



Finances and Budgeting

Financial matters for a fraternity or eating-house can lead to some of the most frustrating experiences of the organization experience if not handled properly. The financial practices of an organization typically relies on history and “the way things have always been done” in order to put together a workable organization budget.

As a result, numerous myths exist regarding organization financial matters.

Myth #1. Only accounting majors should serve as organization treasurers. This is false. Many fine treasurers are sociology majors, although an accounting background may help. This person will inevitably serve as bill collector, diplomat, “bad guy,” surrogate parent, and counselor. Few academic programs provide such a wealth of role preparation.

Myth #2. A treasurer with all those qualities surely would not need supervision. False again. Even the best treasurers must realize they will have to answer to someone. Expectations should be placed on this person by the organization’s advisor (alumni or campus). In any event, requiring monthly reports or statements to the organization advisor may help prevent possible disasters. Documentation and supervision are the best insurance policies.

Myth #3. Only one or two members should concern themselves with understanding the financial operations of the organization. This is a dangerous condition. First, a lack of financial understanding within the organization produces contagious disregard for collecting bills, revising the budget, and controlling expenditures. Peer pressure can be a very effective tool for the treasurer. He or she should identify about ten respected members and implement their talent for influencing opinions and popularizing position on various topics of concern. Secondly, the organization must continually groom prospective treasurers by identifying younger members as potential candidates. A treasurer who uses several younger members to form a committee for help with financial affairs will find several qualified individuals at election time. Thirdly, a more financially well-informed organization inevitably runs more efficiently and saves money. Members gain experience from having dealt with and practiced with budgets as undergraduates. Large organizations may operate with revenues approaching one or two hundred thousand dollars annually.

Glossary

Before proceeding further, it is necessary to define the terms used most commonly in the financial affairs of a fraternity and eating-house.

Income (or revenue) – monies the organization anticipates collecting during a certain period of time. These should be categorized.

Expenditures (or liabilities) – the organization’s anticipated expenses for a period of time. These should also be categorized and well defined.

Budget – a combined statement of revenue and expenditures. It provides a comparison between the two, outlining the organization’s financial limitations or ability to assume additional programs, activities, etc.

Accounts Receivable – monies that are owed the organization, usually members’ dues.

Dues become accounts receivable once they are billed to the respective members.

Active – accounts receivable incurred by individuals who are usually still in the organization or in school.

Inactive – accounts receivable that extend beyond one academic term. These are monies that have been owed the organization for a considerable period of time.

Members who generate inactive accounts receivable generally have not taken care of their bills for the current term. The greater an organization’s inactive accounts receivable, the greater the potential for real hardship and threat to future viability.

Past due – all inactive accounts receivable are past due. The treasurer should establish a deadline for payment of dues. Failure to meet the deadline initiates a past-due situation. Once an account becomes past due, it provides the organization with a clear signal that the account must be dealt with BEFORE becoming inactive.

Billing System – a system for collecting monies from the organization members.

Installment Note – a signed, witnessed, court-legal document or agreement between a member and the organization that states the member agrees to pay a certain amount of money at specified dates over a period of time. For example, in order to alleviate a past-due balance, a member may agree to pay the balance or “note” over the course of three installments, perhaps once a month. The installment note protects both the member and the organization – the member maintains a specific responsibility to the organization with binding deadlines and the member cannot be pressed for payment above and beyond the terms of the agreement.

Promissory Note – this note is similar to the installment note in that it constitutes a signed legal agreement for the settlement of a debt owed. It is different in that the promissory note offers a more open agreement to pay, one that does not stipulate a strict payment schedule. In many states, promissory notes are not considered binding agreements.

Accounts Payable – these are the opposite of accounts receivable. Once a bill is received by the organization, it becomes an account payable. Accounts payable are also classified as both inactive and active. Accounts payable should be kept to a minimum.

Anticipated Loss or Income – the difference between revenue and expenditures in the budget. If revenue exceeds expenditures, this creates the anticipation of income and if expenditures exceed income, this creates the anticipation of a loss. The ideal budget should indicate neither, as each organization should strive to balance its budget.

Receipts – a receipt outlining the various categories to which the money goes should be given to a member when dues are paid. CASH TRANSACTIONS ARE NOT RECOMMENDED! If organizations choose to accept cash, a receipt each and every time is imperative.

Ledger – a financial record or statement usually found in some sort of columnar form.

Disbursal Journal – a collection of ledgers providing records of monies paid out or disbursed for the organization’s various expenses. Each expenditure category on the

budget should have its own ledger sheet contained within the disbursal journal. The disbursal journal allows the organization to monitor throughout the year the amount of money spent in each budget category and the rate at which it is spent. It serves also as a way to verify entries into the organization's checkbook, providing a detailed description of and reason for issuing the check.

