Introductory Budget

Local Finance Officer Certification Program – Level 1

The Budget – An Overview
Chapter 1
Learning Objectives

- Recall the definition of a budget
- Recognize Georgia laws that govern the budget process
- Summarize an overview of the budget process

Discussion

Gather in groups of three – four and discuss the following:

- What role does your department play in the budget process?
- What kind of information do you receive each year during the budget process?
- What do you wish you knew more about in the budget process?

What is a Budget

- A financial plan for a defined period of time, usually one year
- A plan to properly allocate financial resources
- A plan for managing spending

continued on next slide
What is a Budget
• It involves the allocation of scarce resources among various competing alternatives
• The budget drives the other financial management systems such as accounting and reporting, capital programming, purchasing, debt management and treasury management

Economic Factors and the Budget
• Difficult choices for programs and services
• Government having to "hold the line"
• Burden is on local governments to budget and spend public funds wisely and well

Budget Law
• Establish a fiscal year
• Adopt and operate under an annual balanced budget for the general fund, each special revenue fund and each debt service fund
• Adopt a project-length balanced budget for each capital project fund
• Adopted by ordinance or resolution
• Balanced when the sum of estimated revenues and appropriated fund balances is equal to appropriations
• Announce the public hearing at least one week prior to the hearing

continued on next slide
## Budget Law

- Conduct a public hearing at least one week before adoption
- Increases in departmental level appropriations require approval of governing authority
- Transfers within departments require approval of the budget officer
- Chart of Accounts must be used!
- No limit on amendments
- Electronic file sent to Vinson Institute within 30 days

## Process

### Budget Purpose

- authorizes the governing authority to collect revenues and spend them, provides information to the community,
- promotes accountability,
- facilitates administrative and performance control and
- generally serves as an important managerial tool.

### Budget Purpose

- Budget plays an important role as a policy, planning, and goal setting instrument
- Begins with budget instructions
- Review phase follows
- Revenue estimates
- Budget presented to governing body for approval
- Implementation phase follows
CHAPTER 1 EXERCISE

The Local Government’s Budget System
Chapter 2

Learning Objectives

- Recall importance of budget policy
- Recall different types of budgets
- Recite the funds used in the budget process
- Outline the components of a budget
- Describe how to present a budget summary
Budget Policy

Budget Policy Statement

• Sets guidelines within which the budget process takes place
• Prevents policies from being scattered among various documents which can lead to
  • Conflicting policies
  • Inconsistent policies
  • Incomplete policies

Budget Policy Benefits

• Benefits of a Budget Policy
  • Contributes to credibility
  • Can save time and energy
  • Directs attention to the total financial condition
  • Can reveal new issues
  • Educational process
  • Helps prepare for emergencies
  • Improves fiscal stability
  • Contributes to continuity in handling financial issues

Types of Budgets

• Approaches
  • Line Item
  • Activity
  • Program
  • Performance
  • Zero-Base
Line-Item Approach

- Line Item
  - Traditional budgeting
  - Most frequently used by local governments
  - Most simple
  - Primary emphasis – CONTROL

Line-Item Approach

- Line Item – Disadvantages
  - Focus is on inputs (what is to be spent)
  - Encourages incrementalism
    - Base initial budget requests on the amount of budgeted resources in last year’s budget

Line-Item Approach

- Line Item
  - Expenditures are authorized in detailed line items (objects of expenditure: personnel, capital, etc.).
**Line Item Example**

<table>
<thead>
<tr>
<th>Superior Court Clerk</th>
<th>FY 10 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$50,000</td>
</tr>
<tr>
<td>Overtime</td>
<td>$5,000</td>
</tr>
<tr>
<td>Part Time</td>
<td>$10,000</td>
</tr>
<tr>
<td>Supplies</td>
<td>$4,000</td>
</tr>
<tr>
<td>Travel</td>
<td>$1,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$75,000</strong></td>
</tr>
</tbody>
</table>

