

Comprehensive Financial Planning:

Planning a Guide for your Library's Financial Future

ILF Conference
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Topics for Discussion

- Importance of Planning
- Components of a Comprehensive Financial Plan
- Implementing a Comprehensive Financial Plan

Importance of Planning

Importance of Planning

- Tax caps (Circuit Breaker Tax Credits) may significantly impact budgets
- Greater need to anticipate and identify budget deficits and cash flow shortages
- Long-term fiscal planning becomes part of the annual budgeting process
- Fiscal projections are a necessary component of major policy decisions

Components of a Comprehensive Financial Plan



Components of a Comprehensive Financial Plan

- Includes both historical and projected data
- Project receipts, disbursements, and ending fund balances
- Review for patterns to make recommendations related to budgets for the next two – three years
- Suggest options for new revenues and cost savings

Comprehensive Financial Plan Time Frame

- Traditionally a five year time frame (two - three years historical, two - three years projected)
 - Historical: 2009 – 2010
 - Projected: 2011 - 2013
- Time frame shifts as plan is updated

Budget Development

Step 1

- Estimate revenues to be generated in the ensuing year

Step 2

- Determine maximum budget amounts that can be funded from estimated revenues

Step 3

- Determine desired ending balance

Step 4

- Identify options to meet budgetary goals

Projecting Receipts

- Begin with an analysis of the past two - three year's financial results to identify trends in revenues.
- Determine whether past trends will continue. If not, identify what changes need to be incorporated into your projections.
- Include future estimates of circuit breaker tax credits.
- Consider changes in property tax appeals or uncollectible taxes.
- Adjust income tax allocations to reflect higher unemployment.



Projecting Disbursements

- Include scheduled changes in personnel costs to reflect labor contracts or expected increases in health care costs.
- Consider changes in utility costs, supply costs, liability insurance etc.
- Include major maintenance and capital expenditures.
- Include changes in debt service obligations.
 - Identify potential future revenue shortfalls and determine if budgets will need to be adjusted based on funding requirements and minimum fund balance policy

Projecting Disbursements (Cont'd)

- Prepare a Balanced Budget:
 - Disbursements are equal to or less than receipts for the same time period
- If disbursements exceed receipts, cash on hand is used to supplement funding of the budget
 - Translation - cash on hand will be spent down
 - Unless replenished, cash will eventually be depleted

Projecting Fund Balances

- Determine a minimum fund balance
(suggested reserve is between 15% and 20%)
- Factors in determining a fund balance policy
 - Claim payment cycle
 - Frequency and amount of tax collections
 - Uncertainty of revenues
 - Uncertainty of expenses
 - Capital plans



Why are Cash Reserves Important?

- May help to manage cash flow shortages without the need for external short-term borrowing
- Provides a funding source to respond to unforeseen events, emergencies or opportunities
- Demonstrates fiscal accountability and financial stability

BUDGET DEVELOPMENT EXAMPLE

	A	B	C
	Non-Sufficient Funds	Funded (not balanced)	Balanced Budget
Receipts:			
Property Tax	\$ 3,500,000	\$ 3,500,000	\$ 3,500,000
Auto Excise, CVET, FIT	420,000	420,000	420,000
CAGIT/CAGIT PTRC	1,000,000	1,000,000	1,000,000
Other Misc. Revenues	80,000	80,000	80,000
Total Receipts	5,000,000	5,000,000	5,000,000
Disbursements:			
Personal Services	4,300,000	4,300,000	4,200,000
Supplies	305,700	305,700	200,000
Other Services and Charges	955,700	844,300	575,000
Capital Outlays	288,600	50,000	25,000
Total Disbursements	5,850,000	5,500,000	5,000,000
Net Cash Flow	(850,000)	(500,000)	-
Beginning Cash	750,000	750,000	750,000
Estimated Ending Cash	\$ (100,000)	\$ 250,000	\$ 750,000

