

# Lies, Damned Lies, and Budgetary Information:

Trying to Find the Facts  
in the Figures in WV

Michael John Dougherty  
WVU Extension Service

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# Lies, Damned Lies, and Budgetary Information: Trying to the Facts in the Figures in West Virginia

Michael John Dougherty, WVU Extension Service Professor and Specialist

The budget is the most basic of financial documents. It is taken to be a summary of how much money is coming in (revenue) and how much money is going out (expenditures). This understanding comes from dictionary definitions to textbook treatises.

Merriam-Webster has several definitions of “budget” as a noun. The fourth (and final) definition is most appropriate in the context of government finance. It calls a budget “a statement of the financial position of an administration for a definite period of time based on estimates of expenditures during the period and proposals for financing them” or “a plan for the coordination of resources and expenditures,” or “the amount of money that is available for, required for, or assigned to a particular purpose” (Merriam-Webster, 2008).

Public administration textbooks put forth similar definitions. The glossary for Mikesell (1995: 557) has a definition that is succinct and straightforward: “A financial plan, including the proposed expenditures and estimates revenues, for a period of time in the future.” Meanwhile, Mendonsa (1983 (1969): 11) is even more basic in his definition: “A budget is a plan for spending the money of an enterprise.”

Thus, when looking at the budget for a locality, it is thought the listed spending for any activity is reflective of the total spending for any activity. However, in the case of development authorities in West Virginia, this certainly does not appear to be the case.

This paper is the beginning of an effort to try to determine actual spending for development-related activities at the county level in the Mountain State. It will first review the West Virginia local government budgeting process. Next it will discuss the spending for development-related activities by counties reported in budgets. Then it will compare this data to what is found to audit reports and other supplemental information. Finally, some possible explanations for these differences and discrepancies will be put forth.

## *WV Local Government Budget Process*

Calling the budgetary process formal used by West Virginia localities would not be fully accurate; it is not only formal, it is rigid, uniform, and mandated. State law states: “County Commissions, under regulations, prescribed by law, have the superintendence and administration of the fiscal affairs of their counties, with authority to lay and disburse the county levies. Such functions are performed through the clerk of the county commission” (*WV Code*, §7-1-3).

A guide prepared by the state auditor’s office for counties describes the process outlined in Chapter 11 (“Taxation”), Article 8 (“Levies”) of the state code. County commissions must prepare the “Levy Estimate – Budget Document” between March 7 and March 28. It has to be submitted to the state auditor for

approval no later than March 28. (WVSAO, u.d.). These documents include information for both the general fund as well as monies from the coal severance fund (a special revenue fund consisting of funds redistributed to localities by formula based upon coal extraction and has few limitations on use), each listed separately. After receiving state approval, the commission officially sets the tax rates (“lay the levy”) for the year at a meeting on the third Tuesday in April. The county clerk then has to sent the “levy order/rate sheet” tax rate information is forwarded to the county assessor to prepare the tax book, which then go to the sheriff (treasurer) to being the tax collection process (WVSAO, u.d.).

All of the reporting in these documents is done using a standard chart of accounts. In the system, the numbers 100-199 are used for assets, 200-299 for liabilities, 300-399 for revenues, and 400-999 for expenditures. The expenditure accounts are further subdivided into six categories: 400-699 for general government, 700-799 for public safety, 800-899 for health and sanitation; 900-949 for culture and recreation; 950-959 for social services, and 960-999 for capital projects (WVSAO, 2008).

During the fiscal year, counties must seek state approval to amend their budgets. After the fiscal year, counties must submit to an audit of its financial statements of governmental activities to the state auditor’s office by an independent firm or submit to such an audit by the state auditor.

### *WV County Development-Related Spending*

With such required precision and specificity in the budgeting process, the immediate presumption is that it would be fairly easy to determine the level of development-related spending for West Virginia counties. It would seem that all that would be required is to find what entries on the chart of accounts describe development-related expenditures, and then total the spending proposed for each category. The sum would be the amount spent on development-related activities.

