

Budget and Financial Policies

Reporting Entity

The cost of public education in North Carolina is financed primarily by the state, which establishes minimum programs. Local funds, in varying amounts by district, supplement the basic program and are appropriated by local boards of county commissioners. Local boards of education in North Carolina have no tax levying or borrowing authority and are required to maintain accounting records in a uniform format.

The budget is prepared on the modified accrual basis of accounting prescribed by legal requirements, rather than in accordance with Generally Accepted Accounting Principals (GAAP).

The board is a local education agency empowered by the North Carolina general statutes with the responsibility to oversee and control all activities related to public school education in Wake County, North Carolina. The board receives county, state, and federal government funding and must adhere to the legal requirements of each funding entity.

Public School Financing: Public/ Private Sector Differences

➤ **Fund Accounting**

Private sector presents as single, unitary entity for financial reporting purposes. Private sector financial statements are taken as a whole.

Governmental financial reporting focuses on grouping of various funds rather than as whole. Fund accounting developed from legal compliance and resource limitation issues.

➤ **Spending Focus**

Private sector focuses on earnings and changes in business's total net resources.

Governments focus on changes in current spendable resources rather than total resources. Government limitation has short-term focus typically on operating budget.

➤ **Budgetary Reporting**

Private sector budget is simply a financial plan allowing for change and flexibility during fiscal year.

Governmental budget is heart of a system of checks and balances with limited flexibility. Governments demonstrate compliance with legally adopted budgets through mandated budget-to-actual comparison statements.

Budgetary Control

The North Carolina School Budget and Fiscal Control Act mandates a uniform budget format and requires the adoption of an annual budget resolution for all funds except monies included within the expendable trust fund. Budgets are adopted on a basis consistent with GAAP, except for revenues and expenditures of the debt service fund which is included in the budget of the capital projects fund and the enterprise fund which is budgeted on the modified accrual basis.

Legal provisions conflict with GAAP in that there is no authorization for the board to maintain a debt service fund even though the statutes allow continuing contracts for capital outlay purchases.

As required by the statutes, the board maintains encumbrance accounts under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in the governmental funds in order to reserve that portion of the applicable appropriation. Outstanding encumbrances at the end of the year do not constitute expenditures and are either charged to an appropriation in the following year or the contractual commitment is cancelled. The encumbrances are reported as reservations of fund balance since the commitments will be fulfilled through subsequent years' budget appropriations.

The primary revenue sources for the school system are budgeted allocations and appropriations from the State of North Carolina, Wake County, and the federal government. Unexpended allocations lapse at the end of the fiscal year; unexpended federal program allocations lapse on the program termination date. Wake County appropriations, which are unexpended at the end of the fiscal year, are included in the ending fund balances of the general and capital outlay funds.

The appropriations in the various funds are formally budgeted and controlled at the functional level. Expenditures may not legally exceed appropriations at the functional level for all of the board's funds. Subject to the provisions of the statutes, the board may amend the budget resolution at any time after its adoption. State law also requires that the board and the board of county commissioners approve the transfers to or from the capital outlay fund. By resolution of the board, the superintendent may transfer monies from one appropriation to another within the same fund, subject to certain limitations described below. If such transfers require the board's approval, they must be reported at the next meeting.

The board of education may amend the budget resolution at any time after its adoption. The board of education authorizes the superintendent to:

- A. Transfer appropriations under the following conditions:
 1. The superintendent may not transfer any amounts between funds or from any contingency appropriation within a fund without board of education approval.
 2. The superintendent may transfer amounts between purposes and between functions within a purpose. A summary of all such transfers must be reported to the board of education within sixty days.

- 3. The superintendent may transfer any amounts in state or federal projects upon prior approval of the appropriate funding agency. If such transfers require board of education approval under other provisions of this resolution, they must be reported within sixty days.

B. Accept appropriations into the budget under the following conditions:

- 1. The superintendent may accept all state appropriations. A summary of such appropriations must be reported to the board of education within sixty days.
- 2. The superintendent may accept federal appropriations if the application for funding has been approved by the board of education. A summary of such appropriations must be reported to the board of education within sixty days.
- 3. The superintendent may accept categorical program appropriations if the program has been approved by the board of education. A summary of such appropriations must be reported to the board of education within sixty days.
- 4. The superintendent may accept other appropriations upon prior approval of the board of education.

Board Policies

The Wake County Board of Education has adopted the following policies as a part of official board policy as it relates to the budget process:

Annual Budget	Board Policy 8100
The superintendent shall prepare an annual budget and submit it with a budget message to the board not later than April 15.	
8100.1 The budget shall comply in all respects with the limitations imposed by law.	
8100.2 The budget is a detailed annual operating plan expressed in terms of estimated revenues and expenses, stated in financial terms, for conducting programs and related services in the school system.	
8100.3 The budget is a forecast of the projected cost of implementing the goals, objectives, and policies of the board, as well as any needed improvements in programs and support services planned by the board.	
8100.4 The annual budget process and the resulting budget should serve as a means to improve communication within the school organization and between the school system and the citizens of the school community.	
Program Budgeting System	Board Policy 8110
The continuing central focus of the board is to improve the learning performance of individual students. Current levels of achievement will be assessed in comparison to goals and objectives to identify needs or problem areas requiring adjusted allocation of resources. Resources will be allocated to areas of greatest need. The performance of programs will be evaluated during the budget year to provide a base for subsequent budget development.	

Budget Preparation Procedures ***Board Policy 8120***
Budget planning shall be an integral part of program planning so that the budget may effectively express and implement all programs and activities of the school system. Budget planning shall be a year-round process involving broad participation by administrators, teachers, other personnel throughout the school system, and citizens.

