

## CHAPTER 15

# SPECIAL REVENUE FUNDS

Special revenue funds are used to account for resources legally restricted to expenditure for specified current operating purposes. Accounting and financial reporting is identical to the general fund.

In Massachusetts, the resources which will be accounted for in special revenue funds will include the following:

- Federal revenue sharing funds
- Other State and Federal grants, entitlements and shared revenue, not accounted for in other funds (see discussion below)
- Chapter 765 highway funds
- Revolving funds
- Receipts reserved for appropriation
- Gifts, donations

It is recognized that many of these revenues could alternatively have been accounted for in the general fund, and serious consideration has been given to this. However, given the present budgetary practices in Massachusetts and the special characteristics of several of the revenues, it was concluded that by classifying such amounts in special revenue funds, it served to highlight the availability of such resources and to simplify reporting.

## Grants, Entitlements and Shared Revenue

In most Massachusetts municipalities, the revenues from State and Federal grants constitute a significant percentage of their annual revenue. The number of grants that a municipality might receive in a given fiscal year can vary from a few, perhaps 15 to 20, to well over 100. The legal and contractual obligations, as well as the accounting and reporting responsibility which a grant may impose on a community, may be burdensome indeed.

For purposes of understanding the accounting system's approach to grant accounting, there is a need to define terms.

**Grants** - a contribution from another government to be used or expended for a specified purpose activity or facility. Grants can be further classified as:

**Capital grants** - restricted by the grantor for the acquisition and/or construction of fixed assets.

**Operating grants** - for all other purposes.

**Unrestricted grants** - those which can be used for any legal purposes without restriction.

**Restricted grants** - those which must be used for specific purposes.

**Entitlements** - the amount of payment to which a municipality is entitled or determined by the Federal Government pursuant to an allocation formula contained in applicable statutes.

**Shared Revenue** - revenues levied by one government but shared on a predetermined basis, often in proportion to the amount collected at the local level by municipalities or other class of government.

## Determination of Fund to be Used

Under generally accepted accounting principles, a grant should generally be accounted for in the fund in which it will be spent. This is best determined by analyzing the purpose and requirement of each grant. For purposes of accounting under the revised system, grants entitlements and shared revenue will be classified by fund in accordance with the following general guidelines:

- Capital grants or shared revenues restricted for capital acquisitions or construction, other than those associated with enterprise funds, should be accounted for in the capital projects fund.
- Grants, entitlements or shared revenues received or utilized for enterprise fund operations and/or capital assets should be accounted for in that fund.
- Grants, entitlements or shared revenue which are unrestricted, or which, though restricted, may be restricted more as to form than substance and which are in fact appropriated and expended in the general fund, should be accounted for in that fund, with the exception of Federal grants as explained below.
- Revenue sharing entitlements, and all other intergovernmental distributions not described above, will be accounted for in the special revenue fund.

Under these guidelines, substantially all "Cherry Sheet" distributions will be accounted for in the general fund. Set forth below is a list of "Cherry Sheet" distributions which will either be accounted for in another fund, or which will have some impact on a fund other than the general fund.

Description of Item	Funds Affected	
	Accounting	Other
Construction of School Projects (Chapter 645)	General	Long-term debt group
Reimbursement Offset Items:		
Public Libraries (Ch. 78, MGL)	Special Revenue	
Racial Imbalance (Ch. 76, MGL)	Special Revenue	
Magnet Education (Ch. 71, MGL)	Special Revenue	
Equal Education Improvement Fund (Ch. 15, MGL)	Special Revenue	
School Lunch Program (1970, Ch. 871)	Special Revenue	
Elderly Lunch Program (Ch. 15, MGL)	Special Revenue	
Cost of chemicals	Special Revenue	

Since, as noted in Chapter 20, long-term debt account group, municipalities should record in that fund, the full amount due from the State for school project construction under the provisions of Chapter 645 of the Acts of 1948, it will be necessary to ensure that an entry has been made in that fund adjusting the "Amount to be Provided" account and the specific bond liability.

Since most Federal grants, other than Federal revenue sharing, are not appropriated at the present time, all Federal grants other than those specifically restricted to capital projects, or enterprise funds will be accounted for in the special revenue fund. Amounts appropriated and expended in the general fund should be transferred and the expenditures accounted for in that fund.

## Number of Special Revenue Funds

At a minimum, separate special revenue funds should be established for the following revenue resources:

	Fund Numbers
Federal Revenue Sharing Fund	21
School Cafeteria Revolving Fund	22
Highway Improvement Programs	23
Other Special Revenue Funds, including Arts Lottery Council	24

In many municipalities, the balance of the revenue resources to be accorded special revenue fund accounting will be minimal, either in the number of services or in the total dollar amounts involved. In that situation, consideration should be given to accounting for all of them in one fund.

