

CHAPTER 4

STRUCTURE AND USE

The Uniform Chart of Accounts has been designed to improve the financial reporting, budgeting, accounting, and management reporting of local governments in Massachusetts. The Chart provides a comprehensive, flexible, and systematic arrangement of accounts for use in classifying and reporting financial transactions. Adherence to these classifications by all local governments will ensure that similar transactions are recorded in the same manner, not only within a local government but also among local governments. Accordingly, this method of classifying accounts and transactions is an integral part of UMAS.

Classification Overview

The accounting system is the means by which financial data is captured, recorded in the books of account, and reported to users of the data. The chart of accounts is the means by which the accounting data is organized to facilitate the capturing, recording, and reporting of the information.

UMAS classifies financial data in a hierarchical fashion as illustrated in Exhibit 4-1 on the following page. The classification levels and the terms used to classify financial data at each level are described below.

I. PURPOSE OR FOCUS. Purpose or Focus is captured by establishing a fund. A fund is a fiscal and accounting entity with a self-balancing set of accounts. Chapter 5 includes a more detailed and comprehensive discussion of funds.

II. TYPE OF ACCOUNT. There are five major types of accounts: Assets, Liabilities, Fund Equity, Revenues, and Expenditures. The first three are referred to collectively as "balance sheet" or "perpetual" accounts and are used to measure an organization's financial *position at a point in time. The latter two are referred to as operating or "nominal" accounts and are used to measure the flow of financial resources.

III. REPORTING CATEGORY. Financial data is further classified at this level to provide management control and to facilitate financial statement preparation. Reporting Categories for each Type of Account are described in Chapters 6, 7, and 8.

IV. SUBCATEGORIES Individual local governments vary according to form of government, size, scope of operations, and management structure. These differences give rise to a variety of unique classification needs which are typically met by providing additional detail in the form of locally defined subcategories.

UMAS Account Code Structure

In order to classify each financial transaction, the classification information must be recorded on the source document. This is done by developing an account coding scheme. The UM account coding scheme is called the Uniform Chart of Accounts. It consists of a standardized structure which parallels the classification hierarchy above and of defined numeric codes to identify each level of classification. The account code structure is described below. The UMAS numeric coding scheme is described in Chapters 5 through 8.

The UMAS account code structure has four components or "fields" which parallel the UMAS classification hierarchy as follows:

Classification Level	Component Names
I. Purpose or Focus	Fund Number
II. Type of Account	Type Code
III. Reporting Category	Reporting Code
IV. Subcategory	Sub-Code

These components are arranged into a nine digit "account code" or "account number" as follows:

FF - T - RRR - SSS

Fund Number

Type Code

Reporting Code

Sub-Code

The paragraphs which follow describe how each of these fields as used within the Uniform Chart of Accounts.

Fund Number is a two-digit field which for the most part, uniquely identifies a fund. In some cases, a single fund number is used to identify a group of related funds, for example, Nonexpendable Trust Funds. Chapter 5 contains a more extensive discussion of funds as well as a complete list of recommended UMAS fund numbers.

Type Code is a single digit which uniquely identifies the type of account. The recommended UMAS type codes are as follows:

Balance Sheet Accounts:

1 - Assets

2 - Liabilities

3 = Fund Equity

Operating Accounts:

4 = Revenues

5 = Expenditures

Reporting Code is a three-digit field whose usage varies according to the type of account or type code. For balance sheet accounts, types 1, 2, and 3, the reporting code identifies the nature of the item recorded in the account, for example, "cash" or "accounts payable." Chapter 6 contains

detailed descriptions of balance sheet reporting categories as well as a complete list of recommended WAS balance sheet account codes.

Automated Systems Structure Guidelines

There are many different automated systems in use today with many different structures for their chart of accounts. Some systems have fixed structures, others allow the users a great deal of flexibility in defining a structure. Some have numerous predefined codes. In assessing whether a particular system's structure will support UMAS, local units of governments should consider the following:

- The structure should facilitate preparation of GAAP financial statements in accordance with GAAP. In effect, the system should be able to generate a trial balance in much the same sequence as one produced from a manual system which used the UMAS structure and codes.
- The structure should be able to support the UMAS classification hierarchy. For example, fund numbers or other related identifiers such as fund type should be clearly identified.
- The structure should be able to use the recommended UMAS account codes.

