

**COUNTY OF BUTTE
STATE OF CALIFORNIA**

**INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED
JUNE 30, 2003**

COUNTY OF BUTTE, CALIFORNIA

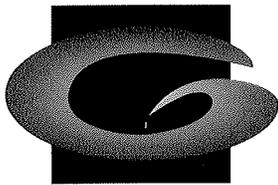
AUDIT REPORT
For the Year Ended June 30, 2003

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FINANCIAL SECTION

**BASIC FINANCIAL STATEMENTS –
GOVERNMENT-WIDE FINANCIAL STATEMENTS**



Gilbert Associates, Inc.
CPAs and Advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors and Grand Jury
County of Butte
Oroville, California

We have audited the accompanying financial statements of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Butte, California, (the County), as of and for the year ended June 30, 2003, 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 an opinion on these financial statements based on our audit.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and schedules of funding progress and budgetary comparison information on pages 2 through 11 and 49 through 52, respectively, are not a required part of the financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
November 21, 2003

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

In this section of the County of Butte's (County) annual financial report, the County management discusses financial results for the fiscal year ended June 30, 2003. It should be read in conjunction with the County's financial statements following this section. All dollar amounts are expressed in thousands in the text and tables unless otherwise indicated.

I. FINANCIAL HIGHLIGHTS

- The assets of the County exceeded its liabilities at the close of the most recent fiscal year by \$427,675 (net assets). Of this amount, \$32,421 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets decreased by \$8,104 during the year.
- As of June 30, 2003, the County's governmental funds reported combined ending fund balances of \$75,999, a net increase of \$2,589 in comparison with the prior year. This net increase represents an increase of \$3,848 in reserved fund balances and a decrease of \$1,259 in unreserved fund balances, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$16,079 or 13.4% of total general fund expenditures.
- The County's total long-term obligations as of June 30, 2003 increased by \$4,339 over the prior period. A key factor in the increase was the issuance of the 2003 COPS bonds to refinance the 1993 Justice Facility COPS and the fire trucks capital leases, but the old debt totaling \$5,222 was not due and payable until July, 2003, so is still showing as outstanding long-term debt as of June 30, 2003. Other key factors affecting the long-term debt were a capital equipment lease for the Neal Road Landfill for \$2,258, and a decrease in the Landfill Closure/Post-Closure calculated liability of \$2,954.

II. OVERVIEW OF THE FINANCIAL STATEMENTS

A. GASB 34 Financial Report Model

The County of Butte has adopted a financial reporting model that is designed to demonstrate government accountability by presenting both a long-term and a near-term view of its finances. This model is prescribed by Statement Number 34 of the Government Accounting Standard Board (GASB 34). This model is comprised of three parts: 1) Management Discussion and Analysis which provides the financial highlights; 2) The County's basic financial statements, which consist of the Government-Wide financial statements; the Fund financial statements and the Notes to the financial statements; 3) Required Supplementary Information.

B. Government-Wide Financial Statements

The government-wide financial statements provide an overview of the County's finances, in a manner similar to a private-sector business, that is, using the accrual basis of accounting. They demonstrate accountability of Butte County by showing the extent to

which it has met operating objectives efficiently and effectively, using all resources available, and whether it can continue to do so.

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

The *statement of activities* presents information on expenses and revenues to show how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues are reported as soon as earned and expenses are reported as soon as incurred even though the related cash flows may not take place until future fiscal periods (e.g., earned but unused vacation leave).

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities) The governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education and recreation. The business-type activities of the County include the Butte County Landfill and Butte County Transit Funds.

Certain component units such as county service areas are essentially part of County operations and their financial data are blended in with operational funds of the County.

C. Fund Financial Statements

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

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

The County maintains 142 individual governmental funds. On the financial statements for governmental funds information is presented separately for three major funds: the General Fund, the Welfare Fund and the Road Fund. Data from the other governmental funds are aggregated into a single column.

Proprietary funds are of two types. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The County uses enterprise funds to account for its central landfill and transit operations. Internal service funds are used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for a variety of services including telephone services, fleet services, insurance, information systems, duplicating, utilities and facilities maintenance. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds statements provide the same type of information as the part of government-wide financial statements pertaining to business-type activities, only in more detail. The County's internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the County's programs. In the fiduciary fund category, the County maintains both agencies funds and investment trust funds.

Notes to the Financial Statements

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

D. Required Supplementary Information

In addition to the basic financial statements, this report presents Required Supplementary Information that includes budgetary comparisons for the General Fund and the major funds and combining statements for the aggregated non-major funds.

III. FINANCIAL ANALYSIS COUNTY-WIDE

County of Butte's Net Assets						
	Governmental activities		Business-type activities		Total	
	02-03	01-02	02-03	01-02	02-03	01-02
Current and other assets	92,588	90,904	15,419	15,445	108,007	106,349
Capital assets	358,584	368,490	6,652	3,716	365,236	372,206
Total assets	451,172	459,394	22,071	19,161	473,243	478,555
Current and other liabilities	13,497	14,643	942	1,342	14,439	15,985
Long-term liabilities	23,701	18,675	7,428	8,116	31,129	26,791
Total liabilities	37,198	33,318	8,370	9,458	45,568	42,776
Net assets:	413,974	426,076	13,701	9,703	427,675	435,779
Net assets:						
Invested in capital assets, net of related debt	346,873	361,052	4,390	3,716	351,263	364,768
Restricted	43,991	50,628	0	0	43,991	50,628
Unrestricted	23,110	14,396	9,311	5,987	32,421	20,383
Total net assets	413,974	426,076	13,701	9,703	427,675	435,779

Investment in capital assets net of related debt reflects the County's investment in capital assets (i.e. its land, structures and improvements, infrastructure and equipment). The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets represent resources that are subject to external restrictions on how they may be used.

Unrestricted net assets represent 7.6% of the total net assets and may be used to meet the County's ongoing obligations to citizens and creditors.

Beside the amount invested in capital assets, there are externally imposed debt service reserve and statutory constraints on the use of 100% of the restricted net assets.

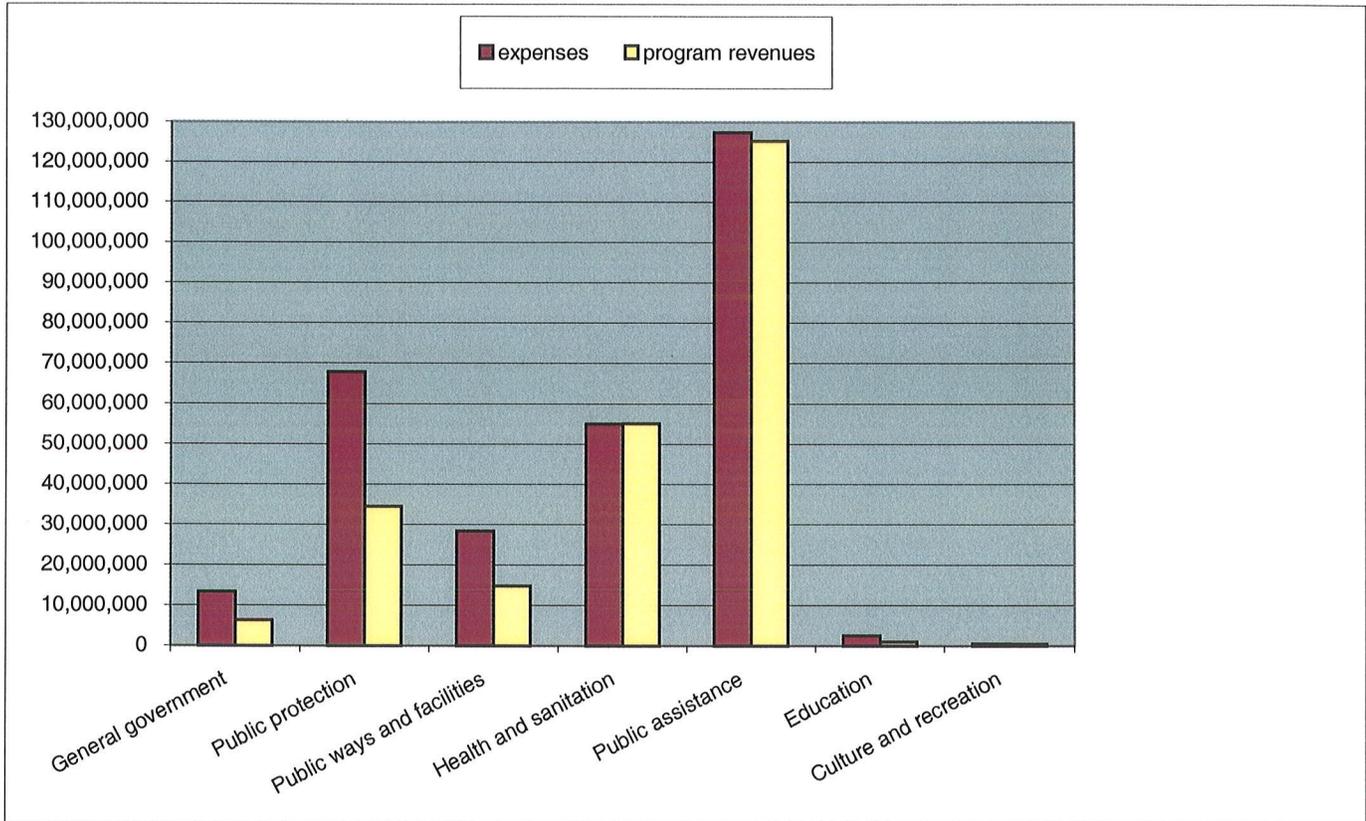
The following table presents the activities that accounted for the changes in net assets.

