

National Finance

2009-2010 Celebrating the 90th Anniversary of the Auxiliary
National President's Theme: Reconnect and Energize!

Plan of Action: National Finance Committee

Purpose: The National Finance Committee is charged with oversight of the general financial policy of the national organization, subject to the ratification of the National Executive Committee; and, preparation of the annual budget and supervision of the expenditures under that budget.

Committee Contact Information



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Setting Financial Goals

The national organization has adopted a strategic plan that includes financial goals. Strategic planning is an organization's process of defining its strategy, or direction, and making decisions on allocating its resources to pursue. Ideally, the plan should cover multiple years; include targets for expected accomplishments; and propose specific performance measures used to evaluate progress towards those targets.

Each Department should be replicating this process of defining its own set of goals through a strategic plan. For the finance committee defining your advice to the organization on how to acquire and spend resources must be tied to those goals. So at each of your finance meetings the strategic plan and progress toward those goals should be reviewed.

At a minimum the financial goals should include the benchmarks expected by the IRS and nonprofit watchdog organizations. There are three key expense benchmarks (total expenses divided into X):

- management and general administrative expenses target is 15%
 - fundraising expenses target is 10%
 - program expenses should be a minimum of 75%
- Together the administrative and fundraising expenses should not exceed 25-30%. Donors expect that the majority of the funds collected by a nonprofit organization to go towards supporting the mission of the organization through its programs.

On the revenue side setting targets is more difficult because there are no specific industry benchmarks other than to have a variety of revenue streams that reduce your dependence on any one source. Since the ALA is a membership organization we rely on member dues to cover our expenses. By bringing in other resources such as grants, donations, corporate sponsorships, special events and bequeaths we lower the dependence on dues alone and this assists with keeping dues at a reasonable amount.

The Department needs to measure where the Department is now and set goals in the strategic plan to get to the benchmarks for expenses and to diversify income streams. This is normally a multi-year project so members need to understand and be able to measure progress of the organization through reports of the finance committee.

Finance Committees often focus only on the current year budgeting process and neglect looking 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.

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 amount of reserves/savings to have is 2.5 times the annual budget of the organization. So an organization with a \$100,000 budget would try to maintain \$250,000 in reserves for emergencies and have a plan to replenish when withdrawals are made.

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National Strategic Plan - Financial Goal: Have a diverse income stream to support mission.

These are targeted income stream objectives to meet within five years that will enable the organization to recover if any one stream of revenue is lost or significantly reduced. Each one needs to be supported by an annual plan to move closer towards the five year goal.

1. **Objective:** Contribution income will = 25% of total

Action Steps

- a. Work with national chairmen on development plans for programs that are supported through donations of Departments.
- b. Work with staff to ensure individual donors are solicited annually.

2. **Objective:** Sponsorships income will = 5% of total

Action Steps

- a. Follow policy and support staff plans and activities to form financial partnerships.

3. **Objective:** Advertising income will = 10% of total

Action Steps

- a. Work with staff to expand advertiser opportunities.

4. **Objective:** Membership income will = 30% of total

Action Steps

- a. Work with staff and volunteers to develop a stronger recruitment and retention membership program.

5. **Objective:** Affinity Program & Misc income will = 15% of total

Action Steps

- a. Pursue opportunities for member benefit program that will also provide revenue.

6. **Objective:** Investment income will = 20% of total

Action Steps

- a. Work with investment consultants to ensure diversity of investments and conformity to policy.

7. **Objective:** Build collaborations with other community organizations and corporate entities.

Action Steps

- a. Provide incoming leadership with ideas and information to assist with decisions in developing annual budget.

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8. **Objective:** Ensure that the governing body receives clear, timely and accurate information regarding the financial status of the organization and that all tax reporting is completed within appropriate time frames for federal, state and local jurisdictions.

Action Steps

- a. Financial reports will be provided to the NEC each time they meet and additionally as necessary.
- b. Review required reporting documents with staff.

9. **Objective:** Establish an Audit committee to engage professional outside auditing firm to conduct annual audit, provide independent oversight of the organization's accounting and financial reporting and the annual audit, and oversee other areas such as governance, ethics, internal controls to include reporting accuracy, authorization of activities and expenditures, protection of employees raising concerns about accounting or auditing irregularities and review of tax-exempt status and identification of activities that could jeopardize such status

Action Steps

- a. Prepare Constitution and Bylaw change proposal for action by the national convention body to establish an Audit Committee.

Fundraising Techniques

Most nonprofit organizations use a variety of fundraising techniques and do not rely on just one or two. Diversifying income streams lessens the vulnerability if one should not be successful. Each Department should develop an annual fundraising campaign plan that encompasses several techniques.

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) that has local chapters in every state.

