

An introduction to budgeting and budget management

BRATTLEBORO DEVELOPMENT CREDIT CORPORATION
SOUTHERN VERMONT ECONOMY PROJECT
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Run of show:

1. Burning question budgeting review process.
2. Connecting the mission, vision and values.
3. Talking (a little) like a bookkeeper.
4. What is a budget?
5. Steps in the
6. Key points in preparing your budget.
7. Managing your budget
8. Budget controls.
9. The end.

THE UNIVERSITY OF VERMONT
EXTENSION

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What burning question about budget and budget management do you have that needs to be answered today?

Learning objectives; "student will..."

1. Appreciate how your organization's values, vision, and mission relate to your budget, including project budgets.
2. Be able to describe basic accounting terms.
3. Understand what a budget is.
4. Be able to describe the budget cycle.
5. Possess increased knowledge about managing the budget.
6. Understand a bit more about financial controls.

Exploring potential business ideas...

What options are available for collaborative grants from covid relief funding?

What models (if any) in the New England area exist of a business and non-profit partnership? For example, a youth organization that is funded directly through profits from a local business (not through donations)?



ACCOUNTING CONCEPTS

Accrual accounting means revenue and expenses are recognized and recorded when they occur, while **cash basis** accounting means these line items aren't documented until cash exchanges hands.

www.investopedia.com/ask/answers/09/accrual-accounting.asp

Talk like a bookkeeper, kind of.

Accounting: Gather, record, analyze and present information about money, value and worth

Accountant: Someone who does accounting.

14.1 CASH VS. ACCRUAL ACCOUNTING

▪ E.g. During March a business had **credit sales of \$2,000** - the debtor won't pay for another **6 weeks**. In addition, a **debtor** from February repaid **\$600**.

Cash Accounting Revenue = \$600 Accrual Accounting Revenue = \$2000

February Credit Sale \$600 Collected in... March Credit Sale \$2,000 Collected in...

February Reporting Period March

<http://image.slidesharecdn.com/14-170509115737795/191-cash-vs-accrual-accounting-4-638.jpg?cb=1494331136>

ACCOUNTING CONCEPTS

Fiscal year one-year period that companies and governments use for financial reporting and budgeting.

Grant Period is the period of time between the effective date and the expiration date of a grant.

www.investopedia.com/ask/answers/09/accrual-accounting.asp

	CASH BASED		ACCRUAL BASED	
VISIBILITY INTO CASH FLOW	HIGH	Ledgers correspond directly to cash on hand	LOW	Ledgers account for expenses or revenue not yet paid
VISIBILITY INTO LONG TERM TRENDS	LOW	Balances for a particular period can be biased by an influx of payments, regardless of when the sales were actually made	HIGH	Business owners can use trends to predict future costs and revenue
ACCOUNTING COMPLEXITY	LOW	Income and expenses are recorded in tandem with cash in/out	HIGH	Recorded income and expenses do not necessarily reflect cash on hand

<http://2.bp.blogspot.com/-Uq8vGmAlz2/VF55AKG5I/AAAAAAAAF7I/0z0WVW8PjV/151600/guide.png>

Break



Talking the talk



- **Purchase order** - from purchaser to vendor or central fiscal authority that authorizes a purchase
- **Accounts payable** – money you owe
- **Accounts receivable** – money owed to you

Talking the talk

- **General ledger** – complete record of financial transactions throughout your organization's life.
- **A chart of accounts** - a created list of the *fields* (e.g., columns in a spreadsheet) used by an organization to *define* each class of items for which money or its equivalent is spent or received.



1-7-05-70-22.00	Library Supplies
1-7-05-70-22.05	Library Adult Books
1-7-05-70-22.10	Library Childrens Books
1-7-05-70-22.15	Library Periodicals
1-7-05-70-22.20	Library Audio Visual
1-7-05-70-22.25	Young Adult Books
1-7-05-70-22.30	Library Interlibrary Loan
1-7-05-70-22.35	Library Online/Electronic

Talking the talk, continued

Reserve – a set-aside of discretionary money for future use.



Talking the talk



- **Revenue** - any money earned
- **Expense** - any cost incurred
- **Invoice** – requests payment for a purchase
- **Receipt** – document that proves payment

Talking the talk, continued

Grant – non-repayable funds to do something specific, usually requiring reporting.

Endowment – donation(s) of money that protects principal and spends only investment income; grows over time.

