

Forecasts and Budgets – Guiding Your Company To A Brighter Future

Presented by:

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Curtis Blakely And Co, PC, CPAs

- We've been providing accounting services to the telecommunications industry for over 30 years.
- Located in Longview, Texas
- We currently assist clients in Texas, Oklahoma, Louisiana, Arizona, New Mexico
- Over the years we have assisted clients in numerous other states.



CB AndCo And MACC

- Currently we assist 3 MACC User telcos and 5 subsidiaries with their monthly bookkeeping, preparation of financials, and other accounting needs. Remote and/or Onsite
- 4 of our annual audit clients use MACC
- We are well versed in MACC accounting and billing applications.

Definitions

- **Forecast** – Prospective financial statements that present, to the best of the responsible party’s knowledge and belief, an entity’s expected financial position, results of operations, and cash flows.

- **Projection** – Perspective financial statements that present, to the best of the responsible party’s knowledge and belief, **given one or more hypothetical assumptions**, an entity’s expected financial position, results of operations, and cash flows.

- The difference between a forecast and a projection is that in a forecast, all the assumptions are expected to occur, whereas in a projection at least one assumption is not necessarily expected to occur and may be improbable. In other words, a forecast presents management’s expectations; a projection presents management’s expectations based on a “what if” situation.

Definitions

- **Budget** – A Budget is a plan that outlines an organization's financial and operational goals. A budget may be thought of as an action plan - implementing a budget helps a business allocate resources, evaluate performance, and formulate plans.





Reasons For Implementing A Budget

1. **Assists In Monitoring Performance**

- A budget is a useful guide that tells management whether the company is going in the direction they want to be headed in financially.

- Can you imagine the government or any large corporation operating without a formal budget in place?



Reasons For Implementing A Budget

2. A Budget Allows A Company To Monitor Its Cash Needs And Activity

- Example: Can the company pay for a new building addition out of existing cash reserves, or should it incur debt?
 - Will allow the user to perform several “what if” scenarios to determine which is more favorable.



Reasons For Implementing A Budget

3. A Budget Can Tell You If The Company Is Operating Within Its Means

- Does the company require additional debt to continue to operate?

- Is the subsidiary self-sufficient or does it require cash from the parent?

Reasons For Implementing A Budget

4. A Budget Can Help A Company Reach Its Savings Goals

- Cooperatives - Capital Credits (Patronage) – Can the Cooperative meet its Annual Patronage Retirement?
- Long Range Planning – Save Sufficient cash for a future project.

Reasons For Implementing A Budget

5. A Budget Helps Employees And Management Focus On Common Goals

- Useful tool for monitoring progress and explaining variances.
- A good budget is not just a spending plan; it's a communication tool. Some companies have department manager meetings and discuss their actual and budgeted differences.



Reasons For Implementing A Budget

6. A Budget Helps Explain Variances Between Periods To Outside Parties

- Auditors, consultants and regulators often request explanations for significant variances from historical amounts.
- A good budget will allow you to have the detail available as needed.

A Word of Caution

□ **A Budget, Although A Useful Tool, Cannot Always Drive The Financial Activity Of An Enterprise!**

- Unforeseen Expenses
- New Opportunities
- Errors

It is what it is..... Don't "fudge" to meet the budget!!!





Budgeting Considerations

- A Company Needs A “Benchmark” or Starting Point To Begin The Preliminary Budget
 - Historical Financial Statements Are The Preferred Starting Point, But They Should Be Adjusted For Out Of Period Activity And Other Known Differences.



Budgeting Considerations

- Basic Financial Statements To Include In Your Budget Spreadsheet
 - Balance Sheet
 - Income Statement
 - Statement of Cash Flows

- Advanced Presentation Information To Consider
 - Graphs
 - Departmental Analysis
 - Variance Report

Budgeting Considerations

- Discuss With Knowledgeable Staff The Following Activity For The Budget Year:
 - **Proposed Capital Expenditures**
 1. Manager of each department could be responsible for gathering their proposed capital expenditures for the year. For example, if Customer Service needs new PCs, the CSR Manager could include their request in the budget preparation workpapers with an estimated cost. CSR Manager could discuss costs with IT Manager.
 2. Timing – Important to ensure depreciation is budgeted correctly.



Budgeting Considerations

□ Proposed Capital Expenditures

A common problem encountered in budgeting preparation is that department heads don't realize the difference between a capital expenditure and an operating expense. They include the amounts in both, or include capital expenditures in their expenses when reporting the information.



