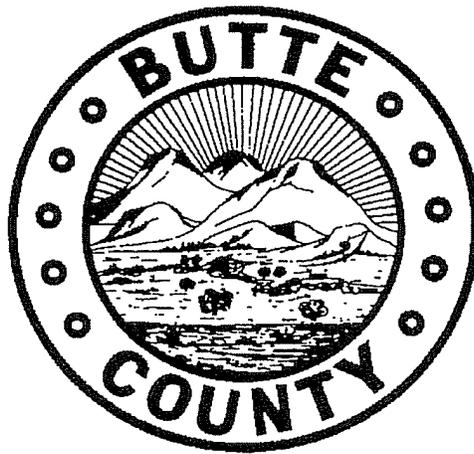


COUNTY OF BUTTE
STATE OF CALIFORNIA

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

FOR THE FISCAL YEAR ENDED
JUNE 30, 2005



Prepared by the Office of:

David A. Houser
County Auditor-Controller

COUNTY OF BUTTE, CALIFORNIA

AUDIT REPORT

For the Fiscal Year Ended June 30, 2005

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COUNTY OF BUTTE, CALIFORNIA

AUDIT REPORT

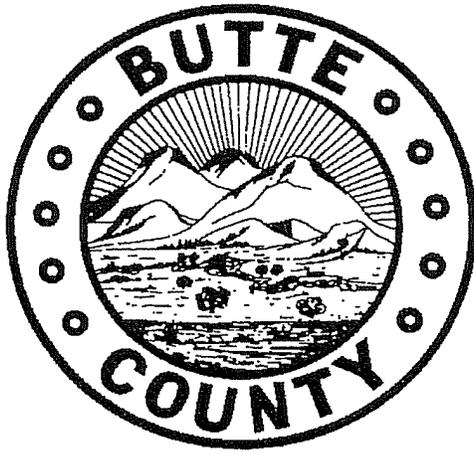
For the Fiscal Year Ended June 30, 2005

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Financial Section



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, 2005, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

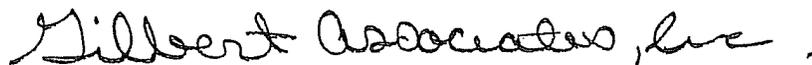
In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2006, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

2880 Gateway Oaks Dr. • Suite 100 • Sacramento, CA 95833
101 Parkshore Dr. • Suite 100 • Folsom, CA 95630

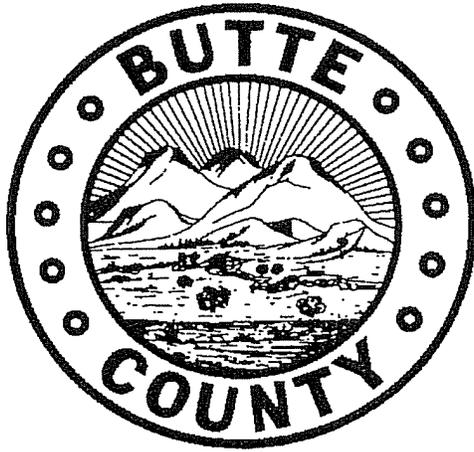
Phone 916.646.6464 • Fax 916.641.2727
<http://www.gilbertcpa.com>

**To the Board of Supervisors and Grand Jury
County of Butte
Page 2**

The Management's Discussion and Analysis and schedules of funding progress and budgetary comparison information on pages 3 through 12 and 63 through 67, respectively, are not a required part of the basic 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.
January 10, 2006**



Management's Discussion and Analysis

The information in this section is not covered by the Independent Auditor's Report. It is presented as required supplementary information for the benefit of the readers of the Financial Report.

In this section of the County of Butte's (County) Annual Financial Report, the County's management discusses financial results for the fiscal year ended June 30, 2005. 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 \$397,616 (net assets). Of this amount, \$39,234 (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 \$9,092 during the fiscal year.
- As of June 30, 2005, the County's governmental funds reported combined ending fund balances of \$76,917, a net increase of \$10,909 in comparison with the prior year. This net increase represents a decrease of \$16,165 in reserved fund balances, an increase of \$22,233 in designated fund balances, and an increase of \$4,841 in unreserved, undesignated 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 \$10,777 or 8.0% of total general fund expenditures.
- The County's total long-term obligations as of June 30, 2005 increased by \$11,085 over the prior period. The key factor in the increase was the issuance of \$5,735 in Worker's Compensation bonds to fund the County's worker's compensation self-insurance liability and \$7,865 in Pension Obligation Bonds to fund the County's unfunded liability.

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's 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; and 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 145 individual governmental funds. On the financial statements for governmental funds information is presented separately for two major funds: the General Fund and the Welfare 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 Basic Financial Statements provide additional information that is essential to a full understanding of the financial information provided in the government-wide and fund financial statements.

D. Required Supplementary Information

In addition to the basic financial statements, this report presents Required Supplementary Information. The required supplementary information is presented concerning the County's progress in funding its obligation to provide pension benefits to its employees and the County General fund budgetary comparison schedule and the major special revenue funds.

III. FINANCIAL ANALYSIS COUNTY-WIDE

Table 1 – Net Assets (in thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	2004	2005	2004	2005	2004	2005	Dollar Change	Percent Change
Current and other assets	\$ 82,491	\$ 163,793	\$ 14,130	\$ 10,401	\$ 96,621	\$ 174,194	\$ 77,573	80.3 %
Capital assets	394,669	338,130	8,579	9,691	403,248	347,821	(55,427)	(13.7)%
Total assets	477,160	501,923	22,709	20,092	499,869	522,015	22,146	4.4 %
Current and other liabilities	12,705	38,107	1,552	3,504	14,257	41,611	27,354	191.9 %
Long-term liabilities	71,263	80,724	7,641	2,065	78,904	82,789	3,885	4.9 %
Total liabilities	83,968	118,831	9,193	5,569	93,161	124,400	31,239	33.5 %
Net assets:								
Invested in capital assets, net of related debt	287,229	328,573	6,799	8,403	294,028	336,976	42,948	14.6 %
Restricted net assets	29,107	14,972	6,196	6,434	35,303	21,406	(13,897)	(39.4)%
Unrestricted net assets	76,856	39,547	521	(314)	77,377	39,233	(38,144)	(49.3)%
Total net assets	\$ 393,192	\$ 383,092	\$ 13,516	\$ 14,523	\$ 406,708	\$ 397,615	\$ (9,093)	(2.2)%

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 11% 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.

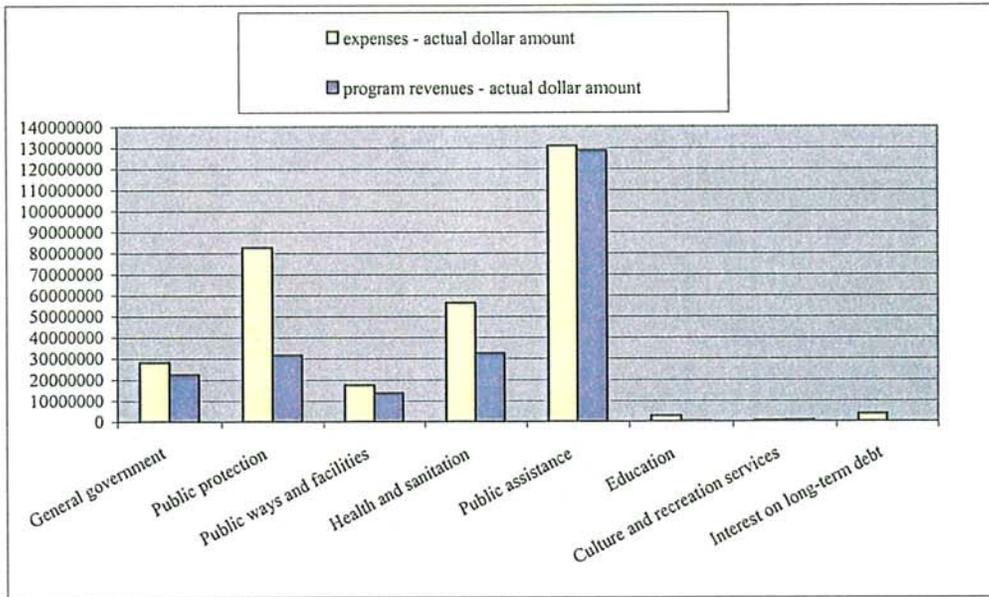
Table 2 – The Change in Net Assets (in thousands)

	Governmental Activities		Business-type Activities		Total		Total	
	2004	2005	2004	2005	2004	2005	Dollar Change	Percent Change
Revenues:								
Program revenues:								
Charges for services	\$ 23,464	\$ 30,478	\$ 4,573	\$ 6,058	\$ 28,037	\$ 36,536	\$ 8,499	30.3 %
Operating grants and contributions	207,860	184,501	2,104	1,605	209,964	186,106	(23,858)	(11.4)%
Capital grants and contributions	2,720	14,939			2,720	14,939	12,219	449.2 %
General revenues:								
Property taxes	18,770	34,260			18,770	34,260	15,490	82.5 %
Sales taxes	3,847	4,953			3,847	4,953	1,106	28.7 %
Other taxes and related revenues	2,716	1,936			2,716	1,936	(780)	(28.7)%
Unrestricted grants and contributions	12,406	18,527			12,406	18,527	6,121	49.3 %
Unrestricted investment income	1,937	3,291	522	384	2,459	3,675	1,216	49.5 %
Gain/(loss) on sale/disposal of capital assets	(6)	(66)			(6)	(66)	(60)	1,000.0 %
Other revenues	8,326	19,508	(11)	153	8,315	19,661	11,346	136.5 %
Total revenues	282,040	312,327	7,188	8,200	289,228	320,527	31,299	10.8 %
Program expenses:								
General government	19,988	28,108			19,988	28,108	8,120	40.6 %
Public protection	69,137	82,634			69,137	82,634	13,497	19.5 %
Public ways and facilities	28,079	17,521			28,079	17,521	(10,558)	(37.6)%
Health and sanitation	55,943	56,396			55,943	56,396	453	0.8 %
Public assistance	126,531	130,936			126,531	130,936	4,405	3.5 %
Education	2,750	2,723			2,750	2,723	(27)	(1.0)%
Culture and recreation services	394	500			394	500	106	26.9 %
Interest on long-term debt		3,609				3,609	3,609	n/a
Sanitation			5,129	4,665	5,129	4,665	(464)	(9.0)%
Transit			2,244	2,528	2,244	2,528	284	12.7 %
Total expenses	302,822	322,427	7,373	7,193	310,195	329,620	19,425	6.3 %
Net increase (decrease) in net assets	(20,782)	(10,100)	(185)	1,007	(20,967)	(9,093)	11,874	(56.6)%
Net assets, beginning, restated	413,974	393,192	13,701	13,516	427,675	406,708	(20,967)	(4.9)%
Net assets, ending	\$ 393,192	\$ 383,092	\$ 13,516	\$ 14,523	\$ 406,708	\$ 397,615	\$ (9,093)	(2.2)%

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 \$10,100. This decrease is due primarily from current year depreciation expense of the County's infrastructure (roads and bridges) and cost associated with the supplemental retirement benefits.

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, Capital Project, and Debt Service 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.

