

## **READERS' GUIDE**

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Local government, like most industry, has a vocabulary of its own. This section of the budget is designed to help the average reader use this document by explaining how the document is organized and by defining some of the more common terms used in local government finance.

### **FINANCIAL DOCUMENTS**

The budget is the financial plan for County operations for the fiscal year beginning July 1, 2011, and ending June 30, 2012. The budget shows the source of revenue and how these sources will be spent. It also contains outcomes, goals, and objectives the County departments have set for the year. The budget and the audit are the key financial documents that the County uses to illustrate its financial plans and status. The budget looks ahead to the coming year and shows how funds plan to be spent, while the audit shows the County's year-end financial condition. The audit document is produced annually a few months after the end of each fiscal year (October or November) while the budget is produced annually at the beginning of each fiscal year (final copies are usually made available to the public in mid-July).

### **SUMMARY OF LEGAL BUDGET REQUIREMENTS**

North Carolina counties budget and spend money under the Local Government Budget and Fiscal Control Act (LGBFCA), as adopted by the North Carolina General Assembly. The major effects of the LGBFCA on the budgetary process are as follows:

#### Budget Forms and Procedures

The budget officer must prescribe the forms and procedures for the departments to use in preparing their request. In the words of GS 159-10, requests shall be made in such form and detail, with such supporting information and justifications, as the budget officer may prescribe. GS 159-10 also requires that a budget request show actual expenditures for the prior year, estimated ones in the current year, and requested ones for the coming budget year.

#### Departmental Requests

GS 159-10 requires that the budget request for a department include revenues or fees that it will collect in the budget year.

#### Budget Preparation Calendar

The LGBFCA establishes the dates by which each stage in the annual budget process is to be completed (GS 159-10 through 13). These dates are as follows:

- Departmental requests, other than the public schools, must be submitted to the budget officer before April 30<sup>th</sup>.
- School administrative units and community colleges must submit their proposed budgets and their requests for County appropriations and supplemental tax levies no later than May 15<sup>th</sup>.
- The recommended budget must be given to the Board of Commissioners no later than June 1<sup>st</sup>.
- The Commission must enact the budget ordinance by July 1<sup>st</sup>, when the budget year begins.

## FISCAL YEAR 2011/12 BUDGET CALENDAR

### **Wednesday, October 20, 2010**

Revenue and Expenditure Forecast presented to County Manager

### **Wednesday & Thursday, December 15 and 16, 2010**

Department Head Retreat

### **Monday, January 10, 2011**

Mid-year report on outcomes due from all departments

### **Friday, January 21, 2011**

Fiscal Year 2011/12 outcomes due from all departments.

### **Friday, February 11, 2011**

All budgets are due from all departments, schools, and outside agencies. All requests keyed into system, including all detail and justification sheets. Please be reminded...when requesting additional positions, job descriptions and an ADA checklist **must** be sent to the Budget Office and to Personnel.

### **Monday, March 21, 2011**

Recommended budget sent to County Manager

### **Monday, Tuesday, and Wednesday, March 28, 29, and 30 2011**

First round budget hearings with County Manager

### **Monday, April 18, 2011**

Second round hearings with Manager as needed

### **Monday, May 16, 2011**

County Manager's recommended budget sent to Board of Commissioners

### **Tuesday, May 17, 2011**

Press Conference

### **Tuesday, May 31, 2011 (8:00 a.m. – 5:00 p.m.)**

Board of Commissioners' hearings with departments

### **Thursday, June 2, 2011**

Public Hearing and Wrap-up

### **Monday, June 6, 2011**

Budget Adoption

### Recommended Budget

GS 159-11 requires that the budget officer's recommended budget be balanced unless the Board of Commissioners insists that an unbalanced budget be submitted. It is also required that the budget be submitted to the Commissioners with a budget message. GS 159-11(b) states that the message should include:

- A concise explanation of the governmental goals fixed by the budget for the budget year.
- Important features of the activities anticipated in the budget.
- The reasons for stated changes from the previous year in program goals, programs, and appropriation levels.
- Any major changes in fiscal policy.

