

CHAPTER 13

BUDGET ENTRIES

The purpose of this chapter is to briefly describe the present budgetary process in Massachusetts, to explain the interim procedures necessary in order for that system to accommodate itself to the revised accounting system, and to present illustrative journal entries for recording a municipality's annual budget.

In order to permit the reporting of budget vs * actual revenues and expenditures, it is essential that the system for preparing budgets be based on the system of accounting that is utilized by a governmental unit. In Massachusetts, however, the present budget practices were developed to integrate with the then existing accounting system. As such, these practices are based on the limited fund structure of that system, rather than on the multiple fund structure and modified chart of accounts of the revised system. Clearly, at some time in the near future, the budget system will need to be changed to conform to the new system requirements. Until these changes are made, however, it will be necessary to convert the budget information as it is presently prepared to a format which is consistent with the revised system. This chapter describes the process of preparing the budget information to be recorded in the records under the revised system.

The Budgetary Process in Massachusetts

The fiscal year-end of Massachusetts municipalities and districts is June 30. The budget process in most communities is a continuous cycle. It generally begins in November or December preceding the fiscal year for which the budget is being prepared and is not complete until the tax rate has been set, an event which generally occurs several months after the fiscal year has begun (often in September or October). At that time, the next year's budgetary planning is ready to begin. Although the budget process involves many activities, there are several significant steps that can be identified which are particularly important in understanding the budget sequence in Massachusetts and ultimately the timing of the accounting entries.

Activity	Approximate Completion Date
1. Operating expense budgets prepared for each department	November
2. Revenue budget estimated for each department, and for the unit	November
3. Real property and personal property valuation determined	January
4. Budgets (1 and 2 above) submitted to authorizing bodies for approval <ul style="list-style-type: none"> • Finance committee • Town meeting/city council 	December April – June
5. Budget approved	June
6. "Cherry Sheet" (setting forth State distributions and State and county assessments) received	July
7. Other amounts required to be raised under the law identified	July
8. Other "available funds" identified; authorizing body determines amounts to be utilized	April – June
9. Amount to be added to the levy for "abatements and exemptions" determined	September - October
10. Tax rate set and approved by various authorities; tax levy committed for collection September	October

In Massachusetts, the elements of a budget include several different sources of revenue and expenditures, some of which are appropriated, and some of which are simply required to be raised and paid for in accordance with applicable statutes. A summary of the principal revenues and expenditures encompassed in an annual budget includes statutory amounts to be raised or paid for as follows:

Revenues	Comment
Real estate and personal property taxes	Amounts assessed to property owners; represents the principal source of city/town revenue
State grants and distributions	State "Cherry Sheet" distributions
Federal grants	Generally for restricted purposes
Other sources	Motor vehicle excise, revenues generated through service of municipal departments including enterprise activities
Expenditures	Comment
Departmental operating expenses	Current year's operating expense budget
State and county assessments	State "Cherry Sheet" assessments for the current year
Other amounts required to be raised, net	Include: <ul style="list-style-type: none"> • Court judgments • Abatement deficits • Appropriation deficits • Revenue deficits • State and county over/underassessment of prior year

With the exception of the "Other amounts to be raised," each of the items in the budget represents amounts which are expected to occur in the current budget year. These items have, in fact, occurred in a prior year, after the budget for that particular year was finalized. Accordingly, for GAAP purposes, such an amount will have been accounted for as an expenditure of that year, and fund balance will have been reduced. Under Massachusetts law, such amounts are required to be raised in the following year. As this occurs, fund balance will in fact be replenished. As will be noted below, the special nature of these items is recognized in the budgetary recording process by crediting these directly to the account "Budgetary Fund Balance. "

System Comparison

The existing system and the revised system have a number of characteristics in common:

- A "zero balance" control account designed to ensure that all budget entries have been fully and accurately recorded.
- Integration of budget accounts and actual accounts in the general ledger.
- A two-step process for recording the budget in the ledger.
- Segregation of budget elements (such as "Appropriations" and "Other Financing Sources").

However, the systems differ in some important respects:

- The revised system, as mentioned previously, incorporates a more extensive fund structure.
- Several terms have been changed in order to promote consistency with other states.
- Budget and actual accounts are always clearly segregated in the accounting records.

The major characteristics of the revised system are described below with detailed comparisons made to the existing system where appropriate.

