

**COUNTY OF BUTTE
STATE OF CALIFORNIA**

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

**FOR THE YEAR ENDED
JUNE 30, 2004**

COUNTY OF BUTTE, CALIFORNIA

**AUDIT REPORT
For the Year Ended June 30, 2004**

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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, 2004, 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, 2004, 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 February 1, 2005, 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 and 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.

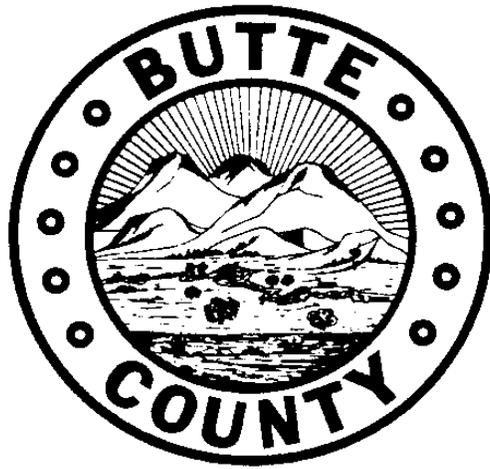
The Management's Discussion and Analysis and schedules of funding progress and budgetary comparison information on pages 2 through 11 and 52 through 54, respectively, are not a required part of the financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.

February 1, 2005

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**



In this section of the County of Butte's (County) annual financial report, the County management discusses financial results for the fiscal year ended June 30, 2004. 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 \$358,040 (net assets). Of this amount, \$28,709 (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 \$69,635 during the year.
- As of June 30, 2004, the County's governmental funds reported combined ending fund balances of \$66,436, a net decrease of \$9,559 in comparison with the prior year. This net decrease represents a decrease of \$4,835 in reserved fund balances and a decrease of \$4,724 in unreserved fund balances, which may be used to meet the government's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$8,770 or 6.8% of total general fund expenditures.
- The County's total long-term obligations as of June 30, 2004 increased by \$47,076 over the prior period. The key factor in the increase was the issuance of \$49,895 in pension obligation bonds to fund the County's unfunded actuarial liability with CalPERS.

II. OVERVIEW OF THE FINANCIAL STATEMENTS

A. GASB 34 Financial Report Model

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

B. Government-Wide Financial Statements

The government-wide financial statements provide an overview of the County's finances, in a manner similar to a private-sector business, that is, using the accrual basis of accounting. They demonstrate accountability of Butte County by showing the extent to which it has met operating objectives efficiently and effectively, using all resources available, and whether it can continue to do so.

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

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

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

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

C. Fund Financial Statements

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

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

The County maintains 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 Financial Statements

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

D. Required Supplementary Information

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

III. FINANCIAL ANALYSIS COUNTY-WIDE

County of Butte's Net Assets						
	Governmental activities		Business-type activities		Total	
	03-04	02-03	03-04	02-03	03-04	02-03
Current and other assets	82,923	92,588	14,130	15,419	97,053	108,007
Capital assets	345,569	358,584	8,579	6,652	354,148	365,236
Total assets	428,492	451,172	22,709	22,071	451,201	473,243
Current and other liabilities	12,705	13,497	1,552	942	14,257	14,439
Long-term liabilities	71,263	23,701	7,641	7,428	78,904	31,129
Total liabilities	83,968	37,198	9,193	8,370	93,161	45,568
Net assets:	344,524	413,974	13,516	13,701	358,040	427,675
Net assets:						
Invested in capital assets, net of related debt	287,229	346,873	6,799	4,390	294,028	351,263
Restricted	29,107	43,991	6,196		35,303	43,991
Unrestricted	28,188	23,110	521	9,311	28,709	32,421
Total net assets	344,524	413,974	13,516	13,701	358,040	427,675

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 6.7% of the total net assets and may be used to meet the County's ongoing obligations to citizens and creditors.

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

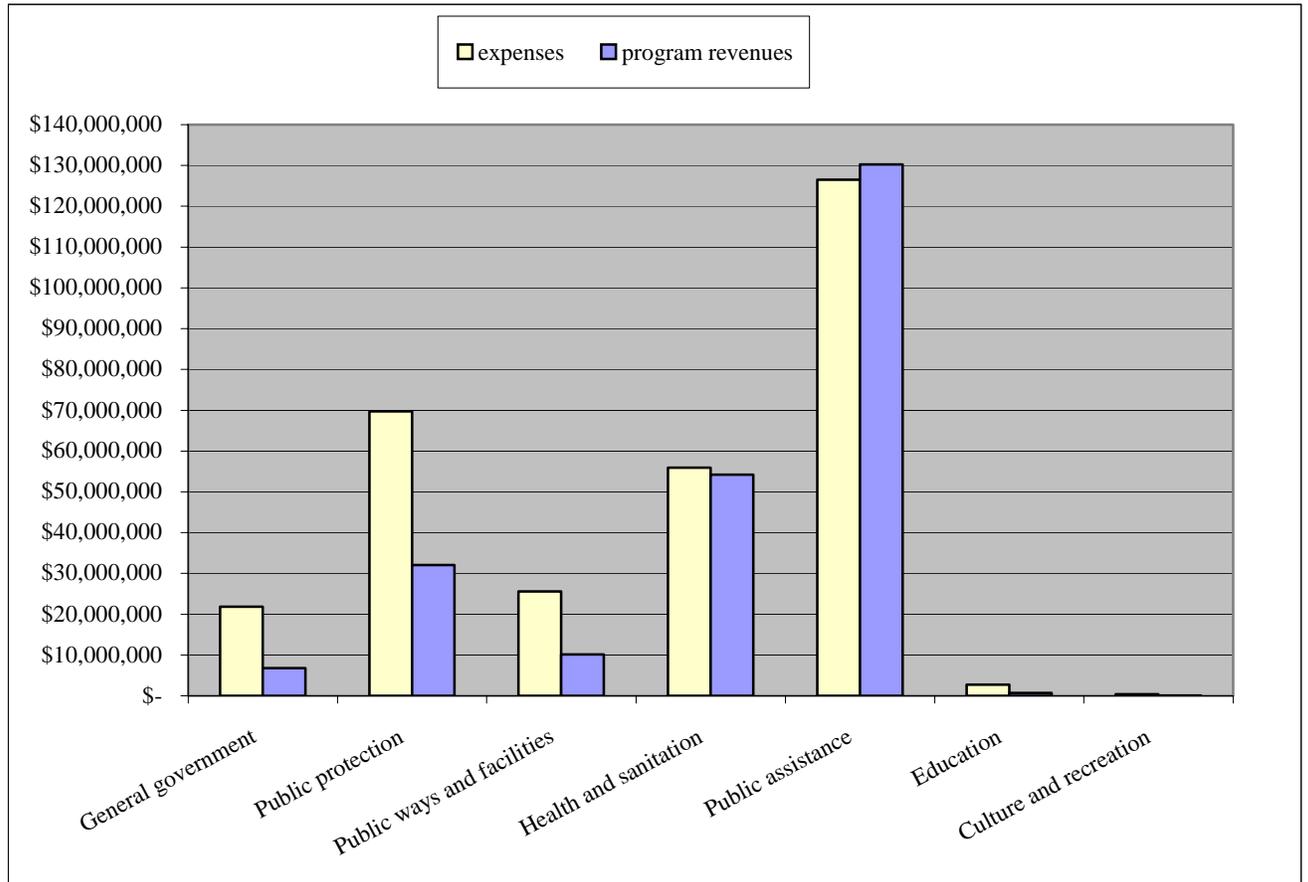
The following table presents the activities that accounted for the changes in net assets.

