

HOW TO READ A GOVERNMENT BUDGET



WHY YOU NEED TO UNDERSTAND YOUR GOVERNMENT BUDGET

HOW THIS CHAPTER WILL BE USEFUL

A local government's budget is the most effective tool available to communicate its fiscal and management policies. The budget document is the governmental entity's detailed financial plan of estimated revenues and expenditures for a specific period of time, normally for 12 months.

In order to understand a budget, the reader needs to know what type of data is contained in the budget document, as well as why it is in the document. Budget documents vary in size, format, and thickness depending on the preference of the governing body or elected officials. However, a local government budget is usually a very thick document that contains reams of valuable information about the government's operations. Nonetheless, if one does not understand how to use the data, the document is of little value to the reader or to those who compiled the document.

In an effort to enable the reader to more easily understand the budget document and its composition, we will describe the types of governmental budgets and funds used in public sector accounting, as well as the basic elements of a budget document. Before beginning, however, the reader should become familiar with budget terms and concepts. Some of the most relevant definitions for this chapter are found in Exhibit 1-1.

OBJECTIVES

The main objectives of this chapter are to enable you to:

1. Identify the three types of budgets utilized by local governments in preparing their annual budget.

Exhibit 1-1 Budget Document Terms and Concepts

- o **Assessed valuation** is the value placed on property for the purpose of distributing the tax burden.
- o **Budget** is a financial plan, including estimated revenues and expenditures, for a specific period of time. The adopted budget is approved by the legislature prior to the start of the fiscal year; a revised budget may be approved during the fiscal year if necessary.
- o **Budget document** is the instrument used to present a governmental jurisdictions' comprehensive financial plan.
- o **Expenditure** is the disbursement of money to cover the expenses of a governmental agency's operations.
- o **Fiscal year** is the 12-month period in which a governmental agency operates. For example, the fiscal year (FY) from October 1, 1988 through September 30, 1989 would be considered either FY 88-89 or simply, FY 89.
 - o **Budget year:** fiscal year for which the budget is being considered; fiscal year following the current year
 - o **Current year:** fiscal year in progress.
 - o **Prior year:** fiscal year preceding the current year.

In most budget documents, prior year figures are actual spending or revenues, current year numbers are estimates based on the year-to-date, and budget year data reflect plans for the future.

- o **Fund** is an accounting device established to control the receipt and disbursement of income.
- o **Millage rate** is the tax rate expressed in mills per dollar; i.e., 1 mill equals \$1 per \$1000 of assessed valuation.
- o **Object codes** are specific numerical classifications for which money is allocated for disbursements (expenditures).
- o **Revenue** is the money received by a governmental agency to operate. Also referred to as collections or receipts.
- o **Revenue sources** are specific areas from which revenue is derived, i.e. ad valorem taxes, utility use fees, beach tolls, etc.

2. Identify the three categories of funds used by governmental jurisdictions in accounting for revenues and expenditures.
3. Describe the four basic elements of a budget document.



READING AND UNDERSTANDING THE BUDGET

Three Types of Budgets

In preparing budgets, local governments normally utilize one of the following types: line-item, program, or performance. A budget may be a combination of more than one budget type. Normally,

Exhibit 1-2 Three Types of Budgets

Budget Type	Characteristics	Question	Orientation / Criterion
Line item	Expenditures and revenues related to commodities	What is to be bought?	Control / Economy
Program	Expenditures and revenues related to public goals	What is to be achieved?	Planning / Effectiveness
Performance	Expenditures and revenues related to workloads	What is to be done?	Management / Efficiency

government budgets are planned and approved on a detailed line-item basis. However, monies may be controlled and managed on a broader, less detailed level. Each type, however, differs in the way in which monies are allocated for expenditures and in the orientation of the budget: control, management, or planning (see Exhibit 1-2).¹

A **line-item budget** is one in which monies are allocated to specific items or objects of cost. Cost categories include personal services, operating expenses, and capital outlay. These cost categories are often further detailed in terms of object codes. For example, personal services can be broken down into salaries, retirement, and health insurance costs, while operating expenses would include such items as office supplies, printing, and utility costs. The cost category capital outlay includes office equipment, furniture, and vehicles.

The main orientation of a line-item budget is that of expenditure control and accountability. This type of budget is easy to prepare and shows how much money is appropriated to a specific cost category. However, it does not provide any information regarding the activities or functions of a program, department, or organization. An example of a line-item budget follows:

**Line Item Budget
FY 1988 - 89 Expenditures**

ITEM	
Personal Services	
Salaries	\$50,000
Retirement	5,000
Insurance	2,500
	\$57,500

FY 1988 - 89 Expenditures (con't.)

