



Budget 101

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City of Pataskala, Ohio

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Session Topics

1. Purpose
2. Why establish a budget?
3. Budget classifications
4. Budgetary integration
5. Budgetary reporting requirements
6. Budget development process
7. Budget review & approval process
8. The Budget document
9. 'After the Budget'
10. Q&A

Purpose of the Budget

- Serves as a financial planning tool
- Implements public policy
- Serves as a control on spending

Definitions

- **Estimated Resources** – the estimated receipts the government expects to receive plus the unencumbered and unreserved fund balance from the prior year.
- **Appropriations** – the governing body's authorization to spend the government's resources. Does not imply that cash is available to be spent immediately.
- **Encumbrance** – authorized purchase commitments related to unperformed contracts for goods and services (e.g. purchase orders).

Why establish a budget?

• **Legal Requirement**

- ORC Chapter 5705.28: Annual tax budget
 - "...the taxing authority of each subdivision or other taxing unit shall adopt a tax budget for the next succeeding fiscal year:"
 - On or before the fifteenth day of January in the case of a school district;
 - On or before the fifteenth day of July in the case of all other subdivisions and taxing units.

Why establish a budget?

• **Legal Requirement**

- ORC Chapter 5705.38: Annual appropriation
 - "... On or about the first day of each year, the taxing authority of each subdivision or other taxing unit shall pass an appropriation measure..."

Why establish a budget?

- **Legal Requirement (cont'd)**
 - Ohio Auditor of State Compliance Supplement
 - <https://ohioauditor.gov/references/compliancemanuals.html>

Budgetary Documents

- Tax budget (can be waived by county budget commission)
- Resolution setting tax amounts and rates
- Official certificate of estimated resources
- Amended certificate(s) of estimated resources and appropriations
- Annual appropriation ordinance or resolution
- County Auditor's certification of compliance:
 - Beginning fund balance + Estimated Resources**
 - Appropriations = Year-End Projected Fund Balance** (must be \geq \$0)

Why establish a budget?

- **GFOA 'Best Practice'**
 - *Four fundamental concepts:*
 - Establish Broad Goals to Guide Government Decision Making
 - Develop Approaches to Achieve Goals
 - Evaluate Performance and Make Adjustments
 - Develop a Budget Consistent with Approaches to Achieve Goals

Classifications of Budgets

- Character of the Budget
- Period of Time Covered by the Budget
- Degree of Legal Authority
- Anticipated Variability

Character of the Budget

- **Two general types of budgets:**
 - *Operating Budgets*
 - Legally adopted (appropriated) by governing body.
 - *Capital Budgets*
 - Typically not appropriated beyond 1-2 years.

**Period of Time Covered
by the Budget**

- Operating budgets are typically adopted (or appropriated) on an annual or biennial (2-year) basis.
- Capital budgets may be adopted based on the length of the project.
 - Typically only 1-2 years appropriated by governing body. Remaining period is part of forecast.

Degree of Legal Authority

- Refers to whether there is a legal requirement for the government to budget (or appropriate) a fund.
 - If a budget is legally required, it is referred to as an ‘appropriated budget’.
 - If a budget is not legally required, it is referred to as a ‘financial plan’.

Legal Level of Budgetary Control

Defined as:

“the level at which spending in excess of budgeted amounts would be a violation of law”

- OR -

“the lowest level at which a government’s management may not reallocate resources without special approval”

Legal Level of Budgetary Control (cont'd)

- In Ohio, the legal level of control is the level at which the appropriation measure is passed by governing body.
- ORC proscribes the minimum level of budgetary detail.
- Charter communities can set their own level of authority

Legal Level of Budgetary Control (cont'd)

Legal level of control varies between governments.
Pataskala example:

- Fund level: 208 - Police Fund
- Function level: 300 - Police
- Object level: 52 - Salaries & Related

Detailed budgets are developed for planning and control purposes, however Council appropriates at this level.

