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COUNTY OF MODOC, CALIFORNIA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2009

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COUNTY OF MODOC, CALIFORNIA
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

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TABLE OF CONTENTS

FINANCIAL SECTION

Independent Auditors' Report	1
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	4
Statement of Activities	5
Fund Financial Statements	
Governmental Funds	
Balance Sheet	7
Reconciliation of the Balance Sheet to the Statement of Net Assets	9
Statement of Revenues, Expenditures, and Changes in Fund Balances	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities	12
Proprietary Funds	
Statement of Fund Net Assets	13
Statement of Revenues, Expenses, and Changes in Fund Net Assets	14
Statement of Cash Flow	15
Fiduciary Funds	
Statement of Fiduciary Net Assets	17
Statement of Changes in Fiduciary Assets	18
Notes to Basic Financial Statements	19
Required Supplementary Information	
Schedule of Funding Progress	53
Supplementary Schedules	
Combining Balance Sheet	54
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance	56

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INDEPENDENT AUDITORS' REPORT

To the Board of Supervisors
 County of Modoc, California

We have audited 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, 2009, 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. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Children and Families First Commission of Modoc County, which collectively represent the following percentages of the assets and revenues of the following opinion units:

Opinion Unit	Assets	Revenues
Discretely Presented Component Unit	100%	100%

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

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

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 \$983,950 and capital assets, being depreciated, net of accumulated depreciation in the amount of \$35,787,713.

In addition, we did not observe the taking of the physical inventories at June 30, 2009 stated at \$386,015 in the governmental activities 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.

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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 stated at \$2,551,681.

Because of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial position and changes in financial position of the governmental activities of the County for the fiscal year ended June 30, 2009.

We did not observe the taking of the physical inventories at June 30, 2009 (stated at \$195,100, \$386,015, \$195,100 for the business-type activities, Road fund and the Modoc Medical Center fund, respectively) since those dates were 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.

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 business-type activities, Waste Management fund and aggregate remaining fund information, as applicable (stated at \$341,411, \$0 and \$0, respectively).

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary for inventory in the business-type activities, Road fund and the Modoc Medical Center Fund, and compensated absences in the business-type activities, Waste Management fund and aggregate remaining fund information, as applicable, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, Road Fund, Modoc Medical Center fund, Waste Management fund and the aggregate remaining fund information of the County of Modoc, California as of June 30, 2009 and the respective changes in financial position and cash flows, where applicable, in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General fund, Public Health fund, Mental Health fund and Social Service fund of the County of Modoc, California as of June 30, 2009 and the respective changes in financial position in conformity with accounting principles generally accepted in the United States of America.

Finally, in our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate discretely presented component unit, of the County of Modoc, California, as of June 30, 2009, and the changes in financial position, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 12 to the financial statements, the County has adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers of Postemployment Benefits Other Than Pensions*, as of July 1, 2008.

As disclosed in Note 2 and 13 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.

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The accompanying financial statements have been prepared assuming that the County will continue as a going concern. As disclosed in Notes 2, 13 and 17 the County had a negative cash and investment pool equity position at June 30, 2009 of (\$1,626,462) and (\$2,607,254), respectively. The General Fund and Modoc Medical Center had negative cash positions of (\$381,087) and (\$13,620,935), 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 17. The financial statement does not include any adjustments that might result from the outcome of this uncertainty.

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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual non-major fund statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund statements and schedules have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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, 2009

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	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and investments	\$ 11,320,089	\$ (13,509,545)	\$ (2,189,456)	\$ 523,444
Restricted cash and investments		562,994	562,994	
Receivables:				
Accounts	3,035,096	3,425,001	6,460,097	65,281
Inventory	386,015	195,100	581,115	
Internal balances	(4,271)	4,271		
Due from other governments		54,735	54,735	
Prepaid items		166,729	166,729	
Capital assets:				
Capital assets not being depreciated	983,950	118,598	1,102,548	
Capital assets being depreciated, net of accumulated depreciation	35,787,713	2,221,362	38,009,075	
Total Assets	<u>51,508,592</u>	<u>(6,618,748)</u>	<u>44,889,844</u>	<u>588,725</u>
LIABILITIES				
Accounts payable	1,025,480	484,895	1,510,375	157,101
Salaries payable		329,637	329,637	
Retentions payable		20,310	20,310	
Deferred revenue	22,360		22,360	
Long-term liabilities:				
Portion due within one year:				
Compensated absences	637,920	34,141	672,061	
Loans	13,878		13,878	
Cost report settlement, less current installments		29,768	29,768	
Capital lease obligations		65,948	65,948	
Closure/postclosure care costs		15,368	15,368	
Portion due beyond one year:				
Compensated absences	1,913,761	307,270	2,221,031	
Loans	55,123		55,123	
Cost report settlement, less current installments		738,984	738,984	
Capital lease obligations		214,563	214,563	
Closure/postclosure care costs		2,010,779	2,010,779	
Other post employment benefits (OPEB)	325,664		325,664	
Total Liabilities	<u>3,994,186</u>	<u>4,251,663</u>	<u>8,245,849</u>	<u>157,101</u>
NET ASSETS				
Invested in capital assets, net of related debt	36,702,662	2,059,449	38,762,111	
Restricted for:				
Capital improvements and acquisitions	108,454	113,505	221,959	
Public protection	282,660		282,660	
Public ways and facilities	6,544,619		6,544,619	
Health and sanitation	5,783,071		5,783,071	
Recreation and cultural services	272,079		272,079	
Grants and other purposes	369,557		369,557	
Modoc County Children and Families Commission				431,624
Unrestricted	(2,548,694)	(13,043,365)	(15,592,059)	
Total Net Assets (Deficit)	<u>\$ 47,514,406</u>	<u>\$ (10,870,411)</u>	<u>\$ 36,643,995</u>	<u>\$ 431,624</u>

See accompanying notes to financial statements.

COUNTY OF MODOC, CALIFORNIA

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

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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	\$ 5,237,896	\$ 2,462,726	\$ 1,409,983	
Public protection	6,109,360	2,241,174	527,531	
Public ways and facilities	5,284,742	839,027	4,320,273	\$ 2,523,449
Public assistance	5,121,807	51,338	2,480,014	3,249,556
Health and sanitation services	4,711,288	1,517,533	4,537,456	
Recreation and cultural services	470,996	260,203	288,477	
Education	353,233	9,453	325,251	
Interest on long-term debt	4,268			
Total Governmental Activities	27,293,590	7,381,454	13,888,985	5,773,005
Business-Type Activities:				
Modoc Medical Center	14,210,774	11,316,748	2,787	204,821
Waste Management	932,433	786,477		
Water Master	159,852	234,208		
Total Business-Type Activities	15,303,059	12,337,433	2,787	204,821
Total Primary Government	\$ 42,596,649	\$ 19,718,887	\$ 13,891,772	\$ 5,977,826
Component Unit				
Modoc County Children and Families Commission	\$ 540,406	\$ -	\$ 446,136	\$ -

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

Net Assets, End of Year

See accompanying notes to financial statements.

