



County Technical Assistance Service

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Budgets

Dear Reader:

The following document was created from the CTAS electronic library known as e-Li. This online library is maintained daily by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other e-Li material.

Sincerely,

The University of Tennessee
County Technical Assistance Service
226 Capitol Blvd. Suite 400
Nashville, TN. 37219
615-532-3555 phone
615-532-3699 fax
ctas@tennessee.edu
www.ctas.tennessee.edu

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Budgets

Reference Number: CTAS-1753

Budgets are plans of financial activity anticipated over a period of time to support a plan of service. From the government perspective, budgets are in two major categories: Operating Budgets and Capital Budgets.

Operating Budgets

An operating budget is annually developed and approved by the local government for the receipts and expenditures of funds during a 12-month timeframe beginning July 1 and ending June 30 (fiscal year). The operating budget is the government's plan of services depicted in financial estimates of revenues and anticipated expenditures. The expenditures would include salaries, supplies and materials, interest and principal on outstanding debt, and other current period (fiscal year) operating expenses. The duration of an operating budget is 12 months. Operating funds are separate accounting entities where certain activities are accounted for independently with their own financial statements of balance sheets and statements of revenue and expenditures. Examples of operating funds would be the General Fund, Solid Waste Fund, Highway and Road Fund, School Funds and the Debt Services Funds. Specifically note that debt services funds are operating budgets in that these funds account for the 12-month period of the fiscal year's revenue and expenditures (payment of interest and principal).

Capital Budgets

A capital budget is a finance plan and program to purchase or contract for purchase items (or the construction of items) that are expensive in cost and have a long life expectancy of use. Examples of items in a capital improvements budget would be land, buildings, large expensive pieces of equipment, major expansions of buildings, major renovations of buildings and equipment. Generally the funding for capital items comes from the issuance of debt by bonds, notes, and in limited cases, annual revenue. A capital budget usually exceeds 12 months, and always extends until the completion of the specific project.

Recommended Practice: Establish a Capital Budget

Debt Service Budgets/Funds

Most all county governments at some time or other have borrowed money, and thus issued debt instruments. Upon the issuance of debt, county governments are generally required to establish, and have a separate accounting for, the receipts of revenues (property taxes and other revenue sources) and the expenditures of paying of the principal and interest payment on the indebtedness. This separate account/fund(s) is known as the Debt Service Fund. The Debt Service Fund is an operating fund. Upon the establishment of the fund, annual budgets must be adopted to reflect the anticipated activity of annual revenues and expenditures. The debt service funds are used exclusively for the payment of principal and interest; however, principal and interest do not exclusively have to be paid out of the debt service funds. Generally, it is the best practice to have all debt paid from the Debt Service Fund. However, we recognize that in certain circumstances a county may have the school system and/or highway department pay their debt directly from their respective funds.

Recommended Practice: Payments of all Debt from the Debt Service Funds

Annual Comptroller Approval of Operating Budgets

Various statutes in Tennessee require local governments to adopt budgets at the beginning of each fiscal year. If a county has outstanding debt, an annual budget must be submitted to the Comptroller Office Division of Local Finance for approval. The Comptroller has prescribed the requirement and form in which the budget must be submitted. For further information, see [Procedures](#) under the [Operating Budget](#) topic.

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