Preparing Budgets

NEW TREASURERS' ORIENTATION – JUNE 26-30, 2022
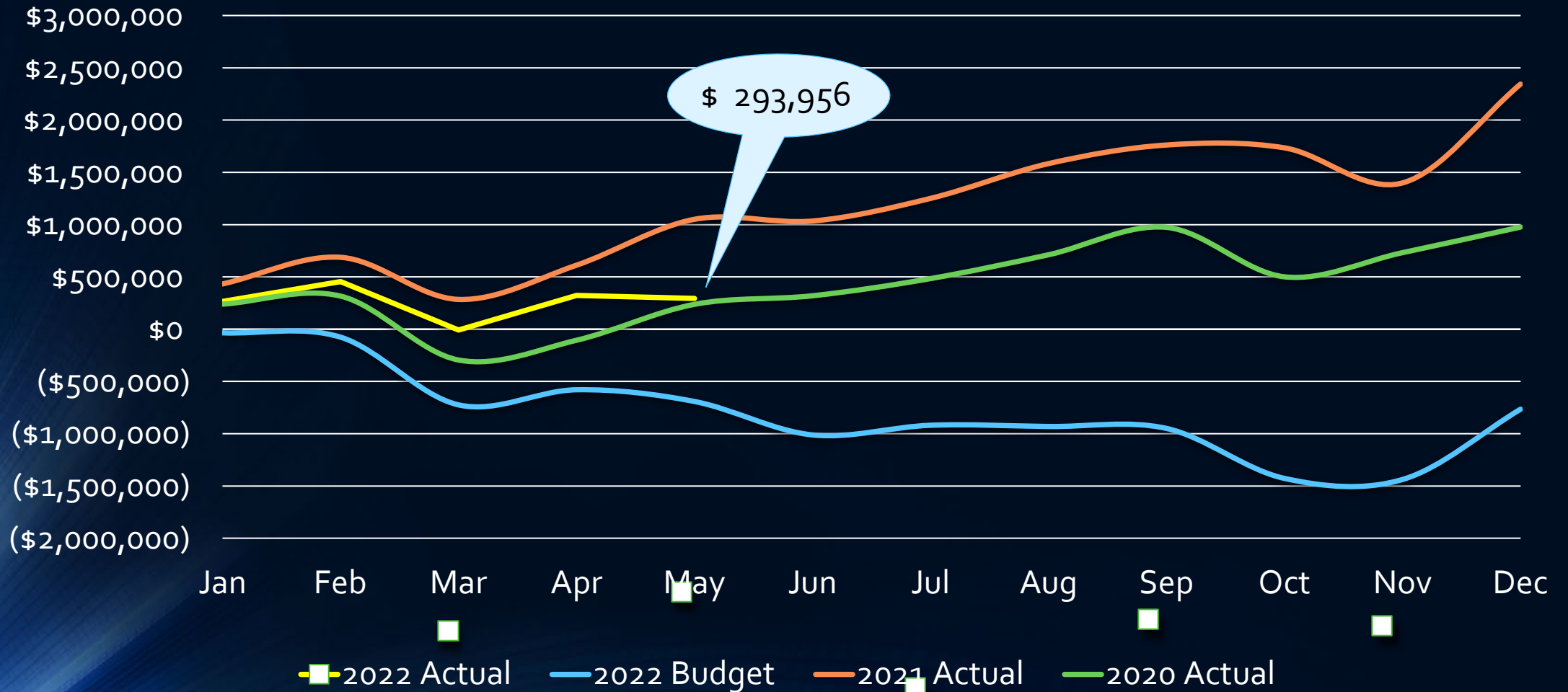
Saving Funds --

