The Role of Budgets in Governmental Accounting and Financial Reporting

Government Finance Officers Association

Learning Objectives

1. Understand the important role budgets play in government, and differences between public- and private-sector budgets
2. Identify the legal level of budgetary control applicable to a government with a legally-adopted budget
3. Understand the importance of budgetary control and how it is achieved, including a basic understanding of budgetary integration and encumbrance accounting
4. Distinguish between lapsing and non-lapsing encumbrances and their different effect on fund balance reporting

Learning Objectives (cont.)

5. Identify original and final amended budgets based on a timing of legislative budgetary activity
6. Identify the kinds of differences (basis, entity, perspective, and timing) that exist between actual financial results reported on a budgetary basis and on GAAP
7. Identify the locations in GAAP financial reports and CAFRs of mandatory and supplementary budgetary comparisons
8. Identify required and recommended elements of mandatory and supplementary budgetary comparisons

I: Why Budgets Matter
or
“US civics as viewed by a government accountant”

Learning objective 1

In U.S. Democracy

- Citizens delegate powers, including taxation, to elected officials
- Separation of powers for checks and balances
  - Legislative branch has power to levy taxes and authorize spending (appropriate resources) for specific purposes
  - Executive branch must execute the programs chosen by legislature within the limits of appropriations

Legally Adopted Budgets

- Legally adopted – refers to the notion that a government has *no legal authority to spend* resources until the budget is adopted
- If a government *has* legal authority to spend resources *without* the adoption of a budget, then *no budget or plan* – even if adopted by a legislature – is considered to be a legally adopted budget under GAAP

Limitations on Use of Resources

- Legislative body
  - Appropriated budget
- Higher levels of government
  - Grants
- Other resource providers
  - Bondholders

➢ Ultimate goal of accounting:

Demonstrate accountability

Fund Accounting

- Fund –
  - A fiscal and accounting entity, with a self-balancing set of accounts
  - Recording cash and other resources,* together with all related liabilities and residual equities or balances, and changes therein,
  - Segregated for the purpose of carrying on *specific* activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations

* In governmental funds, only *financial* resources are recorded

The Role of Budgets in Private v. Public Sector Entities

- Private Sector
  - Financial intent – plan
  - Performance measurement
- Governments
  - Control - *has force of law;* balance of legislative v. executive power
  - Financial intent – Expression of public policy
  - Plan & performance measurement

Test Your Knowledge

Question # 1

Which of the following is a true statement?

A. All governments have legally-adopted budgets

B. Budgets in the public sector (government) are *primarily* plans used as benchmarks for monitoring financial results

C. Budget overspending is a violation of law in the public sector

D. Budget overspending is a violation of law in the private sector

E. All of the above

II: Legal Level of Budgetary Control

Learning objective 2

Legal Level of Budgetary Control

Definition –

The lowest level at which a government's management may $\boxed{\text{not}}$ reallocate resources without special approval of the governing body

Clarification –

- Management might not be permitted to reassign *any money* at the legal level of budgetary control, or
- Management might be permitted to reassign resources only *within specified limits* at the legal level of budgetary control

Legal Level of Budgetary Control (cont.)

Legal Level of Budgetary Control	Example
Fund	General fund
Function	Public safety
Department	Fire Department
Activity (program)	Fire Prevention
Object	Personal services – salaries and wages
Sub-object	Regular employees
Other *unit of appropriation*	Personal services - Fire prevention for north district

Excerpt from "City of Gold Star" Budget Ordinance

		Revised 2018		2019
General Fund				
Total estimated revenue	$	200,291,563	$	199,943,286
Service Center Appropriations (General Fund):				
Governance	$	2,191,139	$	2,426,837
Strategic Services	$	3,501,523	$	3,318,574
Municipal Operations:				
Administration	$	1,585,282	$	1,662,211
Financial Services	$	4,640,868	$	4,052,435
Human Resources	$	1,642,694	$	3,079,540
Real Estate Services	$	8,188,672	$	10,535,122
Recorder's Court	$	2,401,507	$	2,457,133

Excerpt from “City of Gold Star” Budget Ordinance (cont.)

