Financial Management in County Government: A Top Ten Primer

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ESSENTIALS OF COUNTY GOVERNMENT

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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

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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).

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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).

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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.

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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.

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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

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2) Budget Preparation and Adoption

Estimated Revenues

+

Appropriated Fund Balance

=

Appropriations

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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.

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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.

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3) Revenues

- 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.

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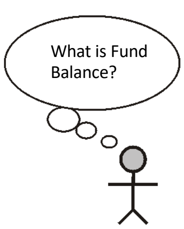
4) Fund Balance



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

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4) Fund Balance

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

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4) Fund Balance

- 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.

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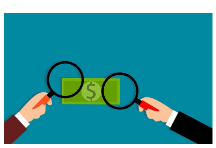
5) Local Government Commission

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



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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

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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.

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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.

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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

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8) Capital Planning

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

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8) Capital Planning

- Debt financing.
  - General Obligation Bonds
  - Revenue Bonds
  - Installment Financing
  - Project Development Bonds
  - Special Obligation Bonds

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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.

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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).

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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

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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)

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10) Annual Audit

- 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 board at a public meeting within 45 days after the audit is completed.

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10) Annual Audit

- 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.

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