BOARD RESPONSIBILITIES

Serving on the Board of Directors is a rewarding and important responsibility. This guide informs volunteer leaders of the unique aspects associated with governing a not-for-profit organization.

"The board governs ...
... the staff manages."

Leadership: Volunteer leaders are responsible for the <u>direction</u> of the organization. The board governs, develops policy and sets a course for the future. Maintain focus on the mission and strategic goals --- avoid micro-managing the organization and staff. Functions (4):

- Governance
- Policy & Position Development
- Visionary – Future Focus
- Fiduciary

Management: Paid staff and subcontractors are responsible for the <u>administration</u> of the organization. Staff act as partners to the board, advancing the goals and strategies, while taking care of the daily administrative needs unique to nonprofit organizations.

Unique Terminology

Not-for-Profit refers to the legal corporate status of the organization. (It does not imply an exemption from paying or collecting *state sales tax*.) **Nonprofit** is the casual reference to Not-for-Profit

Exempt Organization is a reference to the IRS designation exempting the organization from paying most federal income tax (with exception of Unrelated Business Income Tax "UBIT.")

IRS 501(c)(3) tax-exempt designation most often refers to organizations with a religious, charitable, scientific or educational purpose.

IRS 501(c)(6) tax-exempt designation refers to trade associations, business leagues and professional societies.

RCH CAE
RobertCHarris,CAE

Board Responsibilities

1. Determine and advance the organization's mission and purposes.
2. Select the chief paid executive *(not staff)* as well as CPA and attorney.
3. Support the chief executive and assess performance periodically – usually measured against the strategic plan.
4. Ensure effective organizational planning.
5. Ensure adequate resources (funds, time, volunteers, staff, technology, etc.)
6. Resource and financial oversight.
7. Determine, monitor and enhance programs and services.
8. Promote the organization's image.
9. Ensure legal and ethical integrity and maintain accountability.
10. Recruit and orient new board members, and assess board performance.

(Adapted from <u>Ten Responsibilities of Nonprofit Boards</u> www.BoardSource.org.)

Issues Facing Boards

1. Member Value, R.O.I., WIIFM
2. Technology Usage/Delivery
3. Scrutiny and Compliance
4. Competition
5. Relevance to Stakeholders/Members
6. New Revenue Sources
7. Diversity, Inclusivity
8. Generational Differences
9. Workforce
10. Leadership Development
11. Governance, Ethics, Values
12. Consolidation, Mergers
13. Image, Branding, Positioning
14. Favorable Member Experiences

What trends and challenges face your organization?

Insurance and Volunteer Immunity

State and federal governments have afforded certain protection to volunteer leaders. While the volunteer may have some protection, the organization is still open for legal suits. Insurance coverages add further protection for volunteers and organization.

Directors and Officers (D&O) Liability may cover legal defense for employment, copyright, and antitrust claims, for instance.

General Liability insurance covers property damages and injuries relating to the organization.

Fidelity Bond covers losses resulting from fraudulent or dishonest acts committed by an employee.

Meeting Cancellation covers the loss of revenue due to a cancellation, curtailment, postponement because of weather, strikes, etc.

(Contact legal and insurance counselors for assistance.)

Legal Principles

Duty of Care requires leaders to use reasonable care and good judgement in making their decisions on behalf of the interests of the organization.

Duty of Loyalty requires leaders to be faithful to the organization, avoiding conflicts of interest.

Duty of Obedience requires leaders to comply with governing documents (i.e. bylaws, articles of inc., policies, etc.)

Board Tools

The operating documents of the organization are available to leaders.

- Bylaws
- Articles of Incorporation
- Financial Statement (recent)
- Minutes (recent)
- Policy Manual
- Strategic Plan
- Organizational Charts

Treat information with ***<u>confidentiality</u>*** to protect goals, budget and intellectual property. *("Knowledge is power.")*

#1 lie --- "You won't have to do anything when you get on the board!"

Rules of Order

Agenda is used to ensure that important business is covered.

Motions are proposals for action, beginning with the words, "I move we ……".

A Second is required for the motion to be discussed.

Amendments may be made to most motions if they improve the intent or clarify the original motion.

Tabling lays the motion aside.

Calling the Question refers to ending the discussion and voting on the motion.

Minutes protect the organization by recording the time and location of the meeting, participants, and the outcome of the motions. They are not a place to record conversations, assignments, reports, etc. (Including reports and discussions can incriminate.)

Voting is the official action after discussion to adopt, amend, kill or table the motion.

Quorum is a majority of directors or the required number as set in the bylaws in order to conduct business.

Recommended: *"ABC's of Parliamentary Procedure" 800-477-4776*

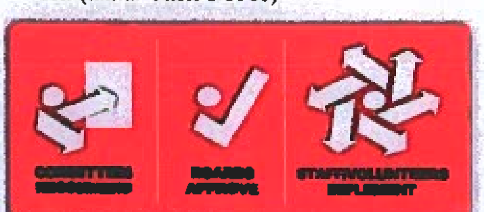
Committees

<u>Committees recommend> board approves > staff and volunteers implement.</u>

Organizations are streamlining - eliminating all but essential committees by aligning them with the major goals.

Standing - identified in the bylaws, appointed annually, on-going committee work.

Ad Hoc - formed for specific or immediate needs and disbanded upon completion of the work (a.k.a. **Task Force**)



Common Sense

- It's a **team**; the board or committee is stronger than any individual.
- Respect the chairperson.
- Bring a calendar to meetings.
- Wear a watch; arrive on time.
- Prepare for meetings.
- Bring needed files, paper and pen.
- Stick to the agenda.
- Listen more than you speak.
- Speak when you have an essential point.
- Respect the rules of order.
- Leave personal and political agendas at the door.
- *Actions of the board belong to the board – support them - don't bad-mouth any action or person.*

"Eighty percent of success is showing up!" Woody Allen

Strategic Planning

"Strategic Governance" focuses the board on mission and goals. A strategic plan serves as a roadmap and framework. [A good board member can *"think past their term and beyond their experience."*]

Environmental Scan – conducted to determine external and internal influences on the organization, as well as strengths, weaknesses, opportunities and threats *(SWOT)*.

Mission - statement about what the organization is; whom it serves; and the services it provides; short with PR value.

Vision – Long-term desired outcome; what the organization will be in the distant future.

Goals - broad aims of the organization to advance the mission. Usually limited to 4 to 7 so as not to tax resources, volunteers, staff.

S.M.A.R.T. Goals – Specific, Measurable, Attainable, Realistic, Timely.

Strategies - fit under the goals as ways to achieve them. The steps necessary to advance the mission and goals.

Action Steps - fit within the strategies and identify the measurable actions to achieve the strategies and goals.

Plan Champion - the person (staff and/or volunteer) who keeps focus on the plan.

Board Risks

Protect the organization. The board should be aware of fiduciary responsibility, contracts, audit results, insurance, IRS requirements, values and ethics, apparent authority, antitrust, etc.

Public Records requests for the organization's annual federal tax return (Form 990, 990-EZ) must be made available for the last three years. Significant fines occur for noncompliance.

Antitrust Violations occur when two or more persons from the same industry or profession discuss suppliers, processes, prices or operations. Remove yourself from any conversation that would change how business is conducted because of a joint-agreement among competitors.

Apparent Authority arises when a board chair, though not granting actual authority, permits a committee or chapter to behave as if it had authority. Authority rests with the chairman and may not be assumed by any other agent of the organization.

Financial Audits annually to protect board and staff. Appoint an audit committee.

Give it Your Personal Best by...

- ***Adding Value***
- ***Making a Difference***
- ***Protecting the Organization***
- ***Having Fun!***

Board Responsibilities Guide-Laminated
$12 each/ $9 bulk
Bob Harris, CAE
Bob@RCHCAE.com
Phone 850/570-6000
www.nonprofitcenter.com
335 Beard St., Tallahassee, FL 32303

<u>Publications and Seminars</u>
Association Self-Auditing Process-$39
Building an Association Mgmt Co.- $39
How to Write a Policy Manual - $39
The Perfect Board by Cal Clemons -$18

- Strategic Planning
- Governance and Operating Audits
- Board of Directors Orientation
- Staff Training
- Training Seminars/Coaching

4-06 © RCH

Distinctions in the Role of the Chief Elected Officer and the Directors

While it is intended that every director at the board table has an *equal vote*, the chief elected officer (chairman of the board or elected president) has broader concerns and duties than individual directors.

Board	President's Concern	Director's Concern
1. Determine and Advance the Organization's Mission A mission statement should articulate the organization's purpose for existence and the stakeholders it serves. It is the board's responsibility to create the mission statement and review it periodically for validity.	The president's role is to ensure the mission is advanced. The mission should influence every activity, discussion and assignment. The president will reference it often, including it in messages and on agendas, so that others realize its importance to the organization and the community served.	A director's role is to understand the mission and to articulate it. The mission should serve as a framework for board meeting discussions.
2. Select the Executive Director[1] Boards must reach consensus on the need for and job description of the executive director. The board undertakes a careful search process to find the most qualified individual for the position.	The president's concern is to fill the position promptly. The selection process must be thorough and fair. The president will appoint a committee and to oversee the process which can impact the association's success or failure for many years.	If the executive director's position should become vacant, it will be a board responsibility to search for and fill the position. Directors may be asked to serve on a search committee; with the board having final say in the selection process.
3. Support the Executive Director and Assess Performance The board should ensure that the executive director has their support. The executive director, in partnership with the entire board, should decide how and when performance evaluations are conducted. Other performance measures may include monitoring	The president is ultimately responsible for assessing the executive directors' performance, and most often selects a subgroup of the board to assess performance. The president will ensure the integrity and confidentiality of the process and lead the conversation about findings and improvements.	A group of board members or the whole board may be asked to evaluate performance of the executive director. A prescribed form to measure the duties will be provided. While the process can take various forms or meetings, it is important to maintain the confidentiality about personnel issues.

[1]The Executive Director is the position of chief paid officer, executive officer, executive vice president or paid administrator.

Board	President's Concern	Director's Concern
the budget, evaluating the board and agreeing on metrics.		
4. Conduct Organizational Planning As stewards of an organization, boards must participate in an overall planning process and assist in implementing the organization's goals.	The president, with the help of the executive director, ensures that the planning process is organized to achieve the desired results. The president will help to determine who should be included in the planning meeting (a.k.a. retreat), for example the entire board, committee chairs, staff, etc., when and where it will occur, and if a facilitator will be needed.	The board is responsible for setting a direction for the organization, often for three to five years --- in the form of a *strategic plan.* Directors will be asked to attend a retreat at the time the plan needs review or development. Every director should be familiar with the elements of the plan and be able to articulate its goals or priorities.
5. Build and Maintain Resources One of the board's foremost responsibilities is to provide adequate resources for the organization to fulfill its mission. The board should work in partnership with the executive officer to assist in developing the annual budget and ensure that proper financial controls are in place. This is important in order to remain accountable to members.	The president has overall responsibility for understanding and safeguarding the organizations resources. Working with the executive director and officers, he or she should be fully aware of all resources. Member and stakeholders have expectations that resources will be safeguarded and used to benefit the members through programs and services.	Directors have access to information to determine if the organization has adequate resources. Resources can take many forms, including workforce (staff, consultants, volunteers, committees), finances (revenue, savings), technology (hardware and software.) By comparing the plan of work described in a strategic plan, directors should consider the available resources or what resources may be spent if new projects are undertaken. Resources can also take the form of committees, of which directors may be asked to chair, serve or be a liaison. Directors may be asked to solicit funds in the forms of membership, advertising and sponsorships.

Board	President's Concern	Director's Concern
6. Resource Management The board must safeguard its tax-exempt status and resources at all times. Stakeholders may notice excess spending, mismanagement or loss of resources. Be sure financial controls exist.	While the president may rely on consultants (legal, accounting, insurance) and committees, in the end he or she is responsible for the organization. An understanding of safeguards such as insurance, audits and filing requirements is important to verify that resources are managed.	Directors monitor the organization's resources. A director should readily ask questions about resources to fully understand their extent and the mechanisms in place to protect them. For example, is a budget adopted and reported upon? Does an independent financial audit occur?
7. Determine, Monitor and Strengthen Programs and Services The board's role is to determine which programs are the most consistent with an organization's mission, and to monitor their effectiveness.	The president ensures that the mission is carried out through programs and services. While not a direct responsibility to develop or oversee programs, it is vital to affirm that existing and new programs add value and support the mission statement.	Development and delivery of programs and services is a board oversight responsibility. While most of the work will be done by committees, directors may help by identifying the needs of members and how programs can benefit their needs. Directors should be aware of the need of the members they represent.
8. Promote the Organization An organization's primary link to the community (constituents, members, public and media) is through the board. Clearly articulating the organization's mission, accomplishments and goals to the public, and garnering support from important community members, are important elements of public relations outreach.	The president is the official spokesperson. The responsibility can be delegated for specific instances (i.e. testimony or interviews). The public perception is that the president is always representing the association; be careful not to confuse personal opinion with official positions and duties.	Directors are representatives of the organization. It is expected that every director can articulate the purpose and positions of the association. Directors must follow established lines of communication and be careful not to assume the president's role as the official spokesperson. A short description of the organization is referred to as an *elevator speech*.

Board	President's Concern	Director's Concern
9. Ensure Legal and Ethical Integrity and Maintain Accountability The board is ultimately responsible for ensuring adherence to legal standards and ethical norms. Solid personnel policies, grievance procedures and a clear delegation to the executive director of hiring and managing employees are key. The board must establish policies and adhere to provisions of the organization's bylaws and articles of incorporation.	The president must understand all applicable laws and governing documents. Enforcement of policies may be a requirement of the president, for instance ensuring that directors disclose any conflicts of interest or avoid violating antitrust/competition laws.	Directors are expected to uphold all applicable laws and comply with the governing documents. It is structure – such as policies and procedures - that sustains the organization through the succession of boards. A director should study the documents and promote compliance and accountability.
10. Recruit New Board Members; Assess Board Performance All boards have a responsibility to sustain themselves by identifying new leaders through a search and nominating process. The composition of the board should reflect the membership and be a balance in skills. Boards must orient new board members to their responsibilities and the organization's history, needs and challenges. By evaluating their performance, boards can recognize their strengths and weaknesses.	The president will appoint a nominating committee that has responsibility for identifying board members. He or she may have authority in the bylaws to appoint committees. There should be processes in place to determine the qualifications for board service and to assess strengths and weaknesses of the board. It is essential to focus on sustainability and competency of the board.	Having a full complement of board members is essential to a successful organization. It is expected that current board members will know other members who may have an interest in leadership roles. It is important that director skills are matched with their job descriptions. Nearly every leader's path starts with a director asking, "Would you be interested in a leadership role in the organization?"

Distinguishing Director from President Roles 3-23-12.docx
4/18/2012
Association Mgmt tools and samples at
www.nonprofitcenter.com

RCH CAE
RobertCHarris,CAE

BOARD MEMBER ORIENTATION

Congratulations! Serving on the board of a nonprofit organization is a tremendous privilege and responsibility. As a board member, the decisions that you and your board peers make this year will affect the course of your organization, possibly for years to come.

Your board term can be an exciting time but also a challenge. In many ways, this is a new era for non-profit organizations, and you will be called on to provide leadership and guidance. As you set the direction for your organization, you will help lead it, your membership, and your industry.

We hope that meeting these and other challenges will make your service rewarding and fulfilling.

There are six major responsibilities:

1. **Meet the needs of the members you serve**. You have been elected by the membership to serve those in your industry. Every decision should be made with the thought in mind of how to help better serve your members.
2. **Set policies that guide your organization.** Your primary responsibility is to fashion the policies that ensure your organization is run effectively, legally, and ethically. These policies are the foundations for your executive director and management, who are responsible for implementing your policies and managing the organization in accordance with your guidelines.
3. **To develop, maintain, and update a strategic plan** that outlines the long-range goals for your organization's growth and development. To perform this function, you have to keep the big picture in mind. Remember, the long-range plan that you and your fellow board members develop will guide your executive director and management's short term plan over the next 12-18 months. You will be responsible for monitoring the progress of the long-range plan, as well as revisiting it annually to make any needed revisions.
4. **Ensure that you have adequately financed your activities** and that the money is being spent responsibly. As you set policy and make plans, you need to assess your association's ability to finance your plans. Board members should actively raise money for their non-profits.

   Since you have been entrusted by your membership to have fiduciary responsibility for your organization's money, you are responsible to see that it is well spent. This does not mean that you should approve every expenditure. Your role is to determine that the money is being spent effectively to deliver the programs and services that you have authorized. You need to do this by performing financial and performance "audits" - not by personally examining every expenditure.
5. **To support your executive director and management company.** One of your most basic responsibilities is to support your executive director. Your role is to provide the direction for the Executive Director and to make sure that he or she has your support to do the job.

Once you have given the executive director direction, keep in mind that you should let him or her manage the organization. Expect feed-back and evaluate the executive director on how well he or she is leading your organization.

6. **Participate in board and committee meetings.** Your presence at the board table is important. You need to attend every meeting, express opinions, share your expertise, and vote. Once this vote is made, then support the full board's decision.

Board members must practice proper, ethical behavior. This means board members must go beyond the simple letter of the law and commit to good ethical standards for all your board members. You need to make a commitment to become a successful board member. Volunteering isn't something you should take lightly; be willing to invest the time it takes to attend meetings, review pertinent information, offer input and contribute your time, talents, and financial resources.

If you are a veteran board member you need to renew your commitment to your association.

You need to answer these three important questions:

- Why am I a board member?
- What contributions have I made to the organization?
- What can I do to make my board service even more fulfilling?

Congratulations and thank you for agreeing to serve. We hope this will be a fulfilling, exciting and rewarding experience for you.

BOARD MEMBERS SET POLICY

Objectives:

- Understand the board's policy-making role.
- Use the organization's mission statement to stay on track.
- Use a recruiting matrix to improve the board.

Policy making is one of the most important tasks you and the board perform. As a policy making body, you and the board make decisions to shape and direct your organization.

Policy making can be confusing but here are the simple rules of thumb:

- Policy decisions are those that affect your organization as a whole, while management decisions affect programs, services, or people.
- The board sets policy and the executive director and management staff implement policy. The board's role is to make policy, direct the Executive Director to implement policy, and monitor implementation and outcome of policy.

Examples:

- Approving the annual budget is setting policy for the organization. This is the board's responsibility. Spending within the approved budget is implementation of the policy. That's the Executive Director's responsibility. By examining financial statements in year-end balances, board members monitor the implementation and outcome of the budget they've approved.
- The board makes a policy decision when it determines the organization's activities and service programs. The Executive Director implements policy through management staff who carry out the activities and services. The board monitors implementation by examining outcome statistics and financial records. It does not, however, become directly involved in the organization's activities or services.
- The organization's mission statement can be a big help in performing your role as a board member. This key "document" should be a strong, clear statement of what your organization does, and where it will go in the future. As such, you should put it to good use in the boardroom.

Use the mission statement to define the board member's job. You should constantly review the mission statement for making a decision. If the issue under consideration doesn't support the organization's objectives, board members shouldn't be spending time on it.

Use the mission statement to set the context for board meetings. Read the mission statement and goals often, maybe at the start of each meeting. It helps to keep the board members focused on the mission and the role, which is to make policy, not manage the day-to-day affairs of the organization.

- Board teamwork is an essential component of policy-making. When you and your board peers work together and have a common goal, it keeps your organization successful. Teamwork, however, doesn't mean total agreement on every issue your board tackles. Every board member should be allowed to express their own opinions and ideas. Respect everyone's ideas, even if you don't agree with them. Support the decisions of the full board after the decision is made, even if it is not your own. When board decision-making gets complicated, follow the advice - "don't over-think and over analyze". Instead, focus on the simple decisions that are easiest to make." When board members start to complicate the decision-making process, remember to act on the obvious first. Then climb to find solutions to more complex problems.

