

Finance Fundamentals

Lesson Objective: Demonstrate a working knowledge of the finance system used by CAP at the squadron level in order to confidently and competently assume the duties of squadron commander.

Desired Learning Outcomes (DLO):

1. Describe the squadron budgeting process.
2. Explain the composition and role of the squadron finance committee.
3. Explain how to use the wing banker system and the required financial forms associated with running a CAP squadron.

Scheduled Lesson Time: 50 minutes

Introduction

In part because the Civil Air Patrol is part of the Total Force, we are not only funded by the taxpayers, we are accountable to them. Financial irregularities are one of the top reasons for removal of a commander. The previous finance system used by CAP had several accounting flaws that threatened to disband CAP. Before Wing Banker was put in place, CAP was at best able to receive a “modified” annual audit. What this means is the auditors hedged their answers because units below wing level were not fully audited. A “modified” report is interpreted to mean the institution is potentially less trustworthy than another one where everything is available to be audited. The system we have today (Wing Banker) has: greatly simplified things at the squadron level by decreasing the annual burden on the squadron members at reporting time; made financial auditing more transparent for the taxpayer; and allowed CAP to receive unmodified audits. This lesson will teach you how simple things really can be.

1. The squadron budgeting process.

Simply put, budgeting is math for your money. Planning for how much money you expect to have and how you expect to use it requires some basic information and reasonably accurate assumptions. If you realize your expenditures will exceed your funds, your expenditures will need to be limited, your income will need to increase, or some combination of the two will need to happen. There are some limitations on the ways you can get money for your squadron, but with the appropriate effort your squadron will be successful using various forms of fundraising, grants and donations. In addition, Wing Banker was put into place to simplify your record keeping and reporting requirements, and will help ensure you don't get yourself into a financial hole.

Simple budgeting

To begin the budgeting process, you will need to meet with your finance committee to assess your requirements, needs, and wants as well as your ability to pay for them. If you have no expenses, no plans to spend any money, and no money in the bank, you don't need a finance committee. Your budget is a simple page filled with zeros. If you have expenses (mailbox, website, meeting place, utilities, hangar rent, etc), you will need to itemize them and plan to pay for them. (This should sound very familiar to what you already have to do at home.) You will need to submit a balanced budget every year to your wing director of finance. Your wing may

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require a specific format for the budget to be submitted. If your wing does not have a specific format, the concept is simple:

List all of your projected expenses (individually).

List all of your projected income (individually).

Subtract your expenses from your income: the result should be zero, or positive. If you are expecting a loss, you have to change your plans. Either raise the funds or decrease your expenses. Do not merely change the numbers (i.e. "pencil-whip" the budget): it's sloppy and you open yourself up to making even more serious mistakes. Every quarter, during the finance committee meeting, you all need to reassess the budget to ensure it still meets CAP requirements and the needs of your squadron.

If you need more money to accomplish your goals, you will need to find ways to get it that meet the requirements of CAPR 173-4, *Fundraising/Donations*. Before you begin any fundraising, you must have your wing commander's approval in writing. Because you will only get that approval if you meet all of the requirements of CAPR 173-4, you should spend some time getting to know the finer details of this particular regulation. Some of the quick points are:

- *No suggestions or inference be made in any CAP fundraising program that the Air Force is involved or would benefit. Only cadets can wear military style uniforms for fundraising: seniors will wear a corporate uniform.
- *Limited to solicitations within the respective wing.
- *Some states require registration with the state (WG CC responsibility, but check with the WG director of finance to be sure).
- *Donation Receipt, must be executed for all donations of \$250 or more where no goods or services are provided to the donor and all donations of \$75 or more where goods or services are provided to the donor. For donations up to \$5,000 a unit commander can issue the receipt. Over \$5,000 commanders must notify the wing financial officer, the CAP Chief Financial Officer and CAP Development within 30 days of the donation or bequest.
- *Units should make sure that fund raising activities do not violate local laws or ordinances.

Acceptable options for donations, grants, and activities:

- *Combined Federal Campaign (CFC)
- *United Way Campaigns
- *Foundations/Corporation Grants
- *Wreaths Across America
- *Raffles or ticket sales for drawings of merchandise if permitted by local law (Be aware that there might also be IRS tax consequences depending on the value of the prize).
- *Operation of concession booths at air shows, state fairs or other type of activities.
- *Car or aircraft washes.

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- *Rummage sales and bake sales.
- *Collecting and selling recyclable items such as paper, bottles, cans, etc.
- *Sale of advertising space in CAP unit newspapers, also sale of bumper stickers.
- *Sale of Christmas items such as trees and Christmas cards.
- *Booster Clubs

There are several restrictions: check CAPR 173-4 for details

PROHIBITED activities:

- *No CAP unit will sponsor or co-sponsor any air show or participate in any flying activities in any air show.
- *No Use of fund raising promoters who charge a percentage of the proceeds.
- *No Penny a Pound airplane rides.
- *No dropping objects from aircraft or spot landing contests.
- *No personal pecuniary (financial) gain.
- *No sale of alcoholic beverages.
- *No gambling (or gaming).

Now that you know about budgeting, you need to decide who will be on your team to help you through the process. The Finance Committee is your biggest ally in this process: choose them wisely.