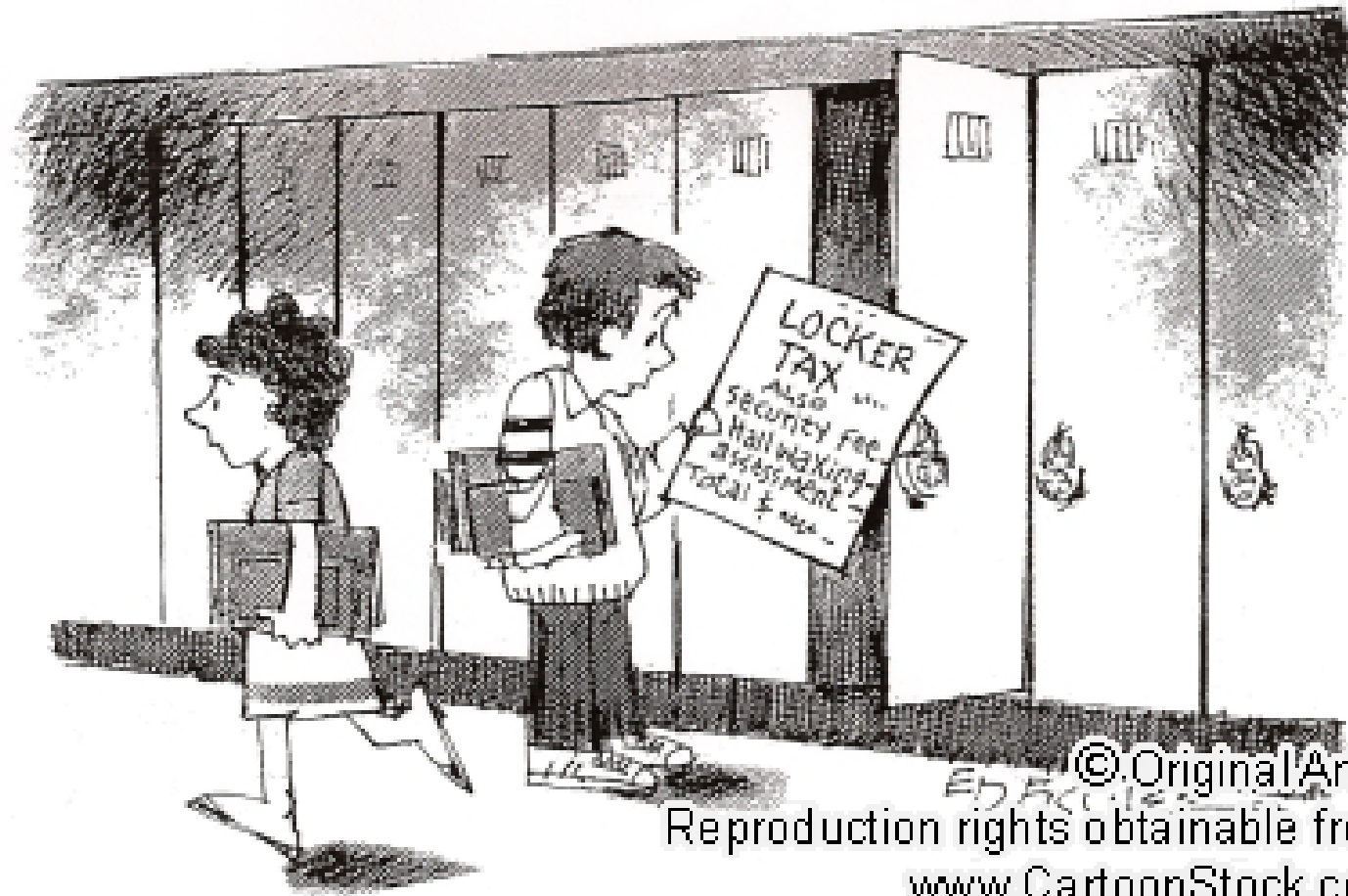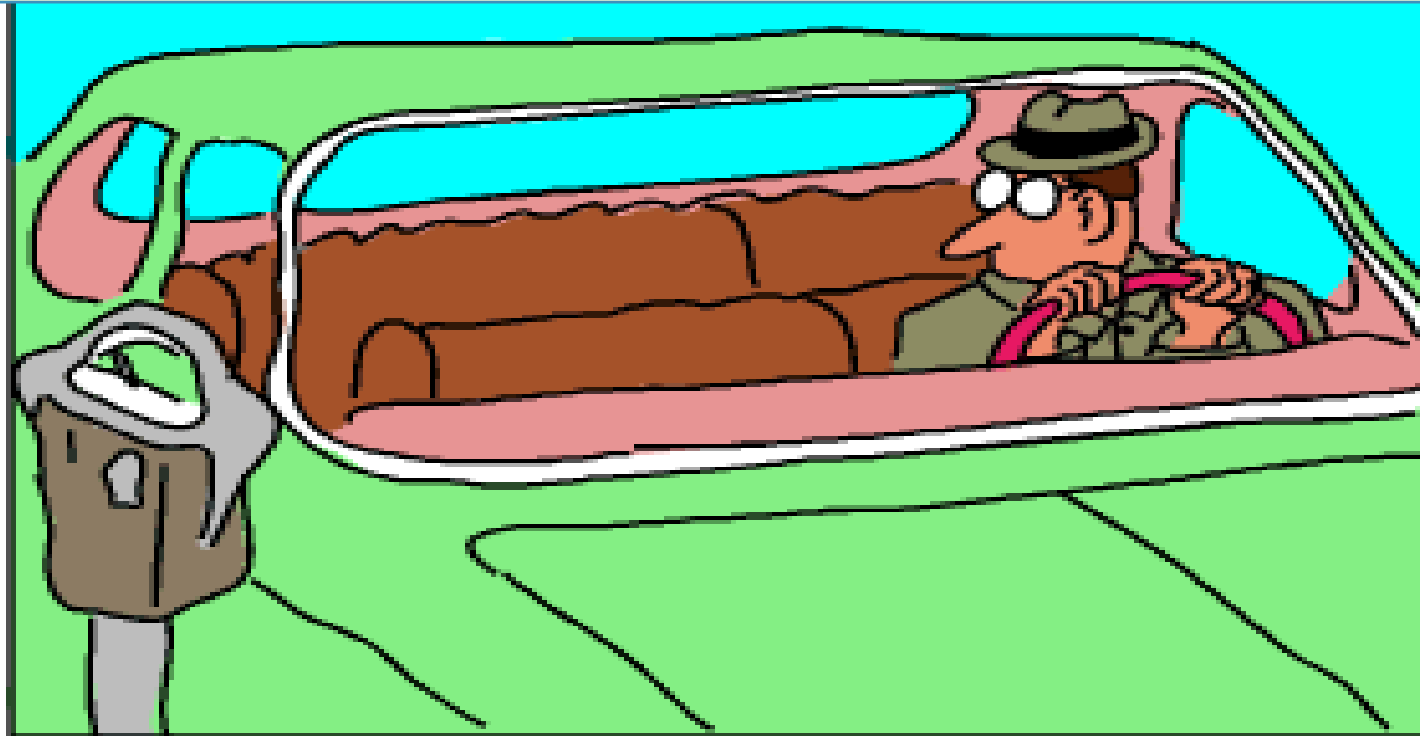Hating to waste money, Randy Robinson stubbornly waits for his parking meter to expire before driving off.