County of Butte's Changes in Net Assets						
	Governmental activities		Business-type activities		Total	
	02-03	01-02	02-03	01-02	02-03	01-02
Revenues:						
Program Revenues:						
Charges for services	29,861	27,358	4,868	4,399	34,729	31,757
Grants & contributions	207,823	208,812	2,097	1,600	209,920	210,412
General Revenues:						
Property taxes	17,799	14,269			17,799	14,269
Other taxes	6,164	6,968			6,164	6,968
Other revenues	21,645	22,632	651	888	22,296	23,520
Total revenues:	283,292	280,039	7,616	6,887	290,908	286,926
Expenses:						
General government	13,404	12,073			13,404	12,073
Public protection	67,876	61,196			67,876	61,196
Public ways and facilities	28,463	27,590			28,463	27,590
Health and sanitation	55,095	49,121			55,095	49,121
Public Assistance	127,500	123,119			127,500	123,119
Education	2,522	2,454			2,522	2,454
Culture and recreation	534	430			534	430
Central landfill			1,426	4,781	1,426	4,781
Transit enterprise			2,192	1,796	2,192	1,796
Total expenses:	295,394	275,983	3,618	6,577	299,012	282,560
Increase (decrease) in net assets	(12,102)	4,056	3,998	310	(8,104)	4,366
Beginning net assets	426,076	422,020	9,703	9,393	435,779	431,413
Ending net assets	413,974	426,076	13,701	9,703	427,675	435,779

The following highlights significant factors that affected the governmental and business activities and contributed to the decrease in net assets:

- Governmental Activities accounted for a decrease in net assets of \$12,102. This decrease is due primarily from current year depreciation expense of the County's infrastructure (roads and bridges) capital assets exceeding the current year capital outlays for infrastructure by a total of \$14,966.

Expenses and Program Revenues – Governmental Activities



IV. FINANCIAL ANALYSIS OF FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with budgetary and legal requirements.

Governmental funds. The general government functions are included in the General, Special Revenue, and Capital Project Funds. Included in these funds are the special districts governed by the Board of Supervisors. The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

At June 30, 2003, the County's governmental funds reported combined ending fund balances of \$75,999. Approximately 39.7% of this total amount (\$30,185) constitutes unreserved fund balance, which may be used to meet the County's ongoing general

obligations to citizens and creditors. The remainder of fund balance is reserved to indicate that it is not available for general obligations because it has been committed in the form of prior year obligations (encumbrances), inventories, debt service reserves or the funds have statutory restrictions.

The general fund is the main operating fund of the County. At June 30, 2003, unreserved fund balance of the general fund was \$18,581 while total fund balance reached \$48,674. As measures of the general fund's liquidity, it is useful to note that unreserved fund balance represents 15.5% percent of total fund expenditures, while total fund balance represents 40.6% percent of that same amount.

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

County of Butte
Revenues in the Governmental Funds

Revenue Sources	FY 2003		FY 2002		Change	
	Amount	% of total	Amount	% of total	Amount	% of change
Taxes	\$ 22,754	8.1%	\$ 21,238	7.5%	\$ 1,516	7.1%
Licenses and permits	3,989	1.4%	3,398	1.2%	591	17.4%
Fines, forfeitures and penalties	2,255	0.8%	2,115	0.7%	140	6.6%
Use of money and property	3,053	1.1%	3,533	1.3%	(480)	-13.6%
Intergovernmental	223,632	79.2%	224,680	79.6%	(1,048)	-0.5%
Charges for services	22,705	8.0%	20,092	7.1%	2,613	13.0%
Other	3,913	1.4%	5,638	2.0%	(1,725)	-30.6%
Total	\$ 282,301	100%	\$ 280,694	99%	\$ 1,607	0.6%

Significant changes for major revenue sources are explained below.

- Taxes – Tax revenues include sales taxes and property taxes. The increase in tax revenues is due to primarily to increased property taxes as well as smaller increases in sales tax and property transfer tax revenues.
- Licenses and Permits – Increased franchise fee revenues as well as increased revenues from construction permits and planning application fees account for most of the increase noted in this revenue category.
- Use of money and property – Reflects decreased market interest rates available. Pooled investment interest earnings for the quarter ended 6/30/03 were 3.79% versus a 4.56% return for the same period one year ago (a decrease of 16.9%)
- Charges for services – The increased charges for services revenues reflects increases from a wide variety of sources. Two significant increases were due to increased services agreements with the Butte County Children's and Families Commission (\$600) and increased court – related fees (\$400).

- Other – Grants and contributions from private funding sources for the South Oroville Community Center accounted for \$1,270 of the FY 2002 revenues. Since construction was completed in that year, there were no comparable revenues in the current year.

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

County of Butte
Expenditures in the Governmental Funds

Function	FY 2003		FY 2002		Change	
	Amount	% of total	Amount	% of total	Amount	% of change
General government	\$ 13,565	4.8%	\$ 13,294	4.7%	\$ 271	2.0%
Public protection	72,319	25.4%	68,904	24.2%	3,415	5.0%
Public ways and facilities	13,942	4.9%	14,798	5.2%	(856)	-5.8%
Health and sanitation	54,706	19.2%	48,967	17.2%	5,739	11.7%
Public assistance	127,320	44.7%	122,399	42.9%	4,921	4.0%
Education	2,596	0.9%	2,324	0.8%	272	11.7%
Culture and recreation	630	0.2%	4,066	1.4%	(3,436)	-84.5%
Total	\$ 285,078	100%	\$ 274,752	96%	\$ 10,326	3.8%

Significant changes for major functions are explained below.

- Health and sanitation – Behavioral Health expenditures increased by \$4,100 and Public Health expenditures by \$1,600.
- Culture and recreation – The decrease in this function is due to the completion of the construction of the South Oroville Community Center in FY 2002.

Proprietary funds. The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. These funds include the enterprise funds: Butte County Transit Funds and the County Central Landfill funds; and the internal service funds which are presented in aggregate.

V. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were \$4,164 of increased appropriations funded primarily by additional grant revenues received from State and Federal programs (\$3,195) as well as increased charges for services (\$1,028).

During the year, actual revenues were less than budgetary estimates by \$2,675. Actual expenditures and transfers were less than budgetary estimates by \$29,297. The net effect of under-realization of revenues and under-utilization of appropriations resulted in a favorable variance of \$26,622. Although a significant portion of the variance, \$6,184,

reflected increases to reserved fund balances, the amount of available general fund balance at fiscal year-end increased by \$156 from the prior period, to \$18,581.

VI. CAPITAL ASSETS AND DEBT ADMINISTRATION

A. Capital Assets

The County's investment in capital assets for its governmental and business type activities as of June 30, 2003, amounts to \$365,236 (net of accumulated depreciation). This investment in capital assets includes land, structures and improvements, equipment, construction-in-progress, and some infrastructure. The total decrease in the County's net investment in capital assets for the current period was 01.9% . The decrease resulted from infrastructure depreciation exceeding infrastructure assets acquired by \$14,966.

Key events affecting capital assets during the fiscal year included the following:

- GASB 34 requires the County to record infrastructure costs as capital assets. Infrastructure includes the County's road network, bridges, drainage ditches, and sewer systems, if any. As provided for in Statement 34, the County is phasing in the historical costs related to it's infrastructure. Currently, only the roads network includes historical costs and related depreciation. All current year acquisition costs identified for infrastructure have been included. Current year infrastructure acquisitions totaled \$4,362 while depreciation was \$19,328. Information on other existing infrastructure assets will be provided in the next four fiscal years, as permitted by Government Accounting Standards Board Statement No. 34.
- For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

**County of Butte's Capital Assets
(Net of Depreciation)**

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	2003	2002	2003	2002	2003	2002
Land	1,680	1,215	488	488	2,168	1,703
Structures & improvements	31,853	32,415	548	517	32,401	32,932
Equipment	11,188	10,158	4,984	2,711	16,172	12,869
Infrastructure	301,304	316,270			301,304	316,270
Construction in progress	12,558	8,433	632		13,190	8,433
Total	358,583	368,491	6,652	3,716	365,235	372,207

B. Long-Term Debt

At June 30, 2003, the County had total long-term debt outstanding of \$15,021 consisting of \$9,345 in Certificates of Participation, capital lease obligations of \$4,624, bonds payable of \$1,052. Additional long-term liabilities include compensated leave payable of

\$9,640, actuarial claims liability of \$1,324 for the general insurance ISF, and landfill closure/post closure care liability of \$5,145.

Additional information on the County's long-term liabilities can be found in the Notes to the Financial Statements section of this report.

VII. Fiscal Outlook

The County adopted its fiscal year 2003-2004 Final Budget in the total amount of \$318,905, with a General Fund Contingency Appropriation of \$6,023. While this represents increased financing requirements of \$23,771 from the prior year, the General Fund Contingency Appropriation decreased by \$1,281. The County is facing a difficult fiscal challenge in the short-term. Although the most critical fiscal uncertainty facing the County continues to be the impact on local government from actions the State of California may take in addressing its own fiscal problems, large increases in employee benefit and worker's compensation insurance costs will also impact the ability of the County to maintain current service levels.

VIII. Request for Information

This financial report is designed to demonstrate accountability by the Butte County government by providing both a long-term and near-term views of the County's finances. Questions or comments regarding any of the information presented in this report or requests for additional financial information should be addressed to the Auditor-Controller, 25 County Center Drive, Oroville, CA 95965.

COUNTY OF BUTTE, CALIFORNIA

STATEMENT OF NET ASSETS JUNE 30, 2003

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 70,651,824	\$ 14,751,549	\$ 85,403,373
Restricted cash with fiscal agent	5,974,454		5,974,454
Imprest cash	89,635	1,000	90,635
Accounts receivable	154,533	350,619	505,152
Due from other governments	10,989,639	190,000	11,179,639
Prepaid items	15,293		15,293
Deposits with others	2,797		2,797
Inventories	347,622		347,622
Internal balances	15,678	(15,678)	
Receivables from external parties	1,212,464	141,938	1,354,402
Loans receivable	3,134,461		3,134,461
Capital assets, net	358,583,767	6,652,339	365,236,106
Total assets	451,172,167	22,071,767	473,243,934
LIABILITIES			
Accounts payable	6,230,997	444,654	6,675,651
Salaries and benefits payable	2,378,586	15,433	2,394,019
Deferred revenue	4,753,273	482,152	5,235,425
Accrued interest	133,926		133,926
Long term liabilities:			
Due within one year	6,858,664	536,922	7,395,586
Due in more than one year	15,518,775	1,746,083	17,264,858
Claims and judgments	1,324,000		1,324,000
Landfill closure/post-closure care costs		5,145,157	5,145,157
Total liabilities	37,198,221	8,370,401	45,568,622
NET ASSETS			
Invested in capital assets, net of related debt	346,872,973	4,389,868	351,262,841
Restricted	43,991,120		43,991,120
Unrestricted	23,109,853	9,311,498	32,421,351
Total net assets	\$ 413,973,946	\$ 13,701,366	\$ 427,675,312

