

The background of the slide is a golden-yellow color with a dense, repeating pattern of various currency symbols (dollar, euro, yen, pound) in a 3D, embossed style. The symbols are arranged in a way that they appear to be floating or overlapping, creating a textured, metallic effect.

# Terms Related to Budgeting

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# TYPES OF BUDGETS

Generally there are two types of budgets:

- **OPERATING (MAINTENANCE)** – a plan, including unrestricted and restricted revenues and expenditures, that detail how monies will be spent for current operations.
- **CAPITAL** – a plan that details how monies are to be spent for a fixed asset or addition to a fixed asset such as land, major renovations or repairs (usually one time commitments). May also be called capital outlay budget. The capital budget can cover more than a one year period of time.

# BUDGETING SYSTEMS

Budgeting systems are the ways in which budgets can be put together. The following are the most common, and are often used in combination with one another:

- **INCREMENTAL** – the most common process. It involves building on the budget base (a previous year's amount) by applying a certain percentage. The percentage is usually determined by inflation, collective bargaining, and/or other factors.
- **PPBS** – Programming, Planning, Budgeting System. A process that attempts to combine planning and budgeting and examines all costs needed for programs and alternatives. Identifies basic program objectives and examines future years' implications.

# BUDGETING SYSTEMS (Cont.)

- **ZBB** – Zero Based Budgeting. A process that examines funds requested from the first dollar, not a known budget base. Decision packages/priorities are developed and ranked, and resources are allocated by ranking.
- **FORMULA** – financial need is determined by some established criteria, such as FTE, credit hours generated, head count enrollment, square feet, etc. Usually applied on a statewide basis; often used for comparison.



# TERMS RELATED TO BUDGETING

**BUDGET** – a plan defined in dollars that describes how monies are to be spent over a specific period of time (usually a fiscal year).

**FISCAL YEAR** – any predefined twelve month period of time. May also be called the accounting period.

**BUDGET CYCLE** – the stages that make up the development, review, approval and allocation of the budget.

**BUDGET TIMETABLE** – the periods of time (specific dates) allocated to the budget cycle.

# TERMS RELATED TO BUDGETING (Cont.)

**BUDGET REVISION** – a process by which a change in the established budget is made. Most revisions request a transfer or conversion of funds from one budget category to another. A budget revision could also result in an increase or decrease in total monies available.

**BUDGET LINE ITEM**– a specific category of funds in the budget that has been established to provide funds for an activity being performed, i.e., personnel, telephone, printing, etc.

**ENCUMBRANCE**- the commitment through an accounting “hold” for future obligations. The most common are for purchases of supply items, salary & operating costs such as telephone. The encumbrance is made against a specific budget account and category.



# TERMS RELATED TO BUDGETING (Cont.)

**UNENCUMBERED BALANCE** – the amount of money available in the budget. No purchase orders, contracts or salaries have been charged against the amount as of a specific date.

**BUDGET REQUEST**– monies asked for to support a future fiscal year's ongoing or new activities.

**BUDGET ALLOCATION** – monies approved and provided to specific ongoing or new activities.

**REVENUE ESTIMATES** – projections of how much money will be available from all sources to support a fiscal year's operations. Critical part of the budget development and allocation processes.



# TERMS RELATED TO BUDGETING (Cont.)

**EXPENDITURE PLAN** – (sometimes called a spending plan) projects how much is going to be spent by a particular time, can be done monthly, quarterly, or semi-annually.

**CONTINGENCY FUND** – budget revenues reserved for unforeseen expenditures or foreseen expenditures of uncertain amounts.

**BUDGET CONTROL** – a process by which budgets are monitored or forecasted against an expenditures/spending plan. Serves to guarantee revenues are coming in and expenditures are going out as projected. Accounting reports are critical to this process.



# TERMS RELATED TO BUDGETING (Cont.)

**ACCOUNTING** – a set of procedures that records how monies are spent. Summarizes expenditures by type (fund accounting). Usually done on a monthly basis. Two monthly procedures:

- **Accrual** – basis of accounting that records revenues when earned and expenditures when incurred.
- **Cash** – basis of accounting that records cash when received and expenditures when paid.

**ACCOUNTS PAYABLE** – amounts owed by person or organization for items or services purchased, but not yet paid.

**ACCOUNTS RECEIVABLE** – amounts due a person or institution for items or services provided, but for which payment has not yet been received.



# TERMS RELATED TO ACCOUNTING

**TYPES OF FUNDS (MONIES)** – generally two types:

- **UNRESTRICTED** – monies received as general income, usually from tuition and/or ongoing state appropriations or given for general use.
- **RESTRICTED** – monies received for specific activities, usually provided by federal or state governments through grants or contracts, or from donors or alumni as gifts or endowments for a particular reason



# TERMS RELATED TO ACCOUNTING (Cont.)

**CHART OF ACCOUNTS** – a classification of all types of institutional funds to allow for mandated expenditure controls and presentation of financial reports. Should conform with the structure of the institution.

