Office of the New York State Comptroller
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Division of Local Government and School Accountability

School Districts

Accounting and Reporting Manual

Chapter 6 - Budgeting

GASB has given authoritative guidance on the budget and budgetary accounting in Section 1700 of its Codification of Governmental Accounting and Financial Reporting Standards. The sources of this guidance are the National Council on Governmental Accounting (NCGA) Statement 1 and Interpretation 10, and GASB Statement 34.

NCGA Interpretation 10 (State and Local Government Budgetary Reporting) defines the appropriated budget as the expenditure authority created by the appropriation bills or ordinances that are signed into law and related estimated revenues, including all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes.

It sets forth the following statements of principle on budgeting and budgetary control:

1. An annual budget(s) should be adopted by every governmental unit.
2. The accounting system should provide the basis for appropriate budgetary control.
3. A common terminology and classification should be used consistently throughout the budget, the accounts and the financial reports of each fund or activity.

The budget is an essential ingredient in the financial planning, control and evaluation process of any government. Every governmental unit in New York State is either required to, or should, prepare an annual operating budget.

Simply stated, the budget is an estimated financial plan of a government which represents the spending authority for the various purposes of the government and the means of financing those proposed expenditures.

Legal Level of Control

School district budget form SBM-1 represents the minimum level of legal budgetary compliance to be entered into the formal accounting system of a district.

Budgetary Integration

Formal budgetary accounting is a management control technique used to assist in controlling expenditures and tracking revenues. Budgetary accounting techniques are important because the annual budget is a legal compliance standard against which the operations of government are evaluated.

Because statutory laws of the State of New York require staying within appropriated budgets, the accounting structure is designed to ensure and demonstrate compliance with the budget. To achieve this goal, appropriated budgets are integrated into the accounting system. “Integrating the budget” means the accounting system is specifically designed to provide ongoing and timely information on unrealized budgetary revenues, as well as remaining uncommitted balances of appropriations.

After their managerial control purpose has been served, during the year end closing process, the general ledger budgetary accounts are reversed. Therefore, the budgetary accounting process has no effect on the actual results of operations.

Accounting for the Budget

The range and method of budgetary practices are outside the scope of financial reporting standards. However, budgetary compliance is a dominant consideration in managing governments. The basis on which the budget is prepared should be consistent with the measurement focus of the particular fund.

The system prescribed by OSC provides for the integration of the budget into the accounting records to provide for the control of authorized expenditures.

A journal entry will be made for the general ledger accounts only. The debits and credits must equal and remain within the self-balancing group of budgetary accounts. Those accounts are as follows:

- 510 Estimated Revenues
- 511 Appropriated Reserves
- 530 Obligations Authorized
- 599 Appropriated Fund Balance
- 960 Appropriations
- 962 Budgetary Provisions for Other Uses

The subsidiary revenue and expenditure accounts support the totals in the general ledger. The budget will be posted to the subsidiary accounts directly from the actual budget. The following illustrates the above:

		Debit	**Credit**
7/1/xx	510 Estimated Revenues	xxxx	
	599 Appropriated Fund Balance	xxxx	
	960 Appropriations		xxxx
	To record the adopted budget		

Throughout the year the general ledger control account, "Appropriations" and the subsidiary appropriation accounts are used to control expenditures, keeping them within the authorized spending authority of the budget. The general ledger control account "Estimated Revenues" is used to record and summarize aggregated estimated revenues to ensure that revenues to support the appropriations are received, or on track to be received. Analysis of these accounts on a continuing basis will enable the budget officer to determine when the budget will have to be modified because original appropriations are insufficient or estimated revenues will not materialize.

Encumbrances

Encumbrances are informally defined as "an appropriation that's spoken for." They are commitments related to unperformed executory contracts for goods or services. The encumbrance account does not represent a GAAP expenditure, only a commitment to expend resources. Likewise, the account, "Reserve for Encumbrances," is not synonymous with a liability account since the liability is recognized only when the goods are received or the services are performed.

The use of encumbrance accounting as a continuous and integral part of the accounting system enhances budgetary control. In a formal encumbrance system, each appropriation account should show the amount appropriated, the amount encumbered, the amount expended, and the unencumbered balance. The principal purpose of this requirement is to guard against the creation of liabilities in excess of the appropriations approved by the governing board. To record encumbrances, the account code to use is *521 Encumbrances*.

Before a purchase order or similar document is released to a supplier or contractor, it should be approved by the purchasing agent indicating the availability of appropriations. A copy should be filed with the purchasing agent and also with the unit initiating the order. If an appropriation balance is available, the chief fiscal officer will enter the encumbrance against the proper appropriation account. In those instances where a proposed commitment exceeds the available balance, the encumbrance should not be entered and the purchase order should be returned to the originating unit until such time as appropriate action is taken to amend the budget.

At the end of the fiscal year, the account 521 Encumbrances is closed to account 912 Unrestricted Fund Balance, and then allocated among the appropriate fund balance categories of restricted, committed or assigned for financial reporting purposes (districts may use the appropriate reporting codes directly for budgeting, accounting and reporting purposes). This serves to constrain fund balance for the potential liability of goods and services ordered. On the first day of the next fiscal year, the entry closing the encumbrance account (and subsequent allocation among fund balance) is reversed and the budget for the subsequent year is increased in a like amount to provide for the potential expenditures authorized in the previous year.

Budget Transfers and Supplemental Appropriations

<u>Transfers</u> – The school district is bound by limitation on budgetary transfers, whether operating under a contingent budget or passed budget.

1. Under any budget, transfers can only be made between contingent codes or from non-contingent to contingent codes. Transfers can never be made from contingent areas to non-contingent areas of budgets nor between non-contingent areas of the budget. Non-contingent expenditure codes cannot be increased absent voter authorization (which includes new equipment and subsidization of the school food service operations).

2. If operating under a contingent budget, a district is also bound by budget caps. SED maintains information on contingency budget caps at their website at <u>www.p12.nysed.gov/mgtserv/budgeting</u>. When operating under a contingent budget, a school district must be able to maintain an internal budgetary control system that allows for the sustained monitoring of appropriations and spending.

Supplemental Appropriations – The school district is limited in its ability to adjust its total spending subsequent to authorization.

1. No board may incur a liability in excess of the amount appropriated by a district meeting unless such board is specially authorized by law to incur such liability.
2. Generally, a school district cannot increase appropriations solely on the basis of the receipt of additional revenue. However, grants in aid received from the State or Federal government, gifts which are required to be spent for particular objects or purposes and insurance proceeds received for the loss, theft, damage or destruction of real or personal property, when proposed to be used or applied to repair or replace such property, may be appropriated by resolution of the board at any time for such objects or purposes.

Budgetary Reporting

Budget Status Report – The treasurer is required to render a report to the Board of Education at least quarterly (monthly in the event that a budget transfer has been made since the last report), for each fund including, at a minimum, the revenue and appropriation accounts required in the Annual School Budget form. This report should be presented to the Board of Education on a monthly basis (according to sections 2117(1) and 2122(6) of the New York State Education Law and section 170.2(p) of the Regulations of the Commissioner of Education), and include, at a minimum, the status of these accounts in at least the following detail:

Revenue Accounts
Estimated revenues
Amounts received to date of report
Revenues estimated to be received during balance of fiscal year
Overages and deficiencies

Appropriation Accounts
Original appropriations
Transfers and adjustments
Revised appropriations
Expenditures to date
Outstanding encumbrances
Unencumbered balances