American Association for State and Local History
Book Series

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About the Series
The American Association for State and Local History (AASLH) addresses issues critical to the field of state and local history through interpretive, intellectual, scholarly, and educational texts. To submit a proposal or manuscript to the series, please request proposal guidelines from AASLH headquarters: AASLH Editorial Board, 1717 Church St., Nashville, Tennessee 37203. Telephone: (615) 320-3203. Website: www.aaslh.org.

About the Organization
The American Association for State and Local History (AASLH) is a national history membership association headquartered in Nashville, Tennessee. AASLH provides leadership and support for its members who preserve and interpret state and local history in order to make the past more meaningful to all Americans. AASLH members are leaders in preserving, researching, and interpreting traces of the American past to connect the people, thoughts, and events of yesterday with the creative memories and abiding concerns of people, communities, and our nation today. In addition to sponsorship of this book series, AASLH publishes History News magazine, a newsletter, technical leaflets and reports, and other materials; confers prizes and awards in recognition of outstanding achievement in the field; supports a broad education program and other activities designed to help members work more effectively; and advocates on behalf of the discipline of history. To join AASLH, go to www.aaslh.org or contact Membership Services, AASLH, 1717 Church St., Nashville, TN 37203.
In the changing nonprofit world of shrinking budgets and the search for new revenue streams, it's critical for staff to understand museum finances. Staff understanding of how the museum is funded and its primary funding sources is crucial to know. It's also important for staff to have a handle on how money is spent as this helps them make effective decisions with significant financial impact. But so often, when you mention the word "budget" to museum staff members, a resounding sigh of resignation echoes through the halls.

For most, number crunching does not rank high on the list of exciting museum duties. Although they may not look forward to this fiscal activity, most museum staff will admit that the budgeting and accounting process is crucial to fulfilling the museum's mission. Without the proper allocation of resources, museums cannot operate in the present, much less preserve their collections in perpetuity. Donor and grant maker confidence is built on sound accounting practices. Serving the needs of stakeholders and fulfilling the mission is ultimately a question of the bottom line; if the financial wherewithal is missing, the museum cannot succeed, regardless of how brilliant its intent.
DEVELOPING A BUDGET

Budget Terminology

Ensuring the financial well-being of the museum has become a growing concern for museum administrators and staff. Familiarity with some budget and accounting terminology is key to understanding financial management. A budget is the “translation of strategic plans into measurable quantities that express the expected resources required and anticipated returns over a certain period.” The annual budget looks at the fiscal year’s monetary goals, often driven by the strategic plan, and provides an informed estimate of the money that will come into the organization and what money will go out during the fiscal year.

The annual budget is often made of two principal parts: the operating budget and the capital budget. The operating budget includes the revenues and expenses for the museum’s day-to-day collections care, public programming, and basic operation (salaries, utilities, maintenance, and other ongoing expenses) of the museum building and site. The capital budget contains the amount retained for planned big-ticket investment in equipment and systems, as well as development of the museum’s site or buildings via renovation, relocation, new construction, or renewal of exhibits.

To keep budget numbers straight and to ensure that reporting is clear and consistent, accounting systems need be integrated into the museum’s operations. Finance staff typically use accounting software to track income, and expense, review monthly performance, and report results. Budget performance is understood by comparing the cumulative income and expenses to the budgeted figures. Reviewing these numbers through the years provides indicators of future budget performance, but keep in mind that annual budgets are a target, not a performance forecast.

Types of Funds

Many museums base their budgeting and accounting systems on the principles of fund accounting. A variety of funds exist in nonprofits and are often governed by restrictions set up by the organization, donors, and other outside parties. An easy way of visualizing funds is as separate “pots” or “piggy banks” of money.

The general fund (which may also be called the “current” or “operating” fund) holds the money used, at the museum’s discretion, to provide activities related to the organization’s primary mission. Capital funds support long-lived and/or nonoperating needs, also known as fixed assets or physical plant needs.

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A restricted fund designates revenue or investment income earned from revenue that must be spent according to stipulations placed on the income by a donor or a governing body. A sinking fund may be established to hold money set aside to retire debts, such as bond issues or mortgages.

Acquisition funds refer to the amount reserved for the purchase of objects for the collection, or for expenses associated with acquisitions.

Endowment funds are donated monies that are invested; the income generated from returns on unrestricted endowment funds may be used for operations or other legitimate purposes, whereas earnings from restricted endowment funds are earmarked for specific aims, such as acquisitions, exhibits, or seminars. The endowment principal is that portion of the fund that remains invested and untouched and continues to earn income. Only the interest or other income earned from the principal should be expended for appropriate purposes.

Accounting Terms

Assets are items of monetary value, which are owned or controlled by the museum. Assets can include cash, buildings, land, permanent equipment, accounts receivable (money owed to the museum), endowments, and

![Figure 4.1 Statement of Financial Position. Source: Corey, "Accounting and Bookkeeping"](image-url)
inventory. Because museums hold their collections in perpetuity, they have staunchly refused to consider the collections “assets.” Liabilities are any monies owed to other parties, and would include accounts and notes payable, salaries, and benefits. To determine a fund balance liabilities are subtracted from assets.

Museum budgets may also rely on grant projects supported by government or foundation funds that often require separate accounting. Direct costs are the actual expenses incurred in carrying out the activities proposed under the grant. Salaries, benefits, equipment, rentals, travel, expendable supplies, and contracted faculty are examples of direct costs. Indirect costs, or overhead, reflect the costs involved in carrying out the activity or production. Heating and lighting of the building where the activities will be conducted, Internet, copier usage, management staff time, maintenance of the building, and housekeeping are examples.

A myriad of resources, including the works cited, offer more extensive definitions of budget and accounting terminology. Familiarization with the terms used in your particular museum is essential.

**The Fiscal Year**

The fiscal year serves to place all financial transactions within typically a twelve-month time frame. The beginning and ending for the fiscal year should be determined in consideration of: (1) the museum’s program year so that activities are reflected in one fiscal year rather than being split between two; (2) the museum’s more inactive period within the year so that financial reckoning and audits put less strain on staff; and (3) the fiscal year of the primary funding source for the organization.

Many states and universities have fiscal years that run from July 1 to June 30. The fiscal year for the federal government is October 1 to September 30. Some organizations choose a fiscal year that corresponds to the calendar year—January 1 to December 31, while others consider the seasonality of their operations. Carl Nold, president and CEO of Historic New England, shared that its fiscal year ends March 31 “so that the bulk of our income from our seasonal museums falls in the first half of the fiscal year, allowing us to adjust budgets in the second half if we have a poor revenue year.”

The fiscal year is set in the bylaws of the organization; any changes in the calendar will necessitate bylaws amendments as well.