Budgeting Considerations

- Budget Preparer Should Discuss With Knowledgeable Staff The Following Activity For The Year:
 - **Retirements of Fixed Assets**
 1. Again, each department head or manager is responsible for gathering proposed retirements for the budget period.
 2. Timing – when will the retirements occur?

Budgeting Considerations

- Budget Preparer Should Discuss With Knowledgeable Staff The Following Activity For The Year:
 - **Changes In Long-Term Debt**
 1. Will the company incur additional debt this year?
 2. Will the budget period include accelerated debt payments this year?
 3. Will any RUS loans be paid off in the budget period?
 4. When will the debt be incurred or paid off?

Budgeting Considerations

- Budget Preparer Should Discuss With Knowledgeable Staff The Following Activity For The Year:
 - **Patronage Capital Payments Or Dividends**
 1. Will the company pay patronage or dividends?
 2. Will the payments be from general fund or investments?
 3. When will the payments be made?

Budgeting Considerations

- Budget Preparer Should Discuss With Knowledgeable Staff The Following Activity For The Year:
 - **Changes In Employee Staffing**
 1. Department Managers could give information on proposed new hires, pending retirements, wage increases, etc.
 2. Increases in benefits should be considered when computing the increase in wages and staffing.

Budgeting Considerations

- Budget Preparer Should Discuss With Knowledgeable Staff The Following Activity For The Year:
 - **Changes In Revenues**
 1. Consider contacting your consultant for changes in your settlement revenues, USF, etc.
 2. Carefully review the source documents and general ledger activity for your current revenue streams to determine the best method to forecast these revenues.
 3. Customer billed revenues are predictable. NECA can vary greatly, but the budget will allow you to explain the variance.

Budgeting Considerations

- Discuss With Knowledgeable Staff The Following Activity For The Budget Year:
 - **Changes in Expenses**
 1. Carefully review the source documents and general ledger activity for your current expense streams to determine the best method to forecast these expenses.
 2. Consider running a report by vendor to determine the historical cost for recurring expenses such as billing, consulting, engineering, accounting, power, etc.



Budgeting Considerations

- Consider The Level Of Detail Needed To Present The Necessary Information:
 - **Best Case**
 1. Import WTB into Spreadsheet
 2. Examine Individual Accounts
 3. Group These Accounts Into Meaningful Groupings
 4. Prepare the budget based on these groupings

Budgeting Considerations

▶ Assumptions / Balance Sheet / Income Statement / Ratios / **Calculation** / Debt Information / Other Information

Helpful Hint: Consider Using Multiple Tabs (worksheets) in your Excel workbook, linking each section to the appropriate area of the other worksheets

In this example we have separate sheets for:

- Assumptions
- Balance Sheet
- Income Statement
- Ratios
- Calculation
- Debt Information
- Other Information

Spreadsheet For Budget Preparation

□ Step 1 – Presentation

1. **What information would you like to present?**

- a. Comparative of Previous Year With Budget?
- b. Monthly or Annual Calculation?
- c. Use throughout the year to monitor actual financials?
- d. Use the budget model to compute variances and explain differences?

For our example, we'll assume comparative, monthly and that we will monitor it monthly.

Sample Of Comparative Information For Budget Monitoring and Reporting - Revenues

Sample Telephone Company						
Income Statement - Comparative						
January, 2006						
	Previous Yr	Budget	Actual	Variance	% Variance	Description Of Variance
Operating Revenues						
Basic Local Service Revenue	218,000	238,403	263,850	25,447	9.64%	
Extended Local Service Revenue	70,000	75,285	83,987	8,702	10.36%	
Interstate Access Services	333,000	294,113	329,750	35,637	10.81%	
Intrastate Access Services	129,000	133,840	148,500	14,660	9.87%	
Federal USF	249,000	258,333	284,300	25,967	9.13%	
Texas USF	309,000	339,369	374,500	35,131	9.38%	
Long Distance Service	14,000	12,548	12,895	347	2.69%	
Directory Revenue	23,000	23,757	26,133	2,376	9.09%	
Billing & Collecting	25,000	25,095	27,605	2,510	9.09%	
Texas USF Surcharge	18,800	19,574	21,531	1,957	9.09%	
Miscellaneous Revenues	22,300	25,095	27,605	2,510	9.09%	
Uncollectible Operating Expense	(4,500)	(6,991)	(7,690)	(699)	9.09%	
Total Operating Revenues	1,406,600	1,438,421	1,592,965	154,544	9.70%	

Calculation Methods

- Carefully Consider What Method You Will Use to Calculate the Income and Expense
 1. **Common Error** - Simply increasing the prior year's balance for inflation may not be sufficient.
 2. Take the time to examine a year's activity to determine what makes up an account balance.
 3. Use separate sheets of the spreadsheet for increase in customers, access lines, employees, etc.