ITEM	
Operating Expenses	
Office supplies	\$ 1,000
Printing	500
	<u> \$ 1,500</u>
Capital Outlay	
Desk, chairs	\$ 650
TOTAL	\$59,650

A **program budget** allocates money to major program areas or activities rather than to specific line items. Program areas often utilized by governmental entities might include public safety, public works, human services, leisure services, and general government. Program areas are related to an organization's goals and often cross organizational lines. For example, public safety is considered a single public concern, however, it includes two distinct and separate program activities—fire and police protection. The main orientation of this budget type is that of planning a budget in a manner that allows for improved decision making regarding the organization's goals. A program budget follows the form detailed here:

**Program Budget
FY 1988 - 89 Expenditures**

Public Safety	
Fire Protection	\$1,000,000
Police Protection	1,800,000
	<u> \$2,800,000</u>
Leisure Services	
Parks and Recreation	\$ 500,000
Library Services	750,000
	<u> \$1,250,000</u>
TOTAL	\$4,050,000

A **performance budget** allocates money to various programs within an organization but also details the service level on which the budget is predicated. Service level is identified by the use of performance measures/statistics. The main budget orientation of the performance budget is that of improving internal management of the program, as well as seeking to control the costs of the program. A performance budget is illustrated as follows:

Performance Budget
FY 1988 - 1989 Expenditures

ROAD MAINTENANCE
PERFORMANCE MEASURES/STATISTICS

Paving Roads

Number of miles to pave: 10 miles
Cost per mile to pave: \$300,000 per mile
Total Annual Cost: \$3,000,000

Resurfacing Roads

Number of miles to resurface: 5 miles
Cost per mile to resurface: \$150,000
Total Annual Cost: \$ 750,000

TOTAL \$3,750,000

Three Types of Funds

Local governments are required to account for the receipt and expenditure of all monies received on behalf of the jurisdiction. Such financial records are generally divided into several funds.² As defined by the Generally Accepted Accounting Principles (GAAP), a fund is a set of interrelated accounts which record assets (revenues) and liabilities (expenditures/obligations) related to a specific purpose. There are three basic types of funds utilized by governmental agencies: governmental, proprietary, and fiduciary.

Governmental Funds are the first category, usually including the bulk of the budget. These funds account for all records of operations not normally found in business:

- **The General Fund** is comprised of such general revenue sources as taxes, fines, licenses, and fees. One General Fund exists per government and is usually the largest fund utilized.
- **Special Revenue Funds** contain resources that are legally restricted for specific purposes.

Examples: Transportation Trust Fund
Library Fund
State and Federal Grant Funds

- **Debt Service Funds** account for the monies used to repay long-term, generally obligated debt.

Examples: Library Debt Service
General Obligation Bonds

- **Capital Project Funds** contain money restricted for construction and acquisition of major capital facilities.

Examples: Courthouse Complex Renovation
Library Construction

- **Special Assessment Funds** contain monies received from special charges levied on property owners who benefit from a particular capital improvement or service.

Examples: Street Lighting Districts
Road Improvement Assessment Projects

Exhibit 1-3 Length May Vary



Proprietary Funds are the second major fund type. These funds account for records of operations similar to those found in a business, such as:

- **Enterprise Funds** contain financial records of self-supporting operations.

Examples: Water and Sewer Fund
Solid Waste Fund
Regional Airport Fund

- **Internal Service Funds** account for the financing of goods or services provided by one department or agency to other departments or governmental agencies on a cost-reimbursement basis.

Examples: Data Processing
Building Maintenance
Reproduction Services

Exhibit 1-4 A Sample Budget Message

Ocean County

July 20, 1989

Board of County Commissioners
Ocean County

Dear Commissioners:

The FY88 County budget of \$521 million anticipates a very ambitious work plan by all branches of the government. I'm sure you will agree that we have focused our attention and County resources on the areas of greatest concern to our citizens. As a result, during the next fiscal year we will make substantial progress toward attainment of the goals I've articulated: our customer service will be improved; capital projects will be completed more rapidly; we will be more cost effective; and our community's attractiveness to business will be increased.

However, I've not included in the budget all that I would like or that I think we need. Given the conflict between funding, which is low, and the operational needs created by rapid growth, which are great, I've given funding considerations precedence. Thus, I have been able to recommend property tax rates be adopted at roll-back levels, but only by eliminating 36 existing County positions and funding some of our elected officials at amounts less than they have requested. The budget is ambitious, but extremely tight.