Once the fiscal year is in place, budget preparation can begin. As a financial plan for the museum, the budget estimates the revenues and expenses for the coming year. Revenues and expenses are subdivided into specific categories, with each containing dollar estimates.

**The Budget Cycle**

Brenda Granger, executive director of the Oklahoma Museums Association, creates and monitors a healthy balanced budget each year. While we can probably all agree that budgets are simply a plan, Brenda adds that to achieve a balanced budget you need a crystal ball as well as regular review of past financial activity to project future growth and projects.

Table 4.1 Example of Line-Item Museum Budget

<table>
<thead>
<tr>
<th>Revenue</th>
<th>$135,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gift shop</td>
<td>$ 43,800</td>
</tr>
<tr>
<td>Corporate sponsors</td>
<td>$ 70,000</td>
</tr>
<tr>
<td>Grants</td>
<td>$ 52,000</td>
</tr>
<tr>
<td>Contributions</td>
<td>$ 91,500</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$392,300</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th>$232,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilities</td>
<td>$ 65,000</td>
</tr>
<tr>
<td>Promotions</td>
<td>$ 24,500</td>
</tr>
<tr>
<td>Program costs</td>
<td>$ 11,800</td>
</tr>
<tr>
<td>Exhibit supplies</td>
<td>$ 4,500</td>
</tr>
<tr>
<td>Office and other</td>
<td>$ 54,500</td>
</tr>
<tr>
<td>TOTAL</td>
<td>$392,300</td>
</tr>
</tbody>
</table>

This budget shows expenses by type. It lists operating expenses, but does not break them into specific programs or outcomes. The majority of the budget will support staff salaries, but information on what those staff will do will have to be communicated via other written materials, for example.
Budget cycles begin with budget development, which flows out of planning. Here is where the museum’s strategic plan serves as an invaluable budget tool, outlining the institution’s highest priorities. Needs assessments and feasibility studies can help staff determine what it is the museum will do; costs are then estimated for those programs and exhibits. Fixed costs are projected in the budget by reviewing the past three to five years of activity, combined with expectations of the future, for example, rising fuel costs projected for the next three quarters. The challenge comes as proposed costs are then matched to funds available. It’s a rare museum where there are sufficient funds to go around. Budget cycles for publicly funded museums may be dictated by governmental or parent organization requirements.

The simple allocation of money is not effective budgeting; a clear understanding of the museum’s mission, organizational goals, and available resources is essential in the budget-development process. The strategic plan will make sure that financial decisions align with the mission and keep the organization on target to reach its goals. The budget in many ways activates the strategic plan—it shows the board and staff how programs, exhibits, and initiatives are possible in a fiscal year and into the future. It also connects fundraising to the mission-driven activity and realistic financial goals. A budget and regular reporting and analysis demonstrate how departments are performing, spur conversation about budget performance, and hold staff accountable for spending and fundraising. Including staff in budget development can generate enthusiasm for museum goals, as well as an increased understanding of the costs of doing business.

At the Indiana Historical Society, the budget cycle begins with department heads when they receive income and expense reports for the previous year and review them with the finance director. Working with the president and CEO, department heads develop work plans for the coming year. Once approved by the president and chief executive officer, department budgets are submitted to the finance director who compiles them into an institutional budget. This comprehensive budget is reviewed by the finance committee and submitted to the board of trustees for review and adoption.15

Similar to this process but even more inclusive, George Mason’s Gunston Hall uses a process prescribed by Durel Consulting Partners that involves all staff teams, at all levels.16 The teams identify priorities, then they review current finances and fixed costs, followed by departments projecting revenue and expenses. With these data, the teams collaborate on the decision-making that results in a balanced budget. Once complete, the budget is submitted to the finance and executive committees prior to review and adoption by the full board.16 For public museums, this internal procedure is only the first step; the budget is then submitted to a city council, county board, or state legislature for consideration. The director and board members will often formally present the budget request, respond to questions, and then advocate to ensure that needed funding is appropriated.

After the board approves the budget or funding is approved by governmental or parental organization authority, the budget cycle turns to the fiscal management stage, during which internal funds are allocated, restricted accounts are established, financial transactions are recorded, and operations are monitored. The planned budget can be used as a control device and as a measuring stick by which the museum’s performance can be assessed and its course set for succeeding years.

<table>
<thead>
<tr>
<th>Table 4.2 Example of a Program Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
</tr>
<tr>
<td>Admissions and memberships</td>
</tr>
<tr>
<td>Gift shop</td>
</tr>
<tr>
<td>Corporate sponsors</td>
</tr>
<tr>
<td>Grants</td>
</tr>
<tr>
<td>Contributions</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
</tr>
<tr>
<td>Traveling exhibit</td>
</tr>
<tr>
<td>Outreach kits</td>
</tr>
<tr>
<td>Degas exhibit</td>
</tr>
<tr>
<td>Imperial China exhibit</td>
</tr>
<tr>
<td>Permanent collection</td>
</tr>
<tr>
<td>Docent training</td>
</tr>
<tr>
<td>Security training</td>
</tr>
<tr>
<td>Lecture series</td>
</tr>
<tr>
<td>General admission</td>
</tr>
<tr>
<td>Membership</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
</tr>
</tbody>
</table>

This budget outlines expenses by program. It lists expenses for particular activities, but does not break down the amount of staff time, facilities costs, and materials that go into a particular program.
The last stage of the budget cycle involves end-of-the-year financial statements, a financial audit, and cost and program analyses. This year-long activity is managed by the executive director, working closely with the board, to ensure transparency and accountability. A finance policy and procedure manual is an excellent way to ensure compliance and sound fiscal management.17

Preparation the Budget

Who is responsible for the budgetary process? Ultimately, the board of trustees has final financial responsibility for the museum, and for setting long-range goals and program priorities.18 Budgeting should include staff involvement, which ensures that they will "perform in a way that is consistent with the organization’s financial goals and constraints."19 In other words, involving people at all levels of leadership, management, and operations will lead to a greater awareness of the budget’s goals, which leads to greater responsibility for performance.

Typically, the museum director will work with a finance committee established by the board to develop and monitor the budget. The finance committee may include staff and resource people with fiduciary expertise who may not be board members. A well-built budget is possible when you consider these steps, whether using traditional top-down strategies or inclusive budgeting.