A review of the chart of accounts found five expenditure objects related to development. Four were found in the general government category: regional development authorities (429), community development (430), economic development (431), and industrial development (432). The fifth was found in the capital projects category: community development (985).

The amount of spending reported varies widely, based upon information from revised budgets for general and coal severance funds reported on the State Auditor’s Website (WVSAO Website, “Levy Estimates.”). For FY 2007-08, one county reported no spending on any of these five objects while another had spending totaling nearly \$1 million (\$955,781). A total of 33 counties had spending that exceeded the state required match for a Local Economic Development grant (\$34,000) while 13 counties spent more than \$100,000. The median spending level was \$44,353 while the average amount of spending by all the counties was almost inflated by the big spending counties and stood at \$104,422 – or nearly 2½ the spending median.

These differences could not be explained solely by population differences between the counties as well. Per capita spending for development activities ranged from nothing to \$26.33. A total of 14 counties spent less than \$1 per person while 7 counties spent more than \$5 per person, including 3 counties at

more than \$10 per person. The median per capita spending level was \$2.10 while the mean per capita spending level was \$3.10, influenced by the several high-spending counties (on a per capita basis).

What makes the situation even more difficult to examine is that there is very limited information on how these funds are to be spent. The chart of accounts seems to indicate that monies listed under regional development authorities were to be the county contribution to its regional planning and development council (WVSAO, 2008; WVC §8-25-12). But how the remainder of the funds – or all of the funds – is truly expended cannot be ascertained.

The most likely place for the unrestricted funds to be expended is the economic development authority (EDA) for the county. EDAs are authorized under Chapter 7, (“County Commissions and Officers”), Article 12 (“County and Municipal Development Authorities”) of the state code to undertake activities designed to directly promote economic development as well as to enter into contracts for the purchase of and disposal (sale) of property for development purposes (*WV Code*). These public corporations are called different things – development authorities, economic development authorities, community and economic development authorities, development corporations, economic partnerships, etc. They are governed by a board of directors appointed by the County Commission. Presently, there are 45 officially-recognized county-level EDAs in West Virginia, including 39 single-county authorities and 6 multi-county authorities which consist of between two and four counties (and represent the remaining 16 counties).

Since these entities are charged with enhancing the local economy and improving the local community, it would follow that they should receive at least some, if not much, of the county expenditures for development-related activities. Bolstering this thesis is the local matching requirement for Local Economic Development grant, noted above. There are also some municipal development authorities and county development authorities in areas also served by regional entities, however since groups are not the designated lead economic development agency for the county, it is thought they would receive limited – if any – direct county funding.

### *Comparing Budgets to Audits*

The best way to find out how much of this money is being spent by development authorities is to review the records of their spending. That is possible to a certain extent because audits and related reports submitted to the state auditor’s office are posted on-line. For FY2007, reports for 23 EDAs – 22 single-counties entities and 1 four-county agency – are currently posted (WVSAO Audit Reports). And they tell a very interesting story, and one that is often very different than the budgetary results.

The first challenge was to decide how best to compare the information. There is no standard format for the audits. Some of this is because the development authorities structure themselves and their finances differently. Some of this is because the audits were done by different firms (including some by the state auditor’s office itself). It was decided to use operating revenues as the basis for comparisons. This was seen as the equivalent of the general fund at the local government level (one even called it such). In fact, all but one of the authorities had this category of receipts listed in its audit (and in that case there was a category that could be used for comparative purposes).

Meanwhile, there was great variation among the other entries in the audits, making their use as the basis for comparisons problematic. A total of 14 audits had non-operating net revenue and 3 more had other revenue; these generally included grant funds (and spending) and investment income, but in one case this is where the local government contributions were placed as well. Also, two reports showed a multiple fund structure being used and another had a special entry for capital funding (it also had non-operating revenue).

The operational revenues for the development authorities ranged from \$15,795 to \$1,289,986. Overall, 17 development authorities had revenues of over \$100,000, 5 had revenues over \$500,000, and 2 had revenues over \$1,000,000. As was the case in the other spending amounts, the measures of central tendencies varied widely with the mean being higher than the median. The median spending amount was \$202,191 while the mean spending amount was \$340,523 per development authority.

