

Annual Budget Process

Every year the School prepares a global operating budget for review and approval by the Medical Center’s Board of Trustees. The goal of the annual budget process is to develop a reasonably accurate estimate of revenues and expenses for the School’s administrative and programmatic activities for the next calendar year. The Global operating budget encompasses all the unrestricted activities of the School including:

<u>Financial Activity</u>	<u>Budget Responsibility</u>
▪ School Operations	School
▪ Faculty Practice	Department
▪ Department Funds	Department
▪ Specific Purpose Gifts	Department
▪ Sponsored Projects	Department
▪ Affiliation Contracts	School
▪ Plant	School
▪ Unrestricted Investments	School

Because the School’s organizational structure is highly decentralized with 53 departments, 150 divisions and approximately 12,000 accounts, preparation of the budget requires close coordination between the Dean’s Office, Department’s and School Finance. As shown in the table above, the Dean’s Office and Finance are largely responsible for preparing the budget forecasts for the administrative, capital and investment components of the budget while the Departments are responsible for the programmatic portions of the budget (education, research and patient care).

A global budget that includes all the operating and administrative budget forecasts for the School is prepared in the summer each year according to the following schedule:

	<u>Month</u>
▪ Distribution of Global Budget materials to Department Administrators	August
▪ Meetings with Departments to discuss budget requests	October to November
▪ Consolidation of Budget Forecasts	December
▪ Presentation to Finance Committee	Late December
▪ Approved Budgets Communicated to Departments	Early January

Global Budget Preparation

There are principally four tools that support the preparation of the Global Budget by the Departments including:

- School Budget System (SBS).
- Department Financial Summary Reports.
- Faculty/Staff Salary Distribution Reports.
- Account Analyses prepared by Departments.

Overview of School Budget System (SBS)

The School Budget System (SBS) is a worksheet based analytical tool that facilitates the gathering of historical actual financial data for the prior calendar year and forecasts of financial results for the remainder of the current calendar year and the next calendar year for all School financial activities. The excel-based system includes worksheets that are linked together for all categories of School financial activity. On the SBS workbook there is a worksheet for each category of financial activity included on the monthly Financial Summary Report that is distributed to the departments and divisions via Sinai Central (this report is retrieved in Sinai Central by selecting GLM 568 at divisional level and GLM569 at departmental level; the various areas of financial activity are School Operations, Departmental, FPA, Grants, Gifts & Other, Plant and Principal). Each worksheet includes:

- The prior year historical financial information (automatically populated by division and by ledger class)
- The current year forecast (generally 6 months actual data and a 6 month forecast is estimated using the assumption tools).

Overview of Budget Forecasting Methods

- For the current calendar year: Six months actual expenses will be provided and the departmental administrator will forecast the remaining six months revenues/expenses using an average rate or by direct

input where the average rate for the prior six months is not reasonable (generally because of one time items).

- For the next calendar year: The Department will use a combination of a growth rate assumption using the current year as a base line together with specific inputs where growth rates do not result in an accurate budget forecast. The specific inputs will be supported by salary analyses/account analyses prepared by the Department.

SBS Features

The SBS system facilitates the budget process as follows:

- Standardizes the budget preparation process,
- Minimizes manual data entry,
- Facilitates “what if” scenarios and analytical analysis, and,
- Facilitates the budget consolidation and reconciliation process.

However, preparing an accurate budget forecast will likely require more than the analytical tools provided by SBS. If the department expects significant changes in revenues/expenses, (for example, new faculty are being recruited or there is a change in productivity of current faculty or faculty are leaving) then the analytical estimates in the SBS workbook will have to

be supplemented with a separate faculty/staff salary distribution and/or individual account by account analysis prepared by the departmental administrator.

Structure of School Budget System

The worksheet structures in SBS are identical to protect the integrity of the data files and allow the divisions and departments to be easily consolidated. Each division of the SBS Excel file contains the following worksheet tabs shown on (Schedule 1):

SBS Financial Information Structure

Each worksheet has two sections:

1. An income statement (P/L) that summarizes prior year financial activity, the current year forecast and next year's budget projection.
2. An input section that is used to develop the current year forecast and next year's budget using primarily direct dollar value input.

In its simplest form, each SBS worksheet tab supports an analytical comparison with the historical periods to develop a forecast for the remainder of the current calendar year and a budget estimate for next calendar year. The worksheet format reconciles easily to the Financial Summary Reports that are distributed by Finance on a monthly basis through the Sinai Central web portal. Each category of financial activity on the

Financial Summary Reports, (School Operations, FPA, Department, Grants, Gifts and Other, Plant and Principal), is budgeted separately for each division in the SBS.

