

# Budget Guide

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## A Citizen's Budget Guide

State law defines an annual budget as “a proposed *plan* for raising and spending money for specified programs, functions, activities or objectives during a fiscal year.”

While this definition may seem simple, budgets usually contain a considerable amount of detailed information. The fact remains, however, that a budget exists as the single most comprehensive annually updated financial guide for the services provided to the citizens of the Town.

Understanding how a budget is created and adopted and recognizing the key components of the budget document itself is paramount to a citizen's understanding of the local government's vision, guiding principles and goals as outlined in the *Town of Cornelius Comprehensive Master Plan*. The purpose of this guide is to provide you, the citizen, with that information.

### **MUNICIPAL BUDGETS IN NORTH CAROLINA**

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The Town of Cornelius, like all local governments throughout North Carolina, prepares, adopts, and administers its budget in accordance with the Local Government Budget and Fiscal Control Act (LGBFCA).

This Act establishes responsibilities in the adoption of the budget and most importantly, requires that the budget be *balanced*. In other words, the estimated revenues and financing sources must equal the proposed spending.

North Carolina local governments operate under a July 1 - June 30 fiscal year. A budget must be adopted by June 30<sup>th</sup> of each year, or interim provisions must occur.

The spending for the coming year is authorized through the Board of Commissioner's adoption of a *budget ordinance*. This action authorizes the spending, assures that the budget is balanced, and levies the property tax for that budget year. On an as needed basis, related resolutions or ordinances formally authorize changes to the Town's Board adopted fee schedule. Amendments to the budget ordinance may occur throughout the year with Town Board approval that could impact planned spending levels. Under North Carolina law, local property taxes may not be changed at any point in the year once adopted without input from the State government or extraordinary circumstances.

By law, each year, a public hearing is held by the Board of Commissioners to receive comments from citizens and taxpayers on the recommended budget. That hearing is held after the Town Manager formally presents his recommended budget to the governing body. Throughout the budget review period, copies of the recommended budget are kept on file for public review in the Town Finance Director's office, with the Town Clerk, and available on the Town's website.

This document contains a wealth of information regarding the Town and its fiscal priorities for the year. The Manager's Budget Message outlines in narrative form the Town's major new initiatives for the year and how necessary funding levels have

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changed from the previous year. The remaining sections outline in detail the amounts of revenues and expenditures anticipated for the following year.

Town staff also maintains a ten-year capital plan, a ten-year financial forecast; as well as an extended financial forecast beyond ten years. These documents express a long-term vision of the Town's priorities and funding requirements as outlined in the Comprehensive Master Plan, *Navigate Cornelius*.

**We urge you to take the time to review this budget.  
If you have questions, please call:**

**Andrew Grant, Town Manager, Lori Harrell, Town Clerk, or  
Julie Niswonger, Finance Director at (704) 892-6031**

## BUDGET FORMAT

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The Town of Cornelius financial system is organized utilizing governmental fund accounting where accounts are maintained separately. Government resources are allocated in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. This segregation of revenues and costs allows close monitoring of specific accounts to provide insurability that certain funds are self-supporting and that revenues which are required by law for specific purposes are identifiable. The Town of Cornelius' Operating Budget consists of three primary annually budgeted funds: General Fund, Electric Fund, and Emergency Telephone System Fund. Subcategories have been created within the General Fund to track funds required to be spent only for specific purposes. They include the following three subcategories of the General Fund: Stormwater Fund, Powell Bill Fund, and the Tourism Fund.

- **General Fund**           Governing Body, General Government, General Services, Police, Communications, Animal Control, Public Works, Powell Bill, Solid Waste/Recycling, Stormwater Management, Planning and Land Development, Tourism, Parks and Recreation, Transfers, and Debt Service, are all funded through the General Fund.
- **Electric Fund**           All electric distribution system operations, maintenance, and capital improvements are funded through this fund which is also known as an "Enterprise Fund." The Fund has been managed since FY 1998 under a contract with ElectriCities including updated amendments to the original contract and in cooperation with the Town of Huntersville.
- **Emergency Telephone System Fund**           By NC Statute, the Town also uses a separate annually budgeted special revenue fund to account for state distributions of 911 fees and any expenses deemed eligible by the 911 Board to be paid from such revenues.