On a per capita basis, the spending varied from \$0.28 to \$58.29. The median spending was \$7.77 per person and the mean was \$13.39. And 6 development authorities spent less than \$5 per person while 10 spent more than \$10.

What is more pertinent to the discussion though is how the total revenues compare to the budgeted spending by the county governments. Total operating revenues exceeded the county-reported spending for 20 of 22 single county development authorities. In 12 cases, the revenues were more than \$100,000 more than the county spending, including twice where the difference exceeded \$1,000,000. Meanwhile, the four-county entity had revenues less than the combined development-related spending for the four counties.

Even more enlightening is an examination of the local revenues reported in the audit statements. This information is available for 11 of the 22 (exactly half) of the development authorities. The reported local contribution was greater than the budget reported spending five times, the same as the budget once, and less than the budget five times. Even this is not as straightforward as it appears. One of the five counties where the reported local contribution exceeded the budgetary amount, it explicitly included both county and municipal contributions (the county portion alone was slightly less than the reported county spending). And one of the five counties where the reported local contribution was less than the budgetary amount, the funds were listed under non-operating revenues.

Another potential source of information is the county commission audit reports. It is thought that they could provide additional data related to development authorities operations and spending. Such documents for FY2007-08 are currently posted for 21 county commissions. Of these, only 10 (less than half) include fiscal data on the county development authority as a component part of county government. Interestingly, some of the other reports note specifically that the development authority, while an important component of county operations (and a large holder of assets) is not part of the county commission audit.

Even with the small number of counties reporting, there is still a great amount of variation in the amount of reported expenditures for development authorities. Reported county expenditures for the development authorities ranged from \$1,848 to \$1,457,416. This included three counties with less than

\$10,000 in expenditures and five counties with more than \$100,000. The median spending level was \$92,861 while the mean, affected by the very large expenditure, was \$299,144. And in six counties, the reported county expenditures for development authorities exceeded the budgeted amount for development-related activities, compared to only four where the budgeted amount was greater than the reported expenditures. Interestingly, the difference did not exceed \$50,000 in any of the four counties where the budgeted amount was greater than the reported expenditure. Meanwhile, in two counties, the reported expenditure was less than \$10,000 more than the budgeted amount, but in two other counties the reported expenditure was at least \$750,000 more than the budgeted amount.

Furthermore, in at least three instances, the development authority audited and/or listed in the county commission audit may not actually be the official entity recognized by the county commission as the lead development agency for the county. This potential problem was not considered as part of this analysis. But it potentially could further confound the findings.

### *Explaining the Differences and Discrepancies*

One thing that becomes apparent –painfully apparent – when looking at all of the available data: the West Virginia budgetary data does not accurately reflect spending development-related spending at the county level. To complicate matters even further, the other financial audits and related reports available presented conflicting pictures of spending on development-related activities.

In some ways, these findings should not be surprising. Development authorities have fiscal powers of their own. As noted earlier, the state law which established the EDAs gave them the right to enter into contracts and to buy and to sell property. It also means that the official county commission contributions alone must be supplemented by other means. From the financial reports, these include rent and related income on facilities, charges for services, and contributions from other entities, such as municipalities within the county.

Informal conversations with some executive directors confirm this. Some EDA try to get per capita “assessments” from each jurisdiction. Some charge administrative fees for assistance related to grants. Some rent out their shell buildings when they cannot be readily sold to recoup the investment and pay the mortgage.

Similarly, the five expenditure objects from the county budgets appear to represent more than just funds made available for use by the development authority. As noted above, it is strongly implied that one of these items is in fact for funding contributions to the regional planning and development councils rather than the county development authority. Two other items deal with community development – one in general governmental operations and one in capital investments. Since community development is often associated with matters such as housing and neighborhood revitalization, other agencies besides the development authority may be the targeted recipient of those monies. That leaves only two categories – economic development and industrial development – where the EDA would be the presumed entity to receive the funds.