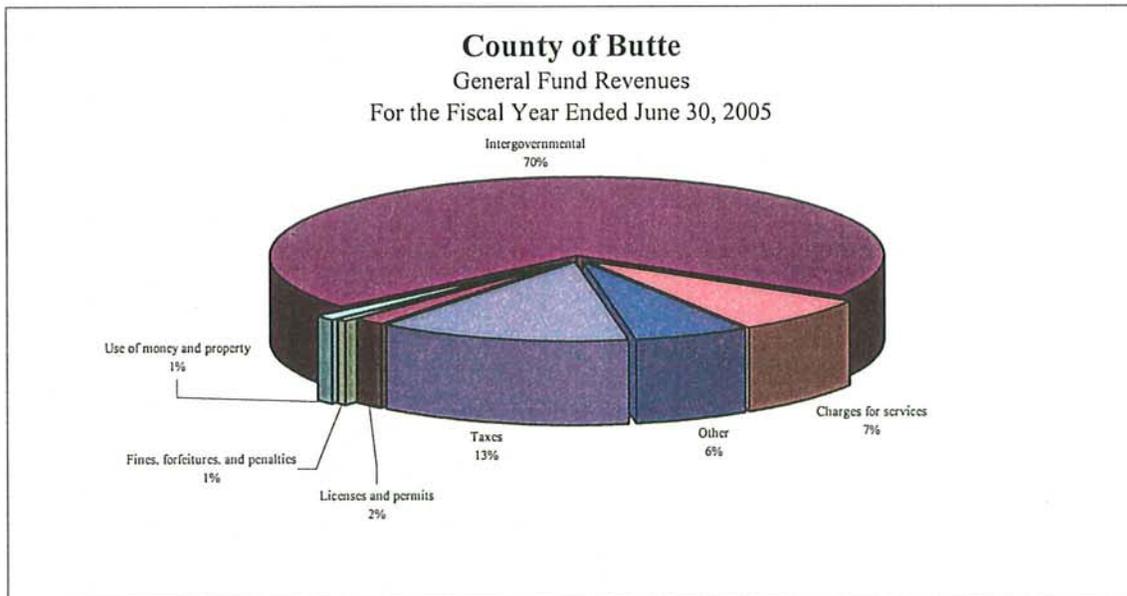
At June 30, 2005, the County's governmental funds reported combined ending fund balances of \$76,917. Approximately 67.7% of this total amount (\$52,104) constitutes unreserved fund balance, which may be used to meet the County's ongoing general obligations to citizens and creditors. The remainder of 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, 2005, unreserved fund balance of the general fund was \$35,144 while total fund balance reached \$44,278. As measures of the general fund's liquidity, it is useful to note that unreserved fund balance represents 26.1% percent of total fund expenditures, while total fund balance represents 32.9% percent of that same amount.

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

Table 3 – Revenues in the Governmental Funds (in thousands)

Revenue Sources	FY 2004		FY 2005		Change	
	Amount	% of total	Amount	% of total	Amount	% of change
Taxes	\$ 23,875	8.4%	\$ 41,846	13.4%	\$ 17,971	75.3%
Licenses and permits	4,361	1.5%	5,143	1.6%	782	17.9%
Fines, forfeitures, and penalties	2,742	1.0%	1,829	0.6%	(913)	(33.3%)
Use of money and property	2,241	0.8%	3,082	1.0%	841	37.5%
Intergovernmental	221,136	77.9%	217,938	69.7%	(3,198)	(1.4%)
Charges for services	22,558	7.9%	23,167	7.4%	609	2.7%
Other	6,852	2.4%	19,506	6.2%	12,654	184.7%
Total	\$ 283,765	100%	\$ 312,511	100%	\$ 28,746	10.1%



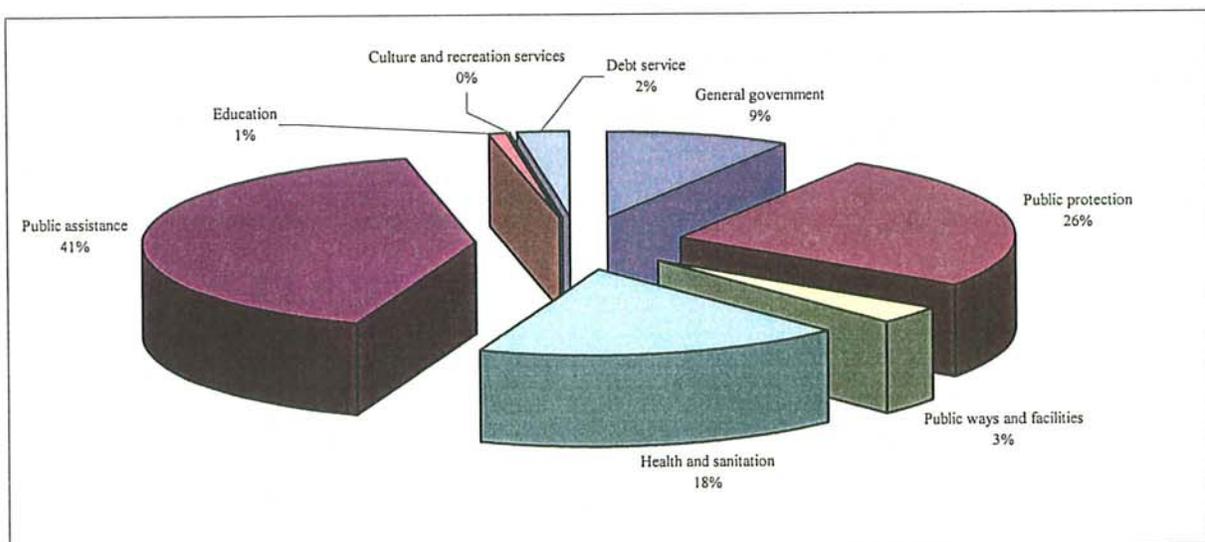
Significant changes for major revenue sources are explained below.

- Taxes – Tax revenues include sales taxes and property taxes. The increase in tax revenues is due 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.
- Fines, forfeitures, and penalties – Decrease in court related fines and forfeitures.
- Use of money and property – Reflects increased market interest rates available.
- Other – Increased revenue under other is primarily due to reimbursements due to the County.

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

Table 4 – Expenditures in the Governmental Funds (in thousands)

Function	FY 2004		FY 2005		Change	
	Amount	% of total	Amount	% of total	Amount	% of change
General government	\$ 23,530	7.9%	\$ 28,042	8.9%	\$ 4,512	19.2%
Public protection	73,267	24.6%	80,975	25.7%	7,708	10.5%
Public ways and facilities	15,811	5.3%	10,944	3.5%	(4,867)	(30.8%)
Health and sanitation	55,626	18.7%	55,684	17.7%	58	0.1%
Public assistance	126,019	42.4%	128,552	40.8%	2,533	2.0%
Education	2,618	0.9%	2,605	0.8%	(13)	(0.5%)
Culture and recreation services	456	0.2%	356	0.1%	(100)	(21.9%)
Debt service		0.0%	7,581	2.4%	7,581	100.0%
Total	\$ 297,327	100%	\$ 314,739	100%	\$ 17,412	5.9%



Significant changes for major functions are explained below.

- General government – The increase in this function is due to payment of unfunded pension obligations.
- Public protection – The increase in this function is due to increase costs in providing fire protection.
- Public ways and facilities – The decrease in this function is due to the County finishing capital projects, which were started in previous fiscal years.
- Culture and recreation – The decrease in this function is due to the significant reduction on funding for book and periodical purchases for libraries.
- Debt service – This is the first year that the County has segregated debt service from other functions.

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 for revenues were \$5,675 of increased appropriations funded primarily by additional grant revenues received from State and Federal programs (\$4,424).

During the fiscal year, actual revenues were less than budgetary estimates by \$240. Actual expenditures and transfers were less than budgetary estimates by \$15,877. The net effect of under-realization of revenues and under-utilization of appropriations resulted in a favorable variance of \$16,117.

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, 2005, amounts to \$347,821 (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 1.8%. The decrease resulted from infrastructure depreciation exceeding infrastructure assets acquired by \$12,212.

Additional information on the County's capital assets can be found in the Notes to the Financial Statements section of this report.

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 its 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 \$7,430 while depreciation was \$19,642. Information on other existing infrastructure assets will be provided in the next three 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.

Table 5 – Capital Assets (Net of Depreciation) (in thousands)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2004	2005	2004	2005	2004	2005
Land	\$ 1,695	\$ 1,548	\$ 488	\$ 488	\$ 2,183	\$ 2,036
Structures & improvements	40,568	39,700	513	432	41,081	40,132
Equipment	9,421	8,917	4,812	4,385	14,233	13,302
Infrastructure	289,279	281,281			289,279	281,281
Construction in progress	4,606	6,684	2,766	4,386	7,372	11,070
Total	\$ 345,569	\$ 338,130	\$ 8,579	\$ 9,691	\$ 354,148	\$ 347,821

B. Long-Term Obligations

At June 30, 2005, the County had total long-term obligations outstanding of \$89,988 consisting of \$4,540 in Certificates of Participation, capital lease obligations of \$1,977, bonds payable of \$61,515 and notes payable of \$4,111. Additional long-term liabilities include compensated leave payable of \$10,345, actuarial claims liability of \$1,238 for the general insurance ISF, landfill closure/post closure care liability of \$1,223, and supplemental retirement benefits payable of \$5,039.

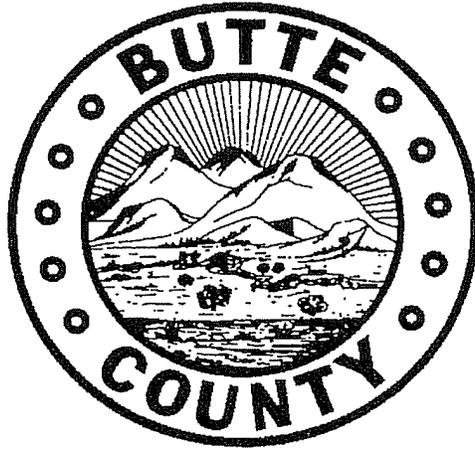
Additional information on the County's long-term liabilities can be found in the Notes to the Financial Statements section of this report.

VII. FISCAL OUTLOOK

The County adopted its fiscal year 2005-2006 Final Budget in the total amount of \$346,347, with a General Fund Contingency Appropriation of \$11,444. While this represents increased financing requirements of \$25,452 from the prior year, the General Fund Contingency Appropriation increased by \$5,828. 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.