Create a Plan

Take time to look at a calendar of activities to see funding needs and the approximate timing of cash flow needs. Also review your strategic plan to see what is intended for that year and how it may fit into the budget. Be sure to do an organizational scan to identify everything that needs to be in the budget and then use past and current actual income and expense to estimate the budget numbers. Keep in mind that there are fluctuations from year to year because of special project and gifts, so be sure to account for those to see trends.20

Once the numbers are better understood, take time to strategize and understand where the money/income is coming from and make a plan to achieve those targets. Lastly, know that the internal workings of the budget are flexible, avoiding significant variances whenever possible. The budget, like a strategic plan, can be a means to an end. Change happens during the course of a fiscal year and the budget needs to be flexible enough to respond to the changes.21

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Approximate Cost

“A budget is a plan with dollar signs attached.” The planned activities identified should be assigned an approximated cost. In order not to under-budget for the coming year, costs should be estimated on the high side or a ten percent contingency fund should be established. Budget planners must factor in administrative costs for programs and activities; adding new programs adds costs for staff, office space, and equipment. One approach is to review the museum’s budgets from previous years and add a percentage increment for inflation and other factors to create a new figure for the coming year. “Zero-based budgeting,” by contrast, assumes nothing and starts from zero, adding on expenses for programs identified in the strategic plan. In such a scenario every facet of the museum program is reconsidered. Regardless the approach used, to place the budget plan within a strategic future scenario, planners must consider changes in salaries and workload, possible efficiencies and economies, and the needs of the museum’s audience as well as the future social, political, economic, and cultural environments.22

Allocate Resources

The income expected from the program activities should be considered along with the museum’s other revenue sources. In nonprofit museums as a general rule, all income should be underestimated by at least five percent; however, the museum’s past history should be reviewed as a reference in generating these figures. Consideration has to be given to whether future revenue generation will be in the form of unrestricted funds (such as admissions, memberships, museum store sales, general donations, and board-designated funds) or as restricted funds (grants and other income given with special conditions for its use).23

Unrestricted income can be allocated to cover salaries, utilities, and other administrative costs, as well as exhibits and program costs. Income restricted by the donor or grant-maker must be spent on the intended activity or project.24 Previously set-aside board designated funds may be allocated for special projects.25

Compare and Set Priorities

In order to balance the budget, museum program activities must be evaluated and compared to determine their cost-effectiveness. At this stage in the process, some activities may have to be delayed or sacrificed if revenues
are not meeting expenses. To help in determining which activities must be delayed or sacrificed and which will be implemented, the administrative staff and board return to the mission and strategic plan to ensure that the budget will meet the organization’s goals and continue to fulfill its purpose.26

Adjust and Balance

Once priorities have been set, the budget is adjusted and balanced by real-locating estimated revenue. This balanced budget, however, will become unbalanced if unexpected expenses in the future cause revenues to fall short. Overstating expenses and underestimating revenues during the budget planning process in theory will make up for minor discrepancies and a balance can be maintained as the budget is implemented.27 Public museums may be required to substantiate projected expenses so this “over/under” tactic may not be possible.

Board Approval

Once the budget figures have been developed, the board will review and approve the budget. At this time, the board will officially set the financial limitations for the museum staff. By approving the budget, the board has stated its commitment to finding the means to meet the expenses; therefore, the budget must be feasible and not based on the wishful thinking of board members or museum staff.28

Evaluate and Amend

The final stage of the budget process involves the continual monitoring and amending of the budget to fit the revenues and expenses as they develop during the year. It is almost certain the budget will be changed during the fiscal year; a degree of flexibility must be allowed by the board and the director to tailor the budget to financial situations as they arise.

This process is not limited to one-year budget development; it can be applied to future budgets planned several years in advance. Some public museums operate on a biennial budget system that anticipates expenses and revenues over a two-year period. Museum exhibitions often take several years to develop; therefore, long-term budgeting allows for their cost to be spread over a longer period of time in order to raise and commit funds to the project. This form of long-range budget planning is critical to

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successful strategic planning for museums. It involves the use of historical budgetary figures, the current year’s budget, and the projected budget. With these data, trends are analyzed and projections are made for future budgets. Typically, projections are made for the next three to four years and both conservative and optimistic figures are generated. Public museum staff must be aware of funding projections of governmental entities and priorities that may change as elected officials take or leave office. Visualizing future budgets serves as an ongoing management tool that allows the board and staff to evaluate the budget in new or changing circumstances.29 Budget development, management, and planning assure that the museum is fulfilling its mission and strategic plans and its obligation to serve the public.

BUDGET MANAGEMENT

What happens when everything goes wrong? Multiple years of deficits, accounts payable backed up, cash flow is negative, and donor confidence is low, or depressed tax revenues prompt a 10 percent across-the-board funding cut for all governmental agencies—what do you do? These possibilities strike fear into the hearts of museum directors and trustees. Financial shortfalls and other organizational decisions at the Corcoran Gallery of Art (see text box 4.1) affected staff, directors, and trustees as well the community, creating years of tension and fear since the 1970s. In 2014, the board made the excruciating decision to close the Corcoran and give the art collection to the National Gallery of Art and merge its College of Art and Design with George Washington University.30 Optimism and expansion fueled by economic boom times look imprudent once the bubble bursts. What can a museum do to protect itself? The creation and maintenance of a budgeting system, in addition to a mature and effective development program, are key to carrying out museum programs in the present and to ensuring the likelihood of operating into the future. Some public museums are required to develop a “95 percent” budget that identifies cuts that will be made if 5 percent or more cuts are required by the governmental funder.

Monitoring the Budget

Making sure there are organization-wide systems in place to monitor budget performance is critical to keeping financial plans on track and your
Text Box 4.1 Case Review: Corcoran Gallery of Art

The Corcoran Gallery of Art, a venerable Washington, DC museum, traces its origins to 1869 when financier William Wilson Corcoran donated its original building, a collection of American art, and over $1 million in cash gifts. In 1890, it opened the College of Art and Design. Through the ensuing decades, the museum continue to grow and stabilize until, in what many consider its first death knell, American millionaire Andrew Mellon and Congress funded the formation of the National Gallery of Art in 1937, “a well-endowed, taxpayer-subsidized model.” The Corcoran didn’t effectively respond to this new marketplace and was plagued with funding challenges exacerbated by “erratic leadership, poor timing, and bad luck” beginning in the 1980s. Its final signs of failure were confused and dissident donors and patrons who, when asked, would have given to the Corcoran but were never asked, or if they had given to the museum, they were never cultivated for future gifts. Interests and philanthropy moved to other museums.

After internally reviewing solutions beginning in 2009, concerns regarding the future sustainability came to a head in 2012 as the board began to publicly seek funding alternatives. The Washington Post tracked the Corcoran’s demise closely and reported in 2012 these telling metrics:

- “Total fundraising for the last two fiscal years available ($3.2 million in the year ending June 2011; $4.4 million, June 2010) is the lowest since before 1995, the earliest year for which the gallery’s tax filings are readily accessible.
- The Corcoran has had budget deficits in seven of the last ten years.
- The endowment has dwindled from $28 four years ago to $19 million because of investment losses during the recession, deficit spending and recalculating some lost pledges tied to the Gehry campaign [a failed building campaign].
- Membership is down to 3,800, after topping 9,000 late in the Gehry campaign.
- The number of visitors to the gallery has sunk below 100,000 for the first time in memory, dropping to 69,442 for the year ending June 30.”

