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Sound Financial Management

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Today's agenda

- Strategic Planning and Budgeting
- Developing a Budget
- Managing a Budget
- Managing Program and Budget Cutbacks
- Accounting Concepts

Objectives

- In this module, participants will:
 - Discuss how to manage a workplace budget
 - Recognize when it's time for expert financial consultation

Core Questions

- This module will answer:
 - How do you prepare and manage a budget in line with a strategic plan?
 - What strategies can you use to manage budget cuts and program cutbacks?
 - When should a leader seek consultation from a financial expert?

Strategic Planning and Budgeting

- A strategic plan is the organizations long term goals and how the organization will achieve these goals.
- A budget is a financial plan for a defined period, usually a year.
- A strategic plan budget is a long range budget that is usually for a period greater than a year where the emphasis is less on specific items (revenue or expense) and more on the overall goals to be achieved.

Developing a Budget

- A budget is an estimate of revenue and expense for a set period of time
- Estimate revenue and expense based on...
 - Historical Information
 - New Business Intelligence

Historical Information

- Revenue and expenses that you are confident in
- Annual revenues?
 - Patient billings, insurance reimbursements, grants
- Annual expenses?
 - Salaries, rent, travel, office expenses

Historical Information

- Patient Billings
 - Historical trends show a 4% growth then a small growth in the next year.
 - Conservative estimate at 1 to 2% growth.
- Insurance Reimbursements
 - Steady increases throughout years 1 through 3.

Account Descriptions	Yr 1 Actual	Yr 2 Actual	Yr 3 Actual	Yr 1-2 Change	Yr 2-3 Change
Patient Billings	130,000.00	135,000.00	137,000.00	4%	1%
Insurance Reimbursements	60,000.00	61,000.00	62,000.00	2%	2%
Total Other Revenue	190,000.00	196,000.00	199,000.00	3%	2%
Total Revenue	\$ 190,000.00	\$ 196,000.00	\$ 199,000.00		

% Growth Estimate	BUDGET
1.5%	139,055.00
2%	63,240.00
	202,295.00
	\$202,295.00

Historical Information

- Salaries
 - Planned increases to staff salaries?
- Staff Travel
 - Are there meetings to attend or professional development?
- Miscellaneous Expense
 - What occurred in year 3?
 - Is this a recurring expense?

Account Descriptions	Yr 1 Actual	Yr 2 Actual	Yr 3 Actual	Yr 1-2 Change	Yr 2-3 Change	% Growth Estimate	BUDGET
Salary: Regular/Overtime	100,000.00	105,000.00	110,000.00	5%	5%	5%	112,200.00
Staff Travel	1,500.00	6,000.00	1,500.00	300%	-75%		3,000.00
IT Hardware/Software	-	-	-				1,500.00
Printing/Reproduction	3,800.00	3,850.00	3,650.00	1%	-5%	2%	3,723.00
Office Supplies	-	-	-				4,500.00
Books and Subscriptions	800.00	900.00	950.00	13%	6%		1,000.00
Miscellaneous Expense	80.00	150.00	5,000.00	88%	3233%		100.00
Total Expenses	\$ 106,180.00	\$ 115,900.00	\$ 121,100.00				\$126,023.00

New Business Intelligence

Review new trends and business intelligence gained over the current year. This new information could be very valuable to supplement your data because it can confirm or contradict your historical data.

- Revenue
 - New or loss of patients?
 - Insurance reimbursement declines?
 - New grant awarded?
 - New activity creating new revenue stream?
- Expense
 - New activity requiring additional staffing?
 - New technology needs?
 - New professional development requirements?

New Business Intelligence

Seek advice and input from others who may have information that impacts your budget.

- Insurance reimbursement specialists on changes to policies
- Colleagues on new trends that may impact your business
- Staff on changes to their needs (technology/professional development)

New Business Intelligence

- Revenues
 - Loss of 1% of patient billings
 - Insurance reimbursements to increase by 2%.

Account Descriptions	Yr 1 Actual	Yr 2 Actual	Yr 3 Actual	Yr 1-2 Change	Yr 2-3 Change	% Growth Estimate	BUDGET	% Growth Estimate	BUDGET
Patient Billings	130,000.00	135,000.00	137,000.00	4%	1%	1.5%	139,055.00	-1.0%	135,630.00
Insurance Reimbursements	60,000.00	61,000.00	62,000.00	2%	2%	2%	63,240.00	4%	64,480.00
Total Other Revenue	190,000.00	196,000.00	199,000.00	3%	2%		202,295.00		200,110.00
Total Revenue	\$ 190,000.00	\$ 196,000.00	\$ 199,000.00				\$202,295.00		\$200,110.00

