

A GUIDE TO THE BUTTE COUNTY FINAL BUDGET

The intent of this Guide is to explain basic concepts of how Butte County government plans and accounts for its finances in order to meet its stewardship obligation over the public's money. Butte County government provides for the basic safety, health, and welfare of its citizens by providing a variety of services to the public. The County provides a wide variety of social, health, environmental, public safety, and other services. The wide variety of services provided makes it a challenge for the County to keep its citizens informed and involved in the business of government. Hopefully, this Guide will make it easier to understand how at least some of the County's financial activities work.

WHAT IS THE BUDGET?

The annual budget of Butte County government is a statement of the financial policy and plan of the County for the fiscal year. The budget document presents in detail the financial plan for the County, including its various sources of revenue (resources) and the allocation of these resources to the various programs of the County. The Board of Supervisors adopts the budget by passing a Resolution making an appropriation of funds.

WHAT IS AN APPROPRIATION?

An appropriation is the common term for the authorization granted by the Board of Supervisors to make expenditures and to incur obligations for specific purposes. An appropriation is usually time limited and must be expended or obligated before that deadline.

WHAT ARE REVENUES?

The income received through taxes, licenses and permits, grants from other governments, charges for services, fines and forfeits, and other miscellaneous sources are revenues. We also refer to these dollars as financial resources.

WHAT ARE EXPENDITURES?

Expenditures occur when the County buys goods and services and pays its employees. Expenditures can be categorized into three types: operating expenditures, capital expenditures, and debt service expenditures. Operating expenditures are the day-to-day spending on salaries, supplies, utilities, services, and contracts. Capital expenditures are generally for acquisition of major assets such as land and buildings or for the construction of buildings and other improvements. Debt expenditures repay borrowed money and interest on that borrowed money.

WHAT IS A FUND?

The County is financially organized into many separate fiscal and accounting entities known as funds. Each fund is a separate division for accounting and budgeting purposes. The fund accounting process allows the County to budget and account for revenues that are restricted by law or policy to a specific use or purpose in accordance with nationally recognized rules of governmental accounting and budgeting.

The County budget consists of many funds. Each fund can be viewed as a separate checking account to be used for a specific purpose. All funds of the County fall into one of six major categories. Following is a brief description of these six fund categories.

General Fund: The General Fund finances most services that the County provides. This includes law enforcement and other criminal justice, community development and land use planning, elections and voter registration, juvenile services, and administration. The General Fund is basically a "catch-all" for accounting for County operations that do not have to be accounted for in a different fund.

Special Revenue Funds: Special revenue funds are used to account for revenues that must be used by law for specific purposes. An example is the Road Fund where the transportation allocations and taxes received from the State are accounted for and which must be used only for roads and bridges.

Capital Projects Funds: The Capital Project Funds are used to account for the acquisition or construction of major capital facilities or equipment.

Enterprise Funds: Enterprise funds are established to account for operations that are financed and operated in a manner similar to private businesses with the intent that the cost of goods or services provided will be recovered primarily through user charges. Enterprise Funds, as an example, are used to finance and account for all costs related to the Butte County landfill.

Internal Service Funds: Internal service funds are used by the County to account for the financing of goods or services provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis. An example of an internal service fund is the Information Services Fund.

Debt Service Funds: Debt service funds are used by the County to account for the accumulation of resources for, and the repayment of, money borrowed and the interest on these debts.

WHY USE FUNDS?

Reason 1: Fund accounting is required by the State. California State law governs how counties and cities in the State will account for their revenues and expenditures. All cities and counties are audited annually to ensure that they have followed the accounting rules.

Reason 2: Whenever a city or county receives dollars from the State or Federal government in the form of a grant, the city or county must account for those dollars in the manner proscribed by the State or United States governments. Again, audits are conducted to ensure that these accounting rules are followed.

Reason 3: Whenever a local government goes to the financial market to borrow money, the local government must provide financial statements that show, in accordance with national accounting standards, the financial condition of the local government. Financial institutions and investors will loan money to the local government only if the local government can demonstrate through its financial statements that it can repay the debt.

Reason 4: The County, like all other local governments nationwide, uses fund accounting because this system of accounting is the standard proscribed by national organizations that are associations of accountants and finance professionals from cities and counties all over the country. The principles used to account for businesses, called generally accepted accounting principles (GAAP), are established by the Financial Accounting Standards Board (FASB). Similarly, principles used to account for local government finances are established by the Governmental Accounting Standards Board (GASB).

WHAT IS A TRANSFER?

Interfund operating transfers represent subsidies and contributions provided to operating funds, debt service funds, and capital project funds from another fund with no corresponding debt or promise to repay. An example of operating transfers is the transfer of funds from the General Fund to the Library Fund in order to account for specific library funds and the contribution of discretionary revenue towards library operations. Another example is the transfer of funds from the General Fund and other operating funds to the Debt Service Fund for the purpose of accounting for debt payments on the County's Pension Obligation Bonds.

WHAT IS A FUND BALANCE?

Fund balance is the difference between the assets and liabilities of the fund. It is good financial policy to always have some amount of fund balance for emergencies and to carry the fund through slack times in revenue collections. In a given year, if revenues exceed expenditures, the fund balance will increase, if expenditures exceed revenues, then the fund balance will decrease.

ACCOUNTING FOR TAX DOLLARS

It is the responsibility of the County Auditor-Controller to account for the receipt and expenditure of all County funds. The County Auditor-Controller annually issues what is referred to as the Comprehensive Annual Financial Report (CAFR) to show the financial condition of every County fund and details of each fund's revenues and expenditures during the fiscal year. Where the CAFR shows what actually happened financially and is published after the end of the fiscal year, the budget document shows how the County plans to spend the revenues that it receives during the fiscal year.

A BALANCED BUDGET

By law, each separate fund must have a balanced budget. This means that the revenues, including fund balance carryovers, must equal the appropriations and reserves. So, for each fund, the budget spells out where the dollars are coming from and how they will be spent.

THE OPERATING BUDGET – SERVICES TO THE PUBLIC

The majority of services provided by the County to its citizens are accounted for in operating funds, which are predominantly the General Fund, Welfare Fund, Child Support Services Fund, Road Fund, Water Fund, Fire Fund, and Library Fund.

The expenditure budget for all funds is itemized into categories, often called line items but sometimes referred to as major objects, objects, accounts, and subaccounts, depending on the level of detail. These line item categories are used to account for expenditures made. However, for budgeting and planning allocations, the major object level of detail is used. The various line items are grouped into several major object categories. These are:

Salaries and Benefits: This is the amount paid for personal services rendered by employees in accordance with the rates, hours, terms, and conditions authorized by law or stated in employment agreements. This category includes overtime, vacation and sick pay, health insurance, retirement, social security, and unemployment insurance.

Services and Supplies: Category of expenditures for services other than those provided by County personnel that are needed by the County. Such services may be provided by another governmental agency or by private business organizations, including professional services, insurance, utilities, advertising, etc. This category includes articles and commodities purchased for consumption or resale, such as office and operating supplies.

Other Charges: Category used to segregate intergovernmental purchases of specialized services typically performed by other departments or other levels of government. This category includes payments to the State for mental health institutionalization and youth placements in California Youth Authority facilities. This category also includes expenditures made to other funds or departments for services rendered. Services provided by other funds to the General Fund include insurance, information services, telecommunications, equipment usage, and miscellaneous services.

Capital Assets: Expenditures for acquisition of, rights to, or additions to capital assets, such as land, buildings, improvements, and machinery and equipment.

Other Financing Uses: Contributions to other funds for operating subsidies (i.e. transfers).