County of Butte's Changes in Net Assets						
	Governmental activities		Business-type activities		Total	
	03-04	02-03	03-04	02-03	03-04	02-03
Revenues:						
Program Revenues:						
Charges for services	23,464	29,861	4,573	4,868	28,037	34,729
Grants & contributions	210,717	207,823	2,104	2,097	212,821	209,920
General Revenues:						
Property taxes	18,770	17,799			18,770	17,799
Other taxes	6,857	6,164			6,857	6,164
Other revenues	22,663	21,645	511	651	23,174	22,296
Total revenues:	282,471	283,292	7,188	7,616	289,659	290,908
Expenses:						
General government	22,880	13,404			22,880	13,404
Public protection	69,137	67,876			69,137	67,876
Public ways and facilities	25,187	28,463			25,187	28,463
Health and sanitation	55,943	55,095			55,943	55,095
Public Assistance	126,531	127,500			126,531	127,500
Education	2,750	2,522			2,750	2,522
Culture and recreation	393	534			393	534
Sanitation			5,129	1,426	5,129	1,426
Transit			2,244	2,192	2,244	2,192
Total expenses:	302,821	295,394	7,373	3,618	310,194	299,012
Special Item – PERS Payment	49,100				49,100	
Increase (decrease) in net assets	(69,450)	(12,102)	(185)	3,998	(69,635)	(8,104)
Beginning net assets	413,974	426,076	13,701	9,703	427,675	435,779
Ending net assets	344,524	413,974	13,516	13,701	358,040	427,675

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 \$69,450. This decrease is due primarily from current year depreciation expense of the County's infrastructure (roads and bridges) capital assets exceeding the current year capital outlays for infrastructure by a total of \$14,455 and the payment to CalPERS of \$49,100 for the unfunded actuarial liability.

Expenses and Program Revenues – Governmental Activities



IV. FINANCIAL ANALYSIS OF FUNDS

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

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

At June 30, 2004, the County's governmental funds reported combined ending fund balances of \$66,440. Approximately 38.3% of this total amount (\$25,458) 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, 2004, unreserved fund balance of the general fund was \$11,601 while total fund balance reached \$39,914. As measures of the general fund's liquidity, it is useful to note that unreserved fund balance represents 8.9% percent of total fund expenditures, while total fund balance represents 21.9% percent of that same amount.

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

County of Butte							
Revenues in the Governmental Funds							
Revenue Sources	FY 2004		FY 2003		Change		
	Amount	% of total	Amount	% of total	Amount	% of change	
Taxes	\$ 23,875	8.4%	\$ 22,754	8.1%	\$ 1,121	4.9%	
Licenses and permits	4,361	1.5%	3,989	1.4%	372	9.3%	
Fines, forfeitures and penalties	2,742	1.0%	2,255	0.8%	487	21.6%	
Use of money and property	2,241	0.8%	3,053	1.1%	(812)	-26.6%	
Intergovernmental	221,568	78.0%	223,632	79.2%	(2,064)	-0.9%	
Charges for services	22,558	7.9%	22,705	8.0%	(147)	-0.6%	
Other	6,852	2.4%	3,913	1.4%	2,939	75.1%	
Total	\$ 284,197	100%	\$ 282,301	100%	\$ 1,896	0.7%	

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.
- Use of money and property – Reflects decreased market interest rates available. Pooled investment interest earnings for the quarter ended 6/30/04 were 3.51% versus a 3.79% return for the same period one year ago (a decrease of 7.4%)
- Other – Increased revenue under Other is primarily due to \$1.2 funding from the Butte County Treasury for the solar project. – See Basic Financial Statements section, Note 5, Long-Term Debt.

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

County of Butte						
Expenditures in the Governmental Funds						
Function	FY 2004		FY 2003		Change	
	Amount	% of total	Amount	% of total	Amount	% of change
General government	\$ 23,530	7.9%	\$ 13,565	4.8%	\$ 9,965	73.5%
Public protection	73,267	24.6%	72,319	25.4%	948	1.3%
Public ways and facilities	15,811	5.3%	13,942	4.9%	1,869	13.4%
Health and sanitation	55,626	18.7%	54,706	19.2%	920	1.7%
Public assistance	126,019	42.4%	127,320	44.7%	(1,301)	-1.0%
Education	2,618	0.9%	2,596	0.9%	22	0.8%
Culture and recreation	456	0.2%	630	0.2%	(174)	-27.6%
Total	\$ 297,327	100%	\$ 285,078	100%	\$ 12,249	4.3%

Significant changes for major functions are explained below.

- General Government - The increase in this function is due to approximately \$3,500 for the establishment of two new capital projects; solar project and courthouse expansion, and approximately \$6,000 in operating transfers that were a reduction to revenue in prior years, but are now classified as an expense.
- Culture and recreation – The decrease in this function is due to the completion of the construction of the South Oroville Community Center in FY 2003.

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

V. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were \$4,609 of increased appropriations funded primarily by additional grant revenues received from State and Federal programs (\$3,485).

During the year, actual revenues were less than budgetary estimates by \$7,931. Actual expenditures and transfers were less than budgetary estimates by \$44,204. The net effect of under-realization of revenues and under-utilization of appropriations resulted in a favorable variance of \$14,741.

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, 2004, amounts to \$354,149 (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 03.0% . The decrease resulted from infrastructure depreciation exceeding infrastructure assets acquired by \$14,455.

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

- GASB 34 requires the County to record infrastructure costs as capital assets. Infrastructure includes the County’s road network, bridges, drainage ditches, and sewer systems, if any. As provided for in Statement 34, the County is phasing in the historical costs related to it’s infrastructure. Currently, only the roads network includes historical costs and related depreciation. All current year acquisition costs identified for infrastructure have been included. Current year infrastructure acquisitions totaled \$4,896 while depreciation was \$19,351. 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.

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

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total</u>	
	2004	2003	2004	2003	2004	2003
Land	1,695	1,680	488	488	2,183	2,168
Structures & improvements	40,568	31,853	513	548	41,081	32,401
Equipment	9,421	11,188	4,812	4,984	14,233	16,172
Infrastructure	289,279	301,304			289,279	301,304
Construction in progress	4,606	12,558	2,766	632	7,372	13,190
Total	345,569	358,583	8,579	6,652	354,148	365,235

B. Long-Term Debt

At June 30, 2004, the County had total long-term debt outstanding of \$61,320 consisting of \$5,150 in Certificates of Participation, capital lease obligations of \$2,799, bonds payable of \$50,879 and notes payable of \$2,492. Additional long-term liabilities include compensated leave payable of \$10,415, actuarial claims liability of \$1,350 for the general insurance ISF, and landfill closure/post closure care liability of \$5,818.

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 2004-2005 Final Budget in the total amount of \$320,895, with a General Fund Contingency Appropriation of \$5,616. While this represents increased financing requirements of \$1,989 from the prior year, the General Fund Contingency Appropriation decreased by \$407. 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 STATEMENTS –
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

COUNTY OF BUTTE, CALIFORNIA

STATEMENT OF NET ASSETS JUNE 30, 2004

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
Cash and investments	\$ 65,656,186	\$ 13,596,697	\$ 79,252,883
Restricted cash with fiscal agent	1,205,454		1,205,454
Imprest cash	89,485	1,000	90,485
Accounts receivable	1,019,898	243,532	1,263,430
Due from other governments	8,315,582	230,838	8,546,420
Prepaid items	3,290		3,290
Deposits from others	2,797		2,797
Inventories	424,491		424,491
Internal balances	69,610	(69,610)	
Receivables from external parties	2,664,466	126,845	2,791,311
Loans receivable	2,682,411		2,682,411
Bond issuance cost, net	789,401		789,401
Capital assets, net	345,569,270	8,579,299	354,148,569
Total assets	428,492,341	22,708,601	451,200,942
 LIABILITIES			
Liabilities:			
Accounts payable	4,373,432	800,200	5,173,632
Salaries and benefits payable	3,514,975	23,524	3,538,499
Deferred revenue	4,696,140	728,313	5,424,453
Accrued interest	120,301		120,301
Long term liabilities:			
Due within one year	2,842,368	536,922	3,379,290
Due in more than one year	67,071,127	1,285,417	68,356,544
Claims and judgments	1,350,000		1,350,000
Landfill closure/post-closure care costs		5,818,319	5,818,319
Total liabilities	83,968,343	9,192,695	93,161,038
 NET ASSETS			
Invested in capital assets, net of related debt	287,229,222	6,799,310	294,028,532
Restricted	29,106,697	6,196,080	35,302,777
Unrestricted	28,188,079	520,516	28,708,595
Total net assets	\$ 344,523,998	\$ 13,515,906	\$ 358,039,904

