

Successful Budgeting Practices

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**PRESENTED TO MENA FINANCIAL OFFICERS
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Definition

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A budget:

A statement of an organization's plans, priorities, goals, and objectives for a specific future period of time (generally one year), expressed in financial terms.

Budgets: The Ideal vs. Reality

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The Ideal

The Reality

In reality, the young lion can be carried on the budget as a zebra, resulting in needs not being met.

Budgeting Is Required

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For which of you, intending to build a tower, does not sit down first and count the cost, whether he has enough to finish it—lest, after he has laid the foundation, and is not able to finish, all who see it begin to mock him, saying, ‘This man began to build and was not able to finish.’

Luke 14:28-30

Budgeting Is Required

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GC Working Policy:

Each organization shall have a mission driven, broadly based consultative financial planning and budgeting process with a committee structure that can give a detailed review to the ongoing financial planning and budgeting for the organization.

Budgeting Is Required

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In some cases, this may take the form of a finance committee. In other cases, the organization may be small enough that the process is handled directly by the governing body involved.

GC Working Policy S 09 05

Budgeting Is Required

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All denominational organizations shall follow the budget plan of financial operating. The annual operating budget shall be approved by the controlling committee. It shall be the responsibility of the officers of each level of organization to require subsidiary organizations in their territory to follow the budget plan.

GC Working Policy S 09 10

Objectives of Budgeting

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The objectives of budgeting are:

1. Provide structure
2. Predict cash flow
3. Allocate resources
4. Model scenarios
5. Measure performance

Budgeting Models

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Centralized Budget Model:

Advantages:

- Considers entire needs of the organization
- Consolidates and standardizes information
- Centralizes controls and procedures

Budgeting Models

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Centralized Budget Model:

Disadvantage:

Results in lack of motivation for recipients to follow the budget

Budgeting Models

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Performance Budget Model:

Advantages:

- Rational and objective
- Rewards performance characteristics the institution wants to encourage

Budgeting Models

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Performance Budget Model:

Disadvantages:

- Quality measures are difficult to identify
- Agreement on appropriate measurements is difficult to accomplish
- The cause/effect relationship is usually complex

Budgeting Models

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Planning, Programming, Budgeting Systems (PPBS):

Advantages:

- Focuses on the provided benefit of the activity rather than on the resources available to spend

Disadvantage:

- Very time-consuming

Budgeting Models

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Formula Budgeting:

Advantage:

- Useful for accounts where expenditures are small and numerous

Budgeting Models

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Formula Budgeting:

Disadvantages:

- Focus on the status quo
- Assumes that the past predicts the future
- Calculations only as good as the data and the formula
- Simplicity may lead to misapplication

Budgeting Models

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Zero-based Budgeting:

Advantages:

- Assumes a new starting point for each activity
- Keeps waste and discretionary spending to a minimum

Budgeting Models

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Zero-based Budgeting:

Disadvantages:

- Very time-consuming
- Unfit for programs which are of a continuing nature

Budgeting Models

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Incremental Budgeting:

Advantages:

- Easy to understand and prepare
- Ruffles few feathers; acceptable to most
- Practical for situations with little budgetary flexibility & fairly fixed costs

Budgeting Models

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Incremental Budgeting:

Disadvantages:

- Maintains the status quo
- Does not require a connection between resource allocation & institutional goals

Budget Preparation

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Step 1: Update the budget assumptions.

Step 2: Estimate the organization's expenses.

Budget Preparation

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Method A:

1. List estimated annual expenses for absolute necessities (e.g., salaries & benefits, utilities)
2. List estimated annual expenses for activities of the organization (e.g., program expenses)
3. List estimated other expenses
4. Prepare a “wish list”

Budget Preparation

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Method B:

1. Project expenses, broken down by categories (e.g. salaries, office expenses, etc.)
2. Prepare the budget for salaries and benefits for current staffing and for possible future additions.

Budget Preparation

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Step 3: Project the income.

Main sources of funding include tithe, non-tithe, offerings, incoming appropriations.

When estimating income, guess low. When estimating expenses, guess high.

Budget Preparation

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Step 4: Consider the appropriations to higher and lower organizations.

Step 5: If under 100% of working capital, consider building a “profit” into the budget.

