



Budget in the Language of Accounting

By Michele Mark Levine

The presentation of mandatory budgetary comparisons generally does not provide enough detail to demonstrate that a government has fully complied with its legally adopted budget.

Governments that issue financial statements prepared in accordance with generally accepted accounting principles (GAAP) are required to present budgetary comparisons for their general funds and for any major special revenue funds for which there are legally enacted budgets, either as part of either basic financial statements or required supplementary information.¹ However, the presentation of these *mandatory budgetary comparisons* is permitted to be at the same high level of aggregation as the governmental funds statement of revenue, expenditures, and changes in fund balance, which means that they generally do not provide enough detail to demonstrate that a government has fully complied with its legally adopted budget.

Therefore, those governments that issue a comprehensive annual financial report (CAFR) are required to include, as supplementary information, budgetary comparison statements that present actual expenditures for the year on the government's *budgetary basis*, compared to its *final amended budget*, and detailed down to the *legal level of budgetary control* for (1) the general fund and any major special revenue funds for which the mandatory budgetary comparisons are not presented at the legal level of budgetary control, plus (2) all other governmental funds with appropriated budgets.² These *supplementary budgetary comparisons* are, not infrequently, a source of reporting deficiencies

seen in CAFRs that are submitted to GFOA's Certificate of Achievement for Excellence in Financial Reporting award program, especially with regard to properly identifying the legal level of budgetary control.

Unlike the mandatory comparisons, supplementary budgetary comparisons are not required to present the original adopted budget, nor to reconcile actual results to GAAP.³ However, supplementary budgetary comparisons must be presented in sufficient detail to demonstrate compliance at the legal level of budgetary control, whereas presentation by function or program is sufficient for the mandatory budgetary comparison.

ACTUAL RESULTS PRESENTED ON THE BUDGETARY BASIS⁴

Again, the key purpose of the supplementary budgetary comparison reporting is to demonstrate compliance with legally adopted budgets, for which actual expenditures need to be measured and presented in the same manner as the budget is presented. Differences arise when the basis of budgeting (budgetary basis) differs from the basis of accounting prescribed by GAAP.⁵

For governmental funds, GAAP require reporting using the modified accrual basis of accounting. If a government instead budgets for its general fund on a cash basis, the differences in the timing of recognition of transac-

tions between the two are referred to as basis differences. Continuing this example, the actual results that were reported in the fund financial statements using the modified accrual basis would need to be restated so disbursements that were accrued as expenditures in the prior period are added back to the current period, when they would be properly recognized on a cash basis. Likewise, those expenditures for which disbursements were not made as of year-end, but which were accrued in the current period (because they were expected to be paid soon enough after the end of the year to be deemed uses of currently available resources) would need to be subtracted out, as they will be recognized as cash disbursements in the following period.

The three other types of differences between modified accrual and budgets that must also be addressed when presenting actual results on a budgetary basis are entity differences, perspective differences, and timing differences.

- **Entity Differences.** These differences arise because (1) the appropriated budget includes organizations, programs, activities, or functions that are not within the financial reporting entity as defined by GAAP, or (2) the appropriated budget excludes organizations, programs, activities, or functions that are part of the financial reporting entity.⁶
- **Perspective Differences.** These differences arise because the fund structure used for budgeting differs from the fund structure used for GAAP financial reporting.⁷
- **Timing Differences.** These are differences between the basis of budgeting and GAAP that occur when

the period used for budgeting differs from the period used for GAAP reporting (a special revenue fund that uses a grant-year budget rather than a fiscal-year budget).⁸

The key purpose of the supplementary budgetary comparison reporting is to demonstrate compliance with legally adopted budgets.

FINAL AMENDED BUDGET

The *final amended budget* is the original adopted budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever signed into law or otherwise legally authorized. This includes amendments that are made to the close of the fiscal year.⁹

LEGAL LEVEL OF BUDGETARY CONTROL

The *legal level of budgetary control* is the lowest level at which a government’s management may not reallocate

resources without special approval of the governing body, and these limits most often are described in terms of the levels shown in Exhibit 1.

For example, it may be permissible for managers to reassign resources among the activities within the fire department without going back to the legislative body for permission, provided that the fire department’s appropriation is not overspent in total. In that case, the legal level of budgetary control would be described as the *departmental level*.

Alternatively, if management is only permitted to reassign fire department resources within certain limits that are applied at a lower (activity) level, it would be the lower level that would constitute the legal level of control. For example, assume that in addition to requiring legislative permission to overspend the fire department’s appropriation in total, management would also need legislative approval to increase or decrease any of the department’s activities’ budgets (e.g., fire suppression, fire prevention, emergency medical services) by 5 percent or more of that activity’s budget. In that case, the legal level of budgetary control would be described as the *activity level*, even though management has some flexibility at that level.

Exhibit 1: Legal Levels of Budgetary Control

Legal Level of Budgetary Control	Example
Fund	General Fund
Function	Public Safety
Department	Fire
Activity	Prevention
Object	Personal Services — Salaries and Wages
Sub-object	Regular Employees

As a practical matter, if a government's legal level of budgetary control is very low (object or sub-object), supplementary budgetary comparisons may simply be too voluminous to include in a CAFR. In such exceptional cases, the government may instead both (1) issue a separate budgetary report that demonstrates compliance at the legal level of budgetary control, and (2) reference that report in the notes to the financial statements. Even then, supplementary budgetary comparisons would still have to be presented within the CAFR, but only at the level of detail used for the governmental fund statement of revenues, expenditures, and changes in fund balances. Of course, those governmental funds included in mandatory budgetary comparisons would have already been presented at that level.¹⁰ ■

Notes

1. Governmental Accounting Standards Board (GASB), 2019-2020 *Codification of Governmental Accounting and Financial Reporting Standards* (Cod.), Section (Sec.) 2400, "Budgetary Reporting," paragraph 102.
2. GASB Cod. Sec. 2400, paragraphs .105 and .121.
3. Governments may voluntarily include original adopted budgets and reconciliations to GAAP and may also include variance columns.
4. Note that the mandatory budgetary comparisons presented in BFS or RSI must also include actual results presented on the applicable fund's budgetary basis.
5. GASB Cod. Sec. 2400.110.
6. GASB Cod. Sec. 2400.117-.118.
7. GASB Cod. Sec. 2400.113.
8. GASB Cod. Sec. 2400.112.
9. GASB Cod. Sec. 2200.206b.
10. GASB Cod. Sec. 2400.121.

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