**Financial Planning Analysis - Consulting Report**

**1. Executive Summary**

**Objective**

The purpose of this report is to analyze major budget categories over the past 18 months, assess the accuracy of the company’s budgeting compared to actual expenditures, and provide financial forecasts for the next six months. Utilizing time series modeling, this analysis focuses on three primary spending categories to identify key trends and actionable insights.

**Key Findings**

While our forecasting models closely align with actual expenditures, the budget does not adequately account for seasonal fluctuations.

Expenditures exhibit a predictable six-month cycle, with notable spikes occurring in April and October.

Rent costs follow a pattern of stability for six-month periods, followed by fluctuations. Forecasts project a continued increase in rent costs at an average of $340 per month.

Depreciation costs are more stable, allowing for a robust forecasting model. Building improvement costs are expected to increase by approximately $600 per month.

Affiliate Account expenses remain highly volatile, leading to the least effective forecasting results. Further investigation into cost drivers is necessary.

**Recommendations**

Depreciation Analysis: Rental properties are experiencing rapid depreciation, accounting for nearly 34% of annual costs. A review of furniture and appliance agreements, alongside proactive maintenance schedules, is recommended to mitigate these expenses.

Data Integrity Improvements: There are inconsistencies in how financial data is stored, impacting monthly and quarterly analyses. A revised database structure should be implemented to enhance reporting accuracy.

Utility Cost Optimization: Electric-powered units incur significantly higher supply and maintenance costs compared to gas-powered alternatives. A cost-benefit analysis of transitioning to gas-powered systems and negotiating volume-based contracts with regional suppliers is advised.

**2. Detailed Expense Analysis**

**Major Expense Categories**

A breakdown of all accounts is provided in Figure 1, with the top 10 contributing expense accounts outlined below based on their percentage of total yearly expenditures:

Building Rent – 34.38%

Depreciation - Building Improvements – 16.77%

Depreciation - Furniture and Fixtures – 7.55%

Janitorial Services – 5.77%

Depreciation - Building – 5.28%

Miscellaneous Repairs & Maintenance – 4.23%

Property Tax for Owned Real Property – 3.03%

Light Bulbs/Electrical Supplies – 2.89%

Electricity – 2.84%

Depreciation - Fixed Equipment – 2.38%

**3. Forecast and Projections**

**Expense Forecast and Variance Analysis**

As depicted in Figure 3, more than 85% of forecasted values were within a 5% margin of actual expenditures. However, from June 2022 to December 2022, forecasting models deviated significantly from actual costs, with variances reaching approximately ±$4,300 per month, primarily due to inconsistencies in Affiliate Account projections. A comprehensive review of billing structures and forecasting methodologies is necessary to enhance accuracy.

In contrast, budget variance exhibited substantial discrepancies, fluctuating between $4,300 over budgeted to $12,500 under budgeted. Given the anticipated volatility in rent costs over the next six months, a collaborative effort between the financial planning and budgeting teams is critical to refining budget structuring methodologies.

To enhance forecasting precision, our team deployed the Prophet variance model, a time series forecasting tool developed by Facebook. This model effectively decomposes time series data into trend, seasonality, and holiday components, enabling more accurate predictions despite seasonal fluctuations. As shown in Figures 4, 5, and 6, our analysis segmented expenses into three categories:

Rent Costs: Projected to increase by $340 per month.

Depreciation-based Costs: Expected to rise by $600 per month.

All Other Expenses: Estimated cumulative increase of $69 per month.

**4. Conclusion and Next Steps**

**Summary**

Our financial analysis leveraged available data to develop forecasting models that revealed key expenditure trends. Despite challenges such as missing values and historical data gaps, we identified several areas requiring immediate attention:

Depreciation Management: Addressing high depreciation costs through strategic asset management.

Utility Cost Reduction: Exploring opportunities for cost efficiency in electric versus gas-powered units.

Affiliate Account Transparency: Investigating billing inconsistencies to improve financial predictability.

Budgeting Process Enhancement: Improving collaboration between forecasting and budgeting teams to integrate accurate projections into budget planning.

**Next Steps**

Enhance data storage and reporting accuracy through database restructuring.

Conduct a detailed cost-benefit analysis of alternative furniture/appliance provision strategies.

Negotiate volume-based utility contracts to optimize cost efficiency.

Refine financial forecasting methodologies by addressing discrepancies in Affiliate Account expenditures.

By implementing these measures, we aim to enhance financial planning accuracy, optimize resource allocation, and improve overall cost efficiency across operations.

**5. See “Figures And Appendices” for Visualizations and Methodology**