

## **RESPONSIBILITIES OF THE ALA FINANCE COMMITTEE**

### **ASSET DEVELOPMENT and FUNDRAISING**

Assets are items that can be converted to cash: furniture, investments, receivables or special project funds. The Finance Committee is responsible for the oversight of assets.

The committee is also responsible for ensuring the operation and programs of the organization are adequately funded through diversification of funding sources. Diversification means not relying on one primary funding source (like membership dues). A variety of income streams is necessary so that the organization is less vulnerable should there be a downturn in membership or in the economy.

Relying on membership dues for the majority of the department's revenue stream is not a best practice. The Department Finance Committee should work with the staff and leadership to develop an annual fundraising campaign plan that encompasses several techniques for generating additional revenue streams. These can be from indirect donations, corporations, donations, special event fundraising, direct mail fundraising, planned giving programs, and in-kind donations. Often foundation and government grants are mentioned as potential revenue opportunities, but since the American Legion Auxiliary is a 501c19 organization not a 501c3 organization it is unlikely your department would be eligible for grant funds. However, unless otherwise prohibited by its bylaws, a corporation can donate to a 501c19 and received the same tax benefits as if they donated to a 501c3.

Some departments might consider setting up a 501c3 organization to be able to access grant funds. This organization could be for children and youth projects which would include Girls State and other department specific programs for youth. If you want to explore this option visit the IRS website ([www.irs.gov](http://www.irs.gov)) to learn what steps are necessary and discuss with your auditing firm.

To learn more about nonprofit fundraising, the committee should actively participate in training programs offered through community colleges, and professional associations like the Association of Fundraising Professionals ([www.afpnet.org](http://www.afpnet.org)) that has local chapters in every state.

**Membership Program:** Departments depend heavily on membership revenues to fund programs of the organization. A good membership benefits package will help to attract new members and retain inactive members. Most departments promote the use of our national member benefit package in their membership campaigns, but departments are encouraged to go beyond that and establish additional membership benefits within the departments. Consider not only those benefits that would appeal to current members, but those that prospective members will value as well. Women of all ages are into fitness today. There are many health clubs that would consider offering a discount to members statewide. Additional benefits that have appeal to large numbers of women include beauty salon/spa, auto sales and service center, restaurant, wireless, child care and discount club membership discounts.

**Direct Mail:** is a long term investment which often takes three years to mature and provide predictable revenue. Its advantages include: creating a broad base of smaller donors; promoting image and message; cultivating donors and identifying major gift prospects. This requires a good data tracking system.

Direct mail can effectively supplement revenues when service providers offer creative packages at reasonable costs and generate research information on the donor base that becomes the property of the organization. Any and all contracts should be reviewed by a lawyer. Remember to personally sign thank you letters for any gift over \$100. Phone every donor who gives more than \$1,000.

**Special Events:** are intended to be celebrations which reinforce and communicate the mission as well as fulfill goals of outreach and involvement in the community. These are labor intensive and often raise awareness more than revenue.

An annual statewide special event has the ability to produce revenues and to generate member enthusiasm. Larger departments would be wise to schedule such an event in conjunction with a convention or statewide conference. Auctions, casino nights, gourmet tasting parties, golf hole-in-one tournaments, and variety shows are just a few ideas. Large businesses near the event site may be interested in supporting the event through different levels of sponsorship.

**Earned Income:** traditionally departments prepare a registration package with program and badge, creating income from registration fees and business advertisements during department conventions. When this income is retained by The American Legion, Auxiliaries might consider the sale of an item or items at the registration site (i.e. souvenir T-shirts, non perishable food items and calendar lotteries where allowed). Product sales may extend to additional statewide events, as well. Most unrelated business income is subject to tax. Check requirements in your state.

**Individual Donors:** Potential donor lists can be secured from a record of direct mail donors. Contributions may be solicited by personal contact, personalized letters, telemarketing, and direct mail in that order. The most successful approach is always personal contact. When that option isn't feasible, departments with available volunteers may want to consider handwritten and addressed letters in note card sized envelopes. Sample mailings show that handwritten letters regularly outperform standard pre-printed direct mail.

**Major Gifts:** are generally contributions made by individuals after being asked by a peer to join them. For major donor prospects an individual approach is best.

**Planned Giving:** enables individuals to support a nonprofit through their estate planning of a deferred gift or transfer of assets (cash, property, securities, real estate, etc).

**Corporate Donations:** usually need a project that provides the corporation with community visibility of their support. Internet browsing or visits to large corporations may turn up funding that is yours for the asking. It just takes a little resourcefulness.

**Grants (Corporations/Foundation):** formal rules to submit applications are bureaucratic in the sense there are policies and procedures to ensure decisions are based on objective criteria.

Most grants are given to IRS designated 501(c)(3) nonprofits and not to 501(c)(19) veteran service organization nonprofits, like the American Legion Auxiliary.

**Fundraising via the Internet:** offers a magnitude of prospective customers or donors, depending on the activity. Departments can set up on-line auctions or simply offer a number of donated products directly through eBay. Those departments seeking donors for programs can promote said programs on their websites and offer a phone number for inquiries or set up on-line donations. In the event a phone number is used, someone familiar with the program in question must always be available to answer calls.

**Regulatory Issues:** approximately 45 states have some kind of regulation of fund raising groups, and around 40 require registration and the filing of financial reports. Departments submitting application to their respective states should include a mission statement and financial statement. Charges can run as high as \$250, depending upon the amount raised. Postal regulations require that any personalized appeals be sent first class.

