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# Essential Financial Concerns: Budget and Reporting

**Slide notes**

This module will discuss the importance of preparing a budget for your Inn, how to prepare a budget, and how to track actual income and expense against the budget.

The related resources area includes a sample Inn budget and sample Inn financial reports.

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## Why is a budget necessary?

- Gives life to Inn policy
- Allows leaders to plan
- Tracks income and expenses

### Slide notes

The Masters of the Bench or the executive committee should create a budget for the Inn before beginning of the Inn year. Why is a budget necessary?

A budget brings to life the policies of an Inn.

A budget gives the Inn leaders a framework with which to plan for future projects or objectives.

And finally, a budget provides a way to track actual income and expenses against the plan, and allows for Inn leaders to adjust plans to fit the reality.

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## A budget gives life to Inn policy

- Financial implications
- Tests policies
  1. Membership Structure
  2. Dues Structure
  3. Meetings
  4. Meals
  5. Programs
  6. Special Events
  7. Scholarships

### Slide notes

When we say that a budget gives life to Inn policy, we mean that a budget is where the “rubber meets the road.” Many typical Inn policies have financial implications and, therefore, must be reflected in an Inn’s budget. A budget also tests policies for reasonableness and practicality.

Some of the common policies that must be reflected in a budget include:

- 1) How many members will the Inn have? Is there a set minimum or maximum?
- 2) How much will members pay? Will Benchers pay more than Associates? Are there other sources of revenue to help offset dues?
- 3) How many meetings, meals and programs will the Inn have each year?
- 4) What type of meals will the Inn provide? Are members willing to pay for the type of meals the Inn wants to have?
- 5) What type of programs will be presented and where? If the Inn has its meetings at a restaurant, will the restaurant charge for the room or audio-visual equipment? Will you pay for guest speakers?
- 6) Will the Inn hold a special holiday or end-of-year banquet?
- 7) Will the Inn underwrite the cost of students? Will the Inn provide scholarships for members who otherwise can’t afford to join?

How these and others questions are answered, and knowing that the answer to one question may affect the answer to other questions, are the first necessary steps in creating a budget.

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## **A budget allows leaders to plan**

- Future projects
  - City judicial guide
  - Programs in local schools
  - Award or scholarship
- Future financial objectives
  - Building a reserve fund
  - Reducing dues

### **Slide notes**

A budget allows for an Inn to plan for the future. Any projects or goals an Inn may have most likely will have to be worked into the Inn's financial plan.

Many Inns have special projects they have conducted, such as publishing a city judicial guide or conducting programs in local schools. An Inn may wish to start an annual award or scholarship. Often such programs have a price tag attached. It is important for an Inn considering such projects to be aware of the costs and plan for them so as to not affect the essential operations of the Inn.

Inns may also wish to plan for certain financial objectives, such as building a reserve fund or reducing dues. These objectives are not going to be achieved by accident, and often require years of planning and fiscal control.

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## **A budget allows an Inn to track income and expenses**

- Provides a reality check to plans
- Allows adjustment of action to fit plans
- Determine income and expense patterns

### **Slide notes**

Most important, a budget allows an Inn to track its income and expenses in context. Reporting on actual income and expenses every month is not particularly useful unless there is some gauge against which those figures can be measured. "The Inn took in \$5000 in dues in September." Is that good? Should it have taken in \$10,000? Unless there is a budget in place, it is impossible to answer those questions.

Tracking income and expenses against a budget provides some reality check to the Inn's plans. Especially if an Inn is planning any kind of aggressive income growth or expense reduction, comparing that plan to reality can show whether those plans were realistic.

Knowing how your plans are measuring up to reality allows Inn leaders to adjust their actions to fit. Had the Inn planned on 80 dues-paying members, but only ended up with 60? That's a big difference in income, the loss of which could wipe out a planned surplus, or make it impossible to have a paid speaker. It's better to know that you can't afford to invite the speaker, than inviting the speaker and then realizing you don't have the money to pay her.

Once you've been tracking your income and expenses against a budget for a couple of years, you will have the ability to better predict how much you will need and when you will need it. Identifying cash flow patterns can be important, especially when trying to build a reserve fund.

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## Creating a Budget

- Who will create the budget?
- What information is needed to create a budget?
- Who will approve the budget?
- Who will track the budget?

### Slide notes

Now that we know why we should have a budget, we need to discuss how to create one and who needs to be involved.

First, we'll discuss who needs to be involved in creating the budget.

