

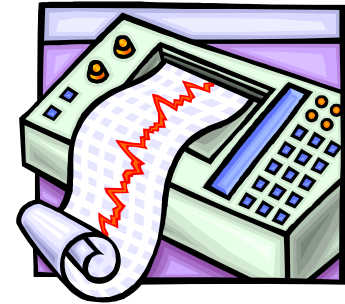
Compiling an Accurate and Useful Budget

CVC WEST 2008

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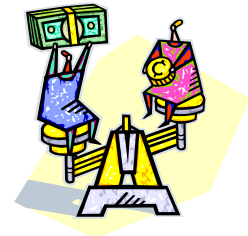
Why Budget?

- Help Plan for Future
 - Where is the practice headed financially?
 - Increasing revenue?
 - Raising fees
 - Analyzing expenses
 - Monitoring cash flows
 - Specifying operational changes



Why Budget?

- Awareness
 - Better understanding of practice numbers
 - Early identification of problems
 - Specification of “why” circumstances are expected to change
 - Specific goals and means of achievement



Why Budget?

- Allows for communication and coordination of goals
 - Staff and Owner motivation
 - Tool for Bonuses
- Estimates cash availability
 - Affordability of new associate
 - New equipment purchase
 - Other cash needs
- Tool to monitor performance



Misconceptions

- Budget is not a static document
 - Changes can be made during year
 - Associate leaves
 - Downturn in economy
 - Keep document fresh and achievable
- Budget should be detailed...but not too detailed
- Budget should be formatted like your profit and loss statements...assuming they're correct

Misconceptions

- Budget can begin whenever you want.
 - Not just beginning of calendar year
- Budget should be broken down by month
- Budget should monthly track ebbs and flows of your business
 - Revenue – good months versus bad months
 - Staff costs – three payroll months
 - Property taxes – twice a year
 - Owner taxes – four religious holidays

Steps to Creating a Budget

- Gather the basic information
- Review profit and loss data month by month
- Identify the financial changes expected in the practice next year
- Identify the changes the practice would like to see in the practice next year
- Get cracking...

Gather the Basic Information

- Start the budgeting process for the next year three to four months before the end of the current year
- Collect the profit and loss statements (P&L) or tax returns from the past two full years as well as a year-to-date statement from the current year
- Make sure you have monthly profit and loss statements



Gather the Basic Information

- Revenue by category report from practice management system
 - Shows total revenue broken down by type of service.
 - Categories most frequently seen include vaccination income, surgery income, anesthesia revenue, dentistry income, laboratory income, hospitalization, food sales, pharmacy sales, etc.
 - Show total revenue broken down by month.



Gather the Basic Information

- Monthly Profit and Loss Statements
 - Proper expense breakdowns
 - With percentage of gross revenues preferable
 - Detailed general ledger for research and questions
- Monthly Payroll Data
 - By person
 - By class



Budgeting with a Spreadsheet Program

- Spreadsheet program versus paper budget
- “What if” scenarios
- Only necessary to know the basics of the spreadsheet program
 - How to input data
 - How to sum data
 - How to do simple arithmetic formulas

Review Sample Budget Spreadsheet

(ignore red for now)

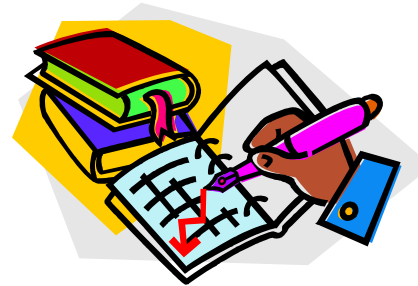
Review Budget - Framework

- Should be similar to Profit and Loss
- Revenue
- Expenses – Major categories
 - Staff Costs
 - Professional Services (Animal Care Costs)
 - Occupancy
 - Administrative
 - Debt/Loans
 - Capital Expenditures
 - Owner Distributions
 - Cumulative Cash Flow



Budget Framework

- Percentage of gross revenues
 - Show for each major category
 - For example, Occupancy Costs
- Annual Total Column



Identify Expected Practice Changes

- Rent increase
- Utilities
- New hires not fully represented in current year financials
- Raises
- Major expenditures



Identify Desired Practice Changes

- Goals

- Practice and owner
- Personal and professional
- Financial and non-financial
- The clichés

- “If you don’t know where you’re going, how will you know when you get there?”
- “If you can’t measure it, you can’t manage it.”