Of course, this confusion over where expenditures are listed in the budgets cuts both ways. In one county, the budget showed very little money (\$3,517) being allocated to development-related activities – and those funds were budgeted for the regional development authority. However, the audit report showed a somewhat sizeable (\$60,000) transferred to the development authority. A conversation with the development authority executive director confirmed this. The monies were part of the general allocation to the commission in the budget and as such there was no way to know of their exact disposition without such revelations. (Unfortunately, a county commission audit was not available for the county to examine this situation even further).

Thus, with the chart of accounts being misinterpreted (or outright ignored) and the presence of own-source revenue for the development authorities, there is no discernable connection between budgetary information, development authority audit reports, and county commission audits with respect to money allocated for development-related activities. About the only conclusion that can be drawn in an examination of the available data is that development authorities generally spend more than county commissions authorize for development-related activities, even if not all of those allocations are going to the EDAs themselves.

As a result, the numbers that are currently available are virtually useless in their current form for any meaningful research activities. Using the budgetary information as a proxy for development spending in the county cannot be done in good faith. Using the budgetary information as a proxy for a county's interest related to or investment in development activities is also problematic given that the incomplete coverage of those expenditure categories found during the research. The development authority audit appears is a somewhat better source of information, but given the variation in report style and amounts listed (ranging from 10s of thousands to 10s of millions), they too appear to paint a muddled and confused portrait of what is happening.

### *Next Steps*

This research was both exploratory and contemplative in nature. The intent was to find out what was accurate with respect to monies allocated for development activities at the county level in West Virginia. Unfortunately, what was discovered instead was that all of the information was fairly inaccurate.

This of course points to the need for additional research. Financial reports were not reviewed in this introductory study because it was thought the audits would provide the necessary insights. However, since the tables in the audits confused and the explanatory text more often served to fulfill legal requirements rather than to actually explain, a full review of what combined annual financial reports (CAFRs) would be a good starting point. To make sure that all information is considered, it would probably be advisable to review both the CAFRs of the county itself as well as its development authority to get the full scope of information.

Also needed are structured interviews with development authority executive directors. The informal comments yielded some useful information. However, going beyond that deemed inadvisable until more information was gleaned to develop useful questions. This research has provided a starting point and hopefully the financial report review will provide additional insight to prepare questions.

Together, these two should move this research agenda forward by helping to clear up the current situation which appears to be inadvertently filled with lies and damned lies. Conversely, expanding the current research effort by using the same methodology to a broader time frame (either one where more data might be available or to undertake a longitudinal study using this methodology) would probably do nothing more than confirm the current findings. Such research may be necessary though to decide what to seek in the CAFRs and what to ask in the interviews – but its value otherwise appears to be fairly limited.

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## *Contact Information*

### **Michael John Dougherty**

Extension Professor/Specialist

West Virginia University Extension Service

2104 Agricultural Sciences Building

Campus PO Box 6108

Morgantown, WV 26506-6108

Phone: 304-293-6131 Ext. 4215.

Fax: 304-293-6954.

Email: [Michael.Dougherty@mail.wvu.edu](mailto:Michael.Dougherty@mail.wvu.edu)