**Basic Financial Statement-
Government-wide Financial Statements**

COUNTY OF BUTTE, CALIFORNIA

STATEMENT OF NET ASSETS JUNE 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 73,317,703	\$ 9,982,469	\$ 83,300,172
Cash and investments with fiscal agent	24,715,279		24,715,279
Imprest cash	86,360	1,000	87,360
Accounts receivable	1,258,367	140,405	1,398,772
Due from other governments	9,564,307	205,335	9,769,642
Prepaid items	4,700		4,700
Deposits from others	2,797		2,797
Inventories	526,706		526,706
Internal balances	(71,101)	71,101	
Receivables from external parties	1,535,319		1,535,319
Loans receivable	2,226,168		2,226,168
Net pension asset	49,795,442		49,795,442
Capital assets, net			
Non-depreciable	8,232,351	4,874,080	13,106,431
Depreciable assets, net	329,897,762	4,817,357	334,715,119
Bond issuance cost, net	830,694		830,694
Total assets	501,922,854	20,091,747	522,014,601
LIABILITIES			
Liabilities:			
Accounts payable	4,953,947	1,110,711	6,064,658
Salaries and benefits payable	3,888,313	31,139	3,919,452
Accrued sales tax	1,008	212	1,220
Unredeemed passenger tickets		44,578	44,578
Deferred revenue	3,174,079	315,760	3,489,839
Accrued interest	620,133		620,133
TRANS note payable	18,774,429		18,774,429
Landfill corrective action liability		1,496,477	1,496,477
Long term liabilities:			
Due within one year	6,694,428	504,931	7,199,359
Due in more than one year	80,724,244	2,064,640	82,788,884
Total liabilities	118,830,581	5,568,448	124,399,029
NET ASSETS			
Invested in capital assets, net of related debt	328,573,058	8,402,774	336,975,832
Restricted	14,971,692	6,434,145	21,405,837
Unrestricted	39,547,523	(313,620)	39,233,903
Total net assets	\$ 383,092,273	\$ 14,523,299	\$ 397,615,572

COUNTY OF BUTTE, CALIFORNIA

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
Primary government:			
Governmental activities:			
General government	\$ 28,108,571	\$ 16,760,879	\$ 1,481,494
Public protection	82,634,178	6,461,794	25,152,733
Public ways and facilities	17,520,672	2,680,446	182,551
Health and sanitation	56,395,525	4,109,596	28,366,282
Public assistance	130,935,568	393,023	128,263,959
Education	2,723,315	72,532	370,513
Culture and recreation services	499,967		683,593
Interest on long-term debt	3,608,601		
Total governmental activities	<u>322,426,397</u>	<u>30,478,270</u>	<u>184,501,125</u>
Business-type activities:			
Sanitation	4,664,895	5,579,396	
Transit	2,528,381	478,840	1,605,044
Total business-type activities	<u>7,193,276</u>	<u>6,058,236</u>	<u>1,605,044</u>
Total Butte County	<u>\$ 329,619,673</u>	<u>\$ 36,536,506</u>	<u>\$ 186,106,169</u>

General revenues:

Taxes:

 Property taxes

 Sales taxes

 Other taxes and related revenues

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Loss on disposal of capital assets

Miscellaneous

 Total general revenues

Change in net assets

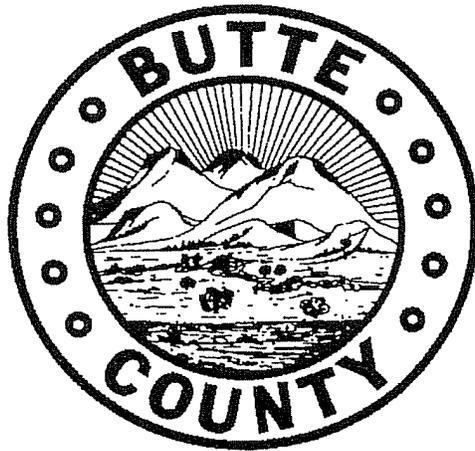
Net assets, beginning

Prior year adjustments

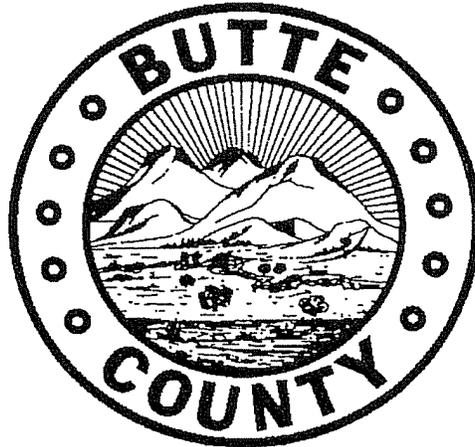
Net assets, beginning, restated

Net assets, ending

Program Revenues Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets		
	Governmental Activities	Business-Type Activities	Total
\$ 4,130,428	\$ (5,735,770)	\$ -	\$ (5,735,770)
26,010	(50,993,641)		(50,993,641)
10,782,889	(3,874,786)		(3,874,786)
	(23,919,647)		(23,919,647)
	(2,278,586)		(2,278,586)
	(2,280,270)		(2,280,270)
	183,626		183,626
	(3,608,601)		(3,608,601)
<u>14,939,327</u>	<u>(92,507,675)</u>		<u>(92,507,675)</u>
		914,501	914,501
		(444,497)	(444,497)
		470,004	470,004
<u>\$ 14,939,327</u>	<u>(92,507,675)</u>	<u>470,004</u>	<u>(92,037,671)</u>
	34,260,317		34,260,317
	4,952,509		4,952,509
	1,935,715		1,935,715
	18,526,669		18,526,669
	3,291,173	384,442	3,675,615
	(66,147)		(66,147)
	19,507,815	152,947	19,660,762
	<u>82,408,051</u>	<u>537,389</u>	<u>82,945,440</u>
	<u>(10,099,624)</u>	<u>1,007,393</u>	<u>(9,092,231)</u>
	344,523,998	13,515,906	358,039,904
	<u>48,667,899</u>		<u>48,667,899</u>
	<u>393,191,897</u>	<u>13,515,906</u>	<u>406,707,803</u>
	<u>\$ 383,092,273</u>	<u>\$ 14,523,299</u>	<u>\$ 397,615,572</u>



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**Basic Financial Statement-
Fund Financial Statements**

COUNTY OF BUTTE, CALIFORNIA

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2005

	General Fund	Welfare Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 43,570,183	\$ 1,471,055	\$ 22,978,297	\$ 68,019,535
Cash and investments with fiscal agent	19,480,554		5,234,725	24,715,279
Imprest cash	45,145		1,215	46,360
Due from other funds	2,405,441	860,192	2,566,899	5,832,532
Accounts receivable	153,487	787,732	208,560	1,149,779
Due from other governments	6,659,007	1,635,226	1,270,074	9,564,307
Prepaid items	4,140		500	4,640
Deposits from others	2,500		297	2,797
Inventories			267,580	267,580
Loans receivable			2,226,168	2,226,168
Total assets	\$ 72,320,457	\$ 4,754,205	\$ 34,754,315	\$ 111,828,977
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ 3,545,063	\$ 117,136	\$ 743,556	\$ 4,405,755
Accrued interest payable	392,300			392,300
Accounts payable	2,305,382	628,082	1,440,194	4,373,658
Salaries and benefits payable	2,441,554	880,578	469,494	3,791,626
TRANS note payable	18,774,429			18,774,429
Deferred revenue	583,321	2,590,758		3,174,079
Total liabilities	28,042,049	4,216,554	2,653,244	34,911,847
Fund balances:				
Reserved for:				
Encumbrances	5,130,723	683,676	3,706,210	9,520,609
Imprest cash	45,145		1,215	46,360
Prepaid items	4,140		500	4,640
Deposits with others	2,500		297	2,797
Long-term loans receivable			2,226,168	2,226,168
General restrictions	3,165,083	105,145	625,985	3,896,213
Debt service	787,482		8,061,829	8,849,311
Inventory			267,580	267,580
Unreserved:				
Designated	24,366,630		6,053,130	30,419,760
Undesignated, reported in:				
General fund	10,776,705			10,776,705
Special revenue funds		(251,170)	11,068,142	10,816,972
Capital project funds			90,015	90,015
Total fund balances	44,278,408	537,651	32,101,071	76,917,130
Total liabilities and fund balances	\$ 72,320,457	\$ 4,754,205	\$ 34,754,315	\$ 111,828,977

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

COUNTY OF BUTTE, CALIFORNIA

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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

Fund balances-total governmental funds	\$ 76,917,130
--	---------------

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

Land	\$ 1,548,282	
Construction in progress	5,409,880	
Infrastructure	589,951,142	
Structures and improvements	54,464,238	
Equipment	33,191,307	
Less: accumulated depreciation	<u>(348,277,772)</u>	
Total capital assets		336,287,077

In governmental funds, other long-term assets are not available to pay for current-period expenditures:

Net pension asset	49,795,442
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Governmental funds report the effect of issuance costs and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the long-term debt issuance costs.

830,694

Interest payable on long-term debt does not require current financial resources, therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet

(227,833)

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.

5,318,818

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, 2005 are:

Certificates of participation	(4,540,000)	
Bonds payable	(61,514,876)	
Notes payable	(4,110,837)	
Capital leases	(688,438)	
Supplemental retirement benefit obligation	(5,039,088)	
Compensated absences	<u>(9,935,816)</u>	
Total long-term liabilities		<u>(85,829,055)</u>

Net assets of governmental activities

\$ 383,092,273

COUNTY OF BUTTE, CALIFORNIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	General Fund	Welfare Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 41,148,541	\$ -	\$ 696,916	\$ 41,845,457
Licenses and permits	4,652,958		490,212	5,143,170
Fines, forfeitures, and penalties	1,603,569		225,512	1,829,081
Revenues from uses of money and property	2,172,601	(39,257)	948,598	3,081,942
Aid from other governments	72,466,801	117,235,262	28,236,315	217,938,378
Charges for services	20,299,949	508,224	2,358,529	23,166,702
Other	7,923,675	130,143	11,452,421	19,506,239
Total revenues	150,268,094	117,834,372	44,408,503	312,510,969
EXPENDITURES:				
Current:				
General government	17,460,206		10,581,377	28,041,583
Public protection	60,760,801	352,756	19,861,095	80,974,652
Public ways and facilities			10,943,957	10,943,957
Health and sanitation	53,868,967		1,814,837	55,683,804
Public assistance	397,189	119,159,378	8,995,321	128,551,888
Education	219,330		2,385,510	2,604,840
Recreation and cultural services	288,785		67,393	356,178
Debt Service:				
Principal	655,663		3,504,652	4,160,315
Interest	799,459		2,460,258	3,259,717
Cost of issuance			162,344	162,344
Total expenditures	134,450,400	119,512,134	60,776,744	314,739,278
Excess (deficiency) of revenues over expenditures	15,817,694	(1,677,762)	(16,368,241)	(2,228,309)
OTHER FINANCING SOURCES (USES):				
Sales of capital asset	15,178		169,032	184,210
Transfers in	2,905,381	1,398,061	16,029,975	20,333,417
Transfer out	(14,374,038)		(8,480,274)	(22,854,312)
Proceeds from issuance of debt			15,474,418	15,474,418
Total other financing sources (uses)	(11,453,479)	1,398,061	23,193,151	13,137,733
Net change in fund balances	4,364,215	(279,701)	6,824,910	10,909,424
Fund balances, beginning	39,914,193	817,352	25,708,262	66,439,807
Prior year adjustment			(432,101)	(432,101)
Fund balances, beginning, restated	39,914,193	817,352	25,276,161	66,007,706
Fund balances, ending	\$ 44,278,408	\$ 537,651	\$ 32,101,071	\$ 76,917,130

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

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 FISCAL YEAR ENDED JUNE 30, 2005

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

Net change to fund balances-total governmental funds \$ 10,909,424

Governmental funds reported capital outlay as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures are therefore added back to fund balances	\$ 15,882,687	
Depreciation expense not reported in governmental funds	(23,423,374)	
Loss on sale of capital assets	<u>(116,098)</u>	(7,656,785)

Debt proceeds provide current financial resources to governmental funds; however issuing debt increases long-term liabilities in the statement of net assets. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but in the statement of net assets, the costs are deferred and amortized throughout the period during which the related debt is outstanding. Repayment of debt principal is an expenditure in the governmental funds, but in the statement of net assets the repayment reduces long-term liabilities.