Where the resources are minimal, revenues and expenditures would be classified directly to the fund balance rather than utilizing subsidiary ledger accounts. Where resources are not minimal (such as, in many school athletic revolving funds), separate subsidiary accounts should be established for each revenue source.

## Budget

It is strongly recommended that annual budgets be approved for each special revenue fund and integrated into the accounting records. At the present time it is recognized, however, that few municipalities approve budgets for the funds involved other than for Federal revenue sharing. Since year-end reporting of special revenue funds under GAAP includes operating statements comparing budget and actual amounts, failure to budget may preclude reporting in accordance with generally accepted accounting principles.

## Special Revenue Fund Accounting

As with other governmental funds, the basis of accounting on which special revenue funds will be reported will be the modified accrual basis. During the fiscal year, however, revenues will be recorded on the cash basis, and expenditures will be recorded as disbursed. Year-end adjusting entries will be recorded to reflect the books on a modified accrual basis at that time.

Grants, entitlements, or shared revenues recorded in governmental funds should be recognized as revenue in the accounting period when they become susceptible to accrual (i.e., both measurable and available). In applying this definition, legal and contractual requirements should be carefully reviewed for guidance. Some such resources, usually entitlements or shared revenues are restricted more in form than in substance. Only a failure on the part of the recipient to comply with prescribed regulations will cause a forfeiture of the resources. Such resources should be

recorded as revenue at the time of receipt or earlier if the susceptible to accrual criteria are met. For other such resources (usually grants) expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition will depend upon compliance with these requirements. As noted above, year-end adjustments will be made to reflect grant revenues on a modified accrual basis.

The balance of the chapter presents a discussion of the special revenue funds under the revised accounting system and journal entries to reflect the accounting requirements of these funds. The particular funds and other related matters covered in the following pages include:

<u>Subject</u>	<u>Page</u>
Federal Revenue Sharing Fund	15-5
School Cafeteria Fund	15-11
Highway Improvements Fund	15-15
Other Special Revenue Funds	15-22

## Federal Revenue Sharing Fund

The Federal revenue sharing fund centralizes the accounting for the Federal revenue sharing program. Proposed revenues, expenditures and other financing uses are set forth in an annual operating budget. The budgetary accounts are formally integrated into the general ledger and subsidiary ledgers.

Like the general fund, the Federal revenue sharing fund may have transactions with other funds, usually in the form of transfers to other funds. Such transfers are made pursuant to a vote of the municipality's authorizing body.

### ***Opening Trial Balance***

The opening entries record the opening trial balance carried over from the prior year and restore the accounts to the basis of accounting on which they will be maintained during the year (see Basis of Accounting, Chapter 2).

1. The trial balance after final adjustment at the close of the prior year-end is brought forward and recorded as the current year's beginning trial balance.

21-1040	Cash, Unrestricted Checking	30,000	\$
21-1050	Cash, Unrestricted Savings	10,000	
21-1120	Certificate of Deposit	25,000	
21-1461	Due from Federal Government	105,000	
21-1491	Accrued Interest Receivable	500	
21-3151	Unreserved Fund Balance		170,500
		<u>\$ 170,500</u>	<u>\$ 170,500</u>

To record the opening  
trial balance

2. In order to restore the accounting to the proper basis, the adjustment made at the close of the prior year to accrue the third quarter revenue sharing entitlement must be reversed:

21-1920	Revenue	105,500	
21-1461	Due from Federal Government		105,000
21-1491	Accrued Interest Receivable		500

To reverse prior year accrual

Subsidiary ledger entries for this journal entry would be:

21-4500	Federal Revenue Sharing	105,000	
21-4830	Earnings on Investments	500	
21-4000	Subsidiary Revenue Control		105,500

### ***Budgetary Entries***

As with most other governmental funds, budgets are normally recorded at the beginning of the fiscal year (see Chapter 13).

3. When the certified list of appropriations is received from the clerk, the budget should be recorded:

21-3199	BUDGETARY CONTROL	440,000	
21-2910	APPROPRIATIONS		440,000

To record the appropriation of  
Federal revenue sharing monies

Subsidiary ledger entries for this journal entry would be:

21-5000	Subsidiary Appropriations Control	440,000	
21-5111	Salaries And Wages, Full-Time		400,000
21-5215	Purchase of Natural Gas for Heating		40,000

4. An estimate should also be made of Federal revenue sharing entitlements which will be received during the coming fiscal year:

21-1910	Estimated Revenue	450,000	
21-3199	Budgetary Control		450,000

To record estimated fourth quarter 19x1 and first,  
second, third quarter 19xx entitlements

Subsidiary ledger entry is optional but, if made, would be:

21-4500	Federal Revenue Sharing	450,000	
21-4000	Subsidiary Revenue Control		450,000

5. Finally, any balance in the Budgetary Control account should be reclassified to Budgetary Fund Balance:

21-3199	Budgetary Control	10,000	
21-3190	Budgetary Fund Balance		10,000

To record the difference between  
current year revenues and expenditures

Since the budget entries are relatively simple (unlike in the general fund), all the budget entries for this fund could be made at once. (This is an optional method of recording this entry and it would replace entries 2 through 4).