Net Revenue (Expense) and Change in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>	<u>Component</u> <u>Unit</u>
\$ (1,365,187)		\$ (1,365,187)	
(3,340,655)		(3,340,655)	
2,398,007		2,398,007	
659,101		659,101	
1,343,701		1,343,701	
77,684		77,684	
(18,529)		(18,529)	
(4,268)		(4,268)	
<u>(250,146)</u>		<u>(250,146)</u>	
	\$ (2,686,418)	(2,686,418)	
	(145,956)	(145,956)	
	74,356	74,356	
	<u>(2,758,018)</u>	<u>(2,758,018)</u>	
<u>(250,146)</u>	<u>(2,758,018)</u>	<u>(3,008,164)</u>	
			<u>\$ (94,270)</u>
3,087,861		3,087,861	
875,533		875,533	
263,738		263,738	
71,173		71,173	
32,343		32,343	
12,422	3,461	15,883	9,571
3,304	117,291	120,595	
12,055	(12,055)		
<u>4,358,429</u>	<u>108,697</u>	<u>4,467,126</u>	<u>9,571</u>
4,108,283	(2,649,321)	1,458,962	(84,699)
43,406,123	(8,221,090)	35,185,033	516,323
<u>\$ 47,514,406</u>	<u>\$ (10,870,411)</u>	<u>\$ 36,643,995</u>	<u>\$ 431,624</u>

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FUND FINANCIAL STATEMENTS

COUNTY OF MODOC, CALIFORNIA

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2009

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	Special Revenue		
	General Fund	Roads	Public Health
ASSETS			
Cash and investments	\$ (381,087)	\$ 5,494,302	\$ 1,716,262
Accounts receivable	1,092,358	551,005	322,939
Inventory		386,015	
Due from other funds		16,340	38,591
Advances to other funds			
Total Assets	<u>\$ 711,271</u>	<u>\$ 6,447,662</u>	<u>\$ 2,077,792</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 546,107	\$ 73,675	\$ 23,530
Due to other funds	112,253		2,404
Deferred revenue	83,984		
Advances from other funds	160,408		
Total Liabilities	<u>902,752</u>	<u>73,675</u>	<u>25,934</u>
FUND BALANCES			
Reserved for:			
Advances to other funds			
Inventory		386,015	
Unreserved, reported in:			
General fund	(191,481)		
Special revenue funds		5,987,972	2,051,858
Total Fund Balances	<u>(191,481)</u>	<u>6,373,987</u>	<u>2,051,858</u>
Total Liabilities and Fund Balances	<u>\$ 711,271</u>	<u>\$ 6,447,662</u>	<u>\$ 2,077,792</u>

See accompanying notes to financial statements.

Special Revenue		Non-major Governmental Funds		Total
Mental Health	Social Service			
\$ 2,610,003	\$ 627,583	\$ 1,253,026	\$ 11,320,089	
323,647	2,952	742,195	3,035,096	
			386,015	
31,078		311,870	397,879	
		303,050	303,050	
<u>\$ 2,964,728</u>	<u>\$ 630,535</u>	<u>\$ 2,610,141</u>	<u>\$ 15,442,129</u>	
\$ 118,297	\$ 82,587	\$ 181,284	\$ 1,025,480	
	287,493		402,150	
	17,976		101,960	
	142,642		303,050	
<u>118,297</u>	<u>530,698</u>	<u>181,284</u>	<u>1,832,640</u>	
		303,050	303,050	
			386,015	
			(191,481)	
<u>2,846,431</u>	<u>99,837</u>	<u>2,125,807</u>	<u>13,111,905</u>	
<u>2,846,431</u>	<u>99,837</u>	<u>2,428,857</u>	<u>13,609,489</u>	
<u>\$ 2,964,728</u>	<u>\$ 630,535</u>	<u>\$ 2,610,141</u>	<u>\$ 15,442,129</u>	

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COUNTY OF MODOC, CALIFORNIA

RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

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Fund Balances of Governmental Funds	\$ 13,609,489
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	983,950
Capital Assets being depreciated, net of accumulated depreciation	35,787,713
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	(7,228)
2001 Aviation Loan	(61,773)
Accrued other post employment benefits (OPEB)	(325,664)
Compensated absences	(2,551,681)
Net Assets of Governmental Activities	<u>\$ 47,514,406</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, 2009

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	General Fund	Special Revenue	
		Roads	Public Health
REVENUES:			
Taxes	\$ 4,445,936		
Intergovernmental	794,336	\$ 6,734,833	\$ 1,524,512
Licenses and permits	147,477		7,333
Fines and forfeitures	233,038		2
Use of money and property	71,257	48,870	13,347
Charges for services	399,300		3,041
Other	909,039	215,565	114,756
Total Revenues	<u>7,000,383</u>	<u>6,999,268</u>	<u>1,662,991</u>
EXPENDITURES:			
Current:			
General government	3,106,736		
Public ways and facilities	758,482	5,602,892	
Public protection	5,362,665		
Health and sanitation services	23,549		1,632,884
Public assistance	497,126		
Education			
Recreation and cultural services	358,268		
Debt service:			
Principal			
Interest			
Total Expenditures	<u>10,106,826</u>	<u>5,602,892</u>	<u>1,632,884</u>
Excess (deficiency) of revenues over (under) expenditures	(3,106,443)	1,396,376	30,107
Other Financing Sources (Uses):			
Transfers in	2,839,013	264,954	15,558
Transfers out	(82,143)	(143,439)	(103,260)
Total Other Financing Sources (Uses)	<u>2,756,870</u>	<u>121,515</u>	<u>(87,702)</u>
Net Change in Fund Balances	(349,573)	1,517,891	(57,595)
Fund Balances (deficit) at Beginning of Year	158,092	4,856,096	2,109,453
Fund Balances (deficit) at End of Year	<u>\$ (191,481)</u>	<u>\$ 6,373,987</u>	<u>\$ 2,051,858</u>

See accompanying notes to financial statements.