Board service should be enjoyable, and in order for it to be enjoyable, you need to stick to the proper role. Board members don't want to work full-time on their board responsibilities. When board members make day-to-day decisions, they can't enjoy serving on the board.

- Policy-making is exciting. When the board studies issues and then determines how to affect those they serve, they are becoming agents of change, and that becomes an exciting process. Boards change as board members change, but when all changes come from the frame-work of an established set of policies and mission, the organization can prosper and continue.
- Board members should watch for conflict of interest and make sure there are no surprises. Board members should be aware that if the subject matter becomes a conflict of interest that's not in the benefit of the membership or the organization, they sometimes need to step away from making a vote and by making sure everything is on the table, no one is embarrassed.

EFFECTIVE BOARD WORKS CLOSELY WITH EXECUTIVE DIRECTOR

Objectives:

- Understand what the executive director's job involves.
- How closed sessions without the executive destroy teamwork.
- Define "Who does what" with your executive director.
- Plan to make the executive director's evaluation a positive experience.

Without a good driver, a tour bus would get nowhere fast. The same rule applies to organizations. Without a good executive director, nonprofit wouldn't make any progress, and board members would just end up spinning their wheels.

The executive director's role is different than yours. Boards need to treat the executive director and management as the manager. To maintain a good relationship with the executive director and keep from interfering with his or her role, you have to know and respect the executive's role as the manager of the organization.

Your Executive Director handles these management functions:

1. **Planning.** Although the board makes long-range plans, the executive director is responsible for making short-term plans to fulfill the current year's budget and objectives.
2. **Organizing.** An Executive Director must organize the internal structure so that it helps deliver your organization's services. Frequently, board members will say what kinds of positions are needed on the management staff. For example, a board member may think the organization's priority should be to hire a public relations specialist—yet the Executive Director may want to hire a fund raiser. As a manager, your executive director should be able to create the kinds of positions and internal structure that they deem necessary.
3. **Staffing.** The executive director needs to make sure the management company performs the services and activities as to fulfill the board's overall directives.
4. **Directing and leading.** An executive director's job is to provide the services as outlined by the board. Although the board members are leaders of the entire organization, they are not leaders of the staff.
5. **Controlling.** The Executive Director measures and corrects the activities of staff members and controls the spending of the current budget. The board controls how much is allocated for budget line items. One of the most important things for board members to learn is to stand back and let the Executive Director manage. Evaluate your executive director and management staff performance by looking at what the entire organization is doing.

When the board meets in closed session without the Executive Director, it stands the term "executive session" on its head. The board also makes a big mistake, because the Executive Director should be included in all board discussions.

The executive director is the lifeline to the organization. He or she knows every aspect of the organization and must be involved in the decision-making process. How else will you know if your plans are doable?

Closed sessions without the executive director have a disastrous effect on teamwork and communications. Leadership teams must work and stand together by keeping everything out in the open and on the table.

The executive should take charge in a crisis. When a crisis strikes, unwanted public attention is sure to follow. In this situation, the temptation for the board members to take action can be strong. But a crisis shouldn't change the way your board operates. In the middle of a crisis isn't the time to make new policies. What should the board do when a crisis occurs? Keep yourself informed from the right source, your executive director. We need to support the Executive Director, not create more problems for him or her.

Act as a full board, not as an individual board member. Designate one person, the Executive Director is the logical choice, and the president or chairman, to be the media spokesperson, and when you speak to the public, give the official board position, rather than your personal opinion.

Executive director's evaluation. An annual evaluation of the executive director is an excellent way for the board to give feedback and guidance about his or her job performance. It's also an opportunity as a board to look at the executive director's progress to determine what changes are needed, and make suggestions about how these changes can be made.

Once the executive director knows and understands what the strengths and weaknesses of their performance are, they can move ahead with improvement.

A good, constructive evaluation also benefits the organization because its members will see the improvements and change. This will make the entire organization better.

To conduct an effective evaluation, however, the board needs to give itself lots of time to plan. You should set a date and place and choose an evaluation form. Then you need to hold a formal session with the Executive Director and follow up with clear goals you'd like to accomplish in the coming year.

Remember measuring executive director effectiveness is on bottom-line results, like:

- Quality of information and recommendations the Executive Director gives to the board.
- The overall financial health of the organization.
- The extent of membership support for the organization.
- Measurable progress toward the organization's long range goals.
- Success in achieving the goals set during the previous evaluation.
- How well the executive director works within the job description created by the board.

Eight steps to a successful executive director evaluation:

- Job description. You cannot conduct an effective evaluation without a comprehensive job description.
- Choose who will evaluate the Executive Director. This decision can mean the difference between an effective and ineffective evaluation. Will it be the full board, a committee or your chairperson? Each option has its strengths and weaknesses.
- The evaluation form. Without the appropriate evaluation tool, your evaluation won't provide you with the information you're looking for. Pick the evaluation form and process that's right for you and your executive director.
- Set up a reasonable schedule for the evaluation. To make the evaluation process as beneficial as possible, be sure to take the time to do it well.
- Evaluate professional performance only. It's important to keep in mind that you are evaluating how well your Executive Director does his or her job—and nothing else. Remind yourself to keep personal issues out of the evaluation.
- Include your Executive Director in the process from beginning to end. Your Executive Director's input is important at all stages of the evaluation. From reviewing the job description to responding to your assessment, they need to be a partner in the process.
- Write goals that will help the Executive Director in the future. Based on your findings during the evaluation, you and your Executive Director should decide upon reasonable goals that he or she will be expected to meet in the upcoming months.
- Evaluate your performance as an evaluator. At the end of each assessment process, you'll want to stop, review how well the evaluation proceeded, and make notes about how you can improve the evaluation.

THE BOARD MEMBER'S PROPER ROLE IN FINANCES

Objectives:

- Understand the board member's role in setting financial policy
- Learn the three bottom-line financial questions to ask your executive.
- Know why spending limits for the executive are a bad idea
- Review some common financial mistakes board members make

As a board member, you have a twofold responsibility regarding your nonprofit's financial health: setting financial policy and playing an active part in fund raising. Don't underestimate your participation in either. Without good policies, your nonprofit's money will not be wisely spent. And without your participation in fund raising, the money simply won't be available to support the nonprofit's programs and services.

When it comes to finances, the board has three major responsibilities:

1. **Setting financial policies.** This means you're responsible for defining your organization's mission, establishing goals, and approving a budget that will make it possible for those goals to be achieved. The most important direction you can give your Executive Director is to let them know where you want the organization to go. What are your goals? What kinds of things would you like your budget to achieve?
2. **Delegating implementation of the financial polices to the executive director.** As a board member, you should find a purpose for your organization, define it on paper, share it with your Executive Director, fund it—and let your Executive Director make things happen. It's the executive director's job to suggest spending recommendations to the board. The Executive Director's recommendations are important information you need to formulate an annual budget. It's the executive director's job to spend budgeted money to operate the programs and services the board approves. If you have financial concerns, always address your executive director.
3. **Monitoring financial outcomes.** The third financial responsibility of board members is to measure results of the executive director's spending. Some board members are tempted to roll up their sleeves and dig into financial records—just to answer their questions. But that's not the board's role. Remember, the board monitors financial outcomes. One way to do this is to ask the **bottom-line answers to these three basic financial questions:**
   - Are we on target with our planned expenses and revenues?
   - Are we financially solvent –money in the bank to pay expenses?
   - Will we have income to meet future expenses?

   Today, boards pay more attention to where the organization is going, not how it gets there. That's the executive director's job. A growing number of boards have established a policy for their Executive Director that says in effect… "If we budgeted it, you have the authority to spend it as you see fit. That's why we hired you."

Some financial "don'ts" for board members:

- **Don't review bills at board meetings.** Remember, it's the Executive Director's role to handle the day-to-day budget expenditures. Make sure your actions don't second - guess the Executive Director.

  It is usually the role of the chairman and the treasurer to review finances and bills. They should go over them ahead of time and bring any questions to the board meeting.

- **Don't allow board members to sign the nonprofit's checks**. Many boards think this in an effective way to monitor expenditures. But they're wrong. It's not only time-consuming and cumbersome, it undermines the authority of your executive director. Signing checks is part of the day-to-day operations of the nonprofit.

STRATEGIC PLANNING IS THE BOARD'S RESPONSIBILITY

Objectives:

- Understand how a strategic plan benefits the nonprofit
- Learn four steps needed to develop a plan
- Perform a simple planning exercise to get started

What will your organization be like in three to five years? Planning for your organization is one of the board's most important functions. Why should you plan ahead? Because planning puts difficult decisions into proper perspective.

How do we start to plan? Planning takes time and a focused effort. If possible, set aside a full day with nothing but planning on the agenda. To avoid distractions, many boards go to an annual retreat, to a resort or some other site away from the board room.

Who should be involved in our planning sessions? Planning is a team effort. Besides your board, there must be other key contributors. Your executive director knows the nonprofit better than anyone and should play a major role in planning its future. Staff should also be asked to participate in developing some part of the strategic plan. They'll have to carry out the plan and will support it more when they are involved and have contributed.

Four steps a board takes to write a strategic plan:

1. **Determine the needs of the people and members you serve.** This isn't the time for guesswork. Survey your members, clients, customers, and the industry community.
2. **Create programs to fill those needs.** Your board's strategic plan will determine what membership populations and needs will be served. How programs are developed to meet these needs should be delegated to the executive because it's a management responsibility.

   Analyze your organization's current capabilities and special strengths. If you have many needs, prioritize them and then tackle them one at a time. Don't weaken your organization by trying to do too much at once.

   Determine what facilities and staff you'll need to carry out your new programs. You will need time to prepare and begin the search for funds to handle the new programs.
3. **Determine the plan's cost.** It's important to dream. If you don't look at the costs, though, your dreams will only be "pie in the sky." It's impossible to figure exact costs over five years, but make good estimates and update them at least annually.
4. **Coming up with the money to pay for the plan.** One of the financial responsibilities of a board is to assure that there will be enough money to finance current and future operations. That's why boards get involved in lobbying, fund raising, membership drives, program income, etc.

SWOT---makes planning easy

SWOT stands for Strengths, Weaknesses, Opportunities and Threats.

The "strengths" and "weaknesses" are designed to identify issues that affect the nonprofit internally—like the effectiveness of particular programs and adequacy of the plan. The "opportunities" and "threats" ask board members to focus on external factors—like population shifts or impending outside forces. Make your plan useable.

Your plan needs to include not only a vision about where your organization should be in five years, but also concrete steps to bring it there. Once you have all the information you need, you can combine it with the information you already have to formulate your strategic plan.

1. Write goals that are tied to the mission statement.
2. Accomplish goals by meeting specific objectives. You have to put objectives in place to see that they come about.
3. Support your executive director's effort to carry out objectives. The how-to's of implementation will be your executive director's responsibility. As a board, though, you must give him or her the tools necessary to do the job.

Once you've set goals and determined strategies, your role shifts from planner to evaluator. Your executive director will come up with action steps to implement the plan, complete with deadlines. Your job will be to monitor overall progress toward the goal.

Good luck on this exciting journey.

Remarks and information come from various sources, including:
ASAE, Association Management Magazine, Aspen Publishers, John M. Bryson, Kermit Eide, Jean Frankel, Marcus Klein, Allen Litt, National Charities Information Bureau, James E. Orlikoff, Darla Struck, Glen Tecker, and The Union Institute.

RCH CAE
RobertCHarris,CAE

Ten Reasons Strategic Plans Fail

	The Challenges	Solutions
1.	*The board can't think past a year or two.*	Most strategic plans span at least 3 years. Directors have a responsibility to "think beyond their term of office."
2.	*We have a host of to-do projects in our strategic plan.*	The plan should focus on the organization's mission, goals and strategies. It is not a to-do list. The board sets direction and then lets committees and staff/departments manage the tasks, programs and projects.
3.	*Maybe we had the wrong people at the planning retreat.*	It is the board's responsibility to develop the strategic plan. Inviting ex-officio guests, other stakeholders and a host of past presidents will slow the process. Use focus groups to collect input from outsiders, before the retreat.
4.	*The plan looks like a list of the directors' and officers' priorities.*	Most strategic plans have just 3 to 7 goals. The fewer the number of goals, the clearer the message to stakeholders.
5.	*We couldn't tell the difference between tactics and strategies.*	The terminology of planning is critical. The retreat should focus on mission, goals and strategies; adding performance measures when appropriate. Leave tactics to committees.
6.	*We've been developing our plan for several months.*	A drawn-out process can hinder development of a clear, concise plan. Most organizations schedule an 8 hour retreat conducted in one day or two half-days.
7.	*After the retreat the plan was ignored and put on a shelf.*	There are ways to ensure the plan is executed, including keeping it on the agenda and regularly reporting on progress.
8.	*The board wrote a plan but committees are doing their own thing.*	Committees should be assigned tasks from the strategic plan. Be sure every goal is supported by one or more committees.
9.	*I think our facilitator had his own agenda at the retreat; we didn't accomplish much.*	There is a broad choice of facilitators; it's important to discuss the outcomes and agree on an agenda that the board will appreciate.
10.	*We didn't finish the plan.*	Some boards get stuck on the mission; running out of time for setting goals and strategies; others get mired in tactics or side bar conversations.
11.	*The board says planning is too expensive.*	Most plans span at least three years; it is a small investment (amortized over three years) to create a compelling roadmap to follow.

RCH CAE
RobertCHarris,CAE

Ten Challenges to Policy Adoption and Implementation

	The Challenges	Solutions
1.	*What's the difference between a policy and a procedure?*	*Policies* are the wisdom of the board documented in the minutes and a policy manual; *procedures* relate to staff duties.
2.	*We have an abundance of policies.*	An organization often relies on just 25 to 50 policies; if policies are over abundant and/or outdated, appoint a task force to review and sunset old policies.
3.	*Our policies have been added to the bylaws.*	Let the bylaws serve as a broad governing document. Policies don't belong in the bylaws.
4.	*The board isn't aware that we have policies.*	Policies are part of the governing documents to provide to board. Format policies (table of contents, annotations) for easy retrieval by volunteers and staff. The fiduciary duty of obedience requires directors understand and follow the governing documents.
5.	*We have policies that conflict with our bylaws.*	Policies may not conflict with the articles of incorporation and bylaws.
6.	*The policies are all over the office and have no format for a quick read.*	Use a template for policy adoption. Most policies are a few sentences. Include an annotation as to approval and amendment dates. All policies should be archived in a central manual or website portal for easy access by volunteers and staff.
7.	*I cannot find any policies, I just do things like the person before me did them.*	"Undocumented policies" are simply *precedents* or *practices*. To build the organization's first policy manual review prior minutes for motions and consider IRS Form 990 policy questions.
8.	*It takes days for staff to develop and board to debate policies.*	There are resources for policy development. Rely on legal counsel, accountants, and financial advisors for help.
9.	*The board doesn't think we need policies.*	Policies guide the current and future leaders. They thwart repetitive conversations about, "Should we do this or not..." if the policy already exists.
10.	*Should we have a policy on policy management?*	Organizations set a periodic date for review and ratification of existing policies; noting the action in the minutes to support duty of obedience.

RCH CAE
RobertCHarris,CAE

Ten Challenges with Boards

	The Challenges	Solutions
1.	*Directors don't understand their responsibilities.*	Deliver an effective board orientation; provide access to a leadership manual or password protected board portal.
2.	*The board simply isn't engaged.*	When directors lose attention, be sure the work, agendas and discussions focus on the mission and goals. The strategic direction should be clear and compelling to engage volunteers.
3.	*Some directors don't show up, repeatedly missing meetings.*	Follow the bylaws and promote fiduciary responsibility, especially duty of care. Directors attend officially called meetings to fulfill their roles.
4.	*The board prefers to manage, not govern.*	The purpose of a board is governance according to corporate law. Management is a duty of the staff.
5.	*Fiduciary duties are not understood by the board.*	The fiduciary duties include care, obedience and loyalty. Directors should understand their implications.
6.	*Lacking financial understanding.*	If directors don't have an understanding of finances, reports and audits, bring in a CPA or trainer. Protecting the resources is a board duty.
7.	*Some board members have personal agendas.*	Directors should be working to advance the mission and the strategic plan. It's not about the personal agenda of officers or directors. Require disclosure of conflicts of interest.
8.	*We have the same directors we had ten years ago!*	Organizations enact term limits to bring on new directors; limiting the number of years or terms.
9.	*Some directors are never prepared.*	Stress the importance of "*read to lead.*" Directors should prepare for meetings and ask questions in advance (duty of care/due diligence.)
10.	*We have directors who seem to be incompetent in their board service.*	Selection of directors should be based on competency --- not geography, who knows who, or being "out of the room when directors were selected." Provide training, information and resources. Identify the desired core competencies for the *board* before the nominating process.

RCH CAE
Robert C Harris, CAE

Ten Challenges for Committees

	The Challenges	Solutions
1.	*The committees wander and don't stay focused.*	All committees should have a purpose statement or mission, similar to the organization.
2.	*Committees seem to waste time.*	Each committee should have work assigned annually by the board. If there is no reason to meet, postpone the meeting. Don't fulfill the adage, *"Committees keep minutes but waste hours!"*
3.	*Is there a preference for using task forces over standing committees?*	Busy volunteers would prefer to serve on a short term, single assignment task force. Standing committees are identified in the bylaws and serve the entire year.
4.	*They seem to be starting from scratch every year – there is no transition from last year's committees.*	Committees are part of a process --- the new committee builds on efforts of the prior year. Minutes and records should be maintained. Create a committee notebook to pass along or use a committee portal to archive work projects and notes.
5.	*Volunteers say they drove an hour both ways and when they arrived there wasn't even an agenda.*	A well-crafted meeting agenda is needed. Respecting the value of volunteers' time, the agenda and supporting info should be available in advance and used to complete the work at the meeting.
6.	*Committees are starting projects never intended!*	Use a board and/or staff liaison to support the committee. The liaison will also serve as the champion of the committees efforts at the board table.
7.	*Should committees link to the strategic plan?*	Committees should be aligned with the goals in the strategic plan. The plan should be introduced to the committee at the start of the year.
8.	*Committees have sent recommendations to the board and they revamp the proposals.*	When charges are clear between board and committee, the board should not recreate the work. Follow the adage, *"Boards don't do committee work at the board table."*
9.	*The chairman dominates the meeting.*	No chairman should have a personal agenda. The role of the chair is to *facilitate* the meeting, not dominate it.
10.	*We only have board members on the committees.*	Board members are responsible for governance; some organizations recommend directors serve only as committee liaisons so as not to distract them from their duties. Expanding committee composition beyond the board is a way to engage members and bring in new ideas.

Three Policy Sets

Aligned Influence™

Kenneth Schuetz
Founder, Aligned Influence, LLC

Consider this scenario: An educational foundation's board seems to never be in agreement about whether their fund balances are too large or too small. Some directors believe the board should develop "healthy" fund balances for future opportunities and others believe they should put their fund balances "to work" on behalf of the community they serve.

The discussion is always full of drama; dividing the board. Who is right? Neither is right or wrong, but the debate brings to light the core issue – the board does not have a clear answer to their fund balance debate because they has not established clear boundaries or guidance policies to direct their decisions.

Many organizations, particularly non-profits, begin with a small group of people trying to do the work of the organization while also providing oversight to the organization. As the organization matures, staff roles are separated and filled by new team members who accomplish the work of the organization and the board can begin to focus only on oversight. The same transition can be viewed in the maturation of organizational policy. When an organization is formed, the principles create bylaws which are used to establish the organization. Often, young organizations will be attempting to use those bylaws to *operate* the organization several years later, causing the organization to plateau in its growth.

Maturing organizations have three policy sets to match their maturing understanding of the roles played by the board and the executive director. The first is *bylaws* which are used to establish the organization. The second is *governing policies* which are used by the board to protect, direct and enable the organization. The third is *operating policies* that are used by the staff to lead, manage, and accomplish the work of the organization.