### Board Review

Once the budget is before the Board of Commissioners, several general legal provisions apply to Board review and adoption of the budget ordinance.

- At least ten days must pass between submission of the budget and adoption of the budget ordinance.
- On the same day the budget is submitted to the Board of Commissioners, the budget officer must file a copy of it in the office of the Clerk to the Board where it is available to the public and press.
- The Clerk to the Board must publish a notice that the budget has been delivered to the Board of Commissioners and is available for public inspection. This advertisement must also note the time and place of the required public hearing.
- During the interval between submission and adoption, the Board may conduct its review at both regular and special meetings. At least one of these dates must be a public hearing at which any person who wishes to comment may.
- The Open Meeting Law (GS 143-318.9 through 318.18) applied to the budget preparation and adoption process.

### Adoption of the Budget Ordinance

The budget ordinance must contain the appropriations, the estimated revenues, and the property tax levy as well as rate.

### **BUDGET PROCESS**

As required by the Local Government Budget and Fiscal Control Act (GS 159, Article 3), the governing board must adopt by July 1<sup>st</sup> an annual balanced budget ordinance for all funds except for those funds that operate under project ordinances.

Budgetary control is exercised in all funds except the agency funds. Appropriations are made at the departmental (function) level and amended as necessary. The current budget amounts represent the budget as of December 31<sup>st</sup> of the current budget year. The budget was prepared on the modified accrual basis of accounting as required by North Carolina General Statute 159-26(c). Appropriations lapse at year-end in the General and Special Revenue Funds for which annual budgets have been legally adopted, with the exception of those departments participating in the reinventing program. The Capital Projects Funds'

budgets are adopted on a project basis, spanning more than one year. Appropriations are carried over in these funds until the project is completed.

The County follows these procedures in establishing a budget:

1. The Budget and Management Office is a division of the County Manager's Office. The Budget and Management Office consists of a Budget Manager, a Budget Analyst I, and a Budget Analyst II.
2. In October the County Board of Commissioners holds a retreat to discuss issues, priorities and countywide goals for the upcoming fiscal year. These goals become the driving force behind initiatives to be considered and included during the budget cycle.
3. During the month of November the Budget Office prepares Revenue and Expense projections for the upcoming fiscal year. Revenues are projected for our main funding sources, property and sales tax, based on trends and economic forecasts for our area. Expense projections include capital projects that are part of the Eight Year Operating Capital Improvement Plans and considers any monetary impact resulting from the goals established by the Board of Commissioners.
4. A planning retreat is held in December that includes all County department heads and superintendents of our three school systems and community college. Revenue and expense projections are shared and, based on available revenues, a starting point for the budget is determined including allowable increases for salaries, benefits, and operating budgets.
5. The Budget Office establishes a beginning base for each department that includes the allowable increases for salaries, benefits and operating budgets. In developing their budget requests the staff is instructed that any funding requests for program or service expansions or equipment beyond the base amount is to be thoroughly justified and will be weighed against other competing needs and available funding. The role of the budget analyst will be to analyze the requests and justifications and make sound funding recommendations to the County Manager.
6. In December, departments are given pertinent budget information, funding parameters, and the goals established by the Board of Commissioners.
7. In January, the reinventing departments submit requested outcomes, and departments not in the reinventing program as well as outside agencies submit budget requests to the Budget and Management Office.
8. During February and March, the Budget and Management Office analyzes requests for the non-reinventing departments and outside agencies, negotiates outcomes with the departments, and prepared a recommended budget for the County Manager.
9. During March and April, the County Manager conducts a series of budget hearings with the department managers and agency directors. He then submits a recommended budget to the Board of Commissioners. The budget includes proposed expenditures and the means of financing them.
10. The Board of Commissioners conducts budget hearings with the department managers and agency directors in May or June.
11. A Public Hearing is conducted to obtain taxpayer comments.
12. Prior to June 30<sup>th</sup>, the budget is legally enacted through passage of an ordinance.