COUNTY OF BUTTE, CALIFORNIA

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2003

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 13,403,744	\$ 5,563,714	\$ 810,692		\$ (7,029,338)		\$ (7,029,338)
Public protection	67,875,626	13,731,788	19,832,185	\$ 944,672	(33,366,981)		(33,366,981)
Public ways and facilities	28,463,533	2,631,921	10,887,733	1,260,654	(13,683,225)		(13,683,225)
Health and sanitation	55,095,207	6,391,541	48,759,180		55,514		55,514
Public assistance	127,500,579	1,157,862	124,167,910		(2,174,807)		(2,174,807)
Education	2,522,005	327,068	712,109		(1,482,828)		(1,482,828)
Culture and recreation	533,602	57,256	9,162	438,603	(28,581)		(28,581)
Total governmental activities	295,394,296	29,861,150	205,178,971	2,643,929	(57,710,246)		(57,710,246)
Business-type activities:							
Sanitation	1,425,942	4,553,286	511,827			\$ 3,639,171	3,639,171
Transit	2,192,068	314,320	1,585,564			(292,184)	(292,184)
Total business-type activities	3,618,010	4,867,606	2,097,391			3,346,987	3,346,987
Total Butte County	\$ 299,012,306	\$ 34,728,756	\$ 207,276,362	\$ 2,643,929	(57,710,246)		(54,363,239)
General revenues:							
Taxes:							
Property taxes					17,798,624		17,798,624
Sales taxes					3,517,481		3,517,481
Special assessments					292,941		292,941
Other taxes and related revenues					2,353,498		2,353,498
Grants and contributions not restricted to specific programs					15,056,401		15,056,401
Unrestricted investment earnings					1,587,619	632,463	2,220,082
Miscellaneous					5,008,578	18,862	5,027,440
Transfers					(6,906)		(6,906)
Total general revenues and transfers					45,608,236	651,325	46,259,561
Change in net assets					(12,102,010)	3,998,312	(8,103,698)
Net assets--beginning of year					426,075,956	9,703,054	435,779,010
Net assets--ending of year					\$ 413,973,946	\$ 13,701,366	\$ 427,675,312

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

**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

COUNTY OF BUTTE, CALIFORNIA

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2003**

	General Fund	Welfare Fund	Road Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 44,766,365	\$ 3,592,229	\$ 7,677,203	\$ 11,608,412	\$ 67,644,209
Restricted cash with fiscal agent	4,811,274			1,163,180	5,974,454
Imprest cash	44,270		100	5,265	49,635
Due from other funds	2,194,292	250,432	131,304	2,794,243	5,370,271
Accounts receivable	43,995	627	4,078	2,597	51,297
Due from other governments	6,251,685	2,344,274	1,477,151	916,529	10,989,639
Prepaid items	3,584			11,140	14,724
Deposits from others	2,500			297	2,797
Inventory			119,333		119,333
Loans receivable				3,134,461	3,134,461
Total assets	\$ 58,117,965	\$ 6,187,562	\$ 9,409,169	\$ 19,636,124	\$ 93,350,820
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due from other funds	\$ 2,949,625	\$ 1,184,365	\$ 29,687	\$ 315,608	\$ 4,479,285
Accrued interest payable	133,476			450	133,926
Accounts payable and accrued liabilities	2,944,054	536,829	1,001,662	1,186,073	5,668,618
Salaries and benefits payable	1,513,570	491,480	118,849	193,184	2,317,083
Deferred revenue	1,902,915	2,801,463	48	48,847	4,753,273
Total liabilities	9,443,640	5,014,137	1,150,246	1,744,162	17,352,185
Fund balances:					
Reserved for:					
Encumbrances	7,257,572	1,274,877	2,573,001	3,456,499	14,561,949
Imprest cash	44,270		100	5,265	49,635
Deposits with others	2,500				2,500
Loan receivables				3,134,461	3,134,461
General restrictions	18,132,280		2,639,377	1,367,051	22,138,708
Debt service	4,656,265			1,150,916	5,807,181
Inventory			119,333		119,333
Unreserved:					
Designated	2,502,727	65,429	548,033	4,981,473	8,097,662
Undesignated, reported in:					
General fund	16,078,711				16,078,711
Special revenue funds		(166,881)	2,379,079	5,127,644	7,339,842
Capital project funds				(1,331,347)	(1,331,347)
Total fund balances	48,674,325	1,173,425	8,258,923	17,891,962	75,998,635
Total liabilities and fund balances	\$ 58,117,965	\$ 6,187,562	\$ 9,409,169	\$ 19,636,124	\$ 93,350,820

COUNTY OF BUTTE, CALIFORNIA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS FOR THE YEAR ENDED JUNE 30, 2003

Amounts reported for governmental activities in the statement
of net assets are different because:

Fund balance-total governmental funds \$ 75,998,635

Capital assets used in governmental activities are not financial resources and,
therefore, are not reported in the governmental funds. These assets consist of:

Land	1,679,979	
Construction in progress	12,559,230	
Infrastructure, net of \$276,101,722 accumulated depreciation	301,303,860	
Buildings and improvements, net of \$12,997,326 accumulated depreciation	31,852,298	
Equipment, net of \$23,236,688 accumulated depreciation	<u>11,188,400</u>	
Total capital assets		358,583,767

Internal service funds are used by the county to charge the cost of liability,
malpractice, and worker's compensation insurance to individual funds. The
assets and liabilities of the internal service funds are included in governmental
activities in the statement of net assets.

3,092,983

Long-term liabilities applicable to the County's governmental activities are not
due and payable in the current period and accordingly are not reported as fund
liabilities. Interest on long-term debt is not accrued in governmental funds, but
rather is recognized as an expenditure when due. All liabilities are reported in the
statement of net assets. Balances as of June 30, 2003 are:

Certificates of participation	(9,345,000)	
Bonds payable	(1,051,620)	
Capital leases	(2,365,795)	
Compensated absences	(9,615,024)	
Claims and judgments	<u>(1,324,000)</u>	
Total long-term liabilities		<u>(23,701,439)</u>

Net assets of governmental activities \$ 413,973,946

COUNTY OF BUTTE, CALIFORNIA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003**

	<u>General Fund</u>	<u>Welfare Fund</u>	<u>Road Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes	\$ 15,318,304			\$ 7,435,489	\$ 22,753,793
Licenses and permits	3,478,678		\$ 242,289	267,572	3,988,539
Fines, forfeits and penalties	2,094,173			160,956	2,255,129
Revenues from uses of money and property	1,675,543	\$ 38,296	252,513	1,086,818	3,053,170
Aid from other governments	82,198,075	115,029,592	12,148,388	14,256,473	223,632,528
Charges for services	18,599,335	691,233	1,561,261	1,853,411	22,705,240
Other	3,303,286	76,498	134,275	398,414	3,912,473
Total revenues	<u>126,667,394</u>	<u>115,835,619</u>	<u>14,338,726</u>	<u>25,459,133</u>	<u>282,300,872</u>
EXPENDITURES:					
General government	12,030,003			1,534,589	13,564,592
Public protection	54,239,020	285,069		17,794,690	72,318,779
Public ways and facilities			13,644,213	298,136	13,942,349
Health and sanitation	52,713,286			1,993,136	54,706,422
Public assistance	552,312	117,258,407		9,509,328	127,320,047
Education	198,345			2,397,592	2,595,937
Recreation and cultural services	259,593			370,151	629,744
Total expenditures	<u>119,992,559</u>	<u>117,543,476</u>	<u>13,644,213</u>	<u>33,897,622</u>	<u>285,077,870</u>
Excess (deficiency) of revenues over expenditures	<u>6,674,835</u>	<u>(1,707,857)</u>	<u>694,513</u>	<u>(8,438,489)</u>	<u>(2,776,998)</u>
OTHER FINANCING SOURCES (USES):					
Sales of fixed asset	20,528	5,858	14,339	15,224	55,949
Operating transfers in	819,863	59,649		5,749,458	6,628,970
Operating transfer out	(5,219,459)			(1,139,430)	(6,358,889)
Capitalized leases	3,888,658			1,151,361	5,040,019
Total other financing sources (uses)	<u>(490,410)</u>	<u>65,507</u>	<u>14,339</u>	<u>5,776,613</u>	<u>5,366,049</u>
Net change in fund balances	6,184,425	(1,642,350)	708,852	(2,661,876)	2,589,051
Fund balance-beginning of year	42,489,825	2,815,775	7,550,071	20,553,913	73,409,584
Equity transfers	75			(75)	0
Fund balance-ending of year	<u>\$ 48,674,325</u>	<u>\$ 1,173,425</u>	<u>\$ 8,258,923</u>	<u>\$ 17,891,962</u>	<u>\$ 75,998,635</u>

COUNTY OF BUTTE, CALIFORNIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE GOVERNMENT-WIDE STATEMENTS OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2003

Amounts reported for governmental activities in the statements of activities are different because:

Net change to fund balance-total governmental funds \$ 2,589,051

Governmental funds reported capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$23,331,258) exceeded capital outlays (\$12,962,950) in the current period. (10,368,308)

Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds, but reduces the liability in the statement of net assets.

Repayments:

To bond, certificate, and note holders 1,121,253

Some capital additions were financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net assets, the lease obligation is reported as a liability. (5,150,000)

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available.

