Bugetting: How & What; Especially Why?

A budget is a planning tool that reflects an organization's programs, mission, and strategic plan. Typically the budgeting process should begin at least three months before the end of the fiscal year to ensure that the budget is approved before or during Convention and before the start of the new year.

A key component of financial sustainability is the commitment of officers to financial management that includes timely review of financial reports and advance planning. One way that officers plan for income and expenses in the future is by creating a budget. Approval of the annual budget is one of the fundamental building blocks of sound financial management.

Creating the annual budget is initially the appointed staff's (volunteer) responsibility, but the officers (usually those on the "finance committee" and/or "executive committee") often review the proposed budget and the full board usually adopts the budget at a general meeting. The approved budget then serves as a guide for financial activity in the months ahead. Budgets should not be "written in stone" because the financial position of the nonprofit may change during the year.

A budget is a guide that can help a nonprofit plan for the future as well as assess its current financial health. It is quite common to periodically review the budget as well as compare it to the actual cash flow and expenses, to determine whether they are playing out as expected during the course of the year. It may be necessary to amend the budget during the year.

The budget is a document that is referred to many times throughout the year - by officers and the membership who perform different roles within our organization.

The basic outline of creating a budget and its use:

1. Determine time-line
- Set target date for board approval
- Allow time for each step and for review and discussion
- Approve before beginning of fiscal year

2. Agree on goals
- Prioritize program delivery goals
- Set organizational financial goals
- Clarify annual goals from strategic plan

3. Understand current financial status
- Review current year income and expense compared to budget
- Forecast to the end of the year
- Analyze and understand any variances

4. Agree on budget approach
- Assign roles and responsibilities
- Agree on authority to make decisions
- Agree on how much uncertainty can be included (how many unknowns)

5. Develop draft expense budget
- Determine costs (expenses) to reach program goals
- Determine costs to reach organizational and strategic goals

6. Develop draft income budget
- Project income based on current fundraising and revenue activities
- Project new income based on new activities

7. Review draft budget
- Verify that the draft meets program and organizational goals
- Review and discuss all assumptions
- Make adjustments, based on goals and capacity, to match income and expenses
- Review final draft for all goals and objectives

8. Approve budget
- Present to any committees as needed
- Present to the board for approval

9. Document budget decisions
- Create a consolidated budget spreadsheet and file
- Write down all assumptions

10. Implement budget
- Assign management responsibilities
- Incorporate into accounting system
- Monitor and respond to changes as needed

Bugetting: How & What; Especially Why? *continued...*

Potential donors may request access to this information, too, if they wish it. "How much did you spend to get my $10?" This variation on "How much of this goes to program?" may be a misplaced question in some ways, but it's one you should be willing and able to answer.

In general, a budget is a financial description of your Squadron, Detachment and National Organization, its priorities, and its sustainability. Your Officers and Finance Committee work to align the narrative and financial descriptions with sustainability and an understanding of what it takes to operate the way you wish to and the way the environment will allow.

Budgeting takes a long time and requires lots of work. Ultimately, a vote is required to approve the budget; it then holds equal responsibility (with officers) to ensure accomplishment of that budget.

It's essential that all Officers understand budgeting, financial management, and reporting at a fundamental level. You also need multiple board members who understand it at a higher level. And then you need a cohort of board members who are experts in budgeting, financial management, and reporting.

Always include a narrative (footnotes, cover memo, etc.) that explains the organization's approach to budgeting. The narrative also includes assumptions for income and expense, i.e., 10 percent increase in membership dues paid to national, expansion of a particular program, etc.

Ensure that budget line items and accounting line items are in sync. Budget line items should align with accounting (financial statement) line items, and the structure of the full operating budget should match the chart of accounts (the structure of the accounting system), to ensure effective comparisons between budget and actuals. A mismatch between budget items and accounting items creates extra work for key volunteers who must translate between the two and risks inconsistencies that undermine the usefulness of financial reports. Especially for expenses, when accounting/financial statement line items exist without corresponding budget line items, it can result in budget overages or erroneously reported line item balances. When creating expense budget line items, be aware of how these internal line items translate to specified line items for outside reporting requirements such as the IRS 990. While these should not dictate precisely how you construct your budget, being able to easily cross-walk your items to the required items will facilitate meeting these reporting requirements more accurately and will use staff or volunteer time more efficiently.