Special Revenue			Non-major Governmental Funds	Total
Mental Health	Social Service			
		\$	(28,518)	\$ 4,417,418
\$ 2,885,627	\$ 5,252,023		6,689,966	23,881,297
				154,810
			62,968	296,008
13,144	4,625		96,986	248,229
			330,192	732,533
192,643	16,927		210,593	1,659,523
3,091,414	5,273,575		7,362,187	31,389,818
			2,093,445	5,200,181
			284,043	6,645,417
			622,388	5,985,053
1,880,356			1,203,554	4,740,343
	4,000,805		603,622	5,101,553
			363,065	363,065
			125,624	483,892
			13,729	13,729
			4,268	4,268
1,880,356	4,000,805		5,313,738	28,537,501
1,211,058	1,272,770		2,048,449	2,852,317
44,315			728,912	3,892,752
(69,355)	(1,073,957)		(2,408,543)	(3,880,697)
(25,040)	(1,073,957)		(1,679,631)	12,055
1,186,018	198,813		368,818	2,864,372
1,660,413	(98,976)		2,060,039	10,745,117
\$ 2,846,431	\$ 99,837	\$	2,428,857	\$ 13,609,489

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, 2009

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Net Change in Fund Balances - Total Governmental Funds \$ 2,864,372
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	\$ 3,737,181	
Depreciation expense	(2,480,104)	
	<u>1,257,077</u>	1,257,077

Some expenses reported in the statement of activities do not
require the use of current financial resources and therefore are not reported as
expenditures in governmental funds.

Change in compensated absences	298,769
Accrued other post employment benefits (OPEB)	(325,664)

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:		
1999 Aviation Loan		7,508
2001 Aviation Loan		6,221
		<u>13,729</u>
Change in Net Assets of Governmental Activities	\$ 4,108,283	<u><u>4,108,283</u></u>

See accompanying notes to financial statements.

COUNTY OF MODOC, CALIFORNIA

PROPRIETARY FUNDS
STATEMENT OF FUND NET ASSETS
JUNE 30, 2009

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	Business-Type Activities Enterprise Fund			
	Major Funds		Non-Major	
	Modoc	Waste	Water	Total
	Medical Center	Management	Master	
ASSETS				
Current assets:				
Cash and investments	\$ (13,734,440)	\$ 106,219	\$ 118,676	\$ (13,509,545)
Receivables:				
Accounts, net of allowance	3,311,838	98,726	14,437	3,425,001
Due from third-party payors	142,007			142,007
Due from other governments	54,735			54,735
Prepaid expenses and other assets	166,729			166,729
Inventory	195,100			195,100
Due from other funds			4,271	4,271
Total Current Assets	(9,864,031)	204,945	137,384	(9,521,702)
Non-current assets:				
Restricted cash and investments	113,505	449,489		562,994
Capital assets:				
Depreciable	1,992,270	229,092		2,221,362
Non depreciable	103,927	14,671		118,598
Total Non-Current Assets	2,209,702	693,252		2,902,954
Total Assets	(7,654,329)	898,197	137,384	(6,618,748)
LIABILITIES				
Current liabilities:				
Accounts payable	437,663	45,804	1,428	484,895
Salaries payable	329,637			329,637
Compensated absences	34,141			34,141
Other accrued liabilities	20,310			20,310
Capital lease obligations	65,948			65,948
Cost report settlement, current portion	29,768			29,768
Closure / postclosure care costs		15,368		15,368
Total Current Liabilities	917,467	61,172	1,428	980,067
Noncurrent Liabilities				
Long-term compensated absences	307,270			307,270
Cost report settlement, less current installments	738,984			738,984
Capital lease obligations, less current	214,563			214,563
Closure / postclosure care costs		2,010,779		2,010,779
Total Noncurrent Liabilities	1,260,817	2,010,779		3,271,596
Total Liabilities	2,178,284	2,071,951	1,428	4,251,663
Fund Net Assets:				
Invested in capital assets, net of related debt	1,815,686	243,763		2,059,449
Restricted for capital acquisitions	113,505			113,505
Unrestricted	(11,761,804)	(1,417,517)	135,956	(13,043,365)
Total Fund Net Assets	\$ (9,832,613)	\$ (1,173,754)	\$ 135,956	\$ (10,870,411)

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, 2009**

DRAFT COPY 01/10/11.1

	Business-type Activities- Enterprise Fund			
	Major Funds		Non-Major	
	Modoc Medical Center	Waste Management	Water Master	Total
Operating revenues:				
Changes for services	\$ 11,232,881	\$ 485,868	\$ 234,208	\$ 11,952,957
Other	83,867	300,609		384,476
Total Operating Revenues	<u>11,316,748</u>	<u>786,477</u>	<u>234,208</u>	<u>12,337,433</u>
Operating expenses:				
Salaries and benefits	7,198,626		112,862	7,311,488
Services and supplies	1,128,300	143,853	46,990	1,319,143
Professional services	2,993,652			2,993,652
Purchased services	1,019,069	772,737		1,791,806
Insurance	188,012			188,012
Repairs and maintenance	176,630			176,630
Utilities	262,648	1,857		264,505
Depreciation	390,008	13,986		403,994
Rent	99,627			99,627
Other	531,935			531,935
Total Operating Expenses	<u>13,988,507</u>	<u>932,433</u>	<u>159,852</u>	<u>15,080,792</u>
Operating Income (Loss)	<u>(2,671,759)</u>	<u>(145,956)</u>	<u>74,356</u>	<u>(2,743,359)</u>
NON-OPERATING REVENUES (EXPENSES)				
Investment income	872	757	1,832	3,461
Interest expense	(222,267)			(222,267)
Other non-operating revenues (expenses), net	22,996	94,295		117,291
Noncapital grants and contributions	2,787			2,787
Total Non-operating Revenues (Expenses)	<u>(195,612)</u>	<u>95,052</u>	<u>1,832</u>	<u>(98,728)</u>
Net income (loss) before capital contributions and transfers	<u>(2,867,371)</u>	<u>(50,904)</u>	<u>76,188</u>	<u>(2,842,087)</u>
Capital contributions	204,821			204,821
Transfers out		(2,055)	(10,000)	(12,055)
Change in Fund Net Assets	<u>(2,662,550)</u>	<u>(52,959)</u>	<u>66,188</u>	<u>(2,649,321)</u>
Fund Net Assets (deficit) at Beginning of Year	<u>(7,170,063)</u>	<u>(1,120,795)</u>	<u>69,768</u>	<u>(8,221,090)</u>
Fund Net Assets (deficit) at End of Year	<u>\$ (9,832,613)</u>	<u>\$ (1,173,754)</u>	<u>\$ 135,956</u>	<u>\$ (10,870,411)</u>

See accompanying notes to financial statements.

