Budget Process Questionnaire – Summary 10/10/12
Responses from Honor, Alpena Alcona, Detroit Metro, Ohio Catholic, Progressive, Community CU, Fox

1. When is your budget due to your Board?

Honor, Alpena, Detroit, Fox = December, OhioC, Prog = preliminary in Oct., final in early Dec. or early Jan., CommCU= first draft in November, final in December

   a. If the budget is due prior to the end of the year, how do you process your budget based on only a partial year being completed?

      Honor = base the majority on the first 9 months, then re-look at the end of Nov. to see any big discrepancies

      Alpena = YTD figures are used as of 10/31. From that point we forecast to the end of the year and then a year end figure is projected for each G/L

      Detroit = pro-rate numbers based on historical data

      OhioC = do annualized projections on YTD and make adjustments based on previous year results

      CommCU = We forecast to the end of the year based on YTD growth

      Fox = Averages used for months already complete plus any expected expenses for the remaining months.

   b. If the budget is due after the beginning of the year, how do you process your variance report for the January income statement?

      Prog = variance reports are done with pre-final budget figures

2. Please outline your budget process:

Honor

   Step 1: I start with the fee income and calculate whether we will be keeping the fee structure the same or adding a new fee versus increasing the fee amount.

   Step 2: I calculate the investment income and whether or not I will be increasing my portfolio and what I feel the average rate of return will be on that portfolio.

   Step 3: Then we look at the loan portfolio and estimate the growth and the average rate by portfolio. I give the VP of Lending the g/l’s that are associated with each loan category and he does the estimation of the income based on the estimated growth.

   Step 4: Then I separate the expense g/l’s into groups such as HR, Marketing, Operational, supplies, IT, Collections and give them the g/l’s associated with the expenses and look up any vendors that they need to help them with their portion.

   Step 5: The dividend g/l’s I calculate what I anticipate the growth to be and the interest rates associated with each category.

   Step 6: I then calculate the anticipated furniture & fixture expenditures as well as the future or current building needs and what month it will start calculated by how many months we will do on that expenditure. I add these anticipated expenses to our existing monthly expense.
Step 7: The rest of the g/l's I look at individually to make sure I anticipate any changes that may occur for the coming year expenses.

Step 8: I request the preliminary numbers by the end of October and we go over them with the CEO and the VP’s to see if we all feel comfortable with what we have come up with.

Step 9: Typically we have some changes to be done. At the end of November we meet again to make sure I have everything I need to complete the budget for the December Board meeting.

Alpena

Step 1: Project current year ending operating expense balances
Step 2: Project new year operating expenses
Step 3: Project new year savings growth and project savings div/int rates that may be paid in the new year & calculate interest rate expense
Step 4: Project new year loan growth, project loan yields and calculate loan income
Step 5: Project investment income
Step 6: Project fee and other operating income
Step 7: Input totals on budget spread sheet (attached)
Step 8: Input totals on spread analysis report
Step 9: Make adjustments accordingly

Detroit Metro

Step 1: Work with ALM model and establish growth rates shares/loans
Step 2: Work with ALM model to set expected rate
Step 3: Get expected purchase from various branches/departments
Step 4: Review contracts to determine potential increases
Step 5: Review fees and determine desired income levels
Step 6: Review business plan to implement action items
Step 7: Review past 12 months history and compare to last year’s budget
Step 8: Attempt to break budget out by branch, department and product
Step 9: Meet with marketing and determine promotions, expected lost ROI
Step 10: Review Fee Income Waiver and NSF Statistics Dashboard
Step 11: Present to finance committee

OhioC

Step 1: Pull the total financials by G/L from CUAnswers and export into Excel (August)
Step 2: Annualize the financials
Step 3: Sub-divide financials by who owns oversight of the income/expense (department/branch)
Step 4: Send sub-divided financials to department/branch leaders for them to make predictions of how their G/Ls will finish the year and to act as a guide for their estimates of next year’s income and expense. (Early Sept)
Step 5: Receive back input from branches and departments as to the rest of the year expenditures and next year’s requests (Late Sept)
Step 6: Check feedback for accuracy and feasibility and roll individual budgets up to a full budget. The full budget is Draft #1 and is presented to the board.
Step 7: Board feedback is gathered and given to branches/departments to tweak individual budgets to ensure the overall budget meets board expectations.

Step 8: Second round of budgets is rolled-up and CFO/CEO make final modifications before presenting to board in December for final approval.