Bylaws

Bylaws are created with the assistance of an attorney as part of the process of establishing an organization. They commonly stipulate the officer roles, minimum and/or maximum numbers of board members, and term limits for board members. They might describe how often the board must meet and what kinds of skills should be represented on the board. They most likely describe the number of votes necessary for a decision to be considered a valid action of the board and might designate some committees necessary to begin the initial work of the board. In short, the bylaws are intended to document key facts that establish the initial organizational structure and procedures of the organization. They inform and provide a foundation for governing policies, but were never intended to act as the sole governing policy document for the organization.

Governing Policies

Governing policies are established by and then used by the board of directors of an organization to

1. define the "strategic what" delivered by the organization
2. establish boundaries within which the organization should operate to ensure integrity, fiduciary soundness, and appropriate risk tolerances
3. establish guidance for the board regarding how they will enable the work of the organization

The policies do not, and are not intended, to tell the staff how to accomplish their task. Rather they are intended to give the staff clear direction on what the organization is to accomplish, to establish protective limits in key operational areas, and to document the board roles and in enabling the work the organization.

Direct, Protect, Enable. The *directing* portion of the governing policy defines who is to be served and what product, service, or value is to be delivered. The *protecting* portion of the governing policy establishes operational boundaries to be respected by the staff. The boundaries are customized to the organization but commonly include statements about risk, financial and human resource management. The *enabling* portion of the governing policies define to whom the organization is responsible, establishes procedures and guidelines to inform and unite the board in its work, and establishes procedures for monitoring the direct and protect portions of the governing policies. Governing policies are not intended to be operating policies, but do inform the creation of operating policies.

Operating Policies

Operating policies are created by and used by executive directors and the staff to guide the accomplishment of the organizational work as defined by the board of directors. In contrast to the governing policies, operating policies direct the staff how to accomplish their work in such a way as to be aligned with the direction and within the limits created by the governing policies. Many of those random pre-existing policies in a young organization are operating policies that are inappropriately placed in the board's governing policies, thereby tempting the Board to micromanage rather than encouraging members to maintain their role of directing, protecting, and enabling the organization. Operating policies focus on the details of accomplishing the work the organization.

Table 1: Policy Breakdown

Policy Set	Created and Used By	Purpose
Bylaws or Articles of Incorporation	Created by the organization's attorney and used by the board of directors	To establish the organization
Governing Policies	Created and used by the board of directors	To direct, protect and enable the organization.
Operating Policies	Created by the executive director and used by the organization's staff.	To guide the leadership, management and accomplishment of the organization's work.

Conclusion

Which of these policy sets does your organization have in place today? Each plays a critical role in a healthy organization and the absence of any one of them causes a "vacuum of influence" that invites boards to be involved in operational issues and staffs to become involved in oversight issues. All three fit together as a system of policies that inform and act as a foundation for the next nested policy set in an ordered fashion. As such, the creation of governance policies will require a review of the bylaws to ensure continuity and alignment. Governance policies will also indicate a review of operational policies for continuity, alignment and more importantly completeness. The existence of governance policies will often bring to light an area where important operating policies are missing. The professionals at Aligned Influence, LLC are uniquely qualified to assist your organization in evaluating its current status in the area of policy sets. Our consultants will educate, facilitate and help your organization take the next step in maturation. These steps are transformational and our goal is to walk through the transformation with you; being your guide and your encourager. If you would like to discuss our services further, please visit us at www.alignedinfluence.com or contact us at 303-257-1794.

Contents

Contact Information

Allen J. Proctor

Allen J. Proctor is a principal in **Allen Proctor Consulting, LLC,** an independent consulting firm that advises chief executives and boards on strategic planning, financial reporting, budgeting, and investment oversight. He is a nationally recognized expert in financial analysis, budgeting, and organizational effectiveness. During the course of his career, Mr. Proctor has regularly developed innovative solutions to the budgeting, financing, and performance problems of organizations. His work on structural budget balance won the Louisville Award for Financial Innovation in 1993, only the second recipient since the Government Finance Officers Association of the U.S. and Canada had created this award in the early 1980s.

Allen has worked as a top executive for over fifteen years at institutions as diverse as Harvard University (CFO and Vice President for Finance), New York City (Deputy Budget Director), New York State (Financial Control Board Executive Director), and Federal Reserve Bank of New York (Division Chief). His skills in financial assessment, strategy development, and implementation were commended by the Ohio House of Representatives for his highly successful restructuring of the Ohio Police and Fire Pension Fund. He has taught budgeting and finance at the Kennedy School of Government at Harvard University and the Graduate School of Business at Columbia University and twice served as a reviewer for the prestigious Innovations in Government program sponsored by the Ford Foundation.

To ask follow-up questions on this seminar or to seek additional information on how Mr. Proctor can help your board be as effective as it can, please contact him by phone, fax, email, or post.

Allen Proctor Consulting, LLC
471 Highgate Avenue
Worthington, OH 43085
Phone: 614-208-5403
Fax: 614-888-8287
Email: ProctorConsulting@columbus.rr.com

Chapter I

Your Introduction to Board Financial Oversight

Welcome to the Board. Whether this is your first nonprofit board seat or you are a veteran, you have probably been to several meetings by this point and are looking for how you can be most helpful and engaged. You aren't alone in that search but, unfortunately, too many well-meaning board members never find the hook that makes their contributions seem valuable. That is even more common when it comes to finances. Nonprofits always seem to have too many things to do and too little cash with which to do them. Other than through personal donations, board members like yourself may feel that you have little to contribute toward understanding or solving this dilemma.

Common sense and judgment count as much as—and sometimes more than—expertise when it comes to fostering a successful and financially sustainable organization. Because common sense is so important, every member of the board has something to offer. The trick is to make sure that the treasure trove of common sense is routinely tapped. Like any specialty, finance can either be made complex or be made understandable. If it appears complex, the people responsible for your organization's finances—including board members—may not understand the situation well enough to make it understandable. The health of your organization can be harmed by what is not discussed at the full board level, and it can be helped by spending the extra time to hear an individual board member's concerns. For instance, full board participation can be limited when a committee chair says, "I have looked over the numbers so let's save time by approving the budget without much discussion." Your ability to sustain a stable and reliable level of services may actually be enhanced by a board member who takes 20 minutes of an overly long board meeting trying to understand what a new program will cost and if it is affordable.

The most valuable step you as a board member can take to support, protect, and sustain your organization is to foster a culture that values diverse perspectives across your board and encourages the communication of problems and concerns at all levels of the organization. You don't need to be a rocket scientist, or an accountant to contribute to this discussion. The information a board needs can be provided without the complexity of financial statements and in a way that enhances the board's ability to focus on its important strategic issues without encroaching on the staff's operational issues.

This view of finance should benefit not just the board member who may be intimidated but all board members who want help in focusing board deliberations on the critical issues of financial strategy and policy.

Excerpt from *Linking Mission to Money* © 2004 by Allen J. Proctor. Published by The Academy for Leadership and Governance, 65 Jefferson Avenue, Columbus, Ohio 43215.

Finances should be viewed as merely another language that you can use in deciding which activities are most critical to fulfilling your mission, how to carry them out, and how to pay for them in a way that makes the activities sufficiently sustainable that your clients or patrons can rely on those activities year in and year out.

The most important financial issues need to be understood by all board members, but the key to understanding is not the level of detail you review. It is usually missing the forest that leads nonprofit boards astray, not missing the trees.

This book is divided into five sections and consists of nineteen short *conversations*. The term conversation is used because each can form the basis for a conversation you can start with your fellow board members. Each conversation focuses on one particular aspect of the financial life of a nonprofit organization. You can read the book from cover to cover or pick and choose which topics interest you most. A glossary at the end of the book can help you with any terms that are not familiar. When you are done, I hope you will conclude that finances *can* be accessible and useful to every board member in helping him or her to participate in full and productive discussions of how best to fulfill the mission, goals, and priorities of the organization.

What Makes Being a Nonprofit Board Member Different?

a. Issues and Puzzles

b. Key Points to Remember

c. Exercises

d. Excerpt from *Linking Mission to Money*

a. Issues and Puzzles

In my for-profit job, we have clear measures to tell us how well we are doing: EBITDA, earnings per share, book value, stock price, current ratios, etc., and plenty of people trained to stay busy watching these measures.

But are there clear measures for nonprofits?

What makes for a strong nonprofit? Is strength indicated by the size of its endowment?

But isn't an endowment, large or small, a pipe dream for all but the largest, high profile nonprofits? Does that mean we are doomed to be constantly struggling?

b. Key Points to Remember

1. The most crucial difference between the duties of a nonprofit board and the duties of a for-profit board is that the nonprofit board's first and foremost duty is nonfinancial:

   Sustaining the mission of your organization is your primary task as a nonprofit board member.

2. The dilemma of sustaining a reliable and predictable level of services is that it can conflict with other common goals like growth, expansion, and "meeting the need."

3. Sustaining a predictable and reliable level of services is a choice that the board must continually keep in the forefront of all decisionmaking.

4. Conventional financial statements provide very limited help to the nonprofit board in judging how well it is fostering sustainability.

c. Exercise

Suppose your organization provides temporary shelter for the homeless. You believe strongly that there are not enough beds available in your community and that lives will be lost if there is not enough shelter, food, and health care for all comers. A site becomes available that would add 20 beds to your 200 bed system, and expand your annual expenses by ten percent.

Decision: Should you acquire that site?

Step One: Assess if the proposed growth is sustainable.

You must critically probe whether the proposed goal of expansion and growth is compatible with your primary duty: to sustain your mission.

Assure yourself that, if you expand, you can sustain the higher level of services.

Consider asking the following questions:

1. How would we change our operations to handle this expansion? Who on our staff would be affected and what is their view?
2. How would we fund this added expense? If we plan to acquire additional governmental support, have we approached government officials and have they assured us of additional annual support for the foreseeable future?
3. If we hope to receive additional foundation or United Way support, have we discussed our expansion with them and have they assured us of additional annual support for the foreseeable future?
4. If we plan to increase private contributions, what actions will we take and what assurances should we expect before we go ahead with the acquisition?

You may see that a number of answers are ambiguous. If so, you may be creating some new risks with this expansion.

Step Two: Assess if the proposed growth introduces risks that may place your current level of services in jeopardy.

Growth sometimes creates operational and financial stresses that can erode the effectiveness and financial health of the organization to the point where even your current level of operations may be undermined.

Identify the risks this expansion may pose to your current level of service and assure yourself that the risks can be managed or that you can isolate or protect your current operations from those risks.

Consider asking the following questions:

1. Is one or two years of 220 beds worth the risk of budget strains forcing you to cut back to 120 beds? What are the probabilities?
2. Are you as a board prepared to step in financially to prevent such a cutback scenario?
3. Are there other nonprofits who are better able to acquire this site and sustain the expansion? If you acquire this site are you precluding a stronger nonprofit from filling this shelter gap?
4. If you are forced to scale back if revenues don't materialize, are there other nonprofits who would be able to make up for your lost beds or is the community dependent on you for the 200 beds you currently provide?

Chapter 2

Your First Duty Is to Sustain the Mission

The primary task of a nonprofit organization is to be a reliable provider of a service that fulfills a useful need in your community. Notice that I don't say that the organization's primary task is to grow or to do more than last year or even to be the best in the country. There are also nonprofits that are created for short-term purposes and that are intended to disappear in a year or two, but in this book I focus on nonprofits that are intended to exist in the long term.

My emphasis on fulfillment of community need is based on the very existence of the notion of tax exemption, which allows people to deduct from their taxable income their charitable contributions to your organization. Most people refer to tax-exempt organizations as simply nonprofits. It is likely that your organization is a "501(c)(3)," which refers to the section of the Internal Revenue Code which grants your organization tax exempt status by the U.S. government. That status was granted because you are filling a community need. In fact, unless it is very small, every year your organization files a Form 990 with the IRS describing how your mission fulfills a community need and listing what you have done in the past year to fulfill that mission. If the IRS were to disagree that your activities continue to fulfill a community need, it has the ability to revoke your tax exempt status.

As a board member of a nonprofit, one of your most basic duties is to ensure that your assigned mission will be fulfilled as long as the community has that need. I refer to this duty—the ability to be there when you are most needed—as *sustainability*. Throughout this book I will repeatedly argue that sustainability should form the foundation of every decision the board makes. While this duty sounds obvious, it is actually difficult to execute and easy to forget amidst the myriad small decisions a board must continually confront. Many nonprofits lurch from crisis to crisis. They expand until economic recessions put them in financial crises that force them to cut back on services, often when the community need is the greatest. Whether you are a nonprofit in the arts, social services, healthcare, education, or another arena, the need for what you do doesn't go away when the economy falters. In fact it is likely that your role is even more central to the vitality of your community when the chips are down.

Sustaining the mission of your organization is your primary task as a board member. The primacy of sustainability forms the basis for how each board member should approach financial decisions. Steady, reliable, and predictable are the right words, but they run up against growth, expansion, and "meeting the need." When you think about your mission, you should always precede every major board decision that has financial implications with the question, "How long can we sustain this change or ensure we will be able to provide this service?"

Excerpt from *Linking Mission to Money* © 2004 by Allen J. Proctor. Published by The Academy for Leadership and Governance, 65 Jefferson Avenue, Columbus, Ohio 43215.

The dilemma of sustainability versus growth pervades the nonprofit world and you have to decide early on how your organization will deal with it. Is it better to provide a service and then suspend it when finances are tight? Or is it better to not provide the service at all? There is no clear cut answer, nor is it always an either/or choice. Consider the following situations.

Suppose your organization provides temporary shelter for the homeless. You believe strongly that there are not enough beds available in your community and that lives will be lost if there is not enough shelter, food, and healthcare for all comers. A site becomes available that would add 20 beds to your 200 bed system, and expand your annual expenses by ten percent. Should you acquire that site? Your mission calls you to expand. Sustainability requires you to first ask these questions:

- How would we change our operations to handle this expansion? Who on our staff would be affected and what is their view?
- How would we fund this added expense? If we plan to acquire additional governmental support, have we approached government officials and have they assured us of additional annual support for the foreseeable future?
- If we hope to receive additional foundation or United Way support, have we discussed our expansion with them and have they assured us of additional annual support for the foreseeable future?
- If we plan to increase private contributions, what actions will we take and what assurances should we expect before we go ahead with the acquisition?

The answers to these questions are critical to your ability to sustain this higher level of service but they are not likely to be uniformly positive or unambiguous: the government, foundations, or donors may not be able or willing to give you unconditional assurances of expanded ongoing support. Without those assurances, your expansion of 20 beds may put at risk your current provision of 200 beds. The concept of sustainability next suggests that you ask these questions:

- Is one or two years of 220 beds worth the risk of budget strains forcing you to cut back to 120 beds? What are the probabilities?
- Are you as a board prepared to step in financially to prevent such a cut back scenario?
- Are there other nonprofits who are better able to acquire this site and sustain the expansion? If you acquire this site are you precluding a stronger nonprofit from filling this shelter gap?
- If you are forced to scale back if revenues don't materialize, are there other nonprofits who would be able to make up for your lost beds or is the community wholly dependent on you for the 200 beds you currently provide?

These are the types of questions which sustainability requires you to consider each and every time your board meets to consider important organizational decisions.

If you think that healthcare or indigent services are "special cases," let's now look at how sustainability can just as well affect the decisions of a performing arts organization. The board wants to consider expanding the performance season. You want to ask your resident company to remain under contract for a longer season, adjusting any other professional engagements accordingly. You will also need to ask part-time staff to shift more time to the organization. And, of course, more tickets will need to be sold and more donations solicited to make this effort successful.

- Can you reliably support a longer season financially?
- If you can't, can your staff and performers replace the lost income or have they foregone other options in order to block out more of their time for your longer season?
- Will your donors be less supportive if you fall into financial difficulties than if you had not expanded at all?

These examples serve to remind us that sustaining a predictable and reliable level of services is a choice that the board must continually keep in mind. Be wary of expansion, especially when the economy is expanding. If you grow and later cannot sustain your services, you may jeopardize the survival of your organization and undermine the constituents who relied upon you to sustain the expansion. But expansion shouldn't become a four-letter word. Rather, expansion should be approached cautiously with a clear, multi-year plan that gives you reasonable confidence that you have taken the necessary steps for sustained success.

What You Need to Do at Every Meeting

a. Issues and Puzzles

b. Key Points to Remember

c. Exercise

d. Excerpt from *Linking Mission to Money*

©2004 ALLEN PROCTOR CONSULTING, LLC

a. Issues and Puzzles

- I am happy to be on the board but I am not sure what I am supposed to be doing. Is attending the meetings, hearing the reports, and making a financial contribution why I am on the board?

- I hear good reports from the staff at our board meetings, but there are a number of nonprofits in town who are in trouble despite receiving good reports at their meetings. I don't want to be embarrassed by looking like I was asleep at the switch. What's the best way to avoid that?

- I am surprised at how general some board discussions are and how others get bogged down into excruciating detail. I know we are supposed to avoid micromanaging, but the general discussions don't tell me much and the detailed ones seem intrusive without accomplishing much that is constructive. Is there a middle ground?

- In a nonprofit with very few staff and volunteer board members, what is the right division of labor among board, staff, board chair, and executive director – and how does the board meeting fit into this? Two hours every few months – how can that be much help?

b. Key Points to Remember

1. The bulk of your time at your board meetings should focus on the following question: Are you linking mission to money?
2. Spend most of your time on the organization's top priorities:
    a. Do the top priorities clearly have management's focus?
    b. Is progress on the top priorities steady and can management demonstrate this to your satisfaction?
    c. Are obstacles to progress on the top priorities being anticipated and averted?
3. Board oversight is *strategic* and takes place "10,000 feet up."
    a. This is probably the opposite of your day job's focus.
    b. If you are a manager, most if not all of your oversight in your company is *tactical* and takes place "on the ground."
    c. Leave your management hat at the door to the board room; the board has hired other people to be the managers.

©2004 ALLEN PROCTOR CONSULTING, LLC

c. Exercise

Step One: Evaluate the goals suggested by some simple agendas.

The agenda is a critical tool for getting the most benefit from the board's time and for ensuring that mission, strategy, priorities, and execution remain coordinated, consistent, and relevant. A vague agenda can suggest that the purpose for the meeting is unclear.

Using the two board agendas below, what do you believe are the purposes for the meetings? What do you expect will be the main accomplishments of the meetings? How could you prepare for these meetings?

what is purpose of reviewing reports

Agenda One	**Agenda Two**
Welcome	Prayer
Friends Organization Report	Chairman's Remarks
Nominating Committee Report	Election of Trustees
Audit Committee Report	Approval of Minutes
Report on 2003-4 Fiscal Year	Audit and Budget Committee Report
President & CEO's Report	Report of the Auditor
Student Outreach Program Report	President's Report
Building and Operations Report	Advancement Committee Report
Programming Report – e mail them	Committee on Trustees Report
Chairman's Comments	Investment Committee Report
Adjournment	Alumni Association Report
	Review of All Motions and Votes for Final Action
	New Business
	Concluding Remarks
	Adjournment

Step Two: Use a grid of board responsibilities as a template for setting up effective agendas.

A good way to make sure the board meetings are allowing the board members to fulfill their duties and obligations is to put together a grid of the board's duties, its primary activities, and basic questions it should answer by the end of each meeting.

Below is a grid that focuses on the board's role in linking mission to money.

Duties	Activities	Questions
1. To set and sustain the strategic financial direction and policies of the organization.	1. Budget oversight: monitoring the completion of your priorities on schedule, on budget, and on objective.	1. Are we focusing our efforts on our top priorities?
2. To support and encourage the executive director in maintaining the financial health and effective financial management of the organization.	2. Planning for the future, both programmatic and financial.	2. Are we accomplishing what we need to accomplish this year?
3. To oversee execution of the financial policies, strategies, and priorities of the organization.	3. Looking back to assess the accuracy and adequacy of staff communication to the board and to assess the effectiveness of your organization's activities in addressing your mission.	3. Are we able to sustain our current level of services for the foreseeable future?