Calculation Methods

□ Basic Local Service Revenue

- Based on change in access lines. Consider any changes in rates, timing of change in access lines, etc.

For more detail, consider extracting your billing information in to the budget spreadsheet.

*** MACC BL-67 Reports Contain This Information.*

Calculation Methods – Local

(Method to consider if telco has limited growth, changes)

BASIC LOCAL SERVICE REVENUE

Base Year Amount	2,900,000	
Average Number Of Subscribers	16,350	
Estimated Local Service Per Subscriber	177	
Beginning Of Month Subscribers		16,700
Net Subscriber Growth		60
End Of Month Subscribers		16,760
Monthly Average		16,730
Monthly Revenue Per Subscriber		14.75
Estimated Basic Local Service Based On Subscriber Growth		246,768
Net Adjustments From Input Section		0
Monthly Basic Local Service Revenue		246,768

Calculation Methods – Local

(Detailed Method)

- Use Information From MACC's BL-67 Report, Import into Excel
- Use this information to compute monthly Local Revenues

Calculation Methods

□ **Billed Interstate and Intrastate Access Services**

- Depending on size of company, you may want to use the change in access lines, computing a monthly average based on historical figures.
- Consider any changes in rates, etc.
- Consider NECA Settlements For Interstate Access Calculation

For more detail, consider extracting your billing information and using the data in the budget spreadsheet.

Calculation Methods – Interstate and Intrastate Access

INTERSTATE ACCESS SERVICES

Base Year Amount	3,500,000
Average Number Of Subscribers	16,350
Estimated Local Service Per Subscriber	214
Beginning Of Month Subscribers	16,700
Net Subscriber Growth	60
End Of Month Subscribers	16,760
Monthly Average	16,730
Monthly Revenue Per Subscriber	17.83
Estimated Interstate Access Service Based On Subscriber Growth	298,296
Net Adjustments From Input Section	0
Monthly Interstate Access Service	298,296

Calculation Methods - Revenues

- There are many methods to calculate the various revenues. I suggest examining your activity and determining what is best for your company.
- Obviously there is a cost-benefit constraint, but the more time you spend on determining the method that will yield accurate results, the more useful your budget will be.

Sample Of Comparative Information For Budget Monitoring and Reporting - Expenses

	Previous Yr	Budget	Actual	Variance	% Variance	Description Of Variance
Plant Specific Expense						
Motor Vehicle & Equipment Expense	3,100	2,844	2,950	106	3.59%	
Land & Building Expense	40,000	41,825	42,000	175	0.42%	
Office Equipment/Computers, Etc.	15,000	15,392	25,000	9,608	38.43%	
Central Office & Circuit Equipment	110,000	100,380	103,000	2,620	2.54%	
Poles, Aerial Cable & Wire	1,400	1,338	1,500	162	10.80%	
Buried Cable & Wire	189,000	161,779	152,000	(9,779)	-6.43%	
Total Plant Specific Expense	358,500	323,558	326,450	2,892	0.89%	
Plant Non Specific Expense						
Power Expense	7,200	8,365	8,465	100	1.18%	
Network Administration	6,300	7,027	7,168	141	1.97%	
Testing Expense	32,400	36,304	38,000	1,696	4.46%	
Plant Operations	7,200	8,365	6,540	(1,825)	-27.91%	
Engineering	18,900	20,913	17,908	(3,005)	-16.78%	
Access Expense	11,700	12,548	11,800	(748)	-6.34%	
USF Funding	13,500	15,392	12,589	(2,803)	-22.27%	
Total Plant Non Specific Expense	97,200	108,914	102,470	(6,444)	-6.29%	