Integration of Records

As with the existing system, budgetary control accounts will be integrated with the actual control accounts in the general ledger. However, budget and actual amounts will be accounted for separately. This will be accomplished by:

- Providing separate budget and actual accounts in the general ledger.
- Requiring that individual journal entries reflect exclusively either budget or actual transactions (thus, if the debit is to a budget account, the credit must also be made to such an account).

To emphasize this separation, all BUDGET ACCOUNTS are presented in capital letters in all the illustrative journal entries throughout this manual. (Note that the SUBSIDIARY BUDGET entries are also presented in capitals even though subsidiary budgets and actuals are normally segregated by the use of different columns on the ledger card rather than by use of physically separate accounts.)

Current procedures in most municipalities mix actual and budget amounts. Thus, although at any given time it may be possible to determine the balance of "unexpended appropriations," it is difficult at best to prepare an analysis of budget to actual expenditures. For example, in order to record the refund of an expenditure as an increase to the available balance, the present system effectively treats it as an increase to "budget" rather than as a reduction of expenditure.

Control Account

Both the revised system and the existing system utilize a "zero balance" control account to ensure that the budget has been fully and completely recorded. In the existing system, this is the "Revenue" account, while in the revised system it has been retitled "Budgetary Control" in order to more accurately describe its function and to avoid confusion with the actual account titled "Revenue." Additionally, each fund will have a budgetary control account which must have a zero balance after the budget for that fund has been recorded.

The Budget Accounts

In order to simplify and facilitate the reporting of comparisons of budget and actual revenues and expenditures, several additional budgetary control accounts are used in the revised system. These accounts, together with a brief description of the budgetary items to be classified in each, are listed below.

Number	Title	Classification Description
1910	ESTIMATED REVENUE CONTROL	Real estate and personal property taxes, excises, most licenses and fees, grants, and other such items
1915	ESTIMATED OTHER FINANCING SOURCES CONTROL	Operating transfers in, bond proceeds
2910	APPROPRIATION CONTROL	All amounts formally appropriated by town meeting or city council
2915	ESTIMATED OTHER FINANCING USES CONTROL	Nonappropriated expenditures (such as state and county assessments), grant expenditures, transfers out
3190	BUDGETARY FUND BALANCE	Planned surplus (or deficit) of current year revenue over current year expenditures
3199	BUDGETARY CONTROL	The offsetting debit or credit for other budget entries

Timing

Under both existing procedures and the revised system, recording the budget is a two-step process:

Step 1 - includes only the appropriations portion of the budget. This part of the budget is recorded on or about July 1 (the beginning of the fiscal year).

Step.2 - includes the remainder of the budgetary entries and is recorded when the Tax Rate Recapitulation Sheet is completed and approved by the Department of Revenue.

Source Documents

There are two primary source documents for the budgetary entries: the certified list of appropriations voted (certified by the city or town clerk according to Sec 15A, Ch 41, MGL) and the Tax Rate Recapitulation Sheet (approved by the Department of Revenue). These two documents continue to be the primary source documents under the revised system, but are supplemented by four "Budget Classification Worksheets" to assist in ensuring that budget amounts are accurately distributed to the various funds.

The budget classification worksheets have been designed to facilitate the process of assembling the information that is needed to prepare the annual budget entries for revenue and appropriations. The worksheets are made necessary because municipal budgets are prepared in Massachusetts at the present time in a format which supports the prior accounting system. Until such time as the budgetary process and certain related statutes of the Massachusetts General Laws are changed, it will be necessary to "sort" the budget information approved by municipalities into a form which is compatible with the revised accounting system. This will result in the creation of budget deficits in some funds, and budget excesses (surplus) in others. Since, under present law, municipal budgets are required to be balanced, unless a municipality's enterprise fund(s) are specifically authorized by law to be self-supporting, such deficits will be funded by the General Fund through operating transfers, and excesses, similarly, will be transferred back to the General Fund.

These documents are described in detail below.

Budget Classification Worksheets

Four budget classification worksheets have been designed to simplify the allocation of budgeted amounts to the various funds without loss of control. Although these forms may not include provision for every situation which could occur in the municipal budget, their use is recommended. The four worksheets include:

Summary (BCW-1): prepared for each fund type; summarizes the information prepared on form BCW-2, BCW-3 and BCW-4 described below, together with other budgetary data, and provides the underlying amounts necessary to record the annual revenue and appropriation budget.