Using the agendas on the previous page, identify which portion of each agenda will address, if at all, each of the nine duties, activities, and questions in this grid.

Step Three: Assess the value of more detailed agendas.

The two agendas below are more detailed. See if they address the board responsibility grid more effectively.

Agenda Three	Agenda Four
Call to Order and Welcome	Call to Order and Welcome
Approval of Minutes – 2D	Approval of Minutes – 2D
Progress and Updates on Fundraising – 2	Transition Update
1 – Treasurer's Report:	Attendance
FY 2004 Results and Projections	Pricing – 1
FY 2005 Budget Approval	Transition
Voluntary Retirement Plan Contributions	Follow Up on May Assignments
President's Report – 2	Building/Real Estate
Board Matters	Political Intelligence
New Members	Appropriations Research
Terms of Service	Human Resources Stabilization
Work Plan – AZ	Financial Overview FYs 2004-2008 – 3
Advisory Board – 1	Community Updates
Initiatives – 1	XYZ Foundation Funding – 1
Retreat – 2D	Construction Progress on Alternative Venue – 1
Executive Session – 3	Status of Subsidiaries – 1
	FY 2005 Priorities/Action Assignments – 2
	Executive Session – 3

What changes in Agendas Three and Four help them to provide the board with more focus on its duties and priorities than Agendas One and Two?

Which of the four agendas is the most focused? Why?

What other changes in the agenda structure would make the agenda even more helpful?

Step Four: Homework assignment – restructure the agendas your board uses.

Once you view an agenda as a tool you can use to make sure you are fulfilling your duties and responsibilities, you can rework your own board's agendas to meet your evolving needs.

What changes would you make to the agendas of your board meetings to move them toward the following structure?

<u>Agenda Five</u>

Call to Order and Welcome

Approval of Minutes

Financial Status

- Cash Available and Projected Cashflow for Next Few Months
- Status of Unpaid Bills
- Status of Collection of Outstanding Pledges
- Projected Year-End Results

Follow Up on Assignments from Last Meeting

- Action One
- Action Two
- Action Three

FY 2005 Priorities/Action Assignments

- Initiative One
- Initiative Two
- Initiative Three
- Initiative Four

Executive Session

The usefulness of the structure illustrated in Agenda Five is substantially enhanced if your budget was built based on specific initiatives that were based on clear priorities for the year. The worksheet below is a possible tool for your staff to use in building this type of budget.

INITIATIVE PROPOSAL FORM

(This can continue onto a second page)

Don't forget to submit your initiative spreadsheet with this form.

Name of Initiative:

Staff Implementing (underline staff member whose spreadsheet contains this proposal):

Institutional Priority Addressed:

Goal Addressed:

Description of Initiative

How will this advance institutional priorities?

What outcome do you expect and how will this be measured?

How do you plan to get there (when, with what)?

Who are the stakeholders involved in implementation?

What stakeholders will benefit after implementation?

Description of Resources Needed

Personnel:

Other Expenses:

Revenues Added or Continuation Budget Expenses Shifted or Reduced:

Net Estimated Cost This Year:

Net Estimated Cost the Following Year:

Milestones

[These milestone entries should match the timing in your spreadsheet and be by month or quarter. Milestones should be provided for hires, major purchases, initial deliverables, final deliverables, etc.]

Chapter 10

Getting Organized: The Financial Roles of an Effective Board

Often referred to under the umbrella term of *governance*, the question of the division of labor among board, staff, board chair, and executive director has no perfect answer. I have seen board structures that worked for a year or two but then became unworkable when just one board member changed. Rather than get bogged down in a discussion of the myriad possible ways to organize, I would like to talk about the roles that I think are most necessary in order to attract and retain committed and talented staff and board members who will pay attention to the long term financial health of the organization.

Three critical board duties

The board has three major tasks related to financial management:

1. to set and sustain the strategic financial direction and policies of the organization,
2. to support and encourage the executive director in maintaining the financial health and effective financial management of the organization, and
3. to oversee execution of the financial policies, strategies, and priorities of the organization.

These three tasks don't overlap very well and sometimes result in contradictory behavior, particularly with respect to oversight. In previous conversations we talked about the board's strategic tasks regarding finance: having a long-term set of goals and mission, formulating a financial plan to sustain those goals, and assembling an annual budget that allocates resources to specific activities to achieve those goals in a stable and sustainable manner.

The board's key task in support of staff is to choose a skilled chief executive. After that, an effective board casts itself in the role of seeking to help the executive director, actively soliciting the executive's suggestions as to where the board can be most useful. The board should define its own success as its ability to foster the success of its executive director.

The fly in the ointment can easily be the board's third task, its oversight function. Board oversight is a role that <u>validates</u> principles, objectives, and execution. In contrast, micromanagement is a role that <u>dictates how to execute</u>—and it must be avoided by the board in all but the most extreme circumstances. Board members who are active managers or top executives can easily forget to leave their executive hats at the door and seek to fulfill their board role by acting, doing, or directing. Oversight

Excerpt from ***Linking Mission to Money*** **© 2004 by Allen J. Proctor: Published by The Academy for Leadership and Governance, 65 Jefferson Avenue, Columbus, Ohio 43215.**

can and should be a hands-off activity. Support is an activity that can be hands-on but it should be hands-on only at the request of the executive director. When unsolicited, help can become usurpation, which soon leads to the board's second-guessing the executive director and, before you realize it, the supportive role of the board can have transformed into direct management with an executive director that has become a highly paid clerk executing the board's decisions. Ironically, boards that are worried about too little to do or too few opportunities to feel engaged are oftentimes in that position because they are neglecting to put enough time into their strategic duties.

The key word in that last paragraph about board oversight is "validate." To validate execution means to ensure that what was supposed to be done was indeed done and that it remains consistent with the organization's principles, objectives, and mission. You can do this at the board level by having staff commit to a timetable and a set of outcomes and then validating whether the timetable was followed and the outcomes achieved. You don't need to meet with staff, review working papers, see email traffic, or have endless staff presentations to do this. And you certainly don't need to make or review all operational decisions.

Too often a concerned board that wants to be involved in the organization takes its first step into management by adopting a task or initiative as its own. You should approach this "slippery slope" of desire with caution and review it regularly for its continued value to the executive director. In a very small organization, it may be unavoidable to have a board-sponsored initiative. There may be so few staff that board members must take on some operational tasks. In those cases, it is extremely important to be quite clear about each board member's duties, responsibilities, and authorities, and to make the lines of authority as explicit as possible, preferably in writing. A board member as boss and colleague can be a very confusing role for a staff member. Recognize this potential conflict and document the scope and limitations of the board member's role as best you can.

I don't want to leave you with the impression that oversight is equivalent to annoying or interfering with the staff. On the contrary, oversight is essential and it needs to be persistent, by both executive director and board. The mistake is made when management oversight is confused with board oversight. Management oversight is "on the ground" and involves internal controls such as the staff showing up for work, laws being followed, procedures being documented, etc. Board oversight is "10,000 feet up" and involves validating the continued relevance and need for the organization's mission by ensuring the consistency of policies, objectives, and spending with that mission. Later I will talk about the one board committee, the audit committee, that may appropriately delve selectively into areas of management oversight.

Board officers and their roles

The types and titles of board positions are very flexible and there is little standardization. You should set up a structure that fits the personalities and skills of board members in a way that facilitates good decision-making. The important thing is to make the duties, responsibilities, and authorities clear to everyone, including staff.

Titles of positions should serve your needs. Be sure that labels don't get in the way of purposes, and that you establish whatever positions and committees are required by the corporate statutes in your state. The titles of positions can be very confusing, even the title of "president." In some organizations the president is the chair of the board and in other organizations the president is the senior staff position, which also can be labeled executive director, chief executive officer, secretary, or managing director, among other titles. Similarly, the titles treasurer and secretary can be used for board or for staff positions. Other common board titles are chair, vice-chair, and director. Many of these titles exist solely because state law requires that signatories on corporate documents have specific titles. Some organizations use titles as an indirect way of determining membership on an executive committee.

There are two roles which you should have covered regardless of whether or not they are required by state law. You should designate a board member to be responsible for setting agendas, running the meetings, and coordinating with the senior manager (typically this is the chair coordinating with the executive director.) You should also designate a board member to be responsible for reporting on the organization's financial condition, coordinating the outside financial audit, and coordinating with the senior financial manager. In larger organizations this is often the treasurer coordinating with the chief financial officer or business manager. These positions primarily exist to create a clear line of communication between key staff and the board. If your organization has other key staff positions, you should consider appointing a board member to act as a single point of contact for that staff member. You needn't have a title for that board duty.

Since I have chosen to highlight the board chair and board treasurer, let me add a few cautions about their responsibilities with respect to the rest of the board. The board chair is responsible for ensuring that clear agendas are set for each board meeting. In addition, it is the board chair's duty to ensure that the board performs its financial oversight and decision-making duties. Note that I have carefully used the word "ensure" for the chair, not the word "perform:" it is not appropriate for the chair to replace or pre-empt the oversight and decision-making duties of other board members. The chair is an organizer and facilitator; the board must not delegate its duties to this one person. In particular the chair should take the lead in encouraging a culture of asking questions, facilitating good decision-making by the board, and keeping abreast with the executive director on execution of board decisions. It is the chair's duty to see that meetings have a purpose, accomplish that purpose, and address each major board duty over the course of the year.

This same caution applies to the role of treasurer. The board treasurer should be a person who is very interested in the finances of the organization. You do not need this person to be an accountant or a finance professional, although you should try to have someone with those skills on your board. In fact, sometimes it is best to have a non-accountant as your treasurer because a generalist in this position may be better able to facilitate participation by the entire board in the financial oversight and decision-making duties of the board. I have seen too many situations in which the appointment of an accountant or finance professional to the treasurer's post in effect lets the rest of the board "off the hook" for paying attention to the finances and understanding the significant financial issues facing the organization.

Seeing emerging problems is most successfully done with as many eyes watching as possible; beware letting an expert take this responsibility away from the rest of the board. One of the biggest challenges for the regular, "non-financial expert" board member is to persist in asking questions about the finances when the chair and/or treasurer want to move on to other agenda items. Having a non-expert in those positions can often contribute positively to an environment that encourages discussion and questioning by the entire board because the board cannot expect a non-expert to see behind a vague presentation or a confusing table of figures, whereas they may expect an expert to have already identified and resolved any problems before the board meeting.

Board committees and their roles

There are three financial activities that make up the focus of a specific committee or a board committee of the whole:

1. Budget oversight: monitoring the completion of your priorities on schedule, on budget, and on objective;
2. Planning for the future, both programmatic and financial;
3. Looking back to assess the accuracy and adequacy of staff communication to the board and to assess the effectiveness of your organization's activities in addressing your mission.

Some boards assign up to three committees to these activities but your chair can easily accomplish them at meetings of the full board through careful agenda planning over the course of the year.

The names and numbers of committees should serve your needs. There are usually no requirements for you to have any committees, in which case you will be working as what is called a *committee of the whole.* The only useful purpose for having committees is to divide up the work so that not every board member must devote time to every board task. You can vary this as often as you need to. Some organizations leave the committee structure up to the chair of the board and in fact change numbers, titles, and duties of committees with each new board chair. Other organizations may choose to use only ad hoc committees, which by definition are created for a specific purpose and expire when that purpose is achieved. Some common committee titles are executive, audit, budget, finance, program, strategy, personnel, travel, benefits, building, development, acquisitions, and capital. This list is far from exhaustive but it should assure you that you can do whatever best meets your needs and give a committee whatever name best suits your purposes. I will describe these key committee activities and name the committees finance, executive, and audit, but you can choose different names if appropriate.

In large or complex organizations the first of the three financial activities is often assigned to a finance committee. This committee will be expected to provide more timely oversight and decision-making by meeting more frequently than the full board can meet.

The second activity of programmatic and financial planning can be assigned to a planning committee or to the executive committee in order to keep things moving. If this duty is delegated to a committee I encourage you to still keep the full board firmly engaged in planning with at least one stand-alone board meeting per year devoted exclusively to reviewing your programmatic and financial plans.

The task of assessment and review is often assigned to the executive committee or the audit committee. Audit committees are commonly created to ensure that the organization systematically evaluates the quality and integrity of its accounting and financial statements and internal controls. Audits conducted by an outside auditing firm are a tool often used to structure the annual evaluation. The specifics of the annual financial audit will be discussed in another conversation. You should also make sure this committee, or another you select, extends its review to include your organization's financial health, internal communication, and focus on mission.

Internal financial communication to the board by staff should regularly be reviewed for its effectiveness. It is in this area that persistent questioning can be most helpful. If board meetings become too routine and largely formulaic, it is worthwhile every so often to take a skeptical look at staff reporting to discern if you are getting substance. A board culture that "punishes the messenger" or in any way sends an implicit or explicit message that bad news is not welcome is particularly vulnerable to staff reporting that skirts substance in order to avoid tension. This review of internal communication is not commonly done because it offers the possibility of creating tension and stress. Better to have some occasional tension and stress though, than a board that is out of touch.

The audit committee can also be used to provide a confidential forum for evaluation of concerns regarding staff or board misconduct. ***This function is the sole exception to the rule that the board should stay out of detailed operational issues.***

In a small organization, objective evaluation by the board may be more difficult because of multiple overlapping oversight and managerial roles that board members may play. In these cases, you may need to have an outside auditor play an expanded evaluation role. If the services of an outside auditor are prohibitively expensive for your organization, consider asking an audit firm to help you pro-bono or seek a donor to support the cost. If either option is not feasible, ask another, trusted local organization to evaluate your financial health and your focus on mission. While this last option may seem awkward or embarrassing at first, you will soon conclude that the insight and objective information provided by outside, confidential review is worth its weight in gold.

However you choose to organize your board and assign roles and responsibilities, it is essential that you remain keenly aware of how and why you are doing things the way you are. In Chapter 15, "Review the Basics Once a Year," we will talk more about how the board should regularly ask itself if responsibility and accountability are clearly assigned. In addition, perhaps an orientation of new members can provide a useful vehicle both to compel you to review your ways of doing business and to foster probing questions of those ways by your new board members.

Your Job in the Budget Process

a. Issues and Puzzles

b. Key Points to Remember

c. Three Exercises

d. Excerpt from *Linking Mission to Money*

a. Issues and Puzzles

- What value can the board add to a budget process that has dozens of little pieces that I can't know and, frankly, probably shouldn't even bother about?

- What is the right balance between approving a budget with little discussion and poring through every line and number?

b. Key Points to Remember

1. Make sure that
    - mission,
    - goals,
    - priorities, and
    - spending

   are well understood and mutually consistent.

2. Ensure that the budget conserves your mission by having
    - sufficient activities that are profitable,
    - clearly achievable actions, and
    - measurable revenue milestones.

c. Three Exercises

Exercise One: Develop budget proposals that address mission and priorities but do not require additional monies.

It is important to the health of a nonprofit to separate financial growth from mission growth. While one can accompany the other, mission growth can occur by reallocating money or time among different activities or by adjusting the priorities within an activity.

<u>Example</u>
Suppose you are an arts organization and one of the board's goals for the next budget year is to develop audience in the under-40 population, but you have no additional monies available this year to advance this goal.

What are some possible actions or initiatives the staff could propose that would cost no money?

1. Your marketing staff could propose how their current level of effort can make inroads into that population.
2. Your programming staff could make a parallel proposal.
3. Your board nominating committee could foster connection with this new audience through your board recruiting for the next year.

<u>Exercise</u>:

- ➢ Choose one goal for your nonprofit for the next year.
- ➢ Write down three or four actions or initiatives that would achieve or advance that goal without enlarging the budget. If you are reallocating monies from another part of the budget, you must also show how reducing funds elsewhere in the budget advances your goal and your mission.

Exercise Two: Identify the major activities of your nonprofit and assess where you make money and where you lose money.

The choice and mix of profitable and unprofitable activities is a critical policy decision of the board. The fact that you have fundraising does not mean all your activities are unprofitable: donors are really customers or patrons who do not ask for one of your products or services in return. Some of your activities will attract donors, but many may not. You need to be conscious of where you need to be profitable if you are to sustain your mission.

- What board decisions regarding choice and mix of activities has the board made in the example below?

	Total Organization	Activity One	Activity Two	Activity Three
Revenue	42	25	13	4
Expense	(39)	(10)	(15)	(14)
Profit/(Loss)	**3**	**15**	**(2)**	**(10)**
Addition to Reserves	(3)	na	na	na
Net Revenue	0	na	na	na

- Identify the two to four primary activities of *your* nonprofit.
- In which activities do you expect you are profitable? Unprofitable?
- If you have unprofitable activities, fill in the table above with some rough estimates. Is this mix sustainable? If not, for which activities would you establish profitability targets so that the entire nonprofit becomes sustainable?

Exercise Three: Develop milestones for your major revenues which the board can use during the year to evaluate the likelihood of achieving budgeted revenues.

Revenue estimates in your budget are very different in nature from expenditure estimates. Revenue estimates are forecasts that are explicitly or implicitly based on a prediction that a certain sequence of events or a specific scenario will occur.

Example

Common revenue estimates are admissions or fees, fundraising, and governmental or foundation grants. Each can be associated with one or more measurable milestones (specific achievements by a specific deadline with identified contingency actions) that the board can review at appropriate times of the year.

1. **Key admissions assumptions:** "We expect increased attendance to 5,000 with revenue of $25,000 over the holidays. If attendance instead remains at last year's lower levels we will know by January 1 and will reduce our revenue estimate by $5,000."
2. **Key fundraising assumptions:** "We anticipate the Widget Corporation will renew its pledge for $10,000 in October. If we don't have the pledge in hand by November 30, we will reduce our revenue estimate by $10,000."
3. **Key grant assumptions:** "We have applied for a $15,000 grant to support our Near East Side outreach efforts. If we don't have the grant in cash by March 31, we will freeze hiring of replacement staff until we have accumulated $15,000 of savings to sustain the outreach program."

Note: Reducing a revenue estimate does not mean giving up on a grant or a donor. Rather, it means that your organization is turning its reliance to what is real (the gift or grant has not been received) and adjusting its plans while it can still do so in an orderly manner that preserves its mission and priorities.

Exercise

- Choose two major revenues for your nonprofit.
- From what you know, write down two to four events or activities that are important to acquiring those revenues.
- Now write down the dates during the year when you expect to have a good idea whether or not those revenues will be realized.
- Identify the board meetings during the year when you would include review of those estimates on the board agenda.

Chapter 5

Reviewing Priorities

About one quarter into the new fiscal year you as a board should reconvene for a reality check on your vision and priorities. The outcome of this meeting should be the list of priorities and outcomes for the staff to use in formulating the budget for next year. With this meeting you will ensure that your vision and priorities will be an integral part of your governance rather than stale concepts that are put in a binder and left on a shelf to gather dust.

Three crucial questions

There are three questions that it is crucial the board ask itself before the staff begins preparing the next fiscal year's budget. These are fundamental issues that don't easily fit into a routine board agenda.

First, ask yourselves whether your spending reflects your priorities. Start with the facts: convince yourselves that your spending last year was consistent with your mission and last year's priorities. After that, do the same for the budget you have just started: Is the current budget consistent with the current priorities? Be especially wary of responses like "that is how we have always spent our money." Times change, needs change, priorities change; your spending should be changing too. As a quick check on mission focus, look at the percentages of expenses spent on programming, fundraising, and administration and how those percentages have changed over the past five or so years. If the share devoted to programming is trending downward, it is time to refocus on priorities. Also, try matching revenues for a particular program with its expenses. Is the program self-supporting? Should it be? Is the value of the program commensurate with the net cost to the organization?