		Revised 2018		2019
Infrastructure and Development:				
Administration	$	1,490,615	$	949,090
Public Works	$	17,658,925	$	19,445,787
Mobility Services	$	11,544,846	$	11,903,249
Development Services	$	3,974,997	$	4,106,183
Community Services:				
Administration	$	442,425	$	484,436
Human Services	$	893,908	$	2,054,426
Parks & Recreation	$	9,233,595	$	9,876,648
Cultural Resources	$	1,048,208	$	1,261,275
Code Compliance	$	3,554,749	$	3,711,038
Public Safety:				
Police	$	61,971,951	$	59,114,940
Fire	$	32,986,523	$	32,270,768
Other Governmental Services	$	11,187,595	$	11,136,444
Interfund Transfers	$	20,151,541	$	16,097,150
Total Appropriations	$	200,291,563	$	199,943,286

Excerpt from "City of Gold Star" Budget Ordinance (cont.)

Grant Fund				
Total estimated revenue	$	8,593,465	$	7,903,643
Total appropriations	$	8,593,465	$	7,903,643
Community Development Fund				
Total estimated revenue	$	7,577,218	$	8,098,605
Total appropriations	$	7,577,218	$	8,098,605
Housing/Property Acquisition Fund				
Total estimated revenue	$	2,100,000	$	2,100,000
Total appropriations	$	2,100,000	$	2,100,000
Hazardous Material Team Fund				
Total estimated revenue	$	410,034	$	474,575
Total appropriations	$	410,034	$	474,575
Public Safety Communications Fund				
Total estimated revenue	$	7,702,308	$	2,400,000
Total appropriations	$	7,702,308	$	2,400,000

Excerpt from "City of Gold Star" Ordinance (cont.)

Section 4. In order to comply with requirements of generally accepted accounting principles as set forth in Statement 54 issued by the Governmental Accounting Standards Board, the fund balance amounts reported in the City's special revenue funds, unless otherwise restricted, shall be constrained for the specific purpose for which the special revenue fund was created. These balances, though they may be combined with other funds for financial reporting purposes, shall maintain the committed status hereby designated.

Section 5. In order to maintain a balanced budget, it is authorized that the total 2018 appropriations set forth for the General Fund in Section 1 hereof, be increased by the amount, if any, by which actual 2018 revenues exceed estimated revenues. It is also authorized that any unused service center appropriations be transferred to the appropriation for Interfund Transfers for contribution to Capital Improvement Funds.

Section 6. For purposes of administering the budget, the legal level of control is designated to be the Service Center as set forth in Section 1 hereof,

Section 7. The capital improvement plan set forth in the Capital Improvements Program Recommendations 2019-2023 is hereby adopted for planning purposes.

Excerpt from "City of Unclear" Budget Ordinance

FUND		
GENERAL FUND		
	GENERAL GOVERNMENT	$ 2,554,873
	JUDICIAL	$ 645,178
	PUBLIC SAFETY	$ 10,191,474
	PUBLIC WORKS	$ 1,535,761
	Recreation	$ 200,000
	HOUSING & DEVELOPMENT	$ 1,236,034
	OTHER USES	$ 1,223,306
TOTAL GENERAL FUND		$17,586,626
ENTERPRISE FUNDS		
	WATER & SEWER	$ 8,644,978
	SOLID WASTE	$ 689,850
TOTAL ENTERPRISE FUNDS		$9,334,828
TOTAL SPECIAL REVENUE FUNDS		$ 521,680
TOTAL CAPITAL PROJECT FUNDS		$3,488,021
TOTAL COMPONENT UNIT FUNDS		$ 1,451,652
TOTAL ALL FUNDS		$32,382,807

Excerpt from "City of Unclear" Ordinance (cont.)

3. Departments will prepare a Budget Amendment Form to accompany any agenda Item needing Budget amendments or transfers.

4. For purposes of this subtitle a "budget amendment" is any action that increases total authorized expenditures (appropriations) for any "fund". A "transfer" is the movement of appropriations from one department, division or function to another without increasing the total appropriations.

5. All transfers between funds or between Departments shall be approved by the Council except as herein provided. The legal level of control is at the department level as specified by the City Code.

6. The City Manager is herein authorized to make budget transfers in any amount within a particular department. The Department Heads have the authority to make transfers between line items within a Department not in excess of $1000.

7. No expenditure or encumbrance of City funds will be authorized in the absence of sufficient appropriations at the legal level of control (e.g. departmental level).