Compensated absences (743,431)

Internal service funds are used by the County to charge the costs of liability, malpractice, and worker's compensation insurance to individual funds. The net revenue of internal service funds is reported with governmental activities. 449,425

Change in net assets of governmental activities \$ (12,102,010)

COUNTY OF BUTTE, CALIFORNIA

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2003**

	Business-Type Activities-Enterprise Funds			Governmental Activities
	Transit	Landfill	Total	Internal Service Funds
ASSETS				
Cash and investments	\$ 365,536	\$ 14,386,013	\$ 14,751,549	\$ 3,007,615
Imprest cash		1,000	1,000	40,000
Due from other funds	61,793	138,302	200,095	563,799
Accounts receivable	171,023	179,596	350,619	103,236
Inventory				228,289
Prepaid items				569
Due from other governments	190,000		190,000	
Capital assets, net	2,906,774	3,745,565	6,652,339	1,147,866
Total assets	<u>3,695,126</u>	<u>18,450,476</u>	<u>22,145,602</u>	<u>5,091,374</u>
LIABILITIES				
Due to other funds	55,158	18,677	73,835	226,643
Accounts payable	171,445	269,982	441,427	561,660
Accrued salaries and benefits		15,433	15,433	61,503
Accrued sales tax	2,351	876	3,227	719
Unredeemed passenger tickets	50,268		50,268	
Deferred revenue	431,884		431,884	
Long-term liabilities:				
Due within one year		536,922	536,922	316,680
Due in more than one year		1,746,083	1,746,083	
Claims and judgments				1,324,000
Landfill closure/post-closure care costs		5,145,157	5,145,157	
Total liabilities	<u>711,106</u>	<u>7,733,130</u>	<u>8,444,236</u>	<u>2,491,205</u>
NET ASSETS				
Invested in capital assets, net of related debt	2,906,774	1,483,094	4,389,868	1,147,867
Restricted				
Unrestricted	77,246	9,234,252	9,311,498	1,452,302
Total net assets	<u>\$ 2,984,020</u>	<u>\$ 10,717,346</u>	<u>\$ 13,701,366</u>	<u>\$ 2,600,169</u>

COUNTY OF BUTTE, CALIFORNIA

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2003

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Transit	Landfill	Total	Internal Service Funds
OPERATING REVENUES				
Charges for services				\$ 15,936,134
Transit fares	\$ 314,320		\$ 314,320	
Landfill fees		\$ 4,531,337	4,531,337	
Contractor fees		9,000	9,000	
Other revenue	238,167	12,949	251,116	6,555
Total operating revenue	552,487	4,553,286	5,105,773	15,942,689
OPERATING EXPENSES				
Administration	86,229	1,093,129	1,179,358	
Salaries and employee benefits		434,712	434,712	3,380,503
Service and supplies				8,602,132
Claims and judgements				3,274,535
Operation and maintenance	1,772,520	1,682,705	3,455,225	
Contractor fees		1,066,531	1,066,531	
Depreciation	333,319	103,325	436,644	270,080
Other expenses				559,235
Landfill closure/post-closure care cost		(2,954,460)	(2,954,460)	
Total operating expenses	2,192,068	1,425,942	3,618,010	16,086,485
Operating income (loss)	(1,639,581)	3,127,344	1,487,763	(143,796)
NONOPERATING REVENUE (EXPENSE)				
Intergovernmental	1,157,397		1,157,397	46,444
Interest income (expense)	24,831	607,632	632,463	152,096
Other income (expense)	342	18,520	18,862	
Grants	190,000			
Transfer out				(270,080)
Sale of capital asset		511,827	511,827	12,253
Total nonoperating revenue (expense)	1,372,570	1,137,979	2,320,549	(59,287)
Net income before capital contributions	(267,011)	4,265,323	3,808,312	(203,083)
Capital contributions				652,508
Change in net assets	(267,011)	4,265,323	3,808,312	449,425
Total net assets-beginning of year	3,251,031	6,452,023	9,703,054	2,150,744
Total net assets-ending of year	\$ 2,984,020	\$ 10,717,346	\$ 13,511,366	\$ 2,600,169

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

COUNTY OF BUTTE, CALIFORNIA

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2003

	Business-Type Activities-Enterprise Funds			Governmental Activities
	Transit	Landfill	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash receipt from customers	\$ 295,562	\$ 3,777,017	\$ 4,072,579	\$ 16,699,365
Cash paid to suppliers for goods and services	(1,560,064)	(2,267,072)	(3,827,136)	(11,800,651)
Cash paid to employees for services		(410,707)	(410,707)	(3,074,720)
Internal activities - payments from (to) other funds	(58,964)	(399,653)	(458,617)	(438,775)
Other receipts	634	10,000	10,634	
Net cash provided by (used in) operating activities	(1,322,832)	709,585	(613,247)	1,385,219
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Aid from other governmental agencies	761,184	470,992	1,232,176	35,120
Advances from other funds				(604,991)
Transfers				(1,073,564)
Non-operating revenues		2,332	2,332	8,182
Net cash provided by (used in) noncapital financing activities	761,184	473,324	1,234,508	(1,635,253)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Proceeds from capital lease		2,526,539	2,526,539	
Payments related to the acquisition of capital assets	(38,168)	(3,293,443)	(3,293,443)	
Principal and interest paid on capital lease		(268,461)	(268,461)	
Net cash used in capital and related financing activities	(38,168)	(1,035,365)	(1,073,533)	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	32,438	625,206	657,644	143,269
Net increase (decrease) in cash and cash equivalents	(567,378)	772,750	205,372	(106,765)
Cash and cash equivalents, beginning of year	932,914	13,614,263	14,547,177	3,154,380
Cash and cash equivalents, end of year	\$ 365,536	\$ 14,387,013	\$ 14,752,549	\$ 3,047,615

COUNTY OF BUTTE, CALIFORNIA

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2003**

	Business-Type Activities-Enterprise Funds			Governmental Activities
	Transit	Landfill	Total	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in)				
Operating income (loss)	\$ (1,639,581)	\$ 3,127,344	\$ 1,487,763	\$ (143,796)
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	333,319	103,325	436,644	270,080
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	(37,057)	280,740	243,683	(46,043)
Due from other funds	(54,530)	277,974	223,444	1,485,665
Inventory				42,480
Prepaid expenses and other asses				(569)
Increase (decrease) in:				
Accounts payable/accrued sales tax/deferred revenue	21,367	110,481	131,848	(299,752)
Due to other funds	53,650	(255,581)	(201,931)	56,876
Accrued salaries and benefits		10,737	10,737	9,982
Compensated absences		9,025	9,025	(9,704)
Landfill closure/post-closure cost		(2,954,460)	(2,954,460)	
Claims and judgments				20,000
Net cash provided by (used in) operating activities	<u>\$ (1,322,832)</u>	<u>\$ 709,585</u>	<u>\$ (613,247)</u>	<u>\$ 1,385,219</u>

COUNTY OF BUTTE, CALIFORNIA

STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS JUNE 30, 2003

	Investment Trust	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and investments	\$ 193,356,217	\$ 22,808,779
Imprest cash	7,671	
Due from other funds	1,482,598	357,664
Accounts receivable	1,111,517	
Property tax receivable		7,098,547
	<u> </u>	<u> </u>
Total assets	195,958,003	<u><u>\$ 30,264,990</u></u>
LIABILITIES		
Due to other funds	470,556	\$ 2,724,110
Accounts payable and accrued liabilities	1,224,391	739
Sales tax accrual	691	
Salaries and benefits payable	147,966	
Notes payable	58,109	
Deferred revenue	82,995	
Agency funds held for others		27,540,141
	<u> </u>	<u> </u>
Total liabilities	1,984,708	<u><u>\$ 30,264,990</u></u>
NET ASSETS		
Held in trust for pool participants	<u>193,973,295</u>	
Total net assets	<u><u>\$ 193,973,295</u></u>	

COUNTY OF BUTTE, CALIFORNIA

STATEMENT OF CHANGES IN NET ASSETS INVESTMENT TRUST FUND FOR THE YEAR ENDED JUNE 30, 2003

Additions:	
Contributions to pooled investments	\$1,044,945,008
Interest and investment income	<u>5,056,174</u>
Total additions	<u>1,050,001,182</u>
Deductions:	
Distribution from investment pool	<u>(1,052,344,252)</u>
Total deductions	<u>(1,052,344,252)</u>
Net decrease	(2,343,070)
Net assets, beginning of year	<u>196,316,365</u>
Net assets, ending of year	<u>\$ 193,973,295</u>

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

1. Summary of Significant Accounting Policies

A. **The Financial Reporting Entity**

The County of Butte (the County), which was incorporated as a County in 1850 as one of the State's original 27 counties, is a legal subdivision of the State of California charged with governmental powers. The County's powers are exercised through a Board of Supervisors which, as the governing body of the County, is responsible for the legislative and executive control of the County. As required by generally accepted accounting principles, these financial statements present the government and its component units, legally separate entities for which the County is considered to be financially accountable.

Blended component units, although legally separate entities, are, in substance, part of the County's operations and so data from these units are combined with data of the primary government. Each blended component unit has a June 30, 2003 year-end.

In evaluating how to define the County for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity."

The Butte County Air Quality Management District (the District) is a blended component unit of the County. The District's Board is composed of seven members, of which five members are the County's Board of Supervisors. Financial statements of the District may be obtained by contacting the District or the County Auditor-Controller's Office.

Based on the criteria established by GASB 14, the reporting entity also includes the following blended component units which are Special Districts under control of the Board of Supervisors:

County Service Area (CSA) – Lighting

Lindo Manor	Durham
Rancho De Thunder	Ward Subdivision
East Chico – CSA #14	Peach Tree Place
East Chico – CSA #15	Meadow Estates
West Chico – CSA #16	South Oroville – Las Plumas Park
North Park	Stirling City Lighting
Oro – Quincy Road	Walnut Woods
Richvale	Woodside
Oro-Wyandotte	Oak Way Estates
Glen Haven	Carriage Manor
Chico Rancheria	Rosewood Subdivision

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

County Service Area (CSA) – Lighting (continued)

Ramada Street
Olive Glen Estates
Mulberry Street
Stirling City

Morris Subdivision
Almond Grove West
Lassenwood Subdivision

CSA – Drainage & Lighting

East and Guynn
Quail Run
Big Chico Creek Estates CSA
#7921 and #7922
Lindo West
Lakeridge Village
Silvertree Subdivision
Stony Brook
Sacramento Avenue Estates
Carriage Estates Subdivision
Holly Gardens
Meadowlark Acres
Black Oaks Subdivision
El Verano
Walnut Grove Units 1 & 2
Young & Hobart Subdivision
Pearman Subdivision
Pistachio Grove Subdivision
Macintosh Avenue
South Fork Estates
Alamo East Subdivision
Willow Bend Subdivision
West Chico Estates
Westwood Lane Subdivision
Wildflower Estates Subdivision
Orchard House Estates
Ceres Avenue Subdivision
Baker's Dozen Subdivision
Featherview Estates

CSA – Drainage

Sierra Del Oro
Keefer Road/Rock Creek
North Chico
Pleasant Valley
Chico – Mud Creek
Shasta Union
Copley Acres
Oro Monte Estates

CSA – Sewer

Oakridge
Stirling City
Mountain Oaks Subdivision
Reorganization Webb Home
Keefer Creek