Two approaches to budgeting commonly used by small and midsize groups or some combination of all of these approaches could be used, depending on the organization's circumstances.

- **Incremental budgeting** begins with prior year totals, and builds the subsequent year's budget by calculating percentage increases/decreases. A simple approach, it often misses opportunities that could benefit the organization's efforts.
- **Zero-based budgeting** starts from scratch every year: How much can we raise? How much can we spend? What are the most important mission activities? Zero-based budgeting forces reevaluation of all assumptions. If opportunities were missed in the past, zero-based budgeting increases the likelihood of realizing reduction of waste and uncovering new revenue streams, for which requires more effort and time to effectively accomplish.

Nonprofit organizations (NPO) wrestle continually with maintaining and improving their operations, especially during today's uncertain economy. In short, NPOs must constantly strive for sustainability. A well-planned budget will focus on the primary goals and objectives of the organization and provide financial and systemic adaptability — key ingredients to maximize sustainability. The material presented within is designed to provide this basic information.

Bugetting: How & What; Especially Why? *continued...*

Every volunteer brings to the Sons the enthusiasm and interest necessary to do a good job. These volunteers are critical to the Sons success. Those volunteers need direction and the approved budget serves as a road map for our organization's current and future financial success.

This chapter presents the theories and practicalities of budgeting for the small Squadron and Detachment, whose expertise do not always correspond with the budgeting needs of the organization. Larger Squadrons and Detachments needs are the same, but in amounts relative to their size of membership able to assist in promoting and working our programs.

Selecting the Budget Committee

A budget is a planning tool for the Squadron and Detachment. The budget committee should reflect the collective knowledge of the organization concerning the goals and objectives for the period in question. Volunteers who serve on the budget committee should have the following qualities:

- A familiarity with prior years' activities and the changes that are contemplated in the year(s) to come, particularly the objectives in the strategic plan.
- A desire to serve the organization as a whole rather than to lobby for a particular project.
- A knowledge of ordinary budgeting, whether on the personal or business level.

While the qualities listed above are desirable, their absence should not preclude excellent service by volunteers who are otherwise interested and dedicated, especially if the volunteers have a desire and willingness to learn about budgeting.

The Task of the Budget Committee

The task of the budget committee is to develop the budget for the next year (or future years, in the case of a multi-year budget). The steps in developing a budget are as follows:

- Define the budget timeline. Develop a list of objectives or goals for the year. A familiarity with prior years' activities and the changes that are contemplated in the year(s) to come are necessary to prepare a comprehensive budget. If the organization has a strategic plan, consider activities in the plan that will impact the budget and plan accordingly.
- Estimate the cost or resources required to achieve each objective or goal. The previous year's actual expense or budget can be used as a starting point, but the Squadron and Detachment should make budgeting decisions based on many factors, not just the prior year's budget. If the objective or goal involves new programs or activities, estimate the cost by creating an itemized list of all the expenses involved in achieving that particular objective.
- Estimate the expected dates and amounts of revenue that will be generated.
- Compare the expected dates and amounts of revenue to the estimated expenses.
- Develop the final budget.
- Present the budget to the board for approval.

The board before the start of the organization's next fiscal year should approve a final budget.

The timeframe for the budget process generally will consider the calendar year, the fiscal year and the approval process. The calendar year often determines the timing of certain expenses and revenues, particularly end-of-year tax-deductible donations. The fiscal year is the period that the Squadron and Detachment uses to measure funds: the federal government has a fiscal year that ends Sept. 30, while many Detachments and Departments have a fiscal year that ends June 30. A fiscal year ending June 30 is particularly appropriate for Veteran Service

The Task of the Budget Committee *continued...*

Organizations that intend to complete their audit prior to the deadline of mid-January, a common deadline to submit grant applications. The time required for the approval process will generally determine how long before the end of the fiscal year it must begin.

The need to present the budget during Convention for the Detachment for approval will be the overriding constraint in planning the timeframe for that budget process. There must be time to consider, question and change the budget both before and after the presentation. A minimum of three months should be allowed for the process. The smart Squadron and Detachment Officers that demands full financial statements each month should have a good understanding of the previous year's monthly cash flows and the budget categories that were over- or underfunded.

