BUDGETING LINGO A–Z

These are some basic budgeting terms. You will probably need to use these terms when you are creating your own budgets.

Assets: The library's *capital assets*, or *fixed assets*, are those items it owns (i.e., its property). Examples of a library's assets are the buildings, furnishings, book collection, and bookmobile. Long-term assets may be depreciated or appreciated as their value decreases or grows. For example, the value of a book collection may appreciate with age as the average cost per volume increases. The value of a bookmobile or of library furnishings will depreciate with age as the asset gets older and becomes worth less on the market.

You will also see the term *asset* on a library's financial balance sheet. In this case, an *asset* refers to revenues, or income, not to long-term *fixed assets*, such as those listed above.

Audit: An *audit* is a review of a library's financial statements. Audits may be required by legal mandates (e.g., law, regulation, or ordinance), contractual or unofficial agreement, or institutional policy. An audit can be conducted informally by in-house staff, more formally by accountants of the governing institution, or by an independent accounting agency.

The purpose of an audit is to ensure that proper financial management standards and procedures are being followed and that proper stewardship of the resources is being practiced. The audit accountant reviews financial statements and issues an opinion. When no discrepancy is found, the opinion is "unqualified." Sometimes minor improvements are noted with an unqualified rating, but if major financial reporting practices are violated a library can receive a qualified opinion and will need to address the problems and correct the reports.

The Governmental Accounting Standards Board (GASB), in its recent publication, *Audits of State and Governmental Units*, has established detailed procedures for formal audits of public libraries. The website Government Auditing Standards 2003 (the Yellow Book), at www.gao.gov/govaud/ybk01.htm, provides details of the latest standards for auditors of grants that are partially or fully funded by government agencies. These standards pertain to auditors' professional qualifications, the quality of audit effort, and the characteristics of audit reports and ratings.

Budget: A *budget* is the best estimate of income and expenses for a set period of time, usually a fiscal year. The budget will need to be adjusted to show the actual income and expenses as they occur.

Capital: *Capital* refers to assets that accumulate over time and do not need to be spent during a single fiscal year. Examples are library buildings, book collections, and automation systems.

Cash flow: Cash flow is sometimes referred to as *liquid assets*. This is the net income that is available after expenses are paid.

Chart of accounts: The chart of accounts is a list of every item that the accounting system tracks. Accounts are divided into five basic categories:

- Assets
- Fund balances (equity/net assets)
- Liabilities
- Revenues
- Expenses

Charts of accounts specify the types of items to be included under each budget category and give each category an identifying number, which groups them with like budget categories.

A chart of accounts is needed to maintain consistency in creating and tracking the library's budget. For example, if there were no chart of accounts, an order for photocopier toner might be posted to office supplies one time and to the photocopier contract the next, or police security for a library event might get posted as an internal service charge rather than a contractual service.

A chart of accounts often uses alphanumeric descriptors to list all entries on an organization's ledger. This coded representation of elements is used to record the allocation of resources received into and going out of the library, which helps to systematize collecting and reporting financial data. The structure of the chart of accounts affects the preparation of financial statements and reports. Using a chart of accounts, classification system allows financial data stored in individual accounts to retain details of each transaction in condensed format.

Most charts of accounts implement hierarchical coding systems like the one shown in figure 1-9. In this example, a salary adjustment would be entered as 1000-1100-1199. A university accounting system, on the other hand, may look like figure 1-10.

An intercollegiate athletic department might use a hierarchical system similar to the one shown in figure 1-11.

Checks and balances: For accountability purposes, the person who orders an item should not be responsible for paying the bill. A system of *checks and balances* requires at least two people (or departments) to handle the ordering and receipt of materials and the payment using public funds. This prevents one person from having too much power and authority. This oversight system is effective in maintaining public confidence and avoiding misappropriations.

