

2. BUDGETING

2.4 Budget Compliance

2.4.1 Introduction

2.4.1.10 A budget is a legal document that forecasts the financial resources of a government and authorizes the spending of those resources for a fiscal period. At a minimum, local governments' budget must meet the requirements of Washington state law and the State Auditor's Office. The SAO does not prescribe how to budget or what a budget should look like. The adopted budget should be of sufficient detail to be meaningful and meet the intention of the law. The SAO considers budgets showing revenues and expenditures at the legal fund level to be the minimum acceptable level of detail.

2.4.1.20 Budgeting is more than just an activity to satisfy state law. It is a sophisticated process of strategic planning, communication and policy development resulting in a detailed plan of operations for allocating and monitoring the use of limited resources among various competing demands. Teaching how to budget is outside the scope of the BARS. However, there are many educational resources available to local governments, such as the Municipal Research and Services Center (mrsc.org) and the Government Finance Officers Association (gfoa.org).

2.4.1.30 **Glossary of Budgetary Terms:**

- ✓ **Appropriation.** The legal spending level authorized by a budget ordinance or resolution. Spending should not exceed this level without prior approval of the governing body.
- ✓ **Original Budget.** The first complete appropriated budget. The original budget may be adjusted by reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes before the beginning of the fiscal year. The original budget should also include actual appropriation amounts automatically carried over from prior years by law.
- ✓ **Final Amended Budget.** The original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized legislative and executive changes applicable to the fiscal year, whenever signed into law or otherwise legally authorized.
- ✓ **Comprehensive Budget.** An government-wide budget that includes all resources the government expects and everything it intends to spend or encumber during a fiscal period. The comprehensive budget contains annual/biennial appropriated budgets, the annual/biennial portion of continuing appropriations such as the capital improvement projects, debt amortization schedules, and grant projects, flexible budgets and all non-budgeted funds.
- ✓ **Fixed Budget.** Those budgets which set an absolute maximum or ceiling on the expenditures of a particular fund, department, or other specific category. A fixed budget can be either an annual/biennial appropriated budget or a continuing appropriation. Fixed budgets must be adopted by ordinance or resolution, either for the government's fiscal period or at the outset of a service project, debt issue, grant award, or capital project.
- ✓ **Annual/Biennial Appropriated Budget.** A fixed budget adopted for the government's fiscal period. The appropriated budget was traditionally used to determine a government's property tax levy, and a ceiling on expenditures was made absolute so that the expenditures of a government unit would not exceed its revenues. This budget was also historically a balanced

budget, estimated revenues equaling appropriations. The appropriated budget is still used to set tax levies and some budget statutes still require balanced budgets, but it is more generally used to authorize a specific amount of expenditures regardless of whether estimated resources meet or exceed that amount. Appropriated budgets are required by statute in cities (Chapter [35.32A](#) RCW, Chapter [35.33](#) RCW and Chapter [35A.33](#) RCW), counties (Chapter [36.40](#) RCW), and most other local governments in Washington State. These budgets are also called legal budgets, adopted budgets, or formal budgets. The appropriated budgets should be adopted by ordinance or resolution.

- ✓ **Continuing Appropriation.** A fixed budget which authorizes expenditures for a fiscal period that differs from the government's fiscal year, such as capital projects, debt issues, grant awards, and other service projects. These expenditures require an ordinance or resolution to authorize the project, establish the assessment roll, adopt the debt amortization schedule, or accept the grant award. Such ordinances or resolutions set an absolute maximum or ceiling on the expenditures, but the time period for incurring expenditures does not coincide with the government's fiscal year; it may even cover several years. The major difference between annual/biennial appropriated budgets and continuing appropriations is that the latter do not lapse at fiscal period end; this implies that no legislative action is required to amend the annual/biennial portion of a continuing appropriation, unless the total authorized expenditures would exceed the entire appropriation.
- ✓ **Flexible Budgets.** Are usually regarded as managerial tools, which do not set a ceiling on expenses or expenditures but establish a plan for them at various levels of service. They are especially appropriate for the day-to-day operations of a public utility where it is essential to plan fluctuations in the demand for services and where revenues will automatically increase with demand, so that a balanced budget does not depend on establishing a ceiling for expenses.
- ✓ **Working Capital Budget.** Combines flexible and fixed budget elements in one document for enterprise and internal service funds. Current operations are flexibly budgeted based on the estimated level of services to be provided and long-range sources and uses of assets are controlled by annual/biennial appropriations and continuing appropriations.
- ✓ **Capital Improvement Budget.** Consists of two elements: the annual/biennial portion of capital projects and annual/biennial appropriations for the purchase, construction or replacement of major fixed assets in the current fiscal period.
- ✓ **Operating Budget.** Presents the estimated expenditures and available resources necessary to provide the services for which the government was created. An operating budget will contain flexible budgets and fixed budgets; the fixed budgets will include annual/biennial appropriations for services and the annual/biennial portion of continuing appropriations for debt service and for service projects.
- ✓ **Encumbrances.** Commitments related to unperformed (executory) contracts for goods or services should be utilized to the extent necessary to assure effective budgetary control and to facilitate cash planning. Encumbrances outstanding at year end represent the estimated amount of expenditures ultimately to result if unperformed contracts in process are completed; they do not constitute expenditures or liabilities.