What are the approaches to the budgeting process?

- There are two main approaches to the budgeting process. These are:

  - Top-Down Approach
    - This budgeting process involves preparing the budget by the officers of the entity, based on the entity objectives. The departmental directors are assigned the responsibility for its successful implementation. Every department can opt to create its own budget based on the entity broader budget allocation and goals.

- The top-down approach's advantage is that the lower management saves a lot of time and gets a ready-made budget to be followed. (Function Statements). They hardly participate in the preparation of the central budget. The officers' and senior managers' experience, coupled with past-performance figures, comes in handy in such budgeting processes.

What are the approaches to the budgeting process?

- **Bottom-up Approach**
  - This budgeting process starts at the departmental level and moves up to higher levels. Every Department within the company is required to prepare plans for its proposed activities for the next budget period and estimate the costs it will incur. These individual budgets are combined to create a bigger all-inclusive budget.

  - The budgeting process with this approach can be lengthy and time-consuming. However, employees and directors are more motivated to achieve the budget goals since they have prepared it. They have complete knowledge of what the budget actually expects them to do and how to achieve that. Such budgets tend to be more accurate and closer to the actual situation on the ground.

Steps in the Budgeting Process

Identify the budget goals and how they will be achieved.

- Revenue, such as tuition and tithe trends have to be taken into consideration for setting the goals. What is the economic resource? Will there be adequate funding? A budget will be of no use without proper funding.

- Creating a Cost Buffer – Scrutinize the costing for the entity. Evaluating factors that can affect input costs during the budget period has to be done. Revision or evaluate the remuneration plans and cost-of-living. Price increases in resources used, should be evaluated at the budget time. To make the budget realistic and achievable, proper provisions should be created for variations in these costs and remuneration plans.
- Preparing Revenue and Expenditure Budget
  - Revenue – Identify all revenue sources, such as appropriations received, tithing, tuition received, and anticipated or expected donations. Proper and realistic forecasts have to be made. A realistic plan for the sources of revenue is the need for the budget period.

- **Expenditures:** Planning of expenditure should be accordingly as the entity cannot spend more than what it earns. Thus, the revenue target decides and dictates the expected quantum of expenses to achieve these revenue targets.

- **Incorporating Departmental Budgets:**
  - Bottom-up approach – Smaller departments prepare their own budget within the organization. In such cases, their collection and integration, along with the master budget, is a prerequisite.