Commingled funds: If funds from multiple sources are placed into one savings or checking account, they are *commingled*. Although governments mix funds from sales taxes, property taxes, fines and fees, and other

Chart of Accounts

Description	Summary Object	Subaccount Subobject	(Line Item)
Personnel Services	1000		
Salaries and Wages		1100	
Salaries and Wages			1101
Annual Leave Taken			1102
Annual Leave at Termination			1104
Retro Pay—Straight Time			1111
Salary Adjustment			1199

Figure 1-9. Sample Chart of Accounts

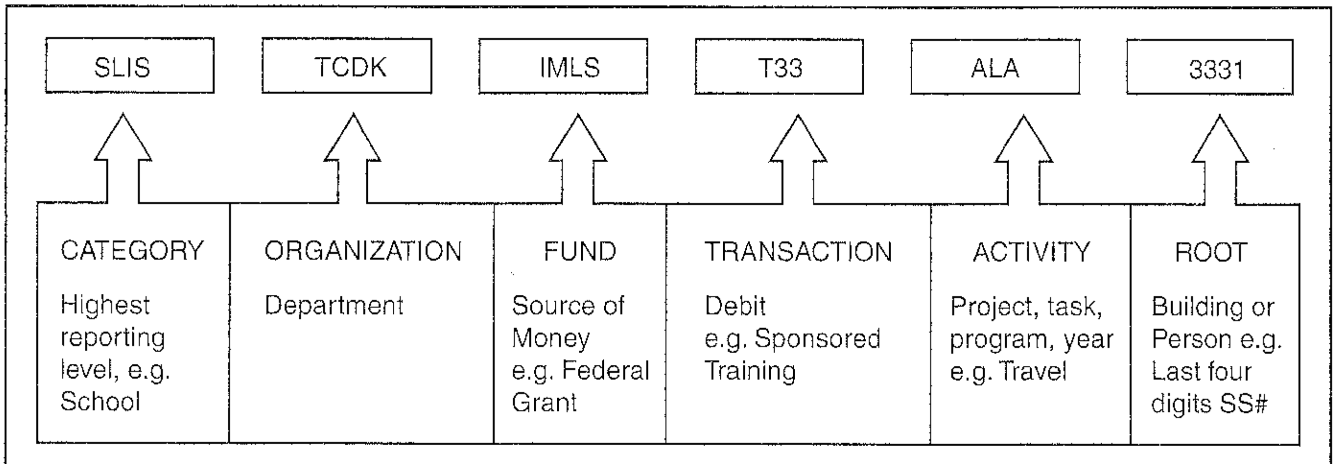

Figure 1-10. University Accounting System

sources to create a general fund account, these are all public funds. In libraries, one should not commingle or mix funds from public sources (i.e., taxes) with funds from grants, foundations, or other sources of revenue, as they each require separate accounting. Each funding source should have its own account.

Cost: The *cost* of a service includes all components of that service—the purchase price, shipping, installation cost, and maintenance. For example,

