Quick Reference Guide

What is a Forecast?
A forecast is an estimate or projection of a future financial outcome, relying on historical financial information, YTD actual results, and forward-looking indicators.

The purpose of a forecast is to evaluate current and future financial conditions that may impact in-year and future decision making.

Forecasting helps to identify unexpected issues or new information so that decisions for corrective action. Forecasting also helps to identify potential opportunities and risks.

Preparing Your Forecast

Step 1: Define your Assumptions
➢ What are the fundamental issues impacting your forecast?
➢ What basic approach will you take?
  • Forecast to your revenue and expense targets?
  • Align forecast to your budget as much as possible?
  • Risk management:
    o Build in mitigating factors
    o How to address revenue shortfall or over expenditures?

Step 2: Gather Information
➢ What do I base my financial projection on?
  • Starting point: Original Budget
  • Historical and YTD information
  • Current and future indicators:
    o Adjusted budget
    o What is new or coming down the pipe?

Step 3: Choose and Implement a Forecasting Method
➢ How do I conduct a financial projection?
  • Forecasting models
    o Quantitative method - extrapolation
    o Subjective approach / qualitative method
    o A hybrid of Quantitative and Qualitative
  • Get an understanding of HOW you came up with your forecasts
    o What assumptions did I make?
    o What elements did I factor into my forecast?

Step 4: Forecast Entry in Template
➢ Ask yourself:
  • Are the methods I am using to forecast reasonable? Does it make sense in the context of our operations?
  • Based on the way I am forecasting, can our numbers be relied on? Are they as accurate and complete as possible?
• Do I have good reason to forecast what I have?
• Does my forecast make sense?

Step 5: Variance Analysis
- The purpose is to determine if you are on track and to identify any unusual items.
- The most important benchmarks to compare a forecast against:
  - Prior year actuals
  - Original Budget
  - Adjusted Budget: an indicator and information source

Quantitative Factors:
- Compare a forecast to prior year actuals:
  - Horizontal analysis
    - E.g., Is Travel Expense the same, higher or lower than last year? By how much? If it is higher or lower, WHY?
      - Was there something extraordinary that happened?
      - Is there something missing?
  - Annual trend analysis
    - E.g., Is the forecast for Travel Expense comparable to the last 3 – 5 years? If no, WHY?

- Compare a forecast to original budget:
  - Horizontal analysis
    - E.g., Is Travel Expense forecasted to be on budget, or higher or lower? By how much? If it is higher or lower, WHY?
      - Was there something extraordinary that happened?
      - Is there something missing from the forecast?
      - Did I miss budgeting for something?

Qualitative Factors:
- Examples include:
  - New revenue agreements, events, etc.
  - Expiring revenue agreements
  - New hires, retirements, maternity leaves
  - Other salary of position changes

Commenting on Variances
You are required to explain any variance which is greater than 10% or $50,000, or lesser than -10% or -$50,000.

What to include:
- Explain why revenues or expense are higher or lower than you anticipated
- Explain what was specifically done to reduce costs if this was intentional
- Explain for both comparisons to prior year actuals and to Original Budget

For forecasted transfers in and out greater than $100,000, please provide a description of what they are for.
What to include:

- For anticipated Fund Transfers In, indicate the funding source (e.g. Trust fund, Provision Fund, etc.)
- For anticipated Fund Transfer Out, indicate the funding destination (i.e. Research Fund, Capital Fund, etc)

You will be provided with a template to complete your variance explanations. The template provides you with the 3 digit account numbers and a comment field where you can insert your comments for the respective variances.

Please ensure the variance explanations you provide are accurate, complete, and reliable. The table below includes examples of poor and good explanations.

<table>
<thead>
<tr>
<th>Variance</th>
<th>Comparison</th>
<th>Poor Explanation</th>
<th>Good Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>$27K Decrease in External Sales and Service Income</td>
<td>Current Forecast vs. Prior Year Actuals</td>
<td>“Less revenue received than last year”</td>
<td>“Last year an external sponsor (TD Bank) gave the Faculty $20,000 to support the North Conference that took place in January 2018. This sponsorship was a one-time thing. The next North Conference will take place in January 2020.”</td>
</tr>
<tr>
<td>$77K Surplus in Support Salaries &amp; Wages</td>
<td>Current Forecast vs. Original Budget</td>
<td>“Vacant positions”</td>
<td>“Two vacant positions have been unfilled since April. One employee was terminated and the other quit at the end of last fiscal year. Hiring process for both positions has begun and both will be filled by January 2019”</td>
</tr>
<tr>
<td>$2.3M Surplus</td>
<td>Current Forecast vs. Original Budget</td>
<td>(blank)</td>
<td>“We intentionally reduced our spending this fiscal year to save for a new building. Significant savings occurred for travel, hospitality, printing and consumables.”</td>
</tr>
<tr>
<td>$325K Deficit in Revenues Less Expenses (Overall deficit)</td>
<td>Current Forecast vs. Original Budget</td>
<td>“Deficit okay, in discussions with central admin”</td>
<td>“A fire broke out damaging 3 class rooms and various computer equipment. Insurance proceeds will cover half of the deficit. In discussions with Provost and Financial Planning Office on Aug 15 regarding how to cover the remaining deficit. I will send you an email as backup.”</td>
</tr>
</tbody>
</table>

Step 6: Review

- Forecasting methods used reasonable?
- Variance analysis and explanations
- Errors, omissions, and unusual items
- Take a “big picture” view: explain at a high-level the overall forecasted results for your Faculty/Unit
**Forecast Submission**

Once the forecast is complete and reviewed, please send an email to [FAR@umanitoba.ca](mailto:FAR@umanitoba.ca) with the complete templates.

FAR will follow up with the Business Managers if further information is required.

For units projecting a deficit, please include an action plan in your email to FAR, describing:

- What the unit is doing to address the deficit; and
- How and when will the issue be resolved.
**DO’S & DON'TS**

**Do:**
- Provide explanations for ALL variances that are greater than **10% or $50,000**, or lesser than -**10% or -$50,000** in the blue columns (forecast to original budget & prior year actuals sections)
- Provide as much detail as possible (i.e. Staff vacancies: # of positions unfilled/retired/on maternity leave, length of vacancies, when they will be filled; Events: one-time or re-occurring)
- Provide adequate information and respond to Financial Analysis & Reporting department as timely as possible
- Review explanations of forecasts delegated down for reasonability – Business Manager Responsibility
- If expenses were intentionally reduced – explain what was specifically done to reduce the cost
- If revenues or expenses are higher or lower than anticipated – explain why (i.e. was it a one-time anomaly or reoccurring? was there a change in operations?)
- If forecasting a surplus, explain why, how, when, and how the surplus will be utilized in the future
- If forecasting a deficit, explain why, when, and how the deficit will be subsequently resolved

**Don’t:**
- Ignore variances that need to be explained
- Use the explanation “budget hasn’t been allocated,” “BT#,” or “BT required” – this does not explain the variance. Budget should be properly aligned prior to preparing your forecast
- Assume Financial Analysis & Reporting department knows something about your unit that you haven’t informed us about
- Use the explanation “Variance not significant”
- Provide one-word answers
- Use acronyms unless defined