CSA – Lighting & Maintenance

Vista Del Cerro
Crestwood
Lindo Gardens
Joshua Tree
Joshua Tree #2

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

CSA – Drainage & Lighting (continued)

Oak Way Park
Daily
Marigold Estates
Shastan, Inc.
Forebay Vista Subdivision
Laurelwood Estates
Canyon Ranch Estates
Pheasant Landing Subdivision

Other

Valley Oaks Subdivision
Southgate Acres Drainage and
Fire Protection
Thermalito Sewer and Drainage
Sycamore Valley Sewer and Lighting
Gridley – Biggs Ambulance
Vallombrosa Lighting and Fire Hydrant
Biggs Swimming Pool – Recreation
Gridley Swimming Pool – Recreation
County of Butte – Nitrate Study Plan
Walnut Manor
Durham-Dayton Industrial Partners for
Extended Structural Fire Protection
Forrest Young
Biggers Subdivision
Ishi Valley Estates
Thorntree Industrial Park
County of Butte – Animal Control
Justin Manor Subdivision
Keefer Creek Estates Lighting, Drainage
and Sewer

Excluded from the Reporting Entity

Local Board Governed Districts and School Districts: These potential component units have been excluded from the reporting entity. They are legally separate primary governmental units. The financial reporting for these governmental entities, which are independent of the County, are limited to the total amount for cash and investments and the related fiduciary responsibilities of the County for disbursement of these assets. Activities of school districts and local board governed districts are administered by boards which are separately elected and which are independent of the County Board of Supervisors. The following local board governed districts and school districts have been excluded from the County's financial statements:

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

Protection to Persons & Property

El Medio Fire District
Maintenance Area #5
Maintenance Area #7
Maintenance Area #13
Maintenance Area #16

Recreation

Chico Area Recreation & Park
Durham Recreation & Park
Feather River Recreation & Park
Paradise Recreation & Park
Richvale Recreation & Park

Other Districts

Butte County Association of
Governments
School Districts
Butte County Fair

Cemetery

Bangor Cemetery
Gridley-Biggs Cemetery
Kimsheew Cemetery
Oroville Cemetery
Paradise Cemetery
Pine Creek Cemetery
Thompson Flat Cemetery
Upham Cemetery

Drainage

Butte Creek Drainage
Drainage District #1
Drainage District #2
Drainage District #100
Drainage District #200
Reclamation District #833
Rock Creek Reclamation District

Health & Sanitation

Butte County Mosquito Abatement
Durham Mosquito Abatement
Oroville Mosquito Abatement
Richvale Sanitary Operating
Richvale Sanitary – Bond & Interest
Redemption

These entities have separate elected boards and provide services to residents, generally within the geographic boundaries of the County. In addition, these entities are excluded from the reporting entity because they are not financially accountable to the County.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the primary government (the County) and its blended component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the County. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

The statement of activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function, and allocated indirect expenses. Interest expense related to long term debt is reported as a direct expense. The total amount of interest charged to expense for the year ended June 30, 2003 was \$461,046. Program revenues include 1) fees, fines and 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.

Fund Financial Statements

The fund financial statements provide information about the County's funds, including fiduciary funds and blended component units. Separate statements for each fund category – *governmental, proprietary and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are separately aggregated and reported as other governmental funds.

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The County reports the following major governmental funds:

- The *General Fund* is used to account for all revenues and expenditures necessary to carry out basic governmental activities of the County that are not accounted for through other funds. For the County, the General Fund includes such activities as public protection, public ways and facilities, health and sanitation, public assistance, education and recreation services.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

- The *Welfare Fund* was established to account for the activities of the Butte County Department of Employment and Social Services. The department administers the CalWorks program, Adult and Children's Protection Services and various other State, Federal and local assistance programs.
- The *Road Fund* was established to account for the construction and maintenance of the County's roads and bridges.

The County reports the following major enterprise funds:

- The *Transit Fund* was established to account for the County's share of costs in providing transit and transit related services to the citizens of Butte County in both the unincorporated and incorporated areas of the County.
- The *Landfill Fund* was established to account for the County's costs of providing landfill and related waste disposal services to the citizens of Butte County in both the unincorporated and incorporated areas of the County.

The County reports the following additional fund types:

- *Internal Service Funds* are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the County on a cost-reimbursement basis.
- The *Investment Trust Fund* accounts for the assets of legally separate entities that deposit cash with the County Treasurer in an investment pool, which commingles resources in the investment portfolio for the benefit of all participants. These entities include school and community college districts, other special districts governed by local boards, regional boards and authorities and pass through funds for tax collections for cities.
- The *Agency Funds* are custodial in nature and do not involve measurement of the results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. These funds account for assets held by the County as an agent for other government units.

C. Basis of Accounting

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

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

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

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

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

For its proprietary funds, the County has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), are accounting principles generally accepted in the United States of America.

D. Cash and Cash Equivalents

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

E. Inventories and Prepaid Items

Inventories are valued at cost, which is determined on a first-in, first-out basis, and consist primarily of expendable supplies held for consumption. The cost is recorded as an expenditure when the items are used. In the governmental funds balance sheet, there is a reservation of fund balance equal to the inventory balance as these amounts are not available for appropriation.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

Payments made for services that will benefit future accounting periods are recorded as prepaid items. In the governmental fund types, there is a reservation of fund balance equal to the amount of prepaid items, since these amounts are not available for appropriation.

F. Property Taxes

Property taxes attach as an enforceable lien on January 1. Secured taxes are levied on July 1 and are payable in two installments due by December 10 and April 10. All general property taxes are then allocated by the County Auditor-Controller's Office to the various taxing entities per the legislation-implementing Proposition 13. The method of allocation used by the County is subject to review by the State of California.

Alternative Method of Distribution of Tax Levies

The County utilizes the alternative method of property tax distribution, whereby the County, through the legally required Tax Resource Agency Fund purchases the current secured unpaid taxes remaining at year-end from participating agencies. In return, the Tax Resource Agency Fund records a tax receivable and receives the delinquent secured taxes. The Tax Loss Reserve Agency Fund receives delinquent penalties and redemption interest accruing to delinquent collections related to participating agencies. The participating agencies, including the County, the special districts, and the school districts, in turn, receive their full tax distribution with no liability for uncollected taxes to the Tax Resource Agency Fund. Therefore, for participating agencies, revenue is measurable and available and is recorded in the period the payment of current secured unpaid taxes is received.

The County is required to create a tax loss reserve fund (an agency fund) under one of two alternative methods: 1) one percent of the total amount of taxes and assessments levied on the secured roll for the year or 2) twenty-five percent of the total delinquent secured taxes and assessments as calculated at the end of the fiscal year. The County is using twenty-five percent of the delinquent secured taxes to establish its tax loss reserve.

G. Loans Receivable

Loans receivable relate to the Housing and Community Development Program funded by federal and state monies. Loans receivable are collateralized by deeds of trust. Proceeds from the collection of the loans receivable and resale of assets held for sale are restricted by the terms of the grant and, accordingly, are offset by a fund balance reserve which indicates that they do not constitute available spendable resources. No amount has been provided as an allowance for doubtful accounts because in the opinion of management all material amounts are fully collectible.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

H. Capital Assets

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

The estimated useful lives are as follows:

Infrastructure (except for the maintained pavement subsystem)	20 to 50 years
Structures and improvements	20 to 50 years
Equipment	3 to 25 years

The County has five networks of infrastructure assets – roads, water/sewer, lighting, drainage, and flood control. The County has the option of phasing in the historical costs related to its infrastructure. Currently, the road network has been included in the County's capital assets at historical cost and related depreciation. In future years, the remaining networks will be added to capital assets. All current year acquisition costs identified for infrastructure have been included.

I. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

J. Interfund Receivables and Payables

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

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

K. Use of Estimates

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

2. Cash and Investments

Total cash and investments held in the Treasury are pooled for investment purposes. Cash with fiscal agent is held outside the Treasury and is not pooled with other cash and investments.

Total County deposits and investments are as follows:

Cash and investments	\$ 301,568,369
Restricted cash with fiscal agent	5,974,454
Imprest Cash	<u>98,306</u>
	<u>\$ 307,641,129</u>

The County maintains a Cash and Investment Pool (Pool) that is available for use by all County funds and agencies outside of the County reporting entity participate in the Pool. The participation of these agencies is involuntary, except for the Butte County Fair. The agencies participating in the Investment Trust Fund are Superior Court, Butte County Fair, Autonomous Special Districts, Schools, School Bonds, and the Butte County Association of Governments.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

The fair value of investments in the Pool is determined monthly based upon quoted market prices. The Pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by the California Government Code Section 27143. The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2003 to support the values of shares in the Pool. However, management believes that the investments in the Pool are of high quality and that the risk of participation in the Pool is negligible. At June 30, 2003, the difference between the cost and fair value of cash and investments was not material and approximates fair value. Therefore, an adjustment to fair value was not made for GASB 31 compliance.

The Pool values participants' shares on an amortized cost basis. Specifically, the Pool distributes income to participants quarterly based on their relative participation during the month which is calculated based on (1) realized investment gains and losses computed on an amortized cost basis, (2) interest income based on stated rates (both paid and accrued), (3) amortization of discounts and premiums on a straight-line basis, and (4) investment and administrative expenses. This method differs from the fair value method used to value investments in these financial statements because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair value of the Pool's investments. Investment income related to investments reported in certain funds is assigned to other funds based upon legal or contractual provisions.

Deposits

All deposits are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure a County's deposits by pledging governmental securities as collateral. The market value of pledged securities must equal at least 110% of a County's deposits. California law also allows financial institutions to secure a County's deposits by pledging first trust deed mortgage notes having a value of 150% of a County's total deposits. The County may waive collateral requirements for deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

At June 30, 2003, the carrying amount of the County's cash deposits in the Treasury (including amounts in checking and non-negotiable certificates of deposit) was \$17,872,363 and the bank balance was \$14,244,407. The difference between carrying amount of the County's deposits and the bank balance is a result of transactions in transit including \$3,696,270 in outstanding warrants. Of the bank balances, \$200,000 was covered by federal depository insurance and \$14,044,407 was collateralized (i.e., collateralized with securities held by pledging financial institutions at 110% of the investments, but not in the County's name).