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

COUNTY OF BUTTE, CALIFORNIA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Assets</u>		
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Primary government:							
Governmental activities:							
General government	\$ 19,988,028	\$ 6,166,470	\$ 424,529	\$ 203,210	\$ (13,193,819)		\$ (13,193,819)
Public protection	69,137,314	8,021,648	21,926,220	2,070,570	(37,118,876)		(37,118,876)
Public ways and facilities	28,079,018	925,783	8,359,059	878,088	(17,916,088)		(17,916,088)
Health and sanitation	55,942,561	5,929,611	48,269,384		(1,743,566)		(1,743,566)
Public assistance	126,530,856	2,289,201	127,948,160		3,706,505		3,706,505
Education	2,749,824	72,357	625,877		(2,051,590)		(2,051,590)
Culture and recreation	393,637	58,789	11,389		(323,459)		(323,459)
Total governmental activities	<u>302,821,239</u>	<u>23,463,859</u>	<u>207,564,618</u>	<u>3,151,868</u>	<u>(68,640,894)</u>		<u>(68,640,894)</u>
Business-type activities:							
Sanitation	5,129,527	4,373,835	98,718			\$ (656,974)	(656,974)
Transit	2,243,837	199,588	2,004,870			(39,379)	(39,379)
Total business-type activities	<u>7,373,364</u>	<u>4,573,423</u>	<u>2,103,588</u>	<u>0</u>		<u>(696,353)</u>	<u>(696,353)</u>
Total Butte County	<u>\$ 310,194,603</u>	<u>\$ 28,037,282</u>	<u>\$ 209,668,206</u>	<u>\$ 3,151,868</u>	<u>(68,640,894)</u>	<u>(696,353)</u>	<u>(69,337,247)</u>
General revenues:							
Taxes:							
Property taxes					18,770,212		18,770,212
Sales taxes					3,846,573		3,846,573
Special assessments					294,904		294,904
Other taxes and related revenues					2,715,949		2,715,949
Grants and contributions not restricted to specific programs					12,405,825		12,405,825
Unrestricted investment earnings					1,936,913	522,399	2,459,312
Gain on Disposal of Capital Assets					(5,569)		(5,569)
Miscellaneous					8,326,140	(11,506)	8,314,634
Special item - payment for unfunded actuarial liability					(49,100,000)		(49,100,000)
Total general revenues and special items					<u>(809,053)</u>	<u>510,893</u>	<u>48,801,840</u>
Change in net assets					<u>(69,449,947)</u>	<u>(185,460)</u>	<u>(69,635,407)</u>
Net assets--beginning					<u>413,973,945</u>	<u>13,701,366</u>	<u>427,675,311</u>
Net assets--ending					<u>\$ 344,523,998</u>	<u>\$ 13,515,906</u>	<u>\$ 358,039,904</u>

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

**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

COUNTY OF BUTTE, CALIFORNIA

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2004

	General Fund	Welfare Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 40,311,790	\$ 3,137,124	\$ 19,450,036	\$ 62,898,950
Restricted cash with fiscal agent	787,644		417,810	1,205,454
Imprest cash	44,270		5,215	49,485
Due from other funds	359,805	956,696	3,629,571	4,946,072
Accounts receivable	708,993		245,640	954,633
Due from other governments	4,982,972	2,278,446	1,054,164	8,315,582
Prepaid items	1,100		2,190	3,290
Deposits from others	2,500		297	2,797
Inventory			280,033	280,033
Receivables from external parties	2,344,495	20,068	274,132	2,638,695
Loans receivable			2,682,411	2,682,411
Total assets	\$ 49,543,569	\$ 6,392,334	\$ 28,041,499	\$ 83,977,402
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	\$ 4,636,826	\$ 140,195	\$ 718,770	\$ 5,495,791
Accounts payable and accrued liabilities	2,053,070	701,375	1,167,600	3,922,045
Salaries and benefits payable	2,233,092	743,660	446,867	3,423,619
Deferred revenue	706,388	3,989,752		4,696,140
Total liabilities	9,629,376	5,574,982	2,333,237	17,537,595
Fund balances:				
Reserved for:				
Encumbrances	6,409,889	781,996	4,630,914	11,822,799
Imprest cash	44,270		5,215	49,485
Deposits with others	2,500		297	2,797
Prepaid items	1,100		2,190	3,290
Long-term loans receivable			2,682,411	2,682,411
General restrictions	21,069,956		3,862,737	24,932,693
Debt service	787,644		417,810	1,205,454
Inventory			280,034	280,034
Unreserved:				
Designated	2,830,188	35,356	5,321,323	8,186,867
Undesignated, reported in:				
General fund	8,768,646			8,768,646
Special revenue funds			8,004,013	8,004,013
Capital project funds			501,318	501,318
Total fund balances	39,914,193	817,352	25,708,262	66,439,807
Total liabilities and fund balances	\$ 49,543,569	\$ 6,392,334	\$ 28,041,499	\$ 83,977,402

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 YEAR ENDED JUNE 30, 2004

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

Fund balance-total governmental funds	\$ 66,439,807
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds. These assets consist of:

Land	\$ 1,695,011	
Construction in progress	3,494,393	
Infrastructure, net of \$291,362,891 accumulated depreciation	289,279,228	
Buildings and improvements, net of \$13,779,438 accumulated depreciation	40,567,894	
Equipment, net of \$23,402,193 accumulated depreciation	<u>8,907,336</u>	
Total capital assets		343,943,862

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 penion obligation bond issuance costs.	789,401
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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.	2,891,292
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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, 2004 are:

Certificates of participation	(5,150,000)	
Bonds payable	(50,878,665)	
Notes payable	(2,492,282)	
Capital leases	(1,019,101)	
Compensated absences	<u>(10,000,316)</u>	
Total long-term liabilities		<u>(69,540,364)</u>

Net assets of governmental activities	<u>\$ 344,523,998</u>
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COUNTY OF BUTTE, CALIFORNIA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2004

	General Fund	Welfare Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 15,839,151		\$ 8,035,624	\$ 23,874,775
Licenses and permits	4,085,353		275,470	4,360,823
Fines, forfeits and penalties	2,505,122		236,535	2,741,657
Revenues from uses of money and property	1,342,728	\$ 37,593	860,334	2,240,655
Aid from other governments	83,952,475	110,419,895	27,195,431	221,567,801
Charges for services	18,726,984	563,200	3,268,393	22,558,577
Other	4,000,336	559,960	2,291,906	6,852,202
Total revenues	130,452,149	111,580,648	42,163,693	284,196,490
EXPENDITURES:				
General government	17,611,830		5,918,242	23,530,072
Public protection	56,555,752	304,770	16,406,467	73,266,989
Public ways and facilities			15,811,238	15,811,238
Health and sanitation	53,848,051		1,778,080	55,626,131
Public assistance	551,585	115,384,168	10,083,051	126,018,804
Education	197,404		2,420,837	2,618,241
Recreation and cultural services	355,716		100,162	455,878
Total expenditures	129,120,338	115,688,938	52,518,077	297,327,353
Excess (deficiency) of revenues over expenditures	1,331,811	(4,108,290)	(10,354,384)	(13,130,863)
OTHER FINANCING SOURCES (USES):				
Sales of fixed asset	42		16,241	16,283
Operating transfers in	592,660	3,752,217	7,200,899	11,545,776
Operating transfer out	(10,684,645)		(592,660)	(11,277,305)
Solar project notes			2,492,282	2,492,282
Pension obligation bonds proceeds			49,895,000	49,895,000
Total other financing sources (uses)	(10,091,943)	3,752,217	59,011,762	52,672,036
SPECIAL ITEM:				
Payment for unfunded actuarial liability			(49,100,000)	(49,100,000)
Net change in fund balances	(8,760,132)	(356,073)	(442,622)	(9,558,827)
Fund balance-beginning of year	48,674,325	1,173,425	26,150,884	75,998,634
Fund balance-ending of year	\$ 39,914,193	\$ 817,352	\$ 25,708,262	\$ 66,439,807