**COST CENTER** – the smallest segment of an institution/program that is designated for separate record keeping.

**BALANCE SHEET** – a statement of assets and liabilities showing fund balances committed as of a specific date.

**ENCUMBRANCES** – amounts committed for purchase orders, contracts and/or salaries, which have not been paid, but for which monies are being held.

# TERMS RELATED TO COSTING

**FULL COSTING/COST ACCOUNTING** – a process of determining all the elements of cost for a service. Factors costed are salaries and benefits, utilities, maintenance; often result in administrative overhead indirect cost charge.

**DIRECT COST** – the cost of persons and items directly charged to an activity or program. Personnel, telephone, travel, Xeroxing, and equipment are examples of direct cost.

**INDIRECT COST** – the cost of less direct, but identifiable support to a program or activity. Utilities, custodial, maintenance, and basic administrative activities are examples of indirect cost.

**PROGRAM SUBSIDIES** – allocations from other funds to support a reduced cost a particular program/activity.

# TERMS RELATED TO ENDOWMENTS

**ENDOWMENT** – a donor’s gift that specifies the principal (the amount given) is never to be expended. There are three categories and two types of funds within each category.

- **TRUE ENDOWMENT** – principal can never be expended.
- **RESTRICTED TRUE ENDOWMENT** – the interest must be spent as stipulated by the donor.
- **UNRESTRICTED TRUE ENDOWMENT** – the interest can be used for whatever reasons the Trustees or Administration deem.

**TERM ENDOWMENT** – after a specific date or event the donor stipulates that the principal may be spent.

- **RESTRICTED TERM ENDOWMENT** – the interest must be spent as stipulated by the donor.
- **UNRESTRICTED TERM ENDOWMENT** – the interest can be used for whatever reasons the Trustees or Administration deem.

# TERMS RELATED TO ENDOWMENTS (Cont.)

**QUASI ENDOWMENT** – the Trustees determine the money is to act like an endowment until they determine the principal can be expended.

- **RESTRICTED QUASI ENDOWMENT** – the interest must be spent as stipulated by the Trustees when they established the Quasi Endowment.
- **UNRESTRICTED QUASI ENDOWMENT** – the interest can be used for whatever reasons the Trustees or Administration deem.

**ENDOWMENT EARNINGS** – the interest received from the principal of all types of endowment funds.

**INVESTMENT MANAGEMENT** – the process used for investing mainly endowment funds and defines long term objectives and strategies, which involves the growth of the principal and produces interest (earnings) for institutional operating expenses.



# OTHER FINANCIAL MANAGEMENT TERMS

**AMORTIZATION OF DEBT** – the payment of the principal and interest of a debt over a specific time period and in specified amounts.

**AUDIT** – an examination of documents, records and/or procedures to determine their appropriateness and accuracy. Results in a written financial statement and/or management report. This can be done:

- **INTERNAL** – conducted by personnel within the institution who usually report to the CEO or Board of Trustees.
- **EXTERNAL** – conducted by personnel external to the institution such as one of the big eight accounting firms or state or federal auditors.



# OTHER FINANCIAL MANAGEMENT TERMS

## GENERAL TYPES:

**FINANCIAL** – examination of the accounting for all revenues and expenditures of the institution.

**OPERATIONAL MANAGEMENT** – examination of all actual and written controls and procedures of one or more of the specific functions of an institution.

**COMPLIANCE** – examination of adherence to policies, laws and regulatory procedures.





# OTHER FINANCIAL MANAGEMENT TERMS

**BOND** – a written note that guarantees the repayment of a specific amount by a specified time period called the maturity date. Interest at a set rate is periodically paid.

**BOND RATING** – an alphabetical index of a company's or government's ability to repay (AAA is the highest).

**DEBT SERVICE** – a fund used to finance money (principal and interest) owed for general debt. Usually original money borrowed was to finance construction of dormitories, campus centers, etc.

# OTHER FINANCIAL MANAGEMENT TERMS

**AUXILIARY SERVICES** – (sometimes called auxiliary enterprises) are activities of the institution that provide services directly or indirectly to students, faculty and staff. Dormitories, bookstores, food service and day care are most common examples.

**CASH MANAGEMENT** – a process of investing temporarily available funds (usually available from semester tuition and room and board fees) on a short term basis. Interest earned usually becomes discretionary and may or may not go back in whole or part to the activity generating it.

**INTERNAL REALLOCATION** – a process that reassigns funds within the budget. Necessary since very little “new money” is and has been available. Done through establishment of a reallocation pool and a ranking of institutional priorities usually based on a long range or strategic plan.

**REALLOCATION POOL** – the setting aside of a certain percentage of funds from all or specific areas within the budget to be allocated to top priority programs.