Principal payments	4,160,315	
Supplemental retirement benefits	(5,039,088)	
Issuance of long-term debt	(15,474,418)	
Cost of issuance	162,344	
Amortization expense of costs of issuance not reported in governmental funds	<u>(121,051)</u>	(16,311,898)

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 (net change).

Interest payable	(227,833)	
Increase in net pension asset	695,442	
Compensated absences	<u>64,500</u>	532,109

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.

2,427,526

Change in net assets of governmental activities \$ (10,099,624)

COUNTY OF BUTTE, CALIFORNIA

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2005

	Business-Type Activities-Enterprise Funds			Governmental Activities
	Transit	Landfill	Total	Internal Service Funds
ASSETS				
Current assets:				
Cash and investments	\$ 260,134	\$ 9,722,335	\$ 9,982,469	\$ 5,298,168
Imprest cash		1,000	1,000	40,000
Due from other funds	45,436	89,422	134,858	472,222
Accounts receivable	136,171	4,234	140,405	108,588
Due from other governments	205,335		205,335	
Inventories				259,126
Prepaid items				60
Total current assets	647,076	9,816,991	10,464,067	6,178,164
Noncurrent assets:				
Capital assets:				
Nondepreciable:				
Land		488,133	488,133	
Construction in progress	8,290	4,377,657	4,385,947	1,274,189
Depreciable:				
Structures and improvements	837,695	121,695	959,390	
Equipment	3,725,450	3,122,163	6,847,613	2,618,642
Less: Accumulated depreciation	(2,043,353)	(946,293)	(2,989,646)	(2,049,795)
Total capital assets, net	2,528,082	7,163,355	9,691,437	1,843,036
Total noncurrent assets	2,528,082	7,163,355	9,691,437	1,843,036
Total assets	3,175,158	16,980,346	20,155,504	8,021,200
LIABILITIES				
Current liabilities:				
Due to other funds	46,789	16,968	63,757	434,781
Accounts payable	245,452	865,259	1,110,711	580,289
Accrued salaries and benefits		31,139	31,139	96,687
Accrued sales tax		212	212	1,008
Unredeemed passenger tickets	44,578		44,578	
Deferred revenue	315,760		315,760	
Landfill corrective action liability		1,496,477	1,496,477	
Capital lease - current portion		504,931	504,931	
Total current liabilities	652,579	2,914,986	3,567,565	1,112,765
Noncurrent liabilities:				
Compensated absences		58,127	58,127	351,617
Capital lease payable, less current portion		783,732	783,732	
Claims and judgments				1,238,000
Landfill closure/post-closure care costs		1,222,781	1,222,781	
Total noncurrent liabilities		2,064,640	2,064,640	1,589,617
Total liabilities	652,579	4,979,626	5,632,205	2,702,382
NET ASSETS				
Invested in capital assets, net of related debt	2,528,082	5,874,692	8,402,774	1,843,036
Restricted		6,434,145	6,434,145	
Unrestricted	(5,503)	(308,117)	(313,620)	3,475,782
Total net assets	\$ 2,522,579	\$ 12,000,720	\$ 14,523,299	\$ 5,318,818

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

COUNTY OF BUTTE, CALIFORNIA

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Transit	Landfill	Total	Internal Service Funds
OPERATING REVENUES				
Charges for services	\$ -	\$ -	\$ -	\$ 18,303,758
Transit fares	209,504		209,504	
Landfill fees		5,468,481	5,468,481	
Other revenue	269,336	110,915	380,251	8,037
Total operating revenues	<u>478,840</u>	<u>5,579,396</u>	<u>6,058,236</u>	<u>18,311,795</u>
OPERATING EXPENSES				
Administration	84,828	1,411,581	1,496,409	
Salaries and employee benefits		946,449	946,449	3,728,273
Service and supplies				8,342,159
Claims and judgments				6,258,926
Operation and maintenance	2,093,775	6,475,296	8,569,071	
Depreciation	349,778	381,512	731,290	250,260
Other expenses				532,984
Landfill closure/post-closure care cost		(4,595,538)	(4,595,538)	
Total operating expenses	<u>2,528,381</u>	<u>4,619,300</u>	<u>7,147,681</u>	<u>19,112,602</u>
Operating income (loss)	<u>(2,049,541)</u>	<u>960,096</u>	<u>(1,089,445)</u>	<u>(800,807)</u>
NONOPERATING REVENUES (EXPENSES)				
Intergovernmental	1,605,044		1,605,044	28,743
Interest income	15,155	369,287	384,442	209,231
Other income	4,105	148,842	152,947	1,576
Loss on disposal of capital assets				(15,641)
Interest expense		(45,595)	(45,595)	
Total nonoperating revenues (expenses)	<u>1,624,304</u>	<u>472,534</u>	<u>2,096,838</u>	<u>223,909</u>
Net income (loss) before contributions and transfers	(425,237)	1,432,630	1,007,393	(576,898)
Capital contributions				483,529
Transfers in				5,591,966
Transfers out				(3,071,071)
Change in net assets	(425,237)	1,432,630	1,007,393	2,427,526
Total net assets, beginning	2,947,816	10,568,090	13,515,906	2,891,292
Total net assets, ending	<u>\$ 2,522,579</u>	<u>\$12,000,720</u>	<u>\$14,523,299</u>	<u>\$ 5,318,818</u>

COUNTY OF BUTTE, CALIFORNIA

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Business-Type Activities-Enterprise Funds			Governmental Activities
	Transit	Landfill	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash receipt from customers	\$ 498,385	\$ 5,789,823	\$ 6,288,208	\$ 18,268,472
Cash paid to suppliers for goods and services	(2,068,425)	(6,189,855)	(8,258,280)	(15,351,187)
Cash paid to employees for services		(923,057)	(923,057)	(3,744,457)
Internal activities - payments from (to) other funds	(45,776)	(94,935)	(140,711)	607,659
Net cash used by operating activities	(1,615,816)	(1,418,024)	(3,033,840)	(219,513)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Aid from other governmental agencies	1,262,572		1,262,572	28,743
Transfers in				5,591,966
Transfers out				(3,071,071)
Other income	4,105	148,842	152,947	1,576
Net cash provided by noncapital financing activities	1,266,677	148,842	1,415,519	2,551,214
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Payments related to the acquisition of capital assets		(1,843,428)	(1,843,428)	
Principal paid on capital lease		(491,326)	(491,326)	
Interest paid on capital lease		(45,595)	(45,595)	
Net cash used by capital and related financing activities		(2,380,349)	(2,380,349)	
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	15,155	369,287	384,442	209,231
Net cash provided by investing activities	15,155	369,287	384,442	209,231
Net increase (decrease) in cash and cash equivalents	(333,984)	(3,280,244)	(3,614,228)	2,540,932
Cash and cash equivalents, beginning	594,118	13,003,579	13,597,697	2,797,236
Cash and cash equivalents, ending	\$ 260,134	\$ 9,723,335	\$ 9,983,469	\$ 5,338,168
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS:				
Cash and investments	\$ 260,134	\$ 9,722,335	\$ 9,982,469	\$ 5,298,168
Imprest cash		1,000	1,000	40,000
Total cash and investments	\$ 260,134	\$ 9,723,335	\$ 9,983,469	\$ 5,338,168

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

COUNTY OF BUTTE, CALIFORNIA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	<u>Business-Type Activities-Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Transit</u>	<u>Landfill</u>	<u>Total</u>	<u>Internal Service Funds</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ (2,049,541)	\$ 960,096	\$ (1,089,445)	\$ (800,807)
Adjustment to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	349,778	381,512	731,290	250,260
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	12,605	90,522	103,127	(43,323)
Due from other funds	(31,676)	298,982	267,306	342,162
Inventory				(114,668)
Receivables from external parties	6,940	119,905	126,845	
Prepaid items				(60)
Increase (decrease) in:				
Accounts payable	110,178	200,568	310,746	9,944
Accrued sales tax		(23)	(23)	(334)
Due to other funds	(14,100)	(393,917)	(408,017)	265,497
Accrued salaries and benefits		7,615	7,615	5,331
Compensated absences		15,777	15,777	(21,515)
Landfill corrective action liability		1,496,477	1,496,477	
Landfill closure/post-closure cost		(4,595,538)	(4,595,538)	
Claims and judgments				(112,000)
Net cash used by operating activities	<u>\$ (1,615,816)</u>	<u>\$ (1,418,024)</u>	<u>\$ (3,033,840)</u>	<u>\$ (219,513)</u>
Noncash investing, capital, and financing activities:				
Contributions of capital assets from government	\$ -	\$ -	\$ -	\$ 483,529

COUNTY OF BUTTE, CALIFORNIA

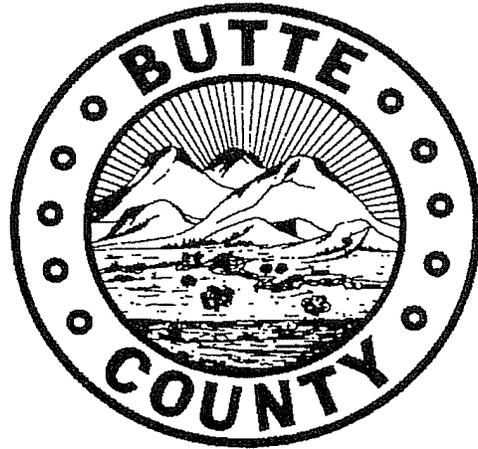
STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS JUNE 30, 2005

	Investment Trust	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and investments	\$ 183,975,151	\$ 27,498,925
Imprest cash	7,671	
Due from other funds	2,094,147	1,727,946
Accounts receivable	1,671,816	
Deposits with others	11,756	
Property tax receivable		6,368,124
	<u> </u>	<u> </u>
Total assets	187,760,541	<u>\$ 35,594,995</u>
LIABILITIES		
Due to other funds	628,357	\$ 4,729,055
Accounts payable	1,600,507	195
Sales tax accrual		94
Deposits payable	1,000	
Deferred revenue	334,841	
Agency funds held for others		30,865,651
	<u> </u>	<u> </u>
Total liabilities	2,564,705	<u>\$ 35,594,995</u>
NET ASSETS		
Held in trust for pool participants	<u>185,195,836</u>	
Total net assets	<u>\$ 185,195,836</u>	

COUNTY OF BUTTE, CALIFORNIA

STATEMENT OF CHANGES IN NET ASSETS
INVESTMENT TRUST FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Additions:	
Contributions to pooled investments	\$1,277,167,187
Interest and investment income	<u>5,612,563</u>
Total additions	<u>1,282,779,750</u>
Deductions:	
Distribution from investment pool	<u>(1,295,943,565)</u>
Total deductions	<u>(1,295,943,565)</u>
Net decrease	(13,163,815)
Net assets, beginning	<u>198,359,651</u>
Net assets, ending	<u><u>\$ 185,195,836</u></u>