The standard columns on each P&L worksheet are as follows (See Appendix 1 for sample worksheet):

1. Actual (Prior Year) – Actual financial activity for the prior calendar year.
2. CY XX YTD – All actual financial activity for the current year-to-date through most recently closed accounting period (generally 6 months actual results).
3. Estimated Activity – (Equals column 4 – column 2) Expected activity for the remainder of the current year (generally 6 months).
4. Annualized YTD (Forecast) – This column represents a projection of the estimated total for the current calendar year. The default assumption will set the total amount for the year equal to annualization of the 6 month actual current year to date amounts. Where appropriate, the default option forecast can be overridden with direct input to improve the accuracy of the forecast on a subcode by subcode basis.
5. Variance Amount – column 4 compared to column 1 expressed as a dollar amount

6. Variance Percentage – column 4 compared to column 1 expressed as a percentage
7. Budget (next year) – The Department’s estimated budget for the next full calendar year.
8. Variance Amount – column 7 compared to column 4 expressed as a dollar amount
9. Variance Percentage - column 7 compared to column 4 expressed as a percentage

SBS Worksheet Tab Orientation

The structure of each worksheet tab is identical, regardless of the financial category.

Financial Statement (P/L)

1. At the top of each tab is the financial statement (P/L) that summarizes historical, forecast and budget information once the analyses and data entry are complete. The cells in this portion of each worksheet are write-protected (i.e. no input is allowed in this area) as all figures are calculated based upon inputs entered in the assumption section below.

Input Section

1. Revenue Input Section: The next section of worksheet tab allows input to facilitate the revenue forecast for the

remainder of the current calendar year and next calendar year. Revenue inputs are listed by sub-account.

2. Expense input section:

- a. Salaries are segregated into two areas: Regular compensation & other compensation.
- b. Fringe benefit expense is calculated as a percentage of regular compensation. This percentage assumption has been pre-populated for both the current year and next year’s budget using the School’s fringe benefit rate.

3. Operating expense input section: All non-staff related expenses are captured in this area.

Color Orientation

The following color scheme is used to facilitate worksheet navigation:

The budget submission P&L worksheet is shaded in tan. This is the top section of each worksheet tab. All P&L’s are standardized in order to build a consolidated financial statement and should not be modified even though some lines on the P&L statement may be zero for all periods involved. The P&L section is write-protected and no attempt should be made to customize the cells with no activity.

White cells are write-protected. Other than a few designated worksheets that are designated for explanations, narratives and assumptions, these cells contain formulas which cannot be changed.

The Input assumptions that are used to develop the budget are shaded light green. The input sections for revenue and expense assumptions are directly below the tan P/L section of each worksheet. The white cells in the input section are also write-protected.

General Guidelines for Global Budget Preparation

Prior Year Results

The worksheet will be populated by Finance with the prior year results. Consolidated historical results, by subaccount, are available from Finance. Contact the Budget Manager for this file.

Current Year Forecast

Some of the SBS assumptions will be provided to you as a default option. For example, the forecast of the remaining 6 months of the current calendar year will be calculated using the average revenue/expense rate for the actual 6 months YTD already incurred. If the default assumption does not apply it can be overridden with a more accurate estimate.

Significant changes to the default trend rate forecast must be documented, either offline or in the worksheets entitled "Additional Comments".

After the trend rate forecast and any override modifications have been entered, the Annualized YTD current year column should be verified to ensure it is consistent with the expected current year forecast results. Again, please note that the annualized YTD column was calculated by extrapolating actual 6 months data into an estimate for the full year. If there are any known expenditures or revenues that should be captured in this period and are not reflected by the annualized year to date figure, it is the administrator's responsibility to overwrite the appropriate input figure in the annualized YTD column. Note that the 6 month forecast period will automatically be populated (Annualized YTD – 6 month actual = 6 month forecast).

Next Calendar Year

The default assumptions for the next calendar year budget include:

- Gift overhead is calculated as 20% of estimated contributions.
- Grants overhead is calculated as a percentage of direct spending.

- Fringe benefits are calculated as a percent of salaries based on the School’s fringe benefit rate and the federal fringe benefit rate for grants.
- Estimated transfers between different funds (code 3002) must be input directly.

Guidelines for Preparing Individual SBS Worksheets

The Global Budget is comprised of nine worksheet categories in SBS. Guidelines for preparing each worksheet include:

1. School Operations – 0204, 0236, 0238

For the current full year forecast, the administrator should analyze the YTD actual expenses to identify any one-time costs that should be excluded from the remaining months of the current year forecast. Likewise, any known one-time expenses for the remainder of the current year should be included.

2. FPA – 0263, 0264, 0265

The FPA budget forecast should be based on multiple analyses, including an analytical analysis using SBS, faculty productivity analysis and other factors affecting the growth of patient services revenue.

The ‘Workspace - Grants & FPA Revenue’ Tab is provided to facilitate the budget forecast for patient service revenue. This analysis should list all of the changes in revenue based on the baseline period (the forecast period for the current year). The

“workspace” patient services revenue should reconcile to the amount of patient service revenue included in the FPA’s worksheet P&L.

3. Grants – 0249, 025X, 0266, 0267

The Grant Summary Tab presents the budget forecasts for the federal and nonfederal grant ledgers in each division. Because the “R” reimbursement is calculated on a fiscal year basis, an additional analysis for both federal and nonfederal grants is required which is included in the “Workspace - Grants & FPA Revenue” Tab.