Escrow – setting aside monies for a special purpose. Those dollars often do not appear in a journal because they “float around.” For example, the treasurer knows that at the end of the year damage deposits will have to be paid back. At the beginning of the year, these deposits were collected and deposited into the checking account or perhaps into a savings account. He or she cannot spend the money during the year because it essentially does not belong to the organization. In June, the treasurer transfers that lump sum back into checking and prepares to issue checks for the deposit balances, after allowing for repairs if necessary. The money paid for deposits was “held in escrow” and put back into checking. The money, of course, was not indicated as income on the budget because it did not constitute income. Organizations who frivolously spend money held in escrow are headed for real trouble.

Preparing the Organization Budget

Past records should be used when formulating the new budget. The most valuable tools are the budget revisions and monthly and yearly statements. The organization should prepare a budget for each academic term rather than attempting to work with larger figures representing the entire academic year. Each term has income and expenses that are particularly associated with that time of year. For example, it is likely more money is needed in the fall as opposed to spring because of recruitment (for fraternities), smaller membership (study abroad and loss of graduates), homecoming, holiday activities, etc.

Secondly, preparing the budget is an organization affair, not just a day-long chore for the president or treasurer. All officers and committee chairs should submit individual budgets for their anticipated expenses for the term. The treasurer should also prepare his or her estimates of expenses for each category. The he or she and/or the organization finance committee may compare the two expense proposals and use figures from previous terms to formulate a final proposal. In most organizations it is customary to submit a tentative budget to the entire organization and alumni/ae board (if applicable) for final approval.

Thirdly, even though figures from previous terms may be available, budgetary proposals do involve a degree of speculation or guessing. If speculation is needed to fill in some of the gaps, **be conservative**. When formulating the proposal, the best rule of thumb is to figure conservatively for income and liberally for expenses, but never more than that which will balance the budget.

Income from membership. The members will obviously generate a substantial portion of the organizations' income. Only consider those members who have issued a written or verbal confirmation guaranteeing their return to school. Consider that the younger the members, the less of an investment they have in their college careers, and perhaps are less likely to return.

Income from accounts receivable. It is best to be conservative. Do not consider it feasible to collect receivables from those who have not signed promissory or installment notes.

Income from new members. This area can become particularly volatile if not figured in a conservative fashion. A five-year trend of new member numbers should be analyzed. Variations greater than 25 percent should be taken into consideration. Having budgeted for the income from 20 new members and then only initiating 10 can quickly trap an organization.

The following simple formula may assist the treasurer in determining a speculative, but still conservative and intelligent, figure for the size of the spring new member group:

1. Check the organization's records and determine the size of each new member group for the past four years (before initiation). Average those four figures and take 75 percent of the figure (or remove one-fourth)
2. Next determine the size of each initiate group of the past four years (that is, how many members were actually initiated from the original group). Find the average of these four figures.
3. Compare the figure from Step 1 with the figure from Step 2. Use the smaller figure when formulating the budget.

Retention rates less than 75 percent or attrition rates greater than 25 percent indicate problems most likely exist. An attrition rate of 25 percent means an organization "lost" one out of every four new members, an indication that improvements can certainly be made in areas of membership education, for example.

Selecting the Type of Budget

The type of budget your organization uses can be very important. The following is a Type One +Three Budget that may provide your fraternity or eating-house with a good foundation of budget development.

Income

Should include the following:

Social Dues (____ members @ \$____ = \$____). The total social income figure can go directly over to social expenses. This will allow the organization to charge its members and associates in proportion to the social activities that are provided, rather than "robbing" other income sources to pay for parties, etc.

National Fees (for fraternities) (____ members @ \$____ = \$____). The respective inter/national fraternities establish these. Immediately upon collection, these monies should be transferred and held in escrow until the entire amount is sent in. The organization should not be permitted to spend these monies on organization-related activities. These fees pay for various services provided by the national office such as materials, salaries for visiting field staff representatives, insurance, expenses for alumni/volunteers, etc.

Building (or Reserve) Fund (____ members @ \$____ = \$____). This is an optional area. Many groups assess a certain amount per member per year to provide money for a future house, furniture, or other capital improvement.

General Activity (____ members @ \$____ = \$____). This category is the total expenses for the categories of officers; Patterson Court Council dues; public relations; alumni/ae relations; recruitment; supplies; membership development; and miscellaneous. This figure may then be divided by the number of members and new members who are currently active.

Accounts Receivable. Include ONLY those guaranteed by a signed and witnessed promissory or installment note.