Managing Budget Deficits

- Reduction of Current Budget (Appropriations)
 - Estimate realistic expenditures through year-end
 - Formalize budget reductions with the passage of a “Reduction of Appropriation” resolution
- Discontinue Additional Appropriations
 - Only request additional expenditures (appropriations) in extenuating circumstances
 - Determine if the “additional” expenditure can be deferred to a future period or funded by reducing an appropriation in another area
- Maintain Accurate Accounting Records
 - Reconcile books to the bank at least monthly
 - Stay informed about current cash position



Options to Meet Budgetary Goals

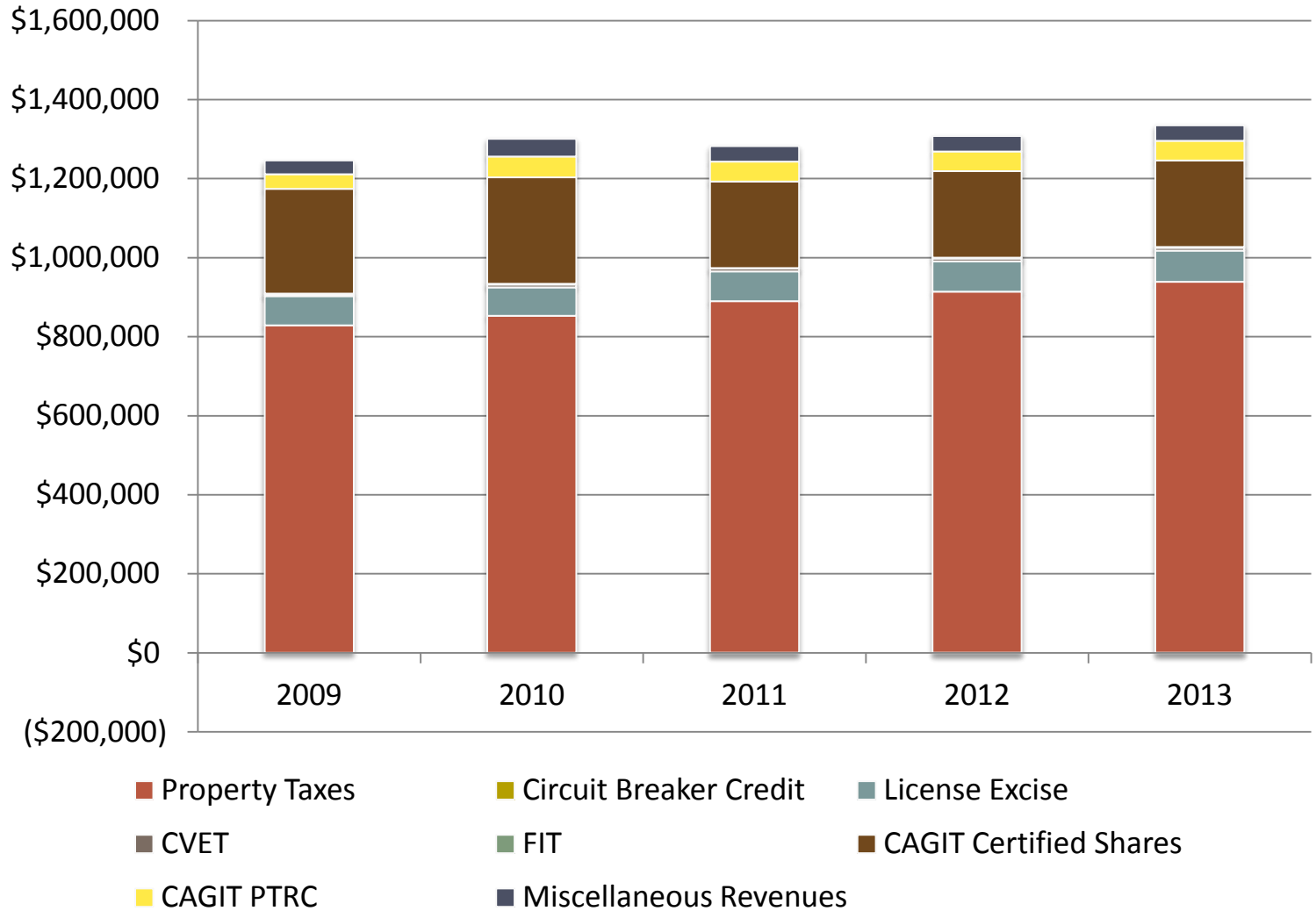
- Permanent budget reductions
- Bulk purchasing (develop partnerships)
- Cash and investment management
- Institute hiring/wage freezes
- Use of volunteers
- Reduce pay
- Reduce hours of operations
- Close facilities
- Outsource
- Consolidate services

