

**UNITED STATES
COAST GUARD**

MORALE, WELL-BEING, AND RECREATION



NONAPPROPRIATED FUND

BUDGET GUIDE

Coast Guard Community Services Command

Chesapeake, VA

FORWARD

We are pleased to distribute this MWR Nonappropriated Fund Budget Guide and feel that it will be a valuable tool for those of you involved in the preparation or review of nonappropriated fund MWR budgets.

There are many individuals that contributed to the development of this Guide. We would especially like to thank those in the field, representing our customers and users, who took the time to review and provide us valuable, insightful feedback that was used to improve the quality of what you see here.

We are always interested in improving the quality of this Guide for future editions. As you use it, don't hesitate to let us know if we can make it better or easier to understand. Your comments are valuable to us and will help us make this a better tool for those who will use it in the future, responsible for developing a non-appropriated fund budget in MWR and furthering the program's mission readiness and retention responsibilities.

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INTRODUCTION

For those of you who have received feedback on your budget submissions from us in Commandant (CG-103), you have seen the phrase, “The development and use of a budget and financial plan are integral elements of a sound set of internal controls.” But the budget is more than that. Think of the crew of the Coast Guard cutter making plans to get underway without charts and without plotted track lines. The commanding officer knows where she wants to go and in all likelihood knows why she’s going, but without the charts and track lines she will never know if she will get there and get there safely! And, when she eventually takes a fix, she may discover that she can “no longer get there from here,” resulting in a waste of scarce resources and in this case, perhaps endangering the safety of her crew.

Like the chart and track lines, the nonappropriated fund budget provides the manager and the command a “track line” for the direction that they want the fund or activity to go. It gives them a tool to use throughout the year to assess whether they are actually making progress toward reaching that desired “location.” Through periodic and timely assessments of the results of operations (fixes), the command can assess whether they are in fact on course, or if course corrections are necessary.

The intent of this Nonappropriated Fund Budget Guide is to provide managers of all sizes of MWR programs some basic skills in preparing a nonappropriated fund budget for their local MWR program. For those of you that have cognizant authority or oversight responsibilities of commands with smaller MWR programs, this Guide should provide you with the necessary basic skills to assist those new to the MWR program in developing an annual budget.

As you read this Guide, you should gain a better understanding of the importance of the non-appropriated fund budget for your MWR program. You will gain a better understanding of the terms used in the budget process in addition to learning more about the nonappropriated budget process, itself. As you “walk” through the examples of building MWR budgets for both small and larger programs, you will gain the knowledge necessary to develop a nonappropriated fund budget for your command.

The Guide has been reviewed by those in the field that would use it. We have used their comments in making this Guide the most useful document that we could. However, as you read through it (that’s a good thing!) and you have questions or there are areas that you don’t understand, ASK! (even better!). We would be happy to hear your comments so that we can improve the Guide for future users.

We should point out right now, that the annual nonappropriated fund budget is not “an island onto itself.” This document must coexist and support a myriad of other planning documents like the command’s strategic plan and the mission of the MWR program. We like to say that if what we do cannot be clearly linked to our vision of, “Taking Care of Those Who Protect and Defend,” then we seriously have to consider if we are headed in the right direction. To that end, it is not the purpose of this Guide to show the links among all the planning documents that affect the annual nonappropriated fund budget. However, we would be remiss if we didn’t identify that the links need to exist.

THE NONAPPROPRIATED FUND BUDGET AS AN ELEMENT OF INTERNAL CONTROL

Although we may not realize it, the nonappropriated fund budget may be one of the most important documents that we prepare for our MWR program. This document identifies the foundation and plan for what programs and activities the command will provide and how scarce resources will be allocated in fulfilling its mission readiness and retention responsibilities through MWR, and how these programs and activities will be “financed” or funded.

Additionally, a well developed nonappropriated fund budget is the building block to aid us in complying with the provisions of COMDTINST 5700.9 (series), Management Accountability and Control; Office of Management and Budget Circular A-123; the Federal Manager’s Financial Integrity Act (FMFIA); or any other statute, directive, or policy that may be published on the topic of control in the future. These documents state that the proper stewardship of Federal resources (including NAF resources -- MWR is an Instrumentality of the Federal Government!) is a fundamental responsibility of managers and staff. Furthermore, these documents state that we as managers must provide reasonable assurances that the resources in which we are entrusted are efficiently and effectively managed. We submit to you that you cannot succeed here without developing and using a nonappropriated fund budget! No way...no how! Your nonappropriated fund budget will not prevent the occurrence of fraud, waste, and abuse within your MWR program. But this control will help to minimize the risk to an acceptable level. This is most critical in our MWR programs in that we are constantly involved in the handling of cash and inventories, and grappling with the issue of the proper segregations of duties.

THE BUDGET IS A DYNAMIC DOCUMENT

There are some folks that think that budgets are prepared to fulfill a Headquarters’ requirement and after the budget is completed and submitted, we don’t have to worry about it again until next year. Not so! Go back to the analogy of the commanding officer of the Coast Guard cutter. How useful do you think that charted course would be if after it were plotted, the navigator put it and the chart away? The commanding officer would have no way to assess how close the ship’s actual position was to the course prepared to keep them out of harm’s way and get the vessel to where it needed to be. Like the charted track line, the budget must be used throughout the fiscal year to determine if forecasted performance will be achieved. And if actual performance and other factors suggest otherwise, then a revision to the budget would be essential. So you see, the budget becomes a dynamic tool that must be constantly monitored and adjusted depending on actual performance, changes to assumptions, and changes in the command’s goals and objectives.

BUDGET PREPARATION INTERVALS

The Morale, Well-Being, and Recreation Manual, COMDTINST M1710.13 (series), requires that nonappropriated fund MWR budgets be developed for each quarter of the budget year, along with a consolidation presenting the entire year.

The quarterly presentation was selected because it coincides with the required reporting periods and for smaller commands that basically receive MWR funds from their cognizant authority and spend them on authorized MWR expenditures, this frequency is adequate. Additionally, the quarterly budget presentation captures many of the seasonal fluctuations that we typically see in the business activities that we operate. Larger MWR programs, especially those operating business activities or that receive revenue from multiple sources, may find that the quarterly budget frequency for **reporting purposes**, is not adequate for **management purposes** and a more frequent presentation must be used for a higher degree of control.

In any event, a simple annual budget presentation “just won’t get it!” For smaller MWR programs, a simple annual presentation doesn’t provide the command with information regarding the timing of events and the expenses associated with them. Remember that timing becomes critical and revenue receipt (distribution of morale funds, MWR business sales, etc.) is important! For larger MWR programs that operate business activities that may experience season fluctuations, no one will be able to compare actual-to-budget data until the end of the year if a simple, annual budget presentation is used...then it becomes too late to make any “course corrections.” For example, let’s say that you prepare an annual budget for your child development center and forecast annual tuition and project annual expenses like this:

CDC Tuition:	\$250,000
CDC Expenses:	240,000
CDC Net Income:	10,000

Now, after the first quarter’s result of operation, you attempt to look at actual-to-budget variations, and this is what you see:

	Budget	Actual
CDC Tuition	\$250,000	\$30,000
CDC Expenses	240,000	45,000
CDC Net Income	10,000	(15,000)

From this snapshot, you can probably guess that there is no way you can tell if you are “on course” or if you have a major problem. Having to wait until the fourth quarter (actually after the end of this current year) to make a proper analysis will be too late and could bode for major, adverse impacts on your fund balance and financial ruin if you don’t have one. By the way as a side, any activity losing \$15K in a quarter would require further attention!

NONAPPROPRIATED VERSUS APPROPRIATED FUND BUDGETS

This Guide is also not intended to describe the appropriated fund budget process or the authorization for the uses of appropriated funds within the MWR program. Suffice it to say that it should be a “guiding principle” to use appropriated funds within the MWR program 100% of the times, when authorized. The presentation of appropriated fund budgets is not an intended purpose of this Guide. The authorized use of appropriated funds within the MWR program will have some bearing on your nonappropriated fund budget in that NAF expenses may be affected (lower or higher!) and prices for services may vary.

Most of us working in the Federal Government and specifically in the Coast Guard are most familiar with the expenditure-based, appropriated fund budget process. Whether it be through budget models, zero-based budgets, or some other acceptable process, we all are comfortable with developing a plan for how much we need to spend in any given year, being told how much we have to spend, and then through the accounting system, ensuring that we do not spend more than that amount.

Nonappropriated fund budgeting has all this excitement and more! Unlike the portion of the appropriated fund budget process we are familiar with, the nonappropriated fund budget process requires us to develop and track reasonable forecasts for our revenues. Most of us never ask the question when we receive our annual AFC-30 budget, “I wonder where the revenue is coming from to support my budget?” Yet, in nonappropriated funds, revenue forecasts and their receipt “drive the train.” Failure to develop sound revenue forecasts and track them throughout the year may result in financial ruin. In nonappropriated fund budgets, revenues are every bit as important as expenditures to the manager and the command. **This concept must not be overlooked!**

You must also remember that the appropriated fund fiscal year **is not** the same as the nonappropriated fund fiscal year. And both are **different** from the calendar year!

Here is the comparison for each year:

1. Appropriated Fund Fiscal Year: 01 October through 30 September
2. Nonappropriated Fund Fiscal Year: **01 February through 31 January**. It is important to remember that the MWR fiscal year and its quarterly cutoffs may be different than those used by the Coast Guard Exchange System.
3. Calendar Year: 01 January through 31 December

The reasons for the difference are really not important. What is important to know is that there is a difference, especially when it comes to the preparation of the nonappropriated fund budget for the NAF Budget Year. Currently, the MWR Manual requires that your nonappropriated, MWR budget be submitted by 30 November of each year. Your cognizant authority, if it isn't CG-103, may have a different submission deadline.

