

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, 2015, and ending June 30, 2016. 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 30th.
- 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 15th.
- The recommended budget must be given to the Board of Commissioners no later than June 1st.
The Commission must enact the budget ordinance by July 1st, when the budget year begins.

FISCAL YEAR 2015/16 BUDGET CALENDAR

Friday, July 25 – Wednesday, October 28, 2014

Initial Budget Office discussions with departments CIP and Revenue & Expense Forecast development, and Department Head Retreat Prep

Tuesday & Wednesday, December 16 and 17, 2014

Department Head Retreat

Monday, January 5, 2015

Fiscal Year 2015/16 outcomes due from all departments

Monday, January 12, 2015 – Friday, January 16, 2015

Department budget workshops with County Manager

Wednesday, January 14, 2015

Mid-year report on Fiscal Year 2014/15 outcomes due from all departments

Friday, January 30, 2015

Requests due from schools and outside agencies

Thursday, March 19, 2015

Schools and outside agency budget recommendations sent to County Manager

Thursday, March 19, 2015 – Wednesday, March 25, 2015

Department budget meetings with Budget Office

Thursday, March 26, 2015 – Friday, March 27, 2015

Schools and outside agency budget hearings with County Manager

Friday, March 27, 2015

Department budget recommendations sent to County Manager

Monday, April 6, 2015 – Thursday April 9, 2015

Department 1st budget hearings with County Manager

Wednesday, April 15, 2015

Final department requests keyed into system, including all detail and justification sheets.

Tuesday, April 21, 2015 – Thursday, April 23, 2015

2nd round hearings with County Manager as needed

Monday, April 27, 2015

Recommended budget overview sent to County Manager

Monday, May 18, 2015

County Manager's recommended budget sent to Board of Commissioners

Tuesday, May 19, 2015

County Manager's Press Conference

Tuesday, May 26, 2015 (8:00 a.m. – 5:00 p.m.)

Board of Commissioners' hearings with departments

Thursday, May 28, 2015

Public Hearing and Wrap-up

Monday, June 1, 2015

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 1st 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 31st 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 Officer is the County Manager and as such, the Budget and Management Office is part of the County Manager's Office. The Budget and Management Office consists of a Budget Manager and two Budget and Management Analyst positions. It is supervised by an Assistant County Manager and receives assistance from the County's ICMA Management Fellow.
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. Each Fall, the Budget and Management Office works with departments and management to update the County's long range financial plans including Eight Year Capital Improvement and Operating Plans.
4. During the months of October and November the Budget and Management 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.
5. A planning retreat is held in December that includes all County department heads and superintendents of the County's 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.
6. The Budget and Management 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 budget staff is to analyze the requests and justifications and make sound funding recommendations to the County Manager.
7. In December, departments are given pertinent budget information, funding parameters, and the goals established by the Board of Commissioners.
8. 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.
9. During February and March, the Budget and Management Office analyzes requests for the non-reinventing departments and outside agencies, negotiates outcomes with departments, and prepares a recommended budget for the County Manager.
10. 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.
11. The Board of Commissioners conducts budget hearings with the department managers and agency directors in May or June.
12. A Public Hearing is conducted to obtain taxpayer comments.
13. Prior to June 30th, the budget is legally enacted through passage of an ordinance.
14. 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, build reserves, and account for enterprise functions. For example, the Schools' Capital and Construction Projects Funds are where new schools and improvements to existing schools are funded. Funds are also reserved in the Schools Construction Fund for future debt service needs related to

school building projects. The Water and Sewer Capital Projects Fund is where water and sewer construction projects are budgeted. Again, using the example of the bank account, a transfer is when money is moved from one account (fund) to another to be saved or spent for a specific purpose.

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.

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General Fund

The General Fund is the principal fund used to account for the provision 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. General Fund (and like Funds) Fund Balance at the end of Fiscal Year 2014 was \$35,133,485 or 21.6 percent of General Fund expenditures for that fiscal year. The Fiscal Year 2015/16 budget appropriates \$5,994,343 in fund balance to help finance County operations and schools' annual capital projects. Additionally, \$150,000 fund balance is appropriated in the General Fund Like Funds. This is sustainable while remaining above the minimum County goal of 16 percent and the Local Government Commission recommendation of 8 percent.

General Fund (and like Funds)	Act. 6/30/2014	Est. 06/30/15	Appropriated	
			FY 2015/16	Est. 06/30/16
General Fund (110)	32,275,361	35,000,000	\$5,994,343	33,000,000
Self Insurance Fund (115)	2,604,581	2,400,000	150,000	2,250,000
Reappraisal Fund (140)	192,739	160,000	0	160,000
Register of Deeds Automation and Preservation (160)	60,804	60,000	0	60,000
Total	35,133,485	37,620,000	6,144,343	35,470,000

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. The budget appropriates over \$2 million in Emergency Telephone fund balance to finance technology purchases for the new E-911 Communications Center.

