

Financial Management Institute

BUDGETING AND CASH MANAGEMENT



Budgeting

- How many of you prepare a formal, annual budget for your organization?
- How many of you use your budget to assist in decision making and to monitor your organization throughout the year?
- If you don't prepare—don't use to monitor—why not?



The Importance of Budgets

- What is budgeting? What is the purpose of budgeting?
- Who is/should be involved in the budgeting process?
- How often is budgeting performed?



Budgeting Advantages and Disadvantages

Advantages include:

- Compels planning
- Provides performance benchmarks
- Provides assistance in allocating resources
- Assists in pinpointing performance problems and directing management attention to those areas

Disadvantages include:

- Management/boards may not be flexible—may view budgets as etched in stone
- Sometimes not utilized effectively
- Can be costly to implement (initially)



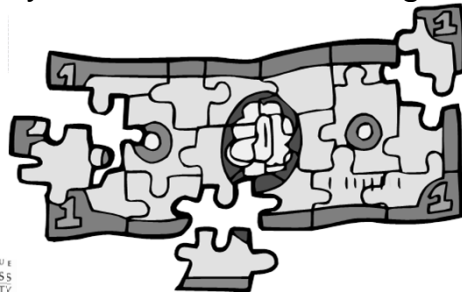
Developing Budgets

Factors to consider in developing budgets:

- What are the current costs of running the organization?
- Are there known/anticipated changes in the workforce (retirements, layoffs, expansions, etc.)?
- Are there any known or anticipated changes in operations that will affect the organization? New programs, projects being added? Projects that will be completed during the year (but not recurring in the next)?
- Other considerations?

Developing Budgets (Cont'd)

Assume that you were asked to assist in developing the annual budget for your organization. What are some of the typical costs that you would need to budget for?



Monitoring Budgets

Comparison of budgets to actual results

- An effective method for monitoring performance and protecting assets.
- Variances from budgeted amounts should be analyzed, focusing on the underlying causes.
- Explanations for variances should be specific and include anticipated effect on future periods if applicable.

Budget Development—General

- How should a budget be developed for an organization?
- Approaches to budgeting:
 - a. Last year's plus/minus
 - b. Current year results, extrapolated
 - c. Zero-based budget
- Operating budgets vs. capital budgets

Developing the Revenue Budget

- Where to start?
- Primary sources of revenue—revenue mix
- Any revenues “at risk”
- New sources of funding—likelihood of occurring
- How to project/forecast revenue for the upcoming year

Budgeting for Expenses

- What are your major costs, and what are the primary determinants of those costs?
- Fixed costs
- Variable costs

Budgeting for Expenses (Cont'd)

Factors to be considered in budgeting for:

- a. Salaries
- b. Payroll taxes
- c. Benefits

Budgeting for Expenses (Cont'd)

Factors to be considered in budgeting for:

- d. Utilities
- e. Insurance
- f. Building/equipment rental

Budgeting for Expenses (Cont'd)

Factors to be considered in budgeting for:

g. Repairs & maintenance

h. Supplies

i. Vehicles

Budgeting for Expenses (Cont'd)

Factors to be considered in budgeting for:

j. Food costs

k. Other

Budgeting Exercise

Group exercise in preparing a
organizational budget for a year.



The Capital Budget

- Purchases of items such as machinery, equipment, vehicles, etc. are typically included in the annual capital budget.
- Why?
- How to determine what to replace/add each year
- How are these items paid for?

The Capital Budget (Cont'd)

- How is the annual capital budget developed?
- What are the key considerations in developing this budget?

Cash Management

- How does the annual budget differ from the organization's expected "cash flows?"
- What types of issues/problems can this cause for the organization?