Tax Recapitulation Sheet (B--W-2): identifies and classifies the data set forth on the tax recapitulation sheet by fund type.

Revenue (BCW-3): classifies and summarizes annual estimated receipts by fund type.

Appropriations (BCW-4): classifies and summarizes annual appropriations by N-0 type.

Copies of each form, together with instructions for their use, are presented in the following pages of the chapter. The amounts entered in the worksheet reflect the budgetary information for the Town of Anywhere, Massachusetts. The Tax Rate Recapitulation Sheet for the Town of Anywhere is also included in this chapter for reference purposes. The information which has been summarized on the budgetary control worksheets has been used and is the basis for the budget entries prepared for each fund. These entries have been illustrated in this chapter for the General Fund, and in Chapter 15-19 for the other funds.

EXHIBIT 13-2 (Continued)

INSTRUCTIONS FOR PREPARING
FORM BCW-2 - TAX RECAPITULATION SHEET

Form BCW-2, Tax Recapitulation Sheet, is designed to simplify the process of identifying and classifying the information included in the tax recapitulation sheet so that budget journal entries may be prepared. It should be prepared in connection with the other budget control worksheets. The form is most easily prepared if the following sequence of directions is followed:

1. Enter the information from the approved tax recapitulation sheet in column 1.
2. Starting with "Real Property Tax," review each line item and spread the amount in column 1 to the fund, or funds, in which the revenue, or the appropriation, is reportable. Note that in most cases the amounts will be spread to column 2, General Fund.
3. In spreading the amount for Local Estimated Receipts," the information should be taken from BCW-4, Revenue.
4. In spreading the amount for "Other Available Funds," operating transfers to the General Fund should be recorded in column 1, General Fund. At the same time, an entry should be made to reflect the "transfer-out" in the fund from which the transfer is made.
5. In spreading the amount for "Appropriations," the information should be taken from BCW-4, "Appropriations."

EXHIBIT 13-4 (Continued)

INSTRUCTIONS FOR PREPARING
FORM BCW-4 - SUMMARY OF APPROPRIATIONS

Form BCW-4, Summary of Appropriations, is designed to simplify the process of identifying and classifying amounts appropriated by a municipality's authorizing body into a form which will facilitate the preparation of budget journal entries. It should be prepared in connection with the other budget control worksheets. It will be noted that the form is presented in summary form (by function, rather than by function, department and expenditure object) because of space considerations. It is assumed that a municipality will have prepared a more detailed appropriation worksheet (by function, department and expenditure object) as an intermediary step toward the preparation of form BCW-4. The form is most easily prepared if the following sequence of directions is followed:

1. Enter the information from the clerk's certified copy of amounts appropriated on the proper line in column 1.
2. Starting with "General Government," review each appropriation and spread the amount in column 1 to the fund, or funds, in which the appropriations will be reported. Note that in most cases, the amounts will be spread to column 1, General Fund; however, special consideration should be given to the following:

Enterprise activities - appropriations for the operational expenses of a department classified as an enterprise activity should be spread directly to the Enterprise Fund columns.

Debt, service - amounts appropriated for the service of debt carried in the long-term debt group of accounts will be spread to the General Fund. Amounts appropriated for the service of debt carried in other funds (such as Enterprise) will be spread to the General Fund column but will be classified as an "other financing use."

Pension - amounts appropriated for the payment of pensions related to personnel employed by enterprise activities will be spread to the General Fund column, but will be classified as an "other financing use."

Operating transfers - it will be necessary to identify any operating transfers (transfers from a fund receiving the revenue to a fund through which the resources are to be expended) appropriated in the annual budget and classify them separately as "estimated other financing uses."

Operating transfers include amounts appropriated for transfer to the Stabilization Fund, Conservation Fund, Capital Projects Fund, Special Assessment Fund and subsidies to the Enterprise Funds. Such amounts would be spread to the General Fund.

Journal Entries - General Fund

Illustrative journal entries for the Budget Classification Worksheets presented in the preceding exhibits are provided below. All entries are presented for the General Fund; budget entries for other funds are illustrated in subsequent chapters.