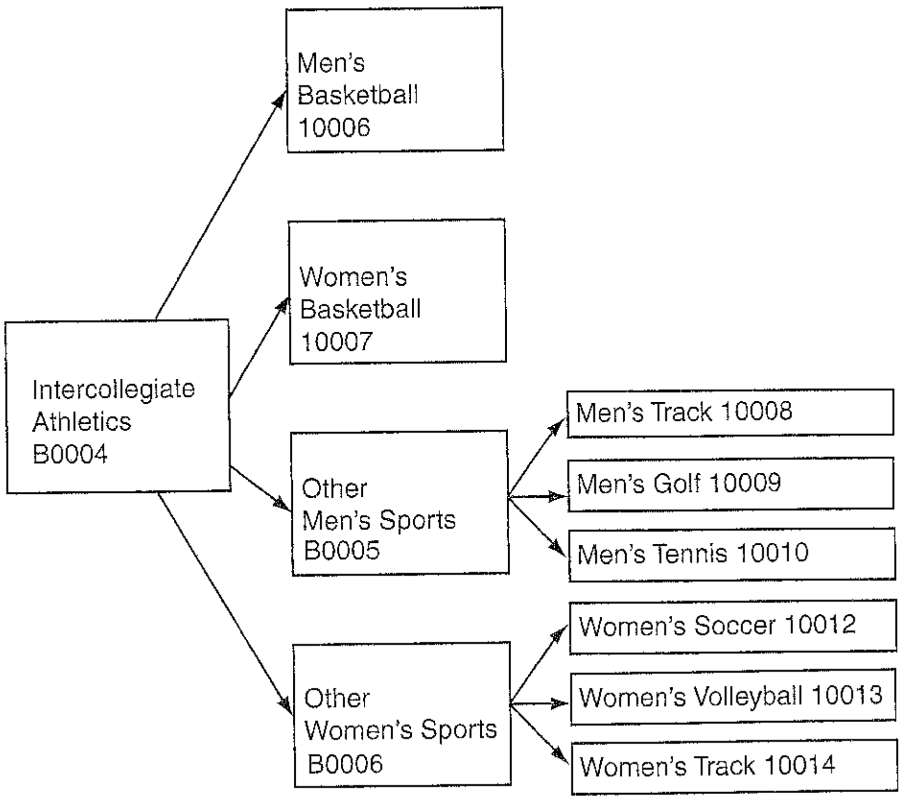

Figure 1-11. Hierarchical Chart of Accounts

the cost of an interlibrary loan includes staff time, postage, shipping bags, processing of the request, and the request forms. Thus, the entire cost of a service will probably not occur on one invoice.

Cost-benefit analysis: *Cost-benefit analysis* identifies all of the costs related to a program and the benefits derived from it. For example, the cost of providing a story time might be $10 per child, but the benefits are reading readiness, increased literacy, and socialization of children. These benefits are intangible. Cost-benefit analyses can also be tangible; for example, is it more expensive to outsource the cataloging of audiovisual materials or to have library employees catalog and process the materials in the library's technical services department? The cost of the service from each provider is divided by the number of items cataloged and processed to get the cost-benefit analysis.

Cost centers: *Cost centers* are units (usually programs) to which expenditures can be assigned in order to perform cost analysis. Examples of cost centers are a branch library, the children's department, outreach services, public programming, or a computer lab.

Deliverable: The term *deliverable* refers to the expected result or product from a consultant or vendor. For example, the building consultant is required to produce as deliverables ten bound copies of the building program and one unbound copy giving permission rights for reproduction.

Depreciation: *Depreciation* is the lowering of the value of an asset as it ages, that is, it is the amount by which the market value of purchase decreases over time. To depreciate something is also an accounting procedure (it can be entered on the books as an expense of doing business) and using the figure for tax purposes (the amount of depreciation can be a tax deduction). You can calculate this by two basic methods: *straight-line depreciation* or *accelerated depreciation*.

Note: If the value of an asset does not diminish over time, it is considered inexhaustible and is not depreciated. For example, the value of art collections, library reserve collections, and historical collections do not decrease over time; therefore, they do not depreciate.

Straight-line depreciation is the most common form of depreciation, and it assumes the asset will lose an equal amount of value each year. To calculate the annual depreciation of an asset, subtract the estimated salvage value (resale value) of the asset from the purchase price, and then divide this number by the estimated useful life of the asset.

Accelerated depreciation offers a greater tax shield by allowing faster write-offs than the straight-line method. Accelerated depreciation methods are popular for writing off equipment that may become obsolete (e.g., computers) and replaced before the end of its useful life. By averaging the cost of the asset and the cost of its repairs over its lifetime, the accelerated depreciation levels out the total cost of using the asset.

While most libraries do not need to be concerned with the taxable value of assets (and, therefore, their appreciated or depreciated value), they will need to know the current value of the assets to make decisions about insurance coverage and maintenance versus replacement of an asset.

Expenses: Expenses are monies paid. As bills come in and are paid, they are recorded as expenses. Some expenses are encumbered at the time the order is placed rather than when the materials are received. You'll learn more about encumbrances in the section on budget tracking.

Fair market value: Fair market value is the price at which the buyer and seller agree to do business.

Fee-based services: Fee-based services are those library services that (1) the library could not afford to provide without charging a fee, such as in-depth reference services provided to a business; or (2) the customer is not entitled to without payment of a fee, for example, nonresident fees for those who are not qualified through payment of taxes or tuition to make free use of a library.

