BUDGET

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BUDGET

CHAPTER PURPOSE

The purpose of this chapter of The Guide is to explain the definition and purpose of budgets describe the budget cycle, discuss budgeting concepts and practices by fund, and to identify and understand budget information on financial reports.

I. OVERVIEW

A budget is a financial plan that sets forth the resources necessary to meet a set of goals, (departmental, college, campus) for a certain period of time. The budget records, in monetary terms, goals for programs, staffing, and operations; it is a useful tool for determining a unit's financial position and performance against expectations. The revenue portion of the budget identifies the means for financing the plan, and the expense portion of the budget estimates the cost of the plan. Typically, the time period covered by the budget is a fiscal year. For the University, the fiscal year runs from July 1 through June 30. When working with capital construction projects or sponsored projects, the time period covered by the budget spans the duration of the project rather than the fiscal year.

The Finance System provides the ability to budget revenues, expenses and transfers, which are the categories found in a traditional income statement. Traditional balance sheet items are not budgeted in the Finance System. In addition to establishing and managing an overall revenue and expense financial plan, budgets can be used to manage all particular sources and uses of a unit's resources.

BUDGET RELATED TERMS AND DEFINITIONS

Account is a six-digit number used to identify specific revenue, revenue deduction, expense, and transfer item.

Base Budget is the original budget amount recorded for a Fund Org Program (FOPPS) in the General Ledger at the beginning of the fiscal year. The term *base budget* is used primarily in the General Fund (Funds 10 and 11) for the starting year's budget but also could mean the original budget at inception.

Budget is a plan of financial operation for a given period of time that includes an estimate of proposed expenditures and the proposed means of financing the expenditures.

Budget Cycle describes a process of budget planning and operations which includes the actions of developing a financial plan, comparing the financial plan to actual performance, and adjusting the plan to reflect changing financial conditions.

Budget Journal Entry (BJE) is the transaction that records a budget in the General Ledger, via the Finance System

Budget Ledgers: Two types of ledgers are found within the PeopleSoft Finance System: Actuals and Budget. Budget is divided into four additional ledgers:

- B_INI_CONT
- B_INI_TEMP
- B_CUR_CONT
- B_CUR_TEMP

Budgets are adjusted by entering transactions into one of these PeopleSoft Finance System budget ledgers.

Use of the INITIAL budget ledgers, B_INI_CONT and B_INI_TEMP, is restricted to campus Budget Office staff, who uses it to record initial budgets at the beginning of fiscal year. In the General Fund, these initial budgets include the continuing base budget roll, the cash carryforward (temporary rollforward, or TROLL), and any salary, operating or other funding changes that might occur. In other funds, the initial ledgers are used to record continuing or temporary budgets submitted by campus units for the new fiscal year.

The CURRENT budget ledgers are available to all Finance System users with the proper security authorization. The CURRENT ledgers are used throughout the fiscal year for making continuing and temporary budget adjustments.

Cash Carry Forward, also known as the temporary rollforward, is the budget balance remaining *before encumbrances* in Fund-Org-Program combinations (FOPPS) in the General Fund on June 30. In most circumstances, the balance available amount is applied directly to the budget of the same FOPPS for the upcoming fiscal year. When prior-year actual expenditures are less than the budget, the cash carry forward is positive and adds to the overall budget within the FOPPS for the new fiscal year. When prior-year actual expenditures exceed the budget, the cash carry forward is negative and decreases the overall budget for the FOPPS in the new fiscal year. The cash carry forward is, in most cases, recorded in general budget 460000 (Operating Expenses) within the B_INI_TEMP ledger.

Continuing and Temporary Budgets: Understanding the concept of continuing budget and temporary budget is essential to doing budget work, particularly in the General Fund.

- **Continuing budget** is a recurring resource allocation or budget adjustment that remains recorded in a given FOPPS from one year to the next. On an annual basis, budgets recorded in the B_INI_CONT and B_CUR_CONT ledgers will roll forward from one fiscal year to the next

and be reestablished at the same amount as in the prior year end. Continuing budgets may be used in the majority of funds and is *not* restricted to the General Fund and restricted research project funds.