Calculation Methods – Motor Vehicle Expense

MOTOR VEHICLE & EQUIPMENT EXPENSE

Base Year Amount	31,364	
Average Number Of Subscribers	16,350	
Estimated Expense Per Subscriber	<input type="text" value="2"/>	
Beginning Of Month Subscribers		16,700
Net Subscriber Growth		60
End Of Month Subscribers		16,760
Monthly Average		16,730
Monthly Expense Per Subscriber		0.17
Estimated Motor Vehicle Exp Based On Subscriber Growth		2,844
Net Adjustments From Input Section		0
Monthly Vehicle And OWE Expense		2,844

Calculation Methods – Motor Vehicle Expense

- Consider any significant changes in the previous year such as additions to the fleet, major nonrecurring repairs and maintenance (i.e. – Overhaul of rock saw, ditchwitch)
- Accounts that are spread (vehicles and OWE) must be reviewed when preparing the budget for both capital and expense accounts.



Calculation Methods - Depreciation

- ❑ Depreciation Expense should be reviewed carefully.
- ❑ Check for classes of assets or vintages that are almost fully depreciated, adjust accordingly.
- ❑ Consider budgeted plant additions, retirements, etc.

Calculation Methods - Depreciation

- Consider using a composite depreciation rate if there are no material changes.
- I have set up a monthly calculation previously for a client to compute estimated depreciation on their proposed balances due to significant changes in equipment that used specific identification depreciation. This worked very well.

Calculation Methods - Depreciation

Depreciation and amortization

Base Year Ordinary Depreciation	3,800,000		
Base Year Average Gross Plant	48,000,000		
Composite Depreciation Rate (A)	7.92%	7.92%	7.92%
Projected Average Gross Plant (B)		49,165,547	50,705,566
Depreciation		3,892,272	4,014,191
Amortization of Extraordinary Retirement		380,035	0
Adjustment For Fully Depr Software			(125,000)
Depreciation & Amortization Expense		3,746,837	3,889,191

Presentation of Balance Sheet - Budget

- A Balance Sheet is necessary as well in a well prepared budget in order to determine the overall financial condition of your company.

- Many transactions affecting the balance sheet accounts affect the Statement of Operations.
 1. Unusual Write-Offs of Uncollectibles or Inventory
 2. Gains/Losses on Investments
 3. Depreciation
 4. Retirements of Equipment
 5. Debt Activity

Calculation Methods – Cash

(Comparable To A Statement of Cash Flow)

	2005 Actual	2006
Cash and cash equivalents		
Beg Of Year		1,065,427
Add: Net Margin		1,195,643
Depreciation & Amortization		3,821,623
Collections Of Affiliate Accts Receivable		0
Loan Proceeds		0
FASB 106 Accrual In Excess Of Retiree Benefit Payments		0
Decr In Current Liabilities		0
Distributions From Subsidiary		0
Less: Principal Payments On LT Debt		(538,523)
Plant Additions, net of inventory change		(1,550,000)
AFUDC		(41,183)
Capital Credits Paid		(1,000,000)
Equity In Affiliates Earnings		(843,000)
Partnership Capital Calls		0
<i>End Of Year</i>	1,065,427	2,109,987

Calculation Methods - TPIS, Materials And Their Interaction

Telecommunications plant in service

Beg Of Year		48,258,187
Add: Plant Additions		1,550,000
Materials And Supplies Transferred From Inventory		150,000
AFUDC		41,183
Less: Retirements		(200,000)
End Of Year	<u>48,258,187</u>	<u>49,799,370</u>

Materials and supplies

Beg Of Year		567,272
Decrease in COE Inventory		(150,000)
End Of Year	<u>567,272</u>	<u>417,272</u>

Calculation Methods – Long-Term Debt, Patronage

Long term debt

Beg Of Year		7,042,677
Add: Additional Loan Proceeds		0
Less: Principal Payments On LT Debt		(538,523)
End Of Year	7,042,677	6,504,154

Patronage capital

Beg Of Year		20,000,000
Add: Current Year Net Margin		1,200,000
Less: Patronage Capital Paid		(1,000,000)
End Of Year	20,000,000	20,200,000

Budgeting For Subsidiaries

- We recommend preparing a budget for the each operation (i.e., - parent and each subsidiary), if material.
- Both Parent and Subsidiary should be linked, as changes to one could affect the other. Increases in wages, benefits, could flow between the two entities. If linked, its simply a matter of changing it in one place.



Summary

- Although preparing a budget/forecast can be time-consuming, the end product is a useful tool that can be used by all to monitor the financial condition of a company, allowing proactive changes to occur to assist a company in achieving its goals and objectives.