13. Budgets for General, Special Revenue, and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). The Board of Commissioners annually adopts a budget by ordinance appropriating funds, and may during the year authorize supplemental appropriations. Supplemental appropriations are reviewed by the Director of Finance and the Budget and Management Office, submitted to the Finance and Personnel Subcommittee, and then transmitted to the Board of Commissioners for their review and approval. If approved, they are implemented by budget revision.

### **ACCOUNTING STRUCTURE AND SYSTEMS**

As a means of tracking and accounting for money, the operations of the County are divided into Funds. The easiest way for most people to think about funds is to compare them to bank accounts. Money comes into a fund from a variety of sources and is then used to provide services to the public. As with a personal bank account, funds have to take in at least as much money as they spend, and by law, budgets for funds must be balanced. What this means is a governmental unit cannot plan to spend more than it will take in. Catawba County has 43 funds with the largest being the General Fund.

The General Fund is often referred to as the operating fund because almost all County services are accounted for in this fund. The General Fund is also where most of the revenues are received. Other funds are used to keep track of capital expenditures and to build reserves. For example, the Schools' Capital Projects Fund is where new schools and improvements to existing schools are funded. The Water and Sewer Reserve Fund is where money is accumulated over several years until it is transferred to the Water and Sewer Capital Projects Fund and spent on water and sewer needs. Again, using the example of the bank account, a transfer is when money is moved from one account (fund) to another. In the case of the Reserve and Projects Funds, a transfer can be equated to taking money out of a savings account and putting it into a checking account.

Within Funds are Departments (i.e., Sheriff's Department, Public Health Department) and within Departments are Organizations (i.e., Narcotics Organization, Nursing Organization). Each of these accounting units facilitates the tracking of costs and effectiveness of services provided to the public.

Within Organizations are accounts or line items. These are the basic units of measure in the budget and make it possible to determine, for example, how much money is spent on books in the Main Branch of the Library.

This document does not show every line item, but groups the line items in easier-to-read, general categories. For example, all money received from the State is shown in that major category, despite the fact that there may be several different line items or types of State revenue. Expense categories shown in the budget are: Personal Services, Supplies and Operations, and Capital Outlay. *Personal Services* include salaries, benefits, and contracted services. *Supplies and Operations* include office supplies, books, travel, utilities, and other similar costs. *Capital Outlay* accounts for the purchase of equipment that costs more than \$5,000.

Another term is *function*. The budget document is divided into functions (each function has a divider page). A function is a group of departments that accomplish a similar general purpose. For example, the Public Safety Function is made up of the Sheriff's Department and the Emergency Services Department. The functions of the General Fund make up the first seven sections of this document, and all remaining funds are in the section title Other Funds. Each department has a summary sheet that shows the total funding for that department and how the dollars will be spent. The organizations within each department have pages listing the objectives/outcomes to be achieved and major categories of funding sources and expenses.

## FUNDS AND FUND BALANCES

The County uses four basic fund types: General, Special Revenue, Capital, and Enterprise. Each of these fund types has its own specific legal and accounting requirements. Appropriations lapse at year-end in the General, Special Revenue, and Enterprise Funds, for which annual budgets have been legally adopted. The Capital Projects Funds budgets are adopted on a project ordinance basis, spanning more than one year. Appropriations are carried over in these funds until the project is completed. Each fund also has its own fund balance. Fund balance represents monies that remain unspent after all budgeted expenditures have been made. These unspent monies serve as a working capital reserve to pay expenditures in the early part of the fiscal year before taxes are collected. The fund balances are also available for appropriation or may be saved for major capital expenditures. The Finance Director estimates fund balances for the current year and upcoming fiscal year based on expected revenue and expenditure occurrences throughout the year. Appropriations shown are amounts being deducted from the fund balance during the upcoming fiscal year.