If an operating deficit was incurred, refer to GCWP (S 09 20).

Budget Preparation

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Step 6: Make necessary changes to balance the budget.

Step 7: Obtain the capital budget requests.

Step 8: Present the budget to the executive committee.

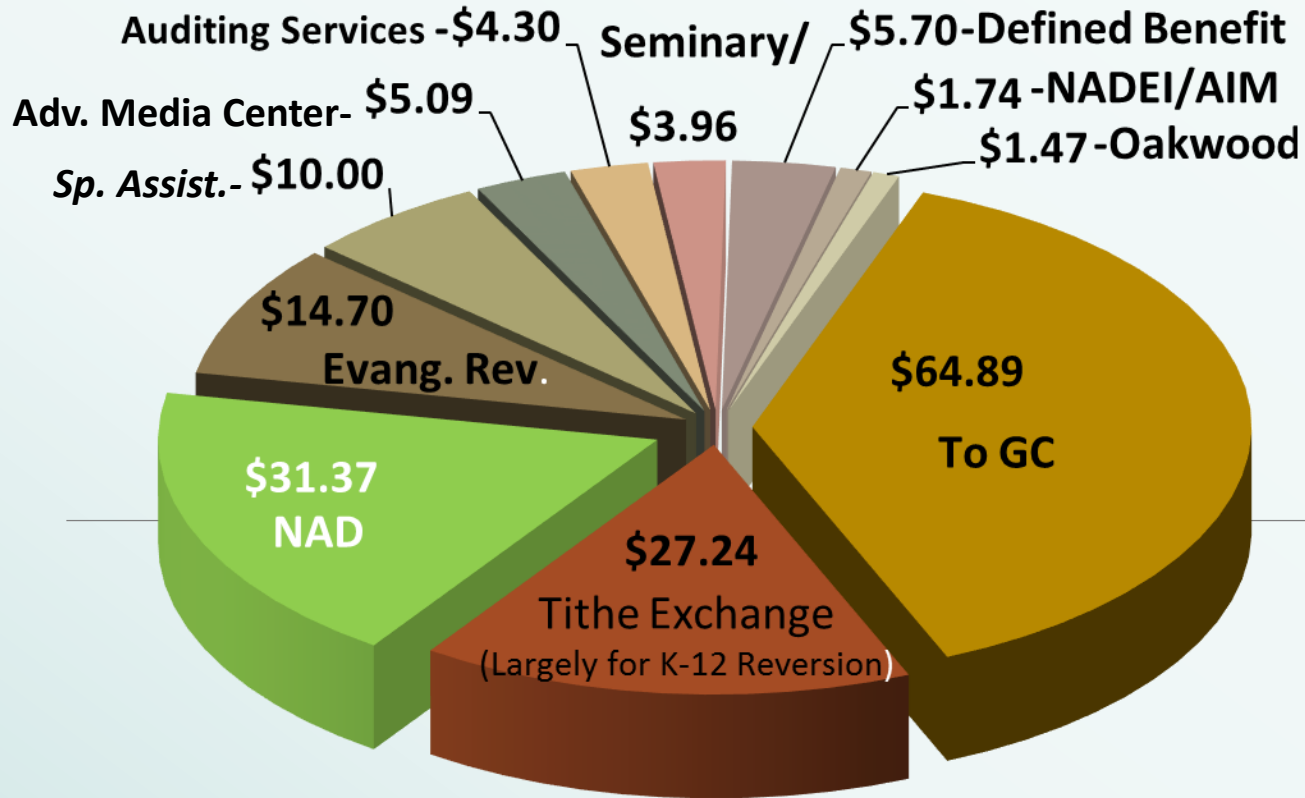
Step 9: Review and adjust as necessary.

Presenting the Budget

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The following three slides illustrate Tom Evan's presentation of the NAD 2017 budget.