Think About it: What's the Legal Level of Budgetary Control?

- The finance department of The City prepares the budget by *activity* within each department.
- The City's budget ordinance specifies that:
  - Budget appropriations cannot be overspent for any *function* (public safety), and
  - That no individual *department* within a function (police, fire, EMS) can have its budget increased or reduced by more than 5% of the enacted level, without The City Council amending the budget.

Legal level of budgetary control is at the department level, as no changes beyond a certain threshold can be made without legislative approval

Test Your Knowledge

Question 2

Which of the following is a possible legal level of budgetary control?

A. Public safety
B. Fire Department
C. Fire prevention
D. Firefighter personal services
E. Personal services - fire prevention for north fire district
F. All of the above
G. All except E

III: Budgetary Control – Encumbrance Accounting and Budgetary Integration

Learning objectives 3 and 4

Budgetary Integration

- Budget controls in manual accounting
  - Budgetary accounts – opposite balances except ENCUMBRANCES
    - Account names are CAPITALIZED to distinguish from other accounts
    - Record budget at beginning of year
    - Record amendments throughout year
    - Record actual transactions
    - Reverse adopted budget and amendments at FYE
  - Permit budgetary control
    - Encumbrances help prevent overspending
    - Revenue shortfalls are easy to see

Budgetary Journal Entries – Opening Entry

Account		DR	CR
ESTIMATED REVENUES		$105,000	
TRANSFERS IN		20,000	
BUDGETARY CONTROL		5,000	
	APPROPRIATIONS		$100,000
	TRANSFERS OUT		30,000

- ESTIMATED REVENUES – detailed by revenue source
- BUDGETARY CONTROL – Budgetary equivalent of fund balance;
  - Unappropriated revenues (budget reserves for future appropriation),
  - Deficit spending (spend-down of prior year fund balance, etc.)
- APPROPRIATIONS – detailed at least to legal level of budgetary control

Budgetary Journal Entries – Encumbrances

Account		DR	CR
ENCUMBRANCES		$500	
	BUDGETARY CONTROL		$500

- ENCUMBRANCES – Detailed at same level as appropriation
  - Debit ENCUMBRANCES upon the issuance of purchase orders (or contracts) to purchase goods and services
  - Credit is a direct adjustments to BUDGETARY CONTROL

APPROPRIATION	Expenditures	ENCUMBRANCES	Unencumbered Appropriation
($100,000)	$0	$500	($99,500)

Budgetary Journal Entries – Encumbrances (cont.)

Account		DR	CR
Expenditures		$325	
	Accounts Payable		$325
BUDGETARY CONTOL		$325	
	ENCUMBRANCES		$325

- Recognize expenditures when liabilities are incurred, and at same time,
- Reverse encumbrance by amount of expenditure

APPROPRIATION	Expenditures	ENCUMBRANCES	Unencumbered Appropriation
($100,000)	$325	$175	($99,500)

NOTE: Reverse full amount of encumbrance once all related expenditures are recognized

Even More Expenditure Control

- PRE-ENCUMBRANCES – Used to set-aside money earlier in the procurement process (requisition)
- ALLOTMENTS - Some governments make appropriations available in smaller portions throughout the year (monthly, quarterly)
  - Opening budgetary entry would place all funds in an *UNALLOTTED* APPROPRIATION account
  - Periodic allotments made available by moving from UNALLOTTED to ALLOTTED APPROPRIATION
  - Encumbrances compared to Unencumbered ALLOTED APPROPRIATION

Budgetary Journal Entries – Revenue Recognition

Account		DR	CR
Taxes Receivable		60,000	
	Revenue		60,000

- Recognized revenue is compared directly to estimated revenue
- Revenue recognized when earned and available

ESTIMATED REVENUES	Revenue	Unrealized Revenue
$105,000	($60,000)	$45,000

Budgetary Journal Entries – Budget Amendments

- Increase appropriation with no additional revenue (storm, protest, etc.)

