

Best Practices: Budget & Finance

Creating and maintaining a budget is a best practice in Inn administration. The budgeting process ensures that your Inn plans and prepares for its financial obligations. It also is a clear demonstration that the leadership team is actively working to create a solid financial footing for the upcoming Inn year, as well as for future generations of Inn leaders to follow.

Policy, Planning and Tracking

Budgeting brings to life the policies of an Inn. 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.

Budget Gives Life to Policy

- Financial Implications
- Tests policies
 - Membership structure
 - Dues structure
 - Meetings
 - Meals
 - Programs
 - Special events
 - Scholarships



Common policies and considerations that must be reflected in a budget may include:

- A. Membership
 - How many members will the Inn have? Is there a set minimum or maximum?
 - How much will members pay? How many members in each dues category are expected?
 - Are there other sources of revenue to help offset dues?
- B. Meetings
 - How many meetings, meals and programs will the Inn have each year?
 - What type of meals will the Inn provide? Are members willing to pay for the type of meals the Inn wants to have?
 - Will the Inn hold a special holiday or end-of-year banquet?
- C. Programs
 - 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?
- D. Scholarships
 - 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.

Best Practices: Budget & Finance

A budget allows for an Inn to plan for the future. Inns may wish to plan for certain financial objectives, such as building a reserve fund or establishing a scholarship fund. These objectives are not going to be achieved by accident, and often require years of planning and fiscal control. Many Inns conduct community service projects, such as publishing a city judicial guide or conducting programs in local schools. 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.

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 a context in 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 gauge the Inn’s financial position accurately.

Tracking income and expenses against a budget provides a 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 a speaker than extending the invitation and having to scramble for emergency funds.

Once the Inn has been tracking 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.

Who’s Involved

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 and should be a collaborative effort. The numbers must be meaningful and realistic, and rarely will one person have all of the knowledge necessary to put together an accurate budget. Additionally, the more involvement you can get early in the process, the more support you will have later.

The Treasurer will most likely take the lead role in developing the budget. Planning and tracking the Inn’s income and expenses is a key duty of the Treasurer and budgeting plays a primary role. The other key person in the process will be the Secretary or Administrator. The Secretary or Administrator will often have the bank account information, will most likely be dealing with the caterer or restaurant, and will have information about meal expenses (the largest budget category).

Other collaborators may 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/dues category those members belong. Often, the Membership Committee is also responsible for determining how many scholarships will be awarded.

Best Practices: Budget & Finance

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

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.

Dues Structure & National Dues

Inns of Court 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 \$75-\$95 for Pupil members. It is strongly recommended that all active members pay dues, if only a nominal amount. This encourages members to feel more invested in the organization. Emeritus and Honorary members are typically charged a nominal annual fee or may only pay for the meals of the programs they attend.

Inns pass on \$85 per active member (Masters of the Bench, Barristers, and Associates) to the national organization. This fee is collected from active members and should be considered restricted income. Pupils, Emeritus, and Honorary members are not included as active membership categories. National dues invoices are sent to the Treasurer of the Inn in July and are calculated on the number of active members of the preceding fiscal year.

Collecting Information

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 roster.

Best Practices: Budget & Finance

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.

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 food and beverage. Meals may range from very simple hors d'oeuvres stations to plated three-course dinners. The Inn needs to decide what kind of meal members want and are willing to pay for, and price it out with a caterer or restaurant. Many food and beverage options are available to save costs, such as buffets versus plated dinners and a cash bar versus open bar.

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 member's annual dues or will the members pay for that separately? Will members be able to bring spouses or guests? Does the Inn get better attendance at the banquet than the regular meetings?

Finally, you will need to know what your total administrative costs will be. Most Inns have some administrative costs. 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 to lower costs? You may also need to know if the executive committee has authorized other expenses that must be included.

Often these administrative costs are absorbed by an Inn member's court or firm. 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.

Creating the Budget

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 or as complex as using third-party financial software like Quickbooks or Microsoft Money. Income should include items such as dues payments from members, donations, and sponsorships.