Second, ask yourselves how well you stick to your plans and priorities. Take a look at how the last year ended compared with the budget you approved for last year. Was spending growth where you expected? Revenue growth too? Did the final audit confirm what you were told in your last budget report before the year ended? If you answered "no" to any of these questions, you need to review your oversight process because your plans and reviews aren't consistent with what is happening.

Third, ask yourselves what events might compel you to deviate from delivering on your priorities in the current year and the year for which you will soon be budgeting. Force yourself to be pessimistic—a problem anticipated is easier to resolve than a crisis.

At the conclusion of this review you should be convinced that your spending is indeed consistent with your priorities. You should also be convinced that you can realistically continue with these priorities over the coming year or so.

Excerpt from *Linking Mission to Money* © 2004 by Allen J. Proctor: Published by The Academy for Leadership and Governance, 65 Jefferson Avenue, Columbus, Ohio 43215.

Making changes

After the board has answered those three crucial questions, you now need to decide where you want to change or tweak those priorities for the coming year, if at all. With those priorities in hand, you then turn them over to the staff and ask them to begin preparing estimates of the resources they believe will be necessary for the next year to meet those priorities. Over the next few months they will review progress in the current year and develop proposals and cost and resource estimates for the coming year consistent with your strategic priorities.

When you receive the staff's proposed budget, first look to see if it is balanced and if it reflects the priorities you gave the staff earlier. If the budget proposal does not have revenues equaling expenses, your duty is to revise your priorities, not to nitpick their estimates of revenues or expenses. Remember, your board role is to set priorities and to oversee the accomplishment of those priorities within the overall availability of resources. You need to resist dwelling on the estimates for any particular area. The executive director, and if the organization is small, perhaps the treasurer too, has the role of making sure the estimates are good and well-supported before the budget is presented to you. In a large board, the finance committee may handle the first few rounds of budget review with the staff before a final recommendation is passed to the executive committee and then to the full board.

It is not appropriate for the board to change spending estimates without also changing the priorities and expectations for service delivery. Don't be the board that cuts spending but tells the staff that they must still provide the same service levels as before. If they can do the same with less, then you have already failed as a board because you haven't been doing your annual reality checks very well in trying to provide the best services with the resources available!

On the following page is a timeline for the budget process. You may be surprised to see that the process starts nine months or more before the start of the next fiscal year. Once you think of the budget as the result of a goal-setting and priority-setting process, you will begin to see the budget process as a continual, year-round process of high level discussions about vision, goals, and priorities, with an ongoing set of reality checks.

A TIMETABLE FOR BUILDING AND MONITORING A BUDGET

Task	Months Before/(After) Start of Fiscal Year
Readjust current budget to be consistent with audited results of year just completed	9
Board reviews long-term goals, vision, and priorities for next year	8
Staff does first re-estimate of current budget and projects next year revenues	7
Staff begins to formulate proposed budget linking it to broad goals	6
Staff prioritizes proposals, re-estimating current year's budget, and projecting next year's revenues	5
Staff makes proposals to the Board to meet its priorities and outcomes within projected revenues (for larger organizations, this proposal may be made to the Finance Committee)	4
Staff revises proposals and presents to Board (for larger organizations this may be presented to the Executive committee)	3
Budget revised and final version presented to full board for approval	2
Budget published and distributed to staff and interested parties	1
Review audit of year just completed and validate feasibility of new budget	(3)
Review achievement of first quarter goals and priorities and validate feasibility of the year's timetable, goals, and resource adequacy	(4)
Review achievement of second quarter goals...	(7)
Review achievement of third quarter goals...	(10)
Review audit of completed year	(15)
Review and file IRS Form 990	(18)

Communicating

a. Issues and Puzzles

b. Key Points to Remember

c. Three Exercises

d. Excerpt from *Linking Mission to Money*

©2004 ALLEN PROCTOR CONSULTING, LLC

a. Issues and Puzzles

- Who should know about what? It seems that the board chair and executive committee get the most information.

- Do I need to be on the executive committee to know what is going on?

- Is it for the board chair or executive committee to decide what issues and information go to the rest of the board or are made public?

b. Key Points to Remember

1. Speak the truth openly and routinely to all audiences:
    - Board
    - Staff
    - Donors
    - Media
    - All Interested Parties

2. All board members need to be aware of the key messages implicitly or explicitly conveyed by the
    - External Audit
    - Management Letter
    - IRS Form 990

c. Three Exercises

For these exercises, sections have been excerpted from the IRS Form 990s filed by three nonprofits: COSI, the Columbus Symphony Orchestra, and the Columbus Zoo.

All these filings are easily available on the internet at www.guidestar.org. Because of the ready availability of Form 990 reports, you should be aware of how your organization uses its Form 990 filing to report its activities and how effectively it uses the report to convey how it is linking mission to money.

Exercise One
Everyone wants to know if an organization has balanced its budget. Line 18 of Part I of Form 990 reports only one of many possible definitions of surplus or deficit. The definition used for line 18 may not be an appropriate indicator of your operating results. This definition can be especially misleading if your organization has substantial facilities or equipment.

Part II provides the detail underlying expenses. Notice that line 42 reports depreciation and depletion expenses. These rarely represent true cash expenses of your organization but instead represent the declining value of property as it grows old. If you own your own facilities, this number can be sizable and it will distort your reported operating expenses and surplus.

- Does line 18 report a surplus or deficit for the Columbus Zoo, Columbus Symphony, and COSI?
- Look at depreciation for the three organizations. Is it different for the three? Does depreciation distort the reported operating expenses of the organizations? Is this significant for any of the three organizations?
- Do you think the "message" regarding operating surpluses that is reported on line 18 properly reflects the operating results for each of the organizations?
- Notice how COSI included a comment with line 18. What message do you think is being conveyed? Do you think that comment is useful to the reader?
- Does line 18 in Part I of your nonprofit's Form 990 report a surplus or a deficit? Do you believe this an accurate portrayal of your operating results? Why or why not? What could you do to provide a more accurate portrayal?

Form **990** | **Return of Organization Exempt From Income Tax** | OMB No. 1545-0047 **2002**

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

Department of the Treasury Internal Revenue Service

▶ The organization may have to use a copy of this return to satisfy state reporting requirements

Open to Public Inspection

A For the 2002 calendar year, or tax year period beginning and ending

B Check if applicable: Address change; Name change; Initial return; Final return; Amended return; Application pending

Please use IRS label or print or type. See Specific Instructions.

C Name of organization: COLUMBUS ZOOLOGICAL PARK ASSOCIATION, INC

D Employer identification number: 31-4390844

Number and street (or P.O. box if mail is not delivered to street address): 9990 RIVERSIDE DRIVE | Room/suite

E Telephone number: (614)645-3477

City or town, state or country, and ZIP + 4: POWELL, OH 43065

F Accounting method: [ ] Cash [X] Accrual [ ] Other (specify) ▶

• Section 501(c)(3) organizations and 4947(a)(1) nonexempt charitable trusts must attach a completed Schedule A (Form 990 or 990-EZ)

H and I are not applicable to section 527 organizations.

H(a) Is this a group return for affiliates? [ ] Yes [X] No

H(b) If "Yes," enter number of affiliates ▶

H(c) Are all affiliates included? N/A [ ] Yes [ ] No (If "No," attach a list.)

H(d) Is this a separate return filed by an organization covered by a group ruling? [ ] Yes [X] No

G Web site: ▶WWW.COLSZOO.ORG

J Organization type (check only one) ▶ [X] 501(c) (3) ◀ (insert no.) [ ] 4947(a)(1) or [ ] 527

K Check here ▶ [ ] if the organization's gross receipts are normally not more than $25,000. The organization need not file a return with the IRS, but if the organization received a Form 990 Package in the mail, it should file a return without financial data. Some states require a complete return.

I Enter 4-digit GEN ▶

M Check ▶ [X] if the organization is not required to attach Sch. B (Form 990, 990-EZ, or 990-PF).

L Gross receipts. Add lines 6b, 8b, 9b, and 10b to line 12 ▶ 32,699,844.

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances

Revenue	1	Contributions, gifts, grants, and similar amounts received				
	a	Direct public support	1a	2,762,993.		
	b	Indirect public support	1b			
	c	Government contributions (grants)	1c	13,949,302.		
	d	Total (add lines 1a through 1c) (cash $ 16,712,295. noncash $)			1d	16,712,295.
	2	Program service revenue including government fees and contracts (from Part VII, line 93)			2	5,687,733.
	3	Membership dues and assessments			3	2,773,952.
	4	Interest on savings and temporary cash investments			4	204,111.
	5	Dividends and interest from securities			5	
	6 a	Gross rents SEE STATEMENT 1	6a	452,467.		
	b	Less rental expenses	6b			
	c	Net rental income or (loss) (subtract line 6b from line 6a)			6c	452,467.
	7	Other investment income (describe ▶)			7	
	8 a	Gross amount from sale of assets other than inventory	(A) Securities: 101,055. 8a	(B) Other		
	b	Less cost or other basis and sales expenses	101,055. 8b			
	c	Gain or (loss) (attach schedule)	8c			
	d	Net gain or (loss) (combine line 8c, columns (A) and (B))	STMT 2		8d	
	9	Special events and activities (attach schedule)				
	a	Gross revenue (not including $ of contributions reported on line 1a)	9a			
	b	Less direct expenses other than fundraising expenses	9b			
	c	Net income or (loss) from special events (subtract line 9b from line 9a)			9c	
	10 a	Gross sales of inventory, less returns and allowances	10a	1,956,443.		
	b	Less cost of goods sold	10b	851,561.		
	c	Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a)	STMT 3		10c	1,104,882.
	11	Other revenue (from Part VII, line 103)			11	4,811,788.
	12	Total revenue (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11)			12	31,747,228.
Expenses	13	Program services (from line 44, column (B))			13	24,981,538.
	14	Management and general (from line 44, column (C))			14	1,031,504.
	15	Fundraising (from line 44, column (D))			15	1,696,734.
	16	Payments to affiliates (attach schedule)			16	
	17	Total expenses (add lines 16 and 44, column (A))			17	27,709,776.
Net Assets	18	Excess or (deficit) for the year (subtract line 17 from line 12)			18	4,037,452.
	19	Net assets or fund balances at beginning of year (from line 73, column (A))			19	68,089,709.
	20	Other changes in net assets or fund balances (attach explanation)			20	0.
	21	Net assets or fund balances at end of year (combine lines 18, 19, and 20)			21	72,127,161.

RECEIVED NOV 2 0 2003 OGDEN, UT IRS-OSC

SCANNED DEC 1 2 2003

223001 01-22-03 LHA For Paperwork Reduction Act Notice, see the separate instructions. Form 990 (2002)

Part II Statement of Functional Expenses All organizations must complete column (A). Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others

Do not include amounts reported on line 6b, 8b, 9b, 10b, or 16 of Part I		(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22 Grants and allocations (attach schedule) cash $ ______ noncash $ ______	22				
23 Specific assistance to individuals (attach schedule)	23				
24 Benefits paid to or for members (attach schedule)	24				
25 Compensation of officers, directors, etc	25	295,241.	0.	295,241.	0.
26 Other salaries and wages	26	10,590,068.	10,518,477.	71,591.	
27 Pension plan contributions	27	1,560,014.	1,484,297.	75,717.	
28 Other employee benefits	28	1,114,867.	1,097,989.	16,878.	
29 Payroll taxes	29	453,186.	450,580.	2,606.	
30 Professional fundraising fees	30	377,421.			377,421.
31 Accounting fees	31	17,500.		17,500.	
32 Legal fees	32	165,615.		165,615.	
33 Supplies	33	829,267.	823,782.	5,485.	
34 Telephone	34	159,240.	159,240.		
35 Postage and shipping	35	131,553.	84,875.		46,678.
36 Occupancy	36	1,026,317.	1,026,317.		
37 Equipment rental and maintenance	37	231,085.	223,642.	7,443.	
38 Printing and publications	38	151,761.	41,583.		110,178.
39 Travel	39	101,195.	58,095.	43,100.	
40 Conferences, conventions, and meetings	40	82,001.	82,001.		
41 Interest	41	257,638.	257,638.		
42 Depreciation, depletion, etc (attach schedule)	42	3,857,263.	3,857,263.		
43 Other expenses not covered above (itemize)					
a	43a				
b	43b				
c	43c				
d	43d				
e SEE STATEMENT 4	43e	6,308,544.	4,815,759.	330,328.	1,162,457.
44 Total functional expenses (add lines 22 through 43) Organizations completing columns (B)-(D) carry these totals to lines 13-15	44	27,709,776.	24,981,538.	1,031,504.	1,696,734.

Joint Costs Check ▶ ☐ if you are following SOP 98-2

Are any joint costs from a combined educational campaign and fundraising solicitation reported in (B) Program services? ▶ ☐ Yes ☒ No

If "Yes," enter (i) the aggregate amount of these joint costs $ ______, (ii) the amount allocated to Program services $ ______, (iii) the amount allocated to Management and general $ ______, and (iv) the amount allocated to Fundraising $ ______

Part III Statement of Program Service Accomplishments

What is the organization's primary exempt purpose? ▶ SEE STATEMENT 5

All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable. (Section 501(c)(3) and (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants and allocations to others.)

	Program Service Expenses (Required for 501(c)(3) and (4) orgs., and 4947(a)(1) trusts, but optional for others.)
a THE COLUMBUS ZOOLOGICAL ASSOCIATION PROVIDES FOR THE MAINTENANCE OF ANIMALS AND GARDENS FOR EDUCATION, PRESERVATION AND RESEARCH. ALL PROGRAM EXPENSES ARE IN CONNECTION WITH THAT SERVICE. (Grants and allocations $)	24,981,538.
b (Grants and allocations $)	
c (Grants and allocations $)	
d (Grants and allocations $)	
e Other program services (attach schedule) (Grants and allocations $)	
f Total of Program Service Expenses (should equal line 44, column (B), Program services) ▶	24,981,538.

223011 01-22-03

Form **990** | **Return of Organization Exempt from Income Tax**

Department of the Treasury Internal Revenue Service

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

► The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No 1545 0047

2002

Open to Public Inspection

A For the 2002 calendar year, or tax year beginning Jul 1 , 2002, and ending Jun 30 , 2003

B Check if applicable: [ ] Address change [ ] Name change [ ] Initial return [ ] Final return [ ] Amended return [ ] Application pending

Please use IRS label or print or type. See specific instructions.

C Name of organization: Franklin County Historical Society dba COSI Columbus

Number street (or P O box if mail is not delivered to street addr) Room/suite: 333 West Broad Street

City, town or country: Columbus State: OH ZIP code + 4: 43215-2738

D Employer Identification Number: 31-4383802

E Telephone number: (614) 228-2674

F Accounting method [ ] Cash [X] Accrual [ ] Other (specify) ►

• Section 501(c)(3) organizations and 4947(a)(1) nonexempt charitable trusts must attach a completed Schedule A (Form 990 or 990-EZ).

H and I are not applicable to section 527 organizations

H (a) Is this a group return for affiliates? [ ] Yes [X] No

H (b) If 'Yes,' enter number of affiliates ►

H (c) Are all affiliates included? [ ] Yes [ ] No (If 'No,' attach a list See instructions.)

H (d) Is this a separate return filed by an organization covered by a group ruling? [ ] Yes [X] No

I Enter 4-digit GEN ►

M Check ► [ ] if the organization is not required to attach Schedule B (Form 990, 990-EZ, or 990-PF).

G Web site: ► www.cosi.org

J Organization type (check only one) ► [X] 501(c) 3 ◄ (insert no) [ ] 4947(a)(1) or [ ] 527

K Check here ► [ ] if the organization's gross receipts are normally not more than $25,000 The organization need not file a return with the IRS, but if the organization received a Form 990 Package in the mail, it should file a return without financial data Some states require a complete return.

L Gross receipts: Add lines 6b, 8b, 9b, and 10b to line 12 ► 17,440,040.

Part I — Revenue, Expenses, and Changes in Net Assets or Fund Balances (See Instructions)

SCANNED JAN 29 04

1	Contributions, gifts, grants, and similar amounts received				
a	Direct public support	1a	7,003,505.		
b	Indirect public support	1b	7,239.		
c	Government contributions (grants)	1c	257,211.		
d	Total (add lines 1a through 1c) (cash $ 7,267,955. noncash $ 0.)			1d	7,267,955.
2	Program service revenue including government fees and contracts (from Part VII, line 93)			2	8,836,391
3	Membership dues and assessments			3	1,033,171.
4	Interest on savings and temporary cash investments			4	50,260.
5	Dividends and interest from securities			5	0.
6a	Gross rents	6a	91,777.		
b	Less rental expenses	6b	52,481.		
c	Net rental income or (loss) (subtract line 6b from line 6a)			6c	39,296.
7	Other investment income (describe ►)			7	

		(A) Securities		(B) Other		
8a	Gross amount from sales of assets other than inventory	20,177.	8a			
b	Less. cost or other basis and sales expenses	21,519.	8b			
c	Gain or (loss) (attach schedule) See L-8 Stmt	-1,342.	8c			
d	Net gain or (loss) (combine line 8c, columns (A) and (B))				8d	-1,342

9	Special events and activities (attach schedule)				
a	Gross revenue (not including $ 23,294. of contributions reported on line 1a)	9a	14,190		
b	Less direct expenses other than fundraising expenses	9b	26,382		
c	Net income or (loss) from special events (subtract line 9b from line 9a) See L-9 Stmt			9c	-12,192
10a	Gross sales of inventory, less returns and allowances	10a	76,129.		
b	Less. cost of goods sold	10b	119,793.		
c	Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a) See L-10 Stmt			10c	-43,664.
11	Other revenue (from Part VII, line 103)			11	49,990.
12	Total revenue (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11)			12	17,219,865.
13	Program services (from line 44, column (B))			13	19,163,607
14	Management and general (from line 44, column (C))			14	1,511,317.
15	Fundraising (from line 44, column (D))			15	866,772.
16	Payments to affiliates (attach schedule)			16	
17	Total expenses (add lines 16 and 44, column (A))			17	21,541,696
18	Excess or (deficit) for the year (subtract line 17 from line 12) +1,653,994 before depreciation			18	-4,321,831.
19	Net assets or fund balances at beginning of year (from line 73, column (A))			19	37,964,915.
20	Other changes in net assets or fund balances (attach explanation)			20	
21	Net assets or fund balances at end of year (combine lines 18, 19, and 20)			21	33,643,084.

RECEIVED JAN 27 2004 OGDEN, UT 130 IRS-OSC

Part II Statement of Functional Expenses All organizations must complete column (A) Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others

Do not include amounts reported on line 6b, 8b, 9b, 10b, or 16 of Part I		(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22 Grants and allocations (att sch) (cash $ ____ non-cash $ ____)	22				
23 Specific assistance to individuals (att sch)	23				
24 Benefits paid to or for members (att sch)	24				
25 Compensation of officers, directors, etc	25	296,760	89,403.	144,604	62,753
26 Other salaries and wages	26	6,684,781	5,644,628.	666,637.	373,516.
27 Pension plan contributions	27	243,271.	199,969.	28,219.	15,083
28 Other employee benefits	28	533,767.	433,318.	69,331.	31,118.
29 Payroll taxes	29	499,634.	416,044.	52,184	31,406
30 Professional fundraising fees	30	85,580.	0.	0.	85,580.
31 Accounting fees	31	52,935.	0.	52,935.	0.
32 Legal fees	32	74,832.	0.	74,832.	0.
33 Supplies	33	1,918,899.	1,827,553.	77,904.	13,442
34 Telephone	34	101,735.	84,791.	10,790.	6,154
35 Postage and shipping	35	124,365.	105,629.	13,582.	5,154.
36 Occupancy	36	1,033,306	1,022,782.	10,524.	0
37 Equipment rental and maintenance	37	1,104,189	1,103,585	604.	0
38 Printing and publications	38	61,316.	51,138.	0.	10,178.
39 Travel	39	58,217.	41,687.	10,707.	5,823
40 Conferences, conventions, and meetings	40	36,281.	29,842.	5,424.	1,015.
41 Interest	41	96,621.	77,254.	0.	19,367.
42 Depreciation, depletion, etc (attach schedule)	42	5,975,825.	5,700,483	179,436.	95,906.
43 Other expenses not covered above (itemize)					
a Outside Services	43a	813,941	646,629	100,718.	66,594
b Marketing	43b	944,320	928,834	0.	15,486.
c Other Exhibits	43c	406,210.	406,210	0	0.
d Miscellaneous	43d	394,911.	353,828.	12,886.	28,197.
e	43e				
44 Total functional expenses (add lines 22 - 43) Organizations completing columns (B) - (D), carry these totals to lines 13 - 15	44	21,541,696.	19,163,607.	1,511,317.	866,772.