## WV Development-Related Spending Information FY2007

Geographic Area	Development		EDA Audit Budget			EDA Audit Budget			CC Audit Budget		Population Est. 2006
	FY07 Funding	Per Capita	Ops Revs	Difference	Per Capita	Local Money	Difference	Per Capita	EDA Funding	Difference	
Barbour County	\$ 27,000	\$ 1.71	\$ 63,508	\$ 36,508	\$ 4.02						15,788
Berkeley County	\$ 301,213	\$ 3.09	\$ 667,163	\$ 365,950	\$ 6.84	\$ 340,000	\$ 38,787	\$ 3.49			97,534
Boone County	\$ 75,000	\$ 2.94									25,512
Braxton County	\$ 30,000	\$ 2.03	\$ 154,701	\$ 124,701	\$ 10.45						14,810
Brooke County	\$ 25,198	\$ 1.04							NA		24,132
Cabell County	\$ 12,425	\$ 0.13									93,904
Calhoun County	\$ 54,432	\$ 7.37									7,381
Clay County	\$ 36,300	\$ 3.54									10,256
Doddridge County	\$ 1,184	\$ 0.16	\$ 57,948	\$ 56,764	\$ 7.77	\$ 22,100	\$ 20,916	\$ 2.96	\$ 1,848	\$ 664	7,459
Fayette County	\$ 117,263	\$ 2.52	4C			4C			4C		46,610
Gilmer County	\$ 10,500	\$ 1.51							NA		6,965
Grant County	\$ 34,000	\$ 2.85	\$ 72,121	\$ 38,121	\$ 6.05	\$ 34,000	\$ -	\$ 2.85	\$ 4,121	\$ (29,879)	11,915
Greenbrier County	\$ 51,366	\$ 1.47									34,850
Hampshire County	\$ 79,420	\$ 3.53									22,480
Hancock County	\$ 813,865	\$ 26.33									30,911
Hardy County	\$ 3,015	\$ 0.22	\$ 202,191	\$ 199,176	\$ 15.07	\$ 60,000	\$ 56,985	\$ 4.47			13,420
Harrison County	\$ 53,223	\$ 0.77							\$ 62,862	\$ 9,639	68,745
Jackson County	\$ 56,585	\$ 1.99	\$ 110,607	\$ 54,022	\$ 3.89	\$ 26,964	\$ (29,621)	\$ 0.95	\$ 6,648	\$ (49,937)	28,451
Jefferson County	\$ 425,286	\$ 8.43	\$ 367,355	\$ (57,931)	\$ 7.28	\$ 301,312	\$ (123,974)	\$ 5.97			50,443
Kanawha County	\$ 955,781	\$ 4.97							NA		192,419
Lewis County	\$ 65,168	\$ 3.80									17,129
Lincoln County	\$ 52,653	\$ 2.36									22,357
Logan County	\$ 135,042	\$ 3.73							NA		36,218
Marion County	\$ 41,716	\$ 0.74	\$ 15,795	\$ (25,921)	\$ 0.28				\$ 16,849	\$ (24,867)	56,706
Marshall County	\$ 372,105	\$ 10.98							NA		33,896
Mason County	\$ 12,500	\$ 0.49									25,756
McDowell County	\$ 8,770	\$ 0.37	\$ 21,555	\$ 12,785	\$ 0.90				\$ 1,457,416	\$ 1,448,646	23,882
Mercer County	\$ 108,462	\$ 1.77									61,278
Mineral County	\$ 61,545	\$ 2.29									26,928
Mingo County	\$ -	\$ -							NA		27,100