**Activity Approach**

- **Activity**
  - Next step up from line-item budgeting
  - Various activities within the same department are recognized

- **Activity – example for Finance Department**
  - Accounting
  - Budgeting
  - Business licenses
  - Revenue collections
Activity Budget Example

<table>
<thead>
<tr>
<th>Finance Department</th>
<th>Account</th>
<th>Accounting</th>
<th>Treasury</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$55,000</td>
<td>$57,200</td>
<td>$62,000</td>
<td></td>
</tr>
<tr>
<td>Overtime</td>
<td>$5,000</td>
<td>$5,500</td>
<td>$1,000</td>
<td></td>
</tr>
<tr>
<td>Part Time</td>
<td>$10,000</td>
<td>$12,000</td>
<td>$2,000</td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>$4,000</td>
<td>$4,500</td>
<td>$3,000</td>
<td></td>
</tr>
<tr>
<td>Travel</td>
<td>$1,000</td>
<td>$1,500</td>
<td>$2,000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$75,000</td>
<td>$80,700</td>
<td>$70,000</td>
<td></td>
</tr>
</tbody>
</table>

Program Approach

- Program Budget
  - Focus is on output level or program results
  - Often cut across departmental lines
  - Encourages legislators to make judgments on the levels of services offered

Program Budget Example

<table>
<thead>
<tr>
<th>Superior Court Clerk</th>
<th>Program: Record Accessibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditure</td>
<td>Previous Fiscal Year Actual</td>
</tr>
<tr>
<td>Salaries</td>
<td>$ -</td>
</tr>
<tr>
<td>Supplies</td>
<td>$ -</td>
</tr>
<tr>
<td>Contractual Services</td>
<td>$ -</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>$ -</td>
</tr>
<tr>
<td>Total</td>
<td>$ -</td>
</tr>
</tbody>
</table>
Performance Approach

- Performance Budget
  - Integrates productivity measures into the budget
  - Focus is the relationship between the inputs, or dollars, and the outputs or results
  - Effectiveness, efficiency, and economy

Performance Approach

- Performance Budget – Disadvantage
  - Requires extensive data gathering

Zero-base Approach

- Zero-Base Budgeting
  - Breaks each budgetary entity into a series of budgetary options or decision packages
  - Results in different levels of service for each decision unit
  - Decision packages are then priority ranked
Capital Improvement Plan

- 3-5 year plan to renew and replace capital assets
- Capital assets have useful life of at least one year

Which Approach is Best?

Probably a blend of two or more approaches molded into a budgeting approach which works best for a particular jurisdiction

Components of a Budget

- Budgets are structured around the following components —
  - Funds
  - Organizational Structure
  - Revenues
  - Expenditures
What is a Fund?

- Separate accounting entity
- Separate set of self-balancing accounts
- Separate set of financial statements
- Three categories of funds

Fund Accounting

- Fund Accounting
  - Breaks the budget into separate funds
  - Multiple bottom lines – one for each fund

Fund Categories

- Reporting Entity
  - Governmental Fund
  - Proprietary Fund
  - Fiduciary Fund
Generic Funds Types

Proprietary Funds

- Enterprise Fund
- Internal Service Fund

Fiduciary Funds

- Agency Fund
- Private Purpose Trust Fund
- Investment Trust Fund
- Pension Trust Fund

Minimum Number of Funds Concept

Generally Accepted Accounting Principles (GAAP) require governments to maintain as few funds as possible to meet legal requirements and for sound financial administration.