Joint Costs. Check ► ☐ if you are following SOP 98-2

Are any joint costs from a combined educational campaign and fundraising solicitation reported in (B) Program services? ► ☐ Yes ☒ No

If 'Yes,' enter (i) the aggregate amount of these joint costs $ ____, (ii) the amount allocated to program services $ ____, (iii) the amount allocated to management and general $ ____; and (iv) the amount allocated to fundraising $

Part III Statement of Program Service Accomplishments

What is the organization's primary exempt purpose? ► Science education through hands-on discovery

All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable. (Section 501(c)(3) & (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants & allocations to others.)

	Program Service Expenses (Required for 501(c)(3) and (4) organizations and 4947(a)(1) trusts, but optional for others)
a Quality educational experiences for guests - 514,704 guests experienced COSI exhibits, planetarium, and programs, including Cap City Kids, workshops, school field trips, and other events (Grants and allocations $ 0)	15,273,013.
b Inquiry Learning for Schools is a statewide science and math education program. ILS provided strong teacher professional development and informal learning experiences for 52,808 students and families in at risk schools while supporting National Science Standards (Grants and allocations $ 0)	2,555,641
c Community Outreach - COSI on Wheels demonstrators visited 305,774 participants providing hands-on learning experiences Electronic Education, through distance learning, reached 16,696 participants Both provide science-themed activities for all age levels (Grants and allocations $ 0)	936,509
d Camp-In provides overnight learning experiences, for Girl Scout troops, that unite people in their quest to explore and learn about science. In FY03, Camp-In served 19,051 participants. (Grants and allocations $ 0.)	398,444.
e Other program services (Grants and allocations $)	
f Total of Program Service Expenses (should equal line 44, column (B), program services) ►	19,163,607.

Form **990**

Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

▶ The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No 1545-0047

2001

Open to Public Inspection

A For the 2001 calendar year, or tax year period beginning JUL 1, 2001 and ending JUN 30, 2002

B Check if applicable: Address change, Name change, Initial return, Final return, Amended return, Application pending

Please use IRS label or print or type. See Specific Instructions.

C Name of organization
COLUMBUS SYMPHONY ORCHESTRA

Number and street (or P O box if mail is not delivered to street address) | Room/suite
55 EAST STATE STREET

City or town, state or country, and ZIP + 4
COLUMBUS, OH 43215

D Employer identification number
31-6402408

E Telephone number
614-228-9600

F Accounting method [ ] Cash [X] Accrual [ ] Other (specify) ▶

• Section 501(c)(3) organizations and 4947(a)(1) nonexempt charitable trusts must attach a completed Schedule A (Form 990 or 990-EZ)

H and I are not applicable to section 527 organizations
H(a) Is this a group return for affiliates? [ ] Yes [X] No
H(b) If "Yes," enter number of affiliates ▶
H(c) Are all affiliates included? N/A [ ] Yes [ ] No
(If "No," attach a list)
H(d) Is this a separate return filed by an organization covered by a group ruling? [ ] Yes [X] No
I Enter 4-digit GEN ▶
M Check ▶ [ ] if the organization is not required to attach Sch B (Form 990 990-EZ, or 990-PF)

G Web site ▶WWW.COLUMBUSSYMPHONY.COM

J Organization type (check only one) ▶ [X] 501(c) (3) ◀ (insert no) [ ] 4947(a)(1) or [ ] 527

K Check here ▶ [ ] if the organization's gross receipts are normally not more than $25 000 The organization need not file a return with the IRS, but if the organization received a Form 990 Package in the mail, it should file a return without financial data Some states require a complete return

L Gross receipts Add lines 6b 8b 9b and 10b to line 12 ▶ 10,838,145.

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances

Revenue

1	Contributions, gifts, grants, and similar amounts received					
a	Direct public support		1a	4,632,151.		
b	Indirect public support		1b	770,376.		
c	Government contributions (grants)		1c			
d	Total (add lines 1a through 1c) (cash $ 5,402,527. noncash $)				1d	5,402,527.
2	Program service revenue including government fees and contracts (from Part VII line 93)				2	4,997,175.
3	Membership dues and assessments				3	
4	Interest on savings and temporary cash investments				4	169,322.
5	Dividends and interest from securities				5	
6 a	Gross rents		6a			
b	Less rental expenses		6b			
c	Net rental income or (loss) (subtract line 6b from line 6a)				6c	
7	Other investment income (describe ▶)				7	
8 a	Gross amount from sale of assets other than inventory	(A) Securities	8a	(B) Other		
b	Less cost or other basis and sales expenses		8b			
c	Gain or (loss) (attach schedule)		8c			
d	Net gain or (loss) (combine line 8c, columns (A) and (B))				8d	
9	Special events and activities (attach schedule)					
a	Gross revenue (not including $ of contributions reported on line 1a)		9a			
b	Less direct expenses other than fundraising expenses		9b			
c	Net income or (loss) from special events (subtract line 9b from line 9a)				9c	
10 a	Gross sales of inventory, less returns and allowances		10a			
b	Less cost of goods sold		10b			
c	Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a)				10c	
11	Other revenue (from Part VII line 103)				11	269,121.
12	Total revenue (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11)				12	10,838,145.

Expenses

13	Program services (from line 44, column (B))	13	8,546,435.
14	Management and general (from line 44, column (C))	14	1,259,198.
15	Fundraising (from line 44, column (D))	15	536,680.
16	Payments to affiliates (attach schedule)	16	
17	Total expenses (add lines 16 and 44, column (A))	17	10,342,313.

Net Assets

18	Excess or (deficit) for the year (subtract line 17 from line 12)	18	495,832.
19	Net assets or fund balances at beginning of year (from line 73, column (A))	19	5,536,179.
20	Other changes in net assets or fund balances (attach explanation) SEE STATEMENT 1	20	<288,236.>
21	Net assets or fund balances at end of year (combine lines 18, 19 and 20)	21	5,743,775.

RECEIVED
454 MAY 1 8 2003 IRS-OSC
OGDEN, UT

SCANNED JUN 07 2003

123001 01 04-02 LHA For Paperwork Reduction Act Notice, see the separate instructions. 1

Form 990 (2001)

Part II **Statement of Functional Expenses** All organizations must complete column (A). Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others

Do not include amounts reported on line 6b, 8b, 9b, 10b, or 16 of Part I		(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22 Grants and allocations (attach schedule) cash $ ______ noncash $ ______	22				
23 Specific assistance to individuals (attach schedule)	23				
24 Benefits paid to or for members (attach schedule)	24				
25 Compensation of officers, directors, etc	25	202,810.	0.	202,810.	0.
26 Other salaries and wages	26	7,281,085.	6,744,972.	251,310.	284,803.
27 Pension plan contributions	27				
28 Other employee benefits	28				
29 Payroll taxes	29				
30 Professional fundraising fees	30	324,181.	162,181.		162,000.
31 Accounting fees	31				
32 Legal fees	32				
33 Supplies	33	124,160.	83,602.	39,135.	1,423.
34 Telephone	34	30,567.		30,567.	
35 Postage and shipping	35	102,420.	75,930.	7,429.	19,061.
36 Occupancy	36	338,461.	251,139.	87,322.	
37 Equipment rental and maintenance	37				
38 Printing and publications	38	119,908.	119,908.		
39 Travel	39	87,565.	64,817.	11,407.	11,341.
40 Conferences, conventions, and meetings	40				
41 Interest	41				
42 Depreciation, depletion, etc (attach schedule)	42	81,991.		81,991.	
43 Other expenses not covered above (itemize)					
a	43a				
b	43b				
c	43c				
d	43d				
e SEE STATEMENT 2	43e	1,649,165.	1,043,886.	547,227.	58,052.
44 Total functional expenses (add lines 22 through 43) Organizations completing columns (B)-(D), carry these totals to lines 13-15	44	10,342,313.	8,546,435.	1,259,198.	536,680.

Joint Costs. Check ▶ ☐ if you are following SOP 98-2

Are any joint costs from a combined educational campaign and fundraising solicitation reported in (B) Program services? ▶ ☐ Yes ☒ No

If "Yes," enter (i) the aggregate amount of these joint costs $ ______ (ii) the amount allocated to Program services $ ______ (iii) the amount allocated to Management and general $ ______ and (iv) the amount allocated to Fundraising $ ______

Part III **Statement of Program Service Accomplishments**

What is the organization's primary exempt purpose? ▶ TO PROVIDE MUSIC TO THE COLUMBUS COMMUNITY

All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable. (Section 501(c)(3) and (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants and allocations to others.)

	Program Service Expenses (Required for 501(c)(3) and (4) orgs. and 4947(a)(1) trusts, but optional for others)
a CLASSICAL CONCERT PROGRAMS THAT SERVED 74,613 PATRONS. (Grants and allocations $)	4,252,784.
b PICNIC WITH THE POPS AND POPCORN POPS CONCERTS THAT SERVED 57,352 PATRONS. (Grants and allocations $)	1,301,873.
c POPS CONCERT PROGRAMS THAT SERVED 30,644 PATRONS. (Grants and allocations $)	1,041,498.
d OPERA AND BALLET PERFORMANCES SERVING 77,688 PATRONS. (Grants and allocations $)	867,915.
e Other program services (attach schedule) STATEMENT 3 (Grants and allocations $)	1,082,365.
f Total of Program Service Expenses (should equal line 44, column (B), Program services) ▶	8,546,435.

Exercise Two
This section contains Parts II and III of Form 990 for the Columbus Zoo, the Columbus Symphony Orchestra, and COSI. These sections convey important messages about how a nonprofit directs its spending to focus on mission and priorities.

Part II asks the nonprofit to allocate its spending among program services, management, and fundraising. There are no sharp rules on how this allocation should be done and there is substantial room for judgment. The total spending among these categories conveys a significant message that you should consider carefully.

Consider salaries and wages (line 26) and depreciation (line 42) and how they are allocated by the Columbus Zoo, the Columbus Symphony Orchestra, and COSI. Each takes a very different approach in allocating these expenses, which affects the overall picture of how total spending is allocated.

- What messages do you see conveyed in the decisions underlying the allocation of these two expense categories for each of the organizations? What would you have done differently?
- Look at Part II in the Form 990 report for your nonprofit. Does the message it conveys about spending agree with your notion of mission and priorities? What would you change in your report?

Part III provides an opportunity for the organization to send very clear and focused messages about how its spending is linked to its mission. This section can be blank, brief, neutral, or strongly self-promoting. Once again, the three organizations show significant differences in how they utilize this section to send messages about how they link mission to money.

©2004 ALLEN PROCTOR CONSULTING, LLC

- Describe the differences among the organizations in how they use Section II.
- How does each organization claim to "link mission to money?"
- Which approach do you think is more informative?
- Which approach does your nonprofit take in its Part II filing? What would you change in your nonprofit's report?

COLUMBUS ZOOLOGICAL PARK ASSOCIATION,INC 31-4390844

Part II Statement of Functional Expenses All organizations must complete column (A). Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others

Do not include amounts reported on line 6b, 8b, 9b, 10b, or 16 of Part I		(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22 Grants and allocations (attach schedule) cash $ ______ noncash $ ______	22				
23 Specific assistance to individuals (attach schedule)	23				
24 Benefits paid to or for members (attach schedule)	24				
25 Compensation of officers, directors, etc	25	295,241.	0.	295,241.	0.
26 Other salaries and wages	26	10,590,068.	10,518,477.	71,591.	
27 Pension plan contributions	27	1,560,014.	1,484,297.	75,717.	
28 Other employee benefits	28	1,114,867.	1,097,989.	16,878.	
29 Payroll taxes	29	453,186.	450,580.	2,606.	
30 Professional fundraising fees	30	377,421.			377,421.
31 Accounting fees	31	17,500.		17,500.	
32 Legal fees	32	165,615.		165,615.	
33 Supplies	33	829,267.	823,782.	5,485.	
34 Telephone	34	159,240.	159,240.		
35 Postage and shipping	35	131,553.	84,875.		46,678.
36 Occupancy	36	1,026,317.	1,026,317.		
37 Equipment rental and maintenance	37	231,085.	223,642.	7,443.	
38 Printing and publications	38	151,761.	41,583.		110,178.
39 Travel	39	101,195.	58,095.	43,100.	
40 Conferences, conventions, and meetings	40	82,001.	82,001.		
41 Interest	41	257,638.	257,638.		
42 Depreciation, depletion, etc (attach schedule)	42	3,857,263.	3,857,263.		
43 Other expenses not covered above (itemize)					
a	43a				
b	43b				
c	43c				
d	43d				
e SEE STATEMENT 4	43e	6,308,544.	4,815,759.	330,328.	1,162,457.
44 Total functional expenses (add lines 22 through 43) Organizations completing columns (B)-(D) carry these totals to lines 13-15	44	27,709,776.	24,981,538.	1,031,504.	1,696,734.

Joint Costs Check ▶ ☐ if you are following SOP 98-2

Are any joint costs from a combined educational campaign and fundraising solicitation reported in (B) Program services? ▶ ☐ Yes ☒ No

If "Yes," enter (i) the aggregate amount of these joint costs $ ______, (ii) the amount allocated to Program services $ ______

(iii) the amount allocated to Management and general $ ______, and (iv) the amount allocated to Fundraising $ ______

Part III Statement of Program Service Accomplishments

What is the organization's primary exempt purpose? ▶ SEE STATEMENT 5

All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable. (Section 501(c)(3) and (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants and allocations to others.)

	Program Service Expenses (Required for 501(c)(3) and (4) orgs., and 4947(a)(1) trusts but optional for others.)
a THE COLUMBUS ZOOLOGICAL ASSOCIATION PROVIDES FOR THE MAINTENANCE OF ANIMALS AND GARDENS FOR EDUCATION, PRESERVATION AND RESEARCH. ALL PROGRAM EXPENSES ARE IN CONNECTION WITH THAT SERVICE. (Grants and allocations $)	24,981,538.
b (Grants and allocations $)	
c (Grants and allocations $)	
d (Grants and allocations $)	
e Other program services (attach schedule) (Grants and allocations $)	
f Total of Program Service Expenses (should equal line 44, column (B) Program services) ▶	24,981,538.

223011 01-22-03

Form 990 (2002)

Part II Statement of Functional Expenses All organizations must complete column (A) Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others

Do not include amounts reported on line 6b, 8b, 9b, 10b, or 16 of Part I		(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22 Grants and allocations (att sch) (cash $ ______ non-cash $ ______)	22				
23 Specific assistance to individuals (att sch)	23				
24 Benefits paid to or for members (att sch)	24				
25 Compensation of officers, directors, etc	25	296,760	89,403.	144,604	62,753
26 Other salaries and wages	26	6,684,781	5,644,628.	666,637.	373,516.
27 Pension plan contributions	27	243,271.	199,969.	28,219.	15,083
28 Other employee benefits	28	533,767.	433,318.	69,331.	31,118.
29 Payroll taxes	29	499,634.	416,044.	52,184	31,406
30 Professional fundraising fees	30	85,580.	0.	0.	85,580.
31 Accounting fees	31	52,935.	0.	52,935.	0.
32 Legal fees	32	74,832.	0.	74,832.	0.
33 Supplies	33	1,918,899.	1,827,553.	77,904.	13,442
34 Telephone	34	101,735.	84,791.	10,790.	6,154
35 Postage and shipping	35	124,365.	105,629.	13,582.	5,154.
36 Occupancy	36	1,033,306	1,022,782.	10,524.	0
37 Equipment rental and maintenance	37	1,104,189	1,103,585	604.	0
38 Printing and publications	38	61,316.	51,138.	0.	10,178.
39 Travel	39	58,217.	41,687.	10,707.	5,823
40 Conferences, conventions, and meetings	40	36,281.	29,842.	5,424.	1,015.
41 Interest	41	96,621.	77,254.	0.	19,367.
42 Depreciation, depletion, etc (attach schedule)	42	5,975,825.	5,700,483	179,436.	95,906.
43 Other expenses not covered above (itemize)					
a Outside Services	43a	813,941	646,629	100,718.	66,594
b Marketing	43b	944,320	928,834	0.	15,486.
c Other Exhibits	43c	406,210.	406,210	0	0.
d Miscellaneous	43d	394,911.	353,828.	12,886.	28,197.
e	43e				
44 Total functional expenses (add lines 22 - 43) Organizations completing columns (B) - (D), carry these totals to lines 13 - 15	44	21,541,696.	19,163,607.	1,511,317.	866,772.

Joint Costs. Check ▶ ☐ if you are following SOP 98-2

Are any joint costs from a combined educational campaign and fundraising solicitation reported in (B) Program services? ▶ ☐ Yes ☒ No

If 'Yes,' enter (i) the aggregate amount of these joint costs $ ________ ; (ii) the amount allocated to program services $ ________ ; (iii) the amount allocated to management and general $ ________ ; and (iv) the amount allocated to fundraising $ ________

Part III Statement of Program Service Accomplishments

What is the organization's primary exempt purpose? ▶ Science education through hands-on discovery

All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable. (Section 501(c)(3) & (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants & allocations to others.)

	Program Service Expenses (Required for 501(c)(3) and (4) organizations and 4947(a)(1) trusts, but optional for others)
a Quality educational experiences for guests - 514,704 guests experienced COSI exhibits, planetarium, and programs, including Cap City Kids, workshops, school field trips, and other events (Grants and allocations $ 0)	15,273,013.
b Inquiry Learning for Schools is a statewide science and math education program. ILS provided strong teacher professional development and informal learning experiences for 52,808 students and families in at risk schools while supporting National Science Standards (Grants and allocations $ 0)	2,555,641
c Community Outreach - COSI on Wheels demonstrators visited 305,774 participants providing hands-on learning experiences Electronic Education, through distance learning, reached 16,696 participants Both provide science-themed activities for all age levels (Grants and allocations $ 0)	936,509
d Camp-In provides overnight learning experiences, for Girl Scout troops, that unite people in their quest to explore and learn about science. In FY03, Camp-In served 19,051 participants. (Grants and allocations $ 0.)	398,444.
e Other program services (Grants and allocations $)	
f Total of Program Service Expenses (should equal line 44, column (B), program services) ▶	19,163,607.