That year, during a public forum, the museum director shared that it was about to post a second $7 million deficit in a row. The need for bold action was evident. Fast forward to 2014, and millions of opinions and comments later, a solution was hatched, but not without more controversy. Approved by a DC Superior Court judge, the decision was made to move the College to George Washington University, with a slow transition to GWU curriculum and tuition prices. The National Gallery of Art will have first right of refusal of 17,000 artworks, and what they don’t acquire will go to other museums and universities in DC. During the seven-day evidentiary hearing, the board chair testified that “the Corcoran was in default to creditors, on the verge of missing a payroll . . . over the past six years to cover the $26 million in losses, the Corcoran cannibalized $9 million from its endowment and ‘borrowed’ millions more from restricted accounts, promising to pay back the money from sales of real estate and other one-time windfalls.” With this court action, the Corcoran had a way forward.

As there is much more complexity to the story than can be presented here and it continues to unfold, take some time to research this case online. Then, consider these questions:

1. Was the merger financially prudent?
2. Consider the donor perspective. Was it possible to recover their support?
3. What is preserved when the collection is transferred to another Washington, DC museum?
4. If the Corcoran didn’t enter this three-way merger, what financial options did it have?

*Montgomery, “Corcoran Gallery.”
**Ibid.

targets in sight. Empowering staff members to understand the budget structure and decision-making process is the best first step to take. Selecting readings and training, sharing financial histories of the museum, and scheduling budget work sessions with open and transparent discussions are great ways to get everyone on the same page.
Budget Management Involves Everyone

The budget management process relies on both the museum’s governing body and its staff. The roles they play depend on the size, structure, and income sources of the nonprofit. Those who plan the museum’s finances should spell out roles and responsibilities through written policies and procedures, which should be kept up to date and be completely understood by those involved.

The trustees are crucial to the budget process. As Larry Yerdon, president and CEO at Strawberry Banke, rightly observes, “there is no secret to ensuring a balanced budget. The staff and board simply must adopt the discipline of balanced budgets.” It is the trustees’ responsibility to not only ensure that the organization has the resources it needs to operate and meet strategic goals, but it is also their responsibility to ensure “that the museum’s operating budget is developed in a way that reflects its priorities, formatted in a way that is clear and understandable to the board, and monitored by the board to make sure that funds are used to advance the mission and goals of the museum in an accurate, efficient, and effective way.”

Long-range planning and other financial planning, initiated by the board, serves as a means of balancing anticipated resources against future financial needs. The creation of a detailed five-year plan, with revisions each year based on current fiscal numbers, is essential to a museum’s financial future. Trustees also have a vested interest in the museum’s annual budget, because the board is ultimately responsible for the allocation of the museum’s resources. Trustees cannot abdicate this responsibility by simply accepting the director’s proposed budget without a critical evaluation. The board, in addition to its role of authorizing and overseeing expenditures, needs to provide policies and guidelines to help measure the impact of the budget, positive or negative. The board’s finance committee is often charged to work with the director and to evaluate changes during the fiscal year and adjust when making new projections to avoid potentially dangerous errors.

The executive director also figures into the equation of budget management. In a sustained, year-round effort, the director typically arranges any early strategic planning sessions with the trustees. The director prepares recommendations to guide budget development, ensures that the budget schedule deadlines are met, reviews the draft budgets, and makes resource allocation decisions. Once the budget receives board approval, the director moves to the monitoring stage with the assistance of the chief financial officer (CFO), provided one is on staff. The director works to communicate the results of financial observations and corrective actions to the trustees and also seeks the board’s input and approval for the necessary fiscal or program changes. The CFO, who bears the day-to-day responsibilities of coordinating budget development, implementation, and monitoring, prepares and analyzes reports on budgeted versus actual income and expenses for the museum’s fiscal management and for board use. The CFO must also oversee any corrective actions, such as reallocations or cuts, undertaken.

The museum’s program or division managers (curators, collection managers, educators, and so forth) provide specialized knowledge of the current program needs and costs and the impacts caused by any reduction or expansion of their program’s operations. Managers develop draft budgets for their programs and divisions. As the budget is carried out, the managers are best qualified to participate in monitoring and to submit to the director resource allocation decisions or recommended changes in activities to meet the budgeted expense or income targets. Once the board, the director, and the CFO approve the budget, the program or division managers inform the staff about any budget or operational changes. Managers review regular financial reports created by the CFO, scrutinize income and expenses, and help determine and carry out corrective changes.

Other possible participants in the process include the office support staff, whose responsibilities may include preparing documents and materials throughout the budgeting process. In small museums, one or two people may perform all the tasks associated with budget management; the director and support staff may divide the functions of the CFO.

Consultants and outside specialists, such as independent auditors and accountants, architects, engineers, bond counsel, and program area specialists, also figure into the budget development and monitoring. Selected clients and volunteers may be needed to provide ideas for improving the budget. Specialized analysis may require the assistance of the information technology department, if there is one, or the museum’s computer specialist.

Management of the budget never ends with the approval by the board. Instead, the budgeting process is yearlong, involving people at every level in the institution, from the board to the director and chief financial officer to the department level. Each employee, by virtue of the paycheck received and the materials consumed in performance of the job, is a direct participant in the museum’s budget management.
Tools of Measurement for Budget Management

Internal controls are a critical system to ensure the integrity and the financial well-being of the museum. To be sure, internal controls are not just occasional reviews but a whole system affecting day to day financial transactions, involving separation of duties, review and compliance, and more. These reviews, conducted by the treasurer or the whole finance committee may be conducted at periodic intervals and take a random look at the museum’s accounting forms, payment authorization policies, inventory records, financial statements, or petty cash receipts. For example, at the American Association for State and Local History (AASLH), a small operation, the board treasurer reviews monthly reconciliation reports and bank and credit card statements and has the option to take a closer look at one or two additional reports at the same time. While the entire AASLH team has a role in budget performance, only the president, CEO, and business manager have direct responsibility for monitoring transactions.38 Adding review by the treasurer offers an extra layer of oversight that can catch misstatements, incomplete documentation, and the worst, internal fraud. The same practice has been adopted by the Abbe Museum in Bar Harbor, Maine, as well as other small museum operations across the United States.

Sadly, fraud is common in nonprofits and museums are taking great steps to segregate duties. An example of this practice with limited finance staff is to have the administrative associate pick up the mail, while another like the director opens the mail and sorts it into the appropriate mailboxes, with the finance manager receiving all incoming donations, grants, and other payables. Some government systems require two people to open mail together to ensure logging of incoming receipts. The finance manager processes the transactions, prepares the bank deposit, and makes the deposit. The director reviews all of the income and expense documentation when signing checks and thank you letters. (Sometimes, museum policy requires two signatures on a check for them to be valid.) When reviewing incoming mail, the director takes a closer look at bank and credit statements and then reviews them again when reconciled. Once a month, the board treasurer reviews the finance manager’s files and reviews reconciliation reports.