This is known as the "Minimum Number of Funds Concept."
Organizational Structure

- Expenditures are classified by:
  - Fund character
  - Function or program
  - Activity/Department
  - Object class

Organizational Structure

- Character Classifications:
  - Current
  - Capital outlay
  - Debt service
  - Intergovernmental

Organizational Structure

- Uniform Chart of Accounts
  - Established by Georgia Department of Community Affairs
  - Local governments must report in compliance
Budget Reports
• Should be received monthly/timely
• Revenue
  • Current amended budget
  • Current month’s revenue realized
  • Year-to-date revenues realized
  • Difference between budget and actual

Budget Reports
• Expenditures
  • Most current amended budget
  • Current month’s expenditures
  • Year-to-date expenditures
  • Outstanding encumbrances
  • Unencumbered balance

Budget Summary
• Shows total revenues by source
• Shows expenditures by departments and activity or program including significant changes
• Best to balance revenues and expenditures without the use of fund balance
Budget Summary

- Budget message
- Budget summary
- Detailed budget requests

OCGA 36-81-5

- Newspaper advertisement of budget availability
- Published during week budget is made available to governing authority
- Includes date in which public hearing will be held

Exhibit 2-5
Exhibit 2-6

<table>
<thead>
<tr>
<th></th>
<th>20X4</th>
<th>20X5</th>
<th>20X6</th>
<th>20X7</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>$1,518,340</td>
<td>$1,620,000</td>
<td>$1,750,000</td>
<td>$1,800,000</td>
</tr>
<tr>
<td>Licenses &amp; Permits</td>
<td>$161,984</td>
<td>$166,000</td>
<td>$167,000</td>
<td>$167,000</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td>$84,841</td>
<td>$59,000</td>
<td>$62,000</td>
<td>$62,000</td>
</tr>
<tr>
<td>Charges for Services</td>
<td>$1,668,323</td>
<td>$1,560,000</td>
<td>$1,500,000</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Total</td>
<td>$3,567,739</td>
<td>$3,546,500</td>
<td>$3,546,500</td>
<td>$3,625,600</td>
</tr>
<tr>
<td><strong>EXPENDITURES:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General</td>
<td>$1,518,340</td>
<td>$1,620,000</td>
<td>$1,750,000</td>
<td>$1,800,000</td>
</tr>
<tr>
<td>Public Safety</td>
<td>$161,984</td>
<td>$166,000</td>
<td>$167,000</td>
<td>$167,000</td>
</tr>
<tr>
<td>Public Works</td>
<td>$84,841</td>
<td>$59,000</td>
<td>$62,000</td>
<td>$62,000</td>
</tr>
<tr>
<td>Debt Services</td>
<td>$1,668,323</td>
<td>$1,560,000</td>
<td>$1,500,000</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>Total</td>
<td>$3,567,739</td>
<td>$3,546,500</td>
<td>$3,546,500</td>
<td>$3,625,600</td>
</tr>
</tbody>
</table>

CHAPTER 2 EXERCISE

The Budget Preparation Process

Chapter 3
Learning Objectives

Recall the elements of a successful budget process

Identify the segments of the budget

Recognize the purpose of a budget calendar

Process or Product?

• Budgeting is as much as a process as a product!
• All participants should know what is expected of them
• The public should be informed
• All items which make up an efficient budget process should be present

Budget Process

• Elements of a successful process
  • Goals and objectives (sense of direction)
  • Assessing community needs (sense of priority)
  • Administrative plan
  • Budget calendar
Goals and objectives
• Should be related to requests
• Should “roll up” into overall government-wide goals
• Budget requests not consistent with goals and objectives = unfunded budget requests
• Goals=desired outcome or state
• Objectives=steps taken to achieve the goal

Budget Process
• Assessing community needs
  • Develop a list of priorities for the local government
  • Cuts can be made based on priorities
  • Tough choices must be made!
  • At best, consensus rules!

Budget Process (continued)
• Assessing Community Needs
  • Models can help assign weight to certain criteria
  • Models are designed to aid decision makers
  • Models are not a substitute for analysis, debate and decision making
Administrative Plan

- Administrative Plan
  - Describes the various steps involved
  - Describes the persons responsible
  - It is a policy statement

Segments

Budget Segments

- Management Plan
- Financial Plan
- Capital Plan
- Consolidation

Budget Calendar

- WHO
  - is responsible for the task
- WHAT
  - is to be accomplished within the task
- WHEN
  - is the task to be completed
Budget Calendar

- Budget calendar should include:
  - Dates for distribution of all forms
  - When revenues estimates will be prepared
  - Requests compiled into document
  - When the budget will be presented
  - When hearings will be held
  - When the budget will be adopted
  - When the fiscal year begins

Timing

How much time is necessary to prepare and adopt a budget?

