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## RESOLUTION PROPOSAL

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**DATE:** October 12, 2009

**SUBJECT:** Amend PM 4.02A Financial Management: Financial Management Policy, 4.02D Financial Management: Cash Receipts, 15.06 Special Policies: Donations to LMOA, 15.12 Special Policies: Donations by LMOA to define the process for fund raising donations

**SPONSOR:** Mike Harrison, Treasurer

### BACKGROUND INFORMATION:

#### **Introduction**

~~At the July Board Meeting, I took an action to resolve how to handle fund raising for the Golf Course, Fishing Pier, and possible other celebrations like July 4 and Octoberfest. In looking at how to handle the funding, I reviewed previous audit problems with a golf account held by the golf committee and the difficulties of maintaining traceability of the funds in an audit. While the following is not yet ready for a first reading, because it changes several different policies, I have laid out language changes where I could. I request your review and an open discussion of the concept and approach at the August Meeting, followed by having Meg Gore modify the policies for a first reading in September and completion in October with approval of the changes. This is fast by LMOA standards, but I do not want to lose any momentum amongst the Golf Committee and the ad-hoc Fishing Pier Working Group.~~

~~After Board and staff comment, it is off to Frank Buck and our Auditor for review, prior to the second reading.~~

#### **Background**

~~The current LMOA policies do not adequately handle fund raising activities outside of the LMOA budget. Because of budget restraints, several groups including the Community Fishing Pier Working Group and the Golf Committee have proposed making donations to LMOA for projects that otherwise would not be funded. Members have also expressed an interest in supporting events such as July 4 and Octoberfest through donations.~~

~~Association policies must be modified for LMOA to take advantage of these offers of financial support. The following analysis discusses the issues that must be addressed in developing a fund raising system and proposes policy changes needed to implement the system.~~

Through discussion with board members and Kym Sampsell, several issues were identified:

- We need to assure that the donors understand that the donation is not tax

- deductible.
- To avoid tax problems and the cost of establishing a 501.3c organization, funds need to be deposited in an LMOA account.
- Staff does not want the burden of having to handle a wide range of donations and the workload associated with making the deposits and donor-level record keeping.
- There needs to be transparency between the fund raising, tracking donations, and identifying these donations to the members, the Board, and ~~our~~ **the LMOA** auditor.
- Assuming that the fund raising is successful, how are the funds handled to pay for materials, capital improvements, services, etc.?
- What if the fund raising does not raise enough to meet the target for the activity?
- How are donations handled in the budget?
- How are they handled in accounting?
- What traceability exists?

### Approach

The Board of Directors must approve ~~any~~ **each** donation **from** fund raising. This is because in many cases, LMOA must absorb new depreciation (in the case of equipment donations) or operations, maintenance and/or subsequent replacement if the expenses are for a capital asset. In that approval, there are four things that must be approved:

- The concept and purpose of the activity
- The targeted level of funding that must be attained
- The targeted date of completion of the fund raising
- The proposed expensing strategy for the funding

The first relates to our policy on solicitation, the second is to identify the magnitude of the activity and the third is its duration. For a prolonged effort, the funds may best be aggregated in an investment account as opposed to a simple savings account.

The proposed expensing strategy relates to whether the Board believes that the donation will lead to a solicitation and management of work by LMOA, self-help by the group with purchase of materials and services by LMOA, or any combination of the activity. For small items (say buying bluebird boxes) LMOA can use purchase orders. In any case, the expensing strategy is documented up front at time of approval.

### Not Tax Deductible

This statement is a condition of approval of fund raising and is reflected in LMOA policies as amended.

### An LMOA Account

The only way that an account can be established is with an LMOA action and LMOA's tax number. This means that all statements flow to the Administrative Office, along with deposit receipts. These **Donation Savings** Accounts would be established locally to promote community and make it easier to deliver deposits.

For longer-term fund raising (years) it may be beneficial to establish an investment account through the Investment Committee, with checks being written from the Donation Savings Account to the investment firm.

**Staff Burden**

The LMOA By-laws (Section 6.11) provide for the appointment of Assistant Treasurers by the Board. It is proposed that an Assistant Treasurer be appointed for each Donation fundraising activity. This Assistant Treasurer has the following duties:

- Record names, addresses and amount of donations
- Make deposits in the established named Donation Savings Account (e.g., LMOA Social and Recreation Fund)
- Deliver deposit slips to the Administrative Office
- Retain Donor list
- Report the status of fund raising to the sponsoring group
- Support audit activities
- Provide the LMOA Treasurer with the balance of the account on the 15<sup>th</sup> of each month to be reported at the monthly LMOA Board Meeting

**Transparency**

The following measures are proposed:

- A separate bank account with an identifying name for each approved fund raising activity
- An LMOA accounting line item with sub-items tied to the activity that carry donations as income
- Audit matches between the bank (or investment account) and the LMOA account line item
- These donations are outside of the budget process and are used for unbudgeted items so there is no traceability within the budget
- The Profit and Loss Statement would show as a note, the accounts and savings levels that total to the accrued donations

**Controls**

- The designated Assistant Treasurer does not have authority to withdraw funds from the Donation Savings Account.
- The Assistant Treasurer delivers to the Administrative Office, by the next business day after the deposit, a copy of the deposit.
- On a monthly basis, the Administrative Office receives the bank statement and reconciles the deposit slips.
- The General Manager **and** the LMOA Treasurer can make withdrawals and write checks against the Donation Account. Dual signature is required to transfer funds.
- The LMOA Treasurer reports the status and balance of each Donations Account at each monthly Board Meeting for the benefit of members.
- The Account is closed when the funding level is reached and funds dispersed.