THE BASIS OF ACCOUNTING AND THE BASIS OF BUDGETING

The basis of accounting are used to describe the timing of recognition when the effects of transactions or events should be recognized in the financial records. The basis of budgeting refers to the same thing, only as it relates to the budget. For our MWR nonappropriated fund budget, the bases of accounting and budgeting are the same, that being the accrual basis of accounting as modified by any requirements in the Nonappropriated Fund Instrumentalities Manual, COMDTINST M7010.5 (series).

This is a somewhat technical point, but not one that would prevent you from preparing a well-documented budget!

BUDGET PRESENTATION FORMAT

Chapter 6 of the MWR Manual states that, “A well prepared budget shall contain income statement and balance sheet accounts for each of the quarters of the budget year and a consolidated report.” We go on to discuss the use of the Operating Summary MWR Activities, CG-2985A, as a tool that commands **may** use to prepare and submit their annual nonappropriated fund, MWR budgets. In fact you have seen if you have used the revised form, that we have included columns that allow you to place your budget information right on the form. Hopefully, those of you using it, have found it helpful.

However, this form and the corresponding Morale Fund Financial Statement, CG-2985, were developed to be guides. **We do not require or mandate their use.** We fully realize that many commands with larger MWR programs, having the need for more flexibility in their chart of accounts for budget presentation purposes, need something more illustrative. We fully expect that commands with larger MWR programs, including many business activities, would develop and submit their budgets using something other than these forms. That’s totally acceptable!

ELEMENTS OF A WELL PREPARED BUDGET

There are basically three elements that a well-prepared budget would contain. These elements are:

1. Revenue forecasts (remember this is critical in our MWR budgets).
2. Expenditure projections.
3. Cash flow projections. We do not require the submission of cash flow projections when you submit your annual MWR budget. Typically in smaller MWR programs, cash flow projections are not critical; however, in larger MWR programs that require cash to support a growth in accounts receivable, inventory, or an investment in capital and equipment, budgeting your cash needs may be the difference between the timing or cancellation of a major MWR project.

We will briefly discuss more on cash flow budgets at the end of this Guide. Our main focus will be on revenue and expenditure budgets.

WHO SHOULD PREPARE THE MWR BUDGET?

Without question, the budget should be developed, presented, and supported by the MWR Director and his or her managers! Yes, many other staff members provide valuable input into the development of the annual MWR budget. Staff folks like the accountant will have valuable historical information that will be critical in the budget development. But it is the MWR Director or Officer (working under the guidance from the command) that will have the necessary information, expectations, and assumptions necessary to prepare the budget. For example, if you asked your accountant to build your MWR budget for the next year, he or she would use the information that they have available to them, that being historical financial information. The accountant may not necessarily know that the CDC will shut down for six months or that the swimming pool will not be completed this year. But the MWR Director does....nothing against accountants, but they don't "own" the responsibility for the budget. You as MWR Director do!

BUDGET PREPARATION

The following sections will walk you through preparation of a nonappropriated fund, MWR budget. To make this Guide useable to both the large and small MWR programs, we have broken this presentation into two main categories. The first is geared to the smaller MWR program. This is one that would typically be found at our smaller Coast Guard units and on our floating commands, and basically involves no business-related activities.

The second presentation will be geared toward those larger MWR programs that operate revenue-generating Category B and C MWR Activities.

So with that, let's get started!

REVENUES

In programs where “we can’t spend what we don’t have,” revenue forecasting is of primary importance and should be done before developing your expenditure budget.

There are generally basic categories of revenues that any command could expect to see in its MWR program. These revenue categories are sales associated with services or products provided (such as the selling of unit ball caps or sales of sodas through any MWR-operated vending machines), gifts, proceeds from any commercial sponsorship agreement, distribution of available Coast Guard Exchange System profits from the cognizant authority for MWR-purposes, fund balance, and miscellaneous revenue. Let’s take each category one at a time.

1. SALE OF GOODS AND SERVICES

Most small MWR programs don’t get involved much with the sale of goods and services. If they do, the extent of their “business” generally is in the sale of unit ball caps or in soda. However, the sale of products like unit ball caps and soda involves the management of inventory and the exchange of cash. These activities tend to significantly increase the workload of the crew and increase your exposure to the risk of fraud, waste, and abuse. Prior to getting involved in any of these resale activities, you should see if any local Coast Guard Exchange is available to provide this service for you. CGES may be able to save you some work, minimize your risks, and minimize your outlay of scarce MWR dollars for inventory!

OK...so you are operating a small vending operation or selling unit ball caps, the three things that you will need to develop your revenue forecasts are:

1. **how many**
2. at what **price**, and
3. **when**.

Historical quantity information from your records will help you develop your estimates for how many “things” you may expect to sell. But do not rely on this data as your sole source of information. Factors such as shipyard availabilities, deployment schedules, decommissionings, the transfer season, and specific ceremonial events are just some of the factors that should be weighed in developing your estimates. And since these events also represent points in time, they will help you develop answers to the question of “when.” For example, typically more soda will be sold when the cutter is underway than when the cutter is in homeport. You may also expect more ball caps to be bought during the transfer season.

Setting the price becomes an important factor too! You don’t want to sell your products for less than what it will cost you to buy it. That will eventually “suck your MWR fund dry!” Also, you don’t want to set your selling price so high that the crew not only won’t buy anything, they line up outside the XO’s office for request and complaint mast to have you replaced! So, having gathered all this information, let’s look at an example.

The MWR Officer on CGC RUSH determines that she will sell the following numbers of cans of soda during the next year. She has looked at quantities sold during the same quarters of the previous year, she knows that the cutter will be in the shipyard with the crew off the cutter in February and March of the budget year, and she has a good idea of the cutter's deployment schedule for the next year.

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Soda	250	2,500	3,500	1,000	7,250

She also expects no increase in the cost of soda to her and the current selling price of \$.50 per can has been adequate. With this information, let's look at what she now can forecast as her sales of soda for the NAF Budget Year:

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Soda Sales	\$125.00	\$1,250.00	\$1,750.00	\$500.00	\$3,625.00

So there you have it! Developing these forecasts should not be difficult if you have the correct assumptions; however, it may take you more time if you expect price increases or to sell more items. But the main concept would still apply.

- **COST OF GOODS SOLD AND GROSS PROFIT**

Before we go any further on identifying other revenues and developing our forecasts for them, we need to discuss the expense of the soda that our MWR Officer on CGC RUSH is forecasting to sell and how it should be presented in her budget.

From our forecast above, we know how much revenue the MWR Officer forecasts to receive from the soda that she expects to sell in the budget year. What we don't know at this point is what the cost of that soda will be to the MWR fund.

There are some folks that believe that the "expense" of soda, for budget purposes, is equal to the "purchases" made during the year. **This is not so!** The cost of the soda sold is just that. It is the cost of the can of soda to you that generated the 50 cents in sales. It has nothing to do with how much inventory you purchase. This becomes a cash flow issue and one that we will address later.

Cost of Goods Sold is typically calculated like this:

$$\begin{array}{r}
 + \text{Beginning Inventory} \\
 + \text{Purchases} \\
 \text{Cost of Goods Available for Sale} \\
 - \text{Ending Inventory} \\
 = \text{Cost of Goods Sold}
 \end{array}$$

And normally for your budget presentation, you would display this budget like so:

$$\begin{array}{r} +\text{Sales} \\ -\underline{\text{Cost of Goods Sold}} \\ =\text{Gross Profit} \end{array}$$

You may now be asking yourself, “How do I budget for Cost of Goods Sold?” Well, it’s fairly simple so let’s go back to our example.

We know that the MWR Officer on CGC RUSH sells soda for 50 cents a can. She anticipates that she will be able to procure this soda for resale for 40 cents a can. Based on this information, the MWR Officer expects a gross profit percentage of sales to be 20%:

Gross Profit:	\$.10	Divided by
Sales:	.50	Equals
Gross Profit %	20%	

Now if we know that the Gross Profit percentage of Sales is 20%, then we also know that the Cost of Goods Sold (CGS), as a percentage of Sales, is 80% ($1-.20=.80$). With this information, we can complete this portion of the budget presentation associated with this resale operation:

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Soda Sales	\$125.00	\$1,250.00	\$1,750.00	\$500.00	\$3,625.00
CGS	<u>100.00</u>	<u>1,000.00</u>	<u>1,400.00</u>	<u>400.00</u>	<u>2,900.00</u>
Gross Profit	\$ 25.00	\$ 250.00	\$ 350.00	\$100.00	\$ 725.00

This is a simplistic model. But remember, this illustration is geared to our smaller MWR programs. The cost of a can of soda always stayed the same and we only sold soda. However, even if there were different prices that the MWR Officer paid for the soda and there were different selling prices for each type of soda, if we calculate the expected gross profit as a percentage of sales, we could complete this portion of the budget for this resale item.

By the way, this presentation becomes a powerful control tool when used throughout the year to look at budget-to-actual variations. We know that the MWR Officer in this example expects to “see” a 20% gross profit on her sale of soda. A minor variation of a percentage point may not cause her any true concerns, especially since she may “lose” some product due to shrink. Shrinkage may result when products spoil, get damaged beyond your ability to sell it, or reaches its expiration date. However, significant differences from what she actually experiences to what she projected to realize ARE a cause of concern.

