

Budgeting

According to Michigan Public Act 621 of 1978 (the Budget Act), an amendment to Public Act 2 of 1968, all local units of government in Michigan must adopt balanced budgets.

The definition of a budget based on this act is "A plan of financial operation for a given period of time, including an estimate of all proposed expenditures from the funds of a local unit and the proposed means of financing the expenditures."

A Budget does not require (but it's good practice to do so anyway) any of the following: a) A fund for which the local unit acts as a trustee or agent, b) an internal service fund, c) an enterprise fund, d) a capital project fund, or e) a debt service fund.

Key Points...

- o It is necessary for the unit's legislative body to pass a general appropriations act as a formal budget for the General Fund and each special revenue fund.
- o The Budget Act requires an adopted budget prior to the beginning of a fiscal year.
- o The Budget Act requires budget amendments before any expenditures exceed the budget. These budget amendments must be approved by the legislative body. There is no authority in the Act to amend the budget after year-end.
- o The unit's legislative body must amend the budget as soon as a deviation is apparent. Therefore, it is important to monitor the budget frequently (at least monthly).
- o A balanced budget is not one where expected revenues equal or exceed expected expenditures. Rather, a balanced budget means the beginning surplus equals or exceeds any expected deficit.

For example, expected revenue is \$3,000,000 and expected expenditure is \$3,500,000. As long as your beginning surplus exceeds that \$500,000 deficit, your budget is considered balanced.

What must be included in the adopted budget?

- o Estimate of expected beginning surplus or deficit (Fund Balance)
- o Estimate of required expenditures
- o Estimate of revenues (by revenue source)
- o Estimate of amounts needed for deficiency
- o Estimate for contingent or emergency purposes
- o Estimate of expected ending surplus or deficit (Fund Balance)

The budgeted expenditures, including an accrued deficit, shall not exceed budgeted revenues, including available surplus and the proceeds from bonds or other obligations issued under the Fiscal Stabilization Act.

The Michigan Department of Treasury recommends the line items be used when developing a budget, but not adopted at this level as it will require excessive budget amendments. The adopted budget must be at the revenue by source and the expenditures by activity. Budgeting by total revenue and total expenditures is NOT acceptable.