

Title: What is a Budget?

Date: August 2014

Author: Lisa M Goldstein, CMA. Member Board of Directors, Artisan's Asylum.

Context: This document was sent to the board and senior staff to clarify standard accounting processes. It also outlines the plan to start a formal monthly Finance Committee at the Board level to review the Asylum's finances more closely on a monthly basis.

## **What is a Budget?**

First I want to give some background on how annual budgets are used in organizational oversight so we are all on the same page, and then I will give my proposal of how we handle the budget this year.

The Annual Budget (aka, the Financial Plan)

An annual budget is a representation in numbers of \*all\* the planned activities for the year, including income-producing activities (like membership fees), on-going expenses (like payroll and rent), plus other special (capital) activities like paying down our loans or buying new machines. The process begins with management, who creates a draft budget and submits it to the board of directors. The board reviews it, gives feedback, management revises and re-submits. Several rounds can occur. (Much of this heavy detailed work is actually done in the finance committee, freeing the main board meetings to include other agenda items.) Once the budget is approved, management goes and does its thing, while the board focuses on "actuals to budget" reports to ensure things are on track, as agreed.

Current status

Rob has already created a budget for FY15 (July 1, 2014 through June 30, 2015) based on last year's \*actuals\* (what actually occurred in the past). He then made a few adjustments for known changes. Michelle and I suggested a few more tweaks in a meeting with Rob last week.

I propose the following timeline for the Asylum's FY15 annual budget process:

### **Stage One**

A few tweaks are made to the "actuals budget" and Michelle sends it to the board for this upcoming August board meeting. Board reviews it, and approves it either at the August or September meeting (if more tweaking is needed.) Result: we go into the annual meeting with a one year budget already in place.

### **Stage Two**

After the "actuals budget" is submitted to the board, management starts drafting a two-year budget for the period July 1, 2014 through June 30, 2016. (Aka, FY15 & FY16). This budget will represent changes reflecting larger issues currently still undecided: how member space is rented out, adding new revenue sources, planning raises for staff, the coming rent increase, etc. This draft budget will be worked on throughout the fall as various decisions are made and we obtain more info about the rent changes. Also, the early part of the two-year budget will be tweaked from the original estimated numbers to the actual numbers as each month passes.

In late fall this budget will be presented to the board, before Michelle leaves. This will fulfill her job description of creating a two-year budget.

### **Stage Three** (Thought we were done, huh?)

This stage is actually the start of a normal timeline for creating a two year budget for FY16 & FY17 (July 1, 2015 to June 30, 2017). This will be led by the new ED in the winter. By this time we will have data on how various ideas for new revenue streams are working out. This will allow us to increase the overall size of the budget. This two-year budget would also address the known rent changes, paying off the outstanding loans in full, planned capital equipment purchases, building a larger cash cushion, and other such long-term issues. The draft budget is presented to the board at the \*March\* meetings (both Finance Committee and full board meeting). The spring is spent discussing assumptions, tweaking, and finalizing

the planned program activities for this time period (which may affect the budget line items). The goal is to formally finish and approve the FY16 & FY17 budget at the May board meeting, with June as a back-up if things drag out.

Going forward, each winter a new two-year budget is drafted. In other words, it is updated annually, not once every two years. For example, in winter 2016 we will adjust the FY17 budget previously passed while working on the new FY17 & FY18 two-year budget. Every March the new two-year budget is presented to the Board. Discussion ensues, final version passed in May/June. Then six months later it starts all over again.