Step 9: Any last minute changes/concerns can be made for approval in January meeting

**Progressive**

**Step 1:** Create a September YTD budget analysis template in Excel for budget modeling.

**Step 2:** Download monthly financial data (by g/l accounts) off CU*Base into Excel budget template to analyze and forecast-out for the remaining year end; commencing of Budget modeling.

**Step 3:** From the year-end projections, strip away "one-time" financial events to develop a "normalized runrate" for the budgeted year.

**Step 4:** Then determine the reasonable targeted growth (or reduction) rate for each runrate; this is accomplished via market research, and departmental & management inputs.

**Step 5:** Add known "one-time" financial events (for budgeted year) to the runrates; this is accomplished via departmental & management inputs.

**Step 6:** The above steps are done first for Expenses, then Income, followed by Assets, Liabilities, and Shares & Equity. Salaries and head count analysis are done in conjunction with Expenses.

**Step 7:** Year-over-year analysis and budgeted ratios are calculated and analyzed; budget modeling is updated as often as necessary.

**Step 8:** Budget modeling is updated as each year-end month passed. Pre-final budget is distributed to Board members in December for first viewing. Final budget is presented to Board members in January's Board meeting.

**Step 9:** Upon final budget approval, completion of budget modeling, the budget is entered into CU*Base, hopefully in mid February.

**CommCU**

**Step 1:** Forecast loan growth based on established sales production goals for new members, new checking accounts, new loan volume

**Step 2:** Determine deposit growth necessary to fund loan growth and maintain sufficient liquidity ratios

**Step 3:** Calculate loan income and dividend expense based on assumed rates to get to an interest margin

**Step 4:** Determine if interest margin and fee income projections are sufficient to fund current expenses and provide adequate net income to fund capital growth

**Step 5:** Determine projected operating expense increases based on known increase i.e. tax rates, benefit costs maintenance, utilities, new programs, salary increase

**Step 6:** Estimate other operating expense increases such as supplies, provision for loan losses, marketing, facility costs, IT

**Step 7:** Seek ideas from internal teams to improve initial budget results

**Step 8:** Tweek items based on new ideas provided

**Step 9:** Develop plan B which would include less loan growth than initial projection

**Step 10:** Present to board in November

**Step 11:** Tweak based on Board input

**Step 12:** Present final in December

**Step 13:** Work our butt off to meet budget
For Income/Expenses:

**Step 1:** Export current year to excel

**Step 2:** Review accounts, calculate an average for current year months, add expected expenses for remaining months (manual adjustments to excel spreadsheet)

**Step 3:** Give management staff excel detail to review their accounts (excel export)

**Step 4:** Add additional expenses for upcoming year (excel spreadsheet)

**Step 5:** Review budget accounts for adjustments (excel spreadsheet)

**Step 6:** Adjust budget to fit into target range (excel spreadsheet)

**Step 7:** CEO and CFO review numbers before board presentation (excel spreadsheet)

**Step 8:** Present to Board (excel spreadsheet)

**Step 9:** Adjust based on board review (excel spreadsheet)

For Assets/Liabilities:

**Step 1:** Review quarterly ALM reports

**Step 2:** Review loan & deposit growth assumptions

**Step 3:** Review loan & deposit rate assumptions

**Step 4:** Present overall budget to the Board

3. Do you budget your projected assets and liabilities, as well as your income and expenses? Yes (all) If yes, please explain:

**Honor** = calculate the anticipated growth in both assets and liabilities based on the loan, investment, deposit, fixed assets, prepaid assets, accruals and cash needs.

**Alpena** = YTD figures are used as of 10/31, from that point we forecast to the end of the year & then a year end figure is projected for each GL#. To project next year's figures we factor in growth factors based on economic conditions.

**Detroit** = not really specific/detailed, but overall growth

**OhioC** = In order to accurately estimate or income and expenses we have to estimate what our assets and liabilities will look like at the beginning and end of the next year.

**Progressive** = Our regulators have asked specifically for Assets and Liabilities Budgets

**Fox** = Budget fee income, operating expenses, & balance sheet

4. Do you budget your savings and loan balance sheet G/L accounts? Yes (all) If yes, please explain:

**Honor** = We do anticipate the growth to make sure we are budgeting the income and expenses properly.

**Alpena** = YTD figures are used as of 10/31, from that point we forecast to the end of the year & then a year end figure is projected for each GL#. To project next year's figures we factor in growth factors based on economic conditions.

**Detroit** = Use expected loan & share plus expected interest rates
OhioC = We have to budget those sheets in order to accurately estimate our assets and liabilities. We use these budgets to help write our scorecards for our employees.