- **Temporary budget** is in place only for the duration of the fiscal year in which it was recorded. Budgets entered into the B_INI_TEMP and B_CUR_TEMP ledgers are reported only for the fiscal year in which they are entered. These temporary budget transactions are not included during the process of rolling budgets forward from one fiscal year to the next. Temporary budgets may be used in any fund other than Funds 30 and 31.

Budget Pool is a term used to denote a broad level of budgeting by category of revenue, expense, or transfer. Examples of budget pools are salary, benefits, and operating expense. This is a general term used to categorize sources and uses of resources.

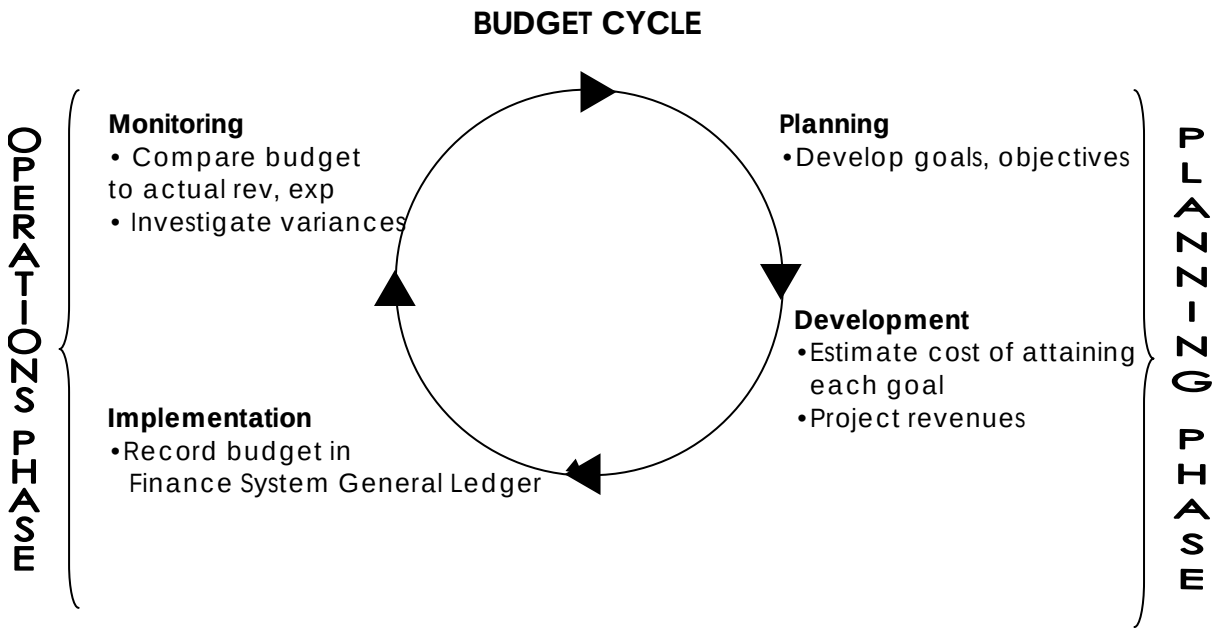
Rollforward is the process in which continuing budgets are re-established in the new fiscal year. The budget recorded in the B_INI_CONT ledger for the new fiscal year is called the base *budget*. Continuing budgets, as well as project-to-date actual activity, are automatically carried forward to the new fiscal year for projects in Funds 30, 31, and 71 through actions taken by the central Budget and Accounting Offices.

II. BUDGET CYCLE

A. Overview

The budgeting cycle is comprised of two main phases: the **planning** phase and the **operations** phase. The planning phase identifies the goals to be attained during the upcoming fiscal year(s), and the financial plan (budget) necessary to achieve them. The operations phase focuses on actual performance towards achieving the plan. It involves budget implementation and monitoring functions. The operations phase emphasizes a comparison between the budget and the actual revenue and expense activity as recorded in the Finance System and displayed on the monthly statements. When actual revenue and expense varies from the plan articulated by the budget, potential actions include adjusting the budget to reflect the actual financial activity, adjusting revenue projections and collections, or adjusting expenditures.

The following diagram illustrates cycle.



