

**Homework Exercise 2a: Historical Analysis/Explanation of Trends**

In Homework Exercise 2a I conducted a budget analysis of the Sanitation and Garbage Collection Department's budget. The goal of my analysis was the following: 1) determine what the Sanitation and Garbage Collection Department actually spends in its budget 2). examine budgetary patterns to see how their budget has changed over time 3). determine how closely the Sanitation and Garbage Department is following their budget. I conducted a share, trend, and variance analysis to meet my goals.

**Share Analysis**

A share analysis allows you to determine the share (%) of each expenditure item in your budget. Consequently, because a budget is a reflection of an organization's priorities "the percentage of the budget represented by each area is a good representation of the importance of that expenditure or program" (Stowers Budget Exercise Workbook, pg 8). In Exercise 2a I conducted a share analysis of the proposed year 4 budget by dividing the line items by the year 4 budget total of \$824,350.

$$\frac{\text{Line Item}}{\text{Year 4 Budgeted}} = \frac{\text{Salaries 650,000}}{\text{Yr 4 Budget 824,350}} = 78.85\%$$

I found the biggest share of the Sanitation and Garbage Collection's budget is being spent on salaries (78.85%). The next two biggest items being spent in the budget were Fuel and Lubricants (9.10%) and Professional Services (6.07%).

### **Trend Analysis**

Trend Analysis allows you to see trends (changes) in your budget over a period of time. In Exercise 2a I conducted a trend analysis with the actual expenditure data for year 3 and year 4 by subtracting year 3 actual from year 4 and dividing by year 3. For example, in year 4 the money spent on salaries was \$642,810 minus \$614,964 spent on salaries in year 3 divided by the year 3 indicated that the budget for salaries increased 4.5%.

$$\frac{\text{Yr 4 Actual} - \text{Yr 3 Actual}}{\text{Yr 3 Actual}} = \frac{642,810 - 614,964}{614,964} = 4.5\%$$

The trend analysis of the Sanitation and Garbage Collection Department also revealed that many line item budgets percentages were in the negative. The percentages were negative because less money or no money at all was spent on a line item in year 4 than in year 3. For example, \$8,525 was spent in year 3 on tools and supplies and no money was spent in year 4, which represents a -100% decrease for this line item budget. In analyzing the trends in the Sanitation and Garbage Department I would hypothesize that there was a financial setback that caused them to have spend less money in year 4 then they did in year three based upon the fact so many items in the budget were in the negative percentage.

### **Variance Analysis**

Variance analysis is a tool that allows you to see how closely the budget is being followed. Variance analysis should be done on a monthly basis to see if you are spending what you said you were going to spend. "Variance analysis compares the amount budgeted for each line item for a certain budget period with the amount actually spent" (Stowers Budget Exercise Workbook, pg 11). In Homework Exercise 2a I conducted a variance analysis of the budgeted and actual expenditures for year 4. To calculate variance analysis I subtracted year 4

actual from year 4 budgeted and divided by the year 4 actual. For example, when I calculated a variance analysis on salaries for the Sanitation and Garbage Collection Department I found that they actually spent 1.1% less on what they budgeted salaries in year 4.

$$\frac{\text{Yr 4 Budgeted} - \text{Yr 4 Actual}}{\text{Yr 4 Actual}} = \frac{650,000 - 642,810}{642,810} = 1.1\%$$

Unfortunately, the Sanitation and Garbage Collection Department was over budget in many areas including freight and express (-27%), real property repairs (-76%), capital improvements (-16.2%), utilities (-16.2%), supplies, and fuel and lubricants (-6.4%). I would recommend that Garbage Collection Department do monthly variance analysis of their budget to ensure they are spending exactly what they need for each line item. If problems arise in which line items are costing more than expected they can shift funds from areas in which they spending less than they anticipated. For example, they could shift money from claims and clothing because they spent less money than they budgeted for in claims (5.1%) and clothing (9.6%).

### **Homework Exercise 2b: What-If Analysis**

In Homework Exercise 2b I analyzed the budget of an AIDS Outreach program by performing what-if analysis on the budget. My goal was to balance budget or have a surplus despite different scenarios that resulted in a loss to my revenues.

### **Scenario 1**

In Scenario1 the AIDS Outreach lost its \$25,000 contracting for the HIV counseling due to political problems with the State Department of Health. This resulted in a \$25,000 shortfall in the budget. In order to balance the budget and

give the AIDS Outreach a surplus I had to make some tough decisions and reduce some expenditures. I reduced Office and Education Supplies by 30% and Financial Assistance by 25%, which gave the AIDS Outreach a surplus of \$630. I selected these two items to reduce because I didn't want to reduce the big-ticket items such as salaries or benefits because the AIDS organization values its employees and their commitment to helping AIDS victims. I also felt the rent the AIDS outreach program pays was not something we wanted to change because we need to be centrally located in a city to service people with AIDS and typically cities have high rent. Hopefully, the AIDS Outreach program can find a cheaper vendor to buy its office and education and supplies. I also felt the financial assistance could be reduced by getting more volunteers to help with the finances of the agency.

### **Scenario 2**

In Scenario 2 the contracting for HIV counseling are still zeroed out and three governmental contracts are reduced by ten percent. This resulted in a shortfall of \$35,000 shortfall. Once again I applied the same logic that I did in Scenario 1 and I chose not to reduce salaries and benefits or rent. Instead I reduced line items that I felt the AIDS Outreach could handle. I reduced the following items by 20% Office & Education Supplies, Equipment & Maintenance, and Production Expense. I reduced Financial Assistance by 30% and all of these cuts yielded a \$580 surplus for AIDS Outreach.

### **Scenario 3**

In Scenario 3 the donations and sustainer donations were reduced by twenty percent. At the same time the employees at the AIDS Outreach are upset and get a well-deserved pay increase of five percent. The loss of donations and

pay increase of five percent resulted in a \$41,550 shortfall. Using the same logic that I applied in Scenarios 1-2 I made reductions in line item expenditures based upon cuts that I felt the organization could sustain. I reduced the following items by 30% Office & Education Supplies, Equipment & Maintenance, Production Expense, and Financial Assistance. I reduced Products by 40% and this resulted in a \$70 surplus for AIDS Outreach.

**Scenario 4**

In Scenario 4 our prayers have been answered and the United Way increases our funds by twenty percent, the City increases our grant to \$100,000 and we get \$80,000 from the state and county. All these good fortunate resulted in a \$100,000 surplus for AIDS Outreach. We gladly spent this money on our organization. We started by increasing the salaries by 10%. Next we increased the following items: Office & Education Supplies, Printing, Postage, Conferences, Production Expenses, Volunteer Development, and Products. After increasing all of these items we were left with a \$100 surplus.