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 YEAR ENDED JUNE 30, 2004

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

Net change to fund balance-total governmental funds \$ (9,558,827)

Governmental funds reported capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$23,159,053) exceeded capital outlays (\$9,667,013) in the current period. (13,492,040)

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

Repayments:
To bond, certificate, and note holders 5,609,649

Bond proceeds provide current financial resources to governmental funds; however issuing debt increases long-term liabilities in the statement of net assets. In the current period, proceeds were received from:

Bonds issued, including bond issuance costs of \$789,401 (49,105,599)
Notes payable (2,492,282)

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

Compensated absences (701,971)

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. 291,123

Change in net assets of governmental activities \$ (69,449,947)

COUNTY OF BUTTE, CALIFORNIA

STATEMENT OF NET ASSETS PROPRIETARY FUNDS JUNE 30, 2004

	Business-Type Activities-Enterprise Funds			Governmental Activities
	Transit	Landfill	Total	Internal Service Funds
ASSETS				
Cash and investments	\$ 594,118	\$ 13,002,579	\$ 13,596,697	\$ 2,757,236
Imprest cash		1,000	1,000	40,000
Due from other funds	13,760	388,404	402,164	788,613
Accounts receivable	148,776	94,756	243,532	65,265
Due from other governments	230,838		230,838	
Inventory				144,458
Receivables from external parties	6,940	119,905	126,845	25,771
Capital assets, net	2,877,860	5,701,439	8,579,299	1,625,408
Total assets	3,872,292	19,308,083	23,180,375	5,446,751
LIABILITIES				
Due to other funds	60,889	410,885	471,774	169,284
Accounts payable	135,274	664,691	799,965	570,345
Accrued salaries and benefits		23,524	23,524	91,356
Accrued sales tax		235	235	1,342
Unredeemed passenger tickets	44,578		44,578	
Deferred revenue	683,735		683,735	
Long-term liabilities:				
Due within one year		536,922	536,922	
Due in more than one year		1,285,417	1,285,417	373,132
Claims and judgments				1,350,000
Landfill closure/post-closure care costs		5,818,319	5,818,319	
Total liabilities	924,476	8,739,993	9,664,469	2,555,459
NET ASSETS				
Invested in capital assets, net of related debt	2,877,860	3,921,450	6,799,310	1,625,406
Restricted		6,196,080	6,196,080	
Unrestricted	69,956	450,560	520,516	1,265,886
Total net assets	\$ 2,947,816	\$ 10,568,090	\$ 13,515,906	\$ 2,891,292

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 YEAR ENDED JUNE 30, 2004

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Transit	Landfill	Total	Internal Service Funds
OPERATING REVENUES				
Charges for services				\$ 16,985,891
Transit fares	\$ 269,197		\$ 269,197	
Landfill fees		\$ 4,884,328	4,884,328	
Contractor fees		9,000	9,000	
Other revenue	199,588	27,000	226,588	2,761
Total operating revenue	468,785	4,920,328	5,389,113	16,988,652
OPERATING EXPENSES				
Administration	87,142	1,329,277	1,416,419	
Salaries and employee benefits		798,315	798,315	3,544,565
Service and supplies				9,165,082
Claims and judgments				3,882,471
Operation and maintenance	1,816,609	1,978,921	3,795,530	
Depreciation	340,086	349,852	689,938	245,044
Other expenses				476,472
Landfill closure/post-closure care cost		673,162	673,162	
Total operating expenses	2,243,837	5,129,527	7,373,364	17,313,634
Operating loss	(1,775,052)	(209,199)	(1,984,251)	(324,982)
NONOPERATING REVENUE (EXPENSE)				
Intergovernmental	1,182,043		1,182,043	55,459
Interest income (expense)	19,175	503,224	522,399	106,535
Other income (expense)		(541,999)	(541,999)	
Grants	230,838	98,718	329,556	
Sale of capital asset	(16,000)		(16,000)	(21,851)
Total nonoperating revenue (expense)	1,416,056	59,943	1,475,999	140,143
Net loss before contributions and transfers	(358,996)	(149,256)	(508,252)	(184,839)
Capital contributions	322,792		322,792	744,433
Transfers out				(268,471)
Change in net assets	(36,204)	(149,256)	(185,460)	291,123
Total net assets-beginning of year	2,984,020	10,717,346	13,701,366	2,600,169
Total net assets-ending of year	\$ 2,947,816	\$ 10,568,090	\$ 13,515,906	\$ 2,891,292

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

COUNTY OF BUTTE, CALIFORNIA

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2004

	Business-Type Activities-Enterprise Funds			Governmental Activities
	Transit	Landfill	Total	Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash receipt from customers	\$ 450,194	\$ 5,005,168	\$ 5,455,362	\$ 17,026,623
Cash paid to suppliers for goods and services	(1,696,112)	(2,914,130)	(4,610,242)	(13,404,317)
Cash paid to employees for services		(772,801)	(772,801)	(3,458,260)
Internal activities - payments from (to) other funds	46,824	22,201	69,025	(307,944)
Net cash provided by (used in) operating activities	<u>(1,199,094)</u>	<u>1,340,438</u>	<u>141,344</u>	<u>(143,898)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Aid from other governmental agencies	1,412,881	98,718	1,511,599	55,459
Transfers				(268,471)
Non-operating revenues (expense)	306,792	(541,999)	(235,207)	744,433
Net cash provided by (used in) noncapital financing activities	<u>1,719,673</u>	<u>(443,281)</u>	<u>1,276,392</u>	<u>531,421</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Payments related to the acquisition of capital assets	(311,172)	(2,305,726)	(2,616,898)	(744,437)
Principal and interest paid on capital lease		(478,089)	(478,089)	
Net cash used in capital and related financing activities	<u>(311,172)</u>	<u>(2,783,815)</u>	<u>(3,094,987)</u>	<u>(744,437)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest received	19,175	503,224	522,399	106,535
Net increase (decrease) in cash and cash equivalents	228,582	(1,383,434)	(1,154,852)	(250,379)
Cash and cash equivalents, beginning of year	365,536	14,387,013	14,752,549	3,047,615
Cash and cash equivalents, end of year	<u>\$ 594,118</u>	<u>\$ 13,003,579</u>	<u>\$ 13,597,697</u>	<u>\$ 2,797,236</u>

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

COUNTY OF BUTTE, CALIFORNIA

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2004**

	Business-Type Activities-Enterprise Funds			Governmental Activities
	Transit	Landfill	Total	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided by (used in)				
Operating loss	\$ (1,775,052)	\$ (209,199)	\$ (1,984,251)	\$ (324,982)
Adjustment to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation	340,086	349,852	689,938	245,044
Changes in assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	22,247	84,840	107,087	37,971
Due from other funds	48,033	(250,102)	(202,069)	(224,814)
Due from other governments	(40,838)		(40,838)	
Inventory				83,831
Receivables from external parties	(6,940)	(119,905)	(126,845)	(25,771)
Prepaid expenses and other asses				569
Increase (decrease) in:				
Accounts payable/accrued sales tax/deferred revenue	207,639	394,068	601,707	9,308
Due to other funds	5,731	392,208	397,939	(57,359)
Accrued salaries and benefits		8,091	8,091	29,853
Compensated absences		17,423	17,423	56,452
Landfill closure/post-closure cost		673,162	673,162	
Claims and judgments				26,000
Net cash provided by (used in) operating activities	<u>\$ (1,199,094)</u>	<u>\$ 1,340,438</u>	<u>\$ 141,344</u>	<u>\$ (143,898)</u>