What Information is Needed to Create a Budget?

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



Best Practices: Budget & Finance

Expenses should include the cost for monthly programs (meal, venue cost, A/V costs, speaker fees, etc.), special events that the Inn may host, national events that Inn members attend, national dues, printing, postage, and administrative costs. Creating and documenting your Inn's budget will help with the next step in the process: implementation.

Implementing the Inn's Budget

The budget needs to be approved by the Inn. Depending on the Inn's structure, this could mean the executive committee, Masters of the Bench, 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 should be communicated to the entire Inn. While most members will not pay attention to the details of a budget, they will 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.

The budget is a living document that requires updates and interaction. 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. Is dues income below expectations? Why? Are meal costs higher/lower? Why? Not only will the executive committee need that information to be able to adjust operations, but they may also identify opportunities.

Submitting a draft of the Inn's annual operating budget by the deadline of November 30 is one of the elements of achieving the Gold level recognition in the Achieving Excellence Program.

Collaborating, collecting information, developing and updating a budget is an ongoing process. Although many moving parts are involved, having a budget and policies to back it up will make the Inn, and in turn the member experience, that much stronger.

Tax Exemption and Filing

The American Inns of Court is a tax exempt organization as defined in section 501(c)(3) of the Internal Revenue Code. Further, the American Inns of Court has been granted a group exemption ruling that may include any of its "subordinate organizations."

The American Inns of Court was granted 501(c)(3) status because it is a non-profit corporation of a charitable nature that does not engage in political activities or lobbying. As a result, the American Inns of Court Foundation is not required to pay federal or state tax on income related to its central mission and dues paid to and contributions made to the American Inns of Court are considered tax-deductible.

Joining the Group Exemption - Step One

- The Inn must obtain an Employer Identification Number (EIN, or tax ID number) from the IRS.
- The national office can provide you with the necessary form SS-4, or you can obtain an EIN by telephoning your local IRS service center.
- You must make sure to include our group exemption number (GEN 3249) when completing your EIN application.
- Many Inns have already obtained an EIN. If so, it is not necessary to obtain another one.
- If you are not sure whether your Inn has obtained an EIN or do not know what the number is, you may contact the national office, and we will try to assist you.

Joining the Group Exemption - Step Two

- The Inn must complete a simple option form provided by the national office.
- The option form requires you to provide an EIN.
- The Inn's fiscal year must also coincide with the Foundation's fiscal year, which is July 1 to June 30.
- Once the Inn has properly requested inclusion in our group exemption, it is thereafter considered a 501(c)(3) tax-exempt organization.

Filing a Tax Return

- The IRS requires every tax-exempt organization to file an informational return.
- Organizations with annual gross revenue in excess of \$50,000 must file a 990-EZ.
- Organizations with annual gross revenue of \$50,000 or less must file a 990-N. The American Inns of Court Foundation can file a 990-N on the Inn's behalf if given permission to do so with the AICF Tax Filing Verification Form.
- **Filing is not optional.**

Key dates:

- August 31: Submit UPDATES to the AICF Tax Filing Verification Form for the past fiscal year (AICF Verification form sent to Inns in July)
- November 15: Comply with the IRS Tax Filing deadline

State/Local Sales and Use Tax Exemption

- Designation as a 501(c)(3) tax-exempt organization does not automatically exempt the Inn from state or local sales and use taxes.
- Most localities require an organization to apply for such exemption.
- The application process may require some documentation from the national office.
- Typically this includes a copy of our 501(c)(3) determination letter from the IRS and our group exemption letter.

Deductibility of Dues or Other Payments to the Inn

- If the Inn opts to be included in our group exemption and is considered a 501(c)(3) tax-exempt organization, then contributions to the Inn are considered tax deductible.
- The non-meals portion of the dues may also be deductible.
- The Inn should be prepared to provide a breakdown of how much of a member's dues payment went to meals versus other expenses.

Questions?

- If you have questions, please contact your [Director of Chapter Relations](#) at (800) 233-3590.