Part II Statement of Functional Expenses All organizations must complete column (A). Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others

Do not include amounts reported on line 6b, 8b, 9b, 10b, or 16 of Part I		(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22 Grants and allocations (attach schedule) cash $ ______ noncash $ ______	22				
23 Specific assistance to individuals (attach schedule)	23				
24 Benefits paid to or for members (attach schedule)	24				
25 Compensation of officers, directors, etc	25	202,810.	0.	202,810.	0.
26 Other salaries and wages	26	7,281,085.	6,744,972.	251,310.	284,803.
27 Pension plan contributions	27				
28 Other employee benefits	28				
29 Payroll taxes	29				
30 Professional fundraising fees	30	324,181.	162,181.		162,000.
31 Accounting fees	31				
32 Legal fees	32				
33 Supplies	33	124,160.	83,602.	39,135.	1,423.
34 Telephone	34	30,567.		30,567.	
35 Postage and shipping	35	102,420.	75,930.	7,429.	19,061.
36 Occupancy	36	338,461.	251,139.	87,322.	
37 Equipment rental and maintenance	37				
38 Printing and publications	38	119,908.	119,908.		
39 Travel	39	87,565.	64,817.	11,407.	11,341.
40 Conferences, conventions, and meetings	40				
41 Interest	41				
42 Depreciation, depletion, etc (attach schedule)	42	81,991.		81,991.	
43 Other expenses not covered above (itemize)					
a	43a				
b	43b				
c	43c				
d	43d				
e SEE STATEMENT 2	43e	1,649,165.	1,043,886.	547,227.	58,052.
44 Total functional expenses (add lines 22 through 43) Organizations completing columns (B)-(D), carry these totals to lines 13-15	44	10,342,313.	8,546,435.	1,259,198.	536,680.

Joint Costs. Check ▶ ☐ if you are following SOP 98-2

Are any joint costs from a combined educational campaign and fundraising solicitation reported in (B) Program services? ▶ ☐ Yes ☒ No

If "Yes," enter (i) the aggregate amount of these joint costs $ ______ ; (ii) the amount allocated to Program services $ ______ ; (iii) the amount allocated to Management and general $ ______ ; and (iv) the amount allocated to Fundraising $ ______

Part III Statement of Program Service Accomplishments

What is the organization's primary exempt purpose? ▶ TO PROVIDE MUSIC TO THE COLUMBUS COMMUNITY

All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable. (Section 501(c)(3) and (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants and allocations to others.)

	Program Service Expenses (Required for 501(c)(3) and (4) orgs, and 4947(a)(1) trusts, but optional for others.)
a CLASSICAL CONCERT PROGRAMS THAT SERVED 74,613 PATRONS. (Grants and allocations $)	4,252,784.
b PICNIC WITH THE POPS AND POPCORN POPS CONCERTS THAT SERVED 57,352 PATRONS. (Grants and allocations $)	1,301,873.
c POPS CONCERT PROGRAMS THAT SERVED 30,644 PATRONS. (Grants and allocations $)	1,041,498.
d OPERA AND BALLET PERFORMANCES SERVING 77,688 PATRONS. (Grants and allocations $)	867,915.
e Other program services (attach schedule) STATEMENT 3 (Grants and allocations $)	1,082,365.
f Total of Program Service Expenses (should equal line 44, column (B), Program services) ▶	8,546,435.

Exercise Three

Users of the IRS Form 990 often look at Section V to see how much the top officers are paid and how much time the officers and board members devote to the organization. This is an extremely sensitive section; however, it is public information so it is best to think carefully about who is included on this list and how many hours you report for each person.

You are required to report all board members and your senior staff. The form provides room for only nine entries in Part V, and the remaining individuals are reported in "Statements" which come at the end of the report. Many readers will not take the time to find the Statements at the end, so you should consider carefully the nine entries that are easy for a reader to find.

Once again, the Columbus Zoo, COSI, and the Columbus Symphony Orchestra take very different approaches to this part of the report.

- What messages are implicitly sent by each organization regarding the time and effort its board devotes to its work?
- What messages are implicitly sent by each organization regarding which persons are most important to the organization? How is that message sent?
- How do you react to the divergent number of entries in Part V across the three organizations?
- How has your organization utilized Part V and its related Statement? What message are you implicitly sending? Do you agree with that message? What would you change in your next report?

©2004 ALLEN PROCTOR CONSULTING, LLC

Part IV-A Reconciliation of Revenue per Audited Financial Statements with Revenue per Return

a	Total revenue, gains, and other support per audited financial statements	a	33,468,929.
b	Amounts included on line a but not on line 12, Form 990		
(1)	Net unrealized gains on investments $		
(2)	Donated services and use of facilities $ 870,140.		
(3)	Recoveries of prior year grants $		
(4)	Other (specify) $		
	Add amounts on lines (1) through (4)	b	870,140.
c	Line a minus line b	c	32,598,789.
d	Amounts included on line 12, Form 990 but not on line a		
(1)	Investment expenses not included on line 6b, Form 990 $		
(2)	Other (specify) STMT 10 $ -851,561.		
	Add amounts on lines (1) and (2)	d	-851,561.
e	Total revenue per line 12, Form 990 (line c plus line d)	e	31,747,228.

Part IV-B Reconciliation of Expenses per Audited Financial Statements with Expenses per Return

a	Total expenses and losses per audited financial statements	a	29,431,477.
b	Amounts included on line a but not on line 17, Form 990		
(1)	Donated services and use of facilities $ 870,140.		
(2)	Prior year adjustments reported on line 20, Form 990 $		
(3)	Losses reported on line 20, Form 990 $		
(4)	Other (specify) STMT 9 $ 851,561.		
	Add amounts on lines (1) through (4)	b	1,721,701.
c	Line a minus line b	c	27,709,776.
d	Amounts included on line 17, Form 990 but not on line a		
(1)	Investment expenses not included on line 6b, Form 990 $		
(2)	Other (specify) $		
	Add amounts on lines (1) and (2)	d	0.
e	Total expenses per line 17, Form 990 (line c plus line d)	e	27,709,776.

Part V List of Officers, Directors, Trustees, and Key Employees (List each one even if not compensated.)

(A) Name and address	(B) Title and average hours per week devoted to position	(C) Compensation (If not paid, enter -0-)	(D) Contributions to employee benefit plans & deferred compensation	(E) Expense account and other allowances
GERALD W. BORIN 9694 SUNSET DRIVE POWELL, OHIO 43065	EXEC. DIRECTR 40	170,991.	37,704.	7,400.
JACK B. HANNA P.O. BOX 1050 DELAWARE, OHIO 43015	DIR. EMERITUS 40	124,250.	27,397.	0.
SEE ATTACHED FOR LIST OF TRUSTEES	0-5 HOURS	0.	0.	0.

75 Did any officer, director, trustee, or key employee receive aggregate compensation of more than $100,000 from your organization and all related organizations, of which more than $10,000 was provided by the related organizations? If "Yes," attach schedule ▶ ☐ Yes ☒ No

Part IV-A Reconciliation of Revenue per Audited Financial Statements with Revenue per Return (See instructions.)

a	Total revenue, gains, and other support per audited financial statements	a	19,675,286.
b	Amounts included on line a but not on line 12, Form 990		
	(1) Net unrealized gains on investments $		
	(2) Donated services and use of facilities $		
	(3) Recoveries of prior year grants $		
	(4) Other (specify) $		
	Add amounts on lines (1) through (4)	b	
c	Line a minus line b	c	19,675,286.
d	Amounts included on line 12, Form 990 but not on line a:		
	(1) Investment expenses not included on line 6b, Form 990 $		
	(2) Other (specify) See Additional Information $ -2,455,421.		
	Add amounts on lines (1) and (2)	d	-2,455,421.
e	Total revenue per line 12, Form 990 (line c plus line d)	e	17,219,865.

Part IV-B Reconciliation of Expenses per Audited Financial Statements with Expenses per Return

a	Total expenses and losses per audited financial statements	a	23,997,117.
b	Amounts included on line a but not on line 17, Form 990		
	(1) Donated services and use of facilities $		
	(2) Prior year adjustments reported on line 20, Form 990 $		
	(3) Losses reported on line 20, Form 990 $		
	(4) Other (specify) See Additional Information $ 2,455,421.		
	Add amounts on lines (1) through (4)	b	2,455,421.
c	Line a minus line b	c	21,541,696.
d	Amounts included on line 17, Form 990 but not on line a:		
	(1) Investment expenses not included on line 6b, Form 990 $		
	(2) Other (specify) $		
	Add amounts on lines (1) and (2)	d	
e	Total expenses per line 17, Form 990 (line c plus line d)	e	21,541,696.

Part V List of Officers, Directors, Trustees, and Key Employees (List each one even if not compensated, see instructions.)

(A) Name and address	(B) Title and average hours per week devoted to position	(C) Compensation (if not paid, enter -0-)	(D) Contributions to employee benefit plans and deferred compensation	(E) Expense account and other allowances
Kathryn D. Sullivan 333 West Broad Street Columbus, OH 43215	President & CEO 50	190,160.	14,925.	0.
Richard M. Dodsworth 333 West Broad Street Columbus, OH 43215	Exec VP/CFO 50	106,600.	12,987	0
Carl Kohrt 333 West Broad Street Columbus, OH 43215	Board Chair 5	0.	0.	0
Damon R. McFerson 333 West Broad Street Columbus, OH 43215	Past Chair 3	0.	0.	0
Beatrice E. Wolper 333 West Broad Street Columbus, OH 43215	Board Vice Chair 2	0	0.	0.
See List of Officers, Etc Statement		0	0.	0.

75 Did any officer, director, trustee, or key employee receive aggregate compensation of more than $100,000 from your organization and all related organizations, of which more than $10,000 was provided by the related organizations? ☐ Yes ☒ No

If 'Yes,' attach schedule — see instructions

Part IV-A Reconciliation of Revenue per Audited Financial Statements with Revenue per Return

a	Total revenue, gains, and other support per audited financial statements	a	11682554.
b	Amounts included on line a but not on line 12 Form 990		
(1)	Net unrealized gains on investments $		
(2)	Donated services and use of facilities $ 984,580.		
(3)	Recoveries of prior year grants $		
(4)	Other (specify) STMT 5 $ 148,065.		
	Add amounts on lines (1) through (4)	b	1,132,645.
c	Line a minus line b	c	10549909.
d	Amounts included on line 12 Form 990 but not on line a		
(1)	Investment expenses not included on line 6b Form 990 $		
(2)	Other (specify) STMT 7 $ 288,236.		
	Add amounts on lines (1) and (2)	d	288,236.
e	Total revenue per line 12, Form 990 (line c plus line d)	e	10838145.

Part IV-B Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

a	Total expenses and losses per audited financial statements	a	11474958.
b	Amounts included on line a but not on line 17 Form 990		
(1)	Donated services and use of facilities $ 984,580.		
(2)	Prior year adjustments reported on line 20 Form 990 $		
(3)	Losses reported on line 20, Form 990 $		
(4)	Other (specify) STMT 6 $ 148,065.		
	Add amounts on lines (1) through (4)	b	1,132,645.
c	Line a minus line b	c	10342313.
d	Amounts included on line 17, Form 990 but not on line a		
(1)	Investment expenses not included on line 6b Form 990 $		
(2)	Other (specify) $		
	Add amounts on lines (1) and (2)	d	0.
e	Total expenses per line 17, Form 990 (line c plus line d)	e	10342313.

Part V List of Officers, Directors, Trustees, and Key Employees (List each one even if not compensated.)

(A) Name and address	(B) Title and average hours per week devoted to position	(C) Compensation (If not paid, enter -0-)	(D) Contributions to employee benefit plans & deferred compensation	(E) Expense account and other allowances
SEE STATEMENT 8		202,810.	13,200.	0.

75 Did any officer, director, trustee, or key employee receive aggregate compensation of more than $100,000 from your organization and all related organizations, of which more than $10,000 was provided by the related organizations? If "Yes," attach schedule ▶ [ ] Yes [X] No

123031 01 02 02

COLUMBUS SYMPHONY ORCHESTRA 31-6402408

FORM 990 PART V - LIST OF OFFICERS, DIRECTORS, TRUSTEES AND KEY EMPLOYEES STATEMENT 8

NAME AND ADDRESS	TITLE AND AVRG HRS/WK	COMPEN-SATION	EMPLOYEE BEN PLAN CONTRIB	EXPENSE ACCOUNT
DANIEL HART 55 EAST STATE STREET COLUMBUS, OHIO 43215	EXECUTIVE DIRECTOR 45	202,810.	13,200.	0.
LINDA S. KASS 55 EAST STATE STREET COLUMBUS, OHIO 43215	TRUSTEE 0	0.	0.	0.
ROBERT A. OAKLEY 55 EAST STATE STREET COLUMBUS, OHIO 43215	TRUSTEE 0	0.	0.	0.
RICHARD R. MURPHEY, JR. 55 EAST STATE STREET COLUMBUS, OHIO 43215	TRUSTEE 0	0.	0.	0.
FORDHAM E. HUFFMAN 55 EAST STATE STREET COLUMBUS, OHIO 43215	TRUSTEE 0	0.	0.	0.
MICHAEL MCMENNAMIN 55 EAST STATE STREET COLUMBUS, OHIO 43215	TRUSTEE 0	0.	0.	0.
MARK A. BEESON 55 EAST STATE STREET COLUMBUS, OHIO 43215	TRUSTEE 0	0.	0.	0.
CHARLES M. BERGER 55 EAST STATE STREET COLUMBUS, OHIO 43215	TRUSTEE 0	0.	0.	0.
CAROL S. FEINBERG 55 EAST STATE STREET COLUMBUS, OHIO 43215	TRUSTEE 0	0.	0.	0.
BARBARA FERGUS 55 EAST STATE STREET COLUMBUS, OHIO 43215	TRUSTEE 0	0.	0.	0.
ROBERT FIRDMAN 55 EAST STATE STREET COLUMBUS, OHIO 43215	TRUSTEE 0	0.	0.	0.

Chapter 18

Communicating to Your Constituencies

One of the themes that I hope has been clear throughout these conversations is that finances are just another language to use to communicate your organization's goals, priorities, and activities. I have talked about how strategic plans and multi-year financial plans can help the board sustain the organization's mission, and I have talked about how your organization can build a budget in a way that steadily advances that mission. I have also discussed how the board can use financial reporting to help it stay out of micromanagement, while still monitoring closely how well its priorities are being executed. The various roles that board and staff need to fulfill and how those roles may need to adapt to crises and difficult times have also been discussed.

These conversations so far have been very focused on using financial information to enhance communication between the staff and board. It's now time to talk about using financial information to tell your organization's story to the outside world. Once again, I hope to convince you that it is in the organization's interest to broadcast its financial situation openly and routinely. This notion goes against the grain for many people. When times are great they like to brag about surpluses, but when times are tough they withdraw. This situation is akin to the student who wouldn't go to her professor's office hours until she had mastered the material well enough to "ask good questions." A good chance for helpful support was foregone. Similarly, many organizations veil their financial challenges unless they are forced to reveal them in capital campaigns or when newspaper headlines put them on the defensive.

If you have followed the advice in the prior conversations, you will have already established a clear mission and goals, well-articulated priorities, and a self-confidence that your money and your actions are consistent in their focus. You will be on top of problems and even be prepared to anticipate problems well in advance of crisis. This ability will put you in a better situation than the majority of nonprofits. Clearly explaining your revenue and expense developments, your budget situation, and your overall financial condition is to your advantage.

You should not view communicating this information to outsiders as a threat to your independence, reputation, or fundraising capabilities. I encourage you to be optimistic that people will be more willing to help if they know your mission and your financial condition and see that you are knowledgeable and forthcoming in your communication.

Excerpt from *Linking Mission to Money* © 2004 by Allen J. Proctor. Published by The Academy for Leadership and Governance, 65 Jefferson Avenue, Columbus, Ohio 43215.

This is an act of courage because human nature tends to recoil at the suggestion of advertising problems, viewing it as a sign of weakness. But remember, you are a nonprofit, an organization that is committed to fulfilling a service that your community needs and no one else is providing. You already have the benefit of the doubt by the very existence of your nonprofit status. People already believe you are doing something that no one else has been doing or has been able to do! That reflects strength, not weakness; conviction, not reticence; generosity, not selfishness; personal commitment, not passing the buck. Every one of your constituents, whether a donor, a staff member, or a service recipient, has a stake in the financial health and future of your organization. You owe them open, objective, and understandable information. Each of them has particular needs and concerns which should be addressed in your communication. Let's go through each of them and see what they may want to know.

Donors

Let's start with the group you may be most nervous about, your donors and grantors. Trust me, donors and grantors are constantly faced with requests by "needy" organizations. While you may see their resources as limitless, they most likely get annual requests that far exceed their financial capabilities. They will always consider whether their gifts are being used effectively and with good results. In previous conversations we talked a good deal about producing reports to let the board know about the mission focus and effectiveness of the organization's spending. Share that information with your donors and grantors!

Sharing information means producing financial information in the context of your community's needs, your mission to fulfill those needs, your goals and priorities in directing the use of funds, and your assessment and measurement of your achievements. Simply mailing an annual financial report or a federal nonprofit tax return does not meet these criteria! If the board is best served by narrative reports with supporting numbers, you can be confident that your donors and grantors feel the same way. Give them the context for interpreting your numbers: need, mission, goals, priorities, and accomplishments. Not only will that make the numbers more understandable, it will also help remind them which of the dozens or thousands of requestors you are!

They are very likely to react extremely positively to your open outreach. First, the fact that you know and assemble that package of information tells them that you are as concerned about the effective use of their money (indeed, all your organization's money) as they are. Second, your information provides a very effective tool for your advocates on the staff of the donor or grantor. For large donor or grantor organizations or government agencies, there is generally at least one staff member who is your advocate. Their job is to try to get funds allocated to the applicants they support. In other words, their interests are aligned with yours: they "succeed" if funds are granted to you. Giving them information that is objective, complete, and understandable gives them a strong argument that funds allocated to you will be used effectively.

While individual major donors may not have staffs to review applications, they too are usually bombarded with requests and will be most appreciative of your ability to both explain and document your revenue and expense developments, your budget situation, and your overall financial condition in a concise and non-technical manner. What better proof of good management than a board that has a command of what is going on? And your emphasis on strategic direction and oversight, rather than on micromanagement, is the same emphasis a donor will have, so your approach to financial management as a board member has strengthened your effectiveness as a fundraiser!

My message of openness concerning your financial situation extends directly into the grant application process as well. Don't be reluctant to claim that you are needy at the same time you are pointing out that you have acted responsibly to sustain your mission by accumulating reserves, endowment, or cash balances. Why would you be asking for money, or why would you be a nonprofit in the first place, if you weren't in need of donated funds? Donors and grantors will assume you are needy, and they will likely be even more inclined to support you if you in turn have tended to your financial health.

You should already have information produced by the staff that objectively (and persuasively, of course) lets <u>you</u> know what your organization's needs truly are ("more is better" is not an appropriate or acceptable answer.) You should share that information with donors. Don't spin or edit the information. Donors will decide themselves whether you are more needy than other requesting organizations, so you are best off showing them the same information that you see. Providing that same format, that same document that you regularly see will enhance the impression that you are telling it like it is: no varnish, no spin, and no skeletons in the closet.

Staff

While you may see them regularly, you should not assume that the staff of your organization knows as much about mission, priorities, and sustainability as the board knows. It is quite possible that your positive, sustainable, strategic perspective is hard for staff to see given their daily experience of limitless demands for services.

The staff likely sees every day where resources are not adequate, where quality is not where it should be, and where services have to be denied even to deserving clients. They want to believe that they are getting as much support as possible; they want to believe that the board is as committed to this enterprise as they are. After all, they have staked their jobs and livelihoods on this enterprise and they see the board as just volunteers (albeit powerful ones) who come to meetings periodically.

In many ways, because staff has more at stake than the board, they deserve to know what's going on even more than the board deserves to know. Yet ironically most staff don't see the reports and materials that you see. Most likely, your organization is in the everyday situation in which the staff, the people with the greatest stake in the financial health of the organization, has the least information about that financial health. This can often be the source of morale problems. If gossip and the water cooler are the main source of information about the ongoing health of the organization, how could the news possibly be good? Let them know the organization's story too: what it is able to do, what its finances are, and how it is doing as much as its finances allow. Have the executive director talk about this in newsletters and staff meetings. Open board meetings and memos from the board are also possible ways to convey this information. If you worry that the information will discourage the staff, you can be sure that the rumor mill has gone well beyond what the facts warrant. Tell them; they have a greater right to know than you do.