Implementing a Comprehensive Financial Plan

Projecting Receipts

- Property Taxes
- License/Excise, Financial Institutions Tax, CVET
- Income Taxes
- Miscellaneous Revenues

Illustrative Receipts

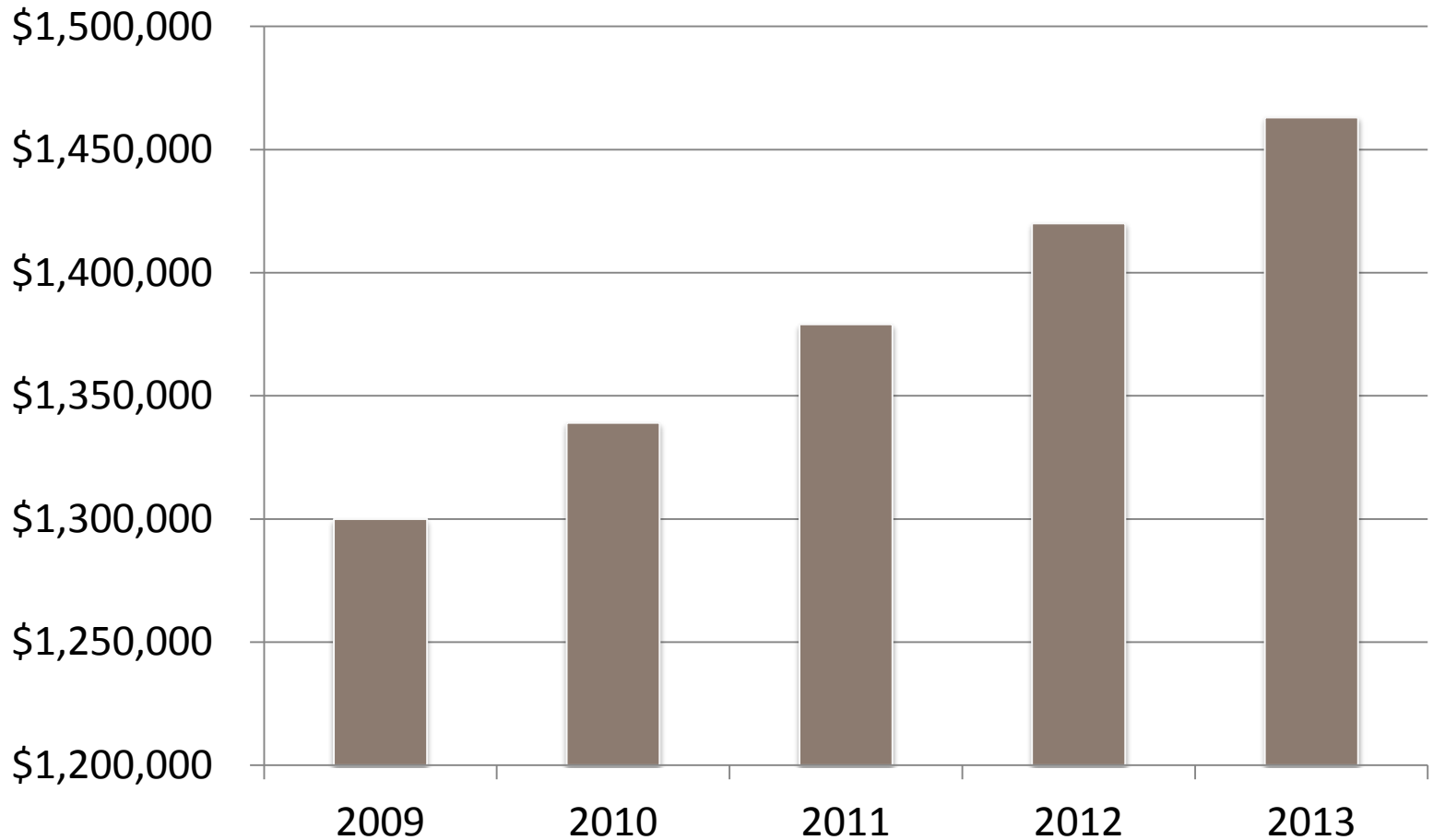


Projecting Disbursements

- Look at a range of options
 - Current Situation
 - Balanced Budget
 - Targeting a Desired Fund Balance