Don’t forget from our example above what the components are in calculating the Cost of Goods Sold. And since these calculations involve the recording and receipt of cash and inventories, there is a strong likelihood that they may be a source of these gross profit

variances. This type of presentation will provide you the tool to see any variances so that you can perform further tests to determine the cause of the variance.

Without this type of budget presentation and budget-to-actual comparisons, there will be no easy and quick way for you to determine if you are “grossing” what you expected. This is why in the budget feedback that we provide that we stress that commands **NOT TAIN**T the presentation of resale merchandise with things like concession income and interest. You will overstate gross profit and make any budget-to-actual comparisons basically useless. And, you will not see any indication of potential fraud, waste, and abuse (shrink, theft...call it what you want) that may be present and identified through the use of this simple tool. For any activity that involves resale and an inventory of items for resale you want to prepare a budget like the example we just did. This would include any ticket sales programs where you sell tickets for less than you bought them.

We will come back to this example later when we look at the projection of other expenses in the nonappropriated fund budget.

2. DISTRIBUTION OF CGES AVAILABLE PROFIT

The next major revenue source of most MWR programs is the distribution of the Coast Guard Exchange System profits. The distribution of CGES profits comes from your cognizant authority for MWR purposes.

Forecasting this revenue is fairly easy. Since someone else provides it to you, just ask them! But be cautious, remember these are projections, too, and not guaranteed revenue.

Those of you who have us, Commandant (G-WPX), as your cognizant authority for MWR-purposes, will find that we can give you a fairly close forecast as to what your distribution will be from us. But until the Coast Guard Trust Fund Board of Control approves the minimum per capita distribution, and we reconcile the military billets on the Personnel Allowance List (PAL) before the beginning of the NAF Year, the revenue forecast that we provide will be only an estimate.

Typically, we send a message to those commands that report directly to us telling them what the projected per capita distribution will be. We then revise this information after the Trust Fund Board has met and acted. We encourage those commands to contact us directly to determine what the dollar amount is projected to be. We hope that those commands that are themselves cognizant authorities, will encourage the commands that they support to do likewise!

3. GIFTS

Gifts are difficult to budget. By their very nature, they are unsolicited and unexpected, making the preparation of revenue forecasts difficult. Besides, for most units, gifts should not be a material revenue stream in your MWR program, so we will not spend much time here on forecasting gift revenue.

For you smaller units, suffice it to remember that gifts are a source of revenue and if you historically receive gift revenue and expect that trend to continue in the budget year, by all means include the forecast in your budget.

A typical source of gifts may include Combined Federal Campaign contributions. Yes, some units actually do receive them!

4. COMMERCIAL SPONSORSHIP

By our definition in the MWR Manual, commercial sponsorship is “The act of providing assistance, funding, goods, equipment, or services to MWR programs, and events by an individual, agency, company, corporation, or other entity for a specific time in return for public recognition or advertising promotions.”

Like gifts, smaller commands will typically not have active commercial sponsorship programs and therefore will generally not need to forecast any revenue from this program.

However, if you are planning a specific event, have “cultivated” your potential sponsors, followed the provisions of the MWR Manual, and you forecast that you will receive revenue from this program in the budget year, by all means include these projections.

Remember, though that many commercial sponsorships involve payment-in-kind. This represents, let’s say, providing T-shirts, soda, or programs rather than cash. These in-kind sponsorships are not budgeted.

5. FUND BALANCE

OK, remember now that our frame of reference is our smaller MWR programs...not our larger ones. We will get to a discussion of fund balance for our larger programs later.

Fund balance is considered a revenue **source** unlike the other revenues we have just discussed that we have called revenue **streams**.

Fund balance is a revenue source because when you spend it, it doesn’t automatically renew itself. Once you spend it...it’s gone.

Many MWR Officers think that the “Amount Brought Forward” into the new year is the cash in the bank. **NOT SO**...although cash in the bank is a component of your fund balance.

Fund balance is calculated like this:

+Current Assets
-Inventories
-Current Liabilities
=Fund Balance

As you can see, fund balance gives you a very conservative estimate for how much reserves that you have to bring forward....as a revenue source...into the budget year.

So, having a wad of cash in the bank is great, but as you can also see, having an equal amount tied up in inventories or liabilities, like accounts payable to vendors, will restrict what would be available in the budget year.

Another point to remember about fund balance is that if your beginning fund balance is greater than your ending fund balance this means that your other revenues for the year are less than your expenditures for the year. **You are spending more than you are taking in** and you have used a nonrenewable revenue source. In the short term that may be Okay...but you should be aware that you are doing it and the reasons for it happening.

For most smaller units with no inventories and no current liabilities, fund balance and net worth will appear to be the same.

With us so far? Fairly easy, right? Right! Now here is a nuance with forecasting fund balance for your MWR fund that is important. First, look at how fund balance is calculated. We used all balance sheet or Morale Fund Financial Statement (CG-2985) accounts. These accounts are reported **at a specific point in time** unlike income statements or Operating Summary MWR Activities (CG-2985A) that are reported **over a period of time**.

So let's look at a fund balance as of 31 October, or the end of the third quarter of a NAF Year. Since MWR nonappropriated fund budgets are due on 30 November, this becomes a great time to compute fund balance.

Our MWR Officer on CGC RUSH reports the following entries on her Morale Fund Financial Statement as of 31 October:

Checking Account Balance:	\$4,000.00
Cash on Hand:	25.75
Savings Account	0.00
Loans Receivable/ Accounts Receivable	250.00
Resale Inventory	535.00
Total Assets	4,810.75
 Accounts payable	 \$50.00
 Net Worth End of Period	 \$4,760.75

So what is her fund balance as of this date? Using our formula from above:

+ Total Current Assets	\$4,810.75
- Resale Inventory	535.00
- Accounts payable	<u>50.00</u>

Fund Balance \$4,225.75

The good news is that we have computed the fund balance! The bad news is that the fund balance here is as of 31 October....and since we want to use this as our forecast for the budget year, we have to make our forecast as of 31 January or the beginning of the new NAF Year.

So how do we do this? Well, since we have the budget for the 4th QTR of the current year available to us, we simply add the revenues and subtract the expenditures to give us an estimate of our fund balance or forecasted balance brought forward into the new NAF Year.

Some final words of caution about this forecast. We developed our fund balance forecast using some actual information from a Morale Fund Financial Statement AND our projections from our current year budget. At the end of the NAF Year when we have completed our Morale Fund Financial Statement for the period ending 31 January, **we need to go back and revise our initial fund balance forecast to reflect all actual amounts.**

6. MISCELLANEOUS REVENUE

Our final “major” revenue category is actually a “catch-all” one! Some common revenues that we would forecast here would be Interest on checking and savings accounts, and recycling income.

Typically for smaller units, these revenue streams do not represent material, or significant revenue streams to their MWR program; however, excluding them from the budget presentation would not be appropriate.

Interest revenue is easy to forecast. Look at how much interest you earned in the previous year. If you plan on keeping the same amount of deposits in the financial institution and assuming interest rates stay the same (assume they will because interest on checking accounts is very low to begin with!), you have all the information that you now need to develop a reasonable Interest revenue forecast!

Estimates for recycling revenue can be made using the same two basic questions.

1. How much did you earn during the last NAF Year?
2. Do you plan on any changes in the recycling program in the next year?

Answering these two basic questions will give you what you need to again make good revenue forecasts.

OK, we’re done.. At least with our discussion of revenues. We hope that those of you at larger commands with more “sophisticated” MWR programs paid attention! The same general principles that we discussed above will apply to the discussion on larger MWR programs later.

EXPENDITURES

For now though, let's go on to our next major component of our budget, the projection of expenses. Keep in mind that this discussion will center on smaller MWR programs that don't have larger resale operations and don't have NAF employees, or if they do, these individuals are paid a set amount (\$50/month to the soda machine operator).

Typically, smaller units will have revenue from the sale of soda or unit ball caps, revenue from CGES profit distributions, some interest, and some recycling revenue. Most expenses center around the revenue received, so let's approach our expenditure projections in that light.

COST OF GOODS SOLD

We have already talked about this expense when we discussed the sale of soda. It must be remembered that if you sell a product, like soda, you must recognize the expense of the product that you sold. Failure to do this will overstate your gross and net profits and cause you to spend funds that you really don't have!

PERSONNEL EXPENSES

Most smaller units typically have no expenses associated with their MWR program other than some payment to the soda machine operator. Typically, as we stated before, this usually is made as a set amount per period of time and the person is not treated as an "employee."

Although there is nothing inherently wrong with this, we must provide a word of caution. As an Instrumentality of the Federal Government, we are not exempt from the Internal Revenue Service rules and regulations regarding the reporting of payments made to individuals not treated as employees, AND those treated as employees, we are not exempt from the withholding and payment of Federal Insurance Contributions Act (FICA) payments.

Typically, the threshold amount for reporting payments to those individuals not treated as employees is \$600 per year; however, this amount is subject to change.

If you are involved in any payment to members of your crew for things like the soda machine operator, we strongly suggest that you get a copy of the IRS' Publication 15, Circular E, Employer's Tax Guide. This Guide is updated each year and is also available through the IRS website at www.irs.gov.

We will discuss the projections for personnel expenses associated with NAF employees later in more detail.