Legal Level of Budgetary Control (cont'd)

Example:

- Fund level: 208 - Police Fund**
- Function level: 300 - Police**
- Department level: 301 - Police Patrol
- Activity level: School Resource Officer
- Object level: 52 - Salary & Related**
- Sub-object level: 521 – Wages
- Account number: 52102 – Overtime

Anticipated Variability

- Fixed vs. flexible
- Most governmental budgets are fixed budgets – but subject to amendments.
- A flexible budget might be used for an Enterprise Fund (where it is difficult to estimate demand)
 - Authorizes variable levels of spending depending on demand or revenues.

Budgetary Integration

- Because of the importance of budgeting in the public sector, it is essential that a government have a system of controls to ensure and demonstrate budgetary compliance.
- Budgetary integration is a feature of most computerized accounting software that is designed for state and local governments.

Account Code	Account Description
1100-0000-0000-0000
1100-0000-0000-0000

Budgetary Integration (continued)

- The computerized accounting software should generate up-to-date information regarding appropriations and estimated revenues.
- Auditors test compliance with the applicable provisions of Chapter 5705 of the Ohio Revised Code

Budgetary Integration (continued)

- In auditing compliance with Chapter 5705, the auditor will consider whether the reports generated by the computerized accounting software properly reflect budgetary data, including appropriations and estimated revenues.
- Encumbrances (purchase orders) are used to reserve the appropriated budget to ensure that it is not overspent.

Budgetary Integration (continued)

- The information in the computerized reports will be compared to the official budgetary documents and information from the minutes.
- Auditor tests of budgetary compliance will be performed at fiscal year-end. Previously, they also tested at selected dates during the fiscal year.

Basic Financial Statements

- Required for the General Fund as well as any major Special Revenue funds for which a budget is legally adopted.
- May be Presented as a Basic Financial Statement or as Required Supplementary Information
 - If reported as RSI, then referred to as “schedule”
 - GASB Preliminary View issued on shift to RSI
 - Would these no longer be audited?
 - What about ensuring compliance with ORC requirements?

Budgetary Comparison Statement

- Statement must include:
 - Original budget (first complete appropriated budget)
 - Final amended budget
 - Actual amounts
- Variance column (difference between final amended and actual) is encouraged but not mandatory

CITY OF FORTVALLEY, OHIO
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCE - BUDGET AND ACTUAL OVER HALF BUDGETARY YEAR
 FEDERAL FUND
 FOR THE YEAR ENDED DECEMBER 31, 2021

Description	Budget Variance			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Fund-in-lieu-of-taxes	\$ 1,060,000	\$ 1,112,000	\$ 1,119,837	\$ 7,837
Licenses and permits	225,000	892,150	902,137	1,087
Fees and tributes	50,000	7,845	81,226	191,175
Intergovernmental	238,150	382,123	382,145	37
Special assessments	1,000	766	893	193
Investment income	5,441	35,800	27,819	(1,044)
Other	11,225	3,200	228,200	293,975
Total Revenues:	<u>1,633,016</u>	<u>1,913,284</u>	<u>2,145,467</u>	<u>232,183</u>
Expenditures:				
Contract	1,276,703	1,202,877	1,638,289	435,412
Contractual commitment	406,800	406,770	402,738	3,932
Intergovernmental	36,217	42,491	124,353	88,045
Total Expenditures:	<u>1,719,720</u>	<u>1,652,138</u>	<u>2,165,380</u>	<u>444,523</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures:		<u>(39,854)</u>	<u>(119,913)</u>	<u>48,336</u>
Other Financing Sources (Uses):				
Sale of capital assets	1,000	1,200	—	(1,200)
Equities	—	—	—	—
Transfers (out)	(31,000)	(119,900)	(119,900)	—
Total Other Financing Use:	<u>(30,000)</u>	<u>(118,700)</u>	<u>(119,900)</u>	<u>13,200</u>
Net Change in Fund Balance:	<u>(254,276)</u>	<u>(259,644)</u>	<u>(249,443)</u>	<u>4,869</u>
Fund Balance at Beginning of Year:	<u>1,887,292</u>	<u>1,887,292</u>	<u>1,887,292</u>	<u>—</u>
Fund Balance at End of Year:	<u>1,633,016</u>	<u>1,627,648</u>	<u>1,637,849</u>	<u>102,201</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