Miscellaneous. This may include items that are difficult to classify, such as fund raisers, interest received from a checking or savings account, a donation by a parent or an alumnus, etc. Fundraisers should never represent more than five to seven percent of the total income. Interest income from the organization's saving or checking accounts should not be entered under the income section of the budget for several reasons. First, it is usually difficult to determine how much interest income will be generated by the group's accounts. Secondly, this income is not significant and therefore, should not be relied up to provide revenue for an important expense. Thirdly, in keeping with the spirit of a not-for-profit organization, it is probably in the organization's best interests not to indicate its liquid assets. Donations received should go into savings unless the donor requests that the organization purchase something specific.

Subtract ten percent from the total gross income as a buffer. The result is the total net income. Gross income is a projection based on some intelligent thinking. Projections can be wrong so a built-in buffer helps to guarantee operating well within the confines of your budget.

Expenses

Should include the following:

Inter/national Fees (if applicable – including membership dues, housing fund, and convention/leadership school). The number of members X the appropriate amount can calculate these line items.

Patterson Court Council dues. These are membership dues that are owed to Patterson Court Council by member organizations. Some councils will bill each organization in relation to its size, some will differentiate between active members and new members, charging one more than the other, and some will charge all groups the same fee regardless of size.

Officers. Some organization officers receive modest salaries or stipends for their services. Large organizations may feel it necessary to provide these incentives since certain major officers devote many hours each week to their respective positions. Salaries or credits (such as free board, etc.) should be indicated in this category.

Alumni/ae Relations. Items such as alumni/ae newsletter, greeting cards, phone calls, press releases, banquets, gifts, flowers, and other related services should be considered in this category. Be specific as possible for each member.

Scholarship Fund. This category includes any expenses incurred by scholarship programming, such as costs from maintaining scholarship resources, organizing a tutorial program, purchase of plaques and trophies for outstanding achievement, cash scholarship, or bookstore gift certificates, printing costs for producing a review of courses and professors, or purchase of resource materials for the organization house library such as computer accessories, dictionaries, desks, chairs, lights, tables, etc.

Recruitment. The recruitment budget should be kept separate from the social budget, particularly for the fraternities. Some organizations may combine the two; however, it is best to view the social budget as an occasional complement to the recruitment budget. The combining

of the two activities often times explains why organizations are having difficulty recruiting members. If the emphasis turns from meeting new people and making friends to dancing and partying, the organization is wasting its recruitment budget.

Membership Development. This item may be applied to bringing speakers and workshop facilitators to the organization, successful alumni/ae to address their achievements and career orientation, educational movies, cultural activities, faculty guest speakers, and defraying of costs for fraternity-related materials such as manuals, posters, programs, etc.

The Building Fund and Social Fund are self-explanatory, as are Public Relations, Supplies, and Miscellaneous.

Calculate the difference between total expenses and total net income. Because the Internal Revenue Service considers fraternities and eating-houses as organizations operating “not-for-profit,” it is best to balance the budget or achieve a zero difference between income and expenses. If, after figuring the budget, expenses exceed income, the budget *must* be reworked. An organization must never be allowed to budget for a loss or indicate it plans to end the year owing money. First, separate expenses into two categories: discretionary and non-discretionary. Discretionary expenses are those that are determined by the whims of the organization, those that may be increased or reduced and not severely affect the condition of the organization, such as the social budget, building fund, public relations, or scholarship fund. These categories should not be eliminated completely; however, it may be necessary to reduce the scope of programming under these areas. Non-discretionary expenses are those that must not be altered at the discretion of the organization, ones that are constant from term to term and which must be paid, such as utility bills (gas, telephone, etc.), inter/national fees, Patterson Court Council dues, funds for recruitment, etc. These expenses must be given priority and should be figured into the budget *before* the discretionary expenses listed.

If, after figuring the budget, income exceeds expenses, the budget must be reworked to eliminate an indication that the organization plans to operate at a profit. At this point, it is best to analyze certain expense categories such as recruitment, social, scholarship, and building fund; these can have monies added to them. However, rather than simply adding the funds, review the various committee budgets and make sure all requested activities have been covered. It is best to have a detailed outline of how the building funds are to be used. In the event of an audit, this plan will help to insure the group is operating on a not-for-profit status in that the funds are being used for the members. Donations and sponsorships are another worthwhile use of extra funds. It is a clear indication to the surrounding community that the organization is an involved and concerned part of the environment.

In addition, to the aforementioned areas, the fraternity and eating-house budget should include a kitchen operations breakdown. The kitchen area is perhaps the most difficult to budget and manage. Not only do food prices and energy costs fluctuate, but also the organization now becomes an employer, which add other responsibilities to the budget process. The treasurer must often work in concert with one or more kitchen stewards or managers. It is imperative that the cook becomes involved in establishing the food budget for the coming year. He or she most likely has years of experience with such work and can provide necessary insight to produce a realistic budget. The cook should have a working knowledge of the day-to-day costs of running the kitchen, with figures indicating the cost per meal per member.