Next, we'll talk about the different pieces of information that need to be gathered before you can make a budget.

Then, we'll discuss the approval process and how to get people to support the budget.

And finally, we'll discuss the follow through: tracking the budget.

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## Who will create the budget?

- Treasurer
- Administrator
- Membership Committee
- Program Committee
- Executive Committee

### Slide notes

Who needs to be involved in the budgeting process? While any single person could sit down and put a bunch of numbers on a page, the budgeting process can be and should be more thoughtful than that. The numbers must be meaningful and realistic, and rarely will one person have all of the knowledge necessary to put together an accurate budget. Plus, the more involvement you can get early in the process, the more support you will have later.

Several people will probably be involved in the process. The person who will most likely take the lead will be the Inn's Treasurer. Minding the Inn's finances is the fundamental role of the Treasurer, and budgeting is a key part of that. The other key person in the process will be the Secretary and/or administrator. That person should assist the Treasurer and will often have the bank accounts and other data the treasurer will need. This person will also likely be dealing with the caterer or restaurant and will have information about meal expenses, the largest budget category.

Others who may be involved include the chairs of the Membership Committee and the Program Committee. The Membership Committee chair will be able to provide the Treasurer with the number of returning members, the number of new members, and to which membership category those members belong. Often, the Membership Committee is also responsible for determining how many scholarships will be awarded.

The Program Committee chair will be able to provide the Treasurer with the number of meetings to be held, where they will be held and any special needs they may have, such as paid speakers or audio-visual expenses.

Finally, it is wise for the Treasurer to speak to each executive committee member early in the process to determine if they have any input or special requests that may have budgetary implications. While these requests will need approval by the entire executive committee, and may ultimately not be possible, the member may support the budget nevertheless because their input was at least sought.

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## What information is needed to create a budget?

### Number of members

- Does Inn have a stated minimum or maximum?
- Is the Inn anticipating growth or loss?
- How many members will be returning?

#### Slide notes

There are a number of detailed pieces of information to gather in the budgeting process.

The most important piece of information is the number of members in each membership category. You will need this number to determine your income as well as the bulk of your expenses. For most Inns, member dues is the sum total of the Inn's income.

Does the Inn have a stated minimum or maximum membership? A maximum number of members will put a ceiling on the dues income potential for the Inn.

Is the Inn anticipating growth in members or a loss in members? The Membership Committee should be able to give the Treasurer some indication whether they will have a full complement.

How many members will be returning? This can be determined easily before the Inn year begins. Toward the end of the year, the Inn should distribute renewal forms to any member eligible to return, and ask them to indicate their plans. Knowing this early takes away a lot of guesswork.

The number of members also affects the amount of dues the Inn will pay to the national organization. Inns are assessed a fixed amount for each active member, NOT including law students (Pupils).



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## What information is needed to create a budget?

### Dues structure

- Tiered or flat
- How many members per category?
- Are any members exempt or discounted?

#### Slide notes

Next, you will need to know how your dues are structured.

Local Inns are self-supported from dues charged to their members. Most Inns choose a tiered structure for dues: Masters of the Bench and Barristers pay more than Associates and Pupils. If the amount charged to Associates and Pupils does not cover their costs, the Masters of the Bench and Barristers are, in effect, subsidizing the Associates and Pupils and should be made aware of that fact.

If the Inn does use a tiered dues structure based on membership categories, it is important to know how many members there will be in each of those categories. If the more senior categories are effectively subsidizing the more junior categories, this may have some impact on how many junior members the Inn can have and how many senior members the Inn will need.

While costs can vary depending on the type of meal and the area of the country, a typical dues structure is \$200-\$500 for Masters of the Bench, \$175-\$300 for Barristers and Associates, and \$65-\$85 for Pupil members. It is strongly recommended that all active members pay dues, if only a nominal amount. This encourages members to feel more vested in the organization.

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## What information is needed to create a budget?

### Meetings

- How many?
- Where are they held?
- Type of meal?
- How many members at each meeting?
- Special banquet?

#### Slide notes

Next, you will need to know how many meetings there will be during the year and where they will be held. You will also need to know what type of meal will be provided at the meeting.

The largest expense an Inn has is the meal served at the Inn meeting. These meals may range from very simple hors d'oeuvres to three-course dinners. From pizza to filet mignon and everything in between. The Inn needs to decide what kind of meal it wants, price it out with a caterer or restaurant, and then decide whether the members are willing to pay for it. The caterer or restaurant should be able to give you a per person cost.