New Business Intelligence

- Expenses
 - Additional staff needed
 - Technology needs for new staff

Account Descriptions	Yr 1 Actual	Yr 2 Actual	Yr 3 Actual	Yr 1-2 Change	Yr 2-3 Change	% Growth Estimate	BUDGET	% Growth Estimate	BUDGET
Salary: Regular/Overtime	100,000.00	105,000.00	110,000.00	5%	5%	5%	112,200.00		180,000.00
Staff Travel	1,500.00	6,000.00	1,500.00	300%	-75%		3,000.00		3,000.00
IT Hardware/Software	-	-	-				1,500.00		3,000.00
Printing/Reproduction	3,800.00	3,850.00	3,650.00	1%	-5%	2%	3,723.00	2%	3,723.00
Office Supplies	-	-	-				4,500.00		4,500.00
Books and Subscriptions	800.00	900.00	950.00	13%	6%		1,000.00		1,000.00
Miscellaneous Expense	80.00	150.00	5,000.00	88%	3233%		100.00		100.00
Total Expenses	\$ 106,180.00	\$ 115,900.00	\$ 121,100.00				\$126,023.00		\$195,323.00

Developing your Budget

Spread your budget across the year so when evaluating revenue and expense throughout the year, you can determine if variances exist.

Account Descriptions	BUDGET	January	February	March
Patient Billings	139,740.00	11,645.00	11,645.00	11,645.00
Insurance Reimbursements	64,840.00	-		16,210.00
Total Revenue	\$ 143,240.00	\$ 11,645.00	\$ 11,645.00	\$ 27,855.00
Salary: Regular/Overtime	180,000.00	15,000.00	15,000.00	15,000.00
Staff Travel	3,000.00	1,000.00	-	-
IT Hardware/Software	3,000.00	-	-	3,000.00
Printing/Reproduction	3,723.00	310.25	310.25	310.25
Office Supplies	4,500.00	375.00	375.00	375.00
Books and Subscriptions	1,000.00	83.33	83.33	83.33
Miscellaneous Expense	100.00	100.00		
Total Expenses	\$ 195,323.00	\$ 16,868.58	\$ 15,768.58	\$ 18,768.58

Developing your Budget

As you are developing your budget, maintain documentation on how you developed the amounts. For example, patient billings might include each patient, the rate they are charged, and how often the patient visits.

	Hourly Rate	Frequency of Visits per month	# of months	Total Revenue per patient
Patient 1	120	2	12	2,880
Patient 2	120	4	12	5,760
Patient 3	120	2	12	2,880
Patient 4	140	2	12	3,360
Patient 5	140	1	12	1,680
Patient 6	90	2	12	2,160
Patient 7	90	4	12	4,320
Patient 8	100	1	12	1,200
				24,240

Developing your Budget

Another example of a detailed budget is for travel. You might want to include the estimated transportation and hotel costs, the number of nights staying at the hotel, etc.

[illegible]

Developing your Budget

This level of detail is useful when:

- A variance occurs during the year.
- New revenue or expense information is obtained.
- Developing the budget for future years.

For example: if you budgeted for air transportation costs of \$500 but it only cost \$300, you have \$300 in expense savings that can be distributed elsewhere.

Managing your Budget

Review your actual revenue and expense on a monthly basis

- Make sure that all revenues & expenses were accounted for in the correct category.
- Be sure to charge actual activity to the appropriate cost category **EVEN** if you did not budget for it.
- If there are any variances, determine how you will manage these against your original plan.

Account Descriptions		BUDGET	Monthly BUDGET	Monthly ACTUAL
Salary: Regular/Overtime	112,200.00		9,350.00	9,375.00
Staff Travel	3,000.00		1,000.00	-
IT Hardware/Software	1,500.00		-	-
Printing/Reproduction	3,723.00		310.25	315.00
Office Supplies	4,500.00		375.00	250.00
Books and Subscriptions	1,000.00		83.33	85.00
Miscellaneous Expense	100.00		100.00	1,700.00
Total Expenses	\$126,023.00		\$ 11,218.58	\$ 11,725.00

Managing your Budget

Monthly reconciliation examples

- Actual revenue is lower than expected through April 30th
 - Is this based on timing, e.g., patients who have not paid?
 - Are there lower patient billings than originally anticipated?
If yes, how will this be managed?
 - New patients are anticipated?
 - Other revenues are anticipated?
 - Expense reductions can be made?

Managing your Budget

Monthly reconciliation examples

- Actual travel expenses through May 31st are higher than expected
 - Is this based on timing, e.g., travel occurred in May that was originally planned for June?
 - Was there unanticipated travel that occurred?
 - If yes, how will this be managed?
 - Cancelling other travel that was originally budgeted?
 - Transferring budget from another category?
 - New revenues anticipated?

Poll

During your monthly review, you find office supplies are not appearing on your list of actual transactions.

- A. Review other cost categories
- B. Determine if payment of the bill was delayed
- C. Both

Live viewers: Submit your answer now. We'll share results in a moment.

Managing Program & Budget Cutbacks

- Freeze – spending is curtailed, postponed or stopped
- Targeted reductions – e.g. travel or equipment
- Across the board cuts – everyone cuts a certain %
- Eliminating programs
- Voluntary reductions

Accounting Concepts

- Track actual transactions

A checkbook won't give you the information you need, when you need it.