Gift – a donation of money or item; short term fund. Do not require reporting to specific donors.

Restricted versus unrestricted!



Talking the talk

- **Assets:** accounts that show everything that the organization “owns”.
- **Liabilities:** accounts showing everything the organization “owes”.



Capital budget



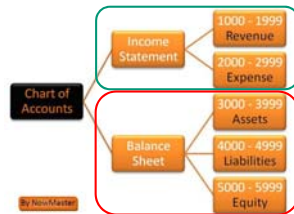
Capital item is a longer-lasting thing “not consumed” in ordinary course of business.

Capital items are often funded from current expenses, or may be purchased from “special funds”, such as reserves.

Capital items may become “fixed costs” as they are depreciated over a set time period.

Talking the talk – fiscal reports

- An **income statement** or **profit and loss** shows the organization’s revenues and expenses during a particular period.
- A **balance sheet** is a snapshot of the organization at a specific point in time such as the end of year.
 - The balance sheet shows the **assets, liabilities and equity**. Assets must always equal the sum of liabilities and equity.



Pause



Talking the talk – fiscal reports

A **budget status** report is a high-level simplified report showing revenues, expenses, encumbrances, and remaining balances. Usually associated with grants, projects, or single FY budgets.

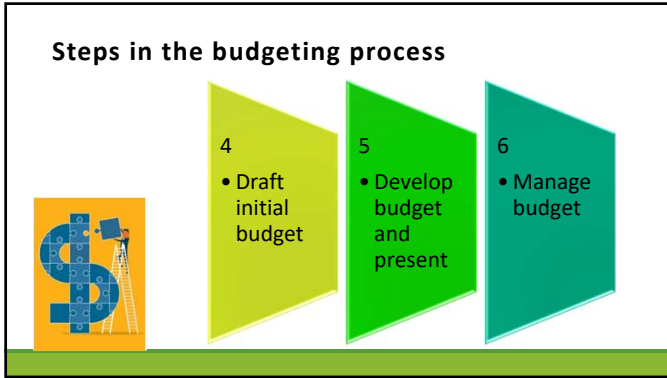
A **budget transaction detail report** is a report that expands on the budget status report

Account	Budget	Actual
1-7-05-70-22-00 Library Supplies	\$ (3,600.00)	\$ 8.54
1-7-05-70-22-05 Library Adult Books	\$ (2,900.00)	\$ -
1-7-05-70-22-10 Library Childrens Books	\$ (2,200.00)	\$ 9.52
1-7-05-70-22-15 Library Periodicals	\$ -	\$ -
1-7-05-70-22-20 Library Audio Visual	\$ (1,500.00)	\$ -
1-7-05-70-22-25 Young Adult Books	\$ (800.00)	\$ -
1-7-05-70-22-30 Library Interlibrary Loan	\$ (550.00)	\$ 161.88
1-7-05-70-22-35 Library Online/Electronic	\$ (4,800.00)	\$ -
1-7-05-70-22-40 Library Copier Lease	\$ (1,150.00)	\$ 301.56
1-7-05-70-30-00 Library Utilities	\$ (9,289.00)	\$ 2,505.49
1-7-05-70-31-00 Library Phone	\$ (1,944.00)	\$ 456.57
1-7-05-70-31-05 Cell Phone Expense	\$ (540.00)	\$ 112.86
1-7-05-70-44-00 Library Training/Workshop	\$ (600.00)	\$ -
1-7-05-70-44-05 Library Educational Progr	\$ (900.00)	\$ -
1-7-05-70-52-05 Library Prchse-Current yr	\$ (1,650.00)	\$ -
1-7-05-70-63-00 Library Equipment Repair	\$ (200.00)	\$ -
1-7-05-70-88-00 Library \$ to Reserve Fund	\$ (5,000.00)	\$ -
1-7-05-70-99-00 Library Misc Expense	\$ (100.00)	\$ 289.00
Non salary and benefits	\$ (37,723.00)	\$ 3,845.42

What is a budget?



- A budget is an **organizational plan** stated in monetary terms.
- An **estimate** of revenue, first, and expenditure, second, for a set period of time.
- Often a **subset** of a larger budget. Like a department, **program**, or **project** within an organization.



Where is this information?