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## REVENUES

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Revenues are shown by sources within funds. Revenue projections can be made more accurately when revenues are segregated by source and controlled accordingly.

The major revenues by source are as follows:

- **Ad Valorem Taxes** Also known as property taxes, these include the collection of current year as well as prior year levies and potential interest and penalties on delinquent taxes. Property subject to ad valorem taxes include real property, vehicles, business personal property (equipment, lease upgrades, and fixtures), and certain personal property such as watercraft (boat and jet skis). Property owners are required to list property annually with the Mecklenburg County Tax Assessor's Office. Some nonprofit organizations, such as religious groups, charter schools, and local government owned property may not be subject to such property taxes; additional information regarding exemptions may be obtained from the Mecklenburg County Tax Assessor's Office. The Town also assesses a \$10 fee on each motor vehicle registered in the Town limits of Cornelius which appears with the annual vehicle property tax bill and annual vehicle registration.
- **Other Taxes and Licenses** This includes all other taxes and licenses (if applicable) issued and collected by the Town or the Town's agent including the unrestricted portion of related Gross Receipts on Rental Vehicles and occupancy tax.
- **Unrestricted Intergovernmental** NC General Statutes allow the Town to receive revenue from additional federal, state, and local agencies which may be used for any general fund expenditure including the Utility Franchise Tax or Sales Tax levied on utility bills, Beer and Wine Tax, Prepared Food and Beverage Tax, Stormwater Fees, and Local Option Sales Tax. The distribution basis for these revenues can be found in the Revenue Assumptions section of this budget document. The Town relies upon the state for these distributions which occur monthly (most Sales Taxes), quarterly (Franchise Tax), or annually (Beer and Wine Tax).
- **Restricted Intergovernmental** This revenue type consists of both taxes and fees which are collected by other federal, state, and local governmental units and passed along to Cornelius. These revenues are restricted to be spent exclusively for specific purposes. Examples of restricted intergovernmental revenues include specific federal public safety grants, specific PARTF state parks and recreation grants, Powell Bill, U Drive It Tax, asset forfeiture tax, solid waste tax, and 911 fees.
- **Permits and Fees** Permit and fee revenue is derived from charges in return for specific services rendered such as fingerprinting, subdivision consideration, false alarm billing, or participation in Parks and Recreation events. Included in this section is the fee charged to Davidson College for

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usage of the North Mecklenburg Communication Center and police false alarm fees. Other such permits and fees include planning and zoning fees, transit fees, and map sales.

- **Sales** Revenue received from the sale of property or other merchandise comprises this category of revenue. This revenue stream is non-cyclical and infrequent in nature. Examples include sale of surplus equipment.
- **Investment Earnings** Revenue derived from the investment of idle cash results in investment earnings. For clarity purposes, the Town segregates interest received on unrestricted revenue from certain restricted revenue sources. Additionally, Board approved loans among different funds that accrue interest will appear separately within interest earned.
- **Miscellaneous** Miscellaneous revenues include nonrecurring and minor revenue sources such as refunds affecting prior year expenses, property insurance claim proceeds, nonsufficient funds fees, prior year electric capital credits, and copier use charges.
- **Debt Issued** While separate capital project ordinances are used to account for debt issued to construct capital assets for construction periods exceeding one year, the annually budgeted general fund might also issue debt. Frequent debt issued in the general fund includes rolling stock installment financing of fire and maintenance trucks as well as police cars. Other substantial debt issues include parks and road construction.
- **Appropriated Fund Balance** Fund balance is the amount available to appropriate from the previous year-end revenues exceeding budgeted expenditures or prior year expenditures unspent. As with investment earnings, certain restricted revenues are indicated separately from the overall general fund appropriated fund balance.

## EXPENDITURES

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Expenditures are shown in the budget classified by funds from which they are paid, by departments spending the money, by the functions for which the expenditures are made and by the object of expenditures which provides greater detail for controlling expenditures. Funds are appropriated at adequate levels in order to maintain or improve the quality and the level of service to be provided in the coming year.