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

Investments

The California Government Code authorizes the County to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Recorder's, non-negotiable certificates of deposit, bankers' acceptances, repurchase agreements, negotiable certificates of deposit, obligations of the State of California, obligations of local agencies within California, corporate notes, mutual funds, financial futures, financial option contracts and the State Treasurer's Local Agency Investment Fund. The County is also authorized to enter into reverse repurchase agreements; however, the County did not enter into such agreements during the year ended June 30, 2003.

Cash and investments with fiscal agent consists of reserve funds in the General Fund and Other Government Funds of \$5,974,454 for debt service. The funds are held by a third party custodian in accordance with the terms of debt or trust agreements.

The pooled treasury's pro-rata share of investment in the State Treasurer's Local Agency Investment Fund (LAIF) at June 30, 2003 is \$110,770,000. The total amount invested by all public agencies in LAIF is \$55.71 billion. Of this amount, 100 percent was invested in non-derivative financial products, and 0 percent in derivative financial products. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the pooled treasury's portion in the pool.

Credit Risk, Carrying Amount, and Fair Values of Investments

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

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

Category 2 – includes uninsured and unregistered investments for which the securities are held by the counterparty trust department or agent in the County's name;

Category 3 – includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the County's name.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

	<u>Maturity Date</u>	<u>Stated Interest Rates</u>	<u>Carrying Amount</u>
Category 1 Investments:			
U.S. Government Agencies	8/18/03 – 6/5/08	3.25% - 7.25%	\$ 190,530,619
Corporate and Other Notes	11/13/03	5.625%	<u>3,980,065</u>
Total Investments Subject to Categorization			194,510,684
Local Certificates of Deposit			500,000
Local Agency Investment Fund			110,770,000
Cash in Bank			17,372,363
Cash on Hand			<u>37,594</u>
Total Treasury			323,190,641
Outstanding Warrants			(21,690,074)
Cash Deposits – Outside Accounts			<u>67,802</u>
Total Cash and Investments			<u>\$ 301,568,369</u>

The following are condensed statements of net assets and changes in net assets, for the County's investment pool as of and for the year ended June 30, 2003:

Statement of Net Assets

Net assets held for pool participants	\$ <u>301,568,369</u>
Equity of internal pool participants	\$ 107,595,074
Equity of external pool participants	<u>193,973,295</u>
Total Equity	<u>\$ 301,568,369</u>

Statement of Changes in Net Assets

Net assets at July 1, 2002	\$ 301,162,700
Net Change in investment by pool participants	<u>405,669</u>
Net Assets at June 30, 2003	<u>\$ 301,568,369</u>

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

3. Interfund Transactions

Interfund Receivables/Payables

The composition of interfund balances as of June 30, 2003 are as follows:

Balances due to/from other funds:

Receivable Fund	Payable Fund	Amount
General	Welfare	\$ 1,117,629
	Road	4,295
	Other Governmental	98,368
	Transit	839
	Landfill	4,989
	Internal Service	82,364
	Trust and Agency	885,808
		2,194,292
Welfare	General	122,698
	Other Governmental	93,925
	Internal Service	20,059
	Trust and Agency	13,750
		250,432
Road	General	40,966
	Other Governmental	7,821
	Internal Service	1,869
	Landfill	13,092
	Trust and Agency	67,556
		131,304
Other Governmental	General	2,489,667
	Other Governmental	478
	Internal Service	101,906
	Trust and Agency	202,192
		2,794,243
Transit	General	2,245
	Internal Service	29
	Transit	54,319
	Trust and Agency	5,200
		61,793

COUNTY OF BUTTE, CALIFORNIA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

Receivable Fund	Payable Fund	Amount
Landfill	General Internal Service Trust and Agency	\$ 1,453 112 <u>136,737</u> <u>138,302</u>
Internal Service	General Welfare Road Other Governmental Landfill Internal Service Trust and Agency	288,094 66,736 25,274 115,003 596 15,928 <u>52,168</u> <u>563,799</u>
Trust and Agency	General Road Other Governmental Internal Service Trust and Agency	4,502 118 13 4,375 <u>1,831,254</u> <u>1,840,262</u>
	Total	\$ <u>7,974,427</u>

Transfers to/from other funds:

Transfer From	Transfer To	Amount
General Fund	Other Governmental	\$ 5,159,810
Other Governmental	General Fund	819,863
General Fund	Welfare Fund	59,649
Internal Service Fund	Other Governmental	270,080
Other Governmental	Other Governmental	<u>319,568</u>
	Total	\$ <u>6,628,970</u>

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

4. Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows:

	<u>Balance</u> <u>July 1, 2002</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers &</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2003</u>
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 1,215,258	\$ 508,221		\$ (43,500)	\$ 1,679,979
Construction in progress	<u>8,432,895</u>	<u>4,874,366</u>		<u>(748,031)</u>	<u>12,559,230</u>
Total capital assets, not being depreciated	<u>9,648,153</u>	<u>5,382,587</u>		<u>(791,531)</u>	<u>14,239,209</u>
Capital assets, being depreciated:					
Infrastructure	577,125,069	4,361,592	\$ (4,081,079)		577,405,582
Structures and improvements	44,547,169	23		302,432	44,849,624
Equipment	<u>32,444,366</u>	<u>3,927,761</u>	<u>(2,460,653)</u>	<u>513,615</u>	<u>34,425,088</u>
Total capital assets, being depreciated	<u>654,116,604</u>	<u>8,289,376</u>	<u>(6,541,732)</u>	<u>816,047</u>	<u>656,680,294</u>
Less accumulated depreciation for:					
Infrastructure	(260,855,301)	(19,327,500)	4,081,079		(276,101,722)
Structures and improvements	(12,132,410)	(864,916)			(12,997,326)
Equipment	<u>(22,287,143)</u>	<u>(2,973,170)</u>	<u>1,974,609</u>	<u>49,017</u>	<u>(23,236,688)</u>
Total accumulated depreciation	<u>(295,274,854)</u>	<u>(23,165,586)</u>	<u>6,055,680</u>	<u>49,017</u>	<u>(312,335,736)</u>
Total capital assets, being depreciated, net	<u>358,841,750</u>	<u>(14,876,210)</u>	<u>(486,044)</u>	<u>865,064</u>	<u>344,344,558</u>
Government activities capital assets, net	<u>\$ 368,489,903</u>	<u>\$ (9,493,623)</u>	<u>\$ (486,044)</u>	<u>\$ 73,533</u>	<u>\$ 358,583,767</u>
Business-Type Activities					
Capital assets, not being depreciated:					
Land	\$ 488,133				\$ 488,133
Construction in progress		<u>\$ 632,412</u>			<u>632,412</u>
Total capital assets, not being depreciated	<u>488,133</u>	<u>632,412</u>			<u>1,120,545</u>
Capital assets, being depreciated:					
Structures and improvements	796,286	138,173	\$ (28,004)		906,455
Equipment	<u>3,869,153</u>	<u>2,636,592</u>	<u>(6,005)</u>		<u>6,499,740</u>
Total capital assets, being depreciated	<u>4,665,439</u>	<u>2,774,765</u>	<u>(34,009)</u>		<u>7,406,195</u>
Less accumulated depreciation for:					
Structures and improvements	(279,488)	(79,583)			(359,071)
Equipment	<u>(1,158,269)</u>	<u>(357,061)</u>			<u>(1,515,330)</u>
Total accumulated depreciation	<u>(1,437,757)</u>	<u>(436,644)</u>			<u>(1,874,401)</u>
Total capital assets, being depreciated, net	<u>3,227,682</u>	<u>2,338,121</u>	<u>(34,009)</u>		<u>5,531,794</u>
Business-Type activities capital assets, net	<u>\$ 3,715,815</u>	<u>\$ 2,970,533</u>	<u>\$ (34,009)</u>		<u>\$ 6,652,339</u>

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

Depreciation expense was changed to functions as follows:

Governmental Activities:	
General government	\$ 336,830
Public protection	2,232,773
Public ways	19,654,343
Health and sanitation	286,840
Public assistance	441,354
Education	105,455
Recreation	<u>107,991</u>
Total	<u>\$ 23,165,586</u>
Business-Type Activities:	
Transit	\$ 333,319
Sanitation	<u>103,325</u>
Total	<u>\$ 436,644</u>

5. Long-Term Debt

A. Summary of Long-Term Debt

The following is a summary of changes in long-term debt:

	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003	Amounts Due Within One Year
Governmental Activities:					
Capital lease obligation	\$ 2,998,067	\$ 74,886	\$ 707,158	\$ 2,365,795	\$ 1,346,916
Bonds payable	1,109,309		57,689	1,051,620	67,942
Compensated absences	8,823,608	791,416		9,615,024	1,248,806
Certificates of participation	<u>4,440,000</u>	<u>5,150,000</u>	<u>245,000</u>	<u>9,345,000</u>	<u>4,195,000</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 17,370,984</u>	<u>\$ 6,016,302</u>	<u>\$ 1,009,847</u>	<u>\$ 22,377,439</u>	<u>\$ 6,858,664</u>
Business-Type Activities:					
Compensated absences	\$ 15,902	\$ 9,025		\$ 24,927	
Capital Lease Obligation		<u>2,526,539</u>	<u>\$ 268,461</u>	<u>2,258,078</u>	<u>\$ 536,922</u>
Total Business-Type Activities Long-Term Liabilities	<u>\$ 15,902</u>	<u>\$ 2,535,564</u>	<u>\$ 268,461</u>	<u>\$ 2,283,005</u>	<u>\$ 536,922</u>

COUNTY OF BUTTE, CALIFORNIA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2003**

B. Capital Lease Obligations

The County leases equipment under capital leases. The following is a summary, by year, of future minimum lease payments, together with the present value of the minimum lease payments, as of June 30, 2003:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2004	\$ 1,507,458	\$ 536,922
2005	384,371	536,922
2006	374,951	536,922
2007	363,094	536,922
2008	<u>268,461</u>	<u>268,461</u>
Total minimum lease payments	2,629,874	2,416,149
Less: Amount representing interest	<u>(264,079)</u>	<u>(158,071)</u>
Present value of minimum lease payments	<u>\$ 2,365,795</u>	<u>\$ 2,258,078</u>

The following is a schedule of net remaining property leased under capital leases at June 30, 2003:

	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>
Governmental Activities:		
Energy Management Facility	\$ 2,555,775	\$ 306,693
Vehicles	132,450	25,923
5 Hi-Tech Fire Engines	1,418,499	217,474
Business-Type Activities:		
Caterpillar Equipment	2,526,539	55,744

C. Bonds Payable

At June 30, 2003, bonds outstanding consist of the following Butte County Service Area No. 26 bonds:

1974 Sewer Bonds	\$ 365,000
1975 Sewer Bonds, Series A	430,000
1975 Sewer Bonds, Series B	210,000
1975 Sewer Bonds, Series C	<u>46,620</u>
Total	<u>\$ 1,051,620</u>

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

The bonds bear interest at the rate of five percent per annum which is payable semi-annually. Principal payments are due January 1 of each year through 2015. The debt service requirements over the next five years and thereafter, are as follows.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 67,942	\$ 50,885	\$ 118,827
2005	73,089	46,444	119,533
2006	73,244	43,701	116,945
2007	73,406	40,035	113,441
2008	83,576	36,110	119,686
2009-2013	465,749	158,715	624,464
2014-2015	<u>214,614</u>	<u>10,860</u>	<u>225,474</u>
	<u>\$ 1,051,620</u>	<u>\$ 386,750</u>	<u>\$ 1,438,370</u>

D. Compensated Absences

Upon termination, an employee may be compensated for sick leave amounts accrued over 240 hours at half the normal pay rate not to exceed \$3,000. Upon retirement, County employees have a one time option of cashing out their accrued sick leave or electing post retirement health insurance benefits up to age 65. If an employee has 10 years of cumulative service, the County will pay health insurance benefits for 12 months plus 1 month for every 8 hours in excess of 240 hours accrued sick leave (employee coverage only). Vacation is accrued at varying rates depending on an employee's years of services. Upon termination, an employee is paid at 100% of the amount accrued. Compensated absences for vacation are paid out at the employee's current rate of pay. Administrative leave is accrued by employees exempt from paid overtime and may be accrued up to a maximum of 352 hours.

E. Certificates of Participation

The County issued 1993 Certificates of Participation totaling \$5,515,000 for the construction of a new justice facility project. Interest rates range from 3.8% to 5.5% and the certificates fully mature in 2014. Interest payments began in July 1995, payments of principal and interest began in July 1996 and are funded by penalty assessments on court fines, parking fines and assessments. Shortfalls in assessment and fine revenues are funded by the other General Fund revenues. The balance of the 1993 Certificates of Participation were paid off in July of 2003.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

On June 30, 2003, the County issued \$5,150,000 in Certificates of Participation (COP's) with interest rates ranging from of 2.0% to 3.4% to advance refund \$4,195,000 of outstanding 1993 COP's and \$1,026,882 of outstanding lease obligations for fire trucks with interest rates ranging from 3.8% to 5.5%. The net proceeds of \$5,091,245 (after payment of \$166,950 in underwriting fees, insurance, and other issuance costs) plus an additional \$883,208 of 1993 COP's reserve fund monies were used to purchase U.S. government securities. The 1993 COP's were pre-called and proceeds were provided for all future debt service payments on the 1993 COP's and fire trucks. Payoff of the 1993 COP's and fire trucks occurred on July 1, 2003. As a result, the 1993 COP's are considered to be defeased but the liability for those bonds will be removed from the general long-term debt account group in the following year.

The County's advance refunded the 1993 Certificate of Participation to reduce its total debt service payments over the next 12 years by almost \$94,448 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$335,626.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 4,195,000	\$ 64,115	\$ 4,259,115
2005	610,000	121,423	731,423
2006	620,000	109,122	729,122
2007	630,000	96,623	726,623
2008	640,000	83,922	723,922
2009-2013	1,835,000	269,357	2,104,357
2014-2015	815,000	27,565	842,565
	<u>\$ 9,345,000</u>	<u>\$ 772,127</u>	<u>\$10,117,127</u>

6. Landfill Closure and Post-closure Costs

State and federal laws and regulations require the County to place a final cover on its Neal Road landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$5,145,157 reported as landfill closure and post-closure care liability at June 30, 2003, represents the cumulative amount reported to date based on the use of 29.57 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and postclosure care of \$12,295,603 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2003. The County expects to close the landfill in the year 2018. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

The County is required by state and federal laws and regulations to make annual contributions to a separate fund to finance closure and postclosure care. The County is in compliance with these requirements, and at June 30, 2003, investments of \$5,616,885 are held for these purposes. The County expects the future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from future tax revenue.

Annually, the Landfill adjusts the estimated closure and postclosure costs due to changes in inflation and capacity. At June 30, 2003, total estimated costs for closure and postclosure increased from \$17,211,434 at June 30, 2002 to \$17,400,760 and the remaining capacity of the landfill increased from 26.33 percent to 29.57 percent at June 30, 2002 and 2003, respectively. These changes resulted in a reduction to the landfill closure and postclosure care liability of \$2,954,460 at June 30, 2003.

7. Net Assets/Fund Balances

Net Assets

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

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the net asset balance.
- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of the County, not restricted for any project or other purpose.

Fund Balances

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

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

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

The County has “reserved” fund balances as follows:

- *Reserve for Encumbrances* reflects the outstanding contractual obligations based on purchase order and contracts signed by the County but not yet completed as of the close of the fiscal year.
- *Reserve for Imprest Cash* represents the portion of the fund balance that is not available for expenditure because the County maintains various levels of revolving funds for daily operations.
- *Reserve for Deposits with Others* reflects the portion of the fund balance that is not available for expenditure because of the restrictions placed on the fund in order to obtain certain guarantees.
- *Reserve for Loans Receivable* reflects a segregation of a portion of fund balance to indicate that assets equal to the long-term Housing and Community Development loans are not available for appropriation.
- *Reserve for Legal Restrictions* represents the portion of fund balance legally restricted to a narrower use than the fund itself.
- *Reserve for Debt Service* represents cash and investments held by a fiscal agent for the repayment of long-term capital lease obligations.
- *Reserve for Inventories* reflects balances of inventory account which reflect resources already expended, but not consumed.

8. County Employees Retirement Plan (Defined Benefit Pension Plan)

Plan Description

The County contributes to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. CalPERS provides retirement and disability benefits, and death benefits to plan members and beneficiaries. Benefit provisions and all other requirements are established by state statute and County ordinance. Copies of CalPERS’ annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy

Employees under the Miscellaneous Plan are required to contribute 7% and employees under the Safety Plan are required to contribute 9% of their annual covered salary. The County is required to contribute at an actuarially determined rate; the current rate is .878% for non-safety employees and 16.629% for safety employees, of annual covered payroll. The contribution requirements of plan members and the County are established and may be amended by CalPERS.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

Annual Pension Cost

For the year ended June 30, 2003, the County's annual pension cost of \$7,557,216 for CalPERS was equal to the County's required and actual contributions. The required contributions was determined as part of the June 30, 2002 actuarial valuation using the entry age actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual merit or seniority salary increases that vary by length of service, and (c) no post retirement benefit increases. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of the County's CalPERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three year period (smoothed market value). The County's CalPERS unfunded actuarial accrued liability is being amortized as a level of percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2002 was thirty-two years for the Miscellaneous Plan and fourteen years for the Safety Plan.

Three-Year Trend Information for PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC (APC)</u>	<u>Net Pension Contributed</u>	<u>Obligation</u>
6/30/01	\$ 4,973,762	100%	\$ --	\$ --
6/30/02	5,937,479	100%	--	--
6/30/03	7,557,216	100%	--	--

9. Post-Retirement Health Benefits

In addition to the pension benefits described in Note 8, the County provides post-retirement health insurance benefits, in accordance with County ordinance, to employees who retire from the County before attaining age 65 with at least 10 years of continuous service who have accrued sick leave in excess of 240 hours and elect the post-retirement insurance benefits rather than the sick leave payout option. Refer to Note 5, compensated absences, for specific details. The County pays the full premium for health and dental coverage incurred by retirees under 65 years of age or not covered by another governmental or employer-paid health plan. Expenditures for post-retirement health care benefits are recognized as retirees report premiums paid for reimbursement. During the fiscal year, expenditures of \$596,299 were recognized for post-retirement health care covering 102 retirees.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

10. Risk Management

The County is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The County has two risk management funds (Internal Service Funds) to consolidate the County's insurance programs that are partially self-insured. Fund revenues are primarily premium charges to other funds and are planned to equal estimated expenses resulting from self-insurance programs, liability insurance coverage in excess of the self-insured amount, and operating expenses. The primary activities of the funds consist of risk management programs related to the following:

General Liability Insurance
Unemployment Insurance

The County maintains a self-insured retention (SIR) of \$100,000 per occurrence for its general liability program. For general liability claims, the County is a participant in the California State Association of Counties – Excess Insurance Authority (CSAC) excess liability insurance program. The County covers the first \$100,000 of claims. The purpose of the pool is to spread the adverse effects of losses among the member agencies. The County pays an annual basic premium for excess coverage and is assessed an annual risk premium based on an actuarial review that estimates each of the program's participant's ultimate liabilities. Should actual losses among participants be greater than anticipated, the County will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, the County will be refunded its pro rata share of the excess. Commercial insurance covers claims between \$100,000 and \$20,000,000. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The County is fully self-insured for its unemployment insurance program. Quarterly billings from the State Employment Development Department are sent to the County's claims reviewers, R.E. Harrington, Inc. After the claims are reviewed by R.E. Harrington, Inc., they are turned over to the County for payment.

It is the County's policy to charge to expense of the Internal Service Fund the estimated liability, as determined with the assistance of independent actuaries, for claims in cases where such amounts are reasonably determinable and where the likelihood of liability exists.

There were no settled claims that have exceeded insurance coverages during the past three fiscal years.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2003

All operating funds participate in the program and make payments to the insurance funds based on actuarial estimates of the amounts needed to pay prior and current year claims, and to allow accrual of estimated incurred but not reported claims. These claims liability estimates are based on the requirements of GASB Statements No. 10 and 30 and include estimate claims incurred but not yet reported as of June 30, 2003. The claims liability includes all allocated loss adjustment expenses. Changes in the insurance funds' claims liability amount during the fiscal years ended June 30, 2002 and 2003 were as follows:

	<u>Claims Liability July 1</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Current Year Claim</u>	<u>Claims Liability June 30</u>
2002-2003	\$ <u>1,304,000</u>	\$ <u>150,787</u>	\$ <u>130,787</u>	\$ <u>1,324,000</u>
2001-2002	\$ <u>1,341,000</u>	\$ <u>58,486</u>	\$ <u>95,486</u>	\$ <u>1,304,000</u>

11. Contingencies

Grants

The County participates in a number of grant programs funded, in whole or part, by federal, state and other sources. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including the year ended June 30, 2003, have not yet been conducted. Additionally, certain audits related to prior years have not been finalized. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although, the County expects such amounts, if any, to be immaterial.

