

Understanding the Budget Process

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Division of Local Government and School Accountability



Training Objectives

- Budgeting Overview
- Budgetary Accounts
- Tools & Resources
- Estimating Fund Balance
- Monitoring the Budget
- Modifying the Budget



Budgeting Overview



What is a budget?

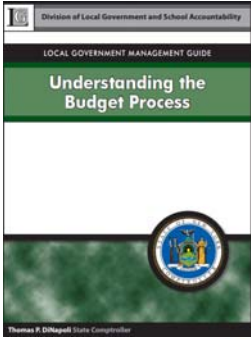
- A budget is an orderly financial plan for the operation of the government.
 - The plan sets forth the proposed appropriations necessary to carry out activities for a year and the proposed means of financing.

Benefits of the Budget Process


- Compels local officials to examine spending plan.
- Provides taxpayers with information on proposed programs.
- Indicates funding sources and determines tax levy.
- Gives an overview of the year's programs.

Entity	Who May Serve As Budget Officer
Town	The supervisor, or eligible person appointed by the supervisor to serve at his/her pleasure; cannot be a member of the town board.
Village	The mayor or, in a village which has adopted the village manager plan, the village manager. Either may designate another village officer or employee to be budget officer, to serve at his/her pleasure.
County	Generally, the chief fiscal officer or any eligible person appointed by the governing board, to serve at the pleasure of the governing board; cannot be a member of the governing board other than the chair of the board or the chair of a committee of the board designated or created to review the tentative budget.
City	No State statutory designation; generally, provided for in a city's charter. Depending on pertinent charter provisions, the duties of the budget officer may be performed by those serving in positions or offices such as the manager, mayor, commissioner of finance, comptroller, or the finance committee of the city council, the board of estimate and apportionment or the city council itself may perform the functions of a budget officer.
School District	No State statutory designation; typically, the board of education designates the chief school officer (superintendent) as budget officer.
Fire District	No State statutory designation; the board of fire commissioners is charged with the duty of preparing the proposed budget.

Know Your Budget Calendar




Appendix B



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What is a Structurally Balanced Budget?

- Finance recurring operations with recurring revenues.
- Avoid reliance on one shot funding sources.
 - Grants, Sale of properties, FEMA funds, Sales Tax
 - Surplus fund balance
- Sufficient contingencies
- Reserves in place



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Budget Formula

+ Appropriations

- Other Non-Property Tax Revenues

- Appropriated Fund Balance


- Appropriated Reserves

= AMOUNT OF TAXES TO BE LEVIED

Or... User Fee Revenue Needed


} What we intend to do

} Non-Real Property Funding Sources



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Budgetary Accounting



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Budget Account Codes


- 510 Estimated Revenues
- 511 Appropriated Reserves
- 530 Obligations Authorized – Budget Notes
- 599 Appropriated Fund Balance
- 960 Appropriations
- 962 Other Budgetary Purposes
- 990 Unappropriated Revenues



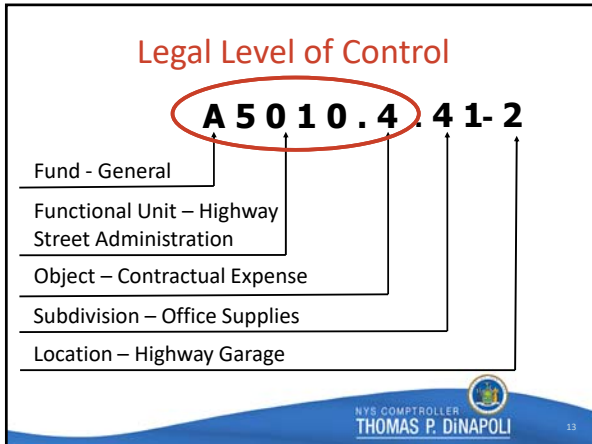
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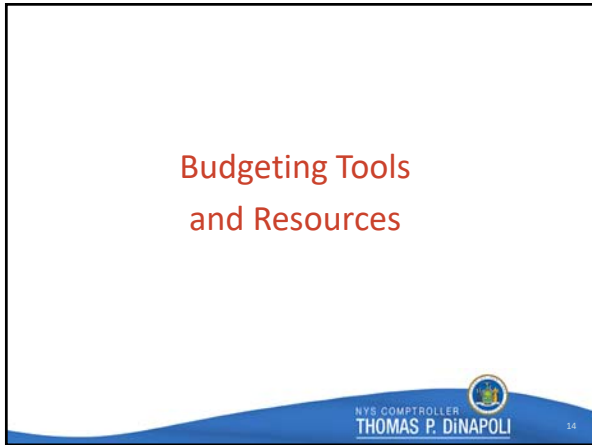
Object of Expenditure

- .1 Personal services
- .2 Equipment & capital outlay
- .4 Contractual
- .6 Debt principal
- .7 Debt interest
- .8 Employee benefits
- .9 Interfund transfers



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- ### Budgeting Tools and Resources
- Estimate from Department Heads
 - Prior year's budget
 - Actual results of operations
 - Prior & current years
 - Capital Plan or Capital Activities
 - Wage & Salary Schedules
 - Including fringe benefits
 - Contractual Payments
 - Debt service & other
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Budgeting Tools and Resources

- Insurance
- Legislation
- Other
 - Interest rates
 - Volume or rate increases

Other Considerations


- Reserve Needs
- Appropriations for contingencies
- Interfund Transfers
- Other
 - Local economic changes
 - Changes in utility rates or fuel costs

Appropriating Unassigned Fund Balance

Unassigned Fund Balance

- Does unassigned fund balance exist?
 - How much should you use?
 - What is a reasonable amount of fund balance to retain?