4. Departmental - 0233, 0243, 0244

There are three tabs in this section: (1) Departmental Consolidated; (2) Main Departmental Accounts and (3) Seed Accounts.

The Departmental Accounts includes only the Basic Sciences (0233) main departmental accounts, Clinical Sciences (0244) departmental accounts and seed accounts (0243). Due to the unique nature of the seed account funding flows, the seed accounts (0243) are presented on a separate worksheet from the main departmental (0233 & 0244) accounts. There is also a consolidated view worksheet.

All departmental revenues and expenses are budgeted on these tabs. However, CARTS budget revenue is input / adjusted on the CARTS workspace tab found towards the end of the

workbook. Once input in the workspace, the CARTS revenue items flow into the appropriate cells throughout the workbook.

Forecast (Current Year) CARTS Revenue:

Typically, the forecast (current year) CARTS revenue from the School and Hospital that is input into the SBS schedule should not exceed the budget provided by the Dean’s office as part of the prior year budget process. Modifications of current year CARTS revenue items will be reviewed by finance and the Dean’s Office.

Budget (Next Year) CARTS Revenue:

The “ART” budgets for the next fiscal year will be distributed to the department by the Dean’s Office for review after the distribution of the SBS. All adjustments and/or corrections must be made into the SBS schedule prior to the budget process being completed.

5. Gifts & Other – 0237, 0245, 0246, 0247, 0248, 0268, 0269, 0283, 0284, 0285, 0286, 0287

The department administrators should include all assumptions related to income/expenses related to Gifts and Other funds in this worksheet including an estimate of the department’s share of income for endowment income accounts.

6. Plant – 0293, 0294

This worksheet will only be applicable to a few divisions throughout the institution. Please disregard if it is not applicable to your department.

7. Principal – 027X

This worksheet will only be applicable only to divisions with endowments. This tab should only be used to budget incoming permanently restricted gifts. The balance figures are provided to aid in the budgeting of investment income on the Gift and Other tab. *Investment income should NOT be budgeted on the Principal tab. This would be tantamount to assuming that Mount Sinai’s investment pool return will exceed the institutional spend rate of 5%.*

8. Workspace – Grants & FPA Revenue

This workspace is used to breakdown the change in FPA revenue from the current period to the next budget period. The projected revenue amounts will flow from the FPA tab onto the workspace. The current year projection (cell C:10) will be at the top of the FPA section and the future year projection (C:26) will be visible at the bottom of the FPA section. The green input section (lines 11 –23) should be used to describe the change from cell C:10 to C:26. When complete, cell C:24 should equal C:26. C:27 should be zero.

The Grant section is used to budget grant spending and indirect cost recovery. Line 36 (Baseline “R” Spending) should come directly from the “R” dollar report received from the Dean’s

Office. The “R” dollar report represents a recent 12 month snapshot of a department’s current grant portfolio. Line 37 should be input to reflect increases or decreases in spending on the current grant portfolio over the course of the next calendar year. Lines 41 – 60 should be populated with any grants that are expected to be received (new grants) during the next calendar year. The grant section totals (line 62) should approximately match the total expenses reflected on the Grants tab (line 89).

9. Workspace - CARTS

Institutional CARTS support should be input on the CARTS workspace. School A, R and T dollars as well as Hospital CATS are input directly. School S dollars are calculated using the Seed Request detail section. Department administrators are responsible for inputting estimated closing balances (current year) and gross spending (next calendar year) for each seed account. The workbook then calculates the S transfer based on the estimated balance, spending request and remaining institutional commitment. *0285 accounts are NOT to be included in the S section. Institutional transfers to 0285 accounts should be budgeted on the Gift & Other tab.*

Distribution of School Global Budgets

The SBS worksheets together will be distributed by email to each divisional administrator by School Finance. Ledger

detail supporting the historical data is available on request. A, R and T dollar data will be distributed by the Dean’s Office.

The Division Administrator will be responsible for inputting the basic assumptions into SBS for his/her division, saving the completed worksheets, attaching additional support documentation that explains significant financial changes and justification for new financial requests, and submitting the completed global budget by email back to School Finance for consolidation with the other divisional budgets.

Faculty Time/Effort Report

Along with the global budget package, each department will be asked to complete a Faculty Time/Effort Report. This report is required by the Dean’s Office and FPA Administration to assure compliance with School policies including compensation plans and FPA guidelines regarding clinical faculty time/effort.

The sheet will be populated with the data each department provided last year. Specific instructions will be included with the template. These reports will be returned directly to the Dean’s Office, and will be a part of the budget process.

Technical Note/Reminder

In order to preserve the overall consistency of the SBS, Administrators should:

- Not try to push any formatting/formula changes in the spreadsheets (all of the workbooks are protected such that Excel structural changes are not permitted).
- Not link any SBS input cells to any outside files. All values should be input manually.