Financial Management in County Government: A Top Ten Primer
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Purpose of Presentation

• To present the top 10 subject areas of financial management in county government, including:
  • Process of budget presentation and adoption
  • Overview of fund balance, LGC, and capital planning
  • Requirements for the annual audit

1) The Local Government Budget & Fiscal Control Act

• Board of commissioners has and shall exercise the responsibility of developing and directing the fiscal policy of the county under provisions of the Local Government Budget & Fiscal Control Act (G.S. 153A-101).
1) The Local Government Budget & Fiscal Control Act

- State legislation that contains the fiscal requirements in which local officials must follow regarding the multiple aspects of public budgeting and financial management (Chapter 159).

1) The Local Government Budget & Fiscal Control Act

- Examples of fiscal requirements include:
  - Each local government shall appoint a budget officer. For counties, the county manager is statutorily the budget officer.
  - Unless otherwise directed, the budget officer shall submit a proposed balanced budget to the governing board.
  - In each year of a revaluation, the budget officer shall include a revenue-neutral tax rate in the budget for comparison purposes.

2) Budget Preparation and Adoption

- The statutory budget calendar is budget requests to budget officer by April 30;
- Proposed budget to governing board, along with the budget message, no later than June 1; and
- Adopted budget ordinance on or before July 1.
2) Budget Preparation and Adoption

Presentation to the Board and notice of availability for public inspection

10 days must pass before budget may be adopted

Public hearing must be held before budget ordinance is adopted

2) Budget Preparation and Adoption

Estimated Revenues

+ Appropriated Fund Balance

= Appropriations

3) Revenues

• It is recommended that county commissioners understand the mechanics of major revenue sources and receive periodic updates on budget-to-actual variances.

• The property tax and sales tax represent the major revenue sources in county government.
**3) Revenues**

- Property tax
  - Valuation is county responsibility and is established by January 1 for the following fiscal year.
  - Tax levy = (assessed value / 100) x tax rate.
  - The estimated percentage of collection for property taxes, which cannot exceed the current collection percentage, is multiplied by the tax levy to determine the revenue estimate for balancing the budget.

- Sales Tax
  - County levy that is collected by state.
  - All counties levy a 2.0 percent sales tax, where 1.5 percent is returned to county on point of delivery and 0.5 percent on per capita basis.
  - County shares with municipalities based on per capita or ad valorem formula.

**4) Fund Balance**

- Assets – Liabilities = Fund Balance
- Fund balance represents potential spendable equity
4) Fund Balance

- Working capital
- Emergencies
- Source of capital financing
- Bond rating
- Balancing the budget

Local governments should adopt by resolution a fund balance policy that clearly states its percentage threshold.

Average fund balance as percent of average expenditures was approximately 34.5 percent for counties as of fiscal year ended June 30, 2020.

5) Local Government Commission

- The LGC, which is a division of the Department of State Treasurer, provides state oversight of North Carolina local finance.
5) Local Government Commission

- Roles of LGC include:
  - Approves and sells local government debt
  - Regulates local financial management
  - Can take over local unit in financial trouble
  - Sends out memos and warning letters
  - Helps local governments improve financial condition

6) Appropriations

- Budgets are more than a financial plan for the coming fiscal year. They are strategic plans for organizational direction and performance plans for service efficiency and effectiveness.
- Budget calendars are commonly expanded to accommodate long-term goals and performance objectives.

7) Capital Planning

- Local governments often use a separate process, known as capital budgeting, for acquiring major capital assets.
- When the capital budget includes a multi-year forecast (5 years) of capital needs, it becomes a capital improvement program.
7) Capital Planning

• Rationale for separate capital planning process
  • Policy decisions extend for years
  • Capital assets differ from year-to-year
  • Spending varies from year-to-year
  • Debt financing is often used
  • Implementing a capital budget takes time

8) Capital Planning

• Pay-as-you-go financing
  • Annual budget
  • Fund balance
  • Capital reserve fund (G.S. 159-18)

8) Capital Planning

• Debt financing:
  • General Obligation Bonds
  • Revenue Bonds
  • Installment Financing
  • Project Development Bonds
  • Special Obligation Bonds
9) Financial Reporting

• Local governments in North Carolina are required by statute to follow generally accepted accounting principles (GAAP).
• GAAP requires the use of fund accounting.
• Each fund is a separate fiscal and accounting entity, with its own self-balancing accounts.

9) Financial Reporting

• Three broad categories of funds
  • Governmental (general fund, special revenue fund, debt service fund, capital projects fund, and permanent fund).
  • Proprietary (enterprise fund and internal service fund).
  • Fiduciary (pension trust fund, investment trust fund, private-purpose trust fund, and agency fund).

9) Financial Reporting

• Local governments are required to prepare Basic Financial Statements
  • Management’s discussion & analysis
  • Government-wide financial statements
  • Fund financial statements
  • Note disclosures
• Some local government prepare annual comprehensive financial reports
10) Annual Audit

- Purpose of an audit is to ensure that financial statements report the financial position of a local government in accordance with generally accepted accounted principles (GAAP).

- Audits must be conducted by an independent certified public accountant, chosen by the entity’s governing board.
- Reports are due to the Local Government Commission no later than October 31st.
- Auditor is required to make a presentation to the board at a public meeting within 45 days after the audit is completed.

- Auditor’s presentation should include:
  - Review of the management letter, including identifying areas of material weaknesses, significant deficiencies, other findings of note, and if applicable, financial performance “indicators of concern.”
  - The unit of government is then expected to develop a response to what the auditor presented, signed by majority of board members, and submitted to the LGC staff within 60 days of presentation.