The Consumer Price Index for All Urban Consumers increased **4.2 percent** over the 12 months from April 2020 to April 2021. The index rose 2.6 percent for the year ending March 2021. The 4.2 percent increase in April is the **largest increase over a 12-month period since a 4.9-percent increase for the year ending September 2008.**

- Current and past years' actual revenue and expenses
- New priority or project? Research it!
- Your CPA or US Department of Labor – CPI, payroll tax changes [for payroll projections]
- Other?

Steps in the budgeting process

1

- Identify needs

Strategic / business plan
Community / customer needs
Vision statement
Financial goals

The budgeting process

It's all about
What's most important.

3

- Prioritize expenses

Steps in the budgeting process

1

- Identify needs

2

- Identify revenues and expenses

What are sources of revenue?
What are sources of expense?
Where is this information?

Prioritizing expenses

- Determining if there are **additional** programs or projects that need to be included in the upcoming budget that were not in last year's budget
- Identifying programs or activities that may be **eliminated** or **modified** in the new budget
- Establishing spending **priorities** for the coming budget year for existing and any possible new programs

3

- Prioritize expenses

The budgeting process

4

- Draft initial budget

5

- Develop budget and present

**Relationships.
Value.**

- **Budget status report** is an example of this commonly found in municipalities, from NEMRC software (example following)
- **Budget transaction detail report** has every expense listed

Quick Books, other types of accounting software do a myriad of reports, including comparing this year with last, income statement, balance sheet, and much more.

6

- Manage budget

Pause



Account	Budget	Actual
Salaries	\$ (65,310.00)	\$ 54,818.47
Sick Pay	\$ (817.00)	\$ 774.38
Vacation	\$ (1,632.00)	\$ 1,076.80
Bereavement Pay	\$ -	\$ -
Holiday	\$ (1,958.00)	\$ 1,612.80
Social Security	\$ (4,521.00)	\$ 3,750.94
Retirement	\$ (3,016.00)	\$ 2,627.93
Health Insurance	\$ (21,600.00)	\$ 19,800.00
HRA Funding	\$ (1,250.00)	\$ 1,249.80
Dental Insurance	\$ (426.00)	\$ 401.77
	\$ (100,530.00)	\$ 86,112.89

NEMRC
FUND ACCOUNTING
New England Municipal Resource Center

6

- Manage budget

The budgeting process, revisited.

- **Get reports on a regular basis.**
- **Get reports that you can read. Summary & detailed.**

6

- Manage budget

Account	Budget	Actual
21-Oct-19		
Salaries	\$ (65,310.00)	\$ 54,818.47
Sick Pay	\$ (817.00)	\$ 774.38
Vacation	\$ (1,632.00)	\$ 1,076.80
Bereavement Pay	\$ -	\$ -
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6

- Manage budget

Account	Budget	Actual	Budget Balance
21-Oct-19			
Salaries	\$ (65,310.00)	\$ 54,818.47	\$ (10,491.53)
Sick Pay	\$ (817.00)	\$ 774.38	\$ (42.62)
Vacation	\$ (1,632.00)	\$ 1,076.80	\$ (555.20)
Bereavement Pay	\$ -	\$ -	\$ -
Holiday	\$ (1,958.00)	\$ 1,612.80	\$ (345.20)
Social Security	\$ (4,521.00)	\$ 3,750.94	\$ (770.06)
Retirement	\$ (3,016.00)	\$ 2,627.93	\$ (388.07)
Health Insurance	\$ (21,600.00)	\$ 19,800.00	\$ (1,800.00)
HRA Funding	\$ (1,250.00)	\$ 1,249.80	\$ (0.20)
Dental Insurance	\$ (426.00)	\$ 401.77	\$ (24.23)
	\$ (100,530.00)	\$ 86,112.89	\$ (14,417.11)

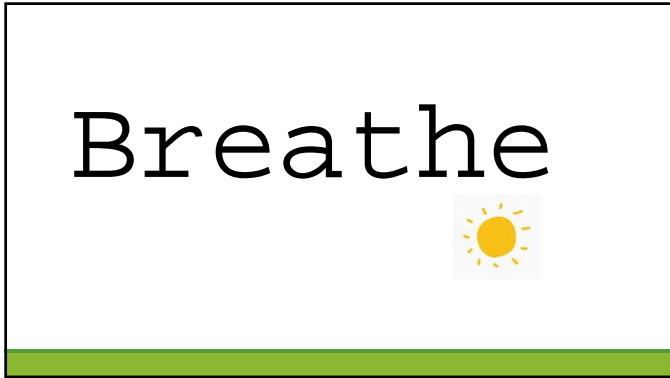
- Get **regular reports** that you can read.
- **Keep up** on purchase orders and invoices.
- **Reconcile** monthly.
- Don't let **questions** linger.
- If you want something **changed**, ask.
- Understand what you are **responsible** for.
- **Communicate!**

