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## Creating the Budget and Bookkeeping System

**A** working committee devoted to the finances of the market has two major responsibilities: day-to-day financial management and planning for the future of the market. One of the committee's tasks will be to create a budget and bookkeeping system to present to the manager and board of directors. The other is to work with the board and manager to develop a plan for the financial stability of the market, including start-up funding and a pathway to financial self-sufficiency. The details of this work will depend on the particulars of the individual market; however, this chapter provides an overview and information that the committee, manager, and board of directors can use to guide their actions.

**This chapter will enable you to:**

- ▶ **Understand the role and responsibilities of the finance committee.**
- ▶ **Be aware of issues involved in moving toward financial self-sufficiency.**
- ▶ **Create a budget and bookkeeping system.**

### An Overview of Market Finances

If the market relies on external funding such as a grant to begin operations, the manager and board will need to establish a timeline and process by which it will become financially self-supporting. A timetable should be established for implementing the goals and projected activities. The extent of these plans will depend on the type of budget the market will have or can generate.

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### Funding and the Budget

An annual budget is a plan of the market's projected income and expenses with an itemized list of allocations to each activity for the budgeting period. Creating the first annual budget can be a challenge since the market does not yet have a previous year's expenses available as a guide, but the committee should use data gathered from other markets and sources during the feasibility study. The committee can begin to develop a budget by listing the current year's or season's expected income from stall fees, membership dues, donations, promotions, and sponsorships. The committee then lists planned activities such as special



## Davis Farmers Market: Tips on Developing a Budget

– Randii MacNear, Davis Farmers Market Manager

The financial budget should be the most important tool of a farmers market organization. It is the “brain” of the organization. Developed and reviewed often, it becomes the primary guiding document for organizational analysis, program development, and financial accountability. The budget is part of a larger organizational financial plan and documentation process that the governing body of a farmers market reviews and makes available to its participants for perusal. This keeps market participants informed and educated about market operations, keeps the board accountable for sustainable and effective financial management, and minimizes the possibility of unfounded claims of financial misinformation.

The optimal goal for an organization would be to develop a budget template that would remain stable and transferable year after year throughout the long-term development of the organization. That way, trends of income and expenses are easy to recognize and accommodate.

When evaluating and reviewing the budget during the course of the year, keep in mind that most year-round markets do not begin to operate in the black until midway through the budget year. For example, a market that uses a calendar-year budget (January to December) will most likely be in the red on financial statements until June or July.

Our organization has been using the same budget format for more than twenty years with only minor fine-tuning of budgetary categories, comparative information, and percentages. Our board reviews the budget (including income and expenses) monthly and, if necessary, curtails or expands spending. Occasionally, the board and the manager must make major adjustments in the budget midway through the organization’s fiscal year. With current and accurate financial statements and numbers, those adjustments can be made with confidence and accountability.

After July, the market should begin to see the financial picture shift into the black. Typically markets do not begin to see adequate income-to-expense ratios until the spring and summer sales volumes occur; however, expenses such as salaries, office rent, and health benefits remain constant on a monthly basis all year long. To evaluate how the market is doing, the market manager can compare year-to-year financials and year-to-date financials for increases or decreases or red-flag items. In other words, newcomers to budgeting should know not to panic if the market operates in the red for six months out of the year. This is a fairly normal occurrence for year-round markets.

Financial work can be done with a simple budget and set of books kept for the chart of accounts; however, there are also easy-to-use software programs for financial management. An accountant is retained for year-end taxes and the assets and liabilities portion of the organizational financial records.

events and advertising and their projected costs, as well as other expenses such as wages, insurance, permits, and office overhead.

Review this information carefully, and if there are questions or concerns, contact the manager of another market for an estimate of usual or comparable expenses for various cost categories. Be conservative and plan for contingencies. Include savings for future long-range projects in the budget if possible.

Planned income and expenses should match exactly, allowing room for unexpected costs. If planned expenses exceed planned income, the market must make an appropriate adjustment.

### Recordkeeping

Good recordkeeping makes management and decision-making easier and more effective. Records allow management to keep track of and review past sales performance, vendor and membership information, crop availability, financial transactions, and much more. This information allows management to recognize and benefit from trends and business cycles, as well as helps with budgeting and strategic planning. Methods of recordkeeping vary widely. It is the job of the market manager and the board of directors or organizing team to decide which records are appropriate for their particular situation. There are some common records to consider adopting for the market.

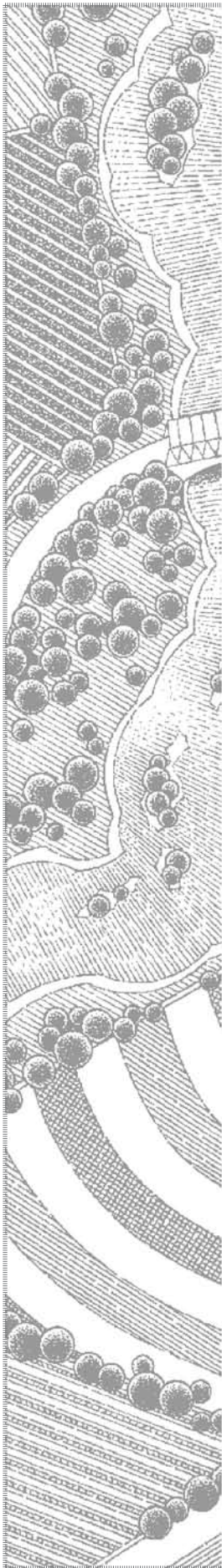


Careful financial records must be kept for tax purposes, even by nonprofits, and are among the most valuable aids to good business management. The manager and the staff or board of directors should review the market's financial records regularly. The process should include comparisons with the budget to determine if expenses are under or over the budget and to determine if and where adjustments to the market should be made.