MWR EXPENDITURES

These expenditures are typically centered on the revenue programs received from CGES profits. Usual expenditures would include Coast Guard Day picnics, holiday parties, pizza nights, and sporting event tickets. Estimates for these events are easy to develop. For example, look at:

1. How much was spent on the event last year?
2. Do you expect the event to be held in the budget year?
3. How many members attended last year?
4. How many do you expect to attend this year?
5. Will the food and program be the same?
6. When will the event be held in the budget year?

All of these questions will help in development of good estimates for your morale-related expenditures.

When developing the projections for the items that you plan on using your nonappropriated, MWR funds to procure, keep in mind Enclosure (5) to the MWR Manual. This is a great matrix that will tell you what expenditures are authorized appropriated fund support. For example, expenditures for Sailor of the Quarter/Year and sporting equipment are generally authorized appropriated fund support. You should avoid building into your NAF budget appropriated fund responsibilities. Doing so will lessen the availability of “crew’s funds” to support the crew!

Don’t forget, the morale committee is an excellent advisory source of ideas and suggestions for what the crew wants for the upcoming year!

MORALE FUND LOANS

Many units budget morale fund loans as expenses. In general they are not. Morale fund loans are actually the “swapping” of a cash asset for an Accounts Receivable. These loans would become more important to illustrate on a cash flow budget because they show how you plan on using your cash. We recommend that they not be included in your MWR budget of revenues and expenses. However, if you do show the loan as an expense, you must also show the receipt of the repayment as revenue.

MISCELLANEOUS EXPENSES

Once again, a significant category of expenses is a catchall one! Most commands will generally see expenses associated with their **MWR checking accounts** here. Although we would like to think that we can avoid these costs everywhere, some commands have the expenses and must recognize and account for them in their budgets.

➤EXAMPLE

OK...with all of this information, let’s go back and develop a nonappropriated fund budget for CGC RUSH for the next NAF Year.

Based on the information that we already know about the MWR program on CGC RUSH, we know what soda **Sales** are forecasted to be for the next year. They are:

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Soda Sales	\$125.00	\$1,250.00	\$1,750.00	\$500.00	\$3,625.00

Forget how we developed this forecast? If so, go back to the section on **Sale of Goods and Services** – Page 10 -- for a review!

We also know what the **Cost of Goods Sold and Gross Profit** -- Page 11 -- are expected to be on these sales:

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Soda Sales	\$125.00	\$1,250.00	\$1,750.00	\$500.00	\$3,625.00
CGS	<u>\$100.00</u>	<u>\$1,000.00</u>	<u>\$1,400.00</u>	<u>\$400.00</u>	<u>\$2,900.00</u>
Gross Profit	\$ 25.00	\$250.00	\$350.00	\$100.00	\$725.00

And in the section on **Fund Balance** – Page 14 to 16 -- we calculated that fund balance as of the end of the third quarter of the current year to be \$4,225.75....of course, more on this later.

Let’s go through our revenue groupings and identify any other revenues that the MWR Officer will need to forecast.

First, **Distribution of CGES Available Profit** – Page 13. The MWR Officer on CGC RUSH called the MWR Director at ISC Honolulu, her cognizant authority for MWR purposes. She learned that based on the methodology that ISC Honolulu uses to distribute CGES Available Profit, CGC RUSH can expect to see the following distribution for next year:

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
ISC Honolulu Dist.	\$1,875.00	\$1,875.00	\$1,875.00	\$1,875.00	\$7,500.00

CGC RUSH also has an independent small exchange on board. The MWR Officer talks to the Exchange Officer and learns that she can expect the following distributions from the ship’s exchange:

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
CGC RUSH Dist.	\$350.00	\$2,000.00	\$750.00	\$400.00	\$3,500.00

In our example above, we say that the MWR Officer “talked” to others to get revenue forecasts for **Distribution of CGES Available Profit**. Here is an important point that applies to all revenue forecasts and expenditure projections. **Document, document, document!** Your commanding officer will want to know how or where you got your estimates. Don’t be afraid to ask for these estimates in writing and to keep this documentation as supporting papers in your “budget build” files. By the way, the same goes for the estimates that you develop. **Keep the assumptions and calculations along with the estimates!** The members of your command that you brief on your

budget may not agree with your assumptions or estimates, but at least they will understand them and know what they are! And so will you! And, if you get transferred during this process, your relief will be able to follow what you did.

The MWR Officer does not expect that she will receive any **Gifts** – Page 13 -- or **Commercial Sponsorship** – Page 14 -- revenues next year. This is not unusual for the size and type of unit in our example.

CGC RUSH is a very environmentally conscience unit. They have an active recycling program of their aluminum soda cans and the crew takes them to the recycling center periodically. The MWR Officer sees that the quantity of soda expected to be sold is close to the average over the last several years. Based on this and a review of the historical revenues received from recycling these cans, she makes the following forecast for recycling revenue:

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Recycling	\$50.00	\$30.00	\$45.00	\$50.00	\$175.00

The MWR Officer keeps the ship’s MWR funds in an interest-bearing account. She does not expect that her available funding levels will change significantly from prior year levels. She also doesn’t expect that interest rates will change. So, based on this information, she makes the following forecast for Interest revenue, based on estimates received from prior years:

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Interest	\$50.00	\$70.00	\$55.00	\$45.00	\$220.00

These are the only two **Miscellaneous Revenues** that CGC RUSH has.

Remember from before, we calculated **Fund Balance** as of 31 October, or the end of the 3rd Qtr of the current NAF Year. We need to develop a forecast of our fund balance at the end of the 4th Qtr, or the beginning of the new NAF Year.

In order for her **Fund Balance** forecast to be useful in her MWR budget, the MWR Officer has to “bring this estimate forward “ to 31 January, or 01 February, or the beginning of the budget year. The easiest way to do this and the most reasonable, is to look at the 4th Qtr budget for the **current** NAF Year.

If we **add** to the **Fund Balance** as of 31 October all forecasted 4th Qtr revenues and **subtract** from this all projected 4th Qtr expenditures, we will have a fairly good estimate for fund balance at the beginning of the budget year.

So, after looking at her current budget for the 4th Qtr for this year, the MWR Officer sees that her forecasted revenues are \$1,400, and her projected expenditures are \$1,000. Let’s now calculate her forecasted beginning fund balance:

+ Fund Balance, 31OCT	\$4,225.75
+ 4 th Qtr Forecasted Revenues	1,400.00
- 4 th Qtr Projected Expenditures	<u>1,000.00</u>
+Fund Balance, 01FEB	\$4,625.75

Don't forget that this **Fund Balance** forecast will need to be revised after your 4th Qtr financial statement is complete. At that time, you will be able to calculate it without any estimates.

OK, we now have a good feel for the revenues that the MWR Officer expects to realize next year. Now let's look at what she expects to spend.

We already know what the MWR Officer projects to spend for the **Cost of Goods Sold** related to the soda that she will sell. We talked about that earlier. But are there any other expenses that she should project to pay in regards to her soda "business?" Well, in this case, she pays one of the petty officers onboard \$25 each quarter to perform the duties of managing the soda machines. So her quarterly projected expense for this item would look like this:

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Soda Machine Operator	\$25.00	\$25.00	\$25.00	\$25.00	\$100.00

That's the only other expense that she expects that relates to the soda machine. In this situation, the machine has been recently serviced and she does not project that she will need to spend any nonappropriated funds for repair next year. But, you may also want to keep this in mind when you develop your budget.

The MWR Officer also expects to pay the monthly fee to the bank where she has her morale fund account. She pays a flat fee of \$5 per quarter for this service. So, her budget for this projected expense would look like this:

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Bank Fee	\$20.00	\$20.00	\$20.00	\$20.00	\$80.00

Since this is a "small" MWR program as it relates to nonappropriated fund business activities and those related expenditures, these are the only nonappropriated fund expenses that the MWR Officer projects to have....with the exception of "pure" MWR-related expenditures.

Based upon input she received from her active morale committee, here are the events that they want to hold next year and how much they want to spend on each event:

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Snorkeling Trips	\$500	\$1,000	\$-0-	\$-0-	\$1,500
Ship's Party-JAN	750	-0-	-0-	-0-	750
Fishing Trip	-0-	-0-	1,000	-0-	1,000

Holiday Party	-0-	-0-	-0-	1,500	1,500
Memorial Day Party	-0-	300	-0-	-0-	300
Valentine's Day	200	-0-	-0-	-0-	200
Kid's Egg Hunt	350	-0-	-0-	-0-	350
U/W Pizza Party	-0-	150	150	150	450
Basketball Tickets	-0-	750	-0-	-0-	750
CG Day Picnic	-0-	-0-	1,000	-0-	1,000
Football Tickets	-0-	-0-	-0-	300	300
New Years Eve W/S	-0-	-0-	-0-	350	350
Halloween Party	-0-	-0-	300	-0-	300
Thanksgiving W/S	-0-	-0-	-0-	250	250

OK, that's it! We now know all of her forecasted revenues and projected expenditures for the budget year. Let's now look at her total proposed budget:

USCGC RUSH (WHEC 723)
MORALE, WELL-BEING, AND RECREATION
NONAPPROPRIATED FUND BUDGET
NAF YEAR 2XXX

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Soda Sales	\$125.00	\$1,250.00	\$1,750.00	\$500.00	\$3,625.00
CGS	<u>100.00</u>	<u>1,000.00</u>	<u>1,400.00</u>	<u>400.00</u>	<u>2,900.00</u>
Gross Profit	\$ 25.00	\$ 250.00	\$ 350.00	\$100.00	\$ 725.00
Expenses:					
Soda Machine Operator	<u>(\$25.00)</u>	<u>(\$25.00)</u>	<u>(\$25.00)</u>	<u>(\$25.00)</u>	<u>(\$100.00)</u>
Net Profit Soda	\$-0-	\$225.00	\$325.00	\$75.00	\$625.00