Tax Responsibilities

Federal

The most important tax form required of organizations by the Internal Revenue Service is Form 990. It must be filed by each organization claiming tax-exempt status whose gross receipts equal or exceed \$25,000 per year. For organizations whose operation for the year did not generate \$25,000, submission of the form is optional, although recommended. Inconsistencies in record submission greatly increase the chance of audits for future years. In the event an organization does begin generating more than \$25,000 for the year, this transition can be easily identified through consistent and timely filing of form 990. Organizations should always file the form, although some organizations do not file a 990 on their own. For some inter/national fraternities, their information is sent to the fraternity headquarters, and a group return is prepared. Each fraternity should check with its headquarters on filing requirements.

Form 990 is due on the fifteenth day of the fifth month after the close of the organization's fiscal or operating year. The five-month period is intended to provide ample time for completion of year-end statements and closing of books, etc. In most organizations, the treasurer is commonly called upon to complete this form. Some organizations use various alumni/ae to assist the undergraduate members, or an accountant may be employed by the organization.

An application for permission to file after the deadline can be submitted to the IRS for consideration. However, simply filing the form provides no guarantee of its acceptance. The IRS stresses that an organization must plan on meeting the deadline for submission even though an extension is being sought. This provides for timely submission in the event the request is denied. The extension form is Form 2758 and can be obtained from a local IRS office or through the toll-free IRS number. A late penalty of \$10 per day up to \$5,000 may be assessed for failure to meet the deadline. Many organizations have been fined.

Form 990-T is a supplement to Form 990 and outlines specifically all taxable income the organization generated during the year. The IRS makes limited provisions for certain amounts of unrelated income and interest earned on savings accounts, etc. Not many organizations will find it necessary to file Form 990-T; however, an organization whose operative income significantly exceeds its expenses should consult the instructions for Form 990-T.

In recent years, the IRS has increasingly called into question monies collected by organizations for room and board and other "facility use fees," since these monies do not directly contribute to the exempt purpose of the organization. Patterson Court organizations do not hold title to nor are responsible for the management of their housing facilities. Therefore, this responsibility falls to the college, as it will be a part of the "exempt purpose" of the institution.

The fraternities and eating-houses of Patterson Court that employ cooks, maintenance personnel, etc. will have to file additional tax forms. Many groups which are large enough to have significant board income, in addition to employee payrolls, workers' compensation insurance, and other tax requirements utilize the services of a qualified accountant to complete rent and tax

records and to file the required paperwork. A qualified accountant will maintain strict records throughout the year. These records can easily be used in completing monthly, quarterly, and annual tax statements and reports.

Federal Unemployment

The Employer's Annual Federal Unemployment (FUTA) Tax Return (Form 940) must be filed on an annual basis. The 940 is simply a summary of the organization's role as an employer for the year in regard to the salaries paid to its employees. A tax is then levied based on those salaries. Most organizations compute the tax for the year and submit payments to the IRS on a regular basis, typically each quarter. This system allows for the organization to meet its unemployment tax obligations throughout the year without being burdened by a large payment at the end of the year. Deposits of estimated tax liability on a quarterly or monthly basis also allow an organization to avoid paying penalties and interest to the IRS if the annual 940 tax bill exceeds \$100. The deadline for filing Form 940 is February 10 immediately following the completion of the previous tax year, provided the organization has made timely, consistent payments of the tax throughout the year. Otherwise, the form is due by January 31, along with payment for the entire amount of the tax due.

State Unemployment Tax

Ordinarily, this tax provides the employee a source of limited, temporary funds in the event he or she is released from employment. The organization, as employer, pays these taxes as well as the federal taxes. In some cases, the federal form may also be submitted to satisfy the state requirement. It is best to consult the state department of labor/Employment Security Commission to obtain specific instructions in regard to state unemployment taxes.

Withholding Taxes

Form 941 is the Employer's Quarterly Federal Tax Return (FICA) and must be submitted quarterly throughout the calendar year. It provides four summaries throughout the year of funds withheld from the employees' pay. These funds should also be submitted to the IRS regularly to insure compliance with federal laws. Additional forms that accompany this form are the W-4 and the W-2. The W-4 is a form completed by each new employee and submitted to the IRS by the employer. It is a statement of the deduction status of the employee, indicating how much is to be withheld from each paycheck. The W-2 is a year-end summary of the deductions taken throughout the year and is given to the employee after the close of the previous calendar year. Form 941 may also satisfy the requirements of withholding statements for state taxes. Some instruct the employer to simply submit a photocopy of the federal returns.