Illustrative Disbursements

Current Situation



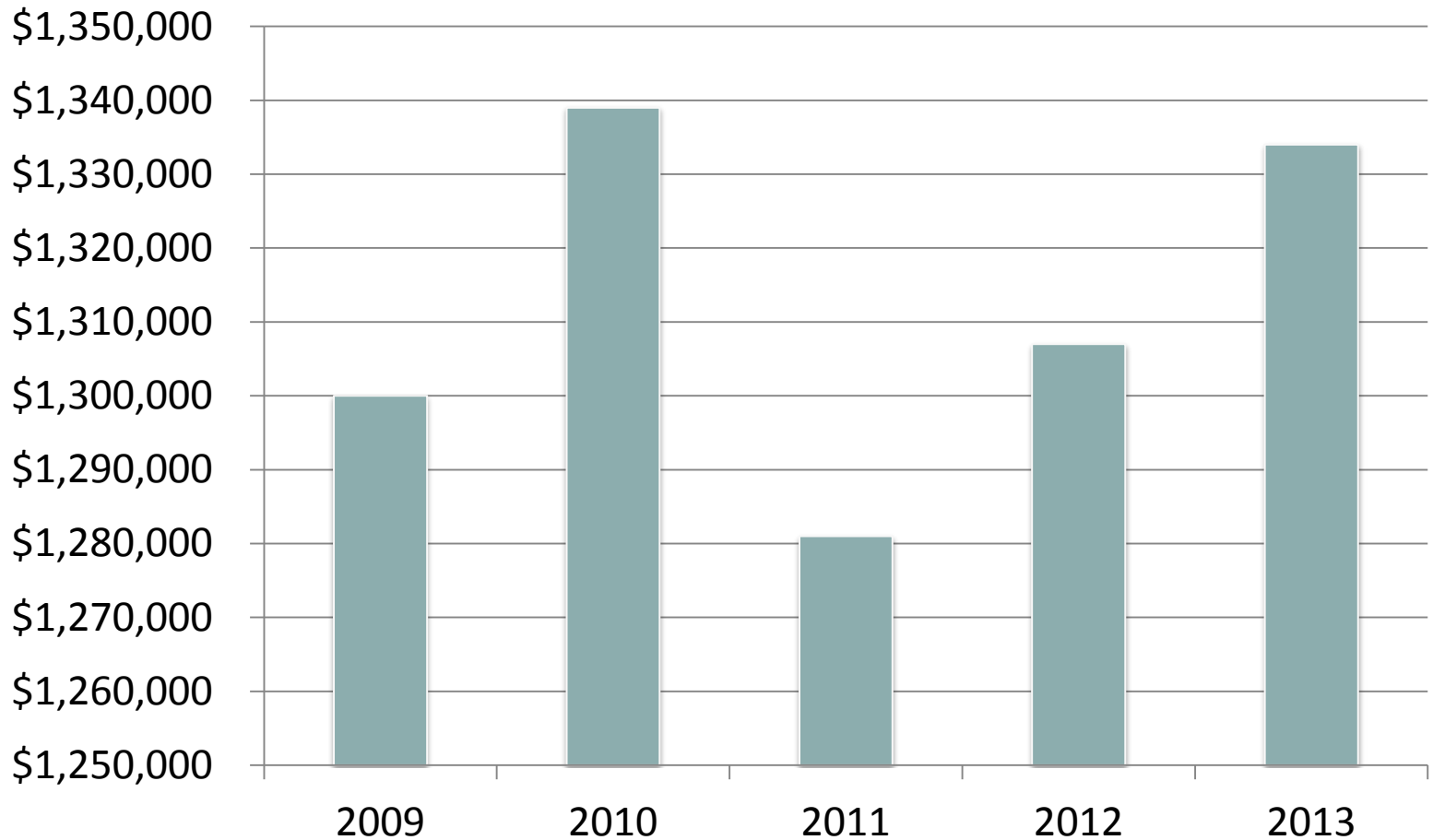
Illustrative Fund Balances

Current Situation

	2009	2010	2011	2012	2013
Beginning Cash Balance, January 1	<u>\$130,000</u>	<u>\$111,000</u>	<u>\$73,000</u>	<u>(\$25,000)</u>	<u>(\$138,000)</u>
Estimated Receipts	<u>1,281,000</u>	<u>1,301,000</u>	<u>1,281,000</u>	<u>1,307,000</u>	<u>1,334,000</u>
Estimated Disbursements	<u>1,300,000</u>	<u>1,339,000</u>	<u>1,379,000</u>	<u>1,420,000</u>	<u>1,463,000</u>
Ending Cash Balance, December 31	<u>\$111,000</u>	<u>\$73,000</u>	<u>(\$25,000)</u>	<u>(\$138,000)</u>	<u>(\$267,000)</u>
Net Cash Flow	(19,000)	(38,000)	(98,000)	(113,000)	(129,000)
Operating Balance	8.54%	5.45%	-1.81%	-9.72%	-18.25%