Account		DR	CR
BUDGETARY CONTROL		8,000	
	APPROPRIATIONS		8,000

- Additional revenue available (grant, higher than expected economically sensitive tax receipts) and appropriated to an activity

Account		DR	CR
ESTIMATED REVENUE		1,000	
	APPROPRIATIONS		1,000

- Additional revenue used to cover deficit or held in reserve

Account		DR	CR
ESTIMATED REVENUE		4,000	
	BUDGETARY CONTROL		4,000

Encumbrances Open at FYE

- Lapsing

Account		DR	CR
FY 20X1			
BUDGETARY CONTROL		$175	
	ENCUMBRANCES		$175
FY 20X2			
ENCUMBRANCES		$175	
	BUDGETARY CONTROL		$175

Encumbrances Open at FYE (cont.)

- Non-lapsing (“rolling”)

Account		DR	CR
FY 20X1			
BUDGETARY CONTROL		$175	
	ENCUMBRANCES		$175
FY 20X2	**[In *addition to* newly appropriated funds in opening budget entry]**		
BUDGETARY CONTROL		$175	
	APPROPRIATIONS		$175
ENCUMBRANCES		$175	
	BUDGETARY CONTROL		$175

Excerpt from "City of Gold Star" Ordinance – Encumbrances Roll

Section 2. Appropriations and estimated revenues for the Capital Improvements Fund are made on a project-length basis, rather than on an annual basis and remain in effect until the project is completed and closed. Appropriations and estimated revenues for the Capital Improvements Fund are adopted as follows:

	Revised 2018	2019
Capital Improvements Fund		
Open project appropriations at year beginning	$709,469,879	$ 797,469,879
Add: New appropriations for projects	103,000,000	59,359,000
Less: Appropriations for closed projects	(15,000,000)	(15,000,000)
Open project appropriations at year end	$ 797,469,879	$ 841,828,879

Section 3. In order to comply with requirements for generally accepted accounting principles regarding expenditure recognition, the appropriations set forth in Section 1 above for year 2019 shall be increased by the amount of any purchase order encumbrances open as of December 31, 2018.

Non-lapsing Encumbrances in Fund Balance

If encumbrances *don't lapse* at period end:

- Classify amounts of open encumbrances based on classification of the funds that had been encumbered initially, if
  - Restricted, or
  - Committed;
- Otherwise, (rolled) encumbered funds are reported as being assigned.

Budgetary Journal Entries – Closing Entry

- Reverse Opening Entry + Amendments

Account	Opening	Amendments	Amended Budget
ESTIMATED REVENUES	$105,000	+ $1,000 + $4,000	$110,000
TRANSERS IN	20,000	-	$20,000
BUDGETARY CONTROL	5,000	+ $8,000 + ($4,000)	$9,000
APPROPRIATIONS	(100,000)	+ ($8,000) + ($1,000)	($109,000)
TRANSFERS OUT	(30,000)	-	($30,000)

- Close by debiting open credit-balance budgetary accounts and crediting all open debit-balance budgetary accounts

Account		DR	CR
APPROPRIATIONS		$109,000	
TRANSFERS OUT		30,000	
	ESTIMATED REVENUES		$110,000
	TRANSFERS IN		20,000
	BUDGETARY CONTROL		9,000

Test Your Knowledge

Question 3

Which kind of encumbrance, if open (unspent) at year end, might result in more *unassigned* fund balance than if the expenditure had been made during the year?

A. Lapsing encumbrance

B. Rolling (non-lapsing) encumbrance

C. Either

D. Both

E. Neither

IV. Original, Amended, and Final Amended Budgets

Learning objective 5

Original Adopted Budget

- The budget in place as of the start of the fiscal year (or other period covered by the budget)
- Includes any changes made *after* the budget was first passed, but *before* the start of the fiscal year
- Includes any automatic "carryovers" from the previous budget year (encumbrances that roll into the subsequent year's budget)

Original Adopted Budget (cont.)

- If a government starts its fiscal year without having an approved budget in place, the original budget would be the
  - First *complete* budget that covers the entire fiscal period
- If a government does not legally adopt an annual or biennial budget, *no* budgetary comparison would be included in the basic financial statements or as RSI.

Amended Budget

- The budget as it stands as of *a point in time* during the budget period
- Includes all legally-authorized amendments made *to date*
  - Amendments by legislature
  - Amendments by management as authorized by law

Final Amended Budget

- The original budget *adjusted by all*:
  - Reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year …
  - *Whenever* they are signed into law or otherwise legally authorized, even if they become law *subsequent* to the close of the fiscal year

Think About it: Which Would Affect the Final Amended Budget?