**Basic Financial Statement-
Notes to the Basic Financial Statements**

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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, 2005 fiscal 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 as amended by GASB Statement No. 39, 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
East Chico – CSA #14
East Chico – CSA #15
West Chico – CSA #16
North Park
Oro – Quincy Road
Oro-Wyandotte
Rancho De Thunder

Durham
Meadow Estates
South Oroville – Las Plumas Park
Stirling City Lighting
Richvale
Glen Haven
Rosewood Subdivision
Woodside
Carriage Manor

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

1. Summary of Significant Accounting Policies (continued)

A. The Financial Reporting Entity (continued)

County Service Area (CSA) – Lighting (continued)

Ramada Street
Olive Glen Estates
Mulberry Street

Morris Subdivision
Almond Grove West
Lassen

CSA – Drainage & Lighting

East and Guynn
Quail Run
Big Chico Creek Estates CSA
Forebay Vista
Lindo West
Silvertree Subdivision
Stony Brook
Carriage Estates Subdivision
Holly Gardens
Meadowlark Acres
El Verano
Walnut Grove
Pistachio Grove Estates
McIntosh Avenue
South Fork Estates
Willow Bend Subdivision
West Chico Estates
Wildflower Estates Subdivision
Orchard House Estates
Ceres Avenue Subdivision
Oak Way Park
Laurelwood Estates
Blossom 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

CSA – Lighting & Maintenance

Vista Del Cerro
Crestwood
Lindo Gardens
Joshua Tree #2

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

1. Summary of Significant Accounting Policies (continued)

A. The Financial Reporting Entity (continued)

CSA – Other

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 – Lighting, Drainage, and Landscape
Durham-Dayton Industrial Partners for
Extended Structural Fire Protection
Forrest Young – Lighting, Drainage, and Bikepath
Biggers Subdivide – Lighting, Drainage, and Snow Removal
Ishi Valley Estates– Lighting, Drainage, and Fire
County of Butte – Animal Control
Justin Manor Subdivide – Lighting, Drainage, and Fire
Keefer Creek Estates – Lighting, Drainage, and Sewer
Autumn Park – Lighting, Drainage, and Fire
Melrose Estates – Lighting, Drainage, and Fire
Durham Land Estates – Lighting, Drainage, and Fire
Pheasant Landing #1 and #2 – Lighting, Drainage, and Fire
Pheasant Landing #3 – Lighting, Drainage, and Fire
Twin Palms Subdivide – Lighting, Drainage, and Fire
Chambers & Speedway Subdivide – Lighting, Drainage, and Fire
Thorntee Industrial Park – Lighting, Drainage, and Fire

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 FISCAL YEAR ENDED JUNE 30, 2005

1. Summary of Significant Accounting Policies (continued)

A. The Financial Reporting Entity (continued)

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
Kimshew 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
Sacramento River Reclamation District

Health & Sanitation

Butte County Mosquito Abatement
Durham Mosquito Abatement
Oroville Mosquito Abatement
Richvale Sanitary Operating

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 FISCAL YEAR ENDED JUNE 30, 2005

1. Summary of Significant Accounting Policies (continued)

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. 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. Major funds are defined as funds that have assets, liabilities, revenues, or expenditures/expenses equal to or greater than ten percent of their fund-type total and five percent of all fund type totals. The General Fund is always a major fund. The County may also select other funds it believes should be presented as major 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.

GASB Statement No. 34 defines major funds and requires that the County's major governmental and proprietary funds are identified and presented separately in the fund financial statements. All other funds, called nonmajor funds, are combined and reported in a single column, regardless of their fund-type.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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.
- 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 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.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

1. Summary of Significant Accounting Policies (continued)

C. Basis of Accounting

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

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 measurement focus and modified accrual basis of accounting. Under this method, revenues are recognized when "susceptible to accrual" (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means that revenues are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenues are recognized in the current year if they are collected within 60 days of fiscal year end. For all other revenues, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues not considered available are recorded as deferred revenue. The County's other primary revenue sources: investment income, intergovernmental revenues and charges for services have been treated as "susceptible to accrual" under the modified accrual basis. Licenses and permits, fines, forfeitures and penalties, and other revenue are not considered "susceptible to accrual" under the modified accrual basis and are recorded as revenues when received. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded when payment is due.

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.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

1. Summary of Significant Accounting Policies (continued)

D. Cash and Cash Equivalents

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 that may 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.

The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it an SEC Rule 2a7-like pool. California Government Code statutes and the County Treasury Oversight Committee set forth the various investment policies that the County Treasurer must follow.

State statutes and the County's investment policy authorize the County Treasurer to invest in U.S. Government Treasury and Agency Securities, bankers' acceptances, commercial paper, corporate bonds and notes, repurchase agreements and the State Treasurer's Local Agency Investment Fund (LAIF). In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held by the County Treasurer are stated at fair value.

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 recommended by the California Debt and Investment Advisory Commission. The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2005 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.

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.

State law requires that the County Treasurer hold all operating monies of the County, school districts and certain special districts. Collectively, these mandatory deposits constituted approximately 61.2% of the funds on deposit in the County Treasury.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

1. Summary of Significant Accounting Policies (continued)

D. Cash and Cash Equivalents (continued)

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.

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.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

1. Summary of Significant Accounting Policies (continued)

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.

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 FISCAL YEAR ENDED JUNE 30, 2005

1. Summary of Significant Accounting Policies (continued)

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.

L. **Implementation of Governmental Accounting Standards Board Statements and Standards**

Governmental Accounting Standards Board Statement No. 40

During fiscal year 2004-05, the County adopted the provisions of GASB Statement No. 40; *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*. This statement is effective for periods beginning after June 15, 2004. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The statement requires certain disclosures of investment that have fair values that are highly sensitive to changes in interest rates.

COUNTY OF BUTTE, CALIFORNIA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

1. Summary of Significant Accounting Policies (continued)

M. **Future Governmental Accounting Standards Board Statements**

Governmental Accounting Standards Board Statement No. 42

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement requires governments to measure, recognize, and disclose the effects of capital asset impairments in their financial statements when it occurs. This statement also clarifies and establishes accounting requirements for insurance recoveries, including those associated with capital asset impairment. This statement is effective for periods beginning after December 15, 2004, and is required to be implemented by the County during the fiscal year ending June 30, 2006. The County has not determined its effect on the financial statements.

Governmental Accounting Standards Board Statement No. 43

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement establishes accounting and financial reporting standards for plans that provide postemployment benefits other than pension benefits (known as other postemployment benefits or OPEB). This statement is effective for periods beginning after December 15, 2005, and is required to be implemented by the County during the fiscal year ending June 30, 2007. This statement is not expected to have a significant impact on the financial statements of the County.

Governmental Accounting Standards Board Statement No. 44

In July 2004, the GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section an amendment of NCGA Statement No. 1*. This Statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. This statement is effective for periods beginning after June 15, 2005, and is required to be implemented by the County during the fiscal year ending June 30, 2007. This statement is not expected to have a significant impact on the financial statements of the County.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

1. Summary of Significant Accounting Policies (continued)

M. Future Governmental Accounting Standards Board Statements (continued)

Governmental Accounting Standards Board Statement No. 45

In August 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement generally requires that state and local governmental employers account for and report the annual cost of other nonpension benefits (OPEB) and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. The statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for periods beginning after December 15, 2006, and is required to be implemented by the County during the fiscal year ending June 30, 2008. The County has not determined its effect on the financial statements.

2. Cash and Investments

Cash and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 83,300,172
Cash and investments with fiscal agents	24,715,279
Imprest cash	87,360
Fiduciary funds:	
Cash and investments	211,474,076
Imprest cash	<u>7,671</u>
Total cash and investments	<u>\$ 319,584,558</u>

Cash and investments as of June 30, 2005 consist of the following:

Cash on hand	\$ 95,031
Deposits with financial institutions	9,615,675
Investments	326,906,922
Outstanding warrants	(17,370,836)
Cash deposits – outside accounts	<u>337,766</u>
Total cash and investments	<u>\$ 319,584,558</u>

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

2. Cash and Investments (continued)

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

The table below identifies the investment types that are authorized for the County by the California Government Code (or the County's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the County's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the County, rather than the general provisions of the California Government Code or the County's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of *Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	N/A	None	None

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the County's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

2. Cash and Investments (continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the County manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the County's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the County's investments by maturity:

Investment Type	Fair Value	Remaining Maturity				
		Less than One year	One to Two years	Two to Three years	Three to Four years	Four to Five years
With Treasurer:						
FAMCA	\$ 5,004,205	\$ -	\$ 5,004,205	\$ -	\$ -	\$ -
FFCB	45,529,722	16,005,375	5,014,950	8,200,149	9,970,702	6,338,546
FHLB	73,762,873	18,201,747	16,299,836	16,997,767	19,261,135	3,002,388
FHLMC	66,696,901	11,972,125	4,973,415	15,092,488	15,063,573	19,595,300
FNMA	39,765,105	6,416,423		18,002,953	15,345,729	
CD	500,000		500,000			
Solar Project	943,837	943,837				
Commercial Paper	3,939,000	3,939,000				
LAIF	66,050,000	66,050,000				
Total with Treasurer	302,191,643	123,528,507	31,792,406	58,293,357	59,641,139	28,936,234
With fiscal agents:						
Money Market	2,631,674	2,631,674				
Investment Contract	18,680,135	18,680,135				
FHLB	2,153,066	141,140	1,498,665	513,261		
FHLMC	1,250,404	1,250,404				
Total with fiscal agents	24,715,279	22,703,353	1,498,665	513,261		
Total investments	\$ 326,906,922	\$ 146,231,860	\$ 33,291,071	\$ 58,806,618	\$ 59,641,139	\$ 28,936,234

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

2. Cash and Investments (continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the County's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End		
				AAA	Aa	Not Rated
FAMCA	\$ 5,004,205	N/A	\$ -	\$ -	\$ -	\$ 5,004,205
FFCB	45,529,722	N/A		45,529,722		
FHLB	73,762,873	N/A		73,762,873		
FHLMC	66,696,901	N/A		66,696,901		
FNMA	39,765,105	N/A		39,765,105		
CD	500,000	N/A				500,000
Solar Project	943,837	N/A				943,837
Commercial Paper	3,939,000	A			3,939,000	
LAIF	66,050,000	N/A				66,050,000
Held by bond trustee:						
Money Market	2,631,674	A		2,631,674		
Investment Contract	18,680,135	N/A			18,680,135	
FHLB	2,153,066	N/A		2,153,066		
FHLMC	1,250,404	N/A		1,250,404		
Total	\$ 326,906,922		\$ -	\$ 231,789,745	\$ 22,619,135	\$ 72,498,042

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

2. Cash and Investments (continued)

Concentration of Credit Risk

The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total County investments are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Federal Home Loan Bank	Federal agency securities	\$ 75,915,939
Federal Farm Credit Agency	Federal agency securities	45,529,722
Federal Home Loan Mortgage Corp.	Federal agency securities	67,947,305
Federal National Mortgage Assn.	Federal agency securities	39,765,105

Investments in any one issuer that represent 5% or more of total investments by reporting unit (primary government, discretely presented component unit, governmental activities, major fund, nonmajor funds in the aggregate, etc.) are as follows:

\$18,680,135 of the cash and investments (including amounts held by bond trustee) reported in the General Fund (a major fund of the County) are held in the form of a nonnegotiable unrated investment contract issued by the Trinity Funding, LLC that matures on July 26, 2005.

