

## **MONEY MATTERS**

### ***Budget Basics – Useful Tips for Anyone!***

#### **STEP 1: IN THE BEGINNING...**

##### **Why do you need to prepare a budget?**

- ✘ To know how much money you need
- ✘ To be able to plan ahead and make future commitments
- ✘ To see where you can get money
- ✘ To fill in grant applications
- ✘ To know how much money to ask for in grants and fundraising requests

*A budget is a planning tool for making sound management decisions.*

##### **When do you prepare a budget? Now!**

- ✘ A personal budget is invaluable for a smooth transition into the professional world and to maintaining a healthy career and personal lifestyle!
- ✘ When you outline what you have, what you need, and what you want, you can plan in the right direction and look for the right opportunities.

<b>Sample Personal Budget: Winter 2009</b>			
<b>EXPENSES</b>			
<i>money out...</i>	<b><u>Basic</u></b>		
	<b><u>Monthly</u></b>	Rent	\$600.00
		Utilities	\$150.00
		Health Insurance	\$70.00
		Savings/Student Loans	\$50.00
		Groceries	\$320.00
		Metro/Transportation	\$120.00
		Prof. Development: Shows, etc.	\$160.00
		Classes	\$320.00
		Clothing	\$100.00
		<b>Total Expenses</b>	<b>\$1,890.00</b>
<b>INCOME</b>			
<i>money in...</i>	<b><u>Basic</u></b>	Family Support	
	<b><u>Monthly</u></b>	Admin. Job	
		Bartending	\$1,750.00
		Teaching	\$250.00
		<b>Total Income</b>	<b>\$2,000.00</b>
<b>NET</b>			
<i>Money left over...</i>	<b><u>Fun!</u></b>	Trips/nightlife/etc	<b>\$110.00</b>

**Should you stick to your budget? Yes!**

- ✘ Never use your rent money to pay for something unexpected; always plan ahead.
- ✘ Do not use credit cards as cash; if you need to pay for an expense with a credit card, transfer money over immediately.
- ✘ Try to take out the cash you will need at the beginning of every week; it is difficult to keep track of ATM withdrawals and debit transactions.

**Should you review your budget? Yes!**

- ✘ Examine and reevaluate your personal budget:
  - ▬ When you generate/expect new income
  - ▬ When your expenses change
  - ▬ When you complete a contract/quit a job
  - ▬ At least every 3-4 months

**Should you always maintain a personal budget? Yes!**

- ✘ Even as your career changes and steadies you should always maintain a personal budget that outlines your needs, your expectations, and your financial capabilities.
- ✘ A budget will help you to make appropriate choices about what you should take on and what you should refuse, personally and professionally.

**STEP 2: DOWN THE ROAD...**

**How should you fund a creative project?**

- ✘ When you try and get a creative project off the ground, you will need to apply for funding. You may even start a company or an ongoing project. To do either, you will need to create a budget:

<i>There are several budgets:</i>
<i>The "Ideal", which encompasses the full scope of the artistic plans</i>
<i>The "Realistic", which is do-able within anticipated revenue</i>
<i>The "In-between", which you submit with grant/funding applications</i>

**\*Use the REALISTIC budget as the basis for making cost commitments!**

**How often should you review a budget?**

- ✘ When you receive grant decisions
- ✘ Upon major changes or new information
- ✘ Periodically to reflect actual costs and revenues incurred to date plus amounts expected
- ✘ At the end of a project

*A regular budget review should occur every 3 to 4 months for annual activity or at 1/3 and 2/3 points in the timeline of a project.*

**How do you create a budget?**

- ✘ Conceptualize the scope of the project
- ✘ Research costs: rehearsal and venue rental, rehearsal and performance fees, costumes, lighting design, technical and front-of-house expenses, marketing/ads, miscellaneous
- ✘ Estimate revenues: box office, programme ad sales, donations from family/friends, grants

- ✘ Balance the budget: for a large deficit reduce scope and expenses.
- ✘ **Be very cautious about increasing revenues, particularly box office!**

*Add notes to help you remember which detailed items go in each line of a grant application. This will save time in preparing reports and next year's budget.*

*Drop detail when history is consistent. E.g. Total Publicity vs Publicity Breakdown.*

### **Should you keep this budget separate from your personal budget? Yes!**

- ✘ Never use the personal income you have set aside for rent, food, etc. to pay for a special project!
- ✘ If your project relies on some of your own income, your personal budget has to accommodate this need and allocate a specific and realistic amount.

### **What is a financial report? Why do you need one?**

- ✘ A financial report is a comparison of budgeted versus actual costs.
- ✘ A financial report is useful for:
  - ▶ Grant reports
  - ▶ Gathering historical data
  - ▶ Making better judgements in the future (...*planning*...)
  - ▶ You should:
    - Compare your budget and actual
    - Compare the previous actual to the current actual
    - Analyse the variances and adjust for the future

*Don't wait until the final report to warn funding officers of a major change in scope or direction of the project. Informing them in a timely manner will give them confidence in your ability to make good judgement in balancing artistic plans with financial realities.*

### **What is CASHFLOW? How is it formatted?**

- ✘ The process of cash moving in and out of your accounts
- ✘ Allows you to plan, to foresee potential problems, and to make adjustments
- ✘ Use monthly columns:
  - ▶ Revenue (cash in)
  - ▶ Expenses (cash out)
- ✘ With rows:
  - ▶ Net cash change
  - ▶ Beginning and End bank balances
- ✘ Add a "Total" column to compare cash flow totals to budget

*Make sure to **update cash flow periodically**: drop completed months, insert a new beginning bank balance, carry forward revenue and expense items not yet received/spent, compare revised budget to combined actuals to date, and projections.*

### **How are cash shortages managed?**

- ✘ If possible, delay paying some invoices
- ✘ Find opportunities to get some revenue earlier (e.g. fundraise sooner)
- ✘ Negotiate payments over a period (e.g. pay designer 1/3 up front in stead of 1/2)
- ✘ Delay an optional activity
- ✘ Seek a line of credit from the bank

*Like a budget, a CASHFLOW is a **PLANNING** tool!*

### What are IN-KIND donations? How should you report them?

- ✘ Services/products given to a company free of charge or at a discount
- ✘ Are recognized by standard accounting guidelines if:
  - ▶ They are used in the normal course of business
  - ▶ Their value can be easily estimated
- ✘ Include them in your financial reports
- ✘ Record value according to original invoice, letter from the donor, or an estimated amount based on similar purchases made by the company
- ✘ Make sure to account for them as the appropriate in-kind REVENUE *and* EXPENSE.

*It is important to not inflate the value!*

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### STEP 3: ALWAYS...

#### Remember to:

- ✘ Use your budget as a planning and assessment tool.
- ✘ Make use of software packages: e.g. Excel, Simply Accounting, Quicken, New Views
- ✘ Be aware of GST, Equity Bond, and Liability Insurance
- ✘ Make use of career services, counsellors, mentors you encounter, personally and professionally, including each other.
- ✘ *Always* make room in your budget to **have a little fun!**