21-1910	Estimated Revenue	450,000	
21-2910	Appropriations		440,000
21-3190	Budgetary Fund Balance		10,000

To record the annual budget for current fiscal year

Subsidiary ledger entries identical to those shown for journal entries 2 and 3 would also be made.

### **Expenditures**

Expenditures and other cash disbursements are recorded in the same manner as in the general fund.

6. When payment is made on an approved warrant:

21-2920	Expenditures	24,000	
21-1040	Cash, Unrestricted Checking		24,000

To record the expenditure made per warrant

Subsidiary ledger entry for this journal entry would be:

21-5111	Salaries and Wages, Full-time	20,000	
21-5215	Purchase of Natural Gas for Heating	4,000	
21-5000	Subsidiary Appropriations Control		24,000

### **Revenue Recognition**

Revenue is recognized when the quarterly entitlement is received from the Federal Government.

7. When Federal revenue sharing funds are received:

21-1040	Cash, Unrestricted Checking	105,000	
21-1920	Revenue		105,000

To record receipt of fourth quarter 19xw entitlement

Subsidiary ledger entry for this journal entry would be:

21-4000	Subsidiary Revenue Control	105,000	
21-4500	Federal Revenue Sharing		105,000

8. When certificate of deposit matures:

21-1040	Cash, Unrestricted Checking	26,000	
21-1120	Certificate of Deposit		25,000
21-1920	Revenue		1,000

To record the maturity of the certificate of deposit and interest earned

Subsidiary ledger entry for this journal entry would be:

21-4000	Subsidiary Revenue Control	1,000	
21-4830	Earnings on Investment		1,000

9. When a new certificate of deposit is purchased:

21-1120	Certificate of Deposit	30,000	
21-1040	Cash, Unrestricted Checking		30,000

To record purchase of certificate of deposit

### ***Encumbering***

Use of an encumbrance system is recommended but not required. When one is used, the entries will be similar to those illustrated in the general fund.

### ***Miscellaneous Entries***

The following entries are provided with minimal explanation in order to allow users of this manual to duplicate, through 'T' accounts, the balances used in determining the amounts for the closing entries. No subsidiary entries are provided here although, in practice, they would be used.

10. Additional expenditures:

21-2920	Expenditures	416,000	
21-1040	Cash, Unrestricted Checking		416,000

To record expenditures made through approved warrants for the balance of the year

11. Receipt of the three additional quarters of entitlements:

21-1040	Cash, Unrestricted Checking	335,000	
21-1920	Revenue		335,000

To record receipts from entitlements for the balance of the year

12. Transfers from checking to savings and receipts from interest earned on savings:

21-1050	Cash, Unrestricted Savings	20,500	
21-1040	Cash, Unrestricted Checking		20,000
21-1920	Revenue		500

To record the transfers from checking to savings and interest received from that savings for the year

### ***Adjusting Entries***

At the fiscal year-end certain adjusting entries will be recorded to convert the accounting for revenue from the cash basis to a modified accrual basis. The following entries illustrate typical year-end adjustments:

13. The third quarter revenue sharing, normally received in July, is accrued and recognized as revenue:

21-1461	Due from Federal Government	115,000	
21-1920	Revenue		115,000

To accrue the entitlement for the quarter ending June 30

Subsidiary ledger entry for this journal entry would be:

21-4000	Subsidiary Revenue Control	115,000	
21-4500	Federal Revenue Sharing		115,000

### ***Closing Entries***

The closing entries are relatively simple and straightforward. The first entry is to record the accrued interest earned at year-end on the certificate of deposit. Then an entry is made to reverse the budgetary entries and two additional entries are made to close the actual revenue and expenditure accounts to fund balance.

- 14.

21-1491	Accrued Interest Receivable	1,500	
21-1920	Revenue		1,500

To record the accrued interest earned at year-end on the certificate of deposit.