**Handling Dispersals**

At the end of fund raising, it is assumed that LMOA would contract for materials (for self-help projects), construction, or services (e.g., buying fireworks or Octoberfest concessionaires). An actual check would be issued from the Donation Savings Account (or investment account) and entered into the proper category for the LMOA activity. This physical transfer helps with transparency and, if over \$10,000, requires a vote of the

Board for the acquisition. Small items can be handled either through a purchase order or by issuing a reimbursement check to the sponsors for items purchased (e.g., up front costs for a fund raiser).

### **Missing the Fund Raising Target**

The reason the Board approves an amount and a time frame is that there is no end without it. The sponsoring group must meet the necessary amount because the activity is not budgeted (note exception below). If it is clear that the target will not be met or time is running out, the sponsoring group shall come back to the Board with either a fund raising time extension, or recommendations of how the collected funds should be used for other purposes. Funds are not returned to the donors. The Board may decide to extend the period of fund raising, accept the recommendation on funding other purposes (e.g., a donation to the Swim Team or Beautification Corps). The board may recommend alternatives to the sponsoring group. But after deliberation and by vote of the Board, the funds shall be donated to another cause or transferred to a reserve fund (donations are external to LMOA, reserve funds are internal). Because this may be unfavorable to the contributors, the sponsoring group will have at least a month to seek agreement.

There is a case where the fund raising is close to the target and LMOA finds a way to make up the difference out of budgeted funds. This is the exception and should be limited to no more that 10% of the target and may even require member vote depending on the nature of the project.

### **Handling Donations in the Budget**

Fund raising for projects are outside of the budget, but are accounted for as revenue in the LMOA accounting activity if [Mike – if I thought there wasn't an option – all funds must be in LMOA accounts.] funds are being accumulated in an LMOA account. For donations from individual members, accounting will list the amount (or equipment value) as a donation in the budget.

Budget preparation shall not consider the Donation Savings Account as an offset for regular budget priorities or count on the donation to supplement the budget.

The Investment Committee shall consider the Donation Savings Investment Account [Mike this name has not been used before. Is it 'For longer-term fund raising (years) it may be beneficial to establish an investment account through the Investment Committee, with checks being written from the Donation Savings Account to the investment firm' mentioned under An LMOA Account above? Can it be identified as the Donation Savings Investment Account under that heading? Since there are two types of donations accounts, should the name 'Donation Account' be avoided?] .as a restricted reserve.

### **Handling Donations in Accounting**

One-time or similar member donations are handled as donations and listed as such under income consistent with PM 15.12. For fund raising, deposits are treated as revenue, with a defined line in the budget for the aggregate of all such accounts and sub-lines that break out the account names (e.g., fishing pier, golf, etc.)

### **Audit Traceability**

- Board approves scope of fund raising, amount, timeframe and expensing strategy

- LMOA establishes the accounts
- LMOA Treasurer recommends and Board approves the Assistant Treasurer
- Assistant Treasurer keeps records of donors
- Deposit slips provided to the Administrative Office
- Bank statements go to the Administrative Office for reconciliation
- Audit Committee will audit procedures used
- Assistant Treasurer cannot be a member of a committee involved in the action
- Assistant Treasurer cannot make withdrawals
- Administrative Office establishes a line item for Donation Savings Accounts [~~and Donation Savings Investment Account?~~] and sub-lines that identify the activity
- Two signatures required (GM and Treasurer) **for** transferring funds out of the accounts against the purpose of the account
- Failure to raise sufficient funds for donation has Board procedures defined for ending the activity and dispersing any funds

There may be other concerns after review and this ~~paper~~ **proposal** will be updated. ~~What follows~~ **Attached** are proposed changes to existing policy. Please ~~plan on~~ identifying additional issues before the ~~August~~ **Second Reading at the November 19, 2009** Board Meeting. **The final approved system and policies must be approved by the LMOA attorney and auditor.**

**STAFF RECOMMENDATION:**

**PROPOSED FINANCIAL IMPACT:** To be determined

**PROPOSED SOURCE OF FUNDING:** NA

**STRATEGIC PLAN REFERENCE:**

May be used to support any of the Strategic Plan Goals

**POSSIBLE MOTION:**

(First Reading)

**PERSON RESPONSIBLE FOR FOLLOW UP:** General Manager