Sufficient time so that adoption takes place before the start of the fiscal year!

CHAPTER 3 EXERCISE
**Departmental Requests**  
Chapter 4

**Learning Objectives**

*Summarize how to use budget forms in the review process*

**Active Involvement in the Process**

*Involvement leads to ownership!*
Budget Information Packet

- Budget Information Packet
  - Cover memo with detailed instructions
  - Forms for performance measures and goals and objectives
  - Forms for budget requests
  - Spreadsheets
  - Budget calendar
  - Forms for forecasting revenues
  - Capital improvement packages

Budget Forms

Request Forms

Departmental Performance Indicators
Performance information should relate directly to the department's mission and its key results.

Departmental Budget Request Form
The departmental budget request form contains columns showing the prior year expended, the current budget, the year-to-date expended and a requested and approved column.

Budget Forms

Request Forms

Departmental Capital Equipment Outlay Form
This form is used to request all capital outlay items of significant value, such as vehicles and equipment.

Departmental Capital Replacement Schedule Form
This form is used to schedule when capital items will need replacement and identifies the amount of funding required to accomplish the replacements.
Review of Requests

- Forms have been submitted. What now?
- Review of Departmental Requests

Review of Requests

Review of departmental requests
- Support strategic plan
- Financing adequate
- Estimated revenue sufficient
- Reserves adequate

Capital Improvement Request

- Are the proposed capital outlays consistent with the government’s capital improvement plan priorities?
- All costs included
- Annual operating costs new capital assets
CHAPTER 4 EXERCISE

Financial Forecasting/Estimating Revenues
Chapter 5

Learning Objectives
- Recall how to estimate ending fund balance
- Identify different techniques in preparing revenue estimates
**Budget Estimates**

- A budget appropriation is an estimate
- Good projections involve having a large number of smaller subsidiary estimates that roll up into one overall, larger projection

**Fund Balance**

- Ending Balance = Fund balance at the beginning of the year
- Plus (+) projected revenues during the year
- Minus (-) projected expenditures during the year
- Equals (=) projected year end fund balance
### Fund Balance

**Year 1**

<table>
<thead>
<tr>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning</td>
<td>$0</td>
</tr>
<tr>
<td>Revenues</td>
<td>$100,000</td>
</tr>
<tr>
<td>Expenditures</td>
<td>$90,000</td>
</tr>
<tr>
<td>Ending</td>
<td>$10,000</td>
</tr>
</tbody>
</table>

**Year 2**

<table>
<thead>
<tr>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning</td>
<td>$10,000</td>
</tr>
<tr>
<td>Revenues</td>
<td>$150,000</td>
</tr>
<tr>
<td>Expenditures</td>
<td>$125,000</td>
</tr>
<tr>
<td>Ending</td>
<td>$35,000</td>
</tr>
</tbody>
</table>

**Year 3**

<table>
<thead>
<tr>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning</td>
<td>$35,000</td>
</tr>
<tr>
<td>Revenues</td>
<td>$130,000</td>
</tr>
<tr>
<td>Expenditures</td>
<td>$150,000</td>
</tr>
<tr>
<td>Ending</td>
<td>$15,000</td>
</tr>
</tbody>
</table>
Considerations
Things to consider when making projections
• Interest and principal on outstanding debt
• Operating impact of new facilities
• Changes in federal and state law
• Increases in fringe benefits
• Increases local share grants
• Prior year expenditures
• Increases in maintenance agreements
• Merit increases or cost of living adjustments