Prog = For purposes of correlating business events and strategies for next year budgeting

CommCU= We begin by projecting loans at the portfolio level, but our budget variance report reflects balances at both the GL account level and sub category levels.

Fox= using ALM forecast reports

5. Do you use your budgeted savings and loan balance sheet G/L accounts to calculate your dividend expenses and loan income for your budget based on an automated formula? Yes (all except Honor/Prog) If yes, please explain:

Honor = The numbers are put in a spreadsheet and calculated in this manner

Alpena = YTD figures are used as of 10/31, from that point we forecast to the end of the year & then a year end figure is projected for each GL#. To project next years figures we factor in growth factors based on economic conditions.

Detroit = usually use weighted averages

OhioC = We do an estimate of how many loans we will add and at what rate, how many loans we will leave and at what rate and we do an estimate of how many shares we will have and what dividends we will pay on each.

CommCU= We use the forecasted beginning of year balance and projected/budgeted end of year balance to calculate an average balance for the year, times an expected rate for the type of account.

Fox= automated in Excel

6. What percentage of your G/L accounts are included in your budget? All said 100% except Detroit which is 60%, CommCU did not indicate % If less than 100%, why not all of them? Detroit=only worry about material amounts, CommCU=We have too many GL accounts to budget 100% at the GL account level

7. Do you enter your budget into CU*BASE? Yes for Honor, Prog and Fox, all others No If not, how do you prepare your budget variance reports when you run income statements? Excel Spreadsheets, CommCU= Budget variance reports were prepared within ALM software. We would like to streamline and improve the process by preparing variance analysis reports directly from CU*Answers.

8. Do you use any third-party budget tools such as an ALM budgeting toolkit? Yes for Alpena, Detroit, OhioC, CommCU, Fox No for Honor, Prog If yes, please explain:

Alpena = Refer to Kiplinger Washington letters, vendor increase notices, current news, etc.

Detroit = Use Brick to trend balance and rate information

OhioC = We have used Brick’s ALM in the past but I am a little more comfortable using Excel

CommCU=spreadsheet

Fox= use Farin Foresight
9. Do you use a spreadsheet budget tool to complete the budget prior to entering it into CU*BASE? All that use CU*BASE said Yes, CommCU said that they use Excel to analyze and project non-interest income and expenses.

10. Do you budget by branch? Yes for Detroit, OhioC and CommCU. If yes, please explain:

   Detroit = don’t have branches now but intend to in 2013

   OhioC = We keep track of branch income/expenses within CUAnswers and we use this data to help the branches estimate their future budgets.

   CommCU= For estimating sales goals, not for expenses yet

   Fox= Hope to do this in the future

11. Please explain how you budget your employee expenses:

   Honor= I give it to HR to calculate

   Alpena = An estimated increase is projected for each employee, calculating all wages and any wage related benefits (retirement, life and disability, taxes) upon those figures. Insurance costs are estimated based on historical figures and expected increases or decreases from the insurance companies.

   Detroit = Based on historical data with expected % increase

   OhioC = We roll up payroll, estimate an increase for benefits and then do a 3% increase across many of the fixed costs unless we have a contract which spells out the increase

   Prog = Budgeted as a group, with an average last 3-year-inflation as a cost-of-living-increase. Unfilled and new positions are budgeted at half-year. Bonus related are budgeted flat.

   CommCU= Estimate necessary staffing levels times rate of pay. Benefits are analyzed to determine necessary changes and projected costs.

   Fox= Trends and projections based on current year expenditures.

12. Do you budget a total for the annual and divide by 12 or do you adjust your budget based on the actual periods (days in a month, days in a quarter, etc.)?

   Honor = Currently we divide by 12. I do a few g/l’s by month that are associated with payroll.

   Alpena = Some GL#’s are divided equally over the four qrtrs. when no increases/decreases are expected from qrtr. to qrtr. Each GL# is reviewed to anticipate seasonal expenses etc. such as lawn care, snow removal etc. that will seasonally impact the general ledger. This holds true with many GL#’s including VISA expense etc.

   Detroit = Both, Annual/??12 on most items, but actual period on interest calculations

   OhioC = Currently we divide by 12 but we would ideally like to incorporate more of the seasonality in the budget

   Prog = For the most part, annual budget is divided by 12; payroll expense recognizes the 3-pay-months; stats/newsletter, quarterly-project expenses, and NCUA expenses are recognized accordingly.

