Glossary of Budgeting Terms

Thomas A. Hall

Accrual Accounting: A method of accounting where items are brought to account and included in the financial statements as they are earned or incurred, rather than as they are received or paid.

Accumulated Depreciation: The aggregate depreciation recorded for a particular asset.

Allowable Costs: Those that the funding source will reimburse including "direct" and "indirect" costs. As the names imply, "direct" costs are those that are directly related to a specific project at the organization and "indirect costs" are those apply to <u>all</u> projects at the organization.

Appropriation: An appropriation provides legal authority for Federal agencies to incur obligations and to make payments out of the Treasury for specified purposes. Thirteen regular appropriations bills are considered every year by the Congress and supplemental appropriations are considered from time to time.

Authorization: An authorization is an act of the Congress that establishes or continues a Federal program or agency, and sets forth the guidelines to which it must adhere.

Balanced Budget: A balanced budget occurs when total receipts equal total outlays for a fiscal year.

Budgetary Deficit: Such a situation arises when the expenses exceed the revenues.

Budget Resolution: The budget resolution is the annual framework that the Congress uses to set targets for total, discretionary and mandatory spending, total revenues, and the deficit, as well as allocations within the spending targets. These "targets" guide the appropriations committees' deliberations. A budget resolution does not become law and is not binding on the Executive Branch.

Cap: A "cap'' is a legal limit on annual discretionary spending. *See Discretionary Spending.*

Continuing Resolution: A continuing resolution provides for the ongoing operation of the Government in the absence of enacted appropriations, usually at the same spending rate as the prior year.

Calendar Year: January 1 through December 31.

Capital Goods: Capital Goods are those goods that are used in the manufacturing of finished products.

Capital Expenditure: Long-term in nature they are used for acquiring fixed assets such as land, buildings, machinery and equipment.

Case Rate: A set fee based on the number of clients served in a contracted period. The unit of measure is the quantity of clients served. A monthly case rate would be one where the total annual budget is divided by the number of clients served divided by twelve months.

COBRA: Legislation enacted in 1986 requiring employers with more than 20 employees to offer continuation of health care coverage in the event that an employee is terminated or experiences a qualifying life event. The employer taking tax deduction benefits for sponsoring employee benefits is the employer to look to for COBRA obligations, as legislation is part of the ERISA tax law.

Co-employment: The employment relationship where two or more legally separated employers share potential or actual employer responsibilities with a common employee[s].

Construction: Construction, for the purpose of budgeting, means all types of work done on a particular building, including erecting, altering, or remodeling.

Cost Reimbursement Contract: A contract that provides for payment of allowable incurred costs, to the extent prescribed in the contract. These contracts establish an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor may not exceed (except at its own risk) without the approval of the funding source.

Customers: In the private sector, those who pay for and/or receive products or services. In addition, customers can consist of (a) the taxpayers; (b) the recipients of the agency's or unit's products and services; (c) the sponsors of the agency; (d) the funding and/or referral source; and, (e) the community.

Deficit: A deficit is the amount by which outlays exceed receipts in a fiscal year.

de Minimis Indirect Rate: The federal Office of Management and Budget's (OMB) grant reform guidance provides an opportunity for grant award recipients to receive a de minimis indirect cost rate of 10 percent of modified total direct costs if the entity never had a negotiated indirect cost rate. In an effort to relieve administrative burden, OMB specified that non-federal entities that have never received a negotiated indirect cost rate may elect to charge a de minimis rate to be used indefinitely.

Depreciation: The allocation of the cost of an asset over a period of time for accounting and tax purposes. A decline in the value of a property due to general wear, tear or obsolescence. Depreciation is usually computed by an historical cost basis with a straight-line method; using a schedule of service lives.

Direct Costs: Direct Costs include those expenses that are utilized directly in the provision of a service or product. It may include labor costs incurred to carry out work on a specific project; travel required to visit a vendor of products or services for a specific project; or materials purchased for use on a specific project. All of these direct costs "directly" benefit specific projects at the organization.

Discretionary Spending: Discretionary spending is what the government decides to spend through annual appropriations bills. *See Mandatory Spending.*

Employee Benefits: An indirect form of employee compensation, in addition to wages. Law mandates some employee benefits. These include social security, unemployment, and workers' compensation. Employers sponsor other employee benefits voluntarily. *See Payroll Taxes and Fringe Benefits.*

Employee Leasing: The term employee leasing for the service industry has come to mean a business service whereby a firm specializing in payroll accounting, personnel management, employee benefits, and risk administration, offers its skills and expertise to the subscribing business. The long-term, regular dedicated employees of the subscribing business are transferred to the leasing firm's payroll and benefits resources. The leased-employees return to the subscribing business via the avenue of employee leasing.

Employment Taxes: Various taxes assessed on wages paid to employees. These taxes are the responsibility of the employer. Some are paid by the employer, and some are deducted from the worker's wages. These taxes are distinguished from income taxes, which are assessed on individuals and are the worker's responsibility. *See Payroll Taxes.*

Equipment: Generally defined as an item with an acquisition cost in excess of $500 and a useful life expectancy of more than one year.