### General Fund

The General Fund is the principal fund used to account for the provisions of governmental services. This fund summarizes the financial transactions of functional services, based on departmental operations, except for those transactions that must be accounted for separately in other funds. Fund balance in the General Fund at the end of Fiscal Year 2010 was \$39,583,672 or 24.4 percent of the General Fund expenditures for that fiscal year. The Fiscal Year 2011/12 budget appropriates \$5,244,348 General Fund Fund Balance. The Local Government Commission, an office of the North Carolina State Treasurer's Office, recommends that counties the size of Catawba maintain a minimum of 8 ½ percent general fund fund balance.

General Fund Types	6/30/2010	Est. 06/30/11	Appropriated	
			FY 2011/12	Est. 06/30/12
General Fund (110)	29,583,672	0	5,244,348	32,750,000
Self Insurance (115)	(179,588)	0	0	0
Reappraisal (140)	195,539	0	26,000	165,000
Register of Deeds Automation (160)	48,330	0	0	55,000

### Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust, or major capital projects) that are legally restricted to expenditures for special purposes. Fund balances in the special revenue funds at the end of Fiscal Year 2010 totaled \$11,171,856.

<b>Special Revenue Fund Types</b>	<b>6/30/2010</b>	<b>Est. 06/30/11</b>	<b>Appropriated</b>	
			<b>FY 2011/12</b>	<b>Est. 06/30/12</b>
Emergency Telephone (202)	3,190,911	0	85,268	3,300,000
Community Alert System (204)	20,668	0	0	20,000
Narcotics (205)	295,470	0	87,487	275,000
General Capital Reserve (225)	675,766	0	0	625,000
Hospital Capital Reserve (235)	5,299,252	0	0	5,300,000
Rescue Squads (240)	266,492	0	0	260,000
Library Endowment (250)	232,602	0	0	237,500
Gretchen Peed Scholarship (260)	41,576	0	0	42,500
Parks Preservation (270)	140,769	0	0	150,000
Community Development (280)	7,544	0	0	7,500
Fire Districts (352-369)	805,267	0	182,041	700,000
<b>Total</b>	<b>10,976,317</b>	<b>0</b>	<b>354,796</b>	<b>10,917,500</b>

### Capital Projects Funds

The Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. The County maintains a separate Schools' Capital Projects Fund, General Capital Projects Fund, Hospital Construction and Operations Fund, Water and Sewer Construction Fund, and Capital Projects Reserve Fund for accounting and budgeting purposes.

<b>Capital Projects Fund Types</b>	<b>6/30/2010</b>	<b>Est. 06/30/11</b>	<b>Appropriated</b>	
			<b>FY 2011/12</b>	<b>Est. 06/30/12</b>
General Capital Projects (410)	18,747,814	0	175,000	19,500,000
Water & Sewer Construction (415)	17,039,132	0	0	17,500,000
Schools' Capital Projects (420)	11,153,268	0	864,483	10,000,000
Schools' Construction (423)	6,165,958	0	6,612	10,000,000
School Bond Capital - 1997 Series (427)	68,075	0	0	0
Hospital Construction (430)	23,277	0	0	24,000
<b>Total</b>	<b>53,197,524</b>	<b>0</b>	<b>1,046,095</b>	<b>57,024,000</b>

### Enterprise Fund

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing service to the general public on a continuing basis be financed or recovered primarily through user charges. The County has two enterprise funds, the Solid Waste Management Fund and the Water and Sewer Fund. The

Water and Sewer Fund was established with the Fiscal Year 2008/09 Budget. As of June 30, 2010, the Solid Waste Management Fund had a fund equity of \$32,929,469.

<b>Enterprise Fund Types</b>	<b>6/30/2010</b>	<b>Est. 06/30/11</b>	<b>Appropriated</b>	
			<b>FY 2011/12</b>	<b>Est. 06/30/12</b>
Water & Sewer (515)	32,017,936	0	542,998	37,000,000
Solid Waste (525)	32,929,469	0	0	35,000,000
<b>Total</b>	<b>64,947,405</b>	<b>0</b>	<b>542,998</b>	<b>72,000,000</b>

## REVENUES

Catawba County has nine revenues sources: Property Tax, Sales Tax, Other Taxes (Privilege Licenses, 911 Surcharge, Fire District Tax), Intergovernmental Revenues (funds received from the State and Federal government), Permits and Fees, Miscellaneous (ABC Profits, Cable TV Franchise, Donations), Fund Balance, Other Sources (Transfers, Special Contingency, Insurance Premiums), and Fines and Forfeitures (fees collected by the Courts and distributed entirely to schools). Property Tax is levied and collected by the County on all real estate and personal property (vehicles, machinery). The value of real property was set in 1990 and the projected for 2011/12 is based on average increases in new construction and renovations over the last five years.