Subsidiary ledger entry for this journal entry would be:

21-4000	Subsidiary Revenue Control	1,500	
21-4830	Earnings on Investments	1,500	



## 15. Reversing the current year budget entries:

21-2910	Appropriations	440,000	
21-3190	Budgetary Fund Balance	10,000	
21-1910	Estimated Revenue		450,000

To reverse the budgetary entries

## 16. Closing the actual revenue:

21-1920	Revenue	452,500	
21-3151	Unreserved Fund Balance		452,500

To close revenue

## 17. Closing the actual expenditures:

21-3151	Unreserved Fund Balance	440,000	
21-2920	Expenditures		440,000

To close expenditures

Or entries 13 and 14 could be made as one entry:

21-1920	Revenue	457,500	
21-3151	Unreserved Fund Balance		217,500
21-2920	Expenditures		240,000

To close revenue and expenditures

***Closing Trial Balance***

21-1040	Cash, Unrestricted Checking	\$ 6,000	
21-1050	Cash, Unrestricted Savings	30,500	
21-1120	Certificate of Deposit	30,000	
21-1461	Due from Federal Government	115,000	
21-1491	Accrued Interest Receivable	1,500	
21-3151	Unreserved Fund Balance		183,000
		<u>\$ 183,000</u>	<u>\$ 183,000</u>

## School Cafeteria Fund

Funds for the operation and maintenance of school lunch programs are derived from three principal sources: meal charges (cafeteria receipts); State grants; and Federal grants. On some occasions, general tax revenues may contribute to funding the school cafeteria operation.

In many municipalities, school cafeteria operations require sizeable expenditures and since State and Federal funds paid to municipalities for such operations are restricted in nature, it is reasonable to account for such operations in a separate special revenue fund.

Subsidiary ledgers in this fund are optional. To facilitate their operation when used, sample subsidiary ledger entries are provided below where appropriate.

### Opening Entries

The opening entries record the opening trial balance carried over from the prior year and restore the accounts to the basis of accounting on which they will be maintained during the year (see Basis of Accounting, Chapter 2).

1. The trial balance after final adjustment at the close of the prior year-end is brought forward and recorded on the current year's beginning trial balance.

22-1040	Cash, Unrestricted Checking	\$ 4,265	\$
22-1462	Due from Commonwealth of Massachusetts	2,350	
22-2110	Warrants Payable		1000
22-3151	Unreserved Fund Balance		<u>5,615</u>
		<u>\$ 6,615</u>	<u>\$ 6,615</u>

To record the opening trial balance

2. In order to restore the accounting to the proper basis, the 'Deferred Revenue' account, reclassified at the close of the prior year, must be re-established.

22-1920	Revenue	2,350	
22-1462	Due from Commonwealth of Massachusetts		2,350

To reverse prior year ending accrual

Subsidiary ledger entry for this journal entry would be:

22-4587	State Reimbursement for School Lunch	2,350	
22-4000	Subsidiary Revenue Control		2,350

## ***Budgetary Entries***

Budgetary accounts are not required at this time for this fund.

## ***Expenditures***

Expenditures and other cash disbursements are handled in the same manner as in the general fund. Appropriate controls (such as inclusion on the treasurer's warrant) must be maintained.

3. When "Warrants Payable" are paid on an approved warrant:

22-2110	Warrants Payable	1,000	
22-1040	Cash, Unrestricted Checking		1,000

To record warrants payable

4. When payment is made on an approved warrant.

22-2920	Expenditures	2,682	
22-1040	Cash, Unrestricted Checking		2,682

To record expenditures from warrant #

Subsidiary ledger entry for this journal entry would be:

22-5490	Food	2,682	
22-5000	Subsidiary Appropriations Control		2,682

5. To establish a petty cash fund

22-1020	Petty Cash	100	
22-1040	Cash, Unrestricted Checking		100

To record petty cash fund for school cafeteria

## ***Revenue Recognition***

Revenue for the school lunch fund comes from three sources: charges to the users (student) for the services provided, reimbursement from the state, and Federal distributions. Both these sources are recorded as revenue when payments are received. Examples of Federal distributions are not shown, but would be recognized as revenue when received.

6. When cafeteria receipts are turned over to the treasurer.

22-1040	Cash, Unrestricted Checking	672	
22-1920	Revenue		672

To record deposit of cafeteria receipts

Subsidiary ledger entry for this journal entry would be:

22-4000	Subsidiary Revenue Control	672	
22-4319	Charges for Meals Served		672

7. When the amount from the State is received:

22-1040	Cash, Unrestricted Checking	672	
22-1920	Revenue		672

To record payment in full of October invoice

Subsidiary ledger entry for this journal entry would be:

22-4000	Subsidiary Revenue Control	15,685	
22-4587	School Lunch Program		15,685

### ***Encumbrances***

Use of an encumbrance system is recommended, but not required. When one is used the entries will be similar to those illustrated in the general fund.

### ***Miscellaneous Entries***

The following entries are provided with minimal explanation in order to allow users of this manual to duplicate, through "T" accounts, the balances used in determining the amounts for the closing entries. No subsidiary entries are provided here, although, in practice there would be such entries.