Minimum written records are:

- **Expenses** – amount, item, service paid for, and date.
- **Income** – amount, source, and date.

Some markets also must include accounting for liabilities (any debts to be paid off in the future) and assets (items of value owned by the market) with their financial records. This task can be time consuming even if the market management already has some accounting experience. The services of a professional accountant, whether volunteer or paid, are strongly recommended for medium to large markets; small markets also may benefit from professional help at tax time.



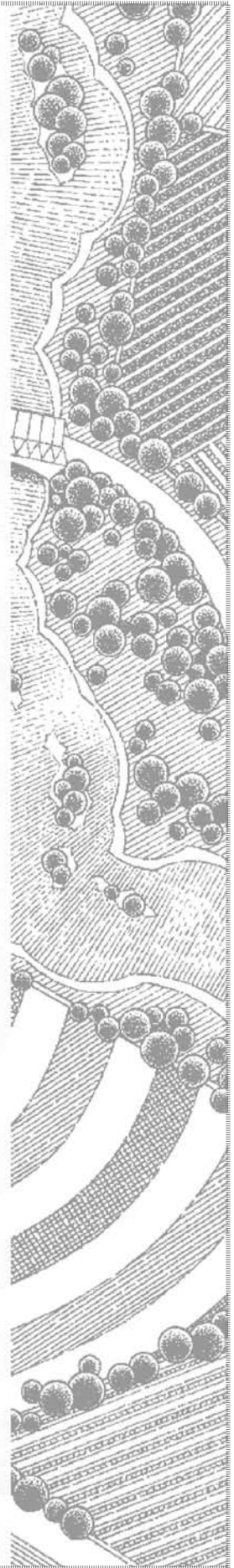
## Starting a New Farmers Market

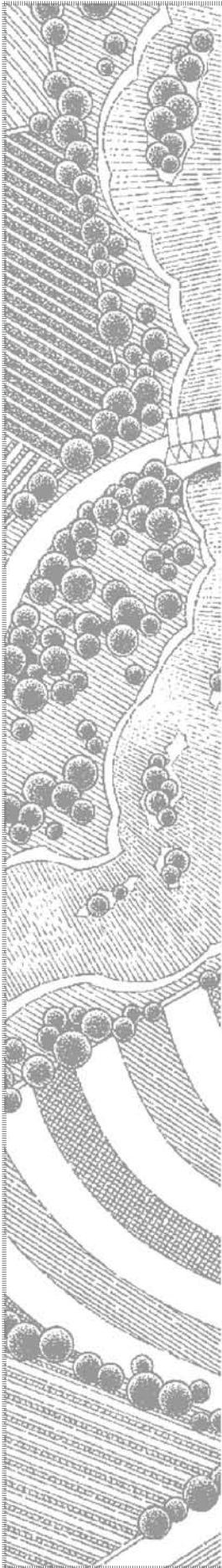
Computerization of these records can significantly improve the efficiency and accuracy of the market's accounting.

The market also should have procedures for handling and recording petty cash transactions and reimbursements for out-of-pocket expenses. Cash recordkeeping must be very accurate since there is no other written record of the transaction. A receipt also should be issued and should include the market's name and address, the name of the customer and business, the date, the purpose of the payment, and a signature. A duplicate copy of the receipt should be kept for market records.

Stall fees are another important piece of financial information that should be recorded and for which a receipt should be issued. Whether the market charges a flat fee, a percentage of gross sales, or some other type of fee, the market will be handling cash most of the time and will need to keep careful records.

Finally, markets must establish a method for handling bank accounts, deciding who has signature rights, and making decisions about other controls and limitations. These topics should be discussed among all the principal operators before the organization begins any financial activity.





## Market Records of Vendors

While vendors' records of sales can help them to improve their sales and marketing, the manager also needs to keep good records. Maintaining accurate, up-to-date vendor records is an important part of market management. The records should include information on vendors who currently sell at the market, previous vendors who might return, and vendors who have expressed an interest in selling at the market in the future. Market managers can use a variety of methods to organize and maintain vendor information.

A handwritten index-card filing system is portable, easy to edit, and can be sorted into different categories. A computer database also can be used to maintain vendor records and, in addition, can help generate mailing labels and perform a variety of other functions.

Vendor information files should include:

- Vendor's name (partners, family, and employees).
- Farm or business name.
- Mailing address.
- Home and business phone and fax numbers.
- Email address.
- Farm or business location (if different from the mailing address).
- Crops grown; weeks available.
- Crop availability schedule; weeks available.
- Future crops planned; months and weeks available.