Setting Budget Priorities and Realities — Revenues

The budget committee will need to examine the reasonable expectations of revenue. Each potential source of revenue must be examined to determine possible enhancements in the future. Typical sources of revenue are contributions from membership renewals and new membership at each Squadron. Additional funding is derived through the fundraising efforts by providing goods and services and receiving proceeds and fees for those goods and services. When evaluating each source of revenue, the following questions should be asked:

Public contributions:

- How much do we expect in contributions from the public?
- Are the expectations realistic? Is there a history of increases in past years? What about the economy?
- Can the general public reach or attend your fundraising event within your Post? Does your Post have non-smoking available able to host an open event?
- Has a major contributor had a good year or a bad year financially?
- What are the fundraising possibilities of the organization itself?
- What are the costs of fundraising?
- Is the use of funds restricted to a particular purpose (e.g., scholarships or building)?
- Must the Squadron or Detachment be audited?
- Do the donation efforts consistently lead to sustainability, allowing for the creation of a program that can be carried on financially?
- Will the grant lead contributors to believe their contributions are not needed?
- Could the large donations overwhelm the organization? Sometimes the administration of donations exceeds the technical ability of small non-profits (Squadrons & Detachments, etc.)

Membership dues, fundraising proceeds and fees for goods and services:

- What are the revenue expectations?
- Are the expectations realistic? Is there a history of success with similar events or products in past years?
- What are the legal and tax implications?
- Are "suggested donations" better than a fee for a production or fundraiser?
- What are the costs associated with the production or sale?

These questions require knowledge of program plans, fundraising expectations, development activities, grant sources, and local and state laws. Accurate answers are essential and research may be necessary. Some of these questions can be answered directly from the accounting system. Others will require input from those experienced in fundraising.

Setting Budget Priorities and Realities — Expenses and Costs

Usually revenues and expenses are tied together, as in fundraising projects that generate revenue at a certain cost. Excess revenue over expenses can usually be used to cover other expenses of the organization — for example, programs that do not generate revenue and administrative expenses.

Especially when identifying excess revenue to allocate to other costs in the budget, the Squadron or Detachment will need to be careful it doesn't overlook any expenses. It is important to review the bylaws of the organization for requirements that may place an undue burden on the organization, such as the requirement to have an annual audit by a paid professional rather than by a free, independent volunteer. Also, become familiar with the different types of expenses the organization will need to anticipate during the budget year:

- Direct costs related directly to a specific project or program.
- Capital expenditures for items such as vehicles or equipment used in providing services or raising revenue provides benefits for the organization long after the initial budget period ends.
- Indirect or overhead costs may not relate to a specific project but may be necessary for its completion. Items such as postage, telephone service, Internet, copier usage or office supplies be overlooked in the planning process.
- In-kind contributions of goods or services ("free" expenses and costs) should be budgeted at fair market value (FMV) for the new Form 990. These expenses and costs can include items such as office space, office equipment use, utilities, parking, security, donated staff hours, computers and other items provided by donors or a parent Legion Family member. While these in-kind contributions may not have a bottom-line impact (as they are recorded as a revenue when received and as an expense when used, typically in the same period), NPOs should still budget for and report these contributions when they can be adequately documented. This will give a more accurate picture of the actual total cost for the organization to meet its goals, and whether it qualifies for Forms 990-N, 990-EZ or 990.

As noted in the revenue section, some programs are funded entirely by grants. The budgets for specific grant programs are made at the time of the grant application. These budgets should include not only requests for the specific costs of the program, but also enough to cover the internal costs of administering the program if the grant were awarded. Many programs have been granted based on direct costs, without any consideration of the indirect costs and the incidentals that can add up quickly and overwhelm a well-planned effort.

When to Prepare the Budget

A budget is a planning tool and should be prepared well in advance. Plenty of time should be allowed for presenting the budget to the board of directors for approval, and for making changes. After your hard work preparing the budget, it may be difficult to recognize good suggestions for improvement, but you must be willing to go back to the drawing board.

Once the budget is prepared and approved, don't put it away in a dark corner. For the budget to be useful and effective, everyone should take it seriously. The budget should be compared with the actual experience on a regular basis (i.e. monthly or quarterly) to allow board members and executive officers to measure whether the organization's goals, set by the budget, are being met. An example of such a report is shown on the next page. Variances from the budget are reasonable and expected. It is rare that the assumptions made during the budgeting process become reality. Variances provide valuable information to improve decision-making for the remainder of the budget period.