Financial statements: Financial statements are disclosures and declarations of a library's financial information and status that are believed to be accurate and to impartially represent the institution's financial situation. They describe the monetary attributes of the library that are important for decision makers, trustees, library board members, partner groups, and governing bodies. In June 1999, the Governmental Accounting Standards Board (GASB) adopted Statement Number 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments. The document outlines basic financial statements and supplementary information so that financial statements are in accordance with generally accepted accounting principles (GAAP). Financial statements of public libraries should include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the library's overall financial position and results of operations,
- financial statements prepared using full accrual accounting for the library's activities, and
- fund financial statements that focus on the major funds.

For more information on this and other GASB documents, visit www.gasb.org.

Fiscal year: The fiscal year is the *budget year,* which may or may not coincide with the calendar year of January through December. Fiscal years are frequently July 1 through June 30 or October 1 through September 30.

Forecasting: Forecasting is used to make immediate projections, such as the coming budget year, as well as for predicting future trends, for example, five-year plans. It focuses on external factors that the library or governmental agency cannot control but that have a key impact on future budgets. Examples are local unemployment and tax income losses caused by anticipated plant closings, the estimated impact of the aging of baby boomers in a community, and the trends showing growth of the Hispanic population. Forecasters use statistical analysis and modeling to make their predictions.

Fund accounting: Fund accounting is the process of dividing an agency's budget into several categories. In libraries, they are usually the general fund and the capital fund, and, perhaps, the special revenue fund.

General fund: The general fund includes most income and expenses that are budgeted for a given fiscal year. Salaries, utilities, fines and fees, and sales taxes are reflected in the general budget.

General ledger: The general ledger organizes information by account. The chart of accounts (the list of items that the accounting system tracks) acts as the table of contents to the general ledger.

NISO Sets the Standard!

NISO is in the process of revising categories for basic library statistical data, including financial data. The financial section of this document describes the categories of library revenues and expenditures. These categories are used to collect statistical data on library finance throughout the United States.

Source: www.niso.org/emetrics/current/section6.html. The complete NISO Z39.7-2002 Draft Standard is available at www.niso.org/emetrics/current/complete.html. The committee is currently finalizing editorial comment to the standard.

Income: Income is the actual money coming into the library, through fines, tax receipts, donations, nonresident cards, photocopier charges, or any other source. It is counted as income after it is received.

Lease: A lease is a contract between the owner and an agency willing to pay a specific sum of money to use the owner's property for a specific length of time. Libraries may lease property, books, equipment, or even personnel.

Liabilities: Liabilities are committed expenses, including everything from salaries to contracted lease payments for the photocopier, which appear on the library's balance sheet. They may also refer to long-term debt, for example, a mortgage on the library buildings that is being paid off by revenue bond issues.

Millage: A *mill* is one-tenth of a penny, or $1 for every $1,000 in taxable value. Property tax rates are expressed in millage. Each taxing entity (city, school district, county) levies a specific millage against property taxes. If you are voting on a 1-mill tax increase and your house is worth $100,000, you are voting on whether this issue is worth an additional $100 per year in property taxes.

NISO Z39.7 Standard: NISO, the National Information Standards Organization, last revised Z39.7, the standard for statistics, including finances, in 1995. These standards are currently under review. Library standards for financial data are important because the financial data must be recorded consistently within and among libraries so financial records can be analyzed longitudinally within an institution and comparatively among multiple libraries.

Operations budget: The operations budget is the portion of the budget that is allocated for utilities, building maintenance, travel, training, equipment, office supplies, and most other expenses that are not associated with personnel or library materials. The operations budget may be only 10 percent of the total budget, but it might provide the greatest flexibility in cutting costs.

Personnel budget: The personnel budget covers salaries, fringe benefits, and other costs related to the employment of staff.

Purchase order: A purchase order is a form provided by the library or information agency to a vendor authorizing the vendor to ship the requested item.