B. Working With the Budget throughout the Budget Cycle

If you have any finance role, you are likely to be involved in all elements of the budget cycle.

1. **Planning and Development**

   The budget should be based upon a combination of historical data and future financial projections. During this step of the budget cycle, units should examine their current and projected financial position, planned activities for the following year, and resources necessary to pay for those activities. Units should remember to factor in changes in compensation, fringe benefits rates, and known costs specific to the unit's operations.

   Of note, the General Fund budget will represent what spending authority you truly have, not what you would like have. General Fund funded units have budget authority rather than cash revenue.

2. **Implementation**

   Verify that the budgets recorded in the Finance System at the beginning of each fiscal year are correct. Contact your campus budget office if you find errors or if you have questions.

3. **Monitoring**

   a) **M-Fin Financial Detail:**

   For FOPPS in all funds, the Financial Detail report should be reconciled on a regular basis, such as monthly or quarterly. Source documents for transactions should be compared to the transactions on

the statement, and errors should be researched and corrected in a timely fashion.

b) **M-Fin Revenue and Expenditure Summary:**
The Revenue and Expenditure Summary should be reviewed monthly to help the organization determine its overall financial position. Units can use this report to examine year-to-date activity as compared to budget.

c) **M-Fin Balance Sheet Summary:**
For FOPPS that are managed on a cash basis, which include Auxiliary, Gift, and Plant Funds, the Balance Sheet Summary report should be reviewed monthly to determine the organizations overall cash and fund balance positions.

Your management should be informed when the "budget to actual" comparison indicates a significant deviation that is either present or upcoming, or when the balance sheet indicates an unfavorable balance, so that appropriate actions can be initiated. Planned deviations should also be communicated to all those responsible for the unit's fiscal -management in order to assist current understanding of fiscal health. Even if a budget variance is planned, confirmation that the planned variance is actually occurring is valuable information to decision makers.

III. METHODS OF BUDGETING

In general, there are two methods of budget development: *incremental budgeting* and *zero-base budgeting*. The incremental method is most often used in operations that have on-going business from one year to the next. Zero-base budgeting assumes that an activity or programming has no prior resource activity from prior periods.

A. Incremental Budgeting

Incremental budgeting assumes that there are resource activities already in place. The advantage of this method of budgeting is that one uses existing information to form the basis of the next budget plan. The disadvantage of incremental budgeting is that it is less responsive to changing conditions over time and can build upon the past rather than a (perceived or desired) future state. The majority of the University's activities are on-going, so the majority of budget planning will be done incrementally. Programming shifts, repurposing existing resources and additions to operations are all examples of activities that occur within incremental budgeting.

B. Zero-Base Budgeting

Zero-Base budgeting provides the first-ever budget for typically new programming. Examples of when this occurs is establishing a new research project award or a new campus initiative. The advantage of this method resides in the extensive review that should be undertaken when setting up the new

programming.The effort and time requirements of zero base budgeting are its principal disadvantages.

Often it is mistaken that *all* temporary budgets in the finance system represent zero-based budgeting, when the majority of temporary budgets are based on incremental budgeting relating to ongoing business.

IV. BUDGETING PRACTICES BY FUND

A. Ledger

The following describes the use of continuing and temporary budget ledgers by fund. As mentioned above, the initial budget ledgers are used to record budgets at the beginning of the fiscal year, and the current budget ledgers are used to make changes throughout the year.

B. General Fund (Funds 10, 11)

General Fund FOPPS use both continuing and temporary budgets. Continuing budgets and budget transactions are those that will be carried forward to the next fiscal year. Temporary budgets are budget transactions that will not be carried forward to the next fiscal year. In the General Fund, the expense budget equals spending authority; in other words, that is the amount available to spend. In general, General Fund revenue is budgeted and collected centrally at the campus level, so units typically do not have a revenue-side of budget management for the General Fund.

C. Auxiliary/Self-funded Fund (Funds 20, 26, 28, 29)

The auxiliary FOPPS may utilize either the continuing or temporary ledger, and in some cases have no budget. The recommended practice is to utilize budgeting as a tool for all auxiliary financial activity. In these funds, the budget represents planned activity for the year. Cash and the ability to generate revenue are the determining factors of how much resources an auxiliary unit has to spend.