Equity or Net Assets: Residual interest in the assets of an entity after deduction of its liabilities.

ERISA: Acronym for the Employment Retirement Income Security Act. A federal law that governs pension and welfare employee benefit plans. Sets guidelines for these programs.

Expense: Total value of all of the resources consumed in producing goods and services.

Experience Rate: A percentage used by states for state unemployment tax for a particular employer, based upon a combination of wages reported, contributions paid, and benefit claims charged to the employer's account.

Fair Value: Valuation methodology: The amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction. The fair value can be affected by the conditions of the sale, market conditions and the intentions of the asset holder.

FEIN: Federal Employer Identification Number.

FICA: (Federal Insurance Contribution Act) An employment tax. The combination of Social Security tax and Medicare tax. The federal Social Security and Medicare system.

Fiscal Year: The corporation, federal or state government's accounting period. Many non-profit corporations fiscal year runs from July 1 of one calendar year to June 30 of the next. For profit corporations often run from January 1 to December 31 for tax purposes. The *Federal Fiscal Year:* begins on October 1 and ends on September 30. For example, *fiscal year 2016* begins on October 1, 2015 and ends on September 30, 2016. Most state fiscal years run from July 1 to June 30 of the following year.

FLSA: (Fair Labor Standards Act) Federal regulations governing employer treatment of employees in various areas, including federal minimum wage. Many states also have regulations governing some matters, which may exceed the federal requirements.

Fringe Benefits: Fringe benefits are the cost of employee insurance premiums for health, dental, disability and life insurance, retirement, pension liabilities, annuity plan contributions, day care, tuition/ educational benefits and all other non-salary/wage benefits received by staff as well as the administration of these benefit programs. The fringe benefit rate is the cost of fringe benefits as a percent of salaries paid.

Full-time Equivalents (FTEs): The standard unit for budgeting positions. Staff time is measured on the basis of full-time equivalents. In general, one FTE is equal to one work year or 2,080 non-overtime hours. One full-time employee counts as one FTE, and two half-time employees also count as one FTE.

FUTA: Stands for Federal Unemployment Tax Act. FUTA is the term used for the payroll tax every employer must pay under this Act. This tax cannot be withheld from the employee's pay, it is solely the responsibility of the employer. The federal portion of the combined federal/state unemployment system. Sometimes referred to as FUI, the federal UI tax is paid by the employer.

FY'18: An abbreviation for the fiscal year. This example is for the *fiscal year 2018*. The year is representative of the last day of the fiscal year. Most state fiscal years run from July 1st to June 30th and the federal fiscal year runs from October 1st to September 30th. This may differ from the agency or corporation's fiscal years.

GAAP: Generally Accepted Accounting Principles (GAAP) refers to a set of widely accepted accounting standards, set by the Financial Accounting Standards Board (FASB), and used to standardize financial accounting of public companies. Financial reports are required to be prepared in accordance with Generally Accepted Accounting Principles (GAAP) as applied to nonprofit voluntary health and welfare organizations and is audited in accordance with Generally Accepted Auditing Standards (GAAS).

General Administration: *See Indirect Costs.*

GPRA: The federal government developed standardized performance measures to assess all federal agencies and organizations providing service under contract to those agencies. The Government Performance and Results Act of 1993 (GPRA) is one of a series of laws designed to improve government project management. GPRA requires agencies to engage in project management tasks such as setting goals, measuring results, and reporting their progress.

Gross Pay: Contrast to Net Pay. The amount of salaries or wages being paid by an employer before any deductions have been take out.

Historical Cost: Terminology for the accounting cost that is carried in the books for a current cost of the item. Projected based on previous year's cost.

Human Capital: Refers to the education, knowledge, skills, and competencies of the staff of an agency.

Independent Contractor: An Independent Contractor provides services to a company, but is not an employee of that company. The company pays the Independent Contractor without withholding payroll taxes or paying the employer's share of payroll taxes. The employer completes a 1099 rather than a W-2.

Indirect Costs: Costs related to expenses incurred in conducting or supporting the agency's work or other externally-funded activities but not directly attributable to a specific project. Examples of indirect costs may include: general administration (accounting, payroll, purchasing, etc.), business insurance (e.g., fire and liability), sponsored project administration, plant operation and maintenance, telephone and other utilities, MIS expenses, quality assurance activities, administrative support, departmental administration expenses, depreciation or use allowance for buildings and equipment, and human resources administration and services. These indirect costs generally apply to & benefit "indirectly" all projects in the organization.

Inputs: The products, services and material utilized to produce the outputs delivered to customers.

Mandatory Spending: Mandatory governmental spending is provided by permanent law rather than annual appropriations. An example is Social Security. *See Discretionary Spending.*

Maximum Obligation: The maximum amount of reimbursement available for a contract period. Sometimes called a *MaxOb*.

Net Pay: Contrast to Gross Pay. The amount of salaries or wages reduced by deductions taken out. Employee's earnings after taxes and other deductions.

Open Bid: A process where a funder posts notification that they are interested in purchasing a service or product. The "funder" might be public (state, federal or local governmental), foundation or corporation.