Note that these guidelines apply to the chart of accounts structure only. There are also numerous non-chart-related accounting requirements which must be identified and satisfied to ensure that the automated system will support the operational needs of the local government. For example, it is often desirable to post current period transactions before the prior period has been closed and not all automated systems permit this.

PROGRAM & ACTIVITY CODING

Many government organizations, particularly the larger ones, have a need to classify expenditure data according to what types of services were provided. For example, to report that the Highway Department spent \$1,000,000 on salaries may not be sufficient. Residents and others may wish to know how much of that money was spent for new construction vs. maintenance, for road repair vs. catch basin clearing and so on. These items are usually referred to as "programs" or "activities". Because there is so much variation in how these services are provided, the UMAS chart does not provide standardized codes for them. Communities which wish to monitor -such items will need to use an expanded chart structure.

In deciding whether to use such an expanded structure, local units of government should consider the following:

Current or planned automation If a manual system is in use, program coding may not be feasible. Expenditure transactions may often be posted to more than one account and the additional labor resources may not be available. The larger number of accounts, often more than triple the non-program size, will make interim and year-end reporting more time-consuming and more prone to error.

Scope. Not all departments will be equally interested in program coding. The Schools and Public Works will almost certainly find them useful. The Library and the Recreation Department are other frequent users, while Police and Fire may occasionally be interested. Smaller units such

as the Clerk, Natural Resources Commission, or a Council on Aging are unlikely to desire the additional detail provided by program coding.

For revenue accounts, type 4, the reporting code identifies the source of the revenue, for example, "taxes" or "charges for services." Chapter 7 contains detailed descriptions of revenue sources as well as a complete list of recommended UMAS revenue source codes.

For expenditure accounts, type 5, the reporting code is used to identify both functions and organizations. Functions such as "general government" or "public safety" are used primarily for external financial reporting. Organizations such as "clerk" and "police department" are used primarily for internal management control. Chapter 8 contains both descriptions and recommended UMAS coding for functions and organizational responsibilities.

Sub-Code is also a three-digit field whose usage varies according to the type of account or type code. For balance sheet accounts, types 1, 2, and 3, and revenue accounts, type 4, the sub-code is used to provide additional detail when the local government desires such detail ("local coding"). For example, it might be used to identify the depository agency on cash accounts or to identify the responsible department on departmental receivables. Where additional detail is not desired, the sub-code may be set to zeros or omitted altogether.

For expenditure accounts, type 5, the sub-code is used to identify the product or service paid for and is usually called the "object of expenditure" or simply the "object." Objects are defined according to the nature of the product or service, for example, "salaries and wages" or "debt service." Chapter 8 contains both descriptions and recommended UMAS coding for expenditure objects.

Illustrative Account Codes

Using the UMAS Account Code Structure and the recommended coding from Chapters 5 through 8, the first few General Fund accounts of each type would probably be as follows:

Account Type	Account Code	Account Title
Assets	01-1-010-0 00	Cash on Hand
	01-1-040-000	Cash - Unrestricted Checking
	01-1-110-000	Investment in Treasury Bills
Liabilities	01-2-010-000	Warrants Payable
	01-2-020-000	Accounts Payable
	01-2-050-000	Contracts Payable, Retained Percentage
Fund Equity	01-3-211-000	Fund Balance Reserved for Encumbrance
	01-3-212-000	Fund Balance Reserved for Prior Year Encumbrances
Revenues	01-4-000-000	Subsidiary Revenue Control
	01-4-110-000	Personal Property Taxes
	01-4-120-000	Real Estate Taxes
Expenditures	01-5-000-000	Subsidiary Expenditure Control
	01-5-111-110	City Council, Salaries & Wages
	01-5-111-150	City Council, Fringe Benefits

Appendix A.2 contains a detailed discussion of how to set up UMAS account codes.

Degree of Expansion The UMAS department codes may be used to provide some program information without expanding the chart. For example, the third digit of the function/responsibility code may often be used to provide some limited program information.

If a decision is made to use program codes, they may be added to the standard UMAS structure based on local preference. Since program codes are often used to provide additional detail on departmental activities, many local governments which use such codes place them immediately after the reporting code:

FF - T - RRR - PPP - SSS

Program Code (as many digits as needed)

Others, especially those that use program codes only for selected accounts (e.g. Schools), find it more effective to place the code at the end of the standard structure; the final digits are simply omitted on those accounts which don't require them.