With the assistance and cooperation of all County agencies, the staff, and County Commissioners, we will be able to attain all of our goals and objectives for this new fiscal year.

Sincerely,
John L. Smith
County Administrator

The third and final accounting category consists of **Fiduciary Funds**. These are also referred to as **Trust and Agency Funds**. These funds account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Examples: Confiscated Trust Fund
Inmate Trust Fund
Law Enforcement Trust Fund

Elements of a Budget Document

Despite wide differences in style, content, and amount of detail, budget documents usually consist of four basic elements, described here in detail:

1. **The Budget Message**, located in the front of the budget document, is the narrative that summarizes the fiscal year's budget. The information contained in this section should summarize the government's fiscal and management plan for the upcoming fiscal year.

The budget message usually highlights the fiscal and political climate that sets the tone for the budget process, identifies new and/or expanded programs, discusses the service levels at which operations are funded, and identifies any major or significant changes in revenue sources and/or receipts. The chief executive, usually a mayor or manager, normally prepares and signs the message for submittal to the legislative body of elected officials such as a city council or county commission (See Exhibit 1-4).

2. **The Budget Summary Data**, normally following the budget message, is the second element of the budget document. It includes several schedules of budget data. The number and type of schedules will vary with each local government's legal requirements, organizational structure, and elected officials' data preference.

Budget Summary schedules commonly used in a budget document include Millage Rate/Property Tax Information (Exhibit 1-5), Summary of Revenues and Expenditures (Exhibit 1-6), Revenues By Source (Exhibit 1-7), Expenditures By Fund (Exhibit 1-8), and Expenditures By Program (Exhibit 1-9). We will discuss each in some detail:

Millage Rate/Property Tax Information is important because it identifies the taxable value of property upon which the local government can levy its millage rate(s). Property tax collections are the single largest source of revenue for most local government jurisdictions, therefore it is useful to understand how property tax collections are determined.

Exhibit 1-5 contains all the information required to compute this local government's property tax collections. The general formula for computing tax collections is as follows:

$$\frac{\text{Taxable valuation} \times \text{adopted millage rate(s)}}{1000} = \text{Property Tax Collections}$$

Exhibit 1-5 Millage Rate / Property Tax Information

Tax Levy	FY 1987-88 Budgeted	FY 1986-87 Budgeted		
General Fund	\$43,325,496	\$41,282,000		
Capital Improvement Fund	4,638,834	4,418,646		
Hospital Bonds	163,129	275,429		
Library	2,568,890	2,445,023		
Unincorporated Area MSTU	2,968,771	2,827,200		
FY 1986-87 Taxable Value =	\$11,296,399,080			
New Construction =	577,015,690			
FY 1987-88 Taxable Value =	\$11,873,414,770			
 Budgeted tax amounts are 95% of the total property tax revenues levied due to anticipated uncollectible or delinquent taxes.				
	FY1984-85	FY1985-86	FY1986-87	FY1987-88 Budget
General Fund	3.844	3.994	4.043	3.841
Capital Improvement Fund	.555	.427	.433	.411
Hospital Bonds	.029	.024	.027	.014
Library	.175	.197	.257	.243
Unincorporated Area MSTU	.461	.440	.445	.416

It should be noted that local governments often budget tax collections at 95%. This provides a cushion in the event that the collection of taxes is not 100%. Thus, in Exhibit 1-5, property tax collections for the General Fund are computed as

$$\$11,873,414.770 \times 3.841/1000 \times 95\% = \$43,325,496$$

This exhibit also provides the reader with the millage rate history for the local government. One can see that there have been millage rate decreases for the FY 1987-88 budget year from the prior fiscal year for each of the five funds listed.

A more detailed look at the property tax is contained in Chapter 7.

Summary of Revenues and Expenditures provides the reader with a condensed version of the governmental entity's budget. It identifies the major revenue sources, as well as the expenditure (cost) categories to which the dollars will be allocated. Exhibit 1-6 displays this data for four of a local government's many funds.