USCGC RUSH (WHEC 723)
MORALE, WELL-BEING, AND RECREATION
NONAPPROPRIATED FUND BUDGET
NAF YEAR 2XXX

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Revenues:					
Net Profit Soda	\$ -0-	\$ 225	\$ 325	\$ 75	\$ 625
ISC MWR Distribution	1,875	1,875	1,875	1,875	7,500
Ship's Store Distribution	350	2,000	750	400	3,500
Recycling	50	30	45	50	175
Interest	<u>50</u>	<u>70</u>	<u>55</u>	<u>45</u>	<u>220</u>
Total	<u>\$2,325</u>	<u>\$4,200</u>	<u>\$3,050</u>	<u>\$2,445</u>	<u>\$12,020</u>
Expenses:					
Bank Fee	\$ 20	\$ 20	\$ 20	\$ 20	\$ 80
Snorkeling Trips	500	1,000	-0-	-0-	1,500
Ship's Party-JAN	750	-0-	-0-	-0-	750
Fishing Trip	-0-	-0-	1,000	-0-	1,000
Holiday Party	-0-	-0-	-0-	1,500	1,500
Memorial Day Party	-0-	300	-0-	-0-	300
Valentine's Day	200	-0-	-0-	-0-	200
Kid's Egg Hunt	350	-0-	-0-	-0-	350
U/W Pizza Party	-0-	150	150	150	450
Basketball Tickets	-0-	750	-0-	-0-	750
CG Day Picnic	-0-	-0-	1,000	-0-	1,000
Football Tickets	-0-	-0-	-0-	300	300
New Years Eve W/S	-0-	-0-	-0-	350	350
Halloween Party	-0-	-0-	300	-0-	300
Thanksgiving W/S	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>250</u>	<u>250</u>
Total	<u>\$1,820</u>	<u>\$2,220</u>	<u>\$2,470</u>	<u>\$2,570</u>	<u>\$9,080</u>
Net Revenues Over Expenses	<u>\$505</u>	<u>\$1,980</u>	<u>\$580</u>	<u>(\$125)</u>	<u>\$2,940</u>
Fund Balance	\$4,625.75 (from pg. 21)				\$4,625.75
Projected Ending Fund Balance					\$7,565.75

Let's look at some of the things that this budget tells us:

First, all expenditures are authorized nonappropriated fund expenditures within the MWR program. There are no expenditures that would be authorized appropriated fund support.

Enclosure (5) to the MWR Manual is an excellent guide in determining what is authorized appropriated fund support. **Remember, those expenditures authorized appropriated fund support, should get that appropriated fund support!**

Second, look at the results of operation for the 1st Qtr of the soda “business.” The MWR Officer projects that Net Profit for this Qtr will be \$0. While there is nothing wrong with this, remember, the budget is developed with estimates. Because there is no margin, any changes could “force” the actual results negative. It, like the entire budget, bears watching!

Third, note the **net loss** projected for the 3rd Qtr. Although noteworthy, it is not of much concern because of the **total net profit** projected for the year.

And finally, note the forecasted change in fund balance from the beginning of the year to the end. CGC RUSH’s fund balance is projected to “**grow**” by almost \$3,000! This may be or may not be acceptable depending on the longer-term strategies and goals of the command (e.g., purchase a new soda machine). In any event, the projection is not for a decrease in fund balance. **Remember, spending more than you take in may be okay in the short term, but eventually that trend will put you out of business!**

The only thing left for the MWR Officer to do now is to get her CO to approve and sign the budget and forward it to her cognizant authority. She’s done!

SMALL UNIT MWR-SUMMARY

The MWR budget that you develop for your unit belongs to you! No one can tell you what revenues or expenses that you will or will not have. So, if you don’t have expenditures for the Coast Guard Day picnic and if you don’t recognize commercial sponsorship revenue, no one will tell you that “you have the wrong answer.” But using the guidance we just went through, not presenting a fund balance, not recognizing CGES profit distributions or MWR distributions from your cognizant authority, and not recognizing the expense of resale merchandise sold will set off a “red flag” during the review process of your budget. Hopefully, that “red flag” will be raised by you!

LARGE UNIT MWR BUDGET DEVELOPMENT

We just walked through the process for developing a nonappropriated fund budget for a smaller MWR program, or one that may not necessarily operate any Category B and C MWR Activities. Now, let’s tackle building a budget for a larger program!

For those of you with larger programs, we hope that you were paying attention during our discussion on building a nonappropriated fund budget for a smaller MWR program! The principles that we discussed previously will be the same for you.

We’ll use the Coast Guard Academy as an example here. By the way, we should make clear that the MWR budgets for the commands used as examples are not the actual budgets submitted by

those units. If they happen to be, please let us know. We will run out and buy some lottery tickets and tarot cards!

In addition to incurring morale expenses in support of eligible patrons, the Academy operates a food and beverage activity, a bowling center of less than 12 lanes, a snack bar, a child development center, and a lodging facility.

Because of the size, complexity, and business risks associated with the MWR operations, the Academy chooses to develop a revenue and expenses budget on a monthly basis. **As a general rule, the larger the MWR program, the more frequent will be the budget periods required to manage the activities.** We only require the budget be broken down per NAF-year, quarter, and that is all we will show in our example here. But for management purposes, the **larger** the program the **more** budget periods will be required. Think about it. If you were operating a MWR program that had gross revenues of over \$1 million per year (and some of you are), wouldn't you want to be able to match budget-to-actual activity more than quarterly? And, quarterly would really mean every four months since it takes about 30 days to finalize a financial statement!

OK, let's get started!

FOOD AND BEVERAGE OPERATION

The food and beverage activity at the Academy has been in **existence for a long time**. It has been **operated efficiently** and has received **clean audit opinions** each and every time a CPA firm was engaged to perform an audit. The Academy has a **strong inventory control program** and consistently sees the **same Gross Profit percentages of sales** in both its food and alcohol resale activities.

The Academy also has great **historical information** regarding the level of sales each accounting period. They know what they are going to propose as far as **pricing changes**, and the effects on **gross profit**, and they know which months are typically better months than others (June and July are big due to the number of wedding receptions!). In other words, they know their **normal business cycle**. They also know that for this budget year, they anticipate no other **changes to the facility or operations** that would make them change their forecasts for the budget year. Events like closing the facility to accommodate a major rehab must be considered. And, finally, they understand what **sales growth that they want to achieve** and they know the effects of **inflation**.

If you can say the same things about your activity, then the development of the budget for this type of activity becomes easier for you. If you can't, then you may have to develop alternate ways to develop sales forecasts, such as types of meals served and the selling price, the number of kegs and bottles of alcohol used per year and the selling price per drink. This is a little more challenging and you can see why preparing a **pro forma budget** for the establishment of a new food and beverage operation is not easy!

Armed with this information, we know that the Academy expects to see a gross profit as a percent of sales of 35% for food operations and 65% for its alcohol operation, let's look at what they would budget for Sales and Cost of Goods Sold for the upcoming NAF Year.

COAST GUARD ACADEMY CLUB: FOOD
(in thousands)

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
+Sales	\$126.5	\$212.5	\$220.0	\$ 94.2	\$653.2
-CGS	<u>82.2</u>	<u>138.1</u>	<u>143.0</u>	<u>61.2</u>	<u>424.6</u>
=Gross Profit	\$ 44.3	\$ 74.4	\$ 77.0	\$ 33.0	\$228.6

And for the bar:

COAST GUARD ACADEMY CLUB: BAR
(in thousands)

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
+Sales	\$120.0	\$225.0	\$200.0	\$100.0	\$645.0
-CGS	<u>42.0</u>	<u>120.8</u>	<u>70.0</u>	<u>35.0</u>	<u>225.8</u>
=Gross Profit	\$ 78.0	\$146.2	\$130.0	\$ 65.0	\$419.2

These are the only revenues associated with that facility. If there are others that are associated with a food and beverage operation like interest or “strictly” facility rental, **do not** include it in the budget presentation of your gross profit! Doing so will **distort** your Gross Profit percentages and render this presentation useless in performing budget-to-actual analyses.

Rental Income could get presented after Gross Profit if some of the expenses associated with this operation (as we will discuss shortly) are incurred in this rental, or they can be presented as Other Income, **after** the Net Profit from the activity is presented.

Now, for the expenses associated with this activity. The Academy knows that it has the following category of expenses associated with this activity and they have developed a methodology for budgeting each, again factoring in any projected changes in their operations:

Personnel Expenses:	See the detailed explanation below.
Utilities:	Historic monthly average with inflation. This includes water, gas, and electricity.
Telephone:	Historic monthly average with inflation.
Cable TV:	Known monthly bills with any projected rate increases or changes to services anticipated.
Repairs:	Historic expenditure averages factored with inflation. If a maintenance schedule exists, this may also be used to budget for maintenance and repair.
Supplies:	Historic expenditure average with inflation. Any known material requirements should also be considered.
Decorations:	Historic expenditure average with inflation, recognizing the types and timing of events planned.

Entertainment	Historic expenditure average with inflation, recognizing the types and timing of events planned.
Advertising	Historic expenditure average with inflation, recognizing the types and timing of events planned.
Miscellaneous	Historic expenditure average with inflation.