And each month, the finance committee meets to report the past month’s performance. The process can be tailored to each museum’s culture, but ultimately, “no one individual should be responsible for all of the duties, whether dealing with revenues or expenses.”39

Timing is a critical element to watch when monitoring the budget. You can have a great plan for the year, but cash will vary due to seasonality, planned investment disbursements (endowment draws), delayed receivables, and more. In government or public museums, budget allotments may be made only on a quarterly basis. A helpful tool is a cash flow projection.40 The term “cash flow” designates the relationship between the amount of cash a museum actually has available in the bank during a given period and the amount it requires to pay the bills during the same period. Effective cash flow management requires ongoing attention, rather than a reactive response once cash flow problems develop. Cash flow projections predict when cash will be received by the museum each month and then compare cash expected with anticipated cash expenditures. The board and top management must then identify any projected periods of negative cash flow and plan specific actions to avoid such shortfalls so that programs and services may continue without interruption.41

Negative cash flow problems typically occur when the museum receives its income later than it is needed. A negative situation would occur, for example, in the case of “after-the-fact funding,” in which some grants or contracts reimburse the museum only after specific services have been rendered. Nevertheless, the nonprofit has to pay for staff, office space, equipment and supplies, and other needed resources in advance. Similarly, in a seasonal museum the bulk of earned income may happen in the summer but there remains a year-round staff and other overhead costs to support. Monthly cash flow projections that focus on the anticipated timing of cash receipts and disbursements, supplemented by regular financial reports, help highlight times when cash flow problems are likely to occur or when cash would be available for investment or public funding source. The board and the museum’s financial managers and director must plan far enough in advance of potential problems to allow for action to offset the risky negative cash flow. Possible solutions include the postponement of major purchases, hiring of new staff, or instituting wage increases.42

Another solution for budget managers in private nonprofit museums is short-term borrowing. Incurred debt should be considered with great caution; this seductive short-term solution can have long-term repercussions. More than one museum has found itself barely able to generate sufficient income to pay heavy debt interest, much less the principal owed.43 The best scenario is one where there is a sizeable board-designated fund that can cover cash fluctuations and will replenish naturally at the end of the fiscal year. Most public museums are not allowed to incur debt.

An audit of a museum’s finances by a neutral third party is a critical tool in museum financial management. For many museums, it’s mandated by policy or a governing body, or the museum needs one to apply for certain grants. In some states, audits are required if the museum plans to fundraise.
Further, if a museum receives more than $750,000 in federal money during a single fiscal year, it is subject to an audit for that year and there are additional reviews and reports for that audit.\textsuperscript{44} To conduct an audit, a museum will engage a certified public accountant (CPA) who follows protocols that provide assurances, in written form, that the museum’s financial records are “free from material misstatements and are fairly presented based on the application of generally accepted accounting principles (GAAP).”\textsuperscript{45} A less in-depth examination is called a review and even lesser is the compilation, but all often have an external audience—funders, public agencies, donors—as well as an internal audience—trustees and staff.\textsuperscript{46} An audit boosts confidence in an organization’s performance when the auditor’s management letter offers no material weaknesses; and when the financial statements are reported with an unqualified opinion (or clean). This means that the statements are fairly presented. A qualified opinion is used when the statements are not in accordance with GAAP.\textsuperscript{47}

\section*{Budget Management in Practice}

Museums, whether nonprofit organizations or government entities, walk a delicate balance in budget management. As part of their mission of public service, museums can and do make money. It is advisable to have a surplus each year so that you can build funds to take care of facilities, launch mission-driven initiatives, retire debt, plan for the future, and more.\textsuperscript{48} If circumstances make a large surplus unavoidable, the nonprofit board may designate such surpluses as “funds functioning as endowment.”\textsuperscript{49} But it’s important to note that many museums, specifically those that are publicly owned and/or government funded, operate under a “balanced budget constraint” in which future funding may be jeopardized if there is a surplus at the end of the fiscal year. Elected officials may also look at revenues the museum earns as evidence the museum “can earn its own way.” Some public museums are faced with a “use it or lose it” conundrum; unspent amounts revert back to the parent organization or governmental entity at the end of the fiscal year. Any “cushion” or contingency must be quickly spent, usually on equipment. Alert managers in such systems will prepare a list of potential expenditures to implement if circumstances allow/demand.

\section*{Financial Statements and Reports}

A variety of internal reports may be used by museums to monitor their budgets but the Federal Accounting Standards Board (FASB) has

\begin{box}

\textbf{Box 4.2 Internal Controls for the Smallest Museum}

While this checklist speaks directly to small museums, larger institutions should have an internal control plan. Larger museums have the advantage of more people who can separate duties, but they have the same need to prevent fraud:

1. Set the control environment. Inform museum staff and board that there are policies in place to protect the assets of the museum and each person is expected to follow them.
2. Define clearly who is responsible for what. Who opens the mail? Who prepares checks for payment? Who signs checks?
3. Ensure physical controls. Be sure to lock up checks in drawers and secure assets.
4. After a big fundraising or income event, have two people count the cash together.
5. Reconcile the bank statements each month. Make sure someone other than the bookkeeper is reviewing the statements monthly.
7. Monitor credit card statements. Just like with bank statements, be sure to have someone other than the bookkeeper review monthly transactions.
8. Have two signatures on checks over a certain amount. While banks don’t often enforce this policy, it is a good practice so for setting the right tone about internal controls.
9. The person handling the money should not sign checks. Avoid having the bookkeeper sign checks. In the smallest of museums, there may only be one staff person. In that case, have the board president or treasurer sign checks.

\textit{Source: Adapted from Ho, “Five Internal Controls for the Very Small Nonprofit”}

\end{box}

designated standardized formal financial statements for nonprofits. These include:

1. Statement of Financial Position (Balance Sheet) offers an overall picture of the museum by reporting how much it has (assets like cash, investments, and property), how much it owes (liabilities like accounts
Text Box 4.3 Factors for Determining Reserve Levels

1. Mission and long-term plans or strategies
2. Type of organization—higher education, religious, social services, museum, cultural, association, foundation, or other
3. Corporate structure—sole entity, parent/subsidiary entities, brother/sister entities, loosely affiliated groups, or others.
4. Investment in the physical plant—the facilities owned and/or leased
5. Complexities of the debt structure
6. Current and future commitments
7. Funding sources, including fundraising activities
8. Types of programs provided
9. Self-insurance
10. Workforce compensation and benefits issues

“When allowed by law and/or institutional policy. Source: Adapted from Kennerley, “Maintaining Sufficient Reserves . . .”

payable, mortgage, bond debt), and how much it is owed (accounts receivable). These statements may not apply to public/government funded entities but that they will have specific financial reports that board and staff should reference.