- Continuing appropriations made at the end of the prior year to keep essential services operating into the new year because the legislature had not adopted a complete budget by that time. No. Original budget will be the first *full-year budget* adopted in new year
- The first complete budget for the fiscal year, enacted more than 30 days after the start of that fiscal year Yes!
- Amendments enacted during the fiscal year Yes!
- Amendments enacted after the end of the fiscal year Yes!

Test Your Knowledge

Question 4

Which of the following would be the original budget for The County for FY 20X3, assuming all legislative actions mentioned took place?

A. The 20X3 portion of The County's rolling three-year financial plan, when first included in 20X1

B. The full-year budget adopted for FY 20X3 in the 11th month of FY 20X2

C. B (above), adjusted for the affects of an amendment to the FY 20X3 budget adopted on the last day of FY 20X2

D. A "new" full-year budget for FY 20X3 adopted in the first week of FY20X3

V. Reporting Actual Results on a Budgetary Basis
or,
"Budget v. GAAP"

Learning objective 6

Entity Differences

- Arise because either:
  (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 as defined by GAAP
- Example:
  - A public college’s operating budget includes revenue and expenditures of a legally-separate foundation that is not a CU of the college

Perspective Differences

- Arise because the fund structure used for budgeting differs from the fund structure used for GAAP financial reporting

- Example:
  - A town budgets for its holiday decorations and programs, which it pays for solely with transfers of general revenue, in a “special revenue fund”.

Excerpt from “City of Gold Star” Budget Ordinance (cont.)

Grant Fund				
Total estimated revenue	$	8,593,465	$	7,903,643
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Hazardous Material Team Fund				
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Total appropriations	$	7,702,308	$	2,400,000

Basis Differences

- Arise because the basis of budgeting (budgetary basis) differs from the basis of accounting prescribed by GAAP for that fund type
- Example:
  - A special revenue fund used to account for charges for services that is legally restricted is operated on a cash basis.

GAAP Basis of Accounting for Funds

- Governmental funds – modified accrual
  - General fund
  - Special revenue funds
  - Debt service funds
  - Capital projects funds
  - Permanent funds
- All others – full accrual

Timing Differences

- Arise because the period used for budgeting differs from the period used for GAAP reporting

- Example:
  - A school district appropriates money for payments of teachers’ summer salaries, which are paid to those who taught in the school year that ended on June 30, 20X1, in the district’s budget for their fiscal year ending on June 30, 20X2.

Budgetary Comparisons in Financial Reporting

Learning objectives 7 and 8

Budgetary Comparison Reporting

- Two types:
  - Mandated for the following funds if the fund has a *legally adopted* annual* budget:
    - General fund
    - All *major* special revenue funds
  - Extended (supplemental) reporting by governments that *prepare a CAFR* for the following funds, if the fund has a *legally adopted* annual* budget*:*
    - General fund and major special revenue funds for which mandated reporting is not at the legal level of budgetary control and
    - Any other governmental funds

* "Annual" includes any set-length (biennial, triennial), rather than project-length, budget

Legally Adopted Budgets

- Legally adopted – refers to the notion that a government has *no legal authority to spend* resources until the budget is adopted
  - If a government *has* legal authority to spend resources *without* the adoption of a budget, then *no budget or plan* – even if adopted by a legislature – is considered to be a legally adopted budget under GAAP

Excerpt from "City of Gold Star" Ordinance – Project Length Budget

Section 2. Appropriations and estimated revenues for the Capital Improvements Fund are made on a project-length basis, rather than on an annual basis and remain in effect until the project is completed and closed. Appropriations and estimated revenues for the Capital Improvements Fund are adopted as follows:

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Less: Appropriations for closed projects	(15,000,000)	(15,000,000)
Open project appropriations at year end	$ 797,469,879	$ 841,828,879

Section 3. In order to comply with requirements for generally accepted accounting principles regarding expenditure recognition, the appropriations set forth in Section 1 above for year 2019 shall be increased by the amount of any purchase order encumbrances open as of December 31, 2018.

Mandated Reporting

- Must always be presented in connection with the basic financial statements
  - Option 1: present as basic financial statement
    - “Statement”
    - Audited
  - Option 2: present as required supplementary information (RSI)
    - “Schedule”
    - Not audited
- Level of detail is, at a *minimum*, that which is used in the governmental fund statements of revenues, expenditures, and changes in fund balance

Mandated Reporting (cont.)