Custodial Credit Risk

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

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

2. Cash and Investments (continued)

Investment in State Investment Pool

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

Derivative Investments

The County did not directly enter into any derivative investments. The pooled treasury's pro-rata share of investments in LAIF at June 30, 2005 was \$66,050,000. The total amount invested by all public agencies in LAIF at June 30, 2005, was \$60,635,664,345. Included in LAIF's investment portfolio at June 30, 2005, are certain derivative securities or similar products in the form of structured note securities totaling \$184,320,000, approximately .30% of the total portfolio and asset-backed securities totaling \$1,271,413,000, approximately 2.10% of the total portfolio. The fair value of the position in LAIF at June 30, 2005 was .99% of the pool shares in LAIF.

Additional Information

Additional information about the County's cash and investments can be found in note 1, summary of significant accounting policies.

Condensed Financial Information

In lieu of separately issued financial statements for the Treasurer's investment pool, condensed financial information is presented below as of and for the fiscal year ended June 30, 2005:

Statement of Net Assets	
Net Assets held for pool participants	<u>\$ 302,191,643</u>
Equity of internal pool participants	116,995,807
Equity of external pool participants (voluntary and involuntary)	<u>185,195,836</u>
Total Equity	<u>\$ 302,191,643</u>
Statement of Changes in Net Assets	
Net Assets held for pool participants at July 1, 2004	\$ 299,879,229
Net change in investments by pool participants	<u>2,312,414</u>
Net Assets held for pool participants at June 30, 2005	<u>\$ 302,191,643</u>

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

3. Receivables

Receivables at fiscal year end of the County's major individual funds, nonmajor funds, and internal service funds in the aggregate are as follows:

Receivables <u>Governmental Activities:</u>	General Fund	Welfare Fund	Nonmajor Governmental Funds	Internal Service Funds	Total Governmental Activities
Accounts	\$ 153,487	\$ 787,732	\$ 208,560	\$ 108,588	\$ 1,258,367
Due from other governments	6,659,007	1,635,226	1,270,074		9,564,307
	<u>\$ 6,812,494</u>	<u>\$ 2,422,958</u>	<u>\$ 1,478,634</u>	<u>\$ 108,588</u>	<u>\$ 10,822,674</u>

Receivables <u>Business-Type Activities:</u>	Transit Fund	Landfill Fund	Total Business-Type Activities
Accounts	\$ 136,171	\$ 4,234	\$ 140,405
Due from other governments	205,335		205,335
	<u>\$ 341,506</u>	<u>\$ 4,234</u>	<u>\$ 345,740</u>

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

<u>Governmental Activities:</u>	<u>Unavailable</u>	<u>Unearned</u>
General Fund:		
Resources received that do not meet the criteria for revenue recognition	\$ -	\$ 583,321
Welfare Fund:		
Resources received that do not meet the criteria for revenue recognition		2,590,758
	<u>\$ -</u>	<u>\$ 3,174,079</u>
 <u>Business-Type Activities:</u>		
Transit Fund:		
Resources received that do not meet the criteria for revenue recognition	\$ -	\$ 315,760
Total Business-Type Activities	<u>\$ -</u>	<u>\$ 315,760</u>

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

4. Interfund Transactions

Interfund Receivables/Payables

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

Balances due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Welfare Fund	\$ 43,183
	Nonmajor Governmental Funds	550,345
	Internal Service Funds	274,039
	Transit Fund	3,212
	Landfill Fund	4,926
	Fiduciary Funds	<u>1,529,736</u>
		<u>2,405,441</u>
Welfare Fund	General Fund	697,136
	Nonmajor Governmental Funds	109,526
	Internal Service Funds	<u>53,530</u>
		<u>860,192</u>
Nonmajor Governmental Funds	General Fund	2,098,764
	Welfare Fund	2,991
	Nonmajor Governmental Funds	25,441
	Internal Service Funds	84,513
	Transit Fund	43,577
	Landfill Fund	9,879
	Fiduciary Funds	<u>301,734</u>
		<u>2,566,899</u>
Internal Service Funds	General Fund	284,871
	Welfare Fund	64,723
	Nonmajor Governmental Funds	47,202
	Internal Service Funds	21,060
	Landfill Fund	2,163
	Fiduciary Funds	<u>52,203</u>
		<u>472,222</u>
Transit Fund	General Fund	3,214
	Internal Service Funds	20
	Fiduciary Funds	<u>42,202</u>
		<u>45,436</u>
Landfill Fund	General Fund	3,107
	Internal Service Funds	830
	Fiduciary Funds	<u>85,485</u>
		<u>89,422</u>
Fiduciary Funds	General Fund	457,971
	Welfare Fund	6,239
	Nonmajor Governmental Funds	11,042
	Internal Service Funds	789
	Fiduciary Funds	<u>3,346,052</u>
		<u>3,822,093</u>
Total		<u>\$ 10,261,705</u>

These interfund balances result from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, and (2) payments between funds are made.

COUNTY OF BUTTE, CALIFORNIA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

4. Interfund Transactions (continued)

Transfers to/from other funds:

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

Between Funds within the Governmental Activities*:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Nonmajor Governmental Funds	\$ 10,725,797	Fire protection
	Nonmajor Governmental Funds	59,700	Equipment replacement
	Nonmajor Governmental Funds	1,770,815	Transfer for library operating subsidy
	Nonmajor Governmental Funds	419,665	Capital projects
		<u>12,975,977</u>	
General Fund	Welfare	<u>1,398,061</u>	Transfer for operating subsidy
Nonmajor Governmental Funds	Internal Service Funds	<u>5,574,893</u>	To transfer bond proceeds
Nonmajor Governmental Funds	General Fund	585,983	Transfer funds for COPS expenditures
Nonmajor Governmental Funds	General Fund	2,319,398	Transfer excess funds
		<u>2,905,381</u>	
Internal Service Funds	Nonmajor Governmental Funds	2,701,355	Debt service payments
Internal Service Funds	Nonmajor Governmental Funds	162,085	Capital projects
Internal Service Funds	Nonmajor Governmental Funds	190,558	Equipment replacement
		<u>3,053,998</u>	
Internal Service Funds	Internal Service Funds	<u>17,073</u>	To transfer shared costs
Total		<u>\$ 25,925,383</u>	

* These transfers were eliminated in the consolidation, by column, for the Governmental and Business-type activities.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

5. Capital Assets

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

	Balance July 1, 2004	Additions	Retirements/ Adjustments	Transfers	Balance June 30, 2005
Governmental Activities					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 1,695,011	\$ -	\$ (146,729)	\$ -	\$ 1,548,282
Construction in progress	4,606,081	6,571,835		(4,493,847)	6,684,069
Total capital assets, not being depreciated	<u>6,301,092</u>	<u>6,571,835</u>	<u>(146,729)</u>	<u>(4,493,847)</u>	<u>8,232,351</u>
<i>Capital assets, being depreciated:</i>					
Infrastructure	580,642,119	7,430,458	(2,334,586)	4,213,151	589,951,142
Structures and improvements	54,347,332		7,962	108,944	54,464,238
Equipment	34,759,831	2,363,923	(1,439,384)	125,579	35,809,949
Total capital assets, being depreciated	<u>669,749,282</u>	<u>9,794,381</u>	<u>(3,766,008)</u>	<u>4,447,674</u>	<u>680,225,329</u>
Less: accumulated depreciation for:					
Infrastructure	(291,362,891)	(19,641,618)	2,334,586		(308,669,923)
Structures and improvements	(13,779,438)	(1,095,863)	110,656		(14,764,645)
Equipment	(25,338,775)	(2,936,153)	1,335,756	46,173	(26,892,999)
Total accumulated depreciation	<u>(330,481,104)</u>	<u>(23,673,634)</u>	<u>3,780,998</u>	<u>46,173</u>	<u>(350,327,567)</u>
Total capital assets, being depreciated, net	<u>339,268,178</u>	<u>(13,879,253)</u>	<u>14,990</u>	<u>4,493,847</u>	<u>329,897,762</u>
Governmental activities capital assets, net	<u>\$ 345,569,270</u>	<u>\$ (7,307,418)</u>	<u>\$ (131,739)</u>	<u>\$ -</u>	<u>\$ 338,130,113</u>
Business-Type Activities:					
<i>Capital assets, not being depreciated:</i>					
Land	\$ 488,133	\$ -	\$ -	\$ -	\$ 488,133
Construction in progress	2,765,749	1,620,198			4,385,947
Total capital assets, not being depreciated	<u>3,253,882</u>	<u>1,620,198</u>			<u>4,874,080</u>
<i>Capital assets, being depreciated:</i>					
Structures and improvements	955,863		299	3,228	959,390
Equipment	6,933,893	223,230	(352,455)	42,945	6,847,613
Total capital assets, being depreciated	<u>7,889,756</u>	<u>223,230</u>	<u>(352,156)</u>	<u>46,173</u>	<u>7,807,003</u>
Less: accumulated depreciation for:					
Structures and improvements	(442,796)	(83,428)	(299)		(526,523)
Equipment	(2,121,543)	(647,862)	352,455	(46,173)	(2,463,123)
Total accumulated depreciation	<u>(2,564,339)</u>	<u>(731,290)</u>	<u>352,156</u>	<u>(46,173)</u>	<u>(2,989,646)</u>
Total capital assets, being depreciated, net	<u>5,325,417</u>	<u>(508,060)</u>			<u>4,817,357</u>
Business-type activities capital assets, net	<u>\$ 8,579,299</u>	<u>\$ 1,112,138</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,691,437</u>

COUNTY OF BUTTE, CALIFORNIA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

5. Capital Assets (continued)

Depreciation expense was changed to functions as follows:

Governmental Activities:

General government	\$ 501,955
Public protection	2,800,409
Public ways and facilities	19,637,929
Health and sanitation	194,086
Public assistance	276,606
Education	118,823
Culture and recreation	143,826
	<u>\$ 23,673,634</u>

Business-Type Activities:

Transit	\$ 349,778
Sanitation	381,512
	<u>\$ 731,290</u>

6. Short-Term Debt

Tax and Revenue Anticipation Notes

In July 2004, the County issued \$18,774,429 in tax anticipation notes in advance of property tax collections, depositing the proceeds in the general fund. These notes are necessary in order to fund operations prior to receipt of tax collections.

Short-term debt activity for the fiscal year ended June 30, 2005, was as follows:

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005
Governmental Activities:				
FY 2004-05 TRANs	\$ -	\$ 18,774,429	\$ -	\$ 18,774,429
Total governmental activities	\$ -	\$ 18,774,429	\$ -	\$ 18,774,429

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

7. Long-Term Obligations

Long-term obligations of the County consist of capital lease obligations, bonds, certificates of participation, notes, and other liabilities, which are payable from the General, Debt Service, Capital Projects, Enterprise, and Internal Service Funds. The calculated legal debt limit for the County is \$167,139,772.