In reviewing the information contained in Exhibit 1-6, one can note that Taxes are the main source of revenue for all the funds identified, that Personal Services is usually the cost category receiving the major portion of monies allocated for disbursement, and that projected revenues equal

Exhibit 1-6 Revenue and Expenditure Summary

	General	Hospital District	Municipal Service District	Library
REVENUES				
Taxes	\$40,069,108	\$1,740,000	\$ 6,500,200	\$3,823,521
Licenses and Permits	75,000	0	0	0
Intergov't Revenues	6,218,285	0	5,082,500	269,409
Charges for Services	8,360,711	0	621,000	24,000
Fines and Forfeiture	1,160,000	0	0	50,000
Miscellaneous Revenues	839,000	60,000	498,000	70,200
Non-Revenues	4,209,355	0	5,035,000	376,022
Total Revenues	60,931,459	1,800,000	17,736,700	4,613,152
EXPENDITURES				
Personal Services	\$30,308,170	\$ 0	\$ 5,627,291	\$2,394,982
Operating Expenses	19,053,152	1,000,000	4,392,332	1,645,547
Capital Outlay	1,740,597	0	1,633,498	185,123
Sub-Total Operating	51,101,919	1,000,000	11,653,121	4,225,652
Capital Improvements	210,057	800,000	5,915,000	0
Debt Service	300,068	0	0	0
Grants and Aids	5,195,029	0	0	0
Transfers	2,701,574	0	0	25,500
Reserves	1,422,812	0	168,579	362,000
Total Expenditures	60,931,459	1,800,000	17,736,700	4,613,152

Exhibit 1-7 Revenues by Source

Taxes	\$ 56,249,959
Licenses and Permits	2,032,000
Intergovernmental Revenues	20,236,320
Charges For Services	29,764,030
Fines and Forfeitures	2,580,000
Miscellaneous Revenues	4,504,225
Non-Revenues	
Contributions	1,132,104
Loan Proceeds	886,534
Bonds	7,200,000
Transfer From Other Funds	12,101,242
Appropriated Fund Balances	18,709,120
Total Revenues	\$ 155,395,534

expenditures in each fund because local governments must balance their budgets. It is common in all governmental jurisdictions for Personal Services to comprise more than 50% of an agency's budget.

Revenues By Source information provided in Exhibit 1-7 enables the reader to identify the major sources of revenue for a different local government. Once again, one can see that Taxes are the primary revenue source. In this exhibit, the next largest revenue source is that of Non-Revenues. This category is comprised of loan proceeds, bond issue receipts, transfer of monies from other funds, and appropriated fund balances. (Appropriated fund balances are the monies not expended in the prior fiscal year and are appropriated to the next fiscal year's budget.)

Other sources which generate revenues for governmental units are Charges for Services (recreation fees, waters sales), Licenses and Permits (occupational licenses, building permits), Fines and Forfeitures (monies received from traffic tickets, beach fines, etc.), and Intergovernmental Revenues (local, state, and federal grants and revenue-sharing dollars).

Exhibit 1-8 Expenditures by Fund

	Actual FY 85-86	Current FY 86-87	Budget FY 87-88
General			
Council and Manager	\$ 1,397,880	\$ 1,672,240	\$ 1,822,347
Public Works	260,186	306,847	339,351
Public Services	4,639,984	5,436,367	1,377,265
Public Safety	8,269,609	10,540,168	10,156,601
Finance	3,889,027	4,656,998	4,957,120
Corrections	8,481,635	10,260,159	11,483,390
Judicial	3,371,315	4,220,237	5,131,755
Community Services	1,141,044	2,289,282	2,612,699
Public Health Services	- - - - -	- - - - -	1,984,470
Planning and Zoning	684,685	1,210,370	1,644,851
Beach Management	- - - - -	- - - - -	5,460,529
Elections	1,028,156	935,055	1,140,368
Assessments	2,333,933	2,624,934	2,823,222
Agriculture	306,199	394,204	366,450
Total General	\$ 35,803,653	\$ 44,546,861	\$ 51,300,418
Voted Gas Tax			
Public Works	\$ 2,040,244	\$ 2,095,597	\$ 2,050,500
Library			
Public Services	\$ 2,849,602	\$ 3,275,258	\$ 3,885,173
Advertising Tax District			
Tourist Development	\$ 52,092	\$ - - - - -	\$ - - - - -
Criminal Justice Training			
Corrections	\$ - - - - -	\$ 162,911	\$ 215,711
Public Safety	- - - - -	201,696	219,096
Total CJ Training	\$ - - - - -	\$ 364,607	\$ 434,807

Expenditures By Fund is a schedule which details how monies are appropriated within each fund. Exhibit 1-8 displays actual expenditure information for several funds for the prior budget year (column no. 2), estimates for the current budget year (column no. 3), and planned spending for the budget year (column no. 4). Examples of fund titles are indicated by bold type in column no. 1.