Two and one quarter cent sales tax is levied by the County, collected by the State, and then returned to the County. Sales tax revenue is directly related to the growth of the economy.

Revenues from the State and Federal government almost always carry restrictions on how they can be used. Most of these revenues are tied to programs which the State or Federal Agency has ordered the County to implement.

Where possible, the County charges fees for services it provides and uses the revenue from these fees to offset the cost of providing the service. A good example of this is the fee charged for ambulance service. Revenues from these ambulance fees are estimated to be \$5,075,000 in Fiscal Year 2011/12. These revenues will help offset the \$7.5 million it costs to operate the Emergency Medical Service.

All revenues are shown in the Department and Cost Center where they are collected. For example, property revenue is shown in the Tax Collector's Cost Center.

## EXPENSES

As mentioned, County governments are often ordered by the State to carry out certain programs. These programs are often referred to as State Mandates. When the State mandates a program, it often provides some funding for that program. Because large amounts of restricted funds are received from the State, the term "County Share" has been created to identify how much County tax revenue is spent on programs. Because of this unique relationship between the State and the County, it is often possible for a department to add personnel or a new program without significantly increasing the amount of County tax revenue needed.

Budgeted expenses in departments and cost centers may fluctuate from year to year because of capital expenditures. While most expenses are fairly stable, increasing slightly because of inflation, the purchase of capital can make the budget look especially large or small in a given year.

### **BASIS OF ACCOUNTING**

Basis of Accounting refers to when revenues, expenditures, and the related assets and liabilities are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All funds of the County are budgeted for and accounted for during the year on the modified accrual basis of accounting in accordance with North Carolina General Statute 159-26(c). Under the modified accrual basis, revenues are recognized in the accounting period in which they become measurable and available to pay liabilities of the current period. Expenditures are recognized in the accounting period in which the costs for goods or services are incurred (except for unmatured principal and interest on general long-term debt, which are recognized when due). On a budget basis, the Solid Waste Management Fund is accounted for using modified accrual. As an enterprise fund, at the end of the year, transactions are reporting in the basic financial statements using full accrual.

The level of control, or level at which expenditures may not legally exceed the budget, is the department level for the General Fund and the fund level for all other funds. Any change in appropriation level of the fund must be approved by the Board of Commissioners. The County Manager or the Director of Budget and Management Services may approve any changes within a fund that do not require an alteration of the appropriation level. Appropriations lapse at year-end, except appropriations for the Capital Improvement Plan Fund, which are carried forward until such time as the project is completed.

### **COMPENSATED ABSENCES**

It is the policy of the County to permit employees to accumulate up to 30 days earned but unused vacation leave, with such leave being fully vested when earned. For the County, the current portion of the accumulated vacation pay and salary-related payments is not considered to be material; therefore, no expenditure or liability is reported in the County's governmental funds. The County's liability for accumulated earned vacation and the salary related payments as of the end of the year is recorded in the government-wide financial statements. For the County's proprietary fund, an expense and a liability for compensated absences and the salary related payments are recorded within those funds as the leave is earned, if the amount is considered to be material. The sick leave policy of the County provides for an unlimited accumulated of earned but unused sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither entity has any obligation for accumulated sick leave until it is actually taken, no accrual for sick leave is made by the County.

**ENCUMBRANCES**

Encumbrances are financial commitments for services, contracts, or goods that have not as yet been delivered or performed. Purchase orders that remain unperformed at year-end are carried forward to the new fiscal year. A portion of fund balance is reserved to pay for any commitments related to purchase order and contracts that are unperformed at year-end.