Recovery: Recovery refers to the efforts made to successfully retrieve missing or overdue library materials, frequently by using a collection agency or the judicial system. Recovery can also refer to cost recovery, that is, charging sufficient funds to cover the cost of providing a service.

Referendum: A referendum is an election in which the taxpayers vote on whether to increase their tax rate to a level that will permit constructing a new building or perhaps extending their service area.

Restricted funds: Funds that are restricted can only be spent according to the written intentions of the donor. For example, the principal ("corpus," or original donation) of a donation to the children's department may have to stay intact, but the interest can be spent once each year for the purchase of children's books.

Retained earnings: Retained earnings are positive cash-flow funds that are moved to a designated account for a future specified use. For example, suppose that an internal service fund charges a department $100 per month for the maintenance of the library department's vehicle, but the maintenance does not cost $1,200 every year. The internal service department does not return the balance but rather puts it into a retained earnings account that is designated for the purchase of replacement vehicles.

Return on investment (ROI): ROI measures the extent to which an organization uses its capital to generate profit. For example, if a piece of property is purchased for $100,000 and sold for $120,000, a very simple return on investment is $20,000. A detailed ROI would include expenses for the maintenance and use of the property, which are offset by the rental value of using the property.

Revenues: Revenues are the library's budgeted earnings. Anticipated property taxes, fines and fees, nonresident card receipts, and donations are counted as revenues at the beginning of the budget cycle; however, they may change as actual revenues (or income) are received. It is vital to track the difference between anticipated revenues and the actual income in order to make budget adjustments as the fiscal year progresses.

Sole source: A sole source is the only vendor who is selling a specific item or service, for example, a publisher that does not sell its books through a jobber or in bookstores.

Tax base: The tax base is the amount on which a tax rate is applied. In the public library arena, the tax base is the property in the municipality, county, district, or other taxing authority that funds the library. The school-library tax base is the school district. The public college or university will have a tax base that may encompass the entire state. Your tax base can increase because of new construction, additional industry, increased property values, annexation, or anything else that makes the value of property in your taxing area go up. Tax bases can also go down when an industry leaves or property values go down.

Taxing for Survival of Services

"As the March 2 election nears, more and more read signs proclaiming 'Yes on B for Books and Hours: Keep Our Library Strong' are popping up all over town. The campaign to pass Measure B is moving into high gear, yet the measure has opposition. . . . Measure B will appear on the ballots of voters living in Morgan Hill, Gilroy, San Martin—as part of the unincorporated area of Santa Clara County—plus Campbell, Cupertino, Los Altos, Los Altos Hills, Milpitas, Monte Sereno and Saratoga. Voters will be asked to approve a tax of $42 per year per homeowner for each of seven years. Two-thirds of voters casting ballots need to approve the measure for it to become law."

Source: Morgan Hill Times.

Tax-Rate Formula

Assessed value	×	Multiplier
	−	Exemptions
	×	Tax rate
	=	Total tax bill

Source: Copyright © 1999–2003 Normal Township, www.normaltownship.org/Assessor/TaxRate.html.

Tax rate: The tax rate is the millage levied by each taxing body within the governmental unit. The accumulation of those tax rates becomes the home owner's tax bill. Here's how your tax bill is figured:

> Your home's assessed value times the multiplier applied by your taxing district (percentage of assessed value) minus exemptions (homestead, senior citizen) times the accumulated tax rates equals your tax bill.

Vendor: A vendor is a company or individual that provides a service for a cost. The vendor may be a book publisher, a window-washing service, or any other firm with which the library does business.

SUMMARY

This chapter described some basic concepts in library budgeting and introduced you to common terms, types of budgets, and some basic budgeting practices. Reviewing this chapter will help you become familiar with the various types of budgets. This chapter also touched on the importance of reliability in accounting information, the need to follow standards, and the importance of well-documented practices to establish financial management integrity. The budget can be viewed as a tool for accountability of financial management practices, a means to communicate financial management goals, as well as an established method to control monies and resources used to operate a library. Learning to wield the budget wisely is part of monitoring financial resources effectively and reporting judiciously. You will learn more about this in the next chapters.