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

COUNTY OF BUTTE, CALIFORNIA

STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS JUNE 30, 2004

	Investment Trust	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and investments	\$ 197,462,287	\$ 23,164,059
Imprest cash	7,671	
Due from other governmental agencies	1,793,422	870,355
Accounts receivable	1,146,936	
Property tax receivable		6,920,888
	<u> </u>	<u> </u>
Total assets	<u>200,410,316</u>	<u>\$ 30,955,302</u>
LIABILITIES		
Due to other governmental agencies	154,943	\$ 5,300,145
Accounts payable and accrued liabilities	1,457,971	2,345
Sales tax accrual	13	
Salaries and benefits payable	30,900	
Notes payable	100,546	
Deferred revenue	306,292	
Agency funds held for others		25,652,812
	<u> </u>	<u> </u>
Total liabilities	<u>2,050,665</u>	<u>\$ 30,955,302</u>
NET ASSETS		
Held in trust for pool participants	<u>198,359,651</u>	
Total net assets	<u>\$ 198,359,651</u>	

COUNTY OF BUTTE, CALIFORNIA

**STATEMENT OF CHANGES IN NET ASSETS
INVESTMENT TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2004**

Additions:	
Contributions to pooled investments	\$1,111,857,844
Interest and investment income	<u>6,167,193</u>
Total additions	<u>1,118,025,037</u>
Deductions:	
Distribution from investment pool	<u>(1,113,638,681)</u>
Total deductions	<u>(1,113,638,681)</u>
Net decrease	4,386,356
Net assets, beginning of year	<u>193,973,295</u>
Net assets, ending of year	<u><u>\$ 198,359,651</u></u>

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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, 2004 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" and GASB Statement No. 39 "Determining Whether Certain Organizations are Component Units."

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 and GASB 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
Rancho De Thunder
East Chico – CSA #14
East Chico – CSA #15
West Chico – CSA #16
North Park
Oro – Quincy Road
Oro-Wyandotte

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

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

County Service Area (CSA) – Lighting (continued)

Ramada Street
Olive Glen Estates
Mulberry Street

Morris Subdivision
Almond Grove West
Lassenwood Subdivision

CSA – Drainage & Lighting

East and Guynn
Quail Run
Big Chico Creek Estates CSA
#7921 and #7922
Lindo West
Silvertree Subdivision
Stony Brook
Carriage Estates Subdivision
Holly Gardens
Meadowlark Acres
El Verano
Walnut Grove Units 1 & 2
Pistachio Grove Subdivision
Macintosh Avenue
South Fork Estates
Willow Bend Subdivision
West Chico Estates
Wildflower Estates Subdivision
Orchard House Estates
Ceres Avenue Subdivision

CSA – Drainage

Sierra Del Oro
Kefer 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
Kefer Creek

CSA – Lighting & Maintenance

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

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

CSA – Drainage & Lighting (continued)

Oak Way Park
Autumn Park
Melrose Estates
Durham Land Estates
Pheasant Landing Estates
Laurelwood Estates
Blossom Estates
Twin Palms
Chambers & Speedway

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
Durham-Dayton Industrial Partners for
Extended Structural Fire Protection
Forrest Young
Biggers Subdivision
Ishi Valley Estates
County of Butte – Animal Control
Justin Manor Subdivision
Keefer Creek Estates Lighting, Drainage
and Sewer

Excluded from the Reporting Entity

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

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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

Health & Sanitation

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

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

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

B. Basis of Presentation

Government-Wide Financial Statements

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

The statement of activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function, and allocated indirect expenses. Interest expense related to long-term debt is reported as a direct expense. The total amount of interest charged to expense for the year ended June 30, 2004 was \$303,440. Program revenues include 1) fees, fines and charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Fund Financial Statements

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

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

The County reports the following major governmental funds:

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

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

- 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.

C. **Basis of Accounting**

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

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.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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

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

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

D. **Cash and Cash Equivalents**

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

E. **Inventories and Prepaid Items**

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

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.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

F. **Property Taxes**

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

Alternative Method of Distribution of Tax Levies

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

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

G. **Loans Receivable**

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

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

H. Capital Assets

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

The estimated useful lives are as follows:

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

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

I. Compensated Absences

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

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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. Future GASB statement implementation

In July of 2004, the GASB issued GASB Statement 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented by the County during the fiscal year ending June 30, 2008. The new statement will significantly change the way state and local governments report their “other postemployment benefits” to the public. As a result of GASB 45, state and local governments will be required to (1) recognize the cost of these benefits in periods when the related services were rendered to the employer, (2) provide information about the actuarial accrued liabilities for promised benefits associated with past services and to what extent those benefits have been funded, (3) and provide information useful in assessing potential demands on the employer’s cash flow.

2. Cash and Investments

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

Total County deposits and investments are as follows:

Cash and investments	\$ 299,879,229
Restricted cash with fiscal agent	1,205,454
Imprest Cash	90,485
	<u>\$ 301,175,168</u>

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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 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, 2004 to support the values of shares in the Pool. However, management believes that the investments in the Pool are of high quality and that the risk of participation in the Pool is negligible. At June 30, 2004, the difference between the cost and fair value of cash and investments was not material and approximates fair value. Therefore, an adjustment to fair value was not made for GASB 31 compliance.

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

Deposits

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

At June 30, 2004, the carrying amount of the County's cash deposits in the Treasury (including amounts in checking and non-negotiable certificates of deposit) was \$12,492,510 and the bank balance was \$9,778,861. The difference between carrying amount of the County's deposits and the bank balance is a result of transactions in transit including \$2,724,103 in outstanding warrants. Of the bank balances, \$200,000 was covered by federal depository insurance and \$9,578,861 was collateralized (i.e., collateralized with securities held by pledging financial institutions at 110% of the investments, but not in the County's name).

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

Investments

The California Government Code authorizes the County to invest in obligations of the U.S. Treasury, its agencies and instrumentalities, commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Recorder's, non-negotiable certificates of deposit, bankers' acceptances, repurchase agreements, negotiable certificates of deposit, obligations of the State of California, obligations of local agencies within California, corporate notes, mutual funds, financial futures, financial option contracts and the State Treasurer's Local Agency Investment Fund. The County is also authorized to enter into reverse repurchase agreements; however, the County did not enter into such agreements during the year ended June 30, 2004.

Cash and investments with fiscal agent consists of reserve funds in the General Fund and Other Government Funds of \$1,205,454 for debt service. The funds are held by a third party custodian in accordance with the terms of debt or trust agreements.

Derivative Investments

The County did not directly enter into any derivative investments. The pooled treasury's pro-rata share of investment in the Local Agency Investment Fund (LAIF) managed by the Treasurer for the State of California at June 30, 2004 was \$76,370,956. The total amount invested by all public agencies in LAIF at June 30, 2004, was \$57,637,500,817. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of asset-backed securities at June 30, 2004 totaling \$923,459,000, approximately 1.60% of the total portfolio. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by State statute. The fair value of the position in LAIF at June 30, 2004 was .99% of the pool shares in LAIF. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the pooled treasury's portion in the pool.