A summary of long-term obligations follows:

Type of indebtedness (purpose)	Maturity	Interest Rates	Annual Principal Installments	Original Issue Amount	Outstanding at June 30, 2005
Governmental Activities:					
<i>Bonds Payable</i>					
Butte County Service Area No. 26 Bonds:					
1974 Sewer Bonds	7/1/80-1/1/15	5%	\$10,000-\$40,000	\$ 680,000	\$ 315,000
1975 Sewer Bonds, Series A	7/1/80-1/1/15	5%	\$10,000-\$45,000	790,000	375,000
1975 Sewer Bonds, Series B	7/1/80-1/1/15	5%	\$5,000-\$20,000	380,000	180,000
1975 Sewer Bonds, Series C	7/1/80-1/1/15	5%	\$956-\$4,878	86,396	40,576
				<u>1,936,396</u>	<u>910,576</u>
Pension Obligation Bonds:					
Series A	6/30/14-6/30/34	Variable	\$55,000 -\$3,440,000	28,020,000	28,020,000
Series B	6/30/14-6/30/34	Variable	\$295,000-\$2,105,000	21,875,000	21,875,000
Series C	6/30/05-6/30/14	Variable	\$690,000-\$910,000	7,865,000	7,175,000
				<u>57,760,000</u>	<u>57,070,000</u>
Worker's Compensation Bonds:					
Series A	12/1/04-5/1/06	3.17%-3.59%	\$312,600-\$325,300	5,734,700	3,534,300
				<u>5,734,700</u>	<u>3,534,300</u>
Total Bonds Payable				<u>65,431,096</u>	<u>61,514,876</u>
<i>Certificates of Participation</i>					
2003 Certificates of Participation	7/1/04-7/1/14	2%-3.4%	\$350,000-\$650,000	5,150,000	4,540,000
Total Certificates of Participation				<u>5,150,000</u>	<u>4,540,000</u>
<i>Notes Payable</i>					
California Energy Commission					
Solar Project - phase 1	6/22/06-12/22/18	3.75%	\$63,794-\$135,899	2,777,000	2,777,000
Solar Project - phase 2	6/22/06-6/22/20	3.75%	\$8,057-\$17,545	390,000	390,000
Butte County Treasury - Solar					
Project Gap Financing	12/31/04-2/24/09	3.75%	\$50,000-\$750,000	1,200,000	943,837
Total Notes Payable				<u>4,367,000</u>	<u>4,110,837</u>
Total Governmental Activities				<u>\$ 74,948,096</u>	<u>\$ 70,165,713</u>

COUNTY OF BUTTE, CALIFORNIA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

7. Long-Term Obligations (continued)

Bonds Payable

At June 30, 2005, bonds outstanding consist of the following:

Sewer Bonds:

The sewer 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.

Pension Obligation Bonds:

The pension obligation bonds bear interest at a variable rate. The first payment of interest for Series A was due June 30, 2005, at a rate of 6.03%. The first payment of interest for Series B was due June 30, 2005, at a rate of 3.42%. The first payment of interest for Series C was due June 30, 2005, at a rate of 3.13%. Principal payments for both Series A and B are due beginning in fiscal year 2014 and ending in fiscal year 2034. Principal payments for Series C began the fiscal year ending June 30, 2005 and end in fiscal year 2014.

Worker's Compensation Bonds:

The worker's compensation bonds bear interest at a variable rate between 3.17% and 3.59%. The first payment of interest for Series A is was December 30, 2004. Principal payments for Series A began in December 1, 2004 and end May 1, 2006.

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

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 4,302,544	\$ 2,781,083	\$ 7,083,627
2007	788,406	2,700,768	3,489,174
2008	823,576	2,674,123	3,497,699
2009	853,755	2,641,212	3,494,967
2010	883,943	2,612,248	3,496,191
2011-2015	4,787,652	12,545,922	17,333,574
2016-2020	4,470,000	11,717,242	16,187,242
2021-2025	9,170,000	10,286,069	19,456,069
2026-2030	15,945,000	7,451,311	23,396,311
2031-2034	19,490,000	2,572,338	22,062,338
Total	<u>\$ 61,514,876</u>	<u>\$ 57,982,316</u>	<u>\$ 119,497,192</u>

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

7. Long-Term Obligations (continued)

Certificates of Participation

On June 30, 2003, the County issued \$5,150,000 in Certificates of Participation (COP's) with interest rates ranging from 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 payoff the 1993 COP's and lease obligations.

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$ 620,000	\$ 109,123	\$ 729,123
2007	630,000	96,623	726,623
2008	640,000	83,923	723,923
2009	350,000	73,148	423,148
2010	355,000	64,335	419,335
2011-2015	1,945,000	159,439	2,104,439
Total	<u>\$ 4,540,000</u>	<u>\$ 586,591</u>	<u>\$ 5,126,591</u>

Notes Payable

At June 30, 2005, notes outstanding consist of the following:

The County has in operation solar panels to generate power for certain county buildings. This solar project was funded, in part, through notes from the California Energy Commission of \$3,167,000. Principal and interest, at a variable rate starting at 4.9%, will be due semi-annually beginning in fiscal year 2006. Additionally, \$1,200,000 was borrowed from the County Treasury as gap financing for the solar project. Principal and interest, at a variable rate starting at 3.75%, are due semi-annually, beginning in December of 2005 through 2008, with a balloon payment of \$750,000 in 2009.

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2006	\$ 171,852	\$ 275,572	\$ 447,424
2007	292,583	151,090	443,673
2008	299,962	139,961	439,923
2009	852,080	127,931	980,011
2010	216,549	96,418	312,967
2011-2015	1,219,184	345,652	1,564,836
2016-2020	1,058,627	90,438	1,149,065
Total	<u>\$ 4,110,837</u>	<u>\$ 1,227,062</u>	<u>\$ 5,337,899</u>

COUNTY OF BUTTE, CALIFORNIA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

7. Long-Term Obligations (continued)

Capital Lease

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, 2005:

Fiscal Year Ending June 30,	Governmental Activities	Business-Type Activities
2006	\$ 374,951	\$ 536,922
2007	363,094	536,922
2008	_____	268,461
Total minimum lease payments	738,045	1,342,305
Less: Amount representing interest	(49,607)	(53,642)
Present value of minimum lease payments	\$ 688,438	\$ 1,288,663

The following is a schedule of net remaining property leased under capital leases at June 30, 2005:

	Acquisition Value	Accumulated Depreciation
Governmental Activities:		
Energy Management Facility	\$ 2,555,775	\$ 408,924
Vehicles	74,886	44,932
Business-Type Activities:		
Caterpillar Equipment	2,526,539	709,202

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

7. Long-Term Obligations (continued)

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.

Since no means exists to reasonably estimate the amounts that might be liquidated with expendable currently available financial resources, if any, they are reported as long-term debt on the statement of net Assets. The County does not accrue for compensated absences in its governmental fund statements and recognizes liabilities for compensated absences only if they are due and payable in an event such as termination. However, in the statement of activities the expenditure is allocated to each function based on usage.

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 \$1,222,781 reported as landfill closure and post-closure care liability at June 30, 2005, represents the cumulative amount reported to date based on the use of 12.94 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and post-closure care of \$8,227,306 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2005. The County expects to close the landfill in the fiscal year 2033. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The County is required by state and federal laws and regulations to make annual contributions to a separate fund to finance closure and post-closure care. The County is in compliance with these requirements, and at June 30, 2005, investments of \$6,434,135 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 post-closure 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.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

7. Long-Term Obligations (continued)

Landfill Closure and Post-closure Costs (continued)

Annually, the Landfill adjusts the estimated closure and post-closure costs due to changes in inflation and capacity. At June 30, 2005, total estimated costs for closure and post-closure decreased from \$17,696,573 at June 30, 2004 to \$9,450,087 and the remaining capacity of the landfill increased from 67.12 percent to 87.06 percent at June 30, 2004 and 2005, respectively. These changes resulted from the adoption of a new estimate of the landfill closure and post-closure care liability at June 30, 2005 due to the landfill's capacity expansion. These changes in estimates resulted in a decrease to the landfill closure and post-closure care liability and caused a negative expense of \$4,595,538 at June 30, 2005.

Corrective action costs of \$1,496,477 at June 30, 2005 represent the amount the County will expend to bring the landfill up to code in accordance with state requirements for maintenance and containment of closed portions of the landfill.

Supplemental Retirement Benefits Payable

The County of Butte has adopted a tax qualified governmental defined benefit plan for the benefit of its eligible employees to provide supplemental retirement benefits to eligible employees in addition to the benefits employees will receive from the California Public Employees' Retirement System (PERS). At the time this incentive was offered, the eligibility requirements were, the employee must be a current Butte County employee with at least 5 years of service and at least 50 years of age as of January 1, 2005, with the condition that they agreed to terminate employment with the County on or before January 1, 2005, with the benefits beginning the first day after separation. The County has 5 disbursements of approximately \$1,259,772, spanning over the next 5 years with the first remitted on August 10, 2004. On September 8, 2004, the County of Butte requested a "Letter of Determination" from the IRS to ensure the plan's compliance. At June 30, 2005, the total supplemental retirement benefits payable balance was \$5,039,088.

Limitations and Restrictions

There are a number of limitations and restrictions contained in the various debt indentures. The County's management believes that the County is in compliance with all significant limitations and restrictions.

Deferred Debt Issuance Costs

Bond issuance costs are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

COUNTY OF BUTTE, CALIFORNIA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

7. Long-Term Obligations (continued)

Rebatable Arbitrage Earnings

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years. During the current year, the County performed calculations of excess investment earnings on various bonds and financings and at June 30, 2005 does not expect to incur a liability.

Summary of Long-Term Debt

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

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005	Amounts Due Within One Year
Governmental Activities:					
Bonds payable	\$ 50,878,665	\$ 13,599,700	\$ 2,963,489	\$ 61,514,876	\$ 4,302,544
Certificates of participation	5,150,000		610,000	4,540,000	620,000
Notes payable	2,492,282	1,874,718	256,163	4,110,837	171,852
Capital lease obligations	1,019,101		330,663	688,438	340,260
Compensated absences	10,373,447		86,014	10,287,433	
Supplemental retirement benefits payable		6,298,860	1,259,772	5,039,088	1,259,772
Claims and judgments	1,350,000	199,497	311,497	1,238,000	
Total governmental activities	\$ 71,263,495	\$ 21,972,775	\$ 5,817,598	\$ 87,418,672	\$ 6,694,428
Business-Type Activities:					
Capital lease obligations	\$ 1,779,989	\$ -	\$ 491,326	\$ 1,288,663	\$ 504,931
Compensated absences	42,350	15,777		58,127	
Landfill closure/post-closure care costs	5,818,319		4,595,538	1,222,781	
Total business-type activities	\$ 7,640,658	\$ 15,777	\$ 5,086,864	\$ 2,569,571	\$ 504,931

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

8. Net Assets/Fund Balances

Net Assets

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

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

Fund Balances

In the fund financial statements, 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.