Phases of a Budget

- Planning
 - Identification of goals & objectives
 - Revenue projections
- Development
 - Departmental Requests
 - Capital Planning
 - Development of budget presentation materials
- Evaluation & Review
 - Budget Hearings
 - Proposed Budget
 - Legislative Approval

Development of Goals & Objectives

- Organization-wide and departmental plans: mission statements, key objectives and major activities.
- Important to identify both short-term (tactical) and long-term (strategic) goals.
- Where are we today, and where do we want to be in 1-year, 5-years and beyond?
- Measuring Success: performance measures, benchmarks, financial targets, etc.

Revenue Projections

- Qualitative forecasting methods
- Quantitative forecasting methods



Qualitative Forecasting Methods

1. Consensus
2. Expert-Panel Group
3. Personal Judgment

Quantitative Forecasting Methods

- Trend Analysis
- Linear Analysis
 - Simple regressive
 - Multiple regressive
- Time Series Analysis
- Econometric Forecasting
- Regression Analysis

CITY OF DUBLIN, OHIO
 BUDGET ANALYSIS BY FUND
 FISCAL YEAR 2021 - 2022

FUND	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
General	1,243,892	1,243,892	1,243,892	1,243,892	1,243,892	1,243,892	1,243,892	1,243,892	1,243,892	1,243,892
Police	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000	125,000
Fire	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Sanitation	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000	150,000
Public Works	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Public Safety	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Public Health	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000	70,000
Capital	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Other	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Total	2,460,000	2,460,000	2,460,000	2,460,000	2,460,000	2,460,000	2,460,000	2,460,000	2,460,000	2,460,000

Departmental Budget/Funding Requests

- Prepare detailed budget instructions; or
- Departmental budget manual
- Data collection tools: budgetary system, Excel spreadsheets, other

This is a screenshot of a document titled "Departmental Budget/Funding Requests". It contains a table with columns for "Item", "Item Number", "Item Name", and "Item Description". The table lists various items such as "Travel Expenses", "Printing Expenses", "Telephone Expenses", "Postage Expenses", "Miscellaneous Expenses", "Office Supplies", "Equipment", and "Maintenance". To the right of the table is a logo for the "Illinois Department of Transportation". Below the table is a bar chart showing the distribution of funding requests across different categories. The chart has a vertical axis labeled "Funding Request Amount" and a horizontal axis labeled "Item Number". The bars represent the funding request amounts for each item listed in the table.

Capital Planning

- Identification of major, large dollar projects, including: funding sources; timing of projects and
- Ideally, every year should be updating a rolling 5-year capital improvement plan (CIP)
- Funded versus non-funded projects. It's important to report on both, in order to inform the governing body of potential risks.

What to Include

- Underlying assumptions in preparing the budget
- Discuss the highlights in the budget
 - Key challenges
 - Key Issues or Concerns
 - Budget Initiatives

What to Include (continued)

- Fiscal condition of the organization
- Economic outlook with some local facts
- Summary of personnel changes
- Key capital projects
 - Projects included in proposed budget
 - Projects not included due to funding constraints

What to Include (continued)

- Things to keep in mind
 - Make it interesting
 - Keep things in general or the aggregate
 - Involve as many people in the organization as possible
 - If you have one speaker have all Department Head present for answering questions
 - Might want to have a dress rehearsal of the presentation so there are no surprises

Budget Hearings

- What is the purpose?
- Who should attend the hearings?
- What are the roles of each party?