Credit Risk, Carrying Amount, and Fair Values of Investments

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

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

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

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

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

	<u>Maturity Date</u>	<u>Stated Interest Rates</u>	<u>Carrying Amount</u>
Category 1 Investments:			
U.S. Government Agencies	8/15/04–4/15/09	2.25% - 7.50%	\$ <u>228,695,258</u>
Total Investments Subject to Categorization			228,695,258
Local Certificates of Deposit			500,000
Local Agency Investment Fund			76,370,956
Solar Project Loan			1,200,000
Cash in Bank			11,992,510
Cash on Hand			<u>36,653</u>
Total Treasury			318,795,377
Outstanding Warrants			(19,171,622)
Cash Deposits – Outside Accounts			<u>255,474</u>
Total Cash and Investments			<u>\$ 299,879,229</u>

The following are condensed statements of net assets and changes in net assets, for the County's investment pool as of and for the year ended June 30, 2004:

Statement of Net Assets

Net assets held for pool participants	\$ <u>299,879,229</u>
Equity of internal pool participants	\$ 101,519,578
Equity of external pool participants	<u>198,359,651</u>
Total Equity	<u>\$ 299,879,229</u>

Statement of Changes in Net Assets

Net assets at July 1, 2003	\$ 301,568,369
Net Change in investment by pool participants	<u>(1,689,140)</u>
Net Assets at June 30, 2004	<u>\$ 299,879,229</u>

COUNTY OF BUTTE, CALIFORNIA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

3. Interfund Transactions

Interfund Receivables/Payables

The composition of interfund balances as of June 30, 2004 are as follows:

Balances due to/from other funds:

Payable Fund	Receivable Fund	Amount
General	Welfare	\$ 800,678
	Other Governmental	3,315,539
	Transit	332
	Landfill	8
	Internal Service	520,269
		4,636,826
Welfare	General	25,742
	Other Governmental	33,017
	Internal Service	81,436
		140,195
Other Governmental	General	223,787
	Welfare	146,852
	Other Governmental	205,660
	Internal Service	142,471
		718,770
Transit	General	1,218
	Other Governmental	46,255
	Transit	13,416
		60,889

COUNTY OF BUTTE, CALIFORNIA

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004**

Receivable Fund	Payable Fund	Amount
Landfill	General	\$ 18,926
	Other Governmental	4,441
	Internal Service	519
	Landfill	386,999
		410,885
Internal Service	General	90,132
	Welfare	9,166
	Other Governmental	24,659
	Transit	12
	Landfill	1,397
	Internal Service	43,918
		169,284
	Total	\$ 6,136,849

Transfers to/from other funds:

Transfer From	Transfer To	Amount
General Fund	Other Governmental	\$ 6,317,527
Other Governmental	General Fund	592,660
General Fund	Welfare Fund	3,752,217
Internal Service Fund	Other Governmental	268,471
General Fund	Other Governmental	614,901
	Total	\$ 11,545,776

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

4. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers &</u> <u>Adjustments</u>	<u>Balance</u> <u>June 30, 2004</u>
Governmental Activities					
Capital assets, not being depreciated:					
Land	\$ 1,679,979	\$ 15,032			\$ 1,695,011
Construction in progress	<u>12,559,230</u>	<u>4,590,787</u>	\$ (276,033)	\$ (12,267,903)	<u>4,606,081</u>
Total capital assets, not being Depreciated	<u>14,239,209</u>	<u>4,605,819</u>	<u>(276,033)</u>	<u>(12,267,903)</u>	<u>6,301,092</u>
Capital assets, being depreciated:					
Infrastructure	577,405,582	4,896,236	(4,421,223)	2,761,524	580,642,119
Structures and improvements	44,849,624			9,497,708	54,347,332
Equipment	<u>34,425,088</u>	<u>1,183,016</u>	<u>(1,092,860)</u>	<u>244,587</u>	<u>34,759,831</u>
Total capital assets, being depreciated	<u>656,680,294</u>	<u>6,079,252</u>	<u>(5,514,083)</u>	<u>12,503,819</u>	<u>669,749,282</u>
Less accumulated depreciation for:					
Infrastructure	(276,101,722)	(19,351,008)	4,421,223	(331,384)	(291,362,891)
Structures and improvements	(12,997,326)	(1,037,264)		255,152	(13,779,438)
Equipment	<u>(23,236,688)</u>	<u>(3,029,479)</u>	<u>907,751</u>	<u>19,641</u>	<u>(25,338,775)</u>
Total accumulated depreciation	<u>(312,335,736)</u>	<u>(23,417,751)</u>	<u>5,328,974</u>	<u>(56,591)</u>	<u>(330,481,104)</u>
Total capital assets, being depreciated, net	<u>344,344,558</u>	<u>(17,338,499)</u>	<u>(185,109)</u>	<u>12,447,228</u>	<u>339,268,178</u>
Government activities capital assets, Net	<u>\$ 358,583,767</u>	<u>\$ (12,732,680)</u>	<u>\$ (461,142)</u>	<u>\$ 179,325</u>	<u>\$ 345,569,270</u>
Business-Type Activities					
Capital assets, not being depreciated:					
Land	\$ 488,133				\$ 488,133
Construction in progress	<u>632,412</u>	<u>\$ 2,153,050</u>		\$ (19,713)	<u>2,765,749</u>
Total capital assets, not being Depreciated	<u>1,120,545</u>	<u>2,153,050</u>		<u>(19,713)</u>	<u>3,253,882</u>
Capital assets, being depreciated:					
Structures and improvements	906,455	52,935		(3,527)	955,863
Equipment	<u>6,499,740</u>	<u>473,705</u>	\$ (24,803)	<u>(14,749)</u>	<u>6,933,893</u>
Total capital assets, being depreciated	<u>7,406,195</u>	<u>526,640</u>	<u>(24,803)</u>	<u>(18,276)</u>	<u>7,889,756</u>
Less accumulated depreciation for:					
Structures and improvements	(359,071)	(83,725)			(442,796)
Equipment	<u>(1,515,330)</u>	<u>(606,213)</u>			<u>(2,121,543)</u>
Total accumulated depreciation	<u>(1,874,401)</u>	<u>(689,938)</u>			<u>(2,564,339)</u>
Total capital assets, being depreciated, net	<u>5,531,794</u>	<u>(163,298)</u>	<u>(24,803)</u>	<u>(18,276)</u>	<u>5,325,417</u>
Business-Type activities capital assets, net	<u>\$ 6,652,339</u>	<u>\$ 1,989,752</u>	<u>\$ (24,803)</u>	<u>\$ (37,989)</u>	<u>\$ 8,579,299</u>

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

Depreciation expense was changed to functions as follows:

Governmental Activities:	
General government	\$ 553,587
Public protection	2,365,828
Public ways	19,717,149
Health and sanitation	191,536
Public assistance	337,341
Education	116,882
Recreation	<u>135,428</u>
Total	<u>\$ 23,417,751</u>
Business-Type Activities:	
Transit	\$ 340,086
Sanitation	<u>349,852</u>
Total	<u>\$ 689,938</u>

5. Long-Term Debt

A. Summary of Long-Term Debt

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

	Balance <u>July 1, 2003</u>	Additions	Deletions	Balance <u>June 30, 2004</u>	Amounts Due Within <u>One Year</u>
Governmental Activities:					
Capital lease obligation	\$ 2,365,795		\$ 1,346,694	\$ 1,019,101	\$ 330,663
Bonds payable	1,051,620	\$ 49,895,000	67,955	50,878,665	73,089
Notes payable		2,492,282		2,492,282	100,000
Compensated absences	9,615,024	758,423		10,373,447	1,728,616
Certificates of participation	<u>9,345,000</u>		<u>4,195,000</u>	<u>5,150,000</u>	<u>610,000</u>
Total Governmental Activities Long-Term Liabilities	<u>\$ 22,377,439</u>	<u>\$ 53,145,705</u>	<u>\$ 5,609,649</u>	<u>\$ 69,913,495</u>	<u>\$ 2,842,368</u>
Business-Type Activities:					
Compensated absences	\$ 24,927	\$ 17,423		\$ 42,350	
Capital Lease Obligation	<u>2,258,078</u>		<u>\$ 478,089</u>	<u>1,779,989</u>	<u>\$ 536,922</u>
Total Business-Type Activities Long-Term Liabilities	<u>\$ 2,283,005</u>	<u>\$ 17,423</u>	<u>\$ 478,089</u>	<u>\$ 1,822,339</u>	<u>\$ 536,922</u>