Revenue Estimate
• Represents the limit for budgeted expenditures due to the requirements of a balanced budget
• Revenue estimate should be close to expected cash collections
• Certain revenues rely on trends from recent fiscal years
• Requires a good understanding of local government revenue structure

Preparation of Revenue Estimate
• Collection of historical data for a five-year period for each individual revenue source
• Separation of revenues by source to determine the major components and sources of revenues
• Calculation of the property tax rates
• Estimation of individual revenue sources other than property taxes
• Compilation of the budget revenue side
Historical Revenue Trends

- Revenue estimate form
  - Useful tool for revenue projections
  - Should be compiled for each revenue source

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amount Effected</th>
<th>Reason for Change</th>
<th>Reason for Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>5 percent</td>
<td>2017</td>
<td>2017</td>
</tr>
<tr>
<td>2016</td>
<td>5 percent</td>
<td>2016</td>
<td>2016</td>
</tr>
<tr>
<td>2015</td>
<td>5 percent</td>
<td>2015</td>
<td>2015</td>
</tr>
<tr>
<td>2014</td>
<td>5 percent</td>
<td>2014</td>
<td>2014</td>
</tr>
<tr>
<td>2013</td>
<td>5 percent</td>
<td>2013</td>
<td>2013</td>
</tr>
</tbody>
</table>

Trend Analysis

- Uses historical patterns and the average amount of change in those patterns
- Multiply current year revenue by the average rate of change over the past five years

Property Tax Basics

Property Tax

- Calculated based on the amount of funds required to balance the budget
- Tax rate = amount required/assessed value
- See example on page 5-5
**Property Tax Calculation**

For example: If the estimated expenditures amount to $1,560,000, estimated revenues are $1,420,000, and the total assessed value is $10,000,000, the tax rate is computed as follows:

\[
\text{Tax rate} = \frac{($1,560,000 - $1,420,000)}{10,000,000} = .014
\]

**Definitions**

**Assessed Value** – value of the property that was owned on January 1 for the current tax year.

**Millage Rate** - set by the county governing authority.
- Georgia Department of Revenue approves the county tax digest, i.e., a report that has the actual millage rates for each taxing jurisdiction.

**Delinquent Property Taxes**

- Taxes that were due in prior years that are collected in the year for which the budget is being prepared
- Taxes that will be due in the budgeted year, but that will not be collected until the end of that year
Other Revenues

<table>
<thead>
<tr>
<th>Sales and Use Taxes</th>
<th>Interest Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subject to economic shifts</td>
<td>Georgia Fund 1</td>
</tr>
<tr>
<td>Important to monitor business conditions</td>
<td>Pool idle funds with other governments</td>
</tr>
<tr>
<td></td>
<td>Higher interest rates</td>
</tr>
</tbody>
</table>

Other Revenue Sources

- Non-tax revenues, fees, fines, and service charges
  - Past experience
  - Current trends
  - Cost of services

- Intergovernmental Revenues
  - Project based on information known

Trend Analysis

- Uses historical patterns and the average amount of change in those patterns over the historical period to predict the future
- Based on the assumption that no changes in the revenue regulation were made or planned
Steps for Trend Analysis

• Organize the historical data by fiscal year.
• Calculate the difference in activity level between each fiscal year and compute the percentage change between each fiscal year.
• Add up all the rates of change between each fiscal year and compute the average rate of change over the entire historical period.

Steps for Trend Analysis

• Take the average rate of change over the entire historical period and apply it to the last year’s activity level to arrive at the estimated activity level for the next year.
• Use the projected activity level as the basis for next year’s budget request for that budgeting entity.