Litigation

The County is a defendant in various matters of litigation. Of these matters, management and County's legal counsel do not anticipate any material effect on the June 30, 2003 financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF BUTTE, CALIFORNIA

County Employee's Retirement Plan (Defined Benefit Pension Plan) Schedule of Funding Progress For the Year Ended June 30, 2003

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

Actuarial Valuation Date	Actuarial Value of Assets (A)	Entry Age Actuarial Accrued Liability (B)	Unfunded Actuarial Accrued Liability (B-A)	Funded (UAAL) Ratio (A/B)	Covered Payroll (C)	UAAL as Percentage of Covered Payroll ((B-A)/C)
6/30/2000:						
Misc.	\$222,583,222	\$182,273,560	\$(40,309,662)	122.1%	\$ 57,417,265	(70.2%)
Safety	43,402,691	39,849,803	(3,552,888)	108.9%	7,838,492	(45.3%)
Total	<u>\$265,985,913</u>	<u>\$222,123,363</u>	<u>\$(43,862,550)</u>	<u>119.7%</u>	<u>\$ 65,255,757</u>	<u>(67.2%)</u>
6/30/2001:						
Misc.	\$229,061,614	\$203,886,229	\$(25,175,385)	112.3%	\$ 65,723,946	(38.3%)
Safety	45,429,013	44,899,983	(529,030)	101.2%	8,381,951	(6.3%)
Total	<u>\$274,490,627</u>	<u>\$248,786,212</u>	<u>\$(25,704,415)</u>	<u>110.3%</u>	<u>\$ 74,105,897</u>	<u>(34.7%)</u>
6/30/2002:						
Misc.	\$216,691,430	\$228,722,348	\$ 12,030,918	94.7%	\$ 74,219,905	16.2%
Safety	43,919,098	51,872,187	7,953,089	84.7%	8,556,653	92.9%
Total	<u>\$260,610,528</u>	<u>\$280,594,535</u>	<u>\$ 19,984,007</u>	<u>92.9%</u>	<u>\$ 82,776,558</u>	<u>24.1%</u>

COUNTY OF BUTTE, CALIFORNIA

BUDGET COMPARISON SCHEDULE-GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 13,870,570	\$ 13,870,570	\$ 15,318,304	\$ 1,447,734
Licenses and permits	1,747,987	2,896,648	3,478,678	582,030
Fines, forfeits and penalties	1,982,398	2,082,398	2,094,173	11,775
Revenues from uses of money and property	1,783,050	1,865,824	1,675,543	(190,281)
Aid from other governments	83,952,890	87,218,614	82,198,075	(5,020,539)
Charges for services	17,192,546	18,221,217	18,599,335	378,118
Other	3,125,492	3,187,070	3,303,286	116,216
Total revenues	123,654,933	129,342,341	126,667,394	(2,674,947)
EXPENDITURES:				
General government	20,395,399	17,662,297	12,030,003	5,632,294
Public protection	54,841,873	59,791,063	54,239,020	5,552,043
Health and sanitation	61,739,758	63,671,196	52,713,286	10,957,910
Public assistance	671,430	680,410	552,312	128,098
Education	235,323	243,105	198,345	44,760
Recreation and cultural services	385,140	385,140	259,593	125,547
Total expenditures	138,268,923	142,433,211	119,992,559	22,440,652
Excess (deficiency) of revenues over expenditures	(14,613,990)	(13,090,870)	6,674,835	19,765,705
OTHER FINANCING SOURCES (USES):				
Sales of fixed assets			20,528	20,528
Operating transfers in	736,888	736,888	819,863	82,975
Operating transfers out	(10,412,498)	(8,083,120)	(5,219,459)	2,863,661
COPS bond proceeds			3,888,658	3,888,658
Total other financing sources (uses)	(9,675,610)	(7,346,232)	(490,410)	6,855,822
Net change in fund balances	(24,289,600)	(20,437,102)	6,184,425	26,621,527
Fund balances, beginning of year	24,289,600	24,289,600	42,489,825	18,200,225
Equity transfers			75	75
Fund balances, ending of year	\$ -	\$ 3,852,498	\$ 48,674,325	\$ 44,821,827

COUNTY OF BUTTE, CALIFORNIA

**BUDGET COMPARISON SCHEDULE-WELFARE FUND
FOR THE YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Revenues from uses of money and property			\$ 38,296	\$ 38,296
Aid from other governments	\$ 111,223,244	\$ 116,398,641	115,029,592	(1,369,049)
Charges for services	813,740	913,740	691,233	(222,507)
Other	43,052	58,608	76,498	17,890
Total revenues	<u>112,080,036</u>	<u>117,370,989</u>	<u>115,835,619</u>	<u>(1,535,370)</u>
EXPENDITURES:				
Public protection	264,505	331,504	285,069	46,435
Public assistance	<u>119,080,122</u>	<u>122,172,988</u>	<u>117,258,407</u>	<u>4,914,581</u>
Total expenditures	<u>119,344,627</u>	<u>122,504,492</u>	<u>117,543,476</u>	<u>4,961,016</u>
Excess (deficiency) of revenues over expenditures	<u>(7,264,591)</u>	<u>(5,133,503)</u>	<u>(1,707,857)</u>	<u>3,425,646</u>
OTHER FINANCING SOURCES (USES):				
Sales of fixed assets			5,858	5,858
Operating transfers in	<u>4,587,217</u>	<u>2,867,773</u>	<u>59,649</u>	<u>(2,808,124)</u>
Total other financing sources (uses)	<u>4,587,217</u>	<u>2,867,773</u>	<u>65,507</u>	<u>(2,802,266)</u>
Net change in fund balances	(2,677,374)	(2,265,730)	(1,642,350)	623,380
Fund balances, beginning of year	<u>2,677,374</u>	<u>2,677,374</u>	<u>2,815,775</u>	<u>138,401</u>
Fund balances, ending of year	<u>\$ -</u>	<u>\$ 411,644</u>	<u>\$ 1,173,425</u>	<u>\$ 761,781</u>

COUNTY OF BUTTE

BUDGET COMPARISON SCHEDULE-ROAD FUND FOR THE YEAR ENDED JUNE 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Licenses and permits	\$ 20,000	\$ 20,000	\$ 242,289	\$ 222,289
Revenues from uses of money and property	50,000	50,000	252,513	202,513
Aid from other governments	11,845,984	12,310,775	12,148,388	(162,387)
Charges for services	1,933,318	2,121,488	1,561,261	(560,227)
Other	20,000	38,485	134,275	95,790
Total revenues	<u>13,869,302</u>	<u>14,540,748</u>	<u>14,338,726</u>	<u>(202,022)</u>
EXPENDITURES:				
Public ways and facilities	<u>18,510,602</u>	<u>19,182,048</u>	<u>13,644,213</u>	<u>5,537,835</u>
Total expenditures	<u>18,510,602</u>	<u>19,182,048</u>	<u>13,644,213</u>	<u>5,537,835</u>
Excess (deficiency) of revenues over expenditures	<u>(4,641,300)</u>	<u>(4,641,300)</u>	<u>694,513</u>	<u>5,335,813</u>
OTHER FINANCING SOURCES (USES):				
Sales of fixed assets	<u> </u>	<u> </u>	<u>14,339</u>	<u>14,339</u>
Total other financing sources (uses)	<u> </u>	<u> </u>	<u>14,339</u>	<u>14,339</u>
Net change in fund balances	(4,641,300)	(4,641,300)	708,852	5,350,152
Fund balances, beginning of year	<u>4,641,300</u>	<u>4,641,300</u>	<u>7,550,071</u>	<u>2,908,771</u>
Fund balances, ending of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,258,923</u>	<u>\$ 8,258,923</u>

COUNTY OF BUTTE, CALIFORNIA

Note to Required Supplementary Information For the Year Ended June 30, 2003

BUDGETARY BASIS OF ACCOUNTING

In accordance with the provisions of Sections 29000 and 29143, inclusive, of the California Government Code and other statutory provisions, commonly known as the County Budget Act, the County prepares a budget for each fiscal year on or before August 30. Budgeted expenditures are enacted into law through the passage of an Appropriation Ordinance. This ordinance mandates the maximum authorized expenditures for the fiscal year and cannot be exceeded except by subsequent amendments to the budget by the County's Board of Supervisors.

An operating budget is adopted each fiscal year for all Governmental Funds except for the JPFA. Expenditures are controlled at the object level within budget units for the County. The object level within a budget unit is the level at which expenditures may not legally exceed appropriations. Any amendments or transfers of appropriations between object levels within the same budget unit or between departments or funds are authorized by the County Manager's office and must be approved by the Board of Supervisors. Supplementary appropriations normally financed by unanticipated revenues during the year must be approved by the Board of Supervisors. Pursuant to Board Resolution, the County Manager is authorized to approve transfers and revision of appropriations under \$50,000 within a single budget unit as deemed necessary and appropriate. Budgeted amounts in the budgetary financial schedules are reported as originally adopted and is amended during the fiscal year by resolutions approved by the Board of Supervisors.

The County uses an encumbrances system as an extension of normal budgetary accounting for the general, special revenue, and other debt service funds and to assist in controlling expenditures of the capital projects funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as reservations of fund balance since they do not constitute expenditures or liabilities. Encumbrances are combined with expenditures for budgetary comparison purposes. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward in the ensuing year's budget.

The budget approved by the Board of Supervisors for the general fund includes budgeted expenditures and reimbursements for amounts disbursed on behalf of other Governmental Funds. Actual reimbursements for these items have been eliminated in the accompanying budgetary financial schedules. Accordingly, the related budgets for these items have also been eliminated in order to provide a meaningful comparison of actual and budgeted results of operations.

The budgets for the governmental funds may include an object level known as "intrafund transfers" in the charges for appropriations. This object level is an accounting mechanism used by the County to show reimbursements between operations within the same fund (an example would be the General Fund).