Developing and Monitoring an Effective Budget

What is a Budget?

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

Budget Scale

- Appropriations and financing sources must be accurately gauged at budget preparation time to ensure that planned services are properly funded.
What is Structurally Balanced Budget?

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

Tools

- Local Government Management Guide (LG MG)
- Estimates From Department Heads
- Prior Years Budget
- Actuals - Last Complete Year
- Actuals - Current Year
- AUD - Prior Years

Expenditure

- Analyze Data
  - Trends
  - Personnel/Salary Levels
  - Capital Outlays - New Equipment
  - Pending Legislation
Revenue Estimates

- Analyze Data
  - Trends
  - Pending Legislation
  - Rate Increases

Budget Account Codes

- 510 Estimated Revenues
- 511 Appropriated Reserves
- 530 Obligations Authorized – Budget Notes
- 599 Appropriated Fund Balance
- 960 Appropriations
- 962 Budgetary Provisions for Other Uses

Reserve Budget Entries

Budget to Establish Reserve
510 Estimated Revenue
962 Budgetary Provisions For Other Uses

Budget Use of Reserve
511 Appropriated Reserve
960 Appropriations
  “R” Subsidiary
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

Why Encumber?

- So that no one will over-expand their available appropriation

<table>
<thead>
<tr>
<th>Clerk - Capital Outlay</th>
<th>10/20/02</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>Appropriation</td>
</tr>
<tr>
<td>1/1</td>
<td>Budget</td>
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</table>

Encumbrance Entries

<table>
<thead>
<tr>
<th>Sub Account</th>
<th>DR</th>
<th>CR</th>
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</thead>
<tbody>
<tr>
<td>52.1 Encumbrances</td>
<td>XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>various sub accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>82.1 Reserve for Encumbrances</td>
<td>XXX</td>
<td></td>
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Memo: To record encumbrances for current year
### Encumbrance Entries

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<td>912 Unrestricted Fund Balance</td>
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*Memo: To close outstanding encumbrances at year end*

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*Memo: To re-establish outstanding encumbrances of the prior year*

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*Memo: To re-establish outstanding encumbrances of the prior year*
Budget Modifications

- Legal
  - By Board Resolution
- Accounting
  - By General Journal Entry

Budget Modifications

- Transfers
- Fund balance and unanticipated revenues
- Grants in aid
- Insurance recoveries
- Gifts
- Budget notes/Deficiency notes

Transfers

- Transfer from appropriation line item to line item
- Transfer from Contingency line item (1990.4) to other line items

  Contingency Limit
  10% of Total Appropriations
  Less
  Debt Service and Judgments
Object of Expenditure
1. Personal services
2. Equipment & capital outlay
3. Contractual
4. Debt principal
5. Debt interest
6. Employee benefits
7. Interfund transfers

LEGAL LEVEL OF CONTROL

A 5 0 1 0 . 4 . 4 1 - 2

Fund - General
Functional Unit - Highway Street Administration
Object – Contractual Expense
Subdivision – Office Supplies
Location – Highway Garage

Unappropriated Surplus and Unanticipated Revenues

- When? How Much?
  - Budget: Est. Revenues (X) $300,000
    Appropriated FB (X) $50,000
    $350,000
  - Actual: Revenues** (X) $475,000
    Beginning FB (X) $126,000
    $601,000
- You Can Appropriate
  $40,000

**Plus revenues that are reasonably expected to be recognized in the current year
Grants in Aid

- Grants – NYS or Federal
- Emergency Disaster Assistance – NYS or Federal

Insurance Recoveries

- How to Record an Increase in the Budget:
  A510 – Estimated Revenues      XXX
  (A2680 – Insurance Recoveries)
  A960 – Appropriations          XXX
  (A1620.4 – Building – Contractual)

Gifts

- Required to be expended for particular objects or purposes
Budget Notes
[Local Finance Law, §29]

- Provide funding for expenditures:
  - Where insufficient or no provision was made in budget
  - Can only be up to 5% of budget
- Unforeseen public emergency
  - No limit

Budget Notes
[Local Finance Law, §29]

- Don't forget to budget for:
  - Principal and Interest
  - Less
  - Unspent Cash

Deficiency Notes
[Local Finance Law, §29.20]

- To finance a deficiency in any fund(s) arising from revenues being less than budget estimate
  - Can only be up to 5% of budget
  - If issued or renewed in two consecutive years, there are additional reporting and monitoring requirements
  - Refer to March 2012 accounting bulletin
Deficiency Notes
[Local Finance Law, §29.20]

- General Ledger Account Codes
  225  Cash from Deficiency Notes
  624  Deficiency Notes Payable

- Expenditure Account Codes
  9755.7  Deficiency Notes – Interest
    - Refer to bulletin for accounting entries

Monitoring Budget

- Controls
- Report
  - Budgetary
  - Cash Flow
  - Long Range Planning

Monitoring the Budget - Controls

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 C.F.O. before purchasing

Format of Reports

Budgetary Control Worksheet
(Actual vs. Estimates)
- Control
- Monitoring
- Early Action
- Projected Variances
- Narratives
Questions?

THOMAS P. DIAPOLI