COUNTY OF MODOC, CALIFORNIA

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009

DRAFT COPY 01/10/11.1

	Business-type Activities- Enterprise Fund			
	Major Funds		Non-Major	Total
	Modoc	Waste	Water	
	Medical Center	Management	Master	
Cash Flows from Operating Activities:				
Cash received from customers	\$ 10,468,358	\$ 408,251	\$ 219,771	\$ 11,096,380
Cash payments to suppliers for goods and services	(6,767,932)	(972,187)	(46,615)	(7,786,734)
Cash payments for employee services	(7,029,699)		(112,862)	(7,142,561)
Other receipts and payments, net	83,867	320,419		404,286
Net Cash Provided By (Used For) Operating Activities	(3,245,406)	(243,517)	60,294	(3,428,629)
Cash Flows from Non-Capital Financing Activities:				
Interest on deficit cash position	(249,643)			(249,643)
Cost report settlement	768,752			768,752
Transfers to other funds		(2,055)		(2,055)
Other nonoperating income (expense)	25,783	94,295	(11,831)	108,247
Net Cash Provided By (Used For) Non-Capital Financing Activities	544,892	92,240	(11,831)	625,301
Cash Flows from Capital and Related Financing Activities:				
Purchase of capital assets	(694,940)			(694,940)
Capital and grant contributions	500,000			500,000
Principal payments on capital lease obligations	306,105			306,105
Interest paid on debt	27,376			27,376
Net Cash (Used For) Capital and Related Financing Activities	138,541			138,541
Cash Flows from Investing Activities:				
Interest on investments	872	757	1,832	3,461
Investments activity, net	(66,151)			(66,151)
Net Cash Provided By Investing Activities	(65,279)	757	1,832	(62,690)
Net Increase (Decrease) in Cash and Cash Equivalents	(2,627,252)	(150,520)	50,295	(2,727,477)
Cash and cash equivalents at beginning of year	(11,107,188)	706,228	68,381	(10,332,579)
Cash and cash equivalents at end of year	\$ (13,734,440)	\$ 555,708	\$ 118,676	\$ (13,060,056)
Cash per Statement of Fund Net Assets:				
Cash and investments	\$ (13,734,440)	\$ 106,219	\$ 118,676	\$ (13,509,545)
Restricted cash and cash investments		449,489		449,489
	\$ (13,734,440)	\$ 555,708	\$ 118,676	\$ (13,060,056)

See accompanying notes to financial statements.

COUNTY OF MODOC, CALIFORNIA

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS, (CONTINUED)
YEAR ENDED JUNE 30, 2009

DRAFT COPY 01/10/11.1

	Business-type Activities - Enterprise Fund			Total
	Major Funds		Non-Major	
	Modoc	Waste	Water	
	Medical Center	Management	Master	
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss):	\$ (2,671,759)	\$ (145,956)	\$ 74,356	\$ (2,743,359)
Adjustments to reconcile operating income to net income provided by operating activities:				
Depreciation	390,008	13,986		403,994
(Increase) decrease in accounts receivable	(1,053,120)	(77,617)	(14,437)	(1,145,174)
(Increase) decrease in due from other governments	61,956			61,956
(Increase) decrease in due from third party payors	226,641			226,641
(Increase) decrease in supplies inventories	(22,498)			(22,498)
(Increase) decrease in prepaid expenses and other assets	(86,755)			(86,755)
Increase (decrease) in accounts payable	(258,806)	(53,740)	375	(312,171)
Increase (decrease) in salaries payable	160,866			160,866
Increase (decrease) in accrued liabilities	8,061			8,061
Increase (decrease) in closure/postclosure care costs		19,810		19,810
Total Adjustments	(573,647)	(97,561)	(14,062)	(685,270)
Net Cash Provided By (Used By) Operating Activities	\$ (3,245,406)	\$ (243,517)	\$ 60,294	\$ (3,428,629)

See accompanying notes to financial statements.

COUNTY OF MODOC, CALIFORNIA

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2009

DRAFT COPY 01/10/11.1

	Investment Trust	Agency
ASSETS		
Cash and investments	\$ 13,826,242	\$ (278,881)
Receivables, net		
Accounts		2,458,690
Total Assets	<u>13,826,242</u>	<u>2,179,809</u>
LIABILITIES		
Accounts payable	9,838	262,440
Held on behalf of others		1,917,369
Total Liabilities	<u>9,838</u>	<u>\$ 2,179,809</u>
NET ASSETS		
Net assets held in trust for investment pool participants	<u>\$ 13,816,404</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, 2009

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	<u>Investment Trust</u>
ADDITIONS	
Contributions:	
Contributions to investment pool	\$ 36,705,661
Total Contributions	<u>36,705,661</u>
Net investment income:	
Interest income	192,431
Total Additions	<u>36,898,092</u>
DEDUCTIONS	
Distribution to pooled participants	<u>35,193,761</u>
Total Deductions	<u>35,193,761</u>
Change in Net Assets	1,704,331
Net Assets - Beginning	<u>12,112,073</u>
Net Assets - Ending	<u><u>\$ 13,816,404</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, 2009**

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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, 2009

DRAFT COPY 01/10/11.1

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, 2009

DRAFT COPY 01/10/11.7

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, 2009

DRAFT COPY 01/10/11.7

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, 2009

DRAFT COPY 01/10/11.1

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, 2009

DRAFT COPY 01/10/11.1

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, 2009

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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 City 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, 2009

DRAFT COPY 01/10/11.1

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, 2009 equals the bank balance. All expenditures for which warrants have been issued at June 30, 2009 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, 2009 totaling \$868,493 are included in the line item Accounts Payable and were comprised of the following:

	Outstanding Warrants	Accounts Payables
Governmental Funds	\$ 250,722	\$ 1,025,480
Enterprise Funds	148,681	484,895
Discretely Presented Component Unit	40,068	157,101
Fiduciary Funds:		
Investment Trust	9,838	9,838
Agency	262,440	262,440
	\$ 711,749	\$ 1,939,754

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, 2009

DRAFT COPY 01/10/11.1

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	
Other		\$ 4,384
Social Services:		
Resources received that do not yet meet the criteria for revenue recognition		17,976
	<u>\$ 79,600</u>	<u>\$ 22,360</u>

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

DRAFT COPY 01/10/11.7

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, 2009

DRAFT COPY 01/10/11.7

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. Refer to Note 12. The County implemented GASB 45 effective July 1, 2008.

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 determined that this statement did not have a material effect on the financial statements.

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. 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.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

DRAFT COPY 01/10/11.7

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

P. New GASB Pronouncements, (Continued)

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.

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.