In looking at the expenditure information provided for the Advertising Tax District, the reader can see that the fund existed in the fiscal year 1985-86, however there is no data for the "Current Year" or "Budget Year." This would lead one to conclude that the fund is no longer in existence. Likewise, in reviewing the expenditure information for the Criminal Justice Training Fund, one can see that this fund did not exist until fiscal year 1986-87. Apparently this is a new fund for the governmental entity.

This schedule is useful in that it contains important expenditure information for each fund. One can easily identify any major fluctuations in fund/departmental expenditures, as well as determine how long the fund/department has been in existence.

Expenditure By Program is the final schedule utilized by most governmental jurisdictions. This schedule details expenditures by major program categories (General Government, Public Safety, Leisure Services, etc.).

Exhibit 1-9 Expenditures by Program

<u>General Government</u>		<u>Health and Human Services</u>	
Assessments	\$ 2,780,365	Agriculture	\$ 399,652
Council and Manager	1,900,110	Community Services	3,064,569
Elections	1,924,934	Public Health Services	2,502,177
Finance	<u>5,714,431</u>	Total	\$5,966,398
Total	\$12,319,840		
<u>Leisure Services</u>		<u>Economic Development</u>	
Beach Management	\$ 6,341,868	Ocean Center	\$2,174,031
Ponce De Leon Port Authority	4,002,404	Planning and Zoning	<u>1,590,771</u>
Public Services	<u>6,149,886</u>	Total	\$3,764,802
Total	\$16,494,158		
<u>Transportation</u>		<u>Environment</u>	
Airport	\$ 5,507,858	Environmental Management	\$ 695,634
Votran	<u>8,304,552</u>		
Total	\$13,812,410		
<u>Public Safety</u>		<u>Public Works</u>	
Corrections	\$14,501,683	Public Works	\$39,969,531
Fire Services	4,744,619		
Judicial	5,977,069		
Public Safety	<u>18,712,022</u>		
Total	\$43,935,393		
<u>Debt Service</u>		<u>Utilities</u>	
Debt Service	\$ 9,127,875	Water and Sewer Utilities	\$9,309,493
<u>Total Expenditures</u>		<u>\$155,395,534</u>	

By reviewing Exhibit 1-9, one can note that the Public Safety Program has been allocated the most money for expenditures. This is common in most governmental jurisdictions. It is also important to notice that the total program expenditures in Exhibit 1-9 also match the total revenue sources detailed in Exhibit 1-7, Revenues By Source. This is expected since local governments are required to adopt a balanced budget, unlike the Federal government which is accustomed to deficit spending.

3. **The Program/Departmental Data** section normally contains the budgetary and narrative expenditure information as related to the organization's structure. It is usually presented in one of the three budget types discussed earlier: line-item, program, or performance.

Exhibit 1-10 provides the reader with a departmental line-item budget format. The budget is composed of specific line items or object codes. This is a very detailed budget format and is a good mechanism for budgetary control and management of an organization's activities.

Exhibit 1-10 Sample Agency Line-item Budget

Agency: Elections		
Object Code	Item Description	88-89 Budget
Personal Services:		
1100	Salary - Executive	\$ 65,161
1201	Salary - Regular	425,000
1300	Salary - Temporary	15,600
1400	Overtime	6,000
1501	Ed Incentive Pay	19,000
2100	FICA	29,750
2200	Retirement	42,500
2301	Insurance - Group	30,000
2302	Insurance - Life	4,250
2400	Insurance - Work/Comp	8,935
2500	Unemployment Insurance	400
Total Personal Services		\$ 646,596
Operating Expenses:		
3400	Contracted Services	\$ 74,500
3650	Janitor Services	8,768
3710	Data Processing Charges	50,000
3810	Training	10,170
4000	Travel	19,000
4700	Printing	19,000
5100	Office Supplies	50,000
5420	Memberships	1,000
Total Operating Expenses		\$ 232,438
Capital Outlay:		
6410	Desk	\$ 300
Total Elections		\$ 879,334

Exhibit 1-11 Sample Agency Program Budget

Program: Leisure Services	Actual 1981-82	Adopted 1982-83	Revised 1982-83	Budget 1983-84
Administration	\$16,522	\$17,035	\$21,342	\$25,000
Playgrounds	14,896	15,140	15,140	16,000
Summer recreation	13,996	13,310	13,310	14,500
Cultural activities	3,551	3,170	5,120	6,000
Swimming	13,562	13,990	14,500	15,000
Community center	1,095	2,000	2,000	2,000
Parks maintenance	4,061	3,525	3,525	4,200
Beach facility	5,911	6,340	7,230	8,500
	<hr/>	<hr/>	<hr/>	<hr/>
	\$73,594	\$74,510	\$82,167	\$85,800

Exhibit 1-11 would be described as a program budget format. The financial data is provided by major programs within the agency. Current year totals are shown in two ways: the original adopted budget for the fiscal year and later, revised budget figures adopted due to unanticipated expenditures thus far in the current year.