Monongalia County	\$ 177,922	\$ 2.10	\$ 983,110	\$ 805,188	\$ 11.60						84,752
Monroe County	\$ 25,800	\$ 1.91							NA		13,510
Morgan County	\$ 62,974	\$ 3.85	\$ 109,961	\$ 46,987	\$ 6.73	\$ 51,445	\$ (11,529)	\$ 3.15			16,337
Nicholas County	\$ 64,333	\$ 2.43	4C			4C			4C		26,446
Ohio County	\$ 171,511	\$ 3.84	\$ 1,289,986	\$ 1,118,475	\$ 28.88				\$ 335,443	\$ 163,932	44,662
Pendleton County	\$ 85,140	\$ 11.09	\$ 254,228	\$ 169,088	\$ 33.11				\$ 122,859	\$ 37,719	7,679
Pleasants County	\$ 17,000	\$ 2.34	\$ 132,190	\$ 115,190	\$ 18.16	\$ 13,200	\$ (3,800)	\$ 1.81			7,280
Pocahontas County	\$ 21,000	\$ 2.40									8,755
Preston County	\$ 42,300	\$ 1.39									30,384
Putnam County	\$ 159,329	\$ 2.90	\$ 434,796	\$ 275,467	\$ 7.91	\$ 145,000	\$ (14,329)	\$ 2.64			54,982
Raleigh County	\$ 356,000	\$ 4.49	4C			4C			4C		79,302
Randolph County	\$ 20,087	\$ 0.71	\$ 298,783	\$ 278,696	\$ 10.50				NA		28,465
Ritchie County	\$ 20,234	\$ 1.90									10,628
Roane County	\$ 29,200	\$ 1.87	\$ 79,927	\$ 50,727	\$ 5.13						15,583
Summers County	\$ 16,830	\$ 1.24	4C			4C			NA		13,531
Taylor County	\$ 2,252	\$ 0.14									16,304
Tucker County	\$ 44,353	\$ 6.47									6,856
Tyler County	\$ 1,310	\$ 0.14									9,264
Upshur County	\$ 175,050	\$ 7.39	\$ 419,834	\$ 244,784	\$ 17.73				\$ 149,659	\$ (25,391)	23,685
Wayne County	\$ 98,800	\$ 2.37									41,647
Webster County	\$ 36,000	\$ 3.71	\$ 565,193	\$ 529,193	\$ 58.29						9,696
Wetzel County	\$ 3,300	\$ 0.20							NA		16,685
Wirt County	\$ 6,552	\$ 1.10									5,980
Wood County	\$ 62,401	\$ 0.72	\$ 116,914	\$ 54,513	\$ 1.35	\$ 68,000	\$ 5,599	\$ 0.79	NA		86,597
Wyoming County	\$ 22,500	\$ 0.93	\$ 1,066,298	\$ 1,043,798	\$ 44.02				\$ 833,730	\$ 811,230	24,225
<b>4C EDA</b>	<b>\$ 554,426</b>		<b>\$ 347,875</b>	<b>\$ (206,551)</b>	<b>\$ 2.10</b>	<b>\$ 206,224</b>	<b>\$ (348,202)</b>	<b>\$ 1.24</b>			<b>165,889</b>
Max	\$ 955,781	\$ 26.33	\$ 1,289,986	\$ 1,118,475		\$ 340,000	\$ 56,985		\$ 1,457,416	\$ 1,448,646	
Min	\$ -	\$ -	\$ 15,795	\$ (206,551)		\$ 13,200	\$ (348,202)		\$ 1,848	\$ (49,937)	
Mean	\$ 104,422	\$ 3.10	\$ 340,523	\$ 231,727		\$ 115,295	\$ (37,197)		\$ 299,144	\$ 234,176	
Median	\$ 44,353	\$ 2.10	\$ 202,191	\$ 115,190		\$ 60,000	\$ (3,800)		\$ 92,861	\$ 5,152	
Count	55		23			11			10		

