
RESOLUTION PROPOSAL

DATE: November 19, 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:

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 Oktoberfest 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 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 each donation campaign for 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 five 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 out year cost burden on the Association, including maintenance, operational support, depreciation, estimated service life and replacement cost

The first relates to our policy on solicitation, the second is to identify the magnitude of the activity and the third is its duration. Out year implications must be estimated prior to approval. For a prolonged effort, the funds may best be first pledged, then collected and 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 activities. 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

LMOA staff must establish banking or investment accounts, receive donations from the sponsoring group, and make deposits.

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
- The LMOA Treasurer with the balance of the account on the 15th of each month to be reported at the monthly LMOA Board Meeting

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 may need to be 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 returned, donated to another related cause or transferred to a reserve fund. Because this may be unfavorable to the contributors, the sponsoring group will have at least a month to seek agreement from its donors.

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 than 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 and 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.

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 staff receives and deposits donation funds from sponsors
- Audit Committee will audit procedures used
- Administrative Office establishes a line item for Donation Savings Accounts 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

STAFF RECOMMENDATION:

PROPOSED FINANCIAL IMPACT: Staff burden to receive and deposit funds solicited by sponsoring members.

PROPOSED SOURCE OF FUNDING: NA

STRATEGIC PLAN REFERENCE:

May be used to support any of the Strategic Plan Goals

POSSIBLE MOTION:

Move that the Board of Directors approve modifications to PM 04.02A to establish donation accounts, PM 04.02D managing cash receipts, PM 15.06, Donations to LMOA, and PM 15.12 Donations to LMOA so as to clarify policies on donations and enable sponsor led fundraising activities as presented in the November 19, 2009 Board packet.

PERSON RESPONSIBLE FOR FOLLOW UP: General Manager

Summary of changes between First Reading and Second Reading

PM 4.02A None

PM 4.02D III. Donation Accounts

A.

2. ~~The Treasurer for LMOA shall recommend to the Board an Assistant Treasurer to handle collections~~ **sponsors of the request must identify the continuing maintenance, depreciation and deposit of funds. The Assistant Treasurer may be nominated by a committee, but cannot be a member.** ~~serviceable life of any LMOA committee~~ **the proposed improvement at the time of requesting approval by the Board of Directors.**
3. **The sponsors soliciting donations must do so using their own resources.**
4. **All donors shall be identified for amounts over \$10.00 retaining their names, address, e-mail address and phone number. This is in case the fundraising goal is not met and donations must be returned to the donors.**
5. An interest-bearing account (savings or investment) in the name of LMOA and carrying an identifying name on the account shall be established for each fund raising activity approved by the Board of Directors. The account shall use the LMOA tax number and be established for the purpose of depositing funds received. ~~The appointed Assistant Treasurer or the LMOA Treasurer shall make the deposits. Investment of funds in donation accounts shall be in compliance with [ref:] PM 4.02Q, Investment Policy.~~
4. ~~The Assistant Treasurer does not have the authority to withdraw funds or issue checks against the account.~~
5. ~~The General Manager and the LMOA Treasurer shall have joint control over withdrawing funds from the account(s) and applying these funds for the purpose intended.~~
6. ~~Deposit receipts~~ **Deposits** shall be submitted to the Administrative Office ~~at the next business day and bank statements shall be addressed to the Administrative Office to verify the account balances~~ **for deposit in the LMOA account by the sponsors.**

- B. In the event that the funding goal cannot be attained in the time planned and as approved by the Board of Directors, the sponsors of the fund raising shall return to the Board with either a proposed time extension for raising funds, **return of the funds to the donors**, or an alternative for use of the funds ~~by the Board~~. The Board shall consider the recommendation and vote to **extend the fundraising period, return the donations**, transfer the funds

to a related purpose, or, at its discretion, identify another area where the funds can be applied.

IV. RESPONSIBILITIES

The General Manager and ~~bookkeeper~~ **Director of Business Management** are to see that this policy is implemented as written and approved.

PM 15.06

III. RESPONSIBILITIES

The General Manager and ~~bookkeeper~~ **Director of Business Management** are to see that this policy is implemented as written and approved.

PM 15.12

None