The information provided on these statements is important for external audits and for filing the tax-exempt nonprofit’s annual return (Form 990) with the Internal Revenue Service (IRS). The financial statements help trustees and the director to determine whether the organization has a surplus, a deficit, or has made any unusually large expenditures or revenues. This information is crucial in order for the nonprofit to engage in useful long- and short-term financial and strategic planning. Large deficits, of course, signify an institution in substantial trouble, with closure and dispersal of the collections a looming threat.

Text Box 4.4 Financial Reports Inventory

1. Monthly reports to all board and senior staff
   a. Dashboard—one-page; four to six boxes for very basic financial data and selected indicators
   b. Summary SOP (Statement of Financial Position/Balance Sheet)—one-page; year-to-date; disaggregated per designated, board designated, temporarily restricted, and permanently restricted, prior year comparison
   c. Summary SOA (Statement of Activities/P&L)—one-page; prior year comparison; year-to-date; annual budget; percentage of budget to date; year-end projection; variance budget vs. year-end; narrative re: variances
   d. Summary SFE (Statement of Functional Expenses)—one-page; year-to-date; summarized by major expense category; columns for aggregate total plus major activity classes; graph showing percentage of expenses per activity class
   e. Trend Graphs—one-page; several graphs or charts showing trend for selected indicators
   f. Development Summary—one-page; listed by source category with separate goals for restricted funds; budget; year-to-date; percentage of year-to-date; comparison to two prior years; chart of endowment fund balances to date
2. As needed and relevant, reports to all board and senior staff
   a. Ticket sales report
   b. Cash flow
   c. Special event report
3. Monthly reports to board committees, senior staff, and any board member by request
   a. Finance Committee
      i. Detail SOA
      ii. Net Assets History
      iii. Detail Line Item P&L
      iv. Detail Program P&L
   b. Development Committee
      i. Detail Development Report
      ii. Detail Gala/Special Event P&L
      iii. Restricted Grants Report

(continued)
c. Marketing Committee
   i. Comprehensive (Ticket/Tuition) Sales Report / Detail P&L
   ii. Subscription/Package Sales Report (as relevant)

d. Investments Committee
   i. Investments Analysis—endowment fund balances as a percentage of long-term investments; updated with additions, withdrawals, transfers, income and adjustments to market value

Source: Adapted from Foley, “Internal Reports.”

Cutting the Budget

What happens when the team misses the target and the budget has a 25 percent deficit or when a budget cut is mandated by the governmental entity that provides substantial support? If the prior three years were at least balanced or had a surplus, the team might not make a change for next year’s budget. But if there’s no surplus allowable, such as with many public entities, what can be done? Prudent practice depends on the nature of the deficit. Did a major foundation shift its funding priorities and the museum can no longer receive operational funds? There may not need to be a cut because another foundation is lined up for next year. Are all of the museum’s income categories trending down? If so, it may be time to cut because there’s a pattern and it’s time to retrench.

Increasing revenue is a logical way to combat the deficit but it’s often the steeper hill to climb. More revenue can often mean more costs—organizations have to spend money to make money. Cutting the budget is easier, but it is difficult to climb out of the hole and regain donors.

Looking for warning signs will help. Is the local community experiencing an economic downturn (mass layoffs nearby?); Are visitation numbers on a steep decline (people aren’t visiting as much)? Multiple bad quarters for your investments may foreshadow a market correction that could hit your endowment funds (is another recession on the horizon?). These indicators do not necessarily signal impending disaster, but they are reasons to examine finances very closely and make course corrections.

Budget cutting is as complex as budget building and similarly should involve participation of both board and staff in an honest assessment of circumstances and options. Political and marketing skills are needed just as much as financial expertise in order to preserve organizational morale and create mechanisms not only for survival but future growth. The Corcoran Gallery of Art example shows how mistakes of the past, ongoing missteps, and revolving doors of leadership can spell the end (see text box 4.1). A solid budget plan, matched with a “fundraising board” and mature development office, can fuel the sustainability of a museum.

ACCOUNTING

Budget management requires both a day-to-day approach and a long view. The critical data for this management are provided by the accounting system. Accounting is essentially an information system, which records, classifies, and summarizes business activity. The rules that govern how accountants measure, process, and communicate financial information are called Generally Accepted Accounting Principles (GAAP) and are sanctioned by the Financial Accounting Standards Board (FASB). This conformity provides assurances to interested parties—donors, lenders, trustees, and staff.3

Accounting Methods

Adequate accounting procedures and records are essential for the museum to manage monies received wisely and in accordance with its charitable purpose. There are two basic types of accounting systems—accrual and cash.

The accrual accounting system details revenues when they are received and expenses when they are committed. In the accrual system funds that have been committed are encumbered, and show on the books as having been spent, even if the money has not been paid out. The benefit of this system is that it gives you a clear view of the balance available for operating at any one point in time.

Cash accounting records transactions at the time they occur; revenue is noted when it is received and expenses are recorded when they are paid out. Dollars that have been committed to ordered materials or services not yet received are not reflected; nor is income owed but not yet received. The administrator must keep in mind that X dollars have been promised to Y, and therefore are not available to pay for Z. The benefit of this system is that it is simple, much like a personal checking account, and it reflects funds that are on hand at any one time. Many public/governmental museums operate on a modified cash basis, which allows for encumbrance of certain types of expenditures.
Text Box 4.5 Case Review: Chart of Accounts

A clearly articulated chart of accounts helps differentiate and track expenses. Excerpts from a private nonprofit museum’s chart of accounts illustrate the range of expenditures incorporated under each account name:

50000 Cost of Goods Sold—describes the direct costs attributable to goods produced and sold in the museum shops
60000 Payroll—Wages and Salaries—expenses related to permanent and temporary employees
60200 Employee Benefits—expenses related to insurance, long-term disability, and retirement
60800 Payroll Taxes—staff and federal tax expenses
61000 Professional Fees—expenses related to legal, accounting, and payroll processing
61200 Recruitment Expense—costs associated with hiring employees
61400 Acquisition Expense—collections acquisitions expensed at the time of acquisition rather than added to Fixed Assets
61500 Management Fees—Endowment—any costs associated with investment funds
62000 Outside Personnel—consultants, presenters, fabricators, and other contractors hired for special projects
62100 Materials and Supplies—typically expenses related to educational programs and exhibits
62200 Shipping and Handling—shipping costs related to exhibit projects; shipping expenses from shop purchases are included in cost of goods sold
62300 Programs and Activities—program related expenses including membership
62400 Travel, Meals, and Lodging—expenses related to staff and presenter travel
62500 Conference and Professional Development—conference registration costs and other training expenses
62600 Dues and Memberships—organizational membership costs
62800 Marketing—advertising and promotion costs
62900 Events—goods and services purchases for events
65000 Office—costs associated with office supplies, postage, technology (hardware and software), and printing