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.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

8. Net Assets/Fund Balances (continued)

- *Reserve for General 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 Inventory* reflects balances of inventory account, which reflect resources, already expended, but not consumed.
- *Reserve for Prepaid Items* reflects balances of prepaid items, which reflect services already paid, but not used or consumed.

9. 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 10.044% for non-safety employees and 24.361% for safety employees, of annual covered payroll. The contribution requirements of plan members and the County are established and may be amended by CalPERS.

Annual Pension Cost

For the fiscal year ended June 30, 2005, the County's annual pension cost of \$9,778,480 for CalPERS was less than the County's required and actual contributions. The required contributions was determined as part of the June 30, 2004 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) 7.75% 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 3.0%. 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, 2004 was 32 years for the Miscellaneous Plan and 9999 years for the Safety Plan.

COUNTY OF BUTTE, CALIFORNIA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

9. County Employees Retirement Plan (Defined Benefit Pension Plan) (continued)

Three-Year Trend Information for PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Contribution</u>	<u>Percentage of APC</u>	<u>Net Pension Asset</u>
6/30/03	\$ 1,943,944	\$ 1,943,944	\$ 100%	\$ --
6/30/04	4,785,485	53,885,485 *	1,126%	49,100,000
6/30/05	9,778,480	10,473,922	107%	49,795,442

*The County issued \$49,100,000 in pension obligation bonds (Note 7) to help the County remove any potential net pension obligation.

10. Post-Retirement Health Benefits

In addition to the pension benefits described in Note 9 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 7, 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 \$965,650 were recognized for post-retirement health care covering 320 retirees.

11. 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

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

11. Risk Management (continued)

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.

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, 2005. The claims liability includes all allocated loss adjustment expenses. Changes in the insurance funds’ claims liability amount during the fiscal years ended June 30, 2004 and 2005 were as follows:

Fiscal Year	Claims Liability July 1	Current Year Claims and Changes in Estimates	Current Year Claim	Claims Liability June 30
2004-2005	\$ 1,350,000	\$ (311,497)	\$ 199,497	\$ 1,238,000
2003-2004	\$ 1,324,000	\$ (47,357)	\$ 73,357	\$ 1,350,000

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2005

12. 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 fiscal year ended June 30, 2005, have not yet been conducted. Additionally, certain audits related to prior fiscal 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, 2005 financial statements.

13. Prior Year Adjustments

The Fund balance as of June 30, 2004 for the Capital Projects Fund was decreased by \$432,101 to correct an overstatement of accounts receivable and intergovernmental revenue during the 2004 fiscal year. Had this error not occurred, the total change in fund balance for the Capital Projects Fund would have been an increase of \$78,753 for the fiscal year ending June 30, 2004.

Additionally, the net assets balance as of June 30, 2004 for Government Activities has been decreased by \$432,101 to correct an overstatement accounts receivable and capital grants and contribution revenue and increased by \$49,100,000 to correct an understatement of net pension asset and overstatement of PERS payment special item expense. The cumulative effect of these errors is a decrease to net assets of \$48,667,899 for the year ending June 30, 2004. Had these errors not occurred, the total change in net assets for Governmental Activities would have been (\$20,782,048) for the fiscal year ending June 30, 2004.

14. Subsequent Events

Tax and Revenue Anticipation Notes

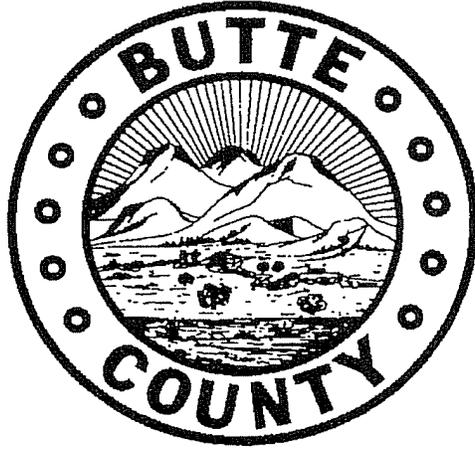
In July 2005, the County issued \$25,284,590 in notes in anticipation of operation expenditures during the 2005-2006 fiscal year. The notes will be redeemed in two installments; January 2006 and April 2006.

Butte County Association of Governments

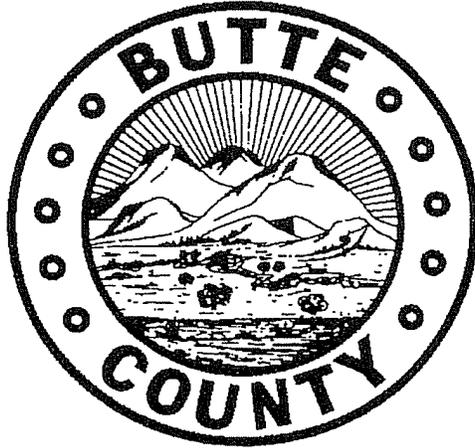
Beginning July 1, 2005, the Butte County Association of Governments (BCAG) has been authorized by the Butte County Board of Supervisors to consolidate and administer the existing public transit systems operated within the County, such that BCAG will have authority and responsibility for county-wide transportation, planning, coordination, financing priority projects and the programming of Federal, State and regional transportation funds. Prior to this date, authority and responsibility was solely under the County.

Worker's Compensation Self-insurance

Beginning July 1, 2005, the County will become self-insured for worker's compensation claims.



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Required Supplementary Information

COUNTY OF BUTTE, CALIFORNIA

County Employee's Retirement Plan (Defined Benefit Pension Plan) Schedule of Funding Progress For the Fiscal Year Ended June 30, 2005

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)
6/30/2002:						
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>
6/30/2003:						
Misc.	\$ 217,515,671	\$ 261,038,613	\$ 43,522,942	83.3%	\$ 78,825,247	55.2%
Safety	48,168,853	61,404,830	13,235,977	78.4%	11,913,346	111.1%
Total	<u>\$ 265,684,524</u>	<u>\$ 322,443,443</u>	<u>\$ 56,758,919</u>	<u>82.4%</u>	<u>\$ 90,738,593</u>	<u>62.6%</u>
6/30/2004:						
Misc.	\$ 267,713,567	\$ 280,522,064	\$ 12,808,497	95.4%	\$ 77,367,736	16.6%
Safety	67,108,564	66,351,121	(757,443)	101.1%	12,956,798	(5.8%)
Total	<u>\$ 334,822,131</u>	<u>\$ 346,873,185</u>	<u>\$ 12,051,054</u>	<u>96.5%</u>	<u>\$ 90,324,534</u>	<u>13.3%</u>

COUNTY OF BUTTE

General Fund

The General Fund is the general operation fund of the County. It accounts for all financial activities except those required to be accounted for in another fund. The accompanying Budgetary Comparison Schedule represents the primary expenditure classification of services provided by the County through the General Fund.

Welfare Fund

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 accompanying Budgetary Comparison Schedule represents the primary expenditure classification of services provided by the County through the Welfare Fund.

COUNTY OF BUTTE, CALIFORNIA

BUDGET COMPARISON SCHEDULE-GENERAL FUND FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes	\$ 33,607,650	\$ 33,677,782	\$ 41,148,541	\$ 7,470,759
Licenses and permits	4,507,856	4,507,856	4,652,958	145,102
Fines, forfeitures, and penalties	1,879,023	1,980,390	1,603,569	(376,821)
Revenues from uses of money and property	1,907,700	2,107,700	2,172,601	64,901
Aid from other governments	79,205,525	83,629,763	72,466,801	(11,162,962)
Charges for services	19,706,926	20,587,409	20,299,949	(287,460)
Other	3,538,684	3,537,252	7,923,675	4,386,423
Total revenues	<u>144,353,364</u>	<u>150,028,152</u>	<u>150,268,094</u>	<u>239,942</u>
EXPENDITURES:				
Current:				
General government	13,368,459	15,125,981	17,460,206	(2,334,225)
Public protection	59,685,347	64,468,092	60,760,801	3,707,291
Health and sanitation	57,996,321	65,064,336	53,868,967	11,195,369
Public assistance	508,935	521,013	397,189	123,824
Education	241,046	241,046	219,330	21,716
Recreation and cultural services	321,902	337,497	288,785	48,712
Debt Service:				
Principal	655,663	655,663	655,663	
Interest	160,056	154,833	799,459	(644,626)
Total expenditures	<u>132,937,729</u>	<u>146,568,461</u>	<u>134,450,400</u>	<u>12,118,061</u>
Excess (deficiency) of revenues over expenditures	<u>11,415,635</u>	<u>3,459,691</u>	<u>15,817,694</u>	<u>12,358,003</u>
OTHER FINANCING SOURCES (USES):				
Sales of capital assets			15,178	15,178
Transfers in	2,589,555	2,622,456	2,905,381	282,925
Transfers out	(17,153,118)	(17,834,541)	(14,374,038)	3,460,503
Total other financing sources (uses)	<u>(14,563,563)</u>	<u>(15,212,085)</u>	<u>(11,453,479)</u>	<u>3,758,606</u>
Net change in fund balance	(3,147,928)	(11,752,394)	4,364,215	16,116,609
Fund balance, beginning	<u>39,914,193</u>	<u>39,914,193</u>	<u>39,914,193</u>	
Fund balance, ending	<u>\$ 36,766,265</u>	<u>\$ 28,161,799</u>	<u>\$ 44,278,408</u>	<u>\$ 16,116,609</u>

COUNTY OF BUTTE, CALIFORNIA

**BUDGET COMPARISON SCHEDULE-WELFARE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Revenues from uses of money and property	\$ -	\$ -	\$ (39,257)	\$ (39,257)
Aid from other governments	122,304,754	122,422,753	117,235,262	(5,187,491)
Charges for services	559,901	559,901	508,224	(51,677)
Other	53,536	147,080	130,143	(16,937)
Total revenues	<u>122,918,191</u>	<u>123,129,734</u>	<u>117,834,372</u>	<u>(5,295,362)</u>
EXPENDITURES:				
Current:				
Public protection	375,201	375,201	352,756	22,445
Public assistance	125,327,542	126,494,426	119,159,378	7,335,048
Total expenditures	<u>125,702,743</u>	<u>126,869,627</u>	<u>119,512,134</u>	<u>7,357,493</u>
Excess (deficiency) of revenues over expenditures	<u>(2,784,552)</u>	<u>(3,739,893)</u>	<u>(1,677,762)</u>	<u>2,062,131</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	2,784,551	2,796,107	1,398,061	(1,398,046)
Total other financing sources (uses)	<u>2,784,551</u>	<u>2,796,107</u>	<u>1,398,061</u>	<u>(1,398,046)</u>
Net change in fund balance	(1)	(943,786)	(279,701)	664,085
Fund balance, beginning	<u>817,352</u>	<u>817,352</u>	<u>817,352</u>	
Fund balance, ending	<u>\$ 817,351</u>	<u>\$ (126,434)</u>	<u>\$ 537,651</u>	<u>\$ 664,085</u>

COUNTY OF BUTTE, CALIFORNIA

Note to Required Supplementary Information For the Fiscal Year Ended June 30, 2005

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. The Board of Supervisors must approve supplementary appropriations normally financed by unanticipated revenues during the year. 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. Unencumbered appropriations lapse at fiscal year-end. Encumbered appropriations are carried forward in the ensuing fiscal 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).