Major Gifts

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.

Direct Mail

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

Special Events

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.

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Grants (Corporations/Foundations)

The formal rules to submit grant applications are bureaucratic in the sense there are policies and processes to ensure decisions are based on objective criteria. Most grant are provided to IRS designated 501(c)(3) nonprofits. However, as a non-profit with IRS designation 501(c)(19) for veterans service organizations, the American Legion Auxiliary could qualify in some instances.

Corporate Sponsorships

Corporate sponsors typically prefer supporting a project or event that provides the corporation with community visibility.

Planned Giving

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).

Capital/Endowment Campaigns

Endowments are funds containing financial assets that are held permanently by a nonprofit organization and invested to generate income and capital appreciation for the benefit of the organization.

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.

Internal Revenue Service Filing Mandate

In 2008 fiscal year the Internal Revenue Service (IRS) began requiring small charities, many of which previously were not required to file tax returns, to submit an annual electronic notice. **This is a mandate for every Unit.**

The Form 990-N, entitled the *Electronic Notice for Tax-Exempt Organizations Not Required to File Form 990 or 990-E* (and also known as the e-Postcard) is required of charities whose annual gross receipts are \$25,000 or less.

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The Pension Protection Act also requires the IRS to *revoke the tax-exempt status of any organization that fails to meet its annual filing requirement for three consecutive years*. This requirement applies to small tax-exempt organizations and the e-Postcard. Visit www.irs.gov, and look under Charities and Non-profit menu.

Audits

The Finance Committee is responsible for hiring a professional outside auditing firm to conduct the annual audit. This responsibility transfers to the Audit Committee once this committee establishment is adopted by the convention body. This cannot be a staff or management function because 1) the auditor must provide the audited financials to the governing body and report on staff/management activities and 2) management needs to report on the auditor's activities. Consequently, the committee provides the official distinction as to who the auditor reports.

The committee reviews and accepts findings of the audit report with the audit firm and presents results to the governing body, DEC, for acceptance. This will probably require some education for the DEC so they can make informed decisions. Usually the auditor will provide a briefing to the governing body and give individuals an opportunity to ask questions as part of the auditing service fee.

Along with the audit, auditors furnish a management letter that provides information about opportunities to improve financial procedures. The committee ensures the audit recommendations are appropriately addressed and reported to the governing body.

Audit Committee

From an article by the National Council of Nonprofit Associations, www.ncna.org: "When the Sarbanes-Oxley Act was signed on July 30, 2002, significant changes to financial practices and governance regulations were introduced. Although not directly applicable to the nonprofit sector, these are some common sense applications that can be adopted by nonprofits.

Notably, the Act instructs corporations to establish an audit committee, a process for electing audit committee members, and a method for maintaining adequate reporting procedures. In addition, the Act calls for regulations relating to document destruction and whistle-blower protection.

While many organizations may already have a finance committee in place, it is important to remember that an audit committee has different responsibilities. While the finance committee reviews investment policies and monitors the funds of the organization on a regular basis, the audit committee provides independent oversight into the organization's accounting and financial reporting and oversees the organization's annual audits (both external and internal). The audit committee may oversee a broad range of areas under the blanket of this primary purpose. These areas include:

- Governance
- Ethics
- Adequacy of internal controls (i.e. review of accounting or fiscal operations manual).
- Compensatory reviews of executive level staff.
- Accuracy of records and reports presented to the board of directors.
- Proper authorization of activities and expenditures.

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- Review of the tax-exempt status and identification of activities that could jeopardize this status.
- Protection of employees raising concerns about serious accounting or auditing irregularities.”

Each department will need to evaluate their risk situation with their external auditor to determine if the department needs to establish an audit committee.

Resources

Association of Fundraising Professionals: This organization offers many resources to its members. Membership varies from \$25 to over \$100, depending upon locale but is well worth the investment. A visit to the website will provide further information. www.afpnet.org.

“*Fundraising Success*,” a periodical that contains success stories of a variety of fundraising ventures, advertisers’ services, ideas for connecting with the donor, and more. www.fundraisingsuccessmag.com.

“*Grassroots Fundraising Journal*” a bimonthly magazine with advice and strategies for small groups to raise funds. 3781 Broadway, Oakland, CA 94611, 888-458-8588 Fax 510-596-8822, www.grassrootsfundraising.org.

The following sites may provide information on donor file development: www.wealthengine.com and www.kintera.com.

Board Source www.boardsource.org is a general sight for nonprofit management.

National Council of Nonprofit Associations www.ncna.org State organizations for the nonprofit sector that often have workshops & other materials.

In Summary

In addition to overseeing the finances of the national organization, the National Finance Committee is here to assist departments. If you have questions or comments, please call or email the national chairman or national treasurer.