When to Prepare the Budget *continued...*

Ideally, with every presentation of financial information, there should be a comparison of actual revenue and expenses to those budgeted. Other reports may include a comparison of the actual and budget amounts attributable to the same period in previous years and a comparison of projected actual to budget for the entire budget period.

Comparing the variance can help the budgeting committee benchmark its progress and determine any actions to take for the remainder of the budget year. This also allows for learning how to better plan for the future.

A simple sample of a detachment budget. Since the membership is voting on the entire budget during the approval process, simple is better. Remember to include a summary explaining the issues and how the numbers were derived. An explanation before the approval vote saves discussion time.

Sons of The American Legion —2016-2017 Operations Budget

Annual Budget For The Fiscal Year 1 July 2016 to 30 June 2017, Approved by Finance Committee and Detachment Convention

Revenue	**2014 Budget**	**2015 Budget**	***2016 Budget***	***2017 Budget***	Account Number
Interest Income	25.00	25.00	*15.00*	**15.00**	4301
Membership Dues	73,000.00	76,000.00	*76,600.00*	**79,200.00**	4016
Camp Out Income	2,000.00	2,000.00	*2,000.00*	**2,000.00**	4101
TOTALS:	**75,025.00**	**78,025.00**	***78,615.00***	**81,215.00**	

Expenses	**2014 Budget**	**2015 Budget**	**2016 Budget**	**2017 Budget**	Account Number
Income related expenses					
Campout	3,000.00	3,000.00	*3,500.00*	**4,500.00**	4102
Membership Dues to National	**18,250.00**	**19,000.00**	**19,150.00**	**19,800.00**	6116
TOTALS:	**21,250.00**	**22,000.00**	***22,650.00***	**24,300.00**	
Member Service Programs					
Children & Youth Programs	1,750.00	1,750.00	*1,750.00*	**-**	6910
Child Welfare Foundation	1,750.00	1,750.00	*1,750.00*	**-**	6920
Boys State Contributions	1,000.00	1,000.00	*1,000.00*	**-**	6930
Emblem Sales	700.00	700.00	*700.00*	**700.00**	6140
UAV	25.00	25.00	*25.00*	**25.00**	6400
National Commander Support	500.00	500.00	*500.00*	**500.00**	6410
National Convention Delegate Strength	450.00	450.00	*500.00*	**500.00**	6201
Publicity & Promotion	1,900.00	1,900.00	*1,900.00*	**1,900.00**	6500
Membership Training & Development (MTD)	-	-	*500.00*	**500.00**	6612
Trophies & Awards Committee	750.00	850.00	*850.00*	**850.00**	6850
Veterans Administrative Volunteer Service	1,800.00	1,800.00	*1,800.00*	**-**	6940
Washington DC Wreath purchase	-	150.00	*150.00*	**150.00**	5541
TOTALS:	**10,625.00**	**10,875.00**	***11,425.00***	**5,125.00**	
Officer Expense Accounts					
Adjutant	4,000.00	4,500.00			
Alternate NEC	495.00				
NEC					

A Budget for Cash Flow

In addition to the comparative income statement, other types of budget reports will help ensure an organization runs smoothly. For the small group, the most important is a cash flow budget. This is the budget of revenues received and expenses paid, broken down monthly to ensure cash will be there when needed.

If an organization expects all of its expenses in the first three months of the year and all of its revenue in the last three months of the year, the organization will be unable to pay expenses unless it has built up a large cash surplus. Plan your cash flows as well as your revenues and expenses.