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

B. Capital Lease Obligations

The County leases equipment under capital leases. The following is a summary, by year, of future minimum lease payments, together with the present value of the minimum lease payments, as of June 30, 2004:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2005	\$ 384,371	\$ 536,922
2006	374,951	536,922
2007	363,094	536,922
2008		<u>268,461</u>
Total minimum lease payments	1,122,416	1,879,227
Less: Amount representing interest	<u>(103,315)</u>	<u>(99,238)</u>
Present value of minimum lease payments	<u>\$ 1,019,101</u>	<u>\$ 1,779,989</u>

The following is a schedule of net remaining property leased under capital leases at June 30, 2004:

	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>
Governmental Activities:		
Energy Management Facility	\$ 2,555,775	\$ 357,808
Vehicles	132,450	56,575
Business-Type Activities:		
Caterpillar Equipment	2,526,539	382,473

C. Bonds Payable

At June 30, 2004, bonds outstanding consist of the following:

Butte County Service Area No. 26 bonds:		
1974 Sewer Bonds		\$ 340,000
1975 Sewer Bonds, Series A		405,000
1975 Sewer Bonds, Series B		195,000
1975 Sewer Bonds, Series C		43,665
Pension Obligation Bonds:		
Pension Obligation Bonds Series A		28,020,000
Pension Obligation Bonds Series B		<u>21,875,000</u>
Total		<u>\$ 50,878,665</u>

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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. During the fiscal year ended June 30, 2004, the County issued pension obligation bonds for the purpose of funding its unfunded actuarial liability with CalPERS. The pension obligation bonds bear interest at a variable rate. The first payment of interest for Series A is due June 30, 2005, at a rate of 6.03%. The first payment of interest for Series B is due June 30, 2005, at a rate of 3.42%. Principal payments for both Series A and B are due beginning in fiscal year 2014 and ending in fiscal year 2034. The debt service requirements over the next five years and thereafter are as follows.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 73,089	\$ 2,248,989	\$ 2,322,078
2006	73,244	2,439,117	2,512,361
2007	73,406	2,439,117	2,512,523
2008	83,576	2,440,489	2,524,065
2009	83,755	2,437,745	2,521,500
2010-2014	836,786	12,195,585	13,032,371
2015-2019	3,834,809	11,878,103	15,712,912
2020-2024	8,085,000	10,667,008	18,752,008
2025-2029	14,390,000	8,160,013	22,550,013
2030-2034	<u>23,345,000</u>	<u>3,747,889</u>	<u>27,092,889</u>
Total	<u>\$ 50,878,665</u>	<u>\$ 58,654,055</u>	<u>\$109,532,720</u>

An additional \$7,865,000 was received in July, 2004, in the form of pension obligation bonds. Interest, at a variable rate starting at 3.42%, as well as principal will be due annually, beginning June 30, 2005, through 2014.

D. Notes Payable

At June 30, 2004, notes outstanding consist of the following:

California Energy Commission-Phase I Solar project	\$ 1,292,282
Butte County Treasury-Solar project gap financing	<u>1,200,000</u>
Total	<u>\$ 2,492,282</u>

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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 \$1,292,282 received before June 30, 2004. The remaining portion, \$1,874,718, was received subsequent to June 30, 2004. Principal and interest, at 3.95%, 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 2004 through 2008, with a balloon payment of \$750,000 in 2009. The debt service requirements over the next five years and thereafter are as follows.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 100,000	\$ 44,062	\$ 144,062
2006	163,794	273,800	437,594
2007	271,681	142,063	413,744
2008	278,264	131,730	409,994
2009	985,640	120,603	1,106,243
2010-2014	<u>692,903</u>	<u>225,893</u>	<u>918,796</u>
Total	<u>\$ 2,492,282</u>	<u>\$ 938,151</u>	<u>\$ 3,430,433</u>

E. **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.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

F. Certificates of Participation

On June 30, 2003, the County issued \$5,150,000 in Certificates of Participation (COP's) with interest rates ranging from of 2.0% to 3.4% to advance refund \$4,195,000 of outstanding 1993 COP's and \$1,026,882 of outstanding lease obligations for fire trucks with interest rates ranging from 3.8% to 5.5%. The net proceeds of \$5,091,245 (after payment of \$166,950 in underwriting fees, insurance, and other issuance costs) plus an additional \$883,208 of 1993 COP's reserve fund monies were used to pay off that outstanding debt.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 610,000	\$ 121,423	\$ 731,423
2006	620,000	109,122	729,122
2007	630,000	96,623	726,623
2008	640,000	83,922	723,922
2009	350,000	73,147	423,147
2010-2014	1,885,000	216,719	2,101,719
2015	<u>415,000</u>	<u>7,055</u>	<u>422,055</u>
	<u>\$ 5,150,000</u>	<u>\$ 708,011</u>	<u>\$ 5,858,011</u>

G. Short Term Debt

The County issues 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. In July, 2004, the County issued \$18,774,492 in notes in anticipation of operation expenditures during the 2004-2005 fiscal year. The notes will be redeemed in two installments; January, 2005 and June, 2005.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

6. Landfill Closure and Post-closure Costs

State and federal laws and regulations require the County to place a final cover on its Neal Road landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the County reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$5,818,319 reported as landfill closure and post-closure care liability at June 30, 2004, represents the cumulative amount reported to date based on the use of 32.88 percent of the estimated capacity of the landfill. The County will recognize the remaining estimated cost of closure and post-closure care of \$11,878,254 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 2004. The County expects to close the landfill in the year 2018. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

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, 2004, investments of \$6,196,080 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.

Annually, the Landfill adjusts the estimated closure and post-closure costs due to changes in inflation and capacity. At June 30, 2004, total estimated costs for closure and post-closure increased from \$17,400,760 at June 30, 2003 to \$17,696,573 and the remaining capacity of the landfill decreased from 70.43 percent to 67.12 percent at June 30, 2003 and 2004, respectively. These changes resulted in an increase to the landfill closure and post-closure care liability of \$673,162 at June 30, 2004.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

7. Net Assets/Fund Balances

Net Assets

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

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

Fund Balances

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

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

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.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

- *Reserve for Deposits with Others* reflects the portion of the fund balance that is not available for expenditure because of the restrictions placed on the fund in order to obtain certain guarantees.
- *Reserve for Loans Receivable* reflects a segregation of a portion of fund balance to indicate that assets equal to the long-term Housing and Community Development loans are not available for appropriation.
- *Reserve for 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 Prepaid Items* reflects balances of the prepaid items accounts, which reflect resources already expended, but not consumed.
- *Reserve for Inventories* reflects balances of inventory account, which reflect resources already expended, but not consumed.

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

Plan Description

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

Funding Policy

Employees under the Miscellaneous Plan are required to contribute 7% and employees under the Safety Plan are required to contribute 9% of their annual covered salary. The County is required to contribute at an actuarially determined rate; the current rate is 4.10% for non-safety employees and 16.017% for safety employees, of annual covered payroll. The contribution requirements of plan members and the County are established and may be amended by CalPERS.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

Annual Pension Cost

For the year ended June 30, 2004, the County's annual pension cost of \$4,785,485 for CalPERS was equal to the County's required and actual contributions. The required contributions was determined as part of the June 30, 2003 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, 2003 was 22 years for the Miscellaneous Plan and 9999 years for the Safety Plan.

