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Module 1 Budgeting

PAD 501

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Overview

- Required reading:
  - Chapter 2 (pp. 30-59)
  - Chapter 3 (pp. 90-108)
- Key concepts:
  - Types of budget: operating budget, cash budget, capital budget
  - Budgeting process: preparation, adoption, implementation, evaluation
  - Budget formats: line-item, performance budget, zero-based budget, special purpose budget, flexible budget
  - Accounting basis: cash accounting, accrual accounting
- Techniques:
  - Recognize cash and accrual inflows and outflows
  - Prepare a flexible budget
  - Calculate property tax rate

Mission, strategy, long-range plan, and budget

- Mission: An organization's set of primary goals that justify its existence.
- Strategic plan: the approaches that the organization will take to achieve this mission.
- Long-range plan: the major activities to carry out in the next 3 to 5 years.
- Budget: a plan that indicates management's objectives and shows how it expects to obtain, pay for, and use resources to achieve those objectives.
  - A budget shows revenues (inflows) and expenses (outflows)
  - A budget has to be balanced (in most cases)
  - A budget often follows a fiscal year

Common Budget Classifications

- Line-item budgets: listing specific individual types of expenses, such as wages or supplies
- Responsible centers: organizational subdivisions that a specific person is responsible for supervising, such as departments, agencies, offices.
- Program budgets: a budget that shows revenues and costs of each major program, such as (for a school district) special education, AP courses, mental health program, etc.
- Functional budgets: a budget that separate activities into their major functions, such as (for a school) instructional, central administration, transportation, etc.

Line-Item Operating Budget

Revenue	
Net patient revenue	$ 97,980,000
Gift shop revenue	120,000
Investment revenue on endowment	50,000
Total revenue	$ 98,150,000
Expenses	
Salaries	$ 81,100,000
Supplies	15,400,000
Interest	400,000
Rent	3,100,000
Total expenses	$ 100,000,000
Profit/(loss)	$ (1,850,000)

Responsibility Center Expense Budget

Responsibility Center Budget	Coming Fiscal Year
Radiology	$ 13,000,000
Nursing	10,000,000
Pharmacy	5,000,000
Laboratory	7,000,000
Operating Room	50,000,000
Administration	15,000,000
Total	$100,000,000

Program Budgets

Program budgets include both revenue and expenses for the major activities of an organization. Helps managers focus on sources of profits and losses of programs that could be expanded or discontinued.

	Oncology	Rhinoplasty	Cardiac	Total
Revenues	$40,000	$ 8,150	$50,000	$ 98,150
Expenses	37,000	17,000	46,000	100,000
Profit/(Loss)	$ 3,000	$(8,850)	$ 4,000	$(1,850)

Functional Budgets

Functional Budgets focus on the major functions performed by an organization. This format is often used to report to outsiders. Note the line-item detail.

(000's omitted)	Program Services		Support Services	
	In Hospital Care	Clinic Care	General and Administration	Total
Salaries	$62,200	$13,700	$5,200	$ 81,100
Supplies	11,300	3,100	1,000	15,400
Rent	2,500	500	100	3,100
Interest	0	0	400	400
Total	$76,000	$17,300	$6,700	$100,000

Budgeting process (1)

- Budget preparation
  - Led by the chief executive and budget office
  - Agencies submit budget requests and spending priorities
  - Top-down: leadership sets fiscal targets and priorities
  - Bottom-up: departments propose needs based on programs and services
- Budget review and adoption
  - Proposed budget is reviewed by the legislative body/council
  - Includes committee meetings, public hearings, and amendments
  - Final budget is formally approved through a vote

Budgeting process (2)

- Budget implementation
  - Approved funds are distributed to departments and programs
  - Allocation: determines how much funding each unit receives
  - Allotment: controls when and how portions of those funds may be spent
  - Agencies carry out programs according to the approved budget
- Budget evaluation and audit
  - Reviews whether funds were spent legally, efficiently, and as intended
  - Financial audits examine accuracy and compliance
  - Performance evaluation assesses whether programs achieved expected results
  - Findings help improve the next budget cycle

State budget timeline

This slide showed material from the textbook:

- Table 2-11: Simplified Example of State Budget Timeline

It is left out of this public version because of copyright.

See Chapter 2 of Finkler, Calabrese and Smith, *Financial Management for Public, Health, and Not-for-Profit Organizations*, 8th edition (Sage, 2025).

Types of budget

- Operating budget
  - Plan for the organization's revenues and expenses for annual/biennial operation.
- Cash budget
  - Plan for an organization's cash inflows and outflows.
- Capital budget
  - Plan for the acquisition of high-value, long-term (> 1 year) assets.
- Special purpose budget:
  - A plan for a specific project, program or activity. In contrast to a master budget, which incorporates all activities and budget elements in a fiscal year.

Special budget formats

- Performance budget
  - Link expenditures with output and outcome measurements
- Flexible budget
  - Budget for different volume assumptions.
- Zero-based budget
  - Total reevaluation of all programs and activities from year to year

Cash vs. Accrual

- Cash Accounting recognizes revenue when payments are received in cash and expenses when a resource is paid for in cash.

- Accrual Accounting recognizes revenue when the goods or services have been delivered and the organization has earned the right to be paid. Expenses are recognized when a resource has been used in the operation of the organization.

Cash Versus Accrual Example

Assume that an organization charges $5,000 for its services, but only collects $3,250 this year. The remainder will be collected next year. The organization's only cost is the salary of its manager who earned $4,500, but was only paid $3,750. The balance will be paid next year. What is the impact on how the organization appears if it uses cash and if it uses accrual? Which would give a better picture of the organization's results from its activities over the full 2 years?

	Cash	Accrual
Revenue	**$3,250**	**$5,000**
Expense	**3,750**	**4,500**
Surplus/(deficit)	**$ (500)**	**$ 500**

Flexible Budget Example

Charity Church sponsors a 3-day youth camp in Bear Mountain Park. Charity provides a $500 grant for the event and collects $130 from each camper. The camp director expects 40 campers to attend and anticipates the following expenses:

Campground fees	$350 for 3 days
Bus transportation	$1,225 (60 rider capacity)
Equipment rental	$40 per camper
Meals	$65 per camper

Provide a flexible budget assuming a 10% increase in the number of campers.

	Budget	10% Increase
Revenue	40 campers	44 campers
Camp tuition	$5,200	$5,720
Church subsidy	500	500
Total revenue	$5,700	$6,220
Less expenses		
Campground rental	$ 350	$ 350
Bus transportation	1,225	1,225
Equipment rental	1,600	1,760
Meals	2,600	2,860
Total expenses	$ 5,775	$ 6,195
Surplus/loss	$ (75)	$ 25

Revenue forecasting

- Tax revenue = tax base * tax rate
- Property tax
  - Mill rate * (assessed value – exemption)
  - Mill rate: per $1,000 assessed value
- You bought you house in 2020 at $530,000, and the assessed value is raised to $750,000 in 2025. If your exemption is 30,000, and the mill rate is $15, your property tax is
  - (750,000 – 30,000) / 1000 *15 = 10,800