	2014 Budget	2015 Budget	2016 Budget	2017 Budget	Account Number
	-	150.00	*150.00*	**150.00**	5541
	10,625.00	10,875.00	*11,425.00*	**5,125.00**	
Officer Expense Accounts					
Adjutant	4,000.00	4,500.00	*4,500.00*	**4,500.00**	5550
Alternate NEC	495.00	495.00	*600.00*	**800.00**	6820
NEC	-	-	*210.00*	**-**	6830
Area Vice Commanders					
Area 1	1,000.00	1,000.00	*1,000.00*	**1,200.00**	5591
Area 2	1,000.00	1,000.00	*1,000.00*	**1,200.00**	5592
Area 3	1,000.00	1,000.00	*1,000.00*	**1,200.00**	5593
Commander	5,600.00	5,600.00	*5,600.00*	**6,000.00**	5580
Executive Committee & Chaplain	600.00	600.00	*600.00*	**600.00**	5520
Western Vice-Commander	-	-	-	**2,000.00**	5530
Historian	100.00	100.00	*100.00*	**150.00**	5570
Washington Conference	1,750.00	1,750.00	*1,750.00*	**1,750.00**	5540
National Convention NEC/Alt NEC	1,000.00	1,000.00	*1,000.00*	**1,250.00**	6810
Outgoing Commander to National Convention	1,200.00	1,200.00	*1,200.00*	**1,500.00**	6840
Legion Advisors Expense	500.00	500.00	*200.00*	**200.00**	5560
TOTALS:	**18,245.00**	**18,745.00**	***18,760.00***	**22,350.00**	
Detachment Administrative Expenses					
Banking Fees	150.00	150.00	*150.00*	**150.00**	6350
Member Updates	540.00	540.00	*540.00*	**540.00**	6200
Miscellaneous Expense	765.00	1,347.00	*500.00*	**750.00**	6060
Office Supplies	1,000.00	1,000.00	*1,000.00*	**1,000.00**	6050
Postage USPS	2,000.00	2,000.00	*1,100.00*	**1,100.00**	6040
Express Shipping Membership	-	-	*900.00*	**900.00**	6030
Telephone	1,700.00	1,700.00	*1,700.00*	**1,700.00**	6020
TOTALS:	**6,155.00**	**6,737.00**	***5,890.00***	**6,140.00**	
Detachment Contingency Reserve Funding					
Restricted use for substantial financial changes			19,890.00	**23,300.00**	3100
				Budget	
GRAND TOTALS:	***56,275.00***	***58,357.00***	***78,615.00***	**81,215.00**	

A Budget for Capital Expenditures — Bought or Received

Capital expenditures refer to the acquisition of assets whose useful lives are greater than the current period. Although funds for expenditures may be identified and approved in total during the budget process, most businesses and non-profits have a separate process for approving funds for capital assets. Capital expenditures can be very large and have a significant impact on the financial performance of an NPO. Also included in the capital expenditures budget are depreciable in-kind contributions.

Many times a small organization will borrow assets, board members will use personal assets for the needs of the organization, or donors will provide non-cash items. These non-cash items represent in-kind contributions. The organization will need to estimate the value of the items for the organization's records. Sometimes the donor can provide the acquisition price, depreciation taken, or residual value of the gift.

The organization cannot and should not provide fair market value (FMV) appraisals to donors. If no valuations are provided, the organization will need to develop an internal Gift Acceptance Policy (GAP) on how to record the donations. A gift acceptance policy allows the board to define the parameters and guidelines for handling different types of donations, eliminating controversial or risky donations and complying with the legal obligations of gift recording and recognition.

Changes to the Budget

Can budgets be changed? Sometimes budgets must change when expectations are not met. Rather than abandon a sound budget plan when an emergency or opportunity arises, an organization should be able to handle the change in an orderly fashion. Continual review of variances, along with forecasting, will allow the NPO to determine if the overall budget is sound or if actual events require a new budget be adopted. Bylaws should be examined for guidance on how an adopted budget can be altered if necessary. Typically, small alterations can be done by the executive officers, while changes beyond a specified threshold would require approval by the board of directors.

If an expected donation that has been budgeted does not materialize, you have several choices. The most obvious is to seek other sources of funds. Next, you can cut expenses. A less obvious option is a rearrangement of expenses. A gift of an asset, as previously discussed, might relieve a budgeted expense. A program that was scheduled to begin in one quarter might be moved to another period, allowing the expenses of that program to be moved as well. All of the decisions above should be made with reference to the budget, as well as to the current cash and financial picture.

Conclusions

Budgets should be a major part of every Squadron and Detachment's plan. The Budget is unique to the specific level and should be in harmony with the overall program efforts of the Sons. Membership has always been a key issue for the Sons; Membership is directly tied to the finances of the whole organization. This plan should allow the flexibility needed to achieve goals with order and success. The documentation of budget assumptions and changes will provide a basis for improving the efficiency of the budgeting process each year.