- Scope –
  - General fund and major special revenue funds for which there are legally adopted annual budgets
  - “The minimum is the maximum;” may *not* include:
    - Other fund types
    - Nonmajor special revenue funds

Contents of Mandated Budgetary Comparison Reporting

- Required –
  - Original budget
  - Final amended budget
  - Actual results on the budgetary basis
  - Reconciliation to GAAP basis

Variance Columns (Optional)

- Presentation encouraged
  - Difference between the final amended budget and actual amounts
    - Recommended
    - Almost always presented
- Presentation permitted
  - Difference between the original budget and the final amended budget
    - Uncommon

Format of Mandated Budgetary Comparison Reporting

- Based on budget format, or
- Based on statement of revenues, expenditures, and changes in fund balance format

Identifying Major Funds

- General fund always a major fund
- Criteria for other governmental funds same as for GAAP fund financial statements:
  - Relative size
  - Qualitative factors

Major Fund Determination – Quantitative Criteria

F/S Element Category		% of total for governmental funds	% of total for governmental + enterprise funds
1	Assets + deferred outflows of resources	≥ 10%	≥ 5%
2	Liabilities + deferred inflows of resources	≥ 10%	≥ 5%
3	Revenues	≥ 10%	≥ 5%
4	Expenditure/expense	≥ 10%	≥ 5%

Application of Threshold

	Fund total	Threshold	>Threshold?	Major fund?
Fund A				
Assets + deferred outflows of resources	$5,800	$9,240	No	Yes
Liabilities + deferred inflows of resources	$4,200	$4,010	Yes	
Revenues	$2,400	$4,670	No	
Expenditures	$5,000	$4,420	Yes	
Fund B				
Assets + deferred outflows of resources	$6,800	$9,240	No	Yes
Liabilities + deferred inflows of resources	$1,300	$4,010	No	
Revenues	$3,200	$4,670	No	
Expenditures	$5,900	$4,420	Yes	
Fund C				
Assets + deferred outflows of resources	$3,000	$9,240	No	No
Liabilities + deferred inflows of resources	$700	$4,010	No	
Revenues	$3,800	$4,670	No	
Expenditures	$2,100	$4,420	No	

Clarifications

- Exclude from calculation
  - Other financing sources and uses
  - Extraordinary items
- Interfund balances may be netted *within individual funds* for the purpose of applying the 10 percent and 5 percent criteria
  - Effect - Lowers thresholds for total assets and total liabilities

Qualitative Factors

- A fund *may* be classified as major if “the government's officials believe [the fund] is particularly important to financial statement users (for example, because of public interest or consistency).”
  - Examples:
    - An individual fund that *normally* meets the size criteria, but not in a given year
    - Heightened public interest

Extended Reporting

- Scope
  - Required for all governmental funds that both
    - Have legally adopted annual (or biennial, even triennial) budgets and
    - Have not been included in mandated budgetary comparison reports *at the legal level of budgetary control*
- Format same as for mandated reporting

Extended Reporting (cont.)

- Included in supplementary information in financial section of a CAFR by for governments that prepare a CAFR*
- Level of detail is *the legal level of control*
  - Exception – If the legal level of budgetary control is *extremely* detailed, a government may
    - Report at functional or program level in CAFR, *and*
    - Issue, and refer CAFR readers to, a separate report that presents extended reporting at the legal level of budgetary control

*If mandatory budgetary comparison reporting is not at legal level of budgetary control and/or additional governmental funds have legally adopted budgets

Contents of Extended Budgetary Comparison Reporting

- Required –
  - Final amended budget
  - Actual results on the budgetary basis
- Optional –
  - Variance columns
    - Same as for mandated reporting

Reconciliation of Budgetary Basis to GAAP

- Mandated reporting
  - Reconcile the budgetary basis with GAAP if different, either:
    - On the face of the mandatory budgetary comparison (statement or schedule) or
    - In the notes to the basic financial statements (statement) or notes to RSI (schedule)
- Extended reporting
  - No reconciliation required