8. Additional expenditures.

22-2920	Expenditures, Checking	138,265	
22-1040	Cash, Unrestricted Checking		138,265

To record expenditures for approved warrants  
for the balance of the year

9. Additional cash collections from students.

22-1040	Cash, Unrestricted Checking	27,192	
22-1920	Revenue		27,192

To record deposit of cafeteria  
receipts for the balance of the year

10. Additional amounts from the State are received.

22-1040	Cash, Unrestricted Checking	97,000	
22-1920	Revenue		97,000

To record collections on State reimbursements  
for the balance of the year

11. Petty cash is returned.

22-1040	Cash, Unrestricted Checking	100	
22-1020	Petty Cash		100

To record the return of petty cash from the school cafeteria

### ***Adjusting Entries***

At the fiscal year-end certain adjusting entries will be recorded to convert the accounting for revenue from the cash basis to a modified accrual basis. The following entries illustrate typical year-end adjustments.

12. The governmental receivable at the year-end is considered fully collectible and is therefore recorded as revenue.

22-1462	Due from Commonwealth of Massachusetts	3,000	
22-1920	Revenue		3,000

To record the receivable and to accrue the revenue (received within 60 days)

Subsidiary ledger entry for this journal entry would be:

22-4000	Subsidiary Revenue Control	3,000	
22-4587	school Lunch Program		3,000

13. To record warrants payable at year-end.

22-2920	Expenditures	800	
22-2110	Warrants Payable		800

To record warrants payable

Subsidiary ledger entry for this journal entry would be:

22-5490	Food	800	
22-5000	Subsidiary Appropriation Control		800

### ***Closing Entries***

Only one closing entry is required.

14. Closing actual revenue and expenditure to fund balance (note that the debit to account #22-3151 shows a reduction of fund balance -current year operations showed a small deficit).

22-1920	Revenue	141,199	
22-3151	Unreserved Fund Balance		548

22-2920	Expenditures	141,747
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To close revenue and expenditures to fund balance

### ***Closing Trial Balance***

22-1040	Cash, Unrestricted Checking	\$ 2,867	\$
22-1462	Due from Commonwealth of Massachusetts	3,000	
22-2110	Warrants Payable		800
22-3151	Unreserved Fund Balance	5,067	
		\$ 5,867	\$ 5,867

## **Highway Improvements Program**

Highway funds, (formerly Chapter 90) represents funds made available by the Commonwealth of Massachusetts for the repair of highways in a municipality. Since the funds are restricted for the purposes outlined in the agreement entered into with the State Department of Public Works, it is proper to account for such funds in a special revenue fund. The use of subsidiary ledgers in this fund is optional. In the illustrative journal entries which follow, subsidiary ledger journal entries have been provided where appropriate.

### ***Opening Entry***

The opening entries record the opening trial balance carried over from the prior year and restore the accounts to the basis of accounting on which they will be maintained during the year (see Basis of Accounting, Chapter 2).

- The trial balance after final adjustment at the close of the prior year-end is brought forward and recorded as the current year's beginning trial balance.

23-1040	Cash, Unrestricted Checking	\$ 15,000	\$
23-1462	Due from Commonwealth of Massachusetts	20,000	
23-1929	Amounts to be Provided for Payment of Notes Payable	20,000	
23-2730	Reimbursement Anticipation Notes Payable		20,000
23-3151	Unreserved Fund Balance	35,000	
		\$ 55,000	\$ 55,000

To record the opening balances in the general ledger

- In order to restore the accounting to the proper basis, the "Deferred Revenue" reclassified at the close of the prior year, must be re-established.

23-1920	Revenue	20,000
23-1469	Deferred Revenue –	

Governmental Receivables	20,000
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To re-establish the "Deferred Revenue" account

Subsidiary ledger entry for this journal entry would be:

23-4628	State Shared Revenue - Highway Funds	20,000	
23-4000	Subsidiary Revenue Control		20,000

### ***Budget Entries***

As with most other governmental funds, budgets are normally recorded at the beginning of the fiscal year (see Chapter 13), or when the project and the grant have been approved.

3. Budget Entry - Both the estimated cost of the project and the amount of the State grant are recorded for budget purposes.

23-1910	Estimated Revenue	30,000	
23-2910	Appropriations		30,000

To record the budget for  
Main Street resurfacing

Subsidiary ledger entries for this journal entry would be:

23-5000	Subsidiary Appropriations Control	30,000	
23-5256	Street Paving and Marking Services		24,000
23-5531	Street and Highway Supplies		6,000
23-4628	State Shared Revenue Highway Funds	30,000	
23-4000	Subsidiary Revenue Control		30,000

### ***Expenditures***

Expenditures and other cash disbursements are recorded in the same manner as in the general fund.