Three-Year Trend Information for PERS

<u>Fiscal Year</u>	<u>Annual Pension Cost</u>	<u>Percentage of APC (APC)</u>	<u>Obligation</u>
6/30/02	\$ 1,266,532	100%	\$ --
6/30/03	1,943,944	100%	--
6/30/04	4,785,485	100%	--

9. Post-Retirement Health Benefits

In addition to the pension benefits described in Note 8 the County provides post-retirement health insurance benefits, in accordance with County ordinance, to employees who retire from the County before attaining age 65 with at least 10 years of continuous service who have accrued sick leave in excess of 240 hours and elect the post-retirement insurance benefits rather than the sick leave payout option. Refer to Note 5, compensated absences, for specific details. The County pays the full premium for health and dental coverage incurred by retirees under 65 years of age or not covered by another governmental or employer-paid health plan. Expenditures for post-retirement health care benefits are recognized as retirees report premiums paid for reimbursement. During the fiscal year, expenditures of \$750,168 were recognized for post-retirement health care covering 370 retirees.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

10. Risk Management

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

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

- General Liability Insurance
- Unemployment Insurance

The County maintains a self-insured retention (SIR) of \$100,000 per occurrence for its general liability program. For general liability claims, the County is a participant in the California State Association of Counties – Excess Insurance Authority (CSAC) excess liability insurance program. The County covers the first \$100,000 of claims. The purpose of the pool is to spread the adverse effects of losses among the member agencies. The County pays an annual basic premium for excess coverage and is assessed an annual risk premium based on an actuarial review that estimates each of the program's participant's ultimate liabilities. Should actual losses among participants be greater than anticipated, the County will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, the County will be refunded its pro rata share of the excess. Commercial insurance covers claims between \$100,000 and \$15,000,000. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

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

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

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

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

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 estimated claims incurred but not yet reported as of June 30, 2004. The claims liability includes all allocated loss adjustment expenses. Changes in the insurance funds' claims liability amount during the fiscal years ended June 30, 2003 and 2004 were as follows:

	<u>Claims Liability July 1</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Current Year Claim</u>	<u>Claims Liability June 30</u>
2003-2004	\$ <u>1,324,000</u>	\$ <u>(47,357)</u>	\$ <u>73,357</u>	\$ <u>1,350,000</u>
2002-2003	\$ <u>1,304,000</u>	\$ <u>(110,787)</u>	\$ <u>130,787</u>	\$ <u>1,324,000</u>

11. Contingencies

Grants

The County participates in a number of grant programs funded, in whole or part, by federal, state and other sources. These programs are subject to program compliance audits by the grantors or their representatives. The audits of these programs for or including the year ended June 30, 2004, have not yet been conducted. Additionally, certain audits related to prior years have not been finalized. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although, the County expects such amounts, if any, to be immaterial.

Litigation

The County is a defendant in various matters of litigation. Of these matters, management and County's legal counsel do not anticipate any material effect on the June 30, 2004 financial statements.

COUNTY OF BUTTE, CALIFORNIA

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

12. Subsequent Events

Legislation was passed in August, 2003, that reduces the amount of state sales tax received by local governments. This mechanism is known as the Triple Flip because the State “flipped” the sales and use tax from local governments to the bond trustee for debt service payments. Additionally, in order to compensate lost revenues, a direct dollar for dollar replacement was made from the County Education Revenue Augmentation Fund. Since local ERAF fund amounts would be reduced, any additional revenue that would be lost from each ERAF would be replaced by direct subventions from the State of California’s General Fund to local governments. At this time, the full extent of fiscal impact on local governments is not determinable.

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 will have 5 disbursements of approximately \$1,241,625, spanning over the next 5 years with the first remitted 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.

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF BUTTE
COUNTY EMPLOYEE'S RETIREMENT PLAN
(DEFINE BENEFIT PENSION PLAN)
SCHEDULE OF FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2004

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)
6/30/2001:						
Misc.	\$ 229,061,614	\$ 203,886,229	\$ (25,175,385)	112.3%	\$ 65,723,946	-38.3%
Safety	45,429,013	44,899,983	(529,030)	101.2%	8,381,951	-6.3%
Total	<u>\$ 274,490,627</u>	<u>\$ 248,786,212</u>	<u>\$ (25,704,415)</u>	<u>110.3%</u>	<u>\$ 74,105,897</u>	<u>-34.7%</u>
6/30/2002:						
Misc.	\$ 216,691,430	\$ 228,722,348	\$ 12,030,918	94.7%	\$ 74,219,905	16.2%
Safety	43,919,098	51,872,187	7,953,089	84.7%	8,556,653	92.9%
Total	<u>\$ 260,610,528</u>	<u>\$ 280,594,535</u>	<u>\$ 19,984,007</u>	<u>92.9%</u>	<u>\$ 82,776,558</u>	<u>24.1%</u>
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>

COUNTY OF BUTTE, CALIFORNIA

BUDGET COMPARISON SCHEDULE-GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Taxes	\$ 15,453,385	\$ 15,453,385	\$ 15,839,151	\$ 385,766
Licenses and permits	3,673,641	3,673,641	4,085,353	411,712
Fines, forfeits and penalties	1,855,872	1,855,872	2,505,122	649,250
Revenues from uses of money and property	1,837,600	1,837,600	1,342,728	(494,872)
Aid from other governments	89,533,138	93,611,250	83,952,475	(9,658,775)
Charges for services	18,287,549	18,624,041	18,726,984	102,943
Other	3,132,781	3,327,005	4,000,336	673,331
Total revenues	133,773,966	138,382,794	130,452,149	(7,930,645)
EXPENDITURES:				
General government	25,500,554	28,650,800	17,611,830	11,038,970
Public protection	61,031,300	66,495,754	56,555,752	9,940,002
Health and sanitation	64,956,532	66,246,268	53,848,051	12,398,217
Public assistance	470,778	570,778	551,585	19,193
Education	213,817	213,817	197,404	16,413
Recreation and cultural services	390,778	380,778	355,716	25,062
Total expenditures	152,563,759	162,558,195	129,120,338	33,437,857
Excess (deficiency) of revenues over expenditures	(18,789,793)	(24,175,401)	1,331,811	25,507,212
OTHER FINANCING SOURCES (USES):				
Sales of fixed assets			42	42
Operating transfers in	714,385	714,385	592,660	(121,725)
Operating transfers out		(40,000)	(10,684,645)	(10,644,645)
Total other financing sources (uses)	714,385	674,385	(10,091,943)	(10,766,328)
Net change in fund balances	(18,075,408)	(23,501,016)	(8,760,132)	14,740,884
Fund balances, beginning of year	48,674,325	48,674,325	48,674,325	0
Fund balances, ending of year	\$ 30,598,917	\$ 25,173,309	\$ 39,914,193	\$ 14,740,884

COUNTY OF BUTTE, CALIFORNIA

BUDGET COMPARISON SCHEDULE-WELFARE FUND FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES:				
Revenues from uses of money and property			\$ 37,593	\$ 37,593
Aid from other governments	\$ 115,298,048	\$ 115,633,176	110,419,895	(5,213,281)
Charges for services	623,217	623,217	563,200	(60,017)
Other	353,556	353,556	559,960	206,404
Total revenues	<u>116,274,821</u>	<u>116,609,949</u>	<u>111,580,648</u>	<u>(5,029,301)</u>
EXPENDITURES:				
Public protection	336,765	336,765	304,770	31,995
Public assistance	121,734,412	122,099,540	115,384,168	6,715,372
Total expenditures	<u>122,071,177</u>	<u>122,436,305</u>	<u>115,688,938</u>	<u>6,747,367</u>
Excess (deficiency) of revenues over expenditures	<u>(5,796,356)</u>	<u>(5,826,356)</u>	<u>(4,108,290)</u>	<u>1,718,066</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	4,362,150	4,372,150	3,752,217	(619,933)
Total other financing sources (uses)	<u>4,362,150</u>	<u>4,372,150</u>	<u>3,752,217</u>	<u>(619,933)</u>
Net change in fund balances	(1,434,206)	(1,454,206)	(356,073)	1,098,133
Fund balances, beginning of year	<u>1,173,425</u>	<u>1,173,425</u>	<u>1,173,425</u>	<u>0</u>
Fund balances, ending of year	<u>\$ (260,781)</u>	<u>\$ (280,781)</u>	<u>\$ 817,352</u>	<u>\$ 1,098,133</u>

COUNTY OF BUTTE, CALIFORNIA

Note to Required Supplementary Information For the Year Ended June 30, 2004

BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

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