Exhibit 5-A: Projected Revenue Sample

<table>
<thead>
<tr>
<th>Ex</th>
<th>Source of SMS RUNS</th>
<th>PERCENT CHANGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>100</td>
<td>0%</td>
</tr>
<tr>
<td>2</td>
<td>120</td>
<td>20%</td>
</tr>
<tr>
<td>3</td>
<td>150</td>
<td>25%</td>
</tr>
<tr>
<td>4</td>
<td>150</td>
<td>0%</td>
</tr>
<tr>
<td>5</td>
<td>150</td>
<td>0%</td>
</tr>
<tr>
<td>6</td>
<td>120</td>
<td>11%</td>
</tr>
<tr>
<td>7</td>
<td>241</td>
<td>11%</td>
</tr>
</tbody>
</table>

*Calculated as 1.11 x 1.11 = 2.69.

The average rate of change from the information given above is 10 percent. When the average rate of change is applied to the last year’s level, this is the projection for the number of SMS runs for the next year. For budgeting purposes, we revise the projection to the nearest whole number, or 269.
**Estimating Revenues by Other Methods**

<table>
<thead>
<tr>
<th>Requirements Approach</th>
<th>Correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The budgeter asks, &quot;What does it take to accomplish the tasks of this budgetary entity?&quot;</td>
<td>Identifies variables which impact upon and help determine expenditure and revenue levels</td>
</tr>
<tr>
<td>Then multiply each quantity by its unit price</td>
<td>Amount of crime is related to police expenditures</td>
</tr>
<tr>
<td></td>
<td>Number of students is related to school budget</td>
</tr>
<tr>
<td></td>
<td>Not commonly used</td>
</tr>
</tbody>
</table>

**CHAPTER 5 EXERCISE**

**Local Government Action on the Budget**

Chapter 6
Learning Objectives

Recite the definition of a balanced budget

Identify the definition of the legal level control

Recall the level of fund balance

Budget Message

• Budget Message or Letter of Transmittal
  • Usually the first part of the budget
  • Outlines the main aspects of the budget
  • Explains major accomplishments during the last year
  • Summarizes the policies reflected in the current budget

Budget and Supporting Data

• The budget document shall provide at a minimum (O.C.G.A. 36-81-5)
  • Amount of revenues by source
  • Expenditures at legal level of control (department within each fund)
  • All capital projects funds must be adopted and operated under a project length balanced budget
Budget and Supporting Data
• Other common elements in the budget
  • Organization chart
  • Personnel summary highlights
  • Statistical information
  • Economic trends
  • Millage rate comparisons

Budget Process and Law
• Budget advertisement, hearing and adoption
  • Copy of budget is placed in a public location the day the budget is submitted to the governing authority
  • If requested, a copy of the budget is made available to the news media
  • The week the budget is submitted to the governing authority, a notice is advertised regarding the public hearing

• At least one week prior to adoption, a public hearing must be held
• The public hearing must be advertised at least one week before the actual hearing
• The budget is adopted by ordinance or resolution
• After adoption, an electronic file of the budget ordinance or resolution must be sent to the Vinson Institute for publishing on their maintained website
Publish Document on CVIOG
OCGA 36-80-21
A copy of adopted budget must be posted on CVIOG maintained website within 30 days of adoption
Annual audit for the local government will be posted to CVIOG maintained website as soon as practicable
Copy of annual report of local law enforcement agencies also posted to CVIOG maintained website

https://ted.cviog.uga.edu/financial-documents/

Budget Process and Law
• Georgia law requires local governments to adopt a balanced budget
• Balanced = revenues equals expenditures
• Balanced = revenues + appropriated fund balance equals expenditures

Balanced or Unbalanced?

<table>
<thead>
<tr>
<th>Revenues</th>
<th>$1,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Difference</td>
<td>$0</td>
</tr>
</tbody>
</table>
Balanced or Unbalanced?

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$1,100,000</td>
</tr>
<tr>
<td>Expenditures</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Difference</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

Balanced or Unbalanced?