4. Expenditures applicable to "Highway Construction", or repairs are processed through an approved warrant.

23-2920	Expenditures	2,600	
23-1040	Cash, Unrestricted Checking		2,600

To record the expenditures made on warrant #

Subsidiary ledger entries for this journal entry would be:

23-5256	Street Paving and Marking Services	2,000	
23-5531	Street and Highway Supplies	600	
23-5000	Subsidiary Appropriations Control		2,600

## Revenues

The only source of revenue normally associated with the highway fund are the reimbursements from the Commonwealth.

5. Requests for reimbursement are forwarded to the State Department of Public Works.

23-1462	Due from Commonwealth of Massachusetts	27,600	
23-1469	Deferred Revenue – Governmental Receivables		27,600

To record the expenditures made on highway projects  
not yet reimbursed by the Commonwealth

6. The treasurer reports reimbursement on account of \$6,000 of highway grants (represents several grants and accumulated receivables).

23-1040	Cash, Unrestricted Checking	6,000	
23-1462	Due from Commonwealth of Massachusetts		6,000

To record the receipt of  
highway reimbursements

7. The revenue from these receipts is recorded.

23-1469	Deferred Revenue – Governmental Receivables	6,000	
23-1920	Revenue		6,000

To record the revenue from reimbursements  
from the Commonwealth

Subsidiary ledger entry for the journal entry would be:

23-4000	Subsidiary Revenue Control	6,000	
23-4628	State Shared Revenue - Highway Fund		6,000



**Temporary Borrowing**

Treasurers may borrow temporarily in anticipation of reimbursement from the Commonwealth for highway construction and repairs. The issuance of temporary loans should be reported through the Treasurer's Report of Cash Received and the payment through an approved treasurer's warrant. Proceeds from temporary loans are recognized as other financing sources in the highway fund.

8. The treasurer reports receipts of \$30,000 from the proceeds of a temporary loan issued under Section 6A, Chapter 44, Massachusetts General Laws for a period of one year in anticipation of reimbursement from the State.

23-1040	Cash, Unrestricted Checking	30,000	
23-2730	Reimbursement Anticipation Notes Payable		30,000

To record the issuance of a  
temporary loan in anticipation of  
reimbursement from State  
highway funds

9. The proceeds of the temporary loan are recorded as an "Other Financing Source", to avoid deficits in fund balance.

23-1929	Amounts to be Provided for Payment of Notes Payable	30,000	
23-1922	Other Financing Sources		30,000

To record the source of revenue from temporary loans

Subsidiary ledger entry for this journal entry would be:

23-4001	Subsidiary Other Financing Sources Control	30,000	
23-4920	Proceeds from the Sale of Temporary Loans		30,000

10. The temporary loan issued in a prior year matures and is paid.

23-2730	Reimbursement Anticipation Notes Payable	20,000	
23-2920	Expenditures	2,000	
23-1040	Cash, Unrestricted Checking		22,000

To record the payment of temporary loans

The subsidiary ledger entry for this journal entry would be:

23-5925	Interest on Notes	2,000	
23-5000	Subsidiary Appropriation Control		2,000

11. The payment of temporary loans is recorded as an "Other Financing Uses"

23-2922	Other Financing Uses	20,000	
23-1929	Amounts to be Provided for Payment of Notes Payable		20,000

To record the use of funds to pay temporary loans

The subsidiary ledger entry for this journal entry would be:

23-5950	Payment of Notes	20,000	
23-5001	Subsidiary other Financing Uses Control		20,000

12. At the same time that the one year temporary loan in entry 10 on previous page is paid, the proceeds of a renewal loan issued under Section 17A of Chapter 44 of the General Laws of Massachusetts are issued for the unreimburs \* ed balance due from the Commonwealth and are reported through the Treasurer's Report of Cash Received.

23-1040	Cash, Unrestricted Checking	15,000	
23-2730	Reimbursement Anticipation Notes Payable		15,000

To record the renewal of temporary loans

13. The proceeds of the temporary loan are recorded as an "Other Financing Source."

23-1929	Amountsto be Provided for Paymentof Notes Payable	15,000	
23-1922	Other Financing Sources		15,000

To record the other revenue from sale of notes

Subsidiary ledger entry for this journal entry would be:

23-4001	Subsidiary Other Financing Sources Control	15,000	
23-4920	Proceeds from Sale of Temporary Loans		15,000

### **Encumbrances**

Use of an encumbrance system is recommended but is not required. Where one is used, the entries will be similar to those illustrated in the general fund.

### **Miscellaneous Entries**

The following entries are provided with minimal explanations in order to allow users of this manual to duplicate, through 'T' accounts, the balances used in determining the amounts in the closing entries. No subsidiary entries are provided here, but in actuality those would also be utilized.