The major expenditures by function are shown as follows:

- Governing Board
- General Government (Administration)
- General Services

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- Police
  - Communications
  - Fire Protection
  - Animal Control
  - Public Works
  - Powell Bill
  - Solid Waste / Recycling
  - Stormwater Management
  - Planning / Land Development
  - Tourism
  - Art Center
  - Parks & Recreation
  - Debt Service
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- The Town's Enterprise operation of the Electric Distribution Fund is maintained in its own fund and department.
  - The Town also uses a separate annually budgeted special revenue fund to account for state distributions of 911 fees.

Expenditures by object are divided into five major categories - personnel services, operating expenditures, transfers to other funds, debt service, and capital outlays.

These categories are summarized below:

- **Personnel Services** Expenses which can be directly attributed to employees. These expenses include salaries, stipends, insurance benefits, retirement, 401k, and FICA. The costs of such expenditures have been budgeted within each operating department to give a more accurate cost of departmental operations.
- **Operating Expenses** Costs other than personnel and capital outlay that are required for the operations of the Town. Operational line item expenditures are directly affected by inflationary trends, increased service demands, and enforcement of government regulations. Examples of operating expenses include departmental supplies, motor fuels, utilities, and equipment or vehicle maintenance. Operating expenses also include contracts with outside agencies.
- **Transfers** The general fund budget may require that money be set aside to be used at a future date or used in conjunction with additional capital sources. The Town currently has numerous capital projects ongoing and provides for transfers into capital project funds to provide for future capital needs, such as the Transportation Capital Reserve Fund.
- **Debt Service** North Carolina General Statutes also require that provisions be made to meet annual payments on debt issued in prior years and commitments of the current year's budget. The Town is contractually

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obligated to provide the annual funding to meet these obligations for future debt issuance and bond rating purposes.

- **Capital Outlay**

Capital outlay includes expenditures for the purchase and/or construction of land, buildings, vehicles, equipment, fixtures, and other infrastructure (including roads, sidewalks, greenways, and public easements) which are too permanent in nature to be considered expendable at the time of purchase. The items defined as capital have a value of \$5,000 or more for equipment or \$25,000 or more for infrastructure items. Capital by definition must also have an expendable life of more than one year. Budgeting of capital equipment and capital improvements over \$50,000 will be addressed separately in accordance with the Town's Capital Improvement Program and contingent on availability of funds. Frequently, grant funded items are also budgeted within capital accounts.

## THE BUDGET PROCESS

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The budget is the single most important annual document presented to the Board of Commissioners. The annual budget ordinance sets the tax rate to be levied upon property for the year and describes how such taxes and other revenues will be spent. The budget is primarily intended to establish policy direction but it also serves the citizens by providing an understanding of the Town's operating fiscal programs. It reflects the Town's commitment to maintain necessary services, improving quality of service, and keeping the impact of taxes to the citizens at a reasonable level.

The Town operates with the guidance of an annual budget ordinance adopted in accordance with the provisions of the Local Government Budget and Fiscal Control Act (LGBFCA). The budget ordinance is the legal basis of the budgetary accounting system and the standard by which proposed expenditures are measured. The balanced budget ordinance is adopted annually prior to the beginning of the fiscal year. The ordinance is subjected to public inspection and a public hearing prior to adoption. The budget is considered balanced when estimated net revenues equal appropriations. Changes to the budget ordinance (increases or decreases) occur only by formal Board action and cannot affect the tax rate once adopted except in very rare instances.

The State also requires that local governments experience at a minimum once every eight years a property revaluation ensuring that property within the unit is valued at market rates. Additional conditions (value changes – increases or decreases—of more than fifteen percent) could result in the requirement that revaluations occur more frequently. Such requirements ensure that property owners contribute fairly to the cost of operating the government for the year. Mecklenburg County's most recent revaluation occurred in 2023 and impacts the FY 2024 Budget. The next required revaluation is planned to impact the FY 2028 Budget.

Government-wide financial statements are produced at year-end using the economic resources measurement focus and reported using the accrual basis of accounting. However, the annual budget is adopted on a departmental basis and is prepared using the modified accrual method of accounting for all funds. This accounting approach recognizes revenues when they become measurable and expenditures at the time the liability is incurred. All monies received and expended must be included in the budget ordinance. Departmental appropriations that have not been expended by the end of the fiscal year lapse.