COUNTY OF MODOC, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

DRAFT COPY 01/10/11.7

NOTE 2 – CASH AND INVESTMENTS, (Continued)

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, 2009

DRAFT COPY 01/10/11.7

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, 2009:

Major Governmental Funds:

General Fund	\$ (381,087)
Special Revenue Funds:	
Roads	5,494,302
Public Health	1,716,262
Mental Health	2,610,003
Social Service	627,583
Total Major Governmental Funds	<u>10,067,063</u>

Non-Major Governmental Funds

Special Revenue Funds:	
CalWorks	(660,369)
Alcohol and Drug	709,124
Family Support	87,918
Other Special Revenue	894,758
Other Grant Funding	(1,992)
Special Aviation	34,554
Capital Improvement Funding	(367,397)
Art Council	8,700
Other Public Safety	198,952
Lights and Districts	19,904
Air Pollution	5,751
Pest Abatement	66,701
Library	256,422
Total Non-Major Governmental Funds	<u>1,253,026</u>

Major Proprietary Funds

Modoc Medical Center		
Cash and investments	\$ (13,734,440)	
Restricted cash and investments	113,505	
	<u>(13,620,935)</u>	(13,620,935)
Waste Management		
Cash and investments	106,219	
Restricted cash and investments	449,489	
	<u>555,708</u>	<u>555,708</u>
Total Major Proprietary Funds		<u>(13,065,227)</u>

Non-Major Proprietary Funds

Water Master	118,676	
Total Non-Major Proprietary Funds	<u>118,676</u>	

Total Governmental and Proprietary Funds (Primary Government)

(1,626,462)

Discretely Presented Component Unit

Modoc County Children and Families Commission	523,444	
---	---------	--

Fiduciary Funds

Investment Trust	13,826,242	
Agency	(278,881)	
Total Fiduciary Funds	<u>13,547,361</u>	

Total Cash and Investments

\$ 12,444,343

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

DRAFT COPY 01/10/11.1

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, 2009 are as follows:

Governmental activities	\$ 11,320,089
Business-type activities	<u>(12,946,551)</u>
Total Primary Government	(1,626,462)
Discretely Presented Component Unit	<u>523,444</u>
Total Government-Wide	<u>(1,103,018)</u>
Fiduciary funds:	
Investment trust fund	13,826,242
Agency fund	<u>(278,881)</u>
	<u>13,547,361</u>
Total Cash and Investments	<u><u>\$ 12,444,343</u></u>

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

DRAFT COPY 01/10/11.7

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, 2009 are summarized as follows:

Cash:	
Cash on hand	\$ 2,000
Cash in bank	5,178,822
Total Cash	<u>5,180,822</u>
Investments in Treasurer's pool:	
Money market funds	41,140
Investments	1,500,000
Local Agency Investment Fund	5,722,381
Total Investments	<u>7,263,521</u>
Total Cash and Investments	<u>\$ 12,444,343</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			
Local Government Investment Pool (LAIF)	Unrated	Unrated	\$ 5,722,381
Highmark money market fund*	AAA	AAA	41,140
Federal Agency Securities:			
Federal Home Loan Bank	AAA	AAA	1,500,000
Total			<u>\$ 7,263,521</u>

*The investment in the Highmark money market fund was not included in the County's investment policy as of June 30, 2009.

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, 2009:

<u>Issuer</u>	<u>Investment Type</u>	<u>Percentage of Investment Pool</u>	<u>Reported Amount</u>
Federal Home Loan Bank	Federal Agency Security	12%	\$ 1,500,000

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

DRAFT COPY 01/10/11.1

NOTE 2 – CASH AND INVESTMENTS, (Continued)

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	\$ 1,500,000		\$ 1,500,000
Medium Term Corporate Notes			
Highmark Money Market Fund	41,140	\$ 41,140	
Local Agency Investment Funds (LAIF)	5,722,381	5,722,381	
Total	\$ 7,263,521	\$ 5,763,521	\$ 1,500,000

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, 2009, the County's deposits with financial institutions were \$5,330,185.

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.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

DRAFT COPY 01/10/11.1

NOTE 2 – CASH AND INVESTMENTS, (Continued)

California Local Agency Investment Fund, (Continued)

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, 2009:

<u>Statement of Net Assets</u>	<u>Total</u>
Net assets held for pool participants	<u>\$ 12,181,903</u>
Equity of internal pool participants	\$ (2,157,945)
Equity of discretely presented component unit	523,444
Equity of external pool participants	<u>13,816,404</u>
Total equity	<u>\$ 12,181,903</u>

<u>Statement of Changes in Net Assets</u>	
Net assets at July 1, 2008	\$ 10,873,993
Increase in investment by pool participants, net	<u>1,307,910</u>
Net assets at June 30, 2009	<u>\$ 12,181,903</u>

NOTE 3 – RECEIVABLES

Accounts receivable reported in the County’s financial statements at June 30, 2009 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	Non-Major Water Master	
Due from third party payors							142,007			\$ 142,007
Taxes receivable	\$ 250,205	\$ 126,795	\$ 94,810	68,624		\$ 62,465				\$ 602,899
Due from other governmental (federal and state) agencies	470,353	407,617	\$ 225,119	\$ 251,009		666,546	54,735	\$ 89,728		2,165,107
Accounts and other receivables	371,800	16,593	3,010	4,014	\$ 2,952	13,184	\$ 8,895,374	8,998	14,437	9,330,362
Gross receivables	1,092,358	551,005	322,939	323,647	2,952	742,195	9,092,116	98,726	14,437	12,098,368
Less: Allowance for uncollectible amounts							(5,583,536)			(5,583,536)
Total receivables	<u>\$ 1,092,358</u>	<u>\$ 551,005</u>	<u>\$ 322,939</u>	<u>\$ 323,647</u>	<u>\$ 2,952</u>	<u>\$ 742,195</u>	<u>\$ 3,508,580</u>	<u>\$ 98,726</u>	<u>14,437</u>	<u>\$ 6,514,832</u>

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

DRAFT COPY 01/10/11.1

NOTE 4 – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances consisted of the following at June 30, 2009:

Receivable Fund	Payable Fund	Amount
Roads	General Fund	\$ 16,340
Public Health	General Fund	38,591
Mental Health	General Fund	31,078
Non-major Enterprise Funds	General Fund	4,271
Non-major Governmental Funds	General Fund	21,973
Non-major Governmental Funds	Public Health	2,404
Non-major Governmental Funds	Social Service	287,493
	Total	\$ 402,150

The amount of \$287,493 represents amounts received by Social Services but owed to the CalWorks (Non-major Governmental Fund) for expenditures incurred. The remaining interfund receivables/payables result from interest allocations owed to various funds at June 30, 2009.