   CommCU=Annual divided by 12
Divide by 12 for some gl's and others are budgeted monthly with different balances

13. If you were to group your G/L accounts into Budget Groups, how might you set up the first 15 groups?

**Honor**
- Consumer loan interest income
- Mortgage loan interest income
- Business loan interest income
- Loan fee income
- Investment income
- Fee Income
- Other income
- Consumer lending expenses
- Mortgage lending expenses
- Business lending expenses
- HR expenses
- Marketing expenses
- Share dividend expenses
- Certificate dividend expenses
- IRA dividend expenses

**Alpena**
- Interest On Loans 111.00 - 119.00
- Income From Investments 122.00
- Fee Income 131.00 - 159.10
- Loan Skip Service Fee 159.20
- Other Operation Income 114.00 - 156.00
- Employee Compensation & Benefits 211.00 - 224.40
- Travel & Conference Expense 231.08 - 232.11
- Office Occupancy Expense 251.20 - 256.00
- Office Operation Expense 261.10 - 293.79
- Education & Promotional Expenses 271.00 - 272.15
- Loan Service Expenses 282.00 - 289.40
- Professional & Outside Services 291.00 - 299.00
- Provision for Loan Loss 300.00 - 300.10
- Member Insurance 311.00 - 312.00
- Operating Fees 321-00

**Detroit Metro**
- Interest on Loans 111.00-119.99
- Interest on Investments 121.00-149.99
- Miscellaneous Income 151.00-159.99
- Salaries 211.00-219.99
- Employee Benefits 221.00-249.99
- Building Equipment 251.00-268.99
Outside Services 269.00-299.99
Other Expenses 301.00-369.99
Dividends 381.00-389.99
Loans 701.00-709.99
Investments 735.00-750.99
Other Assets 751.00-799.99
Other Liabilities 800.00-899.99
Shares 901.00-909.99
Undivided Earnings 931.00-999.99

OhioC
Lending Expenses
Accounting Expenses
Marketing Expenses

Progressive
Expenses  200.00 - 499.99
Income  100.00 - 199.99
Assets  700.00 - 799.99
Liabilities  800.00 - 899.99
Members Shares  900.00 - 910.99
Equity  930.00 - 960.00

CommCU
Did not provide

Fox
Loan Fees  119.00-119.70, 130.10-130.50
Transaction Fees  131.00-132.90
Miscellaneous Fees  133.00-151.00
Salaries & Benefits??  211.00-228.00
Employee Related Expenses  231.00-243.00
Office Related Expenses  251.00-269.50
Marketing  270.29-276.00
Loan Servicing  282.00-300.00 excluded PLL
Professional Services  292.00-298.00, 370.00
Other Operating Expenses  311.00-350.00
Data Processing  361.00-365.00

14. What budget variances do you have to report to the Board?

% of the budgeted number  Honor=All variances, Alpena= 10%, Detroit = 5%, Prog= major significant changes, Fox= YTD Actual Current Year to YTD Budget Next Year in excel

$ amount variance  Honor=All variances, Prog= major significant changes, CommCU=5,000, Fox= Balance Sheet Growth Projections via Actual Results in Excel
15. Please outline your top three change requests for the CU*BASE budget tool:

Honor = #1: Ease of entry too time consuming  #2: Capability of per month entry versus equal 12 month allotment  
#3: Capability of % growth different for each G/L instead of flat % across the board

Alpena = have more budget group buckets

Detroit = #1: Redistribute annual for monthly buckets  #2: Ability to budget growth in assets and liabilities  #3: Create budget dashboards to display more months & compare to prior

Prog= #1: Ability to view full year, side-by-side  #2: Ability to upload from spreadsheet by g/l accounts, and month-over-month  
#3: Ability to upload b/s accounts by monthly activities, vice month-end balance

CommCU= It would be helpful to have the flexibility of an Excel worksheet to analyze and project non interest income and expense.

Fox CU= #1 Ability to print a 12 month actual and total by general ledger number, #2 Average balances per general ledger account per month for all balance sheet accounts, #3 Incorporate Off Balance Sheet accounts from the loan section

16. Please outline your top three change requests for printing budgets or variance reports:

Honor = #1: Make the report easier for the lay person to understand how to print this report with variances  #2: Be able to print the budget right in the budget screen

Alpena = would like a separate variance report printed, if variances outside our limits occur

Detroit = #1: Print Budgets compared to?? or established goals  #2: Compare to prior month and prior year on same page  #3: have summarized and detailed budget reports

CommCU= flexibility

17. Have you ever used any outside consulting on how to approach your budget?  All said No except Detroit, CommCU

If yes, who? What benefit do you see with this arrangement?

Detroit= Internal/External Auditor/CPA

CommCU= AHO. Helpful in projecting loans and deposits and calculating interest income and expenses