Consider accounting software such as QuickBooks, then record every transaction using the software.

Reports are easy to generate and will help keep you on track.

Accounting Concepts

- Track expenses carefully

Record every expense in the accounting software as soon as it occurs. Include what you owe even if you are not paying the bill right away. Make use of a business credit card, or designate a personal credit card to be used for business expenses only.

Accounting Concepts

- Record loan transactions accurately

The principal you owe is a liability, but the interest is an expense. Record the entire loan amount as a liability and reduce it each month by the amount of principal you paid that month. Record the interest as an expense.

Accounting Concepts

- Track revenue and deposits

Record every deposit in the accounting software as soon as it occurs. Deposit cash and checks immediately. Record credit card payments in full to capture the true revenue, and record the fees as a separate expense.

Accounting Concepts

- Track personal deposits

Record any amounts you transfer from your personal funds to the business as Owner's Equity. If they are recorded as revenue you are likely to erroneously pay income tax on them.

Accounting Concepts

- Track your receivables

Record what is owed to you. Use the software to track what you invoice your clients/customers. Follow up on outstanding invoices.

Accounting Concepts

Common Financial Statements

- Balance Sheet or Statement of Financial Position
- Income Statement or Statement of Operations
- Statement of Owner's Equity

Accounting Concepts

Balance Sheet

	12/31 Y1	12/31 Y2	12/31 Y3
Assets	25,000	35,000	30,000
Liabilities	15,000	10,000	10,000
Equity	10,000	25,000	20,000
Liabilities & Equity	25,000	35,000	30,000

- A balance sheet reports assets, liabilities and equity at a specific point in time, typically December 31 for a small business.
- A balance sheet is in “balance” when Assets equal Liabilities plus Equity.

Accounting Concepts

Statement of Income and Owner's Equity

	Year 1	Year 2	Year 3
Revenues	80,000	90,000	75,000
Expenses	70,000	75,000	80,000
Profit/(Loss)	10,000	15,000	(5,000)
Beginning Equity	0	10,000	25,000
Ending Equity	10,000	25,000	20,000

A company's Equity changes each year by the amount of its profit or loss for the year, and agrees to Equity on the Balance Sheet.

If a transaction does not get recorded correctly at any time during the year the Balance Sheet will not "balance".

Poll

Which of the following is a true statement?

- A. $\text{Ending Equity} = \text{Beginning Equity} + \text{Profit}$
- B. $\text{Profit} = \text{Revenues} - \text{Expenses}$
- C. $\text{Assets} = \text{Liabilities} + \text{Equity}$
- D. All of the above

Live viewers: Submit your answer now. We'll share results in a moment.

Accounting Concepts

Other Considerations

- Be mindful of your cash flows. If your revenue is not spread evenly throughout the year then make sure you save up for the rainy days.
- Make estimated tax payments.
- File tax returns on time.
- Take your fiduciary responsibly seriously. Be a good steward of your or your organization's assets.

Accounting Concepts

A Professional Can Help

- Recommend, select, and implement software
- Train you on how to record your financial activity in the software, run reports, and prepare budgets
- Teach you how to reconcile your bank account(s)
- Provide advice on growing the business, or investing
- Assist with collecting from your customers and paying your bills
- Prepare and file tax returns

Resources and References

- www.accountingtools.com, Strategic Budgeting
- <https://www.freshbooks.com/blog/the-5-step-plan-to-creating-a-balanced-business-budget>
- <https://toughnickel.com/personal-finance>, Understanding how to manage budgets
- <https://christianpf.com/10-free-household-budget-spreadsheets/>
- <https://www.accounting.com/resources/accounting-basics-small-business/>

Practice Today's Lessons

- Develop a basic personal budget using Excel or some other worksheet software product. Use your salary as the main source of revenue and detail out the expenses you have (rent/mortgage, car payment, insurance, gas for car, grocery costs, dining out, etc.)
- Prepare this budget for each month
- Gain historical information from evaluating your bank account and credit card statements for the types of revenues and expenses you have and how much they average on a monthly basis

Practice Today's Lessons

- Develop new business intelligence by determining if anything will be changing in the upcoming year. Will you be receiving a raise? Is your rent increasing? Do you have any unexpected expenses coming up?
- Remember to develop supporting worksheets which detail out expenses. For example, are you planning a vacation? You can create a worksheet similar to the above-mentioned example to determine the total cost of the vacation.
- <https://christianpf.com/10-free-household-budget-spreadsheets/> for free downloadable spreadsheets that you can use to help

Questions & Answers

We will answer a handful of questions today. Some additional questions will be responded to and placed in your Slack Learning Community.

Stay Tuned

Next session: 5/22 at 4:00 PM ET

Title: Nothing is Going to Stop You Now

Faculty: Kathleen S. Brown, PhD & Zeeshan Butt, PhD