Account	Budget	Actual	Budget Balance	% of Budget
21-Oct-19				
Salaries	\$ (65,310.00)	\$ 54,818.47	\$ (10,491.53)	16%
Sick Pay	\$ (817.00)	\$ 774.38	\$ (42.62)	5%
Vacation	\$ (1,632.00)	\$ 1,076.80	\$ (555.20)	34%
Bereavement Pay	\$ -	\$ -	\$ -	
Holiday	\$ (1,958.00)	\$ 1,612.80	\$ (345.20)	18%
Social Security	\$ (4,521.00)	\$ 3,750.94	\$ (770.06)	17%
Retirement	\$ (3,016.00)	\$ 2,627.93	\$ (388.07)	13%
Health Insurance	\$ (21,600.00)	\$ 19,800.00	\$ (1,800.00)	8%
HRA Funding	\$ (1,250.00)	\$ 1,249.80	\$ (0.20)	0%
Dental Insurance	\$ (426.00)	\$ 401.77	\$ (24.23)	6%
	\$ (100,530.00)	\$ 86,112.89	\$ (14,417.11)	14%


- Always **code correctly!**
- Budgeting time should be "budgeted"!
- Plan for the unplanned – maintain flexibility.

Account	Budget	Actual	Budget Balance	% of Budget
21-Oct-19			Day # 294 =	19%
Left of year				
Salaries	\$ (65,310.00)	\$ 54,818.47	\$ (10,491.53)	16%
Sick Pay	\$ (817.00)	\$ 774.38	\$ (42.62)	5%
Vacation	\$ (1,632.00)	\$ 1,076.80	\$ (555.20)	34%
Bereavement Pay	\$ -	\$ -	\$ -	
Holiday	\$ (1,958.00)	\$ 1,612.80	\$ (345.20)	18%
Social Security	\$ (4,521.00)	\$ 3,750.94	\$ (770.06)	17%
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Health Insurance	\$ (21,600.00)	\$ 19,800.00	\$ (1,800.00)	8%
HRA Funding	\$ (1,250.00)	\$ 1,249.80	\$ (0.20)	0%
Dental Insurance	\$ (426.00)	\$ 401.77	\$ (24.23)	6%
	\$ (100,530.00)	\$ 86,112.89	\$ (14,417.11)	14%

- ### A few more recommendations
- Commercial software or a bookkeeper are good investments.
 - Every expense must have a documented business purpose.
 - All revenue and expenses must be documented with a "trail" – invoices, receipts, et cetera.
 - An audit makes certain that the books are "good"; an audit "samples" the "books" to see if there's anything amiss.



“Control is the process of monitoring activities to ensure that they are being accomplished as planned and any significant deviations are corrected.”




Internal Controls for Financial Reporting, modified by G. Devel from Table B.1 Internal controls for financial reporting, Medium-Sized Public Library, Samwald, William W. Financial Management for Libraries, American Library Association, 2016. Print.


Budget controls

1. Authorizations
2. Reconciliations
3. Segregation of duties
4. Physical safeguards
5. Maintaining records
6. Information systems

Budget controls



Cash is great, but Cash can be trouble, too.




Budget controls

TYPE of control	DESCRIPTION
Authorizations	Prevention - requiring management to formally approve certain types of transactions.
Reconciliations	Detection - relating data sets to one another to identify and resolve discrepancies.

Budget controls	
TYPE of control	DESCRIPTION
Segregation of duties	Prevention - separating responsibility related to authorizing transactions.
Physical safeguards	Prevention - using locks, cameras, barriers to protect assets.
Maintaining records	Detective - maintaining written and/or electronic evidence to support transactions.
Information systems security	Prevention and detection - using passwords and security access logs to ensure appropriate data restrictions.

Learning objectives; “student will...”

1. Appreciate how your library’s values, vision, and mission relate to your budget.
2. Understand what a budget is.
3. Be able to describe basic accounting terms.
4. Be able to describe the budget cycle.
5. Possess increased knowledge about managing the budget.
6. Understand a bit more about financial controls.



Evaluation coming!

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Just Google “VT public libraries and UVM Extension”