

FUND STRUCTURE / BASIS OF BUDGETING

A. FUND ACCOUNTING

The accounts of the Town are organized and operated on a fund basis. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts recording assets, liabilities, fund balances, revenues, and expenditures.

The Town also maintains certain additional sub-funds for its own specific management needs. These sub-funds are consolidated into the appropriate fund for financial statement purposes as is required by generally accepted accounting principles.

The various funds are presented by type in the annual operating budget. The following fund types and sub-funds are used by the Town:

Governmental Funds

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund's primary revenue sources are ad valorem taxes, sales taxes, state-shared revenues, and fees for service. The major expenditure categories are public safety, solid waste, public works, environmental protection, parks and recreation, general government services, and debt service. Debt service includes the payment of principal, interest, and related costs on general long-term debt and general lease-purchase obligations.

Self-Insurance Funds - The Town is self-funded for worker's compensation, dental insurance, and small claims & losses. The amounts reserved for claims are included in this fund. Funds remaining at the end of the fiscal year roll over into the new fiscal year. Balances increase over the years; thus, building up reserves. The Self-Insurance Fund is a sub-fund of the General Fund.

Employee Housing Loan Program Fund - The Town of Cary will make available to its employees financial assistance to aid in the purchase of a home within the corporate limits of Cary and to bring houses located in the corporate limits of Cary within the affordability range of moderate-income Town employees. The Employee Housing Assistance Program (EHAP) replaces an earlier program offered by the Town in accordance with a strategy of the Town Affordable Housing Plan (adopted May 11, 2000). Town Council approved a six-month pilot program in FY 2001 and funded the initiative with \$400,000. The FY 2003 Budget does not include further appropriations to the program. Staff hopes to perform an evaluation of the program based on the pilot results before seeking further funding.

Transit Fund - The Town of Cary began a demand responsive transit service for Cary's citizens and those with disabilities at the beginning of fiscal year 2002. The Town Council approved expansion of the transit service to the general public beginning July 1, 2002. The Transit Fund has been created in FY 2003 to capture all related revenues and expenditures. Prior to fiscal year 2003, costs and ticket sale revenues were included in the General Fund.

Regency Amphitheatre Fund - This fund, a sub-fund of the General Fund, accounts for the financial activity associated with the operation of Regency Amphitheatre. Operating expenditures consist of payments made to a private firm hired to promote and manage the facility.

Police Block Grant Trust Fund - An expendable trust fund is used to account for Police Block Grant revenues (including interest earned) and grant expenditures to ensure that these expenditures are made in accordance with the grant and trust agreements.

Police Separation Allowance Trust Fund - The Police Separation Allowance Trust Fund is used to account for the annual appropriations made for this purpose. Retired police officers are entitled, under certain conditions, to receive payments from this fund. State law mandates that each municipality reserve these funds annually.

Capital Project Fund - This fund, budgeted in the Capital Improvements Budget, is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). The Town has five sub-funds within the Capital Projects Fund: Street Projects, Parks, Recreation and Cultural Resources Projects, Fire Projects, General Government Projects, and Capital Reserve.

Proprietary Funds

Enterprise Fund - The Enterprise Fund is used to account for operations (a) 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 goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Town has one Enterprise Fund, the Water and Sewer Fund, which is comprised of four sub-funds: Water and Sewer Operations, Water Projects, Sewer Projects, and Water and Sewer Capital Reserve. The Water and Sewer Operations Fund also covers debt service for the payment of principal, interest, and related costs on utility long-term debt, as well as on utility lease-purchase obligations. Water Projects, Sewer Projects, and Water and Sewer Capital Reserve are budgeted in the Capital Improvements Budget.

Internal Service Fund - The Internal Service Fund is used to account for the financing of goods or services provided by one department to other departments of the Town on a cost-reimbursement basis. The Town has one Internal Service Fund that provides fleet management services.

B. BASIS OF BUDGETING

The Town of Cary does not distinguish between Basis of Budgeting and Basis of Accounting. The principles set forth as the Basis of Accounting are strictly observed in the budgeting process. A fund's Basis of Budgeting and Basis of Accounting determines when a transaction or event is recognized within a fund's operating statement. All Town of Cary funds are maintained on a Modified Accrual basis. Revenues are recognized when measurable and available to be used to pay liabilities of the current period. Expenditures are recognized when the liability is incurred. Only revenues and expenditures anticipated during the fiscal year are included in the budget. Unexpended operating budget funds revert to fund balance at the close of a fiscal year. Unexpended capital reserve funds are carried forward from year to year until projects are officially closed.

Primary revenue sources accrued under the Modified Accrual basis are Wake County sales tax dollars and investment earnings. Capital expenditures and payments of principle on long-term debt are considered to be expenditures, while interest on long-term debt classified in the General Long-Term Debt Account Group is recognized only when paid.

C. BUDGETARY CONTROL

Formal budgetary accounting is employed as a management control for all funds of the Town. Annual budget ordinances are adopted each fiscal year and amended as required for the General Fund; the Capital Reserve Fund (which is part of the Capital Projects Fund); and the Water and Sewer Operations and Water and Sewer Capital Projects Funds (which are part of the Enterprise Fund). Project sub-funds within the Capital Projects Fund and the Enterprise Fund have budgets that span more than one fiscal year that are adopted and amended as required. Budgetary control is exercised both at the departmental level, with the adoption of the budget by the Town Council, and at the line item level through accounting controls. Supplemental appropriations that amend the total expenditures of any department or fund require a resolution of the Town Council. All unencumbered budget appropriations, except project budgets, lapse at year-end.

The Budget Officer (or his designee) must approve increases and decreases within functions. The Budget Officer may also approve interfunctional transfers, within the same fund, not to exceed 10% of the appropriated monies for the department whose allocation is reduced. The Town Council must by law be informed of such transfers at its next regular meeting.

As required by North Carolina law, the Town maintains encumbrance accounts, which are considered to be "budgetary accounts." Encumbrances outstanding at year-end represent the estimated amounts of the expenditures ultimately to result if unperformed contracts in process at year-end are completed. Encumbrances outstanding at year-end do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

D. **BUDGET OFFICER:** As mandated by state statute, the Town Manager serves as Budget Officer.

E. The following chart illustrates relationships between the General Fund and Utility Fund with all other funds. The flow of revenues to all of these funds is also presented.

FUND STRUCTURE FLOW CHART