66000 Organizational Expense—state and federal filing fees
66900 Reconciliation Discrepancies—any discrepancies during the monthly reconciliation process may be marked here until resolved
67000 Interest—fees associated with lines of credit and other credit and monthly banking fees
68000 Insurance—costs associated with fine arts coverage, the facilities, liability, and directors and officers insurance
80000 Occupancy Expenses—overhead costs of operating the museum including utilities, repairs and maintenance, telephone and data costs, and alarm systems
82000 In Kind Expense—when goods and services are donated, there must be a record on both the income and expense side
83000 Miscellaneous Other Expense—used sparingly, this line records unattributed expenses
84000 Depreciation and Amortization—transactions that record the loss in value of long-term assets


Regardless of the basis of accounting, museums will use a double entry process based on the algebraic formula, Assets = Liabilities + Net Assets. (Some of us find this equation easier to grasp if it is stated Assets – Liabilities = Net Assets.) Simply put, this means what the museum owns (assets) is equal to what it owes (liabilities) plus the net assets. Debits and credits are used to record changes in revenue, income, and expenses. For ease in recording and tracking information about specific transactions, specific account numbers are assigned to designate types of expenditures or income. A chart of accounts is the master list of all of the budget categories and typically contains the same categories seen on an income statement.24 The accounting system provides managers with critical monthly activity, rather than income statements, so that managers have information about outgoing funds as well as income. This information allows managers to make adjustments in implementing the planned budget, such as initiating
or deferring purchases, delaying hiring of temporary staff, and so on, depending on the fiscal picture.

Monthly income status reports compare budgeted amounts to monthly expenditures and year-to-date totals. Many accounting software systems also calculate percentage of time elapsed and percentage of budget expended, a useful measure for tracking expenditures, like permanent salaries, that vary little from month to month.\(^5\) Not all museum expenditures or income are regular; extra staff may be required during high visitation seasons, and admissions income may fluctuate due to weather or time of year. In such cases, data from prior fiscal years also may be included on these reports for comparative purposes, so that managers can see patterns over time. (See table 4.3 for an excerpt of a sample budget status report.)

The general ledger itemizes specific expenditures paid out and revenue generated. Access to this level of detail allows the manager to ascertain whether a particular vendor has been paid, how much income a given program has been generating, whether a grant payment has been received, and so on. (See table 4.4 for an excerpt of a sample general ledger.)

<table>
<thead>
<tr>
<th>Table 4.3 Excerpt of a Monthly Budget Status Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget Status Report as of 09/31/2015 Pet. of Time Elapsed = 17.76</td>
</tr>
<tr>
<td>Expenditures</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>4111 Permanent Salaries-Wages</td>
</tr>
<tr>
<td>4131 Retirement Plans Expense</td>
</tr>
<tr>
<td>4132 OASDI Expense</td>
</tr>
<tr>
<td>4134 Life and Accident Insurance Expense</td>
</tr>
<tr>
<td>4135 Health Insurance Expense</td>
</tr>
<tr>
<td>4144 Employee Assistance Program</td>
</tr>
<tr>
<td>4211 Postage Expense</td>
</tr>
<tr>
<td>4212 Communication Expense</td>
</tr>
<tr>
<td>4215 Publication and Printing Expense</td>
</tr>
</tbody>
</table>

Clues to Deciphering Budget Status Report
Note date of report and percent of time elapsed. This will tell you when the fiscal year began, in this case, July 1.
Read column headers to ascertain what column numbers designate, and whether numbers indicate dollars, percentages, or other measures.
Comparing percentages of budget expended year-to-date with percentage of time elapsed is one way of tracking expenditures. Be aware that not all expenses occur on a regular basis: seasonal spending decreases or increases can cause a false sense of security or panic. Ideally your budget report would include the previous year's history, providing a ready comparison for determining whether increased or decreased expenditures are typical.
Parentheses ( ) indicate negative numbers, indicating overspent accounts where actual expenses exceeded budgeted amounts.
Most reports include summary lines that group related accounts together—in this case, all accounts related to employee salaries and benefits are lumped together for easy reference under "Personal Services Accounts Total."
Blanks indicate no activity in the particular account. In some reports this lack of activity might be reflected by zeros or dashes (—).
In fund accounting systems, reports may indicate which fund or "pot" expenditures have been made from. Revenue sources and amounts will be included in most reports, although they are not excerpted here.
Source: Adapted from Nebraska State Historical Society, 2015.

**Accounting Software**

Good budget management relies on the accurate and complete analysis of as much fiscal data as possible. While nothing is technically wrong with using traditional paper and pencil ledger books, it's really only effective for small museums with very few transactions or with an absence of able
Table 4.4: Excerpts from Monthly General Ledger Report

<table>
<thead>
<tr>
<th>Account</th>
<th>Trans Date</th>
<th>Payee/Explanation</th>
<th>Current Month</th>
<th>Year-to-Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>4111</td>
<td>8/11/2000</td>
<td>Payroll B16</td>
<td>64,988.29</td>
<td>109,158.13</td>
</tr>
<tr>
<td>4211</td>
<td>8/17/2000</td>
<td>All Needs Computer and Mailing</td>
<td>434.39</td>
<td>856.83</td>
</tr>
<tr>
<td>4212</td>
<td>8/28/2000</td>
<td>DAS Communications</td>
<td>559.56</td>
<td>1,114.95</td>
</tr>
<tr>
<td>4215</td>
<td>8/23/2000</td>
<td>Snapper's Camera</td>
<td>205.57</td>
<td>801.21</td>
</tr>
<tr>
<td>4311</td>
<td>8/14/2000</td>
<td>Information Technology Solutions</td>
<td>404.80</td>
<td></td>
</tr>
<tr>
<td>4311</td>
<td>8/18/2000</td>
<td>WF Office Equipment</td>
<td>178.00</td>
<td>1,152.64</td>
</tr>
<tr>
<td>4311</td>
<td>8/23/2000</td>
<td>Laser Blasters, Inc.</td>
<td>646.65</td>
<td>1058.58</td>
</tr>
<tr>
<td>4483</td>
<td></td>
<td>Balance Forward</td>
<td>1459.27</td>
<td></td>
</tr>
</tbody>
</table>