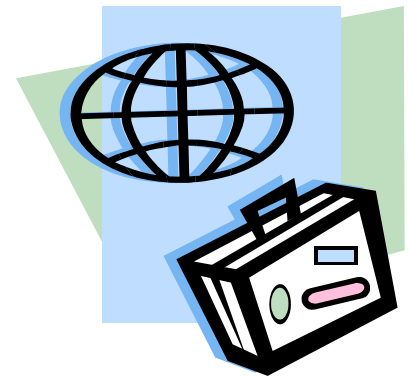
Identify Desired Practice Changes

- Purchase of new equipment
- Attend a particular CE conference
- Hire more staff
- Hire a new veterinarian
- Give the staff a raise and more benefits
- Provide more training for the staff



Identify Other Desired Changes

- Take an exotic vacation
- Send your kids to private school
- Spend less time at work and more time at home
- Renovate your building
- Build a new building



Identify Desired Practice Changes

- Quantify financial aspect of each goal
- Most goals are about spending more money
- To achieve these new goals, the practice needs to
 - Make more money
 - Spend less money
 - Change the areas in which it is spending money
- Focus on revenues

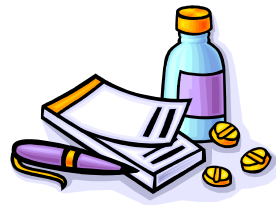
Time to Start Budgeting!

Example Revenue Budgets

(Page 3-5 of handout)

Revenue

- Three ways (at least) to budget revenue
 - Simple: Prior year revenues per month, plus some growth factor
 - Moderately Detailed: Days open for business, clients expected to be seen per day, average client transaction, plus retail, plus other
 - Moderately Detailed: Prior year revenues by category per month, plus some expected growth factor



Example Staff Budget

(Page 6 of handout)

Staff Costs

- Should be broken down by body, if manageable
- Should be at least broken down by area: owner, associates, front office, technicians, management, other
- Owner – What salary do you need?
- Associates – how paid?
 - Flat salary
 - Production
 - Quarterly bonus, catch-up



Staff Costs

- Front Office/Technician/Other
 - Salary
 - Hourly
 - Full time, part time
 - Overtime
- Management
 - Salary?
 - Profit sharing/bonus?
- Prior year versus future
 - Goals and targets
 - Planned raises
 - Overtime under control



Review Sample Overall Budget

(Page 1-2 of handout)

Other Related Staff Costs

- Payroll Taxes - formula
- Workers Comp Insurance - formula
- Health Insurance
- Retirement Plan - formula
- Continuing Education
- Dues
- Other Staff Costs



Animal Care Costs/Cost of Professional Services

- Variable
- Formula Driven
- Calculated on prior month's gross revenues
- Last year:
 - Drugs and Medical Supplies: 14% of gross revenues
 - Lab Costs: 4%
 - Food: 5%
 - Other: 2%
 - Total: 25% of gross revenues



Cost of Professional Services

- Budget Targets:
 - Drugs and Medical Supplies: 12%
 - Lab Costs: 3%
 - Food: 4%
 - Other: 2%
 - Total: 21% of gross revenues
- Difference:
 - 4% of gross revenues
 - Revenue of \$1,000,000
 - \$40,000 in increased profit



Occupancy Costs

- Tougher to control these costs
- Rent increases
- Telephone, utilities, insurance, maintenance: all pretty consistent
- Budget in large repairs?
 - Which month is best?
 - Cash flow
 - Work interruption



Administrative Costs

- Also tougher to control
- Opportunity to review:
 - Advertising - worth it?
 - Office expense
 - Bank charges
 - Other items



Other Items

- Loan and lease payments – enter full monthly payment
- Equipment purchases – when and how much?
- Owner distributions – when and how much?
- Net cash flow by month
- Net cumulative cash flow



Let's go through Example Budget in detail...