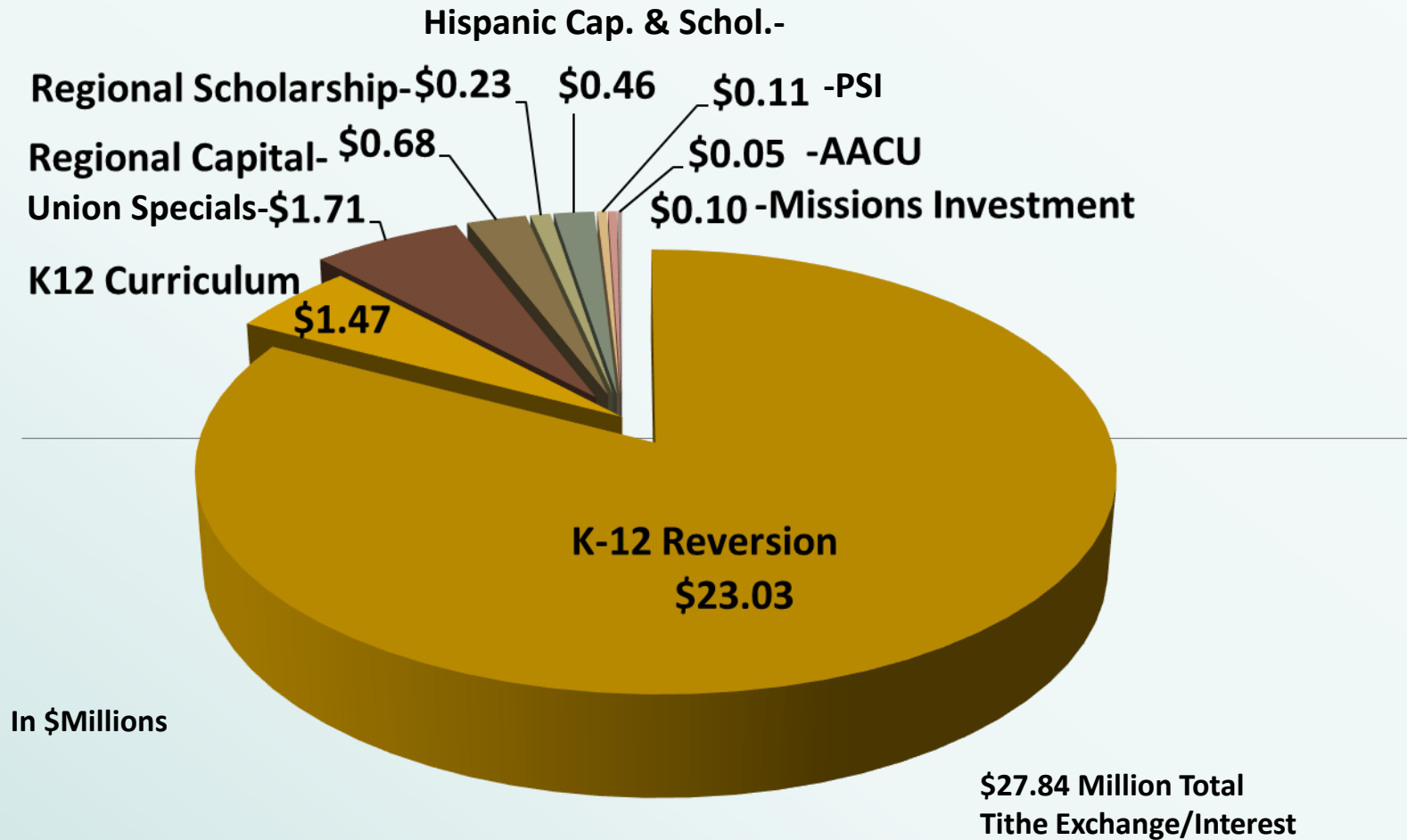
2017 Budgeted NAD Use of Tithe Funds:



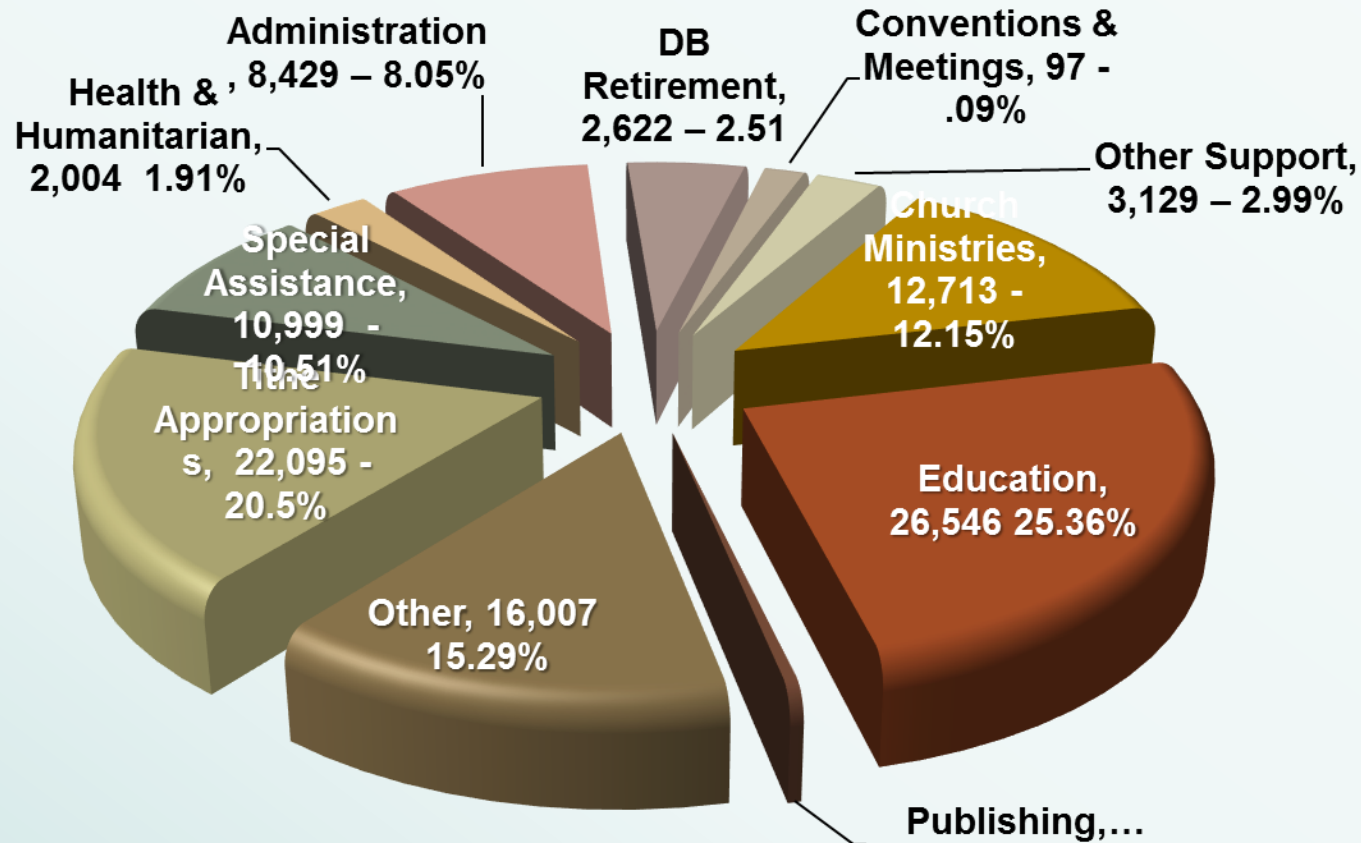
\$170.46 Million Total Tithe:



2017 Non-Tithe Budget Distribution Graphed:



NAD 20XX Expenses - \$113,300,470



Budget Games

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Budget games are any budget manipulations that seek to create a

cushion

slush fund

hedge

kitty

war chest

for the benefit of a manager or a department.

Budget Games

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If the budget “game” is successful, institutional resources will be **misplaced** into the pockets of those who play the “game” rather than where the institution chooses to place its resources.

Budget Games

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Budget “games” are played when:

1. Junior managers believe the submitted budget will invariably be changed by senior management’s use of arbitrary budget cuts.
2. Market uncertainty may cause “hedging” because of fear of failure to meet profit targets.

Budget Games

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3. Strong drive to achieve profits, especially if a personal reward is tied to meeting the target (such as a favorable personal evaluation).

Budget Games

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Budget “games” may be constrained by:

1. Review of budget proposals in view of historical spending patterns.
2. Telling junior managers total profit targets rather than focusing on restraining expenses.

Questions

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Questions and Discussion

References

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