Major equipment procurement **should not** be budgeted and ultimately expensed through an activity. Doing so gives a false presentation on the results of operation for a given period. Typically, these expenditures should be budgeted and expensed as Morale expenditures because normally it is fund balance that is really being used to support these procurements and not the operations of the period in which they were procured!

You may have other unique expense categories that you must consider. If you are new, the best sources of categories for which you must prepare expense projections are those areas in which you had expenditures in the past. Don't be afraid to talk with your employees, too! They may have a wealth of good information to assist you. You may also use Enclosure (5) of the MWR Manual as a guide as to what expenses must be covered with nonappropriated funds.

So having said that, let's start with probably the most difficult expense to budget for and the one that has the most impact on our activities -- **Personnel**.

It is important to remember that generally speaking, personnel is an expense **that varies directly with sales**. This means that as sales increase, we would expect to see our personnel expenses increase. And conversely, as sales decline, we would expect to see a decrease in our personnel expenses. In reality, that may not happen unless personnel expenses are closely monitored.

If you don't see this either in your budget or through the actual results of operation for the activity, your personnel costs may essentially be acting like fixed costs. This is not ideal because you as management may have to make some difficult decisions if your activity is not projected to be profitable. Some possible causes may be too many employees on the payroll and too many full time employees versus part time or intermittent employees within your activity. Only you can decide this through careful monitoring of the results of operation as compared to your budget.

Typically, a well-run, efficient activity like the Academy's food and beverage operation that hasn't made any material changes to its personnel mix, will have a consistent percentage of personnel costs-to-sales. We will assume that here and that this percentage is 15%.

If you are not like the Academy in our example, the best way, and unfortunately the most time consuming way, to estimate personnel expense is to build a spreadsheet that would include for each employee or position of the activity:

1. Number of hours expected to work during the period
2. Rate of pay
3. Bonuses expected and timed
4. COLA
5. Employer's share of health care, if applicable

6. Employer's share of FICA
7. Overtime hours and rates

Yes, this can be a complex task, but remember, personnel expenses will have the greatest impact on your business. Once the spreadsheet is developed the first time, subsequent revisions become less tedious. We have seen this type of personnel budgeting work for organizations employing over 1,000 employees....so, it could be used effectively by you too!

Using the methodologies and categories we just described above, the MWR Director at the Academy may now complete the budget for these activities. Let's see what they look like.

COAST GUARD ACADEMY CLUB: FOOD
(in thousands)

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
+Sales	\$126.5	\$212.5	\$220.0	\$ 94.2	\$653.2
-CGS	<u>82.2</u>	<u>138.1</u>	<u>143.0</u>	<u>61.2</u>	<u>424.6</u>
=Gross Profit	\$ 44.3	\$ 74.4	\$ 77.0	\$ 33.0	\$228.7
-Personnel	\$ 19.0	\$ 31.9	\$ 33.0	\$ 14.1	\$ 98.0
-Utilities	4.0	5.0	4.0	5.0	18.0
-Telephone	0.2	0.2	0.2	0.2	0.8
-Cable TV	-0-	-0-	-0-	-0-	-0-
-Repairs	0.5	0.5	0.5	0.5	2.0
-Supplies	0.1	0.1	0.2	0.1	0.5
-Decorations	-0-	-0-	0.1	-0-	0.1
-Entertain.	-0-	-0-	-0-	-0-	-0-
-Advertising	0.1	-0-	0.2	-0-	0.3
-Misc.	0.1	-0-	-0-	0.2	0.3
Total Expense	<u>\$ 24.0</u>	<u>\$ 37.7</u>	<u>\$ 38.2</u>	<u>\$ 20.1</u>	<u>\$120.0</u>
=Net Profit	\$ 0.3	\$ 36.7	\$ 38.8	\$ 12.9	\$108.7

COAST GUARD ACADEMY CLUB: BAR
(in thousands)

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
+Sales	\$120.0	\$225.0	\$200.0	\$100.0	\$645.0
-CGS	<u>42.0</u>	<u>120.8</u>	<u>70.0</u>	<u>35.0</u>	<u>225.8</u>
=Gross Profit	\$ 78.0	\$146.2	\$130.0	\$ 65.0	\$419.2
-Personnel	\$ 18.0	\$ 33.8	\$ 30.0	\$ 15.0	\$ 96.8
-Utilities	4.0	5.0	4.0	5.0	18.0

-Telephone	0.2	0.2	0.2	0.2	0.8
-Cable TV	0.1	0.1	0.1	0.1	0.4
-Repairs	0.5	0.5	0.5	0.5	2.0
-Supplies	0.2	0.1	0.2	0.1	0.6
-Decorations	0.1	0.1	0.1	0.1	0.4
-Entertain.	0.3	0.5	0.3	0.4	1.5
-Advertising	0.1	0.0	0.2	0.0	0.3
-Misc.	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.2</u>	<u>0.5</u>
Total Expense	\$ 23.6	\$ 40.4	\$ 35.7	\$ 21.6	\$121.3
=Net Profit	\$ 54.4	\$ 105.8	\$ 94.3	\$ 43.4	\$ 297.9

Just a few comments before we go on. First, as you can see, this presentation is in Word. Use **EXCEL** or some other spreadsheet application. Your life will be a lot easier and you can let the system do your math! Second, any mathematical errors noted here may be attributed to rounding errors.

Also, each budget that we just developed here will now become a page in the budget presentation for the NAF Year. We are making progress!

Note the **positive expected net profit**. This is good! Also look at the **budgeted net profit as a percentage of sales**. This will also be a benchmark that you will want to use when you perform your budget-to-actual comparisons.

If you had a negative net profit in any quarter or overall, you would want to ask the “magic” question, “why?” Short-term losses in a quarter may be acceptable; however, remember...these Category C Activities should at least break even. **This means that revenues minus expenses should be greater than or equal to zero.** If they are not, you have an activity that will be a drain on the rest of your MWR program!

BOWLING CENTER

Ok...one down! Let’s move on to a Category B Activity, the bowling center. Why is it a Category B...less than 12 lanes, of course! The same methodologies that we used to develop the budget for food and beverage operations at the Academy will still apply here. Just remember, Category B Activities are authorized a higher level of appropriated fund support. Once again, you can use Enclosure (5) to the MWR Manual to see if you are using nonappropriated funds to cover an authorized appropriated fund expense.

Revenue from a bowling operation may be forecasted just like that of the food and beverage operation if you meet all of the criteria that we identified above for the food and beverage activity. The other way, would be to schedule-out the number of lanes that you have, the number of lines expected to be bowled, and your expected price per line. Again, good information to begin this process may be found in your historical usage. Just remember that this alone is not the only source of determining future use.

For this activity we have only one employee, so we will schedule-out the personnel costs for the year based on the rate of pay, hours worked, and the timing of any pay raise or bonus. We also know that the employee is projected to work no overtime, and there is no holiday and nighttime differentials. We took the simple approach here, but be aware of those factors that need to be considered if scheduling-out personnel expenses per employee!

This is what it may look like:

**COAST GUARD ACADEMY
PROJECTED PERSONNEL EXPENSE
FOR THE BOWLING CENTER
NAF YEAR XXXXX**

John Doe:

1. Rate of Pay: \$7.50 per hour
2. Rate Change projection: None
3. Performance Bonus: \$250 in May
4. Hours worked each month: 80
5. FICA: The current employer's share is 7.65%.

By the way, that's the employee's current share too.

6. Employer's share of health/dental and indemnity insurance:
This is an amount that either the servicing NAF personnel assistant or we will have to give you. It depends on the type of coverage the employee has elected, the cost of the premium, and what the employer's share of the payment is. So, don't be afraid to ASK!

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT
Salary	\$600.00	\$600.00	\$600.00	\$600.00	\$600.00	\$600.00	\$600.00	\$600.00	\$600.00	\$600.00
Bonus					250.00					
FICA	49.90	49.90	49.90	49.90	65.02	49.90	49.90	49.90	49.90	49.90
Health	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Total	\$659.90	\$659.90	\$659.90	\$659.90	\$925.02	\$659.90	\$659.90	\$659.90	\$659.90	\$659.90

	NOV	DEC	JAN	Total
Salary	\$600.00	\$600.00	\$600.00	\$7,200.00
			250.00	
FICA	49.90	49.90	49.90	613.92
Health	10.00	10.00	10.00	120.00
Total	\$659.90	\$659.90	\$659.90	\$8,183.92

Something to consider..... you don't have to budget for leave hours if you don't plan on back filling for this employee if she goes on leave. However, if you do, then you will need to enter an estimate for the additional hours. Why? Because you will be paying this employee for her "80" hours worked each month because she is on paid leave, AND you will be paying the replacement!

So on a quarterly basis, the projected personnel expenses would look like this:

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Personnel	\$1,979.70	\$2,244.82	\$1,979.70	\$1,979.70	\$8,183.92

Using the information above for the bowling center, let's take a look at what that budget would look like:

COAST GUARD ACADEMY
BOWLING CENTER
NAF BUDGET
NAF YEAR XXXX

Revenue:	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Lineage	\$4,730.00	\$255.00	\$1,600.00	\$2,800.00	\$9,385.00
Tournaments	360.00	150.00	150.00	-0-	660.00
Turkey Bowl	<u>-0-</u>	<u>-0-</u>	<u>120.00</u>	<u>120.00</u>	<u>240.00</u>
Total	\$5,090.00	\$405.00	\$1,870.00	\$2,920.00	\$10,285.00
Expenses					
Personnel	\$1,979.70	\$2,244.82	\$1,979.70	\$1,979.70	\$8,183.92
Supplies	360.00	340.00	280.00	360.00	1,340.00
Repair	150.00	300.00	300.00	250.00	1,000.00
Tournaments	300.00	150.00	100.00	-0-	550.00
Turkey Bowl	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total	\$2,789.70	\$3,034.82	\$2,659.70	\$2,589.70	\$11,073.92
Net Profit	\$2,300.30	(\$2,629.82)	(\$ 789.70)	\$ 330.30	(\$788.92)

We can see from this budget that the Academy expects that the bowling center will lose money for the year. They will either have to minimize expenses, increase revenues, or recognize that this activity will require additional funds to break even. These additional funds will have to come from profits of other activities or other revenue sources.