Long-term interfund receivables and payables at June 30, 2009 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)	142,642
	Total	\$ 303,050

The advance owed by the Cal Works Non-major governmental of \$303,050 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
JUNE 30, 2009

DRAFT COPY 01/10/11.1

NOTE 5 – INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2009 are as follows:

Transfer out	Transfer in	Amount
General Fund	Non-major Governmental Funds	\$ 57,002
	Roads	25,141
		82,143
Roads	General Fund	143,439
Public Health	General Fund	91,315
	Non-major Governmental Funds	11,945
		103,260
Waste Management	General Fund	2,055
Non-major Enterprise Funds	General Fund	10,000
Social Services	General Fund	403,260
	Public Health	15,558
	Mental Health	44,315
	Non-major Governmental Funds	610,824
		1,073,957
Mental Health	General Fund	69,255
	Non-major Governmental Funds	100
		69,355
Non-major Governmental Funds	General Fund	2,119,689
	Non-major Governmental Funds	49,041
	Roads	239,813
		2,408,543
	Total	\$ 3,892,752

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.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

DRAFT COPY 01/10/11.1

NOTE 6 – CAPITAL ASSETS

A summary of capital asset activity for the year ended June 30, 2009 follows:

Governmental Activities:	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Capital Assets, Non-depreciated:				
Land	\$ 726,597	\$ 257,353		\$ 983,950
Total Capital Assets, Non-depreciated	<u>726,597</u>	<u>257,353</u>		<u>983,950</u>
Capital Assets, Being Depreciated:				
Equipment	10,389,005	683,444		11,072,449
Buildings and improvements	10,644,291	224,607		10,868,898
Infrastructure:				
Roads	49,037,761	2,571,777		51,609,538
Bridges	29,086,337			29,086,337
Total Capital Assets, Depreciated	<u>99,157,394</u>	<u>3,479,828</u>		<u>102,637,222</u>
Less Accumulated Depreciation for:				
Equipment	(8,479,276)	(471,775)		(8,951,051)
Buildings and improvements	(6,071,744)	(334,729)		(6,406,473)
Roads	(37,921,072)	(1,238,111)		(39,159,183)
Bridges	(11,897,313)	(435,489)		(12,332,802)
Total Accumulated Depreciation	<u>(64,369,405)</u>	<u>(2,480,104)</u>		<u>(66,849,509)</u>
Total Capital Assets, Depreciated, Net	<u>34,787,989</u>	<u>999,724</u>		<u>35,787,713</u>
Governmental Activities Capital Assets, Net	<u>\$ 35,514,586</u>	<u>\$ 1,257,077</u>	<u>\$ -</u>	<u>\$ 36,771,663</u>

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

DRAFT COPY 01/10/11.1

NOTE 6 – CAPITAL ASSETS, (Continued)

Enterprise Fund (Medical Center)	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Capital Assets, Non-depreciated:				
Land and improvements	\$ 99,528			\$ 99,528
Construction in progress	10,494	\$ 81,197	\$ (87,292)	4,399
Total Capital Assets, Non-depreciated	110,022	81,197	(87,292)	103,927
Capital Assets, Being Depreciated:				
Land and improvements	115,458	903		116,361
Buildings and improvements	3,330,289	15,260	(20,594)	3,324,955
Equipment	2,919,879	331,026	(113,025)	3,137,880
Total Capital Assets, Depreciated	6,365,626	347,189	(133,619)	6,579,196
Less Accumulated Depreciation for:				
Buildings and improvements	(2,504,187)	(92,645)		(2,596,832)
Equipment	(1,772,807)	(297,363)	80,076	(1,990,094)
Total Accumulated Depreciation	(4,276,994)	(390,008)	80,076	(4,586,926)
Total Capital Assets, Depreciated, Net	2,088,632	(42,819)	(53,543)	1,992,270
Medical Center Capital Assets, Net	\$ 2,198,654	\$ 38,378	\$ (140,835)	\$ 2,096,197
Enterprise Fund (Waste Management)	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009
Capital Assets, Non-depreciated:				
Land	\$ 14,671			\$ 14,671
Total Capital Assets, Non-depreciated	14,671			14,671
Capital Assets, Being Depreciated				
Equipment	223,864			223,864
Buildings and improvements	329,120			329,120
Total Capital Assets, Depreciated	552,984			552,984
Less Accumulated Depreciation for:				
Equipment	(197,785)	\$ (8,121)		(205,906)
Structure and improvements	(112,121)	(5,865)		(117,986)
Total accumulated depreciation	(309,906)	(13,986)		(323,892)
Total capital assets, depreciated, net	243,078	(13,986)		229,092
Waste Management capital assets, net	\$ 257,749	\$ (13,986)	\$ -	\$ 243,763
Business-type activities capital assets, net	\$ 2,456,403	\$ 24,392	\$ (140,835)	\$ 2,339,960

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

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NOTE 6 – CAPITAL ASSETS, (Continued)

Depreciation Expense:

General Government:

General administration	\$ 88,171
Public protection	226,712
Public ways and facilities	2,090,377
Health and sanitation	41,429
Public assistance	25,264
Recreation and cultural services	8,151
Total Governmental Activities	<u>\$ 2,480,104</u>

Depreciation Expense:

Business-type activities:

Medical Center	\$ 390,008
Waste Management	13,986
Total Business-Type Activities	<u>\$ 403,994</u>

NOTE 7 – CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2009 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
1999 Aviation Loan (Note 8)	\$ 14,736		\$ 7,508	\$ 7,228	\$ 7,228
2001 Aviation Loan (Note 8)	67,994		6,221	61,773	6,650
Compensated Absences	2,850,450	\$ 1,153,592	1,452,361	2,551,681	637,920
Accrued other post employment benefits (OPEB) (Note 12)		360,000	34,336	325,664	
Total Governmental Activities	<u>2,933,180</u>	<u>1,513,592</u>	<u>1,500,426</u>	<u>2,946,346</u>	<u>651,798</u>
<u>Business Type Activities</u>					
Compensated Absences	260,801	282,096	(201,486)	341,411	34,141
Capital Lease Payable (Note 9)	586,616		306,105	280,511	65,948
Closure/postclosure care costs (Note 12)	2,006,337	19,810		2,026,147	15,368
Total Business-type Activities	<u>2,853,754</u>	<u>301,906</u>	<u>104,619</u>	<u>2,648,069</u>	<u>115,457</u>
Total	<u>\$ 5,786,934</u>	<u>\$ 1,815,498</u>	<u>\$ 1,605,045</u>	<u>\$ 5,594,415</u>	<u>\$ 767,255</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, 2009

DRAFT COPY 01/10/11.1

NOTE 8 – 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, 2009 the outstanding principal was \$7,228.

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, 2009 the outstanding principal was \$61,773.