Budget Hearings (continued)

- What is the purpose?
 - Opportunity for each unit of the organization to present their plans for the next year or more
 - Describe new initiatives
 - Justify extraordinary changes in spending requests
 - Explain new funding options
 - Address questions and concerns of others in attendance at the meeting

Budget Hearings (continued)

- May or may not be open to the public
- If internal, there is usually no record of the proceeding.
- Even with the smallest organization take more than one day to complete the process
- Format of the Hearings can be
 - Formal - Power Point with handouts
 - Informal – from the information compiled by the Fiscal Officer

Budget Hearings (continued)

- The Budget Hearings phase of the budget process ends with the Proposed Budget
- The Proposed Budget is presented to governing body (Council, Board, Commission, Trustees, etc.)
 - Formally: at a special meeting or meetings
 - Informally: at a regular meeting

Budget Hearings (continued)

- At the conclusion of each hearing, a list of recommendations within the budget proposal should be outlined for all parties
 - Decision can be made at the current hearing
 - Deferred to a second meeting to disclose the approved recommendations
 - There may be one to several meetings reserved to discuss the Departmental requests approval, denial or postponement

What Not to Include

- Do not include a problem without a solution
- Stick to the key issues for the entire organization
- Limit the acronyms and accounting jargon
- Keep away from the line-item details
- Have a balanced presentation
 - some good things
 - some bad things

Formal vs. Informal

- Informal presentation
 - Usually does not use Power Point
 - Same information is included in a handout that addresses the key points the Finance Director and City Manager or Mayor believe should be disclosed to City Council
 - Very organization-specific
 - Still needs to be done at an Open (Public) Meeting

Legislation Preparation

- Can be an ordinance or resolution
- Must comply with
 - Ohio Revised Code § 5705.38(C):
 - Appropriation measures shall be classified so as to set forth separately the amounts appropriated for each office, department, and division, and, within each, the amount appropriated for personal services...*
 - Budget Policy’s legal level of budgetary control-only if it is more restrictive than ORC.

Legislation Preparation (continued)

- Transfers and Advances must be authorized by Council/Board and appropriated within the budget.
 - ORC § 5705.40:
 - ...Transfers may be made by resolution or ordinance from one appropriation item to another, ...*
 - Be sure that the transfers and advances are balanced (i.e., transfer/advance revenue equals transfer/advance expense).

The Budget Document

- A typical budget document includes:
 - A message from the Superintendent, Board, City Manager, Mayor or Finance Director summarizing the major policy issues
 - An organizational chart
 - Background information that sets the framework for how the budget was developed
 - A section summarizing the key issues considered in the current recommended budget

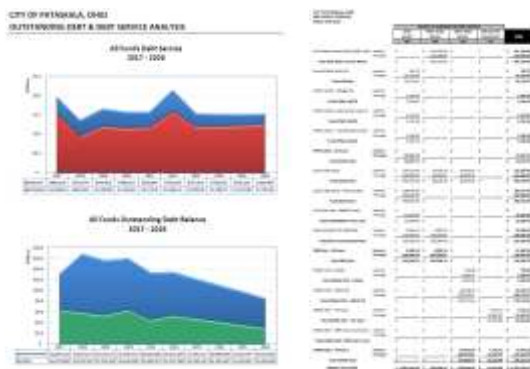
The Budget Document (continued)

- A series of tables, charts and graphs that summarize revenues by source, expenditures by fund and department, FTE positions by fund, and department, and proposed changes in FTE positions
- More detailed information by department on spending requests; departmental goals, objectives, and performance measures; and FTE positions by rank
- A separate section containing detailed information on the proposed spending plan for the year



The Budget Document (continued)

- A separate section on debt service obligations for the budget year
- Additional sections on enterprise activities and other fee-for service ventures
- Detailed spending proposal for internal service activities
- A separate section on expenditures for agency/trust funds



What to include in a Budget Document?