## 14. Additional expenditures.

23-2920	Expenditures	22,400	
23-1040	Cash, Unrestricted Checking		22,400
To record the expenditures for the rest of the year			

## 15. Additional application for reimbursement from the Commonwealth.

23-1462	Due from Commonwealth of Massachusetts	22,400	
23-1469	Deferred Revenue – Governmental Receivables		22,400
To record additional application to Commonwealth			

## 16. Additional collection on receivables from the Commonwealth.

23-1040	Cash, Unrestricted Checking	14,000	
23-1462	Due from Commonwealth of Massachusetts		14,000
To record the collection on receivables for the rest of the year			

## 17. Additional revenue recognized.

23-1469	Deferred Revenue - Governmental Receivables Revenue	14,000	
23-1920	Revenue		14,000
To record the revenue for the rest of the year			

**Adjusting Entries**

At the fiscal year-end, certain adjusting entries will be recorded to convert the accounting for revenue from the cash basis to a modified accrual basis. The following entries illustrate typical year-end adjustments:

## 18. The amounts collected during the period July 1 to August 31 on governmental receivables and outstanding at June 30 will be recorded as revenue in the fiscal year that was just ended on June 30.

23-1469	Deferred Revenue – Governmental Receivables	10,000	
23-1920	Revenue		10,000

To accrue the revenue from governmental receivables

The subsidiary ledger entry for this journal entry would be:

23-4000	Subsidiary Revenue Control	10,000	
23-4628	State Shared Revenue - Highway Funds		10,000

### ***Closing Entries***

Closing entries are prepared to close out the activity for the year. Memorandum accounts are generally not closed out on a fiscal year basis, but rather when the project or grant is complete.

19. The budget entry is reversed to close out the accounts.

23-2910	Appropriations	30,000	
23-1910	Estimated Revenue		30,000

To close the budget accounts

20. Revenues, other financing sources, expenditures and other financing uses are closed to unreserved fund balance.

23-1920	Revenue	10,000	
23-1922	Other Financing Sources	45,000	
23-2920	Expenditures		27,000
23-2922	Other Financing Uses		20,000
23-3151	Unreserved Fund Balance		8,000

To close the revenues and expenditures to fund balance

### ***Closing Trial Balance***

23-1040	Cash, Unrestricted Checking	33,000	\$
23-1462	Due from Commonwealth of Massachusetts	50,000	
23-1929	Amounts to be Provided for Payment of Notes Payable	45,000	
23-1469	Deferred Revenue - Governmental Receivables		40,000
23-2730	Reimbursement Anticipation Notes Payable		45,000
23-3151	Unreserved Fund Balance		43,000
		<u>\$ 128,000</u>	<u>\$ 128,000</u>

## Other Special Revenue Funds

Other special revenue funds include grants, gifts and donations, revolving funds, and receipts reserved for appropriation.

### ***Grants, Gifts and Donations***

The journal entries for recording receipts and expenditures in grant, gift and donation accounts would be similar to those used in revolving funds.

### ***Other Revolving Funds***

Revolving funds in Massachusetts represent revenues received from specific sources by a municipality which may be set aside from the general funds and spent to support the activity which generated the revenue without appropriation. The type of revenues which qualify for this accounting are extremely limited under the law. Some of the revenues which may be accounted for as revolving funds, together with the legal citation authorizing such treatment, are set forth below:

<b>Number</b>	<b>Name</b>	<b>MGL Reference</b>
3221	Reimbursements for Lost School Books	Sec. 53 (3), Ch. 44
3222	Reimbursements for Costs of Industrial Art Supplies	Sec. 53 (3), Ch. 44
3223	Admission Charges for School Athletic Events	Sec. 47 (3), Ch. 71
3224	Adult and Continuing Education Programs	Sec. 71E, Ch. 71
3225	Community School Program Under \$3,000	Sec. 71C, Ch. 71
3226	Summer School Tuition	Sec. 71E, Ch. 71
3227	Racial Imbalance	Sec. 12A, Ch. 76
3229	Self-Supporting Recreation and Park Services	Sec. 53D, Ch. 44
3230	Insurance Reimbursements for Damage under \$5,000	Sec. 53 (2), Ch. 44

The journal entries which have been provided in this chapter with the school cafeteria fund would be similar to those which should be utilized for other revolving funds as well.

### ***Receipts Reserved for Appropriation***

Receipts reserved for appropriation are another unique feature under the Massachusetts law. Most revenues received by a municipality are required to be accounted for as unrestricted revenues in the general fund and subject to the normal appropriation process. The Massachusetts law, however, makes provision for certain revenues received from specific sources and requires that such revenues be segregated, and appropriated separately. As in the case of the revolving funds, the number of revenue sources to be accorded this treatment is limited under the law. Set forth

below is a list of some of the revenues, together with the legal citation authorizing such treatment which should be accounted for as receipts reserved for appropriation.