Labeling Variance Columns

- Managerial accounting
  - *Favorable* v. *unfavorable*
- Problematical in the public sector
  - Focus on providing services rather than generating revenue
    - Spending less money than planned is not necessarily a "good thing" if services suffered as a result
    - Collecting more taxes than needed is not necessarily a "good thing" from the point of view of taxpayers
- Recommendation
  - Do not provide a column description, or
  - Use neutral terminology (e.g., "variance" or "difference")

Mandated Reporting Excerpt

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Expenditures:				
Current:				
General government	913,896	1,125,896	917,195	208,701
Public safety	1,151,086	1,151,086	1,158,970	(7,884)
Streets and public works	787,401	822,401	731,830	90,571
Solid waste and recycling	347,250	347,250	354,319	(7,069)
Parks and recreation	656,908	661,908	599,980	61,928
Total expenditures	3,856,541	4,108,541	3,762,294	346,247
Excess (deficiency) of revenues over (under) expenditures	213,613	61,613	691,941	630,328

Expanded Reporting Excerpts

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
EXPENDITURES				
General government				
Mayor & council	74,597	74,597	66,855	7,742
Administrative operations	275,025	280,025	246,888	33,137
City Recorder	66,323	66,323	62,988	3,335
Finance	178,069	178,069	166,884	11,185
Other materials, supplies, and contracted services	319,882	526,882	373,580	153,302
Total	913,896	1,125,896	917,195	208,701
Public safety				
Police department	406,368	406,368	405,894	474
Fire department	683,185	683,185	693,985	(10,800)
Other	61,533	61,533	59,091	2,442
Total	1,151,086	1,151,086	1,158,970	(7,884)
Streets and public works				
Building and zoning	139,406	169,406	136,288	33,118
Public works	292,995	297,995	266,893	31,102
Streets	355,000	355,000	328,649	26,351
Total	787,401	822,401	731,830	90,571

Special Circumstances

- Exceptions to the level of budgetary control
  - For specific purpose (equipment, personnel)

	Budget	Actual
Department A:		
Equipment:	$ 1,000	$ 995
Other:	10,000	9,800
Total Department A	$11,000	$10,795

Special Circumstances (cont.)

- Multiple sources and levels of control
  - State requires by fund; City budgets by department

	Budget	Actual
Fund A:		
Department 1	$ 3,000	$ 2,880
Department 2	4,000	3,780
Department 3	13,000	12,995
Total Fund A	$20,000	$19,655

Special Circumstances (cont.)

- Cross-cutting
  - By programs (in multiple funds) and by fund

	Fund A	Fund B	Fund C	Actual (activity)	Budget (activity)
Activity A	10	16	2	28	32
Activity B	13	14	33	60	65
Activity C	2	20	12	34	35
Actual (fund)	25	50	47		
Budget (fund)	27	55	50		

Mandatory v. Extended Budgetary Comparisons

Item	Mandatory budgetary comparison	Extended budgetary comparisons
Original budget	Required	Not required
Final amended budget	Required	Required
Actual	Basis of budgeting*	Basis of budgeting
Variance column(s)	Optional	Optional
Reconciliation (basis of budgeting/GAAP)	Required	Not required
Level of detail	Function/program	Legal level of budgetary control

* May be reported at a less detailed level, at least as detailed as the fund financial statements

Test Your Knowledge

Question 5

Which of the following is a *false* statement?

A. Mandated budgetary comparisons may be reported at a function level even if the legal level of budgetary control is at the departmental level

B. A nonmajor special revenue fund may be included in mandated budgetary reporting if government officials believe it is particularly important to financial statement users

C. A special revenue fund that government officials believe is particularly important to financial statement users may be classified as a major fund even if it does not meet the quantitative tests

D. A reconciliation of actual results on a budgetary basis to GAAP is only required to be presented for mandated budgetary comparison reporting

Question 6

Which of the following is a true statement regarding variance columns in budgetary comparison reporting?

A. A variance between the *final amended* budget and the *actual* results is *required* in mandated reporting and optional in extended reporting

B. A variance between the *final amended* budget and the *actual* results is *recommended* in mandated reporting and *prohibited* in extended reporting

C. A variance between the *original* budget and the *final ame*nded budget is *required* in mandated reporting and optional in extended reporting

D. All variance columns are optional in both mandated and extended budgetary comparison reporting

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25th Annual Governmental GAAP Update

November 5, 2020

Rebroadcast scheduled for …

- **December 3, 2020**

Thank you

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