Exhibit 1-12 illustrates a performance-based budget. This format provides the reader with unit cost category information and enables one to understand how much it "costs" to perform a service.

The format that is utilized by local governments to present their financial/narrative information related to programs varies with each jurisdiction's need to emphasize control, planning, or management. However, any of the above described formats are suitable and will provide the reader with a good understanding of a government's budget. Each is widely used, often in combination with other formats.

4. Supplemental Data Schedules usually consist of additional information concerning the governmental entity, as well as any other pertinent data that does not fit appropriately into other sections of the document. Supplemental schedules that may appear in a budget document are:

- **Ordinances** that relate specifically to the local government's budget process
- **Capital Outlay and/or Capital Improvement Schedules**
- **Debt Service Schedules** that detail existing debt obligations
- **Glossary** that defines terms and concepts relevant to a budget/budget process/budget document

The areas cited above are not all-inclusive. The type of supplemental data included in a budget document is dependent upon the governmental entity's requirements.

Exhibit 1-12 Sample Agency Performance Budget

Expenditure Request Form Department: Fire			
	Actual 1981-82	Current 1982-83	Budget 1983-84
Cost			
Fixed costs-administration	12,460	13,085	13,650
Fixed costs-fire prevention	24,085	27,825	29,295
Variable costs-fire companies	33,070	36,790	44,385
	\$69,615	\$77,700	\$87,330
Manpower (Man-hours)			
Administration	4,160	4,160	4,160
Fire prevention unit	7,488	8,320	8,320
Fire companies	19,564	20,440	23,360
	\$31,212	\$32,920	\$35,840
Inspections Performed (Number)			
Fire prevention unit	9,634	10,500	10,500
Fire companies	94,493	102,200	116,800
	\$104,127	\$112,700	\$127,300
Unit Costs (\$/Inspection)			
Fire prevention unit	2.50	2.65	2.79
Fire companies	.35	.36	.38
Notes on Calculations:			
1) Fixed costs-administration. Revised expenditure for the current year based on full staffing. Next year's estimate is also based on full staffing and 5 percent pay raise.			
2) Fixed costs-fire prevention unit. Uses the same estimating basis as administration.			
3) Variable costs-fire companies. Revised expenditures for the current year are based on the number of inspections to be delivered by the fire companies and paid for at the rate of 36 cents per inspection. Inspection rates are estimated at 38 cents per inspection for next year's expected work load of 116,800 company inspections.			



EXERCISE: READING THE ANNUAL BUDGET DOCUMENT

If possible, obtain a copy of your local government's budget document and use it to answer the following questions. If this is not possible, use the exhibits in this chapter as the basis for your responses.

1. Read the Budget Message (Exhibit 1-4) and identify major points that the chief executive provides for the elected officials.
2. Refer to the “Millage Rates” portion of Exhibit 1-5. Provide a reasonable explanation as to why the Hospital Bonds millage rate decreases annually. Also, gather millage rate information related to your local city or county. Do the millage rates reflect any major increases in tax levys? What issues may have caused the need for such increases?
3. Look at the “Expenditures” section of Exhibit 1-6. For each fund group, calculate the percentage of the “Sub-Total Operating Expenses” represented by Personal Service costs. Do these percentages seem reasonable, too high, or too low? Also, what is the relationship between revenues and expenditures within each fund?
4. Review the information provided in Exhibits 1-8 and 1-9. Identify the programs that are the major spending areas. Explain why these areas require the most appropriation of funds.
5. Which budget format (line-item, program, or performance) do you find the most informative and beneficial? Justify your answer by reference to Exhibits 1-10, 1-11, and 1-12.

NOTES

1. Adapted from Edward A. Lehan, *Simplified Governmental Budgeting* (Chicago, Illinois: Municipal Finance Officers Association, 1981), p. 79.

2. “Number and Classification of Funds,” in *How Your Government Can Apply GAAP* (Cleveland, Ohio: Ernst and Whinney, 1982), p. 54.