As of June 30, 2009, annual debt service requirements of the loans were:

Fiscal Year Ending June 30,	1999 Loan		2001 Loan		Total
	Principal	Interest	Principal	Interest	
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			8,366	1,665	10,031
2015-2017			24,233	2,344	26,577
	<u>\$ 7,228</u>	<u>\$ 390</u>	<u>\$ 61,773</u>	<u>\$ 14,505</u>	<u>\$ 83,896</u>

NOTE 9 – 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:

Year Ending	Amount
6/30/2010	\$ 200,480
6/30/2011	137,428
Total	<u>\$ 337,908</u>

Rent expenditures were \$204,980 for the year ended June 30, 2009.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

DRAFT COPY 01/10/11.1

NOTE 9 – LEASES, (Continued)

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, 2009, are as follows:

Fiscal Year	
2010	\$ 78,573
2011	78,573
2012	78,573
2013	71,652
Total minimum lease payments	307,371
Less amount representing interest	(26,860)
Present value of net minimum lease payments	280,511
Less current portion of Capital Lease Obligations	(65,948)
Capital Lease Obligations, excluding current portion	\$ 214,563

The net book value of equipment acquired under capitalized leases at June 30, 2009 was \$709,182 net of accumulated amortization of \$234,928.

NOTE 10 – 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.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

DRAFT COPY 01/10/11.7

NOTE 10 – LIABILITY, PROPERTY, AND WORKERS COMPENSATION PROTECTION, (Continued)

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.

NOTE 11 – 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. Based on the June 30, 2006 actuarial valuations, the County was required to contribute an actuarially determined rate of 9.96 percent and 34.88 percent of annual covered payroll for Miscellaneous and Safety members, respectively, for fiscal year 2008-2009. The contribution rates are actuarially established by CalPERS based on the benefit formula.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

DRAFT COPY 01/10/11.7

NOTE 11 – DEFINED BENEFIT PENSION PLANS, (Continued)

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, 2009 valuation date was an average of 20 years and 17 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	6/30/2007	\$ 659,109	100%	\$ -
	6/30/2008	720,521	100%	-
	6/30/2009	799,880	100%	-
Safety	6/30/2007	335,816	100%	\$ -
	6/30/2007	382,959	100%	-
	6/30/2009	392,969	100%	-

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.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

DRAFT COPY 01/10/11.1

NOTE 11 – DEFINED BENEFIT PENSION PLANS, (Continued)

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.

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
6/30/2007	\$ 145,102	100%	\$ -
6/30/2008	175,531	100%	-
6/30/2009	148,874	100%	-

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

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NOTE 12 – OTHER POST EMPLOYMENT BENEFITS

Plan Description

The County provides post employment health care benefits, in accordance with the health care regulations of the Public Employees Retirement System, to employees who retire from the County on or after attaining age 55 with at least five years of service credit. The plan includes 360 active employees and 21 retirees who have opted to participate.

Contribution information

Expenditures for post employment health care benefits are recognized on a pay-as-you-go basis. Accordingly, the County’s retiree healthcare plan is not currently funded. During the year, expenditures of \$34,336 were recognized for post employment benefits.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

	2009
Annual required contribution	\$ 360,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Total FY 2008-09 annual OPEB cost	\$ 360,000
FY 2008-09 contributions made	(34,336)
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	<u>\$ 325,664</u>

Fiscal year 2009 was the first year of implementation of GASB Statement No. 45 and the County elected to implement prospectively. Therefore only one year of data is available. In future years, three-year trend information will be presented as required supplemental information.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

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NOTE 12 – OTHER POST EMPLOYMENT BENEFITS, (Continued)

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The funded status of the plan as of the June 30, 2009 valuation was 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)
6/30/2009	\$ -	\$ 2,164,000	\$ 2,164,000	0.0%	\$ 13,758,000	15.7%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2009, actuarial valuation, the Entry Age Normal method was used. The actuarial assumptions included a 4.25 percent investment rate of return (net of administrative expenses), based on the assumption that benefits will be paid from the general County assets, and not invested in a separate trust. Healthcare cost trend rates were developed using the most recent CalPERS mortality rates for employees. The cost trend rate used for the medical benefits was 5 percent. The UAAL is being amortized at a level percentage of payroll method. The amortization period elected was a closed 30 year period. The actuarial value of assets was not determined in this actuarial valuation because the County has not elected to establish an irrevocable trust.

NOTE 13 – 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 \$(1,626,462) and a deficit equity position of \$(2,077,309) in the County investment pool.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

DRAFT COPY 01/10/11.7

NOTE 13 – CONTINGENCIES, (Continued)

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.

NOTE 14 – 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, 2009 %</u>	<u>Estimated Remaining Years</u>
Alturas	Active	48.54%	25
Lake City	Closed	100%	-
Eagleville	Closed	100%	-
Cedarville	Closed	100%	-
Bidwell	Closed	100%	-

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, 2009 was \$2,026,147 based on the capacity of the landfills used to date (amount of landfill used). It is estimated that an additional \$1,693,147 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, \$3,719,294, 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, 2009. 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 \$449,489 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.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

DRAFT COPY 01/10/11.7

NOTE 14 – CLOSURE AND POSTCLOSURE CARE COST, (Continued)

As of June 30, 2009, the Alturas landfill had an estimate for closure costs in the amount of \$740,722 with contributions to finance closure costs in the amount of \$449,489.

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

NOTE 15 – FUND BALANCES

As of June 30, 2009, the County had deficit fund balance/net assets in the following reporting units:

	Deficit Fund Balance/Net Assets
Business-Type Activities	\$ (10,870,411)
Governmental Funds:	
General Fund	\$ (191,481)
CalWorks (non-major)	(103,485)
Total	\$ (294,966)
Enterprise Funds:	
Modoc Medical Center	\$ (9,832,613)
Waste Management	(1,173,754)
Total	\$ (11,006,367)

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, 2009, the County General Fund had a deficit fund balance of \$(191,481). Also, when considering the deficits of \$(103,485) and \$(11,006,367) in the governmental (Cal Works) 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 17 regarding the County's ability to continue as a going concern.

COUNTY OF MODOC, CALIFORNIA

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

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NOTE 16 – SUBSEQUENT EVENTS

Proposition 1A Securitization Program

The State's 2009-2010 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 17 – GOING CONCERN

As described in Notes 2 and 13 the County had a negative cash and equity position at June 30, 2009 of \$(1,626,462) and \$(2,607,254), respectively. The General Fund and Modoc Medical Center had negative cash positions of \$(381,087) and \$(13,620,935), 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.

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.

COUNTY OF MODOC, CALIFORNIA

**NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

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NOTE 17 – GOING CONCERN, (Continued)

This financial condition has continued subsequent to June 30, 2009. 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

SCHEDULES 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 and Other Post Employment Benefit Plan:

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.

Other Post Employment Benefit Plan

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)
6/30/2009	\$ -	\$ 2,164,000	\$ 2,164,000	0.0%	\$ 13,758,000	15.7%

*Three years will be presented when the information is available.