#### Proper Asset Development & Fundraising

- Ensures the operation and programs of the national organization are adequately funded through diversification of funding sources and that requirements and assistance for departments are clearly defined
- Establishes gift acceptance policies and guidelines for the cost-effectiveness of fundraising efforts
- Ensures adequate staff and resources are allocated to conduct the development and fundraising plans
- Enthusiastically engages organizational leadership in participating in the fundraising and development plans

## AUDITS

Audits are a very crucial step in the process of sound financial management and, in the absence of a functioning Audit Committee, it is the responsibility of the finance committee to ensure that audits are performed on a timely basis. Audits should be performed annually (preferred quarterly), by an independent Certified Public Accountant, and submitted to the finance committee in the absence of a functioning Audit Committee, where they will be reviewed before presentation to the Department Executive Committee. The audit should consist of statements reflecting the financial status of the organization:

- ◇ statement of financial position (or balance sheet)
- ◇ statement of activities and changes in net assets (or income statement)
- ◇ statement of cash flows

The statements should:

- ◇ be straightforward, readily understood, and candid
- ◇ be concise
- ◇ report all activities of the organization
- ◇ be submitted on a timely basis
- ◇ provide notes to the financial statements and, where appropriate, supplementary information

The *statement of financial position* (or balance sheet) summarizes the assets, liabilities, and net assets of the organization. The balance sheet shows how liquid and solvent the organization is on a given date, and is essential Department Executive Committee information.

The *statement of activities* summarizes the income, expenses, and net assets of the organization over a period of time. The report should provide comparative information.

The finance committee, in the absence of an audit committee, may wish to engage the same audit firm for a period of several years, but should consider changing auditors from time to time to ensure growth, accuracy, relationship and service.

The auditor's report should include a management letter, the auditor's general narrative assessment of the organization's internal controls, accounting system, and related operational issues. The finance committee can formally review the management letter, discuss pros and cons, and make recommendation to the Department Executive Committee.

In addition to audits, the finance committee should verify that bank reconciliations are made each month. Many organizations have found themselves in trouble because bank reconciliations weren't performed for many months.

## **BUDGETING**

The first rule of developing a budget is that it must be linked to an overall strategic plan for the organization. The strategic plan is the goals and objectives for the organization the governing body has adopted. It sets the priorities for use of the organization's resources.

A budget is developed using a variety of data sources. Historical data from the previous fiscal years is a good tool to develop an initial set of numbers. Information on anticipated expenses from vendors, employee costs, rent, etc should be incorporated into the budget. Income projections should be cautiously optimistic. The budget needs to be balanced, which means total income equals total expenses. You cannot spend more than you take in unless you have reserves to take from.

Budgets should also be developed not on just an annual total but on a month-by-month plan. This will help determine projected cash flow and help anticipate any shortfalls. It will also assist when you review monthly financial statements of the budget plan to the actual expenses. When there are significant disparities this might lead to budget or strategic plan revisions during the administrative year.

Proper Budgeting Includes:

- An effective annual budget development processes
- Requires that the budget is linked to an overall strategic plan
- Requires that senior staff and volunteer leadership have adequate opportunity for input regarding budgeting needs in their areas of responsibility
- Projects cash flow necessary to reflect proper resource management based upon trends in income and expense over time
- Establishes guidelines for separation of operating and capital expenditures

- Ensures budget structure provides adequate cost center information and appropriate fund accountability
- Establishes reporting structure that includes staff and finance committee reports
- Presentation to the Department Executive Committee
- Regular monitoring and holding staff accountable for actual performance against budget

### **FUTURE PLANNING**

Finance Committees need to anticipate financial positions of the organization 3-5 years ahead. The committee should reflect on trends of the recent past and their implications for the current and future on financial planning for the organization. Long range strategic plans need financial plans and action to support priorities.

The development of proper operating reserves is part of that reflection for the future to ensure proper resources are available for the future operation of the organization. The recommended reserve is 2.5x the annual expense budget to ensure a temporary downturn in revenues can be overcome.

### **INVESTMENTS and ASSEST PROTECTION**

For those Departments that have funds invested the finance committee is responsible to ensure a sound investment policy is adopted detailing investment purpose, strategies and overall organizational financial goals. The committee may also hire a professional investment manager and then review the performance of the investment manager in light of organizational goals and investment policy.

#### Proper Asset Protection

- Ensures the organization's reputation is protected through sound internal financial controls that protect the assets against fraud and abuse and real or perceived improprieties
- Ensures the organization has adequate insurance coverage
- Ensures appropriate risk-management policies are adopted and implemented

### **TRANSPARENCY IN REPORTING**

Often the finance committee believes that they must keep the financial information confidential from the membership and provide only big picture information. That is not accurate. The members are the investors of the organization and have a legal right to know how their investments are being managed and what results are being realized.

The finance committee makes recommendations to the governing body and that body is responsible for the actual policy decisions. The DEC should receive clear, timely and accurate information regarding the financial status of the organization at each of their meetings and at additional times as deemed necessary.

In partnership with the staff, the committee ensures that all tax reporting is completed within appropriate time frames for federal, state and local jurisdictions.

### Proper Reporting

- Ensures that all tax reporting is completed within appropriate time frames for federal, state and local jurisdictions
- Provides departments and units with information appropriate to their level regarding their tax reporting requirements
- Ensures the DEC receives clear, timely and accurate information regarding the financial status of the organization at each of their meetings and at additional times as deemed necessary
- Ensures reporting is transparent and open to members and the public as required by law and sound business practices