- Transmittal letter
- Overview of the Budget
- Details by Departmental Unit by Fund

Transmittal Letter

- Summary budget details
- Highlights of the budget
- Objectives and goals of the budget
- Initiatives in this budget that were not in the previous year's budget
- Assumptions for both revenue and expenditure
- Economic outlook

Overview of the Budget

- Discussion by the preparer of the budget on details on the current budget over previous budgets.
- Discussion on changes in fund balance
- Discussion on revenue projections as a whole
- Discussion on appropriations as a whole
- Discussion of personnel changes

Details by Departmental Unit

- Description of each unit within the organization
- Overview of what is in the unit budget
- Overview of unit changes in personnel

- Revenue/Expenditure:** In financial statements, revenue is the total amount of money received from the sale of goods and services. Expenditure is the total amount of money spent on the purchase of goods and services.
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Category	Revenue	Expenditure	Balance
General Fund	1,000,000	1,200,000	(200,000)
Special Revenue	500,000	400,000	100,000
Capital Budget	200,000	200,000	0
Total	1,700,000	1,800,000	(100,000)

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'After the Budget'

- Budget Modifications**
 - Any increase or decrease in expense budget (i.e., appropriations) requires approval and adoption by governing body.
 - Any significant increase or decrease in projected revenues should be incorporated into financial plan (i.e., budget) as soon as reasonably possible.
 - Revised financial projections must be sent to your county budget commission.
 - Revised Certificate of Estimated Resources & Appropriations

Certificate of County Auditor
 Issued Along With An Amended Certificate of Estimated Resources
 Which Also Establishes or Amends the Total Appropriations
 (ISC, 2018, 303.02)

County Auditor's Office,
 Licking County, Ohio
 March 9, 2019

James Nicholson, Finance Director
 City of Marietta

I, Michael L. Smith, County Auditor of Licking County, Ohio, do hereby certify that the total appropriations from each fund taken together with all other outstanding appropriations, do not exceed the last amended official estimate of resources for the fiscal year beginning January 1st, 2019, as determined by the Budget Commission of said County.

Michael L. Smith
 Michael L. Smith, County Auditor,
 Licking County, Ohio

The image shows a screenshot of a budget spreadsheet. It contains several columns with headers such as 'FUND', 'PROGRAM', 'ACTIVITY', 'OBJECT CLASS', 'POSITION', 'ORGANIZATION', 'FISCAL YEAR', 'BUDGET YEAR', 'APPROPRIATION', 'COMMITMENT', 'ENCUMBRANCE', and 'BALANCE'. The rows contain numerical data representing budget amounts. At the bottom right of the spreadsheet, there is a signature block: 'Michael L. Smith, William C. Keyes, Director, Performance'.

'After the Budget'

• *Audit Considerations*

- Tax budget compliance has been eliminated from the OCS, but auditors are to report if they become aware of non-compliance through other testing procedures.
- Annual audit (or biennial, if appropriate) verifies compliance with budget at the legally adopted level.
- BFS include analysis of major fund compliance with budget (original & final)

What is a Distinguished Budget?

- Recognition by GFOA for outstanding budget document, which includes expanded information for the readers of the document.
- The program is specifically designed to encourage state and local governments to prepare and issue budget documents of the highest quality.
- The program actively strives to assist participating governments to achieve the goal of improving their budget document.

GFOA Distinguished Budget Presentation Award

- The GFOA established the Distinguished Budget Presentation Awards Program (Budget Awards Program) in 1984 to encourage and assist state and local governments to prepare budget documents of the very highest quality.





GFOA Distinguished Budget Presentation Award

- Visit GFOA website at <http://www.gfoa.org/budgetaward>
- Website provides all the details on how to submit and earn the award
 - Eligibility requirements
 - Application Form
 - Judging process
 - Criteria
 - Criteria explanation







Contact Information

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