Illustrative Disbursements

Balanced Budget



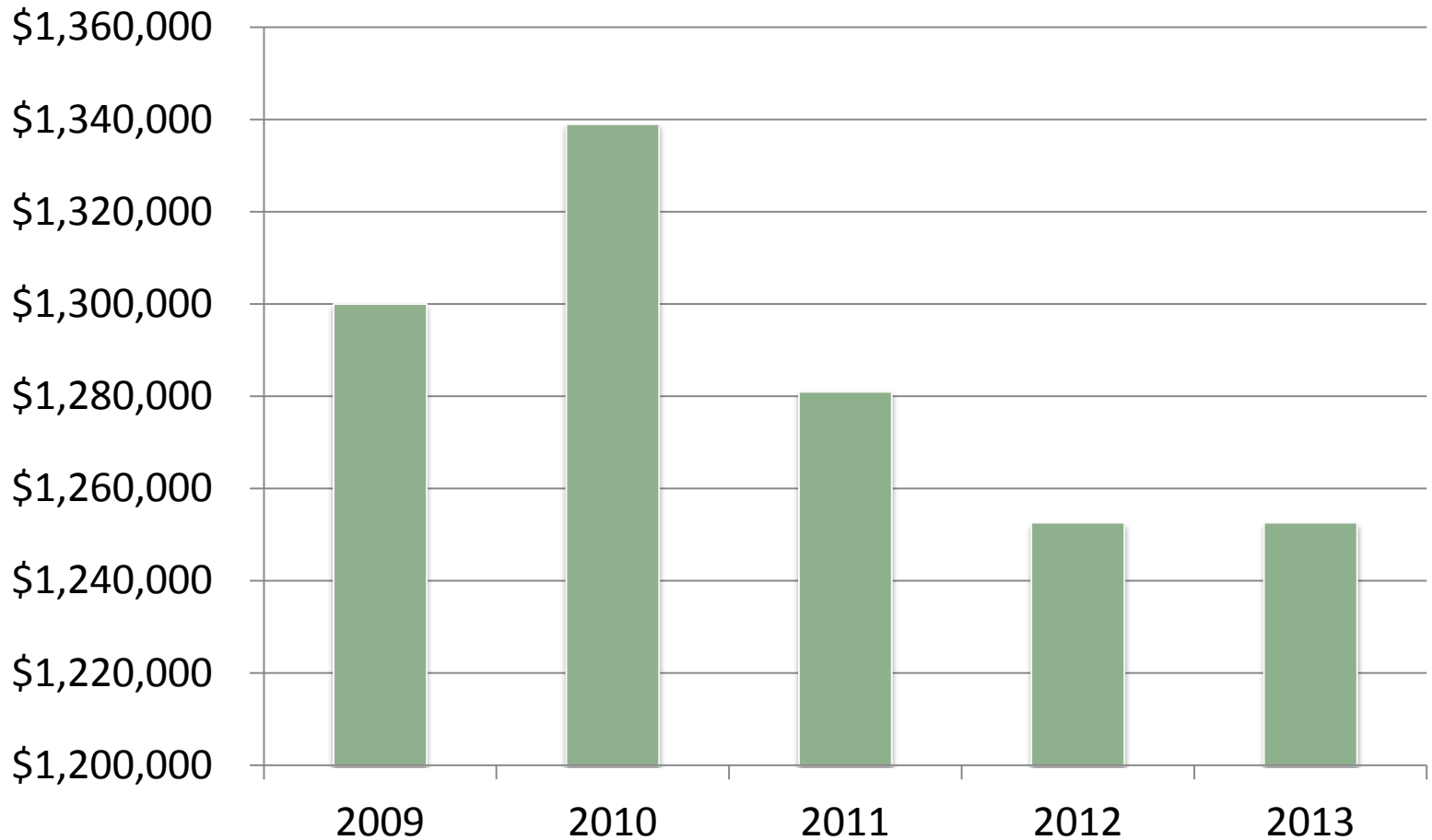
Illustrative Fund Balances

Balanced Budget

	2009	2010	2011	2012	2013
Beginning Cash Balance, January 1	<u>\$130,000</u>	<u>\$111,000</u>	<u>\$73,000</u>	<u>\$73,000</u>	<u>\$73,000</u>
Estimated Receipts	<u>1,281,000</u>	<u>1,301,000</u>	<u>1,281,000</u>	<u>1,307,000</u>	<u>1,334,000</u>
Estimated Disbursements	<u>1,300,000</u>	<u>1,339,000</u>	<u>1,281,000</u>	<u>1,307,000</u>	<u>1,334,000</u>
Ending Cash Balance, December 31	<u>\$111,000</u>	<u>\$73,000</u>	<u>\$73,000</u>	<u>\$73,000</u>	<u>\$73,000</u>
Net Cash Flow	(19,000)	(38,000)	0	0	0
Operating Balance	8.54%	5.45%	5.70%	5.59%	5.47%

Illustrative Disbursements

16.67% Fund Balance by 2013



Illustrative Fund Balances

16.67% Fund Balance by 2013

	2009	2010	2011	2012	2013
Beginning Cash Balance, January 1	<u>\$130,000</u>	<u>\$111,000</u>	<u>\$73,000</u>	<u>\$73,000</u>	<u>\$127,400</u>
Estimated Receipts	<u>1,281,000</u>	<u>1,301,000</u>	<u>1,281,000</u>	<u>1,307,000</u>	<u>1,334,000</u>
Estimated Disbursements	<u>1,300,000</u>	<u>1,339,000</u>	<u>1,281,000</u>	<u>1,252,600</u>	<u>1,252,000</u>
Ending Cash Balance, December 31	<u>\$111,000</u>	<u>\$73,000</u>	<u>\$73,000</u>	<u>\$127,400</u>	<u>\$208,800</u>
Net Cash Flow	(19,000)	(38,000)	0	54,400	81,400
Operating Balance	8.54%	5.45%	5.70%	10.17%	16.67%



Financial Planning Tips

- Develop a minimum fund balance (cash reserve) policy
- Identify revenue shortfalls
- Develop a financial forecast
- Develop a plan to manage revenue gaps



Going Forward

- Continually monitor and update financial planning model
- Continue to review costs and evaluate service delivery procedures
- Use information as a basis to make decisions

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