County of Inyo

Citizen's Guide to the Budget

The intent of this guide is to explain basic concepts of how Inyo County government is financed and the budget process works.

WHAT IS THE BUDGET?

Budgeting is the process by which the Inyo County Board of Supervisors decides on how to use its financial resources to fund services and projects that benefit County residents. The process is complicated because, unlike private business, Inyo County has a broader range of responsibilities. It has to be accountable to its citizens, the State, and Federal governments. Also, unlike private business, the County does not have the flexibility to drop services because they are not profitable.

All counties are required by State law to adopt an annual budget. The State prescribes the forms or schedules and account classifications of County budgets to ensure statewide uniformity.

The budget is a statement of the County's financial policy and plans for the fiscal year ending June 30. The budget document presents in detail the financial plan of the County, including it's various sources of revenue (resources) and the allocation of these resources to support the operation of departments, agencies and service areas in the County.

WHAT ARE REVENUES?

The income received through taxes, licenses and permits, fines and penalties, grants and subventions from the state and federal governments, charges for services, and other miscellaneous sources is revenue. We also refer to these dollars as financial resources.

WHAT ARE EXPENDITURES?

Expenditures occur when the County buys goods and services, and pays its employees. Expenditures can be categorized into three types; operating expenditures, capital expenditures, and debt service expenditures. Operating expenditures are day-to-day spending on salaries, supplies, utility services, and contracts for services. Capital expenditures are generally for the acquisition of significant assets, such as land and buildings, or the construction of buildings, roads, bridges and other improvements. Debt expenditures repay borrowed money and interest on that borrowed money.

WHAT IS AN APPROPRIATION FOR CONTINGENICES?

These are monies appropriated by the Board of Supervisors set aside to meet unanticipated expenses that may arise during the year that are not otherwise provided for in the budget.

WHAT ARE RESERVES?

Reserves are funds set aside from fund balance that are earmarked for future expenses (beyond the immediate fiscal year), such as reserve for future building construction, economic uncertainty, or landfill closure and cleanup activities. If funds are no longer needed, reserves can be reduced or canceled and made available for spending; however, such action can only be taken at the time of budget adoption.

WHAT IS A FUND?

The County is financially organized into many separate fiscal and accounting entities known as funds. Each fund is a distinct division for accounting and budgeting purposes. The fund accounting process allows the County to budget. It accounts for revenues restricted by law or policy to a specific use or purpose following generally accepted rules of governmental accounting and budgeting.

The County budget consists of seventeen funds. Each fund can be viewed as a separate checking account to use for a specific purpose. The General Fund finances most services that the County provides. This includes law enforcement, parks, land use planning, elections and voter registration, juvenile detention services, property assessment, tax collection and administration. The General Fund is a "catch-all" for accounting for County operations that do not have to be accounted for in a different fund.

WHY USE FUNDS?

1. Fund accounting is required by the State. State of California law governs how counties and cities in the State will account for their revenues and expenditures. All cities and counties are audited annually by an outside accounting/auditing firm to ensure that they have followed the accounting rules.
2. Whenever a city or county receives dollars from the State or Federal government in the form of a grant, the city or county must account for these dollars in the manner prescribed by the State or the United States governments. Again, audits are conducted to ensure that these accounting rules are followed.
3. The County, like all other governments nationwide, uses fund accounting because this system of accounting is the standard prescribed by national organizations that are associations of accountants and finance professionals from cities and counties all over the country. The principles used to account for businesses, called generally accepted accounting principles (GAAP), are established by the Financial Accounting Standards Board (FASB). Similarly, principles used to account for local government finances are established by the Governmental Accounting Standards Board (GASB).

WHAT IS A TRANSFER?

Interfund transfers or operating transfers out (as they are also called) represent subsidies and contributions to other funds with no promise to repay. An example of operating transfers is the transfer of funds from the General Fund to the Road Fund if the Road Fund's revenues are insufficient to fund Road Fund activities. Another example is transferring of funds from the General Fund to the Health and Human Services Fund to provide matching funds mandated by the State and Federal governments.

WHAT IS FUND BALANCE?

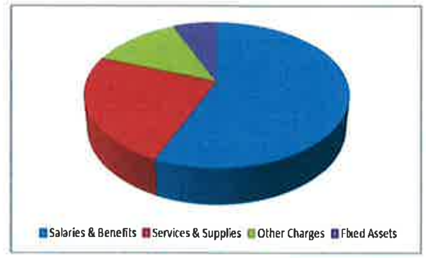
Fund Balance is the difference between the assets and liabilities of the fund. It is an excellent financial policy to always have some fund balance for emergencies and carry the fund through slack times in revenue collections. In a given year, if revenues exceed expenditures, the fund balance will increase; if expenditures exceed revenues, then the fund balance will decrease.

