u>	<u>\$ 259,588</u>	<u>\$ 17,693</u>	<u>\$ 490</u>	<u>\$ 71,782</u>	<u>\$ 350,169</u>	<u>\$ 2,717,322</u>
\$ 58,861	\$ 1,833	\$ 12,869	\$ 427	\$ 1,607	\$ 10,412	\$ 46,171	\$ 296,175 345,283 15,825
<u>58,861</u>	<u>1,833</u>	<u>12,869</u>	<u>427</u>	<u>1,607</u>	<u>10,412</u>	<u>46,171</u>	<u>657,283</u>
							350,597
<u>16,229</u>	<u>5,931</u>	<u>246,719</u>	<u>17,266</u>	<u>(1,117)</u>	<u>61,370</u>	<u>303,998</u>	<u>1,709,442</u>
<u>16,229</u>	<u>5,931</u>	<u>246,719</u>	<u>17,266</u>	<u>(1,117)</u>	<u>61,370</u>	<u>303,998</u>	<u>2,060,039</u>
<u>\$ 75,090</u>	<u>\$ 7,764</u>	<u>\$ 259,588</u>	<u>\$ 17,693</u>	<u>\$ 490</u>	<u>\$ 71,782</u>	<u>\$ 350,169</u>	<u>\$ 2,717,322</u>

COUNTY OF MODOC, CALIFORNIA

NON-MAJOR GOVERNMENT FUNDS
 COMBINING STATEMENT OF REVENUES,
 EXPENDITURES AND CHANGES IN FUND BALANCE
 YEAR ENDED JUNE 30, 2008

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	Special Revenue Funds				
	CalWorks	Alcohol and Drug	Family Support	Other Special Revenue	Other Grant Funding
REVENUES					
Taxes				\$ 39,330	
Intergovernmental	\$ 66,819	\$ 876,927	\$ 362,842	771,807	
License and permits				584	
Fines and forfeiture				30,063	\$ (2,273)
Use of money and property	(26,191)	9,737	2,729	3,776	
Charges for services				128,265	265,142
Other	2,399	97,810	435		
Total Revenues	43,027	984,474	366,006	973,825	262,869
EXPENDITURES					
Current:					
General government				349,907	
Public ways and facilities					
Public protection				352,948	186,684
Health and sanitation services		812,598	365,673		
Public assistance	850,177				
Education					
Recreation and cultural services				8,722	
Debt service:					
Principal					
Interest					
Total Expenditures	850,177	812,598	365,673	711,577	186,684
Excess (Deficiency) of Revenues Over (Under) Expenditures	(807,150)	171,876	333	262,248	76,185
OTHER FINANCING SOURCES (USES)					
Transfers in	847,871			21,186	
Transfers out	(5,710)	(16,530)		(637,795)	(700)
Total Other Financing Sources (Uses)	842,161	(16,530)		(616,609)	(700)
Net Change in Fund Balances	35,011	155,346	333	(354,361)	75,485
Fund Balances (deficits) at Beginning of Year (as restated)	(158,740)	455,835	78,232	1,142,632	(55,207)
Fund Balances (deficits) at End of Year	\$ (123,729)	\$ 611,181	\$ 78,565	\$ 788,271	\$ 20,278

Special Revenue Funds

Special Aviation	Capital Improvement Funding	Art Council	Other Public Safety	Lights and Districts	Air Pollution	Pest Abatement	Library	Total
				\$ 10,572				\$ 49,902
\$ 389,277	\$ 235,138	\$ 37,578	\$ 1,357,280	168	\$ 141,432	\$ 33,890	\$ 820	4,273,978
					5,164			5,164
	66,143		557					67,284
3,355	1,940	(79)	4,010	678	356	2,424	12,360	39,109
							324,513	328,289
23,775							740	518,566
416,407	303,221	37,499	1,361,847	11,418	146,952	36,314	338,433	5,282,292
	202,553							552,460
533,091				9,340				542,431
			265,312		210,574			1,015,518
						33,984		1,212,255
								850,177
							437,087	437,087
		23,336						32,058
12,750								12,750
4,940								4,940
550,781	202,553	23,336	265,312	9,340	210,574	33,984	437,087	4,659,676
(134,374)	100,668	14,163	1,096,535	2,078	(63,622)	2,330	(98,654)	622,616
					42,209			911,266
(1,321)	(78,800)		(1,049,895)			(3,109)	(3,585)	(1,797,445)
(1,321)	(78,800)		(1,049,895)		42,209	(3,109)	(3,585)	(886,179)
(135,695)	21,868	14,163	46,640	2,078	(21,413)	(779)	(102,239)	(263,563)
170,772	(5,639)	(8,232)	200,079	15,188	20,296	62,149	406,237	2,323,602
\$ 35,077	\$ 16,229	\$ 5,931	\$ 246,719	\$ 17,266	\$ (1,117)	\$ 61,370	\$ 303,998	\$ 2,060,039