You will need to know how many meetings there will be during the year at which meals will be served. You will also need to estimate how many members there will actually be at any given meeting. If you have 80 members, but only 85% show up on average, then you only need to budget for 68 members.

Where the meetings are held may also have some bearing on the expense. Restaurants are often less expensive than caterers.

Will there be a special banquet at the holidays or the end of the year? Will that be included in the dues assessment, or will the members pay for that separately? Will members be able to bring spouses or guests? Do you get better attendance at the banquet than the regular meetings?

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## What information is needed to create a budget?

### Administrative costs

- Paid administrator/volunteer
- Photocopying
- Mailing expenses

#### Slide notes

Finally, you will need to know what your total administrative costs will be.

Most Inns have some administrative costs. Often these costs are absorbed by a member's firm or court. The expenses, however, should still be estimated and the donation of those services should be listed as an in-kind donation. In most cases, such a donation may be tax deductible. Having these services donated is an easy way to trim the Inn's expenses.

In order to provide this tax deduction for donations, the Inn needs a 501(c)(3) tax designation from the IRS. For more information on tax exemption, see the module entitled "Essential Financial Concerns - Financial Policies and Tax Issues".

If the Inn has an administrator, is that person paid? If paid, how much?

Are there photocopying or other printing expenses, such as for program handouts or an Inn Handbook?

Does the Inn mail out dues notices, meeting reminders, or a newsletter? How often, to how many people and how much does each mailing cost? Could the Inn use e-mail or listservs to lower costs?

You may also need to know if the executive committee has authorized other expenses that must be included.

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## What information is needed to create a budget?

### Income

- Dues payments
- Donations
- Sponsorships

### Expenses

- Monthly programs
- Special events
- National events
- Foundation dues
- Administrative costs

### Slide notes

Once you have the information collected, it's now time to put it down on paper. Creating an annual budget document can be as easy as creating an Excel spreadsheet document, or as complex as using third-party financial software like Quickbooks or Microsoft Money.

As you can see, there are two categories for budget items: income and expense.

Income should include items such as dues payments from members, donations, and sponsorships.

Expenses should include the cost for monthly programs (the meal, the venue, production costs, etc.), special events that the Inn may host, national events that Inn members attend, Foundation dues payments, printing, postage, and administrative costs.

Creating and documenting your Inn's budget will help with the next step in the process: implementation.

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## **Who will approve the budget?**

- Executive Committee
- Masters of the Bench
- Entire membership

**Once approved, communicate it to the membership**

### **Slide notes**

The budget needs to be approved by the Inn. Depending on the Inn's structure, this could mean just the executive committee, just the Benchers or the entire membership. It is important that the approving body understand what is in the budget, and how it was created. How have their policies been reflected in the budget? Are there new policies being proposed (e.g., an increase in membership or a dues increase)?

Once the budget is approved, it is a good idea to communicate it to the entire Inn. While most members will not pay attention to the detail of a budget, they will still appreciate knowing their leaders are planning thoughtfully. This also can help the leaders later if reality causes them to alter their plans, as the members will have already been provided a chance to review and understand the budget.

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## Who will track the budget?

- Treasurer reviews income and expenses
- Reports on a regular basis to executive committee
- Adjust operations as necessary

### Slide notes

After the budget has been approved, it needs to stay on the table. Each month, the treasurer needs to review the income and expenses of the Inn and compare each item to the budget. Any significant variance needs to be identified and explained.

The treasurer should present a budget report to the executive committee at each meeting. Again, any variance, either positive or negative, should be explained. Is dues income below expectations? Why? Are meal costs lower? Why?

Not only will the executive committee need that information to be able to adjust operations, but they may also identify opportunities.

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## **A thoughtfully prepared budget . . .**

gives life to Inn policy

allows leaders to plan

allows the tracking of income & expenses

involves Executive Committee in the process

should be shared with the membership

should be tracked throughout the year

### **Slide notes**

To summarize, a thoughtfully-prepared budget is an important tool for an Inn. A budget can help bring the Inn's various policies to life, allow the Inn to plan for the future and to avoid problems by tracking income and expenses.

The entire executive committee should be involved in the budgeting process, assisting the Treasurer with key information.

The budget should be shared with the entire membership of the Inn, and should be tracked throughout the year.

For information on billing and collecting dues, please see the module entitled "Essential Financial Concerns - Billing and Collecting Dues".