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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	\$ (660,369)	\$ 709,124	\$ 87,918	\$ 894,758	\$ (1,992)	\$ 34,554
Receivables:						
Accounts		25,020	7,335	49,095	25,096	24,472
Due from other funds	287,493	18,445				
Advances to other funds	303,050					
Total Assets	<u>\$ (69,826)</u>	<u>\$ 752,589</u>	<u>\$ 95,253</u>	<u>\$ 943,853</u>	<u>\$ 23,104</u>	<u>\$ 59,026</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 33,659	\$ 25,666	\$ 4,335	\$ 18,481	\$ 8,824	\$ 4,600
Total Liabilities	<u>33,659</u>	<u>25,666</u>	<u>4,335</u>	<u>18,481</u>	<u>8,824</u>	<u>4,600</u>
FUND BALANCES						
Reserved for:						
Advances to other funds	303,050					
Unreserved, reported in:						
Special revenue funds	(406,535)	726,923	\$ 90,918	925,372	14,280	54,426
Total Fund Balances	<u>(103,485)</u>	<u>726,923</u>	<u>90,918</u>	<u>925,372</u>	<u>14,280</u>	<u>54,426</u>
Total Liabilities and Fund Balances	<u>\$ (69,826)</u>	<u>\$ 752,589</u>	<u>\$ 95,253</u>	<u>\$ 943,853</u>	<u>\$ 23,104</u>	<u>\$ 59,026</u>

Special Revenue Funds

Capital Improvement Funding	Art Council	Other Public Safety	Light Districts	Air Pollution	Pest Abatement	Library	Total
\$ (367,397)	\$ 8,700	\$ 198,952	\$ 19,904	\$ 5,751	\$ 66,701	\$ 256,422	\$ 1,253,026
544,486	1,600	63,815 5,932	63	83	240	890	742,195 311,870 303,050
<u>\$ 177,089</u>	<u>\$ 10,300</u>	<u>\$ 268,699</u>	<u>\$ 19,967</u>	<u>\$ 5,834</u>	<u>\$ 66,941</u>	<u>\$ 257,312</u>	<u>\$ 2,610,141</u>
<u>\$ 68,635</u>	<u>\$ 2,200</u>	<u>\$ 6,153</u>				<u>\$ 8,731</u>	<u>\$ 181,284</u>
<u>68,635</u>	<u>2,200</u>	<u>6,153</u>				<u>8,731</u>	<u>181,284</u>
							303,050
<u>108,454</u>	<u>8,100</u>	<u>\$ 262,546</u>	<u>\$ 19,967</u>	<u>\$ 5,834</u>	<u>\$ 66,941</u>	<u>248,581</u>	<u>2,125,807</u>
<u>108,454</u>	<u>8,100</u>	<u>262,546</u>	<u>19,967</u>	<u>5,834</u>	<u>66,941</u>	<u>248,581</u>	<u>2,428,857</u>
<u>\$ 177,089</u>	<u>\$ 10,300</u>	<u>\$ 268,699</u>	<u>\$ 19,967</u>	<u>\$ 5,834</u>	<u>\$ 66,941</u>	<u>\$ 257,312</u>	<u>\$ 2,610,141</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				\$ (38,563)	
Intergovernmental	\$ 220,675	\$ 772,650	\$ 440,380	1,757,275	
Fines and forfeiture				433	
Use of money and property	(9,994)	6,305	934	91,974	\$ (732)
Charges for services				2,793	
Other	498	44,122	574		160,053
Total Revenues	211,179	823,077	441,888	1,813,912	159,321
EXPENDITURES					
Current:					
General government				407,552	
Public ways and facilities					
Public protection					151,544
Health and sanitation services		763,930	422,034		
Public assistance	603,622				
Education					
Recreation and cultural services				108,039	
Debt service:					
Principal					
Interest					
Total Expenditures	603,622	763,930	422,034	515,591	151,544
Excess (Deficiency) of Revenues Over (Under) Expenditures	(392,443)	59,147	19,854	1,298,321	7,777
OTHER FINANCING SOURCES (USES)					
Transfers in	534,357	89,236		69,616	
Transfers out	(121,670)	(32,641)	(7,501)	(1,230,836)	(13,775)
Total Other Financing Sources (Uses)	412,687	56,595	(7,501)	(1,161,220)	(13,775)
Net Change in Fund Balances	20,244	115,742	12,353	137,101	(5,998)
Fund Balances (deficits) at Beginning of Year	(123,729)	611,181	78,565	788,271	20,278
Fund Balances (deficits) at End of Year	\$ (103,485)	\$ 726,923	\$ 90,918	\$ 925,372	\$ 14,280

Special Revenue Funds

Special Aviation	Capital Improvement Funding	Art Council	Other Public Safety	Light Districts	Air Pollution	Pest Abatement	Library	Total
				\$ 10,045				\$ (28,518)
\$ 314,530	\$ 1,723,447	\$ 15,805	\$ 1,288,449	32	\$ 120,439	\$ 35,562	\$ 722	6,689,966
	62,335		200					62,968
912	4	12	1,140	1,397	(189)	49	5,174	96,986
							327,399	330,192
		3,937					1,409	210,593
<u>315,442</u>	<u>1,785,786</u>	<u>19,754</u>	<u>1,289,789</u>	<u>11,474</u>	<u>120,250</u>	<u>35,611</u>	<u>334,704</u>	<u>7,362,187</u>
	1,685,893							2,093,445
275,270				8,773				284,043
			323,145		147,699			622,388
						17,590		1,203,554
								603,622
							363,065	363,065
		17,585						125,624
13,729								13,729
4,268								4,268
<u>293,267</u>	<u>1,685,893</u>	<u>17,585</u>	<u>323,145</u>	<u>8,773</u>	<u>147,699</u>	<u>17,590</u>	<u>363,065</u>	<u>5,313,738</u>
22,175	99,893	2,169	966,644	2,701	(27,449)	18,021	(28,361)	2,048,449
			1,303		34,400			728,912
(2,826)	(7,668)		(952,120)			(12,450)	(27,056)	(2,408,543)
<u>(2,826)</u>	<u>(7,668)</u>		<u>(950,817)</u>		<u>34,400</u>	<u>(12,450)</u>	<u>(27,056)</u>	<u>(1,679,631)</u>
19,349	92,225	2,169	15,827	2,701	6,951	5,571	(55,417)	368,818
35,077	16,229	5,931	246,719	17,266	(1,117)	61,370	303,998	2,060,039
<u>\$ 54,426</u>	<u>\$ 108,454</u>	<u>\$ 8,100</u>	<u>\$ 262,546</u>	<u>\$ 19,967</u>	<u>\$ 5,834</u>	<u>\$ 66,941</u>	<u>\$ 248,581</u>	<u>\$ 2,428,857</u>