FF - T - RRR - SSS - PPP

Program Code (as many digits as needed)

Year of Levy Segregation

Certain receivable accounts should be segregated by year of levy. These accounts include Personal Property Taxes Receivable, Real Estate Taxes Receivable, Provision for Abatements and Exemptions, and Motor Vehicle and other Excises Receivable

The receivable balances should be assigned account numbers such that the current year is always first in the ledger and prior years follow it in sequence. For example, typical UMAS coding for Personal Property Taxes Receivable would be as follows:

01-1-210 Personal Property Taxes Receivable, Levy of 19x6
 01-1-211 Personal Property Taxes Receivable, Levy of 19x5
 01-1-212 Personal Property Taxes Receivable, Levy of 19x4
 01-1-213 Personal Property Taxes Receivable, Levy of 19x3

To maintain the suggested order, formal journal entries should be processed at the beginning of each fiscal year to transfer opening balances. For example, if the accounts above were those in use at the end of fiscal year 19x6, the balance in 01-1-213 would be transferred to 01-1-214 at the beginning of fiscal year 19x7 (see also note below regarding use of account 01-1-219). In turn, the balance in 01-1-212 would be transferred to 01-1-213 and so on leaving 01-1-210 with a zero balance until the levy of 19x7 is recorded. Maintaining the accounts in this fashion will facilitate the task of accounting personnel since the current year's levy will always be in the same account.

Although the UMAS Chart has enough numbers to allow ten years of balances, any receivables uncollected, unabated, and unliened after four years should be transferred to an "Other" account with detail, if needed, maintained in a subsidiary receivables ledger. For example, the following account might be used for Personal Property Taxes Receivable:

01-1-219 Personal Property Taxes Receivable, Levy of 19x2 and prior

Grant Coding

Grant revenues and expenditures must be readily identifiable to ensure proper control and facilitate compliance reporting. Grant expenditures can easily be segregated within the standard UMAS structure by assigning an unused organizational responsibility code to the grant. The code chosen should also have the appropriate function code, for example, a police department grant should be in the 200 series to facilitate reporting it as a public safety expenditure. This same number could also be used as a revenue account sub-code to clearly link grant revenues and expenditures. For example:

xx - 5 - 215 - xxx

Expenditures
Police Department Federal Grant

xx - 4 - 540 - 215

Other Federal Grant Revenue
Police Department Federal Grant

Local governments with large numbers of grants may wish to use an expanded account code to segregate grant expenditures and revenue (see "Program & Activity Coding" above).

Trust Fund Coding

Many local governments have a variety of Trust Funds which have been established over the years. Accounting for Trust Fund expenditures will generally be simplified by following an approach similar to that described above for grants. Specifically, expenditures should be coded using an organizational code in the 950 series (see Chapter 8), and the same number should be used as a revenue account sub-code. For example:

84 - 5 - 952 - xxx

Thomas Jefferson Trust
Expenditure Object Code

84 - 4 - 820 - 952

Earnings from Investments
Thomas Jefferson Trust

Proprietary Fund Reporting

Most Proprietary Fund financial statements classify revenues and expenditures as "Operating" or "Nonoperating." Operating items are those directly related to the product or service provided by the fund, all other items are nonoperating items. For example, customer bill payments for electricity consumed would be an operating revenue for a municipal light company. However, if the same light company also provided office space to another town department, the rental income on that space would be a nonoperating revenue.

In most cases, only Enterprise Fund financial statements will be affected by this distinction. Revenue accounts in the enterprise funds can be classified as operating or nonoperating by using the sub-code, for example:

xx-4-xxx-001

Operating Revenue

xx-4-xxx-002

Non-operating Revenue

Expenditure accounts can be classified in one of two ways. First, if the local government is not using the third digit of the function/organization code, the this digit may be used to segregate operating and *nonoperating items*. For example:

xx-5-451-xxx

Water Enterprise Operating Expenses

xx-5-452-xxx

Water Enterprise Non-operating Expenses

Alternatively, the local government could also use an expanded account code as described earlier under "Program & Activity Coding." For example:

xx-5-450-xxx-001

Water Enterprise Operating Expenses

xx-5-450-xxx-002

Water Enterprise Non-operating Expenses