Revenue

<table>
<thead>
<tr>
<th>Account</th>
<th>Trans Date</th>
<th>Payee/Explanation</th>
<th>Current Month</th>
<th>Year-to-Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>7111</td>
<td>8/03/2000</td>
<td>Admissions for week of 7/26</td>
<td>693.75</td>
<td>35,782.00</td>
</tr>
<tr>
<td>7211</td>
<td>8/09/2000</td>
<td>MF Producer Services</td>
<td>93.27</td>
<td></td>
</tr>
<tr>
<td>8111</td>
<td>8/17/2000</td>
<td>Educational Telecommunications</td>
<td>475.69</td>
<td></td>
</tr>
<tr>
<td>8211</td>
<td>8/21/2000</td>
<td>Houghton Mifflin</td>
<td>1000.00</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Detail account 7211 total</td>
<td>1568.96</td>
<td>11,152.64</td>
</tr>
</tbody>
</table>

The Necessity of Number Crunching

Accounting is a critical means of accomplishing financial record keeping for museums. Accounting practices and procedures may be slightly more casual or formal depending on the size and complexity of the organization and on whether most accounting is done internally or externally. Regardless of the size of the nonprofit, accounting practices are valuable aids in decision making and for communicating fiscal information.

While financial statements deliver considerable information about the health of an organization, its level of fitness can be better understood through ratio analysis. Ratios will tell how efficient and "profitable" the museum is and they will help an analyst predict the financial future. To gather the most meaning, it's helpful to compare this ratio to other like organizations and industry standards. Ratios are most informative when comparing organizations of similar size and age, geographic area, and missions and programs. And they are most appropriate when tracking progress over time. A snapshot, out of context, can be misleading.

The key is to pick three or four ratios that relate the most to your mission and inform your fundraising practices. Table 4.5 offers a selection of ratios.

Table 4.5: Exercise: Nonprofit Financial Ratios

<table>
<thead>
<tr>
<th>Income Ratio</th>
<th>Largest type of income + total income</th>
<th>Reliance on type of income. Awareness of the risk of a major reduction in income if this type is reduced or stopped. May be helpful for more than one type of income, including special events.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance Ratio</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expense Ratio: Personnel Costs Ratio</td>
<td>Total wages, taxes, and benefits + total expenses</td>
<td>Since staff cost is usually the largest part of the budget, any changes in the percentage of budget used for staff is notable. An indication of the organization's ability to pay obligations in a timely way (within twelve months). It is also a useful indicator of cash flow in the near future.</td>
</tr>
</tbody>
</table>
CHAPTER 4

Balance Sheet Ratio: Days Cash on Hand

\[
\text{Step 1:} \\
\text{(Annual expense budget} \\
\text{– depreciation – in-kind} \\
\text{expense – pass-through} \\
\text{funds – unusual, one-time} \\
\text{expenses) ÷ annual cash} \\
\text{requirement} \\
\text{Annual cash} \\
\text{requirement ÷ 365 = Daily} \\
\text{cash requirement} \\
\text{Step 2:} \\
\text{Cash and current} \\
\text{investments + daily cash} \\
\text{requirement} \\
\text{Total liabilities ÷ total} \\
\text{unrestricted next assets}
\]

A quick test of the operating cash or adequacy of the operating reserve. Include all unrestricted cash accounts such as savings and money market accounts.

Setting a target for case accounts should take several factors into consideration, including reliability of income.

How much the organization is relying on funding from others, such as loans, payables, and obligated funds. Indication of how much of a cushion there is.

CONCLUSION

The easiest way to become familiar with budgeting and accounting systems is to jump in and start dealing with numbers. While the terms and steps involved in the budgetary process are many and complex, it is worth the time it takes to fully understand the flow of money and how it is accounted for in a museum, whether it’s a nonprofit or publicly funded. Understanding how the money works gives a museum staff member knowledge and power, even if the staff member isn’t directly involved in day-to-day financial management. By looking at consistent reports and addressing real situations, the process becomes clearer.

All museums, large and small, need to have policies and procedures in place that guarantee the budget, once prepared, is followed. The board is ultimately responsible for ensuring that the budget produced is realistic and that it is carried out. But it’s the staff who actually expend funds, generate and receive income. Budgeting affects every department and every program in every museum. In an environment where funding is less than abundant, responsible staff will stick to the budget developed through the museum’s process. While most staff did not join the museum profession purely for the joy of budgeting and accounting, it will be to their and the museum’s benefit to spend time and energy attending to financial processes. Without sound fiscal practices, the museum’s future (as well as the staff member’s) is endangered.

Budget management provides one of the major keys to an institution’s failure or success. Museums face a world of increased competition for public and private funds. Developing and monitoring an annual budget in support of the organization’s “mission-driven” focus bolsters the museum’s chances for financial stability and security. Budget failure or success determines the future for the museum director, as well. Budget management requires sufficient planning and development, staff involvement, and continual monitoring aided by tools of monthly reports and annual audits to ensure that the doors will remain open and services will be provided to the community.

Financial mismanagement, as some museums have learned, is a very possible precursor to institutional closure. The finest collections, best-designed facilities and programs, and most talented staff in the world cannot ensure the financial stability of the museum. Without a solid economic foundation, maintained by careful budget planning and accurate accounting, the museum’s physical and human assets are in jeopardy. Understanding the museum’s financial processes empowers staff to actively participate in wise use of museum resources and its ultimate survival and success. Whether you serve on the board or staff of a museum, it is your duty to understand the organization’s finances.

Text Box 4.6 Guiding Questions

1. Consider the many ways museums attract income. What ideas for finding new income do you have?
2. If you work in a museum, consider your involvement in finances. Is it adequate?
3. What is the secret to building a balanced budget?

NOTES

4. Foley, “Internal Reports.”
5. Miller, “Donor Imposed Restrictions.”
8. Ibid., 215.
11. Nold, interview.
12. Granger, interview.
15. Durell and Phillips, Strategic and Inclusive.
16. Stroh, interview.
21. Ibid.
22. Wolf, Managing a Nonprofit, 188–89.
23. Ibid., 189–91.
25. Boland, “The Importance . . .”
27. Ibid., 194–95.
28. Ibid., 195.
29. Ibid., 196–97.
31. Yerdon, interview.
34. Dropkin et al., The Budget-Building Book, 14.
35. Ibid., 15–16.
36. Ibid., 15.
37. Ibid., 16
38. AASLH, Financial Policies.
39. Granger, “The Good, the Best . . .”
41. Dropkin et al., The Budget-Building Book, 9.
42. Ibid., 88–89.
43. Ibid., 102–3.
47. Washington, “Audit vs Review.”
49. Wolf, Managing a Nonprofit, 185–86.
51. Phelan, Museum Law, 40.
52. Wolf, Managing a Nonprofit, 215.
54. Wolf, Managing a Nonprofit, 176, 216.
55. Ibid., 221–22.
57. McLean and Coffman, “Why Ratios . . .”