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$1,000,000</td>
</tr>
<tr>
<td>Expenditures</td>
<td>1,100,000</td>
</tr>
<tr>
<td>Difference</td>
<td>($100,000)</td>
</tr>
</tbody>
</table>

Balanced or Unbalanced

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund Balance</td>
<td>$100,000</td>
</tr>
<tr>
<td>Revenues</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Sub-total</td>
<td>1,100,000</td>
</tr>
<tr>
<td>Expenditures</td>
<td>1,100,000</td>
</tr>
<tr>
<td>Difference</td>
<td>$0</td>
</tr>
</tbody>
</table>
**Balanced or Unbalanced?**

- Allowed if the government is trying to accumulate resources for capital or unforeseen emergencies, or
- The government has incurred a deficit fund balance in prior years and is trying to eliminate problem

**Fund Balance Classification**

- Non-Spendable
- Restricted
- Committed
- Assigned
- Fund Balance Classification
- Unassigned

**Level of Fund Balance**

- How much fund balance should be maintained?
  - No easy answer
  - Face potential criticism - you have too much or too little
  - 1-3 months of operating expenditures
  - Contingency
Legal Level of Control

- Legal Level of Budgetary Control
  - Per Georgia law, a local government may not overspend its budget at the department/activity level within the fund

Legal Level of Control

Legal Level of Budgetary Control

<table>
<thead>
<tr>
<th>Department/Activity</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salah/Police</td>
<td>$5,280,000</td>
</tr>
<tr>
<td>Judicial/Finance Court</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>Judicial/Probate Courts</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>Judicial/Probate Courts</td>
<td>$300,000</td>
</tr>
<tr>
<td>Judicial/Probate Courts</td>
<td>$500,000</td>
</tr>
<tr>
<td>Total</td>
<td>$16,480,000</td>
</tr>
</tbody>
</table>

OCSA 36-81-3(d)(2)

- Transfer between line items of legal level of control can be approved by budget officer
- Financial policy regarding who is authorized to transfer budget amounts between line items within a department
CHAPTER 6 EXERCISE

Operating with the Budget
Chapter 7

Learning Objectives
Recall methods of budgetary controls

Recognize when budget amendments are required

List methods of budgeting for contingencies

Recall budget balancing techniques
Budgetary Control

Two Segments

Budget Administration

Budget Execution

Monitoring the actual performance of the local government against the budget

Managing the resources in the budget in order to meet certain local government objectives

Encumbrances

- Encumbrance Accounting/Reporting Control
  - Component of budget administration
  - Allows governments to commit budget appropriations
  - Initiated by a purchase order, contract of other commitment of funds
  - Amount of encumbrance is subtracted from available balance
Allotments

• Allotment System
  • Component of budget administration
  • Controls the amount of the budget that may be spent within a specific time frame
  • Can work in conjunction with an encumbrance system

Budget Reporting

• Financial/Budgetary Reporting System
  • Provides management with periodic reports on revenues, expenditures and encumbrances compared with the adopted budget
  • Should be timely, user friendly and easy to understand
  • Budget to actual information

Financial Statement Audit

• Annual Financial Audit
  • Integral part of budget administration
  • Conducted by an outside CPA firm
### Budget Amendments

- **Amending the Budget**
  - Amendments are allowed
  - An increase at the legal level of control requires approval of the governing authority
  - Transfers within a department require approval of the budget officer
  - Amendments are adopted by ordinance or resolution

### Contingency

- **Surpluses and Contingencies**
  - Contingency – a line-item included in a local government’s budget to be used for unforeseen, emergency type expenditures
  - Rarely in excess of 5% of the appropriated budgets

### Disposition of Budget Balances

- Appropriations lapse at year end
  - Unspent appropriations lapse and do not carry forward to the subsequent year
  - Unencumbered appropriations lapse at year end
    - Any amount encumbered is carried forward to the subsequent year’s budget
  - Unexpected appropriations to be carried forward
    - Generally, not recommended
Budget Balancing Techniques

- Freeze increases in personnel
- Reduce equipment line items
- Repair and renovation rather than replacement of capital assets
- Study effects of deferring costs

CHAPTER 7 EXERCISE

Thank You!