Remember- Unassigned fund balance that is appropriated must be convertible to cash during the year.



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Estimating FB for Tentative Budget

General Fund	Unreserved Fund Balance
Beginning Balance of current year -1/1/20XX	\$2,000,000
Plus: Revenues to date - for period- 9/30/20XX	6,500,000
Less: Expenditures to date - for period- 9/30/20XX	<u>6,000,000</u>
<u>Balance to date 9/30/XX</u>	<u>\$2,500,000</u>
Plus: Projected Revenues to year end - 12/31/20XX	2,500,000
Less: Projected Expenditures to year end -12/31/20XX	<u>4,000,000</u>
<u>Estimated balance end of year - 12/31/20XX</u>	<u>\$1,000,000</u>
Breakdown	
Appropriated for next year's budget	<u>300,000</u>
Unrestricted/Unappropriated	650,000
Current Encumbrances	50,000



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Monitoring the Budget



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Monitoring the Budget

- Board needs to ensure that controls are in place by using:
 - A purchase order system or alternative method
 - An encumbrance system
 - Budgetary reports
 - Budget modifications when necessary

Purchase Order System

- Benefits:
 - Ensures budgetary authority before commitment
 - Internal controls

Budgetary Control without a P.O. System

- Suggestions
 - Monthly Balance Reports
 - Confirm with CFO before purchasing

Appropriation or Encumbrance?

➔ **APPROPRIATION**

Maximum amount you can expend for a certain purpose.

➔ **ENCUMBRANCE**

Setting aside a portion of available appropriation for a certain future obligation.

Encumbrance System

Why encumber?

- To prevent exceeding available appropriations.
- To carry committed appropriations over to the next year.

Encumbrance Exercise

Budgeted appropriations for Clerk –Capital Outlay = \$1,000. You've ordered equipment for \$600 but have not received it. Now a department head is requesting \$800 for another purchase. Can you make the purchase?

Without tracking Encumbrances

1410.2 Clerk – Capital Outlay

Appropriation	Encumbrance	Actual	Balance
\$1,000	\$0	\$0	\$1,000

With Tracking Encumbrances

1410.2 Clerk – Capital Outlay

Appropriation	Encumbrance	Actual	Avail. Balance
\$1,000	\$600	\$0	\$400

Budgetary Reports

- Budgetary reports should be:
 - Completed for all major operating funds
 - Prepared monthly
 - Distributed to all department heads
 - Reviewed with department heads



Budgetary Reports

- Will assist the Board with:
 - Monitoring progress
 - Identifying variances
 - Controlling expenditures
 - Correcting identified problems



Town of XYZ – General Fund Budget vs. Actual Report for 6 months ended June 30

A	B	C	D	E	F	G
Revenues	Actual Last Yr 12 Months	Adopted Budget	Budget As Modified	Actual to Date 6 Months	Current Variances D-E	Comments
Property Taxes	\$750,000	\$900,000	\$900,000	\$900,000	\$0	
Sales Tax	\$250,000	\$300,000	\$325,000	\$125,000	\$175,000	
Total	\$1,000,000	\$1,200,000	\$1,225,000	\$1,025,000	\$175,000	
Expenditures						
General Gov.	\$400,000	\$500,000	\$475,000	\$200,000	\$275,000	Staff have not yet been hired
Public Safety	\$600,000	\$700,000	\$750,000	\$500,000	\$250,000	Overtime is higher than estimated
Total	\$1,000,000	\$1,200,000	\$1,225,000	\$700,000	\$525,000	

Using Reports Effectively

- If the board is reviewing reports monthly, they may need to modify the budget during the year.

Modifying the Budget

Modifying the Budget

Don't Forget:

- It is the governing board's responsibility to make budget modifications.
- Legal
 - By Board Resolution
- Accounting
 - By General Journal Entry

Modifying the Budget

- Budget transfers (same fund)
 - Moving unneeded balance from one account to another
 - From contingency account
- Increasing total appropriations
 - Unassigned fund balance and unanticipated revenues
 - Gifts, Grants, Insurance Recoveries
 - Budget Notes, Deficiency Notes
- Reducing total appropriations

Budgetary Transfers

- Transfer between appropriation line items.

960 Appropriations	\$10,000
1620.2	
960 Appropriations	\$10,000
1620.4	

Budgetary Transfers Cont'd.

- Transfer from contingency line item (1990.4) to other line items.

Contingency Limit
10% of Total Appropriations
Less
Debt Service and Judgments & Claims

Appropriating Additional Fund

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Unanticipated Revenues

May be appropriated with resolution of governing board:

- Grants in Aid
- Insurance Recoveries
- Gifts

Grants / Aid

- Grants – NYS or Federal
- Disaster Aid – FEMA or SEMO
- ARPA- Does not meet the criteria of a revenue until you have incurred the expenditure that meets the criteria set forth by US Treasury, or until the all US Treasury requirements are met.

Insurance Recoveries

How to record an increase in the budget:

A510 – Estimated Revenues	XXX
(A2680 – Insurance Recoveries)	
A960 – Appropriations	XXX
(A1620.4 – Building – Contractual)	

Restricted Gifts

- Required to be expended for particular objects or purposes.

Summary

The governing board:

- Has the authority and responsibility to adopt realistic, “structurally balanced” budgets.
- Has numerous tools available achieve a structurally balanced budget.
- Must continuously monitor the budget.
- Need access to timely financial information.
- Should communicate their information needs.

Thank You

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