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The Town adheres to generally accepted accounting principles (GAAP) including all applicable Governmental Accounting Standard Board adopted guidelines. Under GAAP, the Town's annual financial statements present three components: government-wide financial statements, fund financial statements, and notes to the financial statements.

A thorough understanding of the financial condition of the Town requires consideration of not only the annual budget, but also the annual financial statements, which describe the actual results of the year, including budget versus actual data within those financial statements and substantial financial trend information. The Town Finance Department prepares an Annual Comprehensive Financial Report (ACFR) that represents a more detailed look at the Town's financial results of operations for the year and provides extensive trend analysis. Such document is available after being audited for the June 30 fiscal year end.

The Town Manager is authorized to transfer budgeted amounts within the departments. However, General Statutes require Board notification and record in minutes to transfer from one department to another. Also, any revisions that alter total expenditures must be approved by the Board of Commissioners through legislative action. All budget amendments must be reported in a public meeting of the Board of Commissioners and made a matter of record in the minutes as required by North Carolina General Statutes.

The preparation of the budget not only requires structured guidelines but also the participation and cooperation of many staff and Board members, and a carefully scheduled series of events. The following summarized budget cycle is followed by the Town in the formulation of the budget.

- **Formulate Historical Data** During the first phase of the budget process, the accumulation of past financial information is prepared by staff. The data concerning expenditures is used by department heads and management for performance evaluation and projection of resources required to meet departmental objectives. Significant departmental historical and interim financial information is presented at the Board's annual budget workshop.
- **Preparation of Departmental Request** Estimating departmental expenditures is the primary responsibility of the department head. When budgeting expenditures, the basic requirements are to request sufficient funding to adequately operate the department and to request funding at the lowest reasonable level in order to achieve the departmental goals and objectives at desired service levels. Town Staff is also directed to request funding of new initiatives to be considered by Town Management and the Town Board for inclusion in the upcoming budget cycle if such initiatives are consistent with the vision, guiding principles, and goals of the Town's Comprehensive Master Plan.
- **Consolidate Preliminary Budget** The departmental requests are submitted to the Finance Director in order to consolidate the individual departmental requests and the revenue projections into an overall budget. At this point, the focus of attention shifts from the departmental basis to the fund basis. Departmental requests are analyzed, and the formal budget review begins.
- **Evaluate Service** The evaluation of service priorities and objectives is an important step in developing a fiscal plan which will achieve the Town's program of service

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- Priorities and Objectives** for the ensuing year. The budget document aligns the service priorities of the citizens of Cornelius through the Board of Commissioners and guiding principles identified by citizens. The service needs of the community are determined through public hearings and feedback through the Board of Commissioners, staff, and Comprehensive Master Plan. A comprehensive review of service needs compared to departmental goals and objectives is analyzed by the Town Manager and departmental staff annually in the budget preparation process.
- **Balanced Proposed Budget** After the Town’s program of service priorities have been established, a funding plan must be formulated which ultimately must balance revenue sources and expenditure objectives. Through careful assessment of funding requirements and financing elements, a proposed budget document is organized into final format and submitted to the Board of Commissioners in the form of the Manager’s Recommended Budget for the year. In compliance with North Carolina General Statutes, such presentation occurs prior to June 1.
  - **Legislative Review** The Board of Commissioners reviews the budget thoroughly with the Town Manager and staff during budget work sessions. Departmental requests and proposed revenue sources are reviewed by the Board of Commissioners at this time to ensure their adherence to the Board and citizens’ goals and objectives and for consistency with the Comprehensive Master Plan. A copy of the proposed budget with recommended legislative changes is filed with the Town Clerk and electronically via internet for public inspection, and a public hearing is scheduled prior to the formal adoption of the budget.
  - **Budget Adoption** The adoption of the annual operating budget is the culmination of exhaustive reviews of budget proposals by Department Heads, Administration, and the Board of Commissioners. Adoption of the budget by the Board of Commissioners establishes the legal authority to incur expenditures in the ensuing fiscal year. The budget adoption process typically spans a seven to eight month process, and must be adopted by June 30 unless interim provisions are made.