D. Grant and Contract Fund (Funds 30, 31)

FOPPS in this fund are budgeted solely by Sponsored Project Accounting. Sponsored project budgets are established for the duration of the project, which often span more than one fiscal year. Therefore, continuing budget ledgers are used in 30 and 31. The budget in these funds will equal the grant amount.

E. Gift Fund (Fund 34)

Budgeting FOPPS in this fund is optional. If budgets are recorded in a Fund 34 FOPPS, the temporary ledger is used. The budget in the gift fund represents planned activity for the year.

F. Plant Fund (Funds 71, 72, 73, 78)

Construction activities occur in Fund 71 and use the continuing budget ledgers. Funds 72, 73, and 78 utilize the temporary budget ledgers.

V. DEVELOPING AND RECORDING THE BUDGET

A. Boulder Campus Budget

1. **The Budget Office**

   The campus Budget Office (PBA) records initial fiscal year budgets for all funds except for Funds 30/31 and Fund 71. The budgets for Funds 30/31 and Fund 71 can span multiple years because they are project based, not fiscal year based.

2. **Budget Transactions**

   Budget transactions are initiated and entered into the Finance System by the units throughout the year and approved by the Budget Office. Budgets for FOPPS in Funds 30 and 31 are exclusively adjusted by SPA in order to maintain integrity with the allowable research award amounts. Prior to any entry in the finance system, it is recommended to understand:

   - **Who** should and will authorize the budget transaction(s)
   - **Why** are you doing the budget transaction(s)
   - **What** is the proper amount(s) and FOPPS location(s) for the budget transaction(s)
   - **How** will the budget transaction(s) impact current and future financial performance
   - **When** should the budget transaction(s) optimally be done and whether there are subsequent entries needed

B. Budget Journal Entry Specifics

1. **Balancing BJEs**

   In Funds 10 and 11, budget journal entries must balance (debits = credits). If a budget is increased in one FOPPS-account combination, it must have an equal decrease in other FOPPS- account combinations. Non-General Fund BJEs do not have to balance if the unit is expecting to include net assets, or fund balance, in the resource planning calculation.

2. **Incorrect Uses of BJEs**

   The BJE should ***not*** be used to:

   a) Enter budgets for balance sheet accounts such as cash (100000) through fund balance (199900).

   b) Transfer cash (accounts 99xxxx) between FOPPS. All cash transfers must be done using a Cash Transfer Journal Entry in the Finance System. Do not do cash transfers from one Fund 10 FOPPS to another. Since transferring budgets between funds is not permitted, do not use a

BJE in an attempt to move financial support budgets from one fund to a different fund.

3. **Level of Budgeting in the General Ledger**

There are two levels of budgeting available in the Finance System. The first and highest level is referred to as **Budgeting at the General Budget Level.** The second level of budgeting is referred to as **Budgeting at the Account Level**.

a) Budgeting at the General Budget Level

This level allows the manager to budget for a **group** of accounts rather than to budget for each individual account. Groups of accounts are referred to as **general budgets** or **budget pools**. A complete list of the accounts in the Finance System can be accessed from the Office of University Controller website. Another option is to use the Cognos m-Fin Account Tree List report (Public Folders > Finance folder > Look Ups folder) which is selected by account type—revenue, expense, etc.

Budgeting at the General Budget Level

University of Colorado
Reporting System

Finance System
Revenue and Expense Statement Summary Report
For the Fiscal Year Through Dec 31, 2010
(50% Of Fiscal Year Completed)
Filter by: Org Break by: SpeedType

Page: 13 of 14
Run Date: Dec 3, 2010
Run Time: 12:58:23 PM

SPEEDTYPE:	11042349 -- ABS OFFICE COPY MACHINE (A)									
FUND:	10 -- UNRESTRICTED GEN OPER	PRINCIPAL:					MANAGER:			
ORG:	10519 -- ACCOUNTING & BUSINESS SUPPORT	RAGIN, LAURA R	303/492-2109	laura.ragin@colorado.edu	579 UCB		SAYERS, DAVID L	303/492-2396	david.sayers@colorado.edu	579 UCB
PROGRAM:	27900 -- ABS OFFICE COPY MACHINE	RAGIN, LAURA R	303/492-2109	laura.ragin@colorado.edu	579 UCB		FUQUA, DEBRA W	303/492-2618	debbie.fuqua@colorado.edu	579 UCB
SUBCLASS:	NO SUBCLASS	EXPENSE PURPOSE CODE:	1600 -- INSTITUTIONAL SUPPORT							