- **Provision for Capital Expenditure** – An entity may plan to incur a capital expenditure or invest in a fexed asset during the budget period. These expenses are quite heavy and considerable by nature. Hence, after consultation with officers and committee action, their inclusion should be done in the budget.

- Changes in the Budget Model and Review - After finalizing all the steps, a review of the assumptions as per the budget model should be done. Also, a thorough review of the entire budget is essential. If there is a need for any changes in the budget, it can be done now.

- Approval and Implementation – The budget will then go to the ADCO for recommended approval and then to the Executive Committee or Board for final approval. They will check if it is proper. Treasury will make any changes as per need. In the case everything is fine with the budget, they will give the go-ahead for implementation.

- Budgetary Controls – The implementation of the budget is not the last step in the budgetary process. The setting of proper budgetary controls comes next. This is necessary for the companison of the actual performance with the provisions and estimates of the budget. Continuous reporting of variances has to be done. The management can take corrective actions accordingly.

Importance of Budgets

- **Proper Funding according to Targets** – A budget sets targets for revenues and expenditure and helps to keep a check on both of them. Also, the officers and Boards, can channel funding in the right direction as per the budget provisions. The formulation of proper strategies becomes possible as per the budget provisions. The management can also decide whether to go for capital expenditure or n.ot as per the availability of financial resources looking at the budget.

- **Helps to Set Priorities**- A budget helps channel resources across various departments as per the Board or Executive Committee priorities and goals. The ADCO team are in the best position to decide which department should get the maximum chunk of the budget allocation to grow.

Importance of Budgets

- Controlled Expenditure with Better Harmony – A budget helps to control wasteful expenditure in an organization. Because resources are scarce in any entity, hence, their allocation in the best possible manner is necessary for maximum returns. The budget guides the best possible utilization and allocation of resources. Moreover, it helps to maintain harmony between various departments of the entity. Each department has a pre-determined share of the budghet allocated to it. And it helps to take care of any daily arguments between them because of resource allocation.

4 Steps to Creating a Budget

- 1.   **Money In**: List your sources of income (revenue) for the month and year.

- 2.   **Money Out**: Look back over your last few months of statements to help you list all of your monthly expenses. You might need to do this for the past year.

- 3.   Assess the Situation

- 4.   Using and Maintaining the Budget

Information, Information, Information ------

Remuneration Projections

- Use APS Software (APS – Year end – Budget – Create a Budget) or a custom spreadsheet to list all employees remuneration and benefits for the year. Do not forget that July 1, often the remuneration changes.

- Use this spreadsheet or chart to enter within your budget data

- Use the NAD Tithe Distribution Spread – provided by NAD, for remittance calculations

- Create a estimated spreadsheet for Tithe Remittance. Use prior year data for estimates.

- Create a monthly percentage spread for Tithe Remittances. Do not just take a grand tithe total and divide by 12 months. Use historical prior years data, to create the monthly percentages. The more years of data, the better the accuracy!

Calculation for Budget Tithe

	Year 2021	Actual Year 2020
January – September 2021 Tithe Received	76,864,805	
October - December 2020 Tithe	12,699,895	
Total Tithe Used for Budget	109,564,700	
97% of Calculated Tithe for Budget	106,277,760	
9% of Tithe (Union's Portion)	9,564,998	
Percentage of Budget 2022 compared to Actual Union Tithe in 2021		

Projecting Tithe Growth

Budget based on gross tithe received from January - September 2021 and October - December 2020 by conferences, then at 97% of the total

Budgeted Union Portion of Tithe (9%) for 2022 = $9,564,998

8.83% increase from 2021 Budget

Prepare Function Activity Reports for Departments

- AASI Software – Reports – Statement-Financial Activity or Financial Activity by Period

- Download and then add column for Directors to write in their "Wish List" Budget. Encourage often for the completion of this exercise, give them a deadline time frame. Work with them, if needed. BE UNDERSTANDING!
  - Give to Departmental Directors in September, with deadline of early October

Other Steps

- While awaiting for Departments to complete their Budgets, work with your officer team.

  - Analysis of the entities Mission, Goals, and Objectives for the New Year. What projects will be needing extra funding? Additional appropriations to schools?

  - Create a Budget Notebook when discussing items with the Officers. This will aid when actually creating the budget.

Ready to Enter the Budget

- AASI.net – Budget – Excel Export the Budget – Prior Year

- Excel Master Spreadsheet

- When finished – use AASI.net to – Budget – Exel Import the Budget

Create a Statement of Changes of Net Assets for Budget Year - REVIEW