Key Assumptions

- Budgeting for a 10% increase in revenues in 2009 – prior year revenues were \$1,000,000
- Owner has decided to take three week vacation to Scotland in October
- Dreaded three payroll months – May and October
- 4% staff raises across the board in December
- Manager gets 6% raise in December
- Retirement plan contributions – matching portion – will be made throughout year
- Rent increase in May – 4%

Key Assumptions

- Practice in desperate need of roof repair – sooner the better
- Current phone book ad will expire in April, renewal will cost one-third as much
- Time for new computers and file server – will try and pay cash
- Tax distributions for owner – four religious holidays
- Doctor will pay for her own vacation one month after – when credit card hits
- Will start 2009 year with \$15,000 in bank

Review Highlights

- Budgeting for a 10% increase in revenues - \$1,100,000 target
 - Page 1 Q-12
 - Page 3 Q-20
 - Page 4 Q-40
 - Page 5 Q-38
- Owner will take three week vacation in October
 - Page 1 N-12 – revenue dip
 - Page 3 N-20
 - Page 4 N-40
 - Page 5 N-38
 - Page 1 N-19
- 4% raises across the board in December
 - Page 6 P-17 through P-40
- Manager gets 6% raise in December
 - Page 6 P-44

Review Highlights

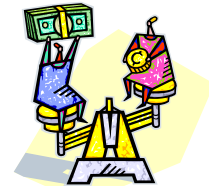
- Dreaded Three payroll months
 - Page 6, column I and column N
- Retirement plan contribution
 - 3% matching made throughout year
 - Page 1 E-22 through P-22
- Rent increase in May
 - 4% increase
 - Page 1 I-42 through P-42
- Roof repair
 - Cost of \$3,000 – done in February
 - Page 1 F-46
- Phone book ad will expire in April, renewal will cost one-third as much
 - Page 1 H-53 through P-53

Review Highlights

- New computers and file server – paying cash
 - Cost of \$15,000
 - Paid for and installed in September
 - Page 2 M-69
- Owner distributions
 - Quarterly estimated tax payments
 - Pay off prior year taxes
 - Page 2 E-70, H-70, J-70, M-70
- Doctor pays for vacation month after – credit card hits
 - Page 2 O-70

What does this budget tell us?

- Net cash flow, after expenses and other disbursements paid, of \$26,473 (Page 2 Q-75).
- Including beginning checking account balance of \$15,000 (Page 2 E-77), ending cash balance will be \$41,473 (Page 2 P-78)
- Will need cash infusion in April and May - checking account goes negative (Page 2 H-78 and I-78)
- Cost of owner's trip: over \$16,000 – actual cost of trip, lost revenues, cost of relief vet



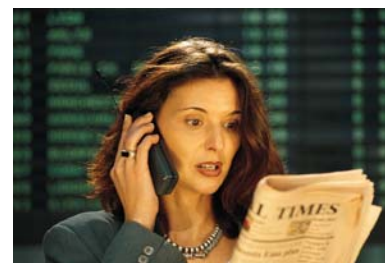
Finalization of the Budget

- How will this revenue increase be achieved?
- Do the manager and other key personnel believe it can be achieved? How?
- Trial and error process
- Generally see multiple changes before deciding on a final choice of goals
- Final decision depends on
 - Net cash flow desired next year
 - Importance of individual goals



Hints for a Successful Budget

- Be liberal with expense estimates and conservative with revenue estimates
- Leave room for surprises
- Start with a simple budget and then use it to calculate the effect of more complicated plans
- Get help when you need it



Hints for a Successful Budget

- Give yourself the time needed for the process
- Accurate in-house accounting system
- Comparative industry revenue and expense ratios
- Staff input



Hints for a Successful Budget

- Constant Review
- Budgeted versus actual
- Significant differences?
 - Revenue only growing by 5% Why?
 - Staff costs higher than expected? Why?
 - Cash flow is tight? Why?



Copy of slides and budget
template by email?

Questions?



Answers