# Lies, Damned Lies and Budgetary Information

Michael Dougherty  
WVU Extension Service



## Research Intent

- Trying to find out how much counties are spending on development-related activities
  - Budget documents show one amount
  - EDA documents show another amount
- Question is “What is the correct amount?”
- Microcosm of potential problems with using budget document for comparative research



## WV Budget Process

- Responsibility of County Commission
- Structured by state law
- March 28 submission deadline
- Approval required by state auditor
- Set tax rates third Tuesday in April



## WV Chart of Accounts

- 429: Regional Development Authorities
- 430: Community Development
- 431: Economic Development
- 432: Industrial Development
- 985: Community Development (Capital)

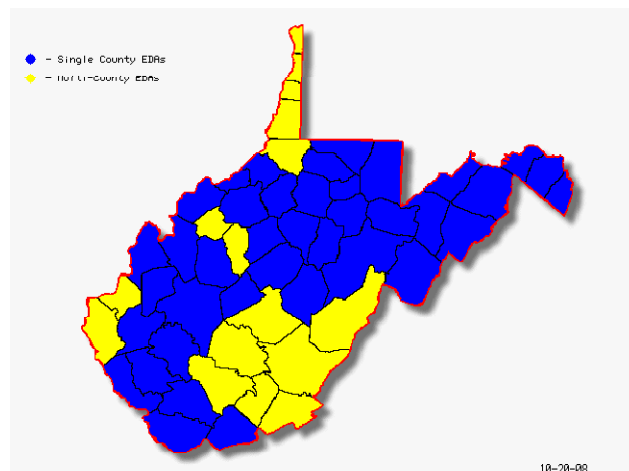


## Research Methodology

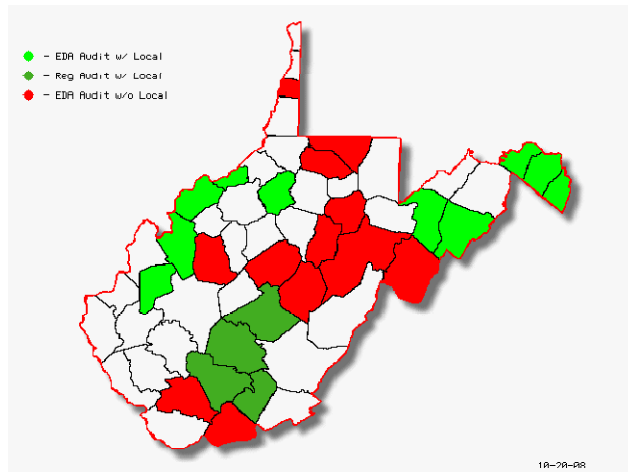
- Collection of revenues/spending data
  - County development-related spending
  - EDA audits (operating and local revenues)
  - County audits (data on development authorities)
- Compare the information
  - Seeking consistency, accuracy, believability
- Data from FY2007 (latest available)



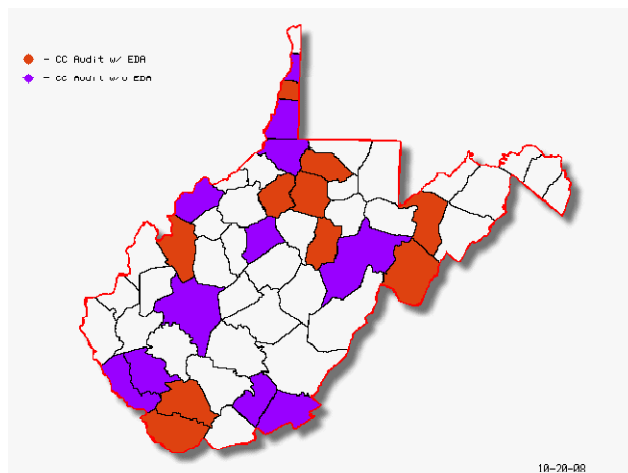
## Map of Development Authorities



# Map of EDA Audits Available



# Map of County Commission Audits



## Development-Related Spending

Category	Amount	Per Capita
Maximum	\$ 955,781	\$ 26.33
Minimum	\$ -	\$ -
Median	\$ 44,353	\$ 2.10
Mean	\$ 104,422	\$ 3.10
Count	55	

Data Source: County Budget Reports.



## EDA Reported Local Revenues

Category	Amount	Budgetary Comparison
Maximum	\$ 340,000	\$ 56,985
Minimum	\$ 13,200	\$ (348,202)
Median	\$ 60,000	\$ (3,800)
Mean	\$ 115,295	\$ (37,197)
Count	11	4 above budgeted amount

Data Source: EDA Audit Reports.



## EDA Reported Operating Revenues

Category	Amount	Budgetary Comparison
Maximum	\$ 1,289,986	\$ 1,118,475
Minimum	\$ 15,795	\$ (206,551)
Median	\$ 202,191	\$ 115,190
Mean	\$ 340,523	\$ 231,727
Count	\$ 23	20 above budgeted amount

Data Source: EDA Audit Reports.



## County Audit EDA Spending

Category	Amount	Budgetary Comparison
Maximum	\$ 1,457,416	\$ 1,448,646
Minimum	\$ 1,848	\$ (49,937)
Median	\$ 92,861	\$ 5,152
Mean	\$ 299,144	\$ 234,176
Count	\$ 10	6 above budgeted amount

Data Source: County Audit Reports.



## Discussion

- Budgetary data does NOT accurately reflect county development-related spending
- EDAs have own-source revenue
- County spending allocated elsewhere
  - Money from selected items to other agencies
  - Money to EDAs from elsewhere in budget



## Next Steps

- Review of CAFRs and other reports
  - EDAs
  - County Commission
- Structured interviews with key informants
- Expanding time frame may shape questions
  - Not expected yield new insights