A BALANCED BUDGET

By law, each separate fund must have a balanced budget. This means that revenues, including fund balance carryovers, must equal the appropriations, including ending fund balances (reserves). Each fund budget spells out where the dollars are coming from and how it will be spent.

THE OPERATING BUDGET—SERVICES TO THE PUBLIC

The expenditure budget for all County programs and services is itemized into categories called line items or accounts. These line items are used so that we will know specifically what kind of expenditures are made. The various line items or expenditure accounts are grouped into four major categories. These are:



Employee Salaries & Benefits: This is the amount paid for personal services rendered by employees in accordance with the pay rates, hours worked, and terms and conditions of employment authorized by law or stated in employment contracts (memoranda of understanding—MOU). This category includes such line items as regular salaries, temporary salaries, social security, health insurance, and retirement contributions.

Services & Supplies: This category of expenditures includes a wide range of goods and commodities, such as office supplies, postage, office rental, printing, maintenance and leasing of equipment, fuel for vehicles, equipment under $5,000, telecommunications and internet service, travel and training, etc. that are used to support the operation of a department or program as well as professional and specialized services other than those provided by County personnel which are needed by the County. These services may be provided by another governmental agency or by private business organizations under contract to the County.

Other Charges: This category includes payments to institutions and individuals, such as public assistance payments and payments to institutions for care and treatment of individuals.

Fixed Assets: This category includes purchases of land, equipment, vehicles and construction work on new and existing structures, roads and bridges. To qualify as a fixed asset or capital expense, the item must have a value of $5,000 or more and a useful life of more than one year.

THE BUDGET HAS TWO BASIC COMPONENTS: FINANCING SOURCES AND FINANCING REQUIREMENTS

California State law requires counties to adopt balanced budgets; that is, proposed spending cannot exceed available financing resources.

The budget refers to the County's adopted financial plan for a single fiscal year. For California counties, this period is July 1 through June 30 of the following year, which is the same as the State of California. When referring to a particular fiscal year, the acronym "FY" is often used. For example, FY 2020-2021 refers to the 12 months from July 1, 2020, through June 30, 2021. The Federal Government operates on a fiscal year that extends from October 1 through September 30 of the following year.

The General Fund budget is not in balance when the budget requests are received. This is because there are multiple departments financed by the General Fund, and each department prepares its spending request without knowledge or consideration of the requests of the other departments. Typically when the County Administrative Office totals the spending requests, they exceed the estimated revenues. Many of the revenues of the General Fund are generated by individual departments in the form of charges or fees for services and grants and subventions. Generally, however, these revenues are not sufficient to cover the cost of operations of the departments involved. This is true because most fees and charges that are allowed are set by State law without regard to the cost of providing the related services. Some departments generate very minimal resources compared to the costs they incur to provide their respective functions. This is where non-departmental or discretionary revenues, including property and sales taxes, play a significant role in financing County Government. The County has a variety of revenue sources.

THE BALANCED BUDGET EQUATION		
Financing Sources (Income		***Financing Requirements (Expenses)***
• Fund Balance Available		• New and/or increased Reserves
• Cancel or Reduce Reserves		• Contingencies
• Revenues	=	• Operating, Capital & Debt Service Expenditures

FINANCING SOURCES	
Unreserved and Undesignated Fund Balance Available	Very simply, these are funds carried over from the previous fiscal year. Some of this resource may be used in combination with revenues to fund new expenses. Fund balance can be restricted or unrestricted. Restricted fund balance represents that portion of the fund balance, which has been set aside for funding certain future obligations or projects.
Cancel or Reduce Reserves	The County can reduce existing reserves or cancel reserves no longer needed, which frees up funding for expenditures.
Estimated Revenues	Revenue increases County financial resources. Revenue is the income of the County, which comes from large variety of sources. Examples include property taxes, State and Federal grants and subventions, licenses, permits, charges for services, interest, etc.

~ Equals ~

FINANCING REQUIREMENTS	
New and/or Increased Reserves	The County may need to set aside additional funds to cover future obligations, which are then placed in reserves.
Specific Financing Uses/ Expenditures	Expenditures are expenses that reduce County financial resources. There are three basic types of expenditures: opearting, capital and debt. Operating expenditures included day-to-day expenses such as employee salaries, office supplies, utilities, maintenance and repair, etc. Capital expenditures include purchases of equipment (fixed assets), construction of roads and buildings, and purchase of land. Debt is the expense related to the principle and interest on long-term bonds, notes or certificates of participation issued by the County.
Appropriations for Contingencies	Funds set aside for use, if needed, in the current year to cover revenue shortfalls or unanticipated expenses, including cost overruns or emergencies.