2. Composition and role of the squadron finance committee.

CAP Regulation (CAPR) 173-1, *Financial Procedures and Accounting*, lists the required members of the finance committees below wing level: "This committee will be composed of the unit commander as the chairperson, the finance officer, and at least one other senior member." If the unit has no funds, the wing commander may grant an exception to the requirement of that unit having a finance committee. The exception ends when money is part of that unit. Once a member is assigned to the committee, the only way to involuntarily remove the member is with approval from higher HQ.

If you are the commander of a small squadron with limited financial & personnel resources, the minimal staffing of 3 people should suffice. If your squadron is a bit larger and/or has more resources, you should consider adding more people to the finance committee. (Keep the number of people on the committee odd so that a majority vote is practically assured every time.) Remember, a commander cannot appoint an immediate family or household member to the Finance Committee.

There is some debate over who the others should be:

- The biggest spender.
- Those who spend the least.
- People with outside accounting experience.

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- People with spending authority.
- People who cannot authorize spending.
- Representatives of the flights/"groups"/"interests" you have in your squadron
 - i.e. a member representing the seniors, cadets, air teams, ground teams, etc

Each choice has benefits, and personalities do enter into the decision process. Every squadron will have its own mix of these needs and personalities, and to keep things interesting, the mix may change over time. You should consider these factors when you put your team together.

As the squadron commander, you will need guidance from your group and/or wing commander for what is expected of your unit. This will impact your training and education needs to some degree. You will also have to decide who will represent your peoples' interests when it comes to using your financial assets. The easy way out is to not make or spend any money at all. This style of non-leadership unfortunately and all-too-frequently frequently leads to stagnation and member boredom. If you make your goals big enough, realistic enough, attainable, and get buy-in from your members, your squadron will almost certainly grow because your members will be having a lot of fun and training - which is the reason they joined CAP in the first place. That will show and enthusiasm is contagious. Financial leadership is one of your keys to success.

There is a theory that you should turn over a portion of the members on the finance committee every year: that way there is transparency and professional development for members. If you take this approach, make the term long enough to use their hard earned experience: the first year or two is just getting used to the system. Consider keeping people on the committee for at least three years and put the "ex-officio" (non-required) members on overlapping terms (their terms expire in different years) so you don't lose all of your expertise at once.

The finance committee members you choose will be listed on the CAPF 172, *Consolidated Finance Authorizations*, you send in to WG. When the unit receives a new commander, and by 1 October each year, a new CAPF 172 has to be signed and sent in to WG.

IAW CAPR 173-1, the finance committee will:

1. Maintain an adequate system of internal accounting controls over all funds in accordance with generally accepted accounting principles.
2. Conduct fundraising activities only in accordance with CAPR 173-4 and then, only if approved by the wing commander.
3. Approve in writing or via e-mail all unit expense transactions in excess of \$500, unless the expenditure is a recurring expense already approved in writing. Batched checks over \$500 do not require pre-approval as long as the individual expenses were approved and are each under \$500.
4. Not overspend their cash balance.
5. Retain documents which may not have been sent to wing, such as finance committee minutes. (Units are not required to maintain copies of financial documents which have been sent to the wing.)
6. Complete CAPF 172 establishing a monthly recurring expense policy with limits on the expense amount.

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7. Meet at least quarterly and maintain a record of all finance committee meetings and approvals.
8. Develop and approve an annual budget as a forecasting tool. The budget must be sent to the wing director of finance by 1 October each year. The unit must review their budget quarterly. Review of the budget should be noted in the minutes of the Finance Committee. If the unit determines there are no changes to the budget, the unit should note the review of the budget in their finance committee meeting minutes.

Budgeting needs to be done properly to keep your unit functioning and to keep you out of jail. Your finance committee is the way to make that happen. Put the right people in the job, and let them do it properly for you.

3. Wing banker and keeping track of it all.

The Wing Banker system is essentially a checking account for your squadron. You send your deposits to the person designated by the WG CC (this will usually be either the wing administrator or the wing director of finance), and you ask that designee to cut and send out any needed checks. CAPF 173-4 and CAPF 173 (WG specific) is used to list checks that are to be deposited in Wing Banker or written and sent for paying debts. Some wings may use their own version or may have one version set up for deposits and another version set up for requesting the check to be sent.

As mentioned above, you will have to complete and submit a CAPF 172 annually. The CAPF 172 is the *Consolidated Finance Authorization* form. This is the form a commander uses to not only let the wing commander know who is on the finance committee, but also who in the unit has what specific authorization to obligate the unit to pay for what specific expense(s), or if there is a recurring expense (i.e. hangar rent). Some unit commanders will have no need to delegate this authority because the unit has no asset (i.e. a CAP Van) or recurring expenses.

Lesson Summary and Closure

Finances can be as simple or complex as we choose to make them. Keeping things simple makes everyone's life easier and less stressful. Simplicity also enables us to focus on the fun, educational, and emergency services things that enticed us to join CAP in the first place. CAP uses balanced budgets, finance committees, and the Wing Banker system to accomplish all of this. Ensuring that your financial responsibilities are properly met is relatively fast and easy if done properly.