Special Revenue Fund Types	Act. 6/30/2014	Est. 06/30/15	Appropriated	
			FY 2015/16	Est. 06/30/16
Emergency Telephone (202)	2,301,223	2,300,000	2,096,397	203,603
Community Alert System (204)	12,522	15,000	0	15,000
Narcotics (205)	84,791	95,000	26,000	69,000
Rescue Squads (240)	184,152	200,000	0	200,000
Library Endowment (250)	239,217	225,000	15,000	210,000
Gretchen Peed Scholarship (260)	46,048	46,500	0	46,500
Parks Preservation (270)	49,596	50,000	49,000	1,000
Community Development (280)	17,469	18,000	0	18,000
Fire Districts (352-369)	1,145,873	1,200,000	103,008	1,096,992
Total	4,080,891	4,149,500	2,289,405	1,860,095

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.

Capital Projects Fund Types	Act. 6/30/2014	Est. 06/30/15	Appropriated	
			FY 2015/16	Est. 06/30/16
General Capital Projects (410)	49,288,441	28,000,000	0	28,000,000
Schools' Capital Projects (420)	7,702,719	5,000,000	100,000	4,900,000
Schools' Construction (423)	7,449,824	20,000,000	0	20,000,000
School Bond Capital - 1997 Series (427)	0	0	0	0
Hospital Construction & Reserve (430 & 235)	5,486,592	5,500,000	500,000	5,000,000
Total	69,927,576	58,500,000	600,000	57,900,000

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.

Enterprise Fund Types	Act. 6/30/2014	Est. 06/30/15	Appropriated	
			FY 2015/16	Est. 06/30/16
Water & Sewer (515 & 475)	37,043,742	35,000,000	695,506	34,304,494
Solid Waste (525 & 485)	6,149,387	5,500,000	1,243,922	4,256,078
Total	43,193,129	40,500,000	1,939,428	38,560,572

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 2015.

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

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from these ambulance fees are estimated to be \$5,082,066 in Fiscal Year 2015/16. These revenues will help offset the \$9.28 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 Budget Director 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.

LONG-TERM FINANCIAL PLANNING

The budget establishes a property tax rate of \$0.575 for every \$100 of valuation that it plans to hold constant for four years--until the next revaluation cycle in 2019. The County began preparing an eight-year Service and Capital Improvement Plan (CIP) in 2007 to anticipate and plan for future capital expenditures, which is updated on an annual basis. This rate will enable the County to address significant service expansion and capital pressures, important to maintaining the quality of life the community has grown accustomed to and ensure the County does not fall behind in providing basic services including maintaining an 8-minute average EMS response time, improving case management and clearance rates of criminal cases, reinstating a 6-day per week operating schedule for all County Parks, and increasing investment in education. As of July 1, 2015, \$108.78 million in capital needs are forecasted over the next eight years, which includes approximately \$55.99 million in school and community college construction needs and a \$17 million jail expansion. Additionally the County has planned for operating costs for the new Justice Public Safety Center and debt/operating costs for the jail expansion. All of these pressures are discussed in detail in the budget message.

It is the County's responsibility to house all inmates as required by state law and the justice system. The County experienced a surge in inmate population beginning in mid-2012 (an 18.4 percent increase in Fiscal Year 2012/13, with an additional 7.3 percent in Fiscal Year 2013/14 for Catawba). The Catawba County Detention Center was designed with this in mind, with the capacity to readily expand the existing design by 256 beds in anticipation of future expansion needs. Since the last jail expansion, Catawba County has been renting a limited number of beds to the federal government at the Newton jail and banking the proceeds to help fund the expansion and reduce total costs to taxpayers. To date, \$2.38 million has been set aside, with an additional \$650,000 planned in Fiscal Year 2015/16. The County's foresight in setting these funds aside will result in \$1.23 million in savings to citizens through interest cost avoidance, based upon the fact that the County will have to borrow almost \$3 million less. The budget also includes dedication of 1.5 cents on the tax rate toward the jail expansion, planned in Fiscal Year 2017/18.

As the county continues to grow, planning for infrastructure is essential to encouraging orderly economic development, preventing urban sprawl, and accommodating that growth in adequate facilities. In 2007, the county adopted a new ¼ cent sales tax, approved overwhelmingly by local referendum, which is currently providing approximately \$4.5 million a year in revenue to keep up with growth in the County without relying solely on the property tax. Most of these funds are being used to expand the County's Justice Center, a \$42 million construction project currently underway. The new center will house new courtrooms (a county