Outputs: The quantity of units produced, services provided, and people served. The goods and services produced by agencies on behalf of the funder for the customer (organizations or individuals).

Outsourcing: Basic outsourcing is where the client company has services staffed by the employees of a staffing company either on or off the client company premises.

Overhead: *See Indirect Costs.*

PART: The Program Assessment Rating Tool is an analytical device used to evaluate program effectiveness and inform budget, management, and legislative decisions. It consists of a series of questions about program purpose and design, strategic planning, management, and results. Answers to PART questions require specific evidence to prove program effectiveness.

Pay-As-You-Go: Created by the Budget Enforcement Act, pay-as-you-go refers to requirements that new mandatory spending proposals or tax reductions must be offset by cuts in other mandatory spending.

Payroll: Wages or salaries paid by employers to employees. The records of wages or salaries, gross pay, deductions, and net payments to employees.

Payroll Taxes: Employer's share of FICA or Social Security (Old Age Survivors and Disability Insurance -OASDI and Medicare hospital-insurance funds), MUCIA, Worker's Compensation Insurance, federal FUTA (in the case of for-profit providers) and state (SUTA) unemployment taxes as well as other payroll taxes paid by the employer on the agency's staff. Taxes are levied on the gross wages of workers. For 2015, you pay 6.2% of your first $87,900 in salary to the OASDI fund. You also pay 1.45% of all income for Medicare. The combined rate for FICA taxes is 7.65%. Employers pay the same percentage, for a combined FICA rate of 15.3%. Self-employed persons pay 15.3% of their first $87,900 in FICA taxes and 2.9% in any additional income to Medicare. Employers are appointed, as agents of the government, to withhold federal, state and local income tax from employee's wages. These obligations are severely regulated and carry heavy penalties if they are not done correctly.

Price: The amount the government or the community pays for the delivery of agreed outputs.

Primary Deficit: Fiscal Deficit minus interest payments.

Productivity: Productivity indicates the output per "man-hour" of labor. For example, if six widgets were produced by two laborers in one hour, the labor productivity would be three. If a technical advance or increase in efficiency allowed only one man to produce four widgets in an hour, it would represent an increase in productivity.

Productivity Rate: Productivity Rate is calculated by the total outputs (units of service) divided by the total staff hours utilized to produce the outputs. Usually represented as a percentage.

Quality: Relates to the characteristics by which customers or stakeholders judge an organization, product or service. Assessment of quality involves use of information gathered from interested parties to identify differences between user's expectations and experiences.

Quantity: Size of an output. Count or volume measures.

Revenue: Total value of resources earned or received to cover the production of goods and services.

Revenue Deficit: It is the difference between Revenue Expenditure and Revenue Receipts.

Revenue Surplus: Opposite of Revenue Deficit, it is the excess of Revenue Receipts over Revenue Expenditure.

SDI: (State Disability Insurance) An employment tax in some states.

Sole-Source: One "source" or means of acquiring services. Commonly referred to as Sole-Source Supplier, which allows a funder to go to one agency for their service/staffing needs usually bypassing an open bid process.

SUI: Stands for State Unemployment Insurance. Each state imposes a payroll tax on the employer for unemployment benefits. The tax ranges from 1% to over 5% of each dollar of payroll. In most states the employer is entirely responsible for paying the tax, it cannot be deducted from the employee's pay.

Supplies: Generally defined is an item with an acquisition cost of $500 or less and a useful life expectancy of less than one year.

Surplus: A surplus is the amount by which receipts exceed outlays in a fiscal year.

SUTA: (Also known as SUI). By extension from the federal terminology (FUTA) sometimes used to refer to the state portion of the combined federal/state unemployment system.

Unemployment Insurance: Government sponsored protection to assist workers who have been laid off or even quit their jobs through no fault of their own. The unemployment income lasts only a few months. This insurance represents a significant contribution on the part of an employer as a percentage of employees' gross wages.

UI: (Unemployment Insurance) An employment tax. The combined federal/state unemployment system that helps some workers by providing them with unemployment compensation when they lose a job. Funded through a combination of federal and state unemployment taxes (see FUTA, SUI, SUTA.)

Unit Rate: The cost per unit of a commodity or service (e.g. *postal rates*).

W-2 vs. 1099MISC: At the end of each year, workers either receive a **Form W-2** or a **Form 1099MISC.** An employee receives a W-2 and has all required payroll taxes withheld throughout the year. An Independent Contractor receives a 1099 and has no payroll taxes withheld.

Withholding Tax: A tax deducted from a worker's wages. Usually used to refer only to the household worker's federal, state, and local income taxes that are deducted from wages, but sometimes used to refer to all taxes deducted from wages.

Workers' Compensation: Businesses are required by law to obtain workers' compensation insurance for their employees. The purpose of this insurance is to provide medical and other benefit coverage for employees who suffer a job-related injury or illness. Generally speaking, the staffing firm must maintain workers' compensation for their employees, or coordinate coverage through the subscriber. Once known as *Workman's Compensation*.