Number	Name	MGL Reference
3251	Parking Meter Receipts	Sec. 22A, Ch. 40
3252	County Dog Refund	Sec. 172, Ch. 140
2252	State Aid to Libraries	Sec. 19A, Ch. 78
3254	Magnet Education Program	Sec. 371 & 37J, Ch. 71
3255	Insurance Reimbursement over \$5,000	Sec. 53, Ch. 44
3256	Sale of Real Estate	Sec. 63, Ch. 44
3257	Sale of Cemetery Lots	Sec. 25, Ch. 114
3258	Elderly Lunch Program	Sec. 1L, Ch. 15
3259	Waterway Improvements	Sec. 2, Ch. 603
3263	Elderly Lunch Program	Sec. 1L, Ch. 15

Since, by definition, the "receipts reserved for appropriation, will be appropriated as part of a municipality's annual budget, such amounts should be transferred as appropriated from the special revenue fund to the general fund and the expenditures accounted for in that fund. Set forth below are journal entries which illustrate the usual transactions involving receipts reserved for appropriation. Parking meter receipts have been selected to illustrate the functioning of this category of special revenue funds. Subsidiary ledger entries are not required, but are suggested if the volume of activity is significant. They are not illustrated for this fund but if utilized, treatment would be similar to other funds. Budget entries are illustrated below, but are optional.

### ***Opening Entry***

1. The opening trial balance effectively represents cash receipts from previous years which have not yet been appropriated, or if appropriated, have not yet been transferred to the appropriate fund for expenditure.

24-1040	Cash, Unrestricted Checking	\$ 20,000	
24-3102	Fund Balance Reserved for Expenditures		16,500
24-3251	Fund Balance - Parking Meter		<u>3,500</u>
		<u>\$20,000</u>	<u>\$20,000</u>

2. To reverse previous year appropriation from parking meter receipts.

24-3102	Fund Balance - Reserved for Expenditures	16,500	
24-3251	Fund Balance - Parking Meters		16,500

To reverse entry appropriating parking meter receipts at the annual town meeting

**BUDGETARY ENTRIES**

As with most other governmental units, budgets are also normally recorded at the beginning of the fiscal year (see Chapter 13).

3. When the certified list of appropriations is received from the city/town clerk, the budget should be recorded.

24-3190	Budgetary Fund Balance	16,500	
24-2912	Estimated Other Financing Uses		16,500

To record the annual budget for the current year

**Revenue**

4. When parking meter receipts are deposited, the revenue is recognized. Note that the revenue account (as well as the cash account and the transfer account) for fund 24 will commingle revenue from all other receipts reserved for appropriation. Where such amounts are not large and/or the number of transactions few, year-end analysis will be sufficient to segregate the individual funds. Where such amounts are large or transactions frequent, a unique fund number or a supplementary subsidiary ledger should be used.

24-1040	Cash, Unrestricted Checking	328	
24-1920	Revenue		328

To record parking meter receipts

**Operating Transfers**

5. The appropriated amount should be transferred to the relevant fund (in this case, the general fund). (See entry 66 in Chapter 14).

24-2922	Other Financing Uses	16,500	
24-1040	Cash, Unrestricted Checking		16,500

To record transfer of appropriated parking meter receipts to the general fund

**Miscellaneous Entries**

6. Additional revenue from parking meter receipts.

24-1040	Cash, Unrestricted Checking	19,800	
24-1920	Revenue		19,800

To record parking meter receipts  
for balance of year

**Annual Town Meeting**

After the annual town meeting, any available funds voted to be used must be shown as reserved.

7. Parking meter receipts are voted.

24-3251	Fund Balance – Parking Meters	18,500	
24-3102	Fund Balance - Reserved for Expenditures		18,500

To record appropriation from parking meter receipts at annual town meeting. (This entry will be reversed after beginning of next fiscal year)

**Closing Entries**

8. The budgetary entry for the fiscal year is reversed.

24-2912	Estimated Other Financing Uses	16,500	
24-3190	Budgetary Fund Balance		16,500

To close the budgetary accounts for the fiscal year

15-26

9. At year-end, the revenue and transfer accounts should be analyzed, closed out, and the differences reclassified to fund balance.

24-1920	Revenue	20,128	
24-2922	Other Financing Uses		16,500
24-3251	Fund Balance - Parking Meters		3,628

To close the revenue and other financing uses

**Closing Trial Balance**

24-1040	Cash, Unrestricted Checking	\$23,628	\$
24-3102	Fund Balance Reserved for Expenditures		18,500
24-3251	Fund Balance - Parking Meter		5,128
		<u>\$ 23,628</u>	<u>\$ 23,628</u>