Budget Display ***Board Policy 8130***
On the same day that the budget is submitted to the board, a copy of the budget shall be filed in the superintendent's office where it shall remain available for public inspection until the budget resolution is adopted.

Budget Hearings ***Board Policy 8140***
The board shall hold at least one public hearing on the proposed budget prior to final action.

Budget Submission to County Commissioner ***Board Policy 8150***
Upon receiving the budget from the superintendent and following the public hearing authorized by law, the board shall consider the budget, make such changes therein as it deems advisable, and submit the entire budget as approved by the board of education to the board of county commissioners not later than May 15, or such later date as may be fixed by the board of county commissioners.

Commissioners' Budget Action ***Board Policy 8160***
The commissioners shall complete action on the school budget on or before July 1, or such later date as may be agreeable to the board of education. The commissioners shall determine the amount of county revenues to be appropriated in the county budget ordinance to the school system for the budget year. The board of county commissioners may, in its discretion, allocate part or all of its appropriation by purpose, function, or project as defined in the uniform budget format.

Resolution of Budget Dispute ***Board Policy 8161***
Resolution of disputes between the board and the commissioners shall be accomplished in accordance with law.

Adoption of Budget Resolution ***Board Policy 8170***
Adoption of the budget resolution shall be in accordance with the provision of state law.
8170.1 After the board of county commissioners has made its appropriations to the school system, the board of education shall adopt a budget resolution making appropriations for the budget year in such sums as the board deems sufficient and proper.
8170.2 The budget resolution shall conform to the uniform budget format established by the State Board of Education.

Budget Transfers and Amendments	Board Policy 8180
Budget transfers or amendments to the budget resolution, when deemed necessary by administration or the board, shall be carried out in accordance with the provisions of state law and provisions of the adopted budget resolution.	

Interim Budget	Board Policy 8190
In case the adoption of the budget resolution is delayed until after July 1, the board shall make interim appropriations for the purpose of paying salaries and the usual ordinary expenses of the school system for the interval between the beginning of the fiscal year and the adoption of the budget resolution. Interim appropriations so made and expended shall be charged to the proper appropriations on the budget resolution.	

Cash Management Practices and Policies

Cash temporarily idle during the year is invested primarily in the North Carolina Voluntary Short-term Investment Fund (STIF). In addition, other bank accounts that the school maintains earn interest. The statutes authorize the board to invest in obligations of the United States, obligations of any agency of the United States if payment of interest and principal of such obligations is fully guaranteed by the United States; obligations of North Carolina; bonds and notes of any North Carolina local government public authority, subject to certain restrictions; shares of any savings and loan association organized under the laws of this state and shares in any federal savings and loan association organized under the laws of this state, to the extent that the investment is fully insured by the United States or an agency thereof or by any mutual deposit guaranty association authorized by the state; certain other federal agencies; and any form of investment allowed by law to the state treasurer.

Fund Balance

The North Carolina School Budget and Fiscal Control Act restricts appropriation of fund balance or fund equity to an amount not to exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues as these amounts stand at the close of the fiscal year preceding the budget year. Administration recommends maintaining a fund balance of 2.6 percent of the gross operating budget for 1997-98, and increasing 2/10 percent each year thereafter.

Public School Building Bond of 1996

The General Assembly passed the Public School Building Bond Act of 1996 to provide for the issuance of \$1.8 billion in state bonds to be used for making grants to counties for qualified public school capital outlay projects. The Department of Public Instruction is responsible for project approval and the distribution of funds. The principal amounts of bonds or notes issued by the state in any twelve-month period may not exceed \$450 million.

Of the total \$1.8 billion authorized, \$30 million will be allocated as grants to counties that have small county school systems, after considering whether the counties demonstrate both greater than average school construction needs and high property tax rates. The primary allocation of \$1.77 billion will be distributed to all counties based on the average daily membership, the ability to pay, and the growth rate of the school administrative units located within each county.

The distribution of the primary allocation is subject to the satisfaction of certain match requirements by the counties. Match requirements may be satisfied by non-state expenditures for public school facilities made on or after January 1, 1992. Wake County's matching requirement of \$.50 for each dollar of allocated bond proceeds has been fulfilled.

Because the county has met its matching requirement, the board recognizes revenues equal to the liabilities incurred for approved project expenditures. Wake County requests bond funds by project to be transferred to an account established by Wake County Board of Education for payment of invoices.

**School Facilities
Finance Act of 1987**

The General Assembly passed the School Facilities Finance Act of 1987 (Act) to assist county governments in meeting their public school facility capital needs. The Act created two state-funded programs for the construction and renewal of school facilities; the Public School Building Capital Fund administered by the Office of State Budget and Management (OSBM) and the Critical School Facilities Needs Fund administered by the State Board of Education.

**Public School Building
Capital Fund**

This program is funded using a portion of the corporate income taxes, which are imposed on corporations doing business in the state. Each calendar quarter, the Department of Revenue makes a quarterly deposit into the fund of five sixths (5/6) of the net collections of corporate income taxes received during the previous quarter minus \$2.5 million, which it deposits into the Critical School Facilities Needs Fund.

The corporate income taxes deposited into the fund are allocated to Wake County on the basis of its average daily membership (ADM) as determined by the State Board of Education. The OSBM establishes and maintains an ADM allocation account for Wake County. Funds in the allocation and disbursing accounts are considered state monies until the county issues warrants to disburse them, at which time revenues and expenditures are recognized.

After approving a school capital project authorized by the Act, the OSBM will transfer funds from the county's ADM allocation account to its disbursing account maintained with the State Treasurer. Wake County must match this transfer amount on the basis of one dollar for every three dollars of state funds. The board recognizes revenues in the capital projects fund as Wake County transfers funds to the board.

**Interfund
Transactions**

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses, initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.