- The initial entry would be made as of July 1, the start of the fiscal year, and would record the total appropriations as reflected on form BCW-4:

01-3199	BUDGETARY CONTROL	11,414,657	
01-2910	APPROPRIATIONS		11,414,657
	To record the annual budget		

Subsidiary ledger entry for this journal entry would be:

01-5000	SUBSIDIARY APPROPRIA- TION CONTROL		11,414,657
01-5100	PERSONAL SERVICES		8,725,000
01-5200	PURCHASE OF SERVICES		450,000
01-5400	SUPPLIES		100,000
01-5600	INTERGOVERNMENTAL		1,249,657
01-5900	OTHER		

- Amounts appropriated in the General Fund, which will be expended in another fund, are recorded as an estimated financing use as follows (note that the fund to which the operating transfer is made will have a similar but opposite entry):

01-3199	BUDGETARY CONTROL	50,343	
01-2912	ESTIMATED OTHER FINANCIING USES		50,343

To record budgeted operating transfersout

Subsidiary ledger entry for this journal entry would be:

01-5000	SUBSIDIARY APPROPRIATION CONTROL	50,343	
01-5953	TRANSFERS TO CAPITAL PROJECTS FUNDS		5,000
01-5954	TRANSFER TO SPECIAL ASSESSMENTS FUND		20,000
01-5955	TRANSFER TO ENTERPRISE FUNDS		25,343

- Budgeted revenues, as summarized on form BCW-2, would be recorded:

01-1910	ESTIMATED REVENUE	1,019,750	
01-3199	BUDGETARY CONTROL		1,019,750

To record estimated receipts budget

Subsidiary ledger entry for this journal entry would be:

01-4150	MOTOR VEHICLE EXCISE	825,000	
01-4410	LICENSES	15,000	
01-4870	FINES	17,500	
01-4310	NONENTERPRISE CHARGES FOR USAGE	2,500	
01-4320	NONENTERPRISE FEES CHARGED	26,250	
01-4360	NONENTERPRISE RENTALS	2,500	
01-4450	PERMITS	16,500	
01-4340	TUITION	4,000	
01-4350	PUPIL TRANSPORTATION	500	
01-4170	PENALTY AND INTEREST ON TAXES AND EXCISES	70,000	
01-11830	INTEREST ON INVESTMENTS	40,000	
01-4000	SUBSIDIARY REVENUE CONTROL		1,019,750

4. Other financing sources to be transferred from other funds for use in the General Fund are recorded as follows (note that the transferring fund will have a similar but opposite entry):

01-1912	ESTIMATED OTHER FINANCING SOURCES	19,500	
01-3190	BUDGETARY CONTROL		19,500

To record budgeted operating transfers-in

Subsidiary ledger entry for this journal entry would be:

01-4951	TRANSFER FROM SPECIAL REVENUE FUNDS	16,500	
01-4955	TRANSFER FROM TRUST AND AGENCY FUNDS	3,000	
01-4000	SUBSIDIARY REVENUE CONTROL		19,500

5. The amount, "From Available Funds to Reduce Tax Rate" from BCW-1, represents the planned use of surplus funds, or funds which have been classified as a part of the unappropriated fund balance of a municipality. These amounts are not part of the municipality's budgeted revenue or expenses for the year. Such amounts, in essence, fund a planned budget deficit and the budgetary entry reflects this fact:

01-3190	BUDGETARY FUND BALANCE	100,000	
01-3199	BUDGETARY CONTROL		100,000

To record other amounts appropriated to revenue

6. The estimated tax levy is recorded as follows:

01-1910	ESTIMATED REVENUE	9,218,951	
01-3199	BUDGETARY CONTROL		9,218,951

To record the estimated tax levy

Subsidiary ledger entry for this journal entry would be:

01-4110	REAL PROPERTY TAXES	8,857,531	
01-4120	PERSONAL PROPERTY TAXES	361,420	
01-4000	SUBSIDIARY REVENUE CONTROL		9,218,951

7. Expected "Cherry Sheet" distributions are recorded as follows:

01-1910	ESTIMATED REVENUE	2,046,949	
01-3199	BUDGETARY CONTROL		2,046,949

To record "Cherry Sheet" distributions from the State, net of offsets

Subsidiary ledger entry for this journal entry would be:

01-4611	REIMBURSEMENT FOR LOSS OF TAXES ON STATE OWNED LANDS	17,400	
01-4612	ABATEMENTS TO VETERANS	3,100	
01-4613	ABATEMENTS TO SURVIVING SPOUSES	2,100	
01-4614	ABATEMENTS TO THE BLIND	500	
01-4615	ABATEMENTS TO THE ELDERLY	12,500	
01-4623	VETERANS' BENEFITS	10,249	
01-4625	LOCAL AID FUND	292,400	
01-4626	HIGHWAY FUND	47,000	
01-4629	HIGHWAY AND TRANSIT FRINGE - MBTA	54,500	
01-4642	SCHOOL AID, TRANSPORTATION OF PUPILS	1,425,000	
01-4646	SCHOOL CONSTRUCTION PROJECTS	66,000	
01-4648	SCHOOL RELATED TRANSPORTATION	68,600	
01-4649	TUITION FOR STATE WARDS	40,600	
01-4651		7,000	
01-4000	SUBSIDIARY REVENUE CONTROL		2,046,949

8. The current year's assessment for State and county charges is recorded as an estimated other financing use. Note that over and underassessment from prior years are not included in this journal entry.

01-3199	BUDGETARY CONTROL	475,000	
01-2912	ESTIMATED OTHER FINANCING USES		475,000

To record State and county assessments for the fiscal year (per BCW-1)

Subsidiary ledger entry for this journal entry would be:

01-5000	SUBSIDIARY APPROPRIATION CONTROL	475,000	
01-5622	COUNTY HOSPITAL		140,000
01-5631	SPECIAL EDUCATION		60,000
01-5651	METROPOLITAN PARKS		25,000
01-5661	MBTA		250,000

9. The overlay for the current, year is recorded as a reduction of estimated revenue.

01-3199	BUDGETARY CONTROL	360,000	
01-1910	ESTIMATED REVENUE		360,000

To record the overlay for the fiscal year (BCW-1)

Subsidiary ledger entry for this journal entry would be:

01-4000	SUBSIDIARY REVENUE CONTROL	360,000	
01-4130	ABATEMENTS AND EXEMPTIONS		360,000

- 10A. The final budget amounts to be recorded are included on form BCW-1 under the caption "Other Amounts to Be Raised" together with State and county over/underassessments. The "Other Amounts" are raised in the current year's levy to offset expenditures made in the prior year and will accordingly be credited directly to the Budgetary Fund Balance account. At the same time that the budget entry is recorded, an additional entry will be made to restore each of these amounts to the Unreserved Fund Balance account. Such amounts were segregated during the prior year's closeout process to ensure that they were raised in the current year's levy. Note that the latter entry is not a budget entry, but a reclassification within non-budgetary accounts.

01-3199	BUDGETARY CONTROL	12,900	
01-3190	BUDGETARY FUND BALANCE		12,900

To record "other amounts to be raised" included in fiscal year tax levy (per BCW-1)

COURT JUDGMENTS	\$ 9,650
UNPROVIDED ABATEMENTS	2,250
STATE/COUNTY	
UNDERESTIMATES	18,500
STATE/COUNTY	
OVERESTIMATES	<u>(17,500)</u>
	<u>\$12,900</u>

There is no entry necessary in the subsidiary ledgers.

- 10B. Simultaneously, an actual entry must be made to reclassify the amounts reserved to Undesignated Fund Balance:

01-3151	Unreserved Fund Balance	12,900	
01-3152	Fund Balance Designated for State/County Overestimates	17,500	
01-3156	Fund Balance Designated for Court Judgment		9,650
01-3155	Fund Balance Designated for Unprovided Abatements and Exemptions		2,250
01-3152	Fund Balance Designated for State/County Underestimates		18,500

To reclassify various fund balance accounts to unreserved fund balances

11. Any budget deficits or surpluses created in Enterprise Funds as the result of the implementation of the multi-fund structure will be funded by or will accrue back to the General Fund. The calculation of such amounts will be documented on form BCW-1 and recorded as part of the budget entries.

01-3199	BUDGETARY CONTROL	92,250	
01-2912	ESTIKATED OTHER FINANCING USES		92,250

Subsidiary ledger entry for this journal entry would be:

01-5000	SUBSIDIARY APPROPRIATION CONTROL	92,250	
01-5955	TRANSFER TO ENTERPRISE FUND		92,250