Break By -- SpeedType: 11042349 -- ABS OFFICE COPY MACHINE

	BUDGET (A)	ACTUALS DURING MONTH (B)	ACTUALS TO DATE (C)	ACTUALS/ BUDGET (C/A)	BUDGET & ACTUALS VARIANCE (D=A-C EXC REV D=C-A)	ENCUM-BRANCES (E)	BUDGET ACTUALS & ENCUMB VARIANCE (F=D-E)	BUDGET VARIANCE % (F/A)	PRIOR YEAR ACTUALS (G)	CURRENT FY/ PRIOR FY % (C/G)
EXPENSES										
EXPENSES/OPERATING										
450000 - 699999 -- OPERATING EXPENSES										
460000 - 479999 -- OPERATING EXPENSE GEN BUDGET										
460000 -- OPERATING EXPENSE GEN BUDGET	9,357.00	-	-	-	9,357.00	-			-	-
460000 - 479999 -- OPERATING EXPENSE GEN BUDGET	**9,357.00**	**-**	**-**	**-**	**9,357.00**	**-**	**9,357.00**	**100.0%**		
480000 - 482499 -- OFFICE ADMINISTRATION										
480103 -- OFFICE EQUIPMENT RENTAL	-	-	97.73	-	(97.73)	-				
480104 -- OFFICE EQUIPMENT MAINTENANCE	-	-	487.05	-	(487.05)	-				
480116 -- PAPER	-	-	375.11	-	(375.11)	-				
480000 - 482499 -- OFFICE ADMINISTRATION	**-**	**-**	**959.89**	**-**	**(959.89)**	**-**	**(959.89)**			
487500 - 492499 -- PRINT, PUBLICATIONS & PHOTOGR SUPPLIES										
487610 -- COPY MACHINE RENTAL	-	-	195.46	-	(195.46)	-				
487500 - 492499 -- PRINT, PUBLICATIONS & PHOTOGR SUPPLIES	**-**	**-**	**195.46**	**-**	**(195.46)**	**-**	**(195.46)**	**-**	**-**	**-**
450000 - 699999 -- OPERATING EXPENSES	**9,357.00**	**-**	**1,155.35**	**12.3%**	**8,201.65**	**-**	**8,201.65**	**87.7%**	**2,777.36**	**41.6%**
EXPENSES/OPERATING	**9,357.00**	**-**	**1,155.35**	**12.3%**	**8,201.65**	**-**	**8,201.65**	**87.7%**	**2,777.36**	**41.6%**
TOTAL EXPENSES	**9,357.00**	**-**	**1,155.35**	**12.3%**	**8,201.65**	**-**	**8,201.65**	**87.7%**	**2,777.36**	**41.6%**

Since budgets are not recorded at the account level, the Budget Balance in each account is negative – $Actual to Date

Budget for Operating Expense **General Budget**, 460000.

Actual $ spent at Operating Expense **General Budget** level (Total $ spent in ALL Operating Expense Accounts **through** December.)

Budget Balance Available to spend at the Operating Expense **General Budget** Level for operating expenses for the rest of the fiscal year.

b) Detailed Budgeting at the Account Level

In general, PBA will not put budgets into individual account codes, but will use general budget (budget pool) account codes. However, units

are welcome to budget at the account level if they find it to be a useful management tool, and can move budgets among account codes via BJE as allowed per other finance policies and guidelines.

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VI. BUDGET RESOURCES

Your central accounting and budget offices are available to answer questions about your departmental budgets with additional information posted on both websites to assist with resource planning guidance and policies.

ABS Website: https://www.colorado.edu/abs

PBA (Budget Office) Website: http://www.colorado.edu/pba/