SNACK BAR

The snack bar, a Category C food operation, is next. Budgeting for the snack bar follows the same principles that we used for budgeting for the Club's food and beverage operation.

The Academy expects a gross profit of 35% on its sales. They also know their labor costs because they scheduled them out, similar to what we just did for the bowling center. Let's look at what this budget would look like:

COAST GUARD ACADEMY
SNACK BAR
NAF BUDGET
NAF YEAR XXXX

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Revenues:					
Sales	\$26,625.00	\$30,000.00	\$30,000.00	\$17,500.00	\$104,125.00
<u>CGS</u>	<u>17,306.25</u>	<u>19,500.00</u>	<u>19,500.00</u>	<u>11,375.00</u>	<u>67,681.25</u>
Gross Profit	\$ 9,318.75	\$10,500.00	\$10,500.00	\$ 6,125.00	\$ 36,443.75
Expenses:					
Personnel	\$10,095.28	\$4,441.30	\$8,803.53	\$3,239.50	\$26,579.61
Supplies	1,750.00	1,250.00	1,500.00	1,400.00	5,900.00
Repair	500.00	750.00	750.00	500.00	2,500.00
Equipment	100.00	100.00	300.00	-0-	500.00
Training	100.00	100.00	500.00	100.00	800.00
Misc.	<u>50.00</u>	<u>50.00</u>	<u>50.00</u>	<u>50.00</u>	<u>200.00</u>
Total	\$12,595.28	\$6,691.30	\$11,903.53	\$5,289.50	\$36,479.61
Net Profit	(\$3,276.53)	\$3,808.70	(\$1,403.53)	\$835.50	(\$35.86)

Note here for the Snack Bar that the Academy expects that it will just about break even, but the Snack Bar is expected to lose money for the budget year. This activity will bear close watching because of this.

Also note that there are no utility expenses. Why is that? Well, this facility is a room in a larger facility that is used for part of the academia at the Academy. If utility expenses were charged to this facility, some serious issues would have to be addressed for the upcoming year regarding the operation of this activity.

LODGING FACILITIES

Our next activity to take a look at the Academy is the lodging facility at Munro Hall. The Academy doesn't have much reliable historical information about this activity. This activity had only been established over the last several years. Trends regarding its usage, rates to charge, and occupancy rates have not been tested over a period of time. And, since the major user of this facility will be students attending the Leadership Development Center, the MWR Director at the Academy must work closely with that staff in identifying class-convening dates. All factors to consider!

In developing her forecasts for annual revenues for this lodging facility, the MWR Director must consider the following variables:

1. Convening dates for LDC classes (this will also determine the cyclical nature of this business

...or, in other words, which months the facility may be more heavily used than others.).

2. Expected students per class
3. Length of class
4. Number of rooms available in the lodging facility
5. Overall expected occupancy rate
6. Nightly room charge (along with any expected changes)

Using these key factors, she develops her forecast for her revenues. And knowing what her expense categories are expected to be, she develops her expense projections. The fruits of her efforts look something like this:

COAST GUARD ACADEMY
LODGING FACILITY
NAF BUDGET
NAF YEAR XXXX

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Revenues:					
Room Income	\$71,232.00	\$76,537.00	\$81,325.00	\$39,048.00	\$268,142.00
Expenses:					
Personnel	\$ 5,095.13	\$ 5,095.13	\$ 5,095.13	\$ 5,095.13	\$ 20,380.52
Cleaning Serv.	12,270.00	16,460.00	19,840.00	8,900.00	57,470.00
Linen Serv.	10,600.00	12,595.00	14,600.00	8,320.00	46,115.00
Guest Supplies	450.00	450.00	450.00	450.00	1,800.00
Cable TV	528.00	528.00	528.00	528.00	2,112.00
Supplies	300.00	300.00	300.00	300.00	1,200.00
Repair	350.00	400.00	600.00	250.00	1,600.00
Equipment	450.00	450.00	600.00	1,050.00	2,550.00
Credit Card Exp.	<u>2,515.00</u>	<u>2,545.00</u>	<u>2,865.00</u>	<u>1,425.00</u>	<u>9,350.00</u>
Total Expenses	\$32,558.13	\$38,823.13	\$44,878.13	\$26,318.13	\$142,557.52
Net Profit	\$38,673.87	\$37,713.87	\$36,446.87	\$12,729.87	\$125,564.48

CHILD DEVELOPMENT CENTER

The Academy happens to be one of the few commands that has a CDC. A Child Development Center can be one of the most challenging activities to financially manage because there are **many different variables** that will ultimately impact the bottom line!

Let's look at the **variables** the Academy has to consider in developing its budget for the CDC:

1. Number of children
2. Ages of children
3. Fee schedule (usually sliding based on pay grade)
4. Number of children per parents' pay grade

5. Children leaving and when
6. Children on the waiting list
7. Federal or State subsidies
8. Inflation

As you can see, budgeting for revenues and expenses for a CDC each NAF Year can be a challenge. Most CDCs, like the one at the Academy, have some fairly good historical information to use as a basis for developing their annual NAF budget. Because of the dynamic variables involved in managing a CDC, the MWR Director develops a monthly budget for the CDC. Based on the monthly spreadsheets, the variables identified above, and the principles that we have discussed throughout this Guide, here is what she has developed for her annual CDC budget:

COAST GUARD ACADEMY
CHILD DEVELOPMENT CENTER
NAF BUDGET
NAF YEAR XXXX

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Revenues:					
Registration	\$ 260.00	\$ 340.00	\$ 320.00	\$ 140.00	\$ 1,060.00
Tuition	105,000.00	100,000.00	100,000.00	105,000.00	410,000.00
LEARN Funding	19,950.00	19,950.00	19,950.00	19,950.00	79,800.00
USDA Food Subsidy	3,000.00	3,000.00	3,000.00	3,000.00	12,000.00
Misc.	<u>300.00</u>	<u>300.00</u>	<u>300.00</u>	<u>300.00</u>	<u>1,200.00</u>
Total Revenues	\$128,510.00	\$123,590.00	\$123,570.00	\$128,390.00	\$504,060.00
	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Expenses:					
Personnel	\$106,955.60	\$114,820.34	\$110,529.34	\$114,330.34	\$446,635.62
Food	8,250.00	6,700.00	7,600.00	7,750.00	30,300.00
Office Supplies	1,050.00	1,450.00	1,525.00	1,325.00	5,350.00
Classroom Supplies	3,200.00	3,200.00	3,200.00	3,200.00	12,800.00
Training	950.00	850.00	950.00	750.00	3,500.00
Advertising	400.00	200.00	400.00	200.00	1,200.00
Misc.	<u>300.00</u>	<u>300.00</u>	<u>300.00</u>	<u>300.00</u>	<u>1,200.00</u>
Total Expenses	\$121,106.60	\$127,520.34	\$124,504.34	\$127,855.34	\$500,985.62
Net Profit	\$ 7,404.40	(\$3,930.34)	(\$934.34)	\$ 534.66	\$ 3,074.38

Although this activity is projected to have a net profit, it is less than 1% of total revenues. As the MWR Director executes her budget for the year, she will have to monitor the results of operation

very closely to ensure that this activity, one heavy supported with appropriated funds, does not become a “cost center” and require other MWR funds to subsidize its operation.

What this budget presentation also gives the MWR Director is a powerful tool. This presentation may be one that indicates that fees must be raised in the outyears. Why? Because CDC operations are labor intensive. NAF employees in the CDC typically receive COLA (cost of living adjustment) each year. All other things being equal, the net profit projected for the budget year may be a net loss in future outyears.

Well, that takes care of the entire Category B and C MWR Activities that we originally identified for the Academy’s MWR program. Still, something is missing. That’s the budget for strictly MWR-related expenditures and the revenues associated with them. So let’s take a look at this budget. Don’t forget those principles that we have used throughout the Guide!

