

## The Budget Link To Financial Statements

### **A. Importance of Governmental Budgets**

- Imposes legal mandate
- Documents public priorities
- Establishes program objectives
- Sets criteria for accountability
- Provides legal authorizations for spending

### **B. Budget Component of Annual Financial Statements**

- Comparison of actual to budget for governmental fund operating statements
  - Final budget versus actual expenditures
  - Variance that reflects over or under budget
  - Detailed to same level as adopted budget
  - Original budget reconciled to final budget
  - Operating revenues compared to budget
  - Revenue variances impact available funds for expenses
  - Ending fund balance will reflect financial condition
- Note disclosures related to budget
  - Method of encumbrance accounting and reporting
  - Encumbrances outstanding
  - Any excess of expenditures over appropriations in individual funds
  - Deficit fund balance or retained earnings of individual funds
  - Budget basis of accounting and budget/GAAP reporting differences not otherwise reconciled in the GPFS
  - Fund balance designations
  - Additional note disclosures related to budget
    - Reporting entity  
The financial statements include the funds, agencies, boards, and entities for which the fiscal court are financially accountable. Financial accountability was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service.
    - Legal compliance - budget  
The budget is adopted on a cash basis of accounting and laws of Kentucky as required by the State Local Finance Officer. The county Judge/Executive is required to submit estimated receipts and proposed expenditures to fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.  
The fiscal court may change the original budget by transferring appropriations at the activity level, but may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

## The Budget Link To Financial Statements

- **Receivables from related agencies**  
The county entered into an agreement with a *related entity* to fund the purchase of equipment. The County has provided a five year loan to be repaid at 3.5% interest. The *related entity* is in substantial compliance with the terms of the agreement. As of June 30, 1995, the principal balance due was \$XXXXXX.
- **Future lease commitments**
  - Due date
  - Principal amount
  - Monthly payment
  - Term
  - Ending date
  - Item purchased
- **Other note disclosures**
  - Fund Accounting
  - Basis of Accounting
  - Cash & investments
  - Pension funds

### C. Budget Resources on the Web

- [gfoa.org](http://gfoa.org)
- [financenet.gov](http://financenet.gov)
- [pubadm.fsu.edu/abfm/](http://pubadm.fsu.edu/abfm/)
- [thecity.sfsu.edu/~mpa/paonline.htm](http://thecity.sfsu.edu/~mpa/paonline.htm)
- [aspanet.org](http://aspanet.org)
- [fau.edu/didept/cupa/journal.htm](http://fau.edu/didept/cupa/journal.htm)

## Preparing Annual Financial Statements

### *D. Uniform System of Accounts Requirements*

- Auditors must review compliance with KRS 68.210
- Provides comparability among reports
- Improves line item summaries for financial statement preparation
- Computer programs should provide for summary to:
  - Minor object
  - Major object
  - Funds
- Requires the following books of account:
  - Cash receipts journal
  - Cash receipts ledger
  - Appropriation ledger
  - Check distribution ledger
  - General ledger
  - Investments journal
  - Additional subsidiary ledgers or journals as needed
- Noncompliance audit finding can trigger fines and penalties from DLG

### *E. Bank Reconciliation Requirements*

- Bank reconciliations match general ledger balance with bank statement
- Prepare monthly within ten days of receipt
- Quarterly reports should match monthly bank reconciliations (and general ledger)
- Document process to reconcile checking accounts

### *F. Investments Journal Requirements*

- Record purchase and liquidation of investments.
- Include the following:
  - Date of purchase
  - Check number
  - Depository
  - Type of investment
  - Identifying serial number
  - Fund Identity
  - Amount
  - Date of maturity
  - Earnings amount
  - Earnings deposit date
  - Description of principal disposition

## Preparing Annual Financial Statements

### ***G. Purchase Order System Requirements***

- Purchase orders are required for all purchases
- Centralized issuance and approval authority is assigned
- Do not issue blank purchase orders
- Use prenumbered documents and track numbers
- Keep voided documents
- Include information about appropriation account code

### ***H. Encumbrance System Requirements***

- Purchase order commits budget resources
- Payments to vendors payoff encumbrance commitments
- Differences between purchase order and invoice may affect budget resources
- Encumbrances can be carried over to next fiscal year