REVENUE DEFICITS

Questions and Answers

1. What is a revenue deficit?

A revenue deficit occurs when the current results of operations (actual revenues and expenditures exclusive of appropriation deficits i.e. legal overdrafts) result in a deficit when compared to the approved budget (budgeted revenues and appropriations) for the fiscal year.

2. How does an accountant recognize a revenue deficit?

Accountants track expenditures made against budgeted appropriations during the fiscal year. They should also track actual revenues collected against budgeted revenues during that fiscal year. Please note that communities are allowed to count the current year's real and personal property tax commitment net of overlay as revenue. At the end of the fiscal year, if actual revenues collected are less than budgeted revenues; and appropriation balances closed are not sufficient to cover the revenue shortfall; a revenue deficit exists.

3. How do you account for a revenue deficit?

On the statutory system, the estimated receipt account balance and the appropriation balances are closed to the current year's revenue account. The revenue account would remain open if a debit balance exists after these closing entries. The revenue account would only close to surplus revenue if a credit balance remains.

On the UMAS system, the revenue control and other financing source control in the revenue subsidiary ledger will have to be analyzed to determine if a revenue shortfall exists. The appropriation subsidiary ledger will have to be analyzed to determine the amount of appropriation balances not used. If the appropriation balances are insufficient to cover the revenue shortfall, an adjustment to unreserved fund balance is necessary to account for the revenue deficit. The adjustment would be:

Fund Balance Reserved for Revenue Deficit	XXXXX	
Unreserved Fund Balance		XXXXX

4. How does a revenue deficit affect my free cash?

A revenue deficit is required to be raised on the next year's tax rate; therefore, if it is properly recorded, it does not affect your community's free cash.

5. How should a revenue deficit be reported?

The accountant should notify the assessors in writing as to the amount of the revenue deficit for the period ending June 30. The revenue deficit should also appear as a reservation of fund balance on the community's balance sheet for the same fiscal period.

6. Examples of a revenue deficit:

A city finalizes its budget for fiscal year 2019 with the following:

Total revenues	$100,000
Total appropriations	$100,000

Note - In examples a thru c the unfavorable revenue deficit was caused by a shortfall in state and local receipts, property taxes were fully collected.

a. At the end of the fiscal year, it is determined that the city collected $90,000 and will turn back $5,000 in unspent appropriations. Does the city have a revenue deficit?

	Budget	Actual-	Favorable/(Unfavorable)
Revenue	$100,000	$90,000	$(10,000)
Expenditures	100,000	$95,000	5,000
Revenue Deficit			$ (5,000)

b. At the end of the fiscal year, it is determined that the city collected $90,000 and will turn back $15,000 in unspent appropriations. Does the city have a revenue deficit?

	Budget-	Actual-	Favorable/(Unfavorable)
Revenue	$100,000	$90,000	$(10,000)
Expenditures	100,000	$85,000	15,000
Revenue Surplus			$ 5,000

c. At the end of the fiscal year, it is determined that the city collected $90,000 and made expenditures of $105,000 which includes $5,000 for court judgments and $2,500 for snow and ice. What are the city's expenditures from budgeted appropriations and does the city have a revenue deficit?

The expenditures would be:

	$105,000	total expenditures
less:	5,000	court judgments
	2,500	snow and ice
	$ 97,500	total expenditures from appropriations

	Budget-	Actual-	Favorable/(Unfavorable)
Revenue	$100,000	$90,000	$(10,000)
Expenditures	100,000	$97,500	2,500
Revenue Deficit			$(7,500)

Legal overdrafts are separately designated and are excluded from the revenue deficit calculation.

d. At the end of the fiscal year, it is determined that of the $100,000 revenue budget the property tax commitment net of overlay is $60,000 and state and local revenues were $40,000. The city collected $55,000 in property taxes, $40,000 in state and local receipts and will not be turning back any appropriations. Does the city have a revenue deficit?

	Budget-	Actual-	Fav/(Unfav)
Revenue State/Local	$ 40,000	$40,000	$ -0-
Revenue-Property Taxes	60,000	55,000	(5,000)
Expenditures	100,000	$100,000	-0-
Revenue Shortfall			$(5,000)

In this example where the deficit is due to the property tax collections being less than the amount budgeted the city is not required to raise the revenue deficit. The reason for this is that there is a basic assumption that the town has a lien on the property or will eventually take the property and by selling it, will collect the taxes.