

**CIPE**



**Center for International Private Enterprise**

# **EFFECTIVE BUDGETING**

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# Budgeting

- Define
- Two ways to prepare
  - Revenues and expenses consistent
  - Estimate when revenues earned and expenses incurred
- Three elements in a complete budget
  - Operating Budget
    - Zero-based vs Incremental Budgeting
    - Information sources for budget format
    - Direct vs Indirect Cost



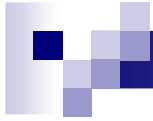
## **Budgeting** (Continued...)

- Capital Budget

- Capitalization limit and depreciation policy

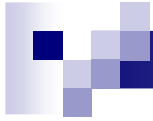
- Cash Budget

- Pulls information from operating budget
- Pulls information from the capital budget
- Does NOT include depreciation or other non-cash expense



## Implementing and Monitoring the Budget

- Each staff responsible for preparing a budget and implementing & monitoring the budget
- The Chamber or Association's Chief / Officer must understand budget status on all programs and explain it to leadership on regular basis



## Financial Reporting

*Accrual budgeting recognizes revenue when earned and expenses when incurred.*

*Cash budgeting recognizes revenue when received and expenses when paid.*

**ACCRUAL BASIS GIVES A MORE CLEAR  
PICTURE OF OPERATIONS**



# Financial Reporting

## Three instruments for Financial Reporting

- The Balance Sheet

  - Include several columns on a balances sheet showing current status, same period last year, and at end of prior year

- Statement of Activities

  - This statement shows all sources of revenues and expense. Four helpful elements in a statement of activities: Year-to-date; Variances; Annual Budget; Prior-year-to-date



## **Financial Reporting** (Continue...)

- **Cash flow Statement**

This statement shows USES and FLOW of cash over the period covered in the statement of activities



# Controls, Oversight Independent Evaluation

- Internal Financial Controls

- Audit
- Review
- Compilation

- Accounting for Organization's Finances

Commonly thought of as “Bookkeeping”. This function can be performed either internally or may be outsourced.



# Reserves

- Why?
  - Weather a downturn
  - Seize opportunity
  - Use funds for capital improvement
  - Investment
  
- Investment Goals
- When and how to use reserves?
- When to re-evaluate goals



# Investments

- A board-approved investment policy should be reviewed periodically and updated as needed. The policy would include:
  - Components of cash
  - Timelines for funds used
  - Investment vehicles
  - Expected return on investment
  - Internally managed or investment managers
    - Who engages investment managers?
    - Who reviews performance of investment managers?
  - Who authorizes sale or purchase of securities?



## **CLOSE**

Each organization's 'Policies and Procedures' Manuals should address the ways in which the finances and business operations are conducted and contain policies for assuring that it is accurately performing and reporting its financial functions