COAST GUARD ACADEMY
MWR-RELATED
NAF BUDGET
NAF YEAR XXXX

	<u>1st Qtr</u>	<u>2nd Qtr</u>	<u>3rd Qtr</u>	<u>4th Qtr</u>	<u>Total</u>
Revenues:					
CG Day	\$ -0-	\$ 1,000.00	\$ 1,500.00	\$ -0-	\$ 2,500.00
CGES	30,000.00	20,000.00	30,000.00	45,000.00	125,000.00
Tournaments	3,800.00	1,400.00	1,500.00	-0-	6,700.00
Interest	300.00	300.00	300.00	300.00	1,200.00
Misc.	<u>300.00</u>	<u>300.00</u>	<u>300.00</u>	<u>300.00</u>	<u>1,200.00</u>
Total Revenue	\$34,400.00	\$23,000.00	\$33,600.00	\$45,600.00	\$136,600.00
Expenses:					
Personnel	\$ 5,696.64	\$ 4,351.01	\$ 5,158.39	\$ 5,373.68	\$ 20,579.72
Ticket Reim.	1,750.00	1,250.00	1,500.00	1,400.00	5,900.00
Tournaments	3,775.00	3,200.00	1,950.00	1,700.00	10,625.00
EAGLE Dist	2,400.00	-0-	-0-	-0-	2,400.00
R&D Dist.	2,450.00	-0-	-0-	-0-	2,450.00
CAD	12,249.00	8,249.00	30,166.00	249.00	50,913.00
AA	3,249.00	7,498.00	15,249.00	249.00	26,245.00
Supplies	250.00	250.00	250.00	200.00	950.00
Training	100.00	-0-	600.00	100.00	800.00
Parties	1,400.00	400.00	1,500.00	5,000.00	8,300.00
Misc.	<u>300.00</u>	<u>300.00</u>	<u>300.00</u>	<u>300.00</u>	<u>1,200.00</u>
Total	\$33,619.64	\$25,498.01	\$56,673.39	\$14,571.68	\$130,362.72
Net Profit	\$ 780.36	(\$2,498.01)	(\$23,073.39)	\$31,028.32	\$ 6,237.28

Interestingly enough, the MWR program at the Academy takes in a little more than it projects to spend for the upcoming NAF Year. Also, note the losses projected in the 2nd and 3rd Quarters. The MWR Director at the Academy must watch this closely (actually the entire budget for that matter!) since this category is heavily dependant upon distributions from the local Coast Guard Exchange operation.

We are just about done!

Each one of these sheets that we developed for the Food and Beverage Operation, the Snack Bar, the Bowling Center, the Munro Hall Lodging Facility, the CDC, and for general MWR-related “business,” becomes a page in the budget presentation for NAF Budget Year. Let’s look at a **summary page** and finish our presentation:

COAST GUARD ACADEMY
ANNUAL SUMMARY
NAF BUDGET
NAF YEAR XXXX
(Revenues, Expenses, Net Profit)

MWR	Bowling	Club	Snack Bar	CDC	Munro	TOTAL
\$136,600.00	\$10,285.00	\$1,298,200.00	\$104,125.00	\$504,060.00	\$268,142.00	\$2,321,412.00
\$130,362.72	11,073.92	241,300.00	36,479.61	500,985.62	142,557.52	1,062,759.39
\$ 6,237.28	(\$788.92)	\$ 406,600.00	(\$35.86)	3,074.38	125,564.48	540,651.36

Here are a couple things to remember from this summary presentation.

- First, if you tried to check the math...you can’t do it from here! This presentation only shows total revenues-it does not display the Cost of Goods Sold that we would find on the detail sheets.
- Second, the entire nonappropriated, MWR fund at the Academy is expected to **increase** by over \$500,000! So, although we do not want any of our activities to be cost centers (lose money) in the long term, we can see that the current budget as developed, shows an expected large increase to our fund balance at the end of the year.

There is only one thing that we have not yet displayed for our budget presentation. Can you guess what it is? It’s the **fund balance**. Now remember, as we developed the methodology to develop the fund balance for CGC RUSH, we told you folks with larger MWR programs that it would also apply to you. If you don’t remember this discussion, you may want to go back and review it now.

The MWR Director at the Academy does remember, and using the same process, determines her forecasted beginning fund balance to be \$124,300.00. If you don’t remember, go back to Page 14 for a refresher! Let’s add this information to our summary:

COAST GUARD ACADEMY
ANNUAL SUMMARY
NAF MWR BUDGET
NAF YEAR XXXX
(Revenues, Expenses, Net Profit)

.Projected Beginning Fund Balance: \$124,300.00

MWR	Bowling	Club	Snack Bar	CDC	Munro	TOTAL
\$136,600.00	\$10,285.00	\$1,298,200.00	\$104,125.00	\$504,060.00	\$268,142.00	\$2,321,412.00
130,362.72	11,073.92	241,300.00	36,479.61	500,985.62	142,557.52	1,062,759.39
\$ 6,237.28	(\$788.92)	\$ 406,600.00	(\$35.86)	\$ 3,074.38	\$125,564.48	\$ 540,651.36

LARGE UNIT MWR SUMMARY

With the summary and the detailed activity sheets, the budget for the next NAF year is complete for the Academy! As a note, the summary information may be presented in many different formats. An annual one presented here is acceptable. You may also consider using a quarterly presentation with totals for revenue, expenses, and net profit amounts. The format really depends on what makes the most sense to you in the management of your businesses, and what your chain of command wants to see.

Which brings us to the next most important phase of developing the budget, and that's the **approval phase**. We recommend that you schedule time with your chain of command and **brief them on your MWR budget**. This allows your chain of command to ask astute questions throughout the brief to ensure that goals and objectives will be met through the execution of the budget. This also gives you a chance to market your businesses and highlight any concern that you feel that the command needs to know. At the end of the brief, and the command is satisfied that all of its questions were clearly answered, be prepared to work away with a signed, approved budget for the next year!

CASH FLOW PROJECTIONS

At the beginning of the Guide, we mentioned the three basic elements of a well-prepared budget. They were:

1. Revenue forecasts
2. Expenditure projections
3. Cash flow projections.

Let's spend a little time discussing the last element now: cash flow projections.

For most of you, cash flow rarely becomes a problem because of the relatively small size of your MWR program. However, for those of you with larger, complex MWR programs, cash flow can, and has been a problem. Just ask yourself if you have ever sweated having enough cash in the bank to meet your biweekly payroll. If the answer to that question has ever been “yes,” then you would definitely benefit from looking at your projected cash flow requirements.

One of the ways that MWR policy “helps” you maintain a healthy working capital position is our requirement to have an acid test ratio of at least 1:1. If you maintain this at all times, then cash flow **may not** be a concern to you.

The other important aspect to remember is that working capital requirements may be **seasonal** and may not totally be “in sync” when you realize your sales. For example, you may have cash needs for payroll and other expenses throughout the year, yet one of your biggest generators of cash is your golf course that is only open in the summer. These factors must be considered when planning your cash needs.

To those of you that must project your cash needs, you will find that you will have to break your budgeting periods into smaller segments than quarterly. Bi-weekly or monthly may be more suited to your business needs.

The important point to remember here is that you may have a profitable operation, but may be “cash poor” and unable to continue operations. Some generally sound business practices to help ensure that this won’t be you may include:

1. Forecasting revenues, expenses, and of course the resulting net profits
2. Considering any non-cash expenses (for those of you that budget for depreciation or the replacement of fixed assets)
3. Managing inventory levels
4. Aggressively collecting accounts receivable...including morale loans!

A good way to project your cash needs for the budget year is to develop a cash flow projection spreadsheet. The template for this analysis may look something like this:

COAST GUARD AIR STATION CAPE COD
CASH FLOW PROJECTION
FIRST QUARTER
NAF YEAR XXXX

	February	March	April
Beginning cash balance:			
Sources of cash			
Net Profit			
CGES Distributions			
Collection of Accts. Receivable			
Interest			
Recycling			

Morale Loan Repayments
MWR Distribution
Reserve for Replacement
of Fixed Assets
Total Cash

Uses of cash:
Morale Loans
MWR Distributions
MWR expenditures
Equipment procurements
Reduction of Accts. Payable
Total Uses

Ending cash balance

Although probably obvious, the ending cash balance of one period becomes the beginning cash balance for the next. You can start with the 1st Qtr and then continue your projections for the remainder of the NAF Year.

An important aspect of your cash need projection is the set of assumptions that will you make for your analysis. Some assumptions that you will need to make will include:

- **The beginning cash balance:** At some known point in time you will know your cash balance. Projecting forward to the beginning of the NAF Year, using the template above, will give you the best estimate for your beginning cash balance for the budget year.
- **Payment of payables:** Do you normally pay for things when invoiced or do you wait a period of time, let's say 30 days, before you pay the invoice off? This timing must be considered when making your cash projection schedule. For those of you with inventories of items for resale, this may mean that you will have to "project out" purchases when forecasting gross profit. How else will you be able to properly assess your cash needs?
- **Collection of receivables:** What average time period will you use in determining when you will receive cash for invoices or loans that you provide?

The important thing to remember about any or all assumptions that you make is to **document, document, and document!** Keep your assumptions with your projection. As we indicated earlier in the Guide, your chain of command may not agree with your assumptions, but at least you will be able to show a thoughtful process on how you developed them!

In any period that you project that your cash flow will be negative, you obviously have some business decisions to make...along with a cash flow dilemma!

- Where will you get the needed cash?
- How will you increase revenues to accommodate this shortfall?
- How will you delay or avoid these cash outlays?

You will have to come to grips with these issues. But, whatever you do, don't take the easy way out and just arbitrarily make your numbers look "pretty" by changing them! Avoid real problems in the future by tackling them now!

SUMMARY

Well, that about wraps up this Guide on budgeting nonappropriated funds for MWR activities. We hope that it has been of some value to you and has assisted you in developing and making your budget document a useful management tool.

Budgets are important tools in the management of your business. If this Guide has been helpful to you to that end...we have been successful. If you have questions or are still not sure what to do, ask! Your cognizant authority -- the MWR Headquarters staff -- will be happy to help you. **DO** you know why? It's because if you are successful and your programs are operated efficiently, we will be more apt to be providing for the mission readiness and retention of our Coast Guard family, and in doing so, taking care of those who protect and defend!

We are interested in your comments. So if you have comments on how we can make future revisions to this Guide easier to use, please let us know.

Until then...***HAPPY BUDGETING!***

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