Clients and patrons

Your organization's clients or patrons are just as needful of information about your financial health. This is especially so for social services organizations, which are the most likely to face the struggle of limitless need in the face of finite resources. Your clients need your help and oftentimes you will be in the uncomfortable position of limiting or denying them services or relegating them to a waiting list. Your clients want to believe that you are tying to help them, even if they have to hear "no" more often than you or they wish.

Let them know the same story: what you are able to do, what your finances are, and how you are doing as much as your finances allow. If I have convinced you that long term sustainability should be the foundation of your strategic planning and decision-making, then you will be determining the service level you can provide based on the service level you believe you can reliably sustain. Explain this to your clients and patrons. Posters, notices, or regular messages for your client contact staff to convey are all possible means of communicating your mission and your plan to sustain it. By doing so, you will be encouraging your client community that their time will come if they are currently on waiting lists or receiving only part of the services you want them to have. At the very least, you will have shown that you believe their opinions are worthy of your attention and response. If you don't reach out to your client or patron community, they may conclude that you are limiting your services because you aren't committed to them or to your mission.

The underlying message here is that you can't lose by directly communicating to your natural constituents: your donors, grantors, staff, and clients or patrons. If they don't hear the information directly from you, they will guess; and they may guess wrong. You gain nothing by limiting your financial communication. You have a mission, why not let them know? You have priorities that are consistent with your mission and for which you have approved specific initiatives and allocated specific dollars; why not let them know? You know what you accomplished in the past year and you can substantiate it with good, hard numbers; why not let them know?

But not all audiences are natural constituencies and direct communication has its limits. Communicating with the broader community is probably practical only through the news media and through news reporters. News reporters can be helpful or harmful to your organization. By telling your story in their own words, thereby lending a third party credibility, they can be enormously helpful. They can be harmful by getting your story wrong, eroding your credibility, or by reporting on problems in your organization with which you are not already currently dealing. Perhaps because of my many years spent in media-saturated New York City, I think reporters have a tremendous potential to help you share your message. Most potential damage from media coverage is fundamentally up to you and your own performance and initiative.

Let me first state the obvious: there are good and bad reporters. Good reporters are responsible and they want to get a story right. They are the reporters with whom you need to become comfortable. Bad reporters are not responsible and don't care what the facts are. Unfortunately, you will encounter both, but your organization should deal only with the good reporters and refuse to deal with the bad. If a reporter is not likely to be objective or fair to your organization, someone on the board should promptly contact the editor directly to lay out your concerns, making it clear you are talking about the choice of reporter, not about the decision to write a story about your organization. Pay attention to bylines and talk with your fellow board members and civic leaders and you will soon form a good sense of which reporters are "good": responsible and objective. Public relations professionals in your area will be able to identify those reporters easily and can often be helpful in ensuring that the reporters handling your story will be good ones.

Good reporters want their stories to be right. But don't blame the reporters if you don't like the headline. Most reporters do not get to write their own headlines—that's the editor's job—and they often end up seeing the headlines at the same time you do. They can be just as unhappy with the headlines as you, sometimes even more so. Reporters do write the story, including the most important line, the lead. Although good reporters are not going to serve as your public relations agency, they will form their opinions based on a fair hearing of your facts and interpretation. View an interview with a reporter as an opportunity to tell your story. The board should choose one person, such as the executive director or the president of the board, to be the primary point of contact with reporters. Be sure that person provides facts to bolster your organization's story and be sure that all facts can be verified from publicly available documents. A responsible reporter cannot take your spokesperson at his or her word no matter how respectable and honorable they are.

Let's talk for a moment as if you are the board's chosen spokesperson. If you are wise, you will have already assembled the necessary facts to support your views and interpretations. If you are prepared, have good data to support your statements, and have a coherent story to tell, the reporter will see you as a reliable source and maybe your story will become his story. Whether this occurs will depend on how well other information sources agree with what you have said and whether they validate your data. If your organization has been communicating your information and story regularly and openly with your constituencies, there will be plenty of sources who will have looked at the same data as you have and come to the same conclusions you have. The corroboration they will provide to the reporter will add further credibility to your version of your story.

On the other hand, if you as the spokesperson come across as defensive, provide vague answers, or don't appear open and forthcoming, you can be sure the reporter's story will not be your story. The reporter will have to produce the story without you, and therefore may not get it right. Worse, the reporter may be so suspicious of your reticence that he will conclude that you have no credibility and that whatever you say must be wrong or misleading. This unfortunate outcome is completely within your control.

Say what you know, acknowledge what you don't, and never guess or hypothesize. Offer to get back to the reporter with responses for any unanswered question. Remember, the most credible story is one that comes under the byline of a reporter. If you know what you are talking about and have something meaningful to say, reporters can be an important ally in getting your story out to the broad community, whether it is about how well things are going or about how you are acknowledging and getting your arms around your organization's troubles.

The Internal Revenue Service

Regardless of your communications with donors, staff, clients, or reporters, there are two publicly available documents that you are legally required to produce, so you should approach them as external communication opportunities to portray both fact and image to the public. When the IRS gave your organization your nonprofit certification it imposed the requirement that you file an annual disclosure statement called a Form 990, a sample of which is found on page 89.

The IRS Form 990 is rapidly becoming the primary source of factual financial and nonfinancial information about a nonprofit because these forms are generally available on the internet. The form provides a standardized (though not perfect) way to present the latest information about a nonprofit. It requires the filer to distinguish between program-related expenses and other expenses. It requires the nonprofit to list the names of its board members and officers as well as the amount of time devoted by each to the organization and any compensation, benefits, and expense reimbursements paid to each of them. It also requires disclosure of the compensation paid to the organization's five highest paid employees and to its five highest paid independent contractors for professional services. It asks you to state the mission of your organization and what you have done (and spent) in that year to accomplish your mission.

Finally, it requires you to list your major contributors and the amounts given (though the names of your contributors are not publicly released.) This amounts to pretty major disclosure. And it offers your organization a significant opportunity to demonstrate that you know your mission, have identified clear initiatives to accomplish that mission, and have allocated resources according to priorities. An excellent description by Andrew Lang of the communication opportunities presented by the IRS Form 990 is found in the references at the end of this book.

Sadly, most boards have never seen their organization's IRS Form 990, let alone taken an active role in ensuring that their story is clearly and accurately told through this form. Pay attention to your Form 990 before it is filed. I can assure you that potential donors, foundations, oversight agencies, and reporters will pay attention to it. If you wish to see Form 990s for nonprofits in your area, log onto www.guidestar.org to view the filing of any nonprofit in the United States, including yours.

The outside auditor

The second publicly available document that you are legally required to produce, unless you are a very small nonprofit, is a financial statement audited annually by an outside accounting firm. Annual audited statements are often required if you receive monies from government agencies or certain foundations. Even if you aren't required to hire an outside auditor, it is a very good idea to do so, and it is money well spent.

We discussed in an earlier chapter the fact that the audited financial statement is fast becoming more arcane and less useful to board members and other users. Even so, it is still widely considered to be the primary, publicly available, financial report of an organization. It is fine if you choose to distribute your audited financial statement to donors and other interested parties, but don't confuse such a mailing with the financial communication we discussed previously. Mailing the financial report (or the IRS Form 990) is a nice gesture, but it is not likely to be an effective way to communicate to the vast majority of your constituents.

More importantly, the board must devote part of one of its meetings each year to the acceptance of the audited financial report. Because of this duty, it is important that board members figure out how to use the meeting with the outside auditor constructively, despite its arcane nature.

The annual audit meeting is an opportunity for you to have the confidential advice of an outside financial expert, your auditor. The purpose of formally meeting is so that the auditor can report on what issues were encountered, if any, in reviewing the financial statements the staff has prepared. You will almost always get a *clean opinion*, meaning that the auditor has no hesitation in saying that your financial statements present a fair picture of your financial condition. This is a pretty low hurdle to climb over, so I always look for more when I meet with the auditor. If your organization doesn't receive a clean opinion, you must probe very deeply to be certain you know, and are comfortable with, the quality of the information you are receiving from the staff and that your organization's financial health is acceptable. Since a clean opinion is the normal outcome, not having such an opinion can have very adverse consequences on your organization's ability to raise or borrow funds, and by extension to sustain your mission.

I urge you to view this meeting as your annual "stupid question" tutorial. Don't let the financial gurus on your board intimidate you. It is the duty of *all* board members to know the fiscal shape of the organization. The board should meet with the auditor and use that meeting as an opportunity to learn the "story" your auditor sees from the close examination of your books. Ask the auditor to compare this year with prior years and ask the auditor how the financial situation compares with what the auditor sees in its other clients. Don't let the audit meeting become technical and uninteresting; rather approach the meeting proactively and engage all board members in a probing discussion of the effectiveness and health of your organization with an informed, sympathetic, but objective professional.

Everyone on the board should receive at least two documents from the auditor before this meeting: the audited financial statements and the management letter (there are other "representation" letters, but they concern only the audit committee.) Many staff don't like management letters and many auditors won't write a management letter unless specifically asked. The purpose of a management letter is for the auditor to step away from the formalities of the auditing format and pinpoint for you all the things that concerned the auditor about your internal controls and management procedures, but which didn't rise to the level of formal *findings*, which are bad news. In other words, this is the stuff you really want to know about. Insist that before the meeting the staff write and distribute to the board and the auditor a response to each management comment that identifies a timetable to address each concern.

You don't need to study the management letter and response in detail beforehand; the important process is for the board to hear the staff and auditor go through the letter and responses together in your presence. Don't let the staff dismiss the comments as trivial: icebergs usually show only their tips. Make staff prove the comment is trivial by addressing it expeditiously. Make sure you find out from the auditor every suggestion he has.

The last parts of every audit meeting should be two private sessions: between the board, executive director, and auditor with no other staff present, and then between the board and external auditor with the executive director absent as well. Ask the auditor these questions in whichever session you deem most appropriate:

- Are the staff able and skillful enough for the duties they are assigned? You have surely discussed staff qualifications in other board meetings, but this meeting offers you the perspective of an outside professional who has just spent many weeks working with your financial staff on a daily basis. Add the auditor's views to the information you already have.
- What are all the adjustments or suggestions the auditor has and what is their significance? Recall that accrual accounting uses judgments and estimates. You should develop a feel for whether the judgments and estimates in your financial statements are routine or unusual, particularly in these end-of-year statements. You will generally hear that there were no "material" adjustments or disagreements with the staff's estimates.

- Is there anything new or in the next year that would lead the auditor to have serious concerns about the health or viability of the organization? Are there any questionable financial transactions between the organization and board members or staff? Don't let yourself be surprised. If something is nagging in the auditor's mind, find out now so you can nip it in the bud.
- Who on the board and staff worked with the auditor during the audit and what was their level of cooperation and preparation? The auditor is the board's agent, not the executive director's. You should expect to hear the auditor confirm that the financial staff was well prepared and worked closely and cooperatively with the auditors during their engagement. If you find that the auditor had to assemble any of the tables (schedules) or had any type of difficulty, you should carefully review the accuracy and completeness of the financial reports you have been receiving from the staff over the course of the year.

These questions may seem odd or awkward and the answers boring, but believe me, someday you may tease out some news early on that will help you to make some timely decisions that will sustain your mission for many years to come.

Communicating your financial plans and condition with your six key constituencies—donors, staff, clients or patrons, media, IRS, and auditor—can be a useful tool to advance, support, and sustain your mission. Just the process of preparing to communicate can help you clarify the organization's goals and priorities, hopes and challenges, and needs and available resources. When you tell your organization's story, you will feel more confident, committed, and engaged in your role as a board member.

SAMPLE FORM 990

Form **990** — Department of the Treasury, Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

▶ The organization may have to use a copy of this return to satisfy state reporting requirements.

OMB No. 1545-0047

2003

Open to Public Inspection

A For the 2003 calendar year, or tax year beginning , 2003, and ending , 20

B Check if applicable: ☐ Address change ☐ Name change ☐ Initial return ☐ Final return ☐ Amended return ☐ Application pending

Please use IRS label or print or type. See Specific Instructions.

C Name of organization

Number and street (or P.O. box if mail is not delivered to street address) | Room/suite

City or town, state or country, and ZIP + 4

D Employer identification number

E Telephone number ( )

F Accounting method: ☐ Cash ☐ Accrual ☐ Other (specify) ▶

• Section 501(c)(3) organizations and 4947(a)(1) nonexempt charitable trusts must attach a completed Schedule A (Form 990 or 990-EZ).

H and I are *not* applicable to section 527 organizations.

H(a) Is this a group return for affiliates? ☐ Yes ☐ No

H(b) If "Yes," enter number of affiliates ▶

H(c) Are all affiliates included? ☐ Yes ☐ No (If "No," attach a list. See instructions.)

H(d) Is this a separate return filed by an organization covered by a group ruling? ☐ Yes ☐ No

G Website: ▶

J Organization type (check only one) ▶ ☐ 501(c) ( ) ◄ (insert no.) ☐ 4947(a)(1) or ☐ 527

K Check here ▶ ☐ if the organization's gross receipts are normally not more than $25,000. The organization need not file a return with the IRS; but if the organization received a Form 990 Package in the mail, it should file a return without financial data. Some states require a complete return.

I Group Exemption Number ▶

M Check ▶ ☐ if the organization is not required to attach Sch. B (Form 990, 990-EZ, or 990-PF).

L Gross receipts: Add lines 6b, 8b, 9b, and 10b to line 12 ▶

Part I — Revenue, Expenses, and Changes in Net Assets or Fund Balances (See page 18 of the instructions.)

Revenue

1	Contributions, gifts, grants, and similar amounts received:			
a	Direct public support	1a		
b	Indirect public support	1b		
c	Government contributions (grants)	1c		
d	Total (add lines 1a through 1c) (cash $ ______ noncash $ ______)		1d	
2	Program service revenue including government fees and contracts (from Part VII, line 93)		2	
3	Membership dues and assessments		3	
4	Interest on savings and temporary cash investments		4	
5	Dividends and interest from securities		5	
6a	Gross rents	6a		
b	Less: rental expenses	6b		
c	Net rental income or (loss) (subtract line 6b from line 6a)		6c	
7	Other investment income (describe ▶)		7	

		(A) Securities		(B) Other
8a	Gross amount from sales of assets other than inventory		8a	
b	Less: cost or other basis and sales expenses		8b	
c	Gain or (loss) (attach schedule)		8c	

d	Net gain or (loss) (combine line 8c, columns (A) and (B))		8d	
9	Special events and activities (attach schedule). If any amount is from gaming, check here ▶ ☐			
a	Gross revenue (not including $ ______ of contributions reported on line 1a)	9a		
b	Less: direct expenses other than fundraising expenses	9b		
c	Net income or (loss) from special events (subtract line 9b from line 9a)		9c	
10a	Gross sales of inventory, less returns and allowances	10a		
b	Less: cost of goods sold	10b		
c	Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a)		10c	
11	Other revenue (from Part VII, line 103)		11	
12	Total revenue (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11)		12	

Expenses

13	Program services (from line 44, column (B))	13	
14	Management and general (from line 44, column (C))	14	
15	Fundraising (from line 44, column (D))	15	
16	Payments to affiliates (attach schedule)	16	
17	Total expenses (add lines 16 and 44, column (A))	17	

Net Assets

18	Excess or (deficit) for the year (subtract line 17 from line 12)	18	
19	Net assets or fund balances at beginning of year (from line 73, column (A))	19	
20	Other changes in net assets or fund balances (attach explanation)	20	
21	Net assets or fund balances at end of year (combine lines 18, 19, and 20)	21	

For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11282Y Form **990** (2003)

Sustaining Your Mission Through Adversity

a. Issues and Puzzles

b. Key Points to Remember

c. Exercises

d. Excerpt from *Linking Mission to Money*

a. Issues and Puzzles

- Is it unavoidable that nonprofits are in crisis and suffer cutbacks when the economy slows?

- Can we ever have an endowment big enough to shield us from tough times?

- I regularly see nonprofits that receive clean audit opinions yet still have financial crises that catch the board by surprise. What more is a board supposed to do?

b. Key Points to Remember

1. The best way to survive adversity is to constantly be on the lookout for internal as well as external problems as they emerge.

2. Poor program execution can cause as much difficulty as financial problems.

3. Every board meeting should scrutinize at least four areas to safeguard the organization from problems of its own creation:

    i. The board's annual priorities are commanding most of the *executive director's time and attention*.

    ii. *Key activities* continue in the way you expected and on the timetable you expected.

    iii. No *significant bills* have been received but not paid by the end of the same month; taxes, insurance, and pension contributions have been paid in full and on time.

    iv. Looking at the next several months, there is *sufficient cash* available for operations and significant anticipated receipts (e.g., major pledge and grant payments) are being regularly monitored.

4. To safeguard the organization from problems outside its own control, you need to set aside enough cash to protect against a prolonged drop in revenues:

    i. Surviving a revenue drop <u>requires</u> that you <u>run a budget surplus in normal times</u>.

    ii. Endowments are not as useful as cash reserves in weathering a drop in revenues.

c. Exercise

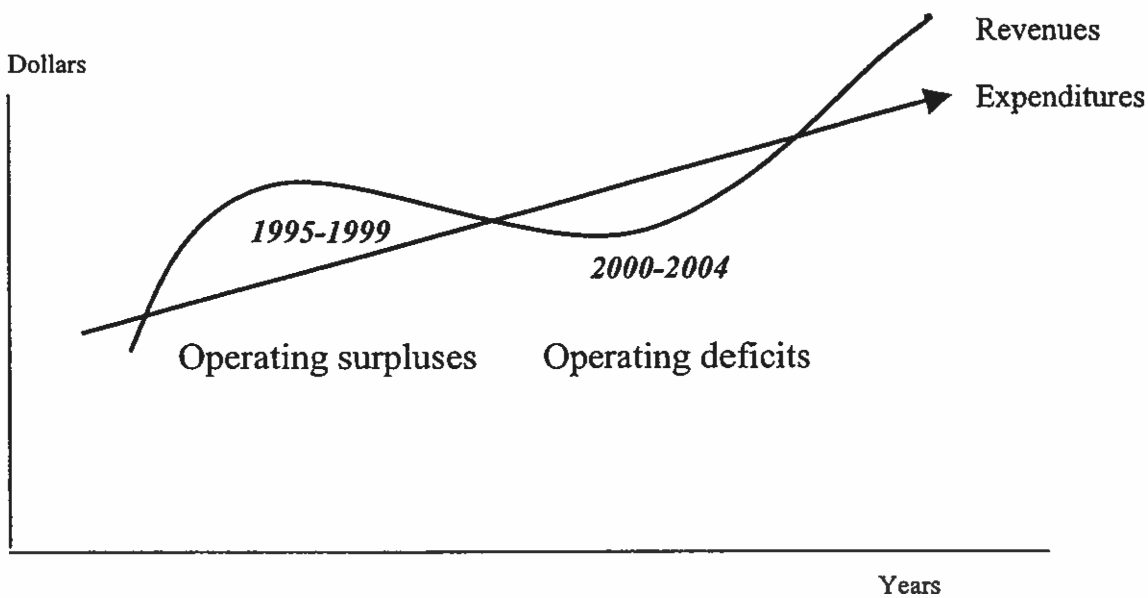
Step One: Understand what sustaining your mission may cost over the next five years, and evaluate what factors may cause your revenues to rise and fall.

Being able to sustain your mission through adversity requires you to plan for adversity. Prepare a five-year plan. It is not important how sophisticated or "accurate" your plan is. First, estimate what it may cost over each of the next five years to sustain your mission. Second, estimate how your revenues may grow or decline over the next five years. Assume that a recession or a significant adverse event occurs before the end of the five-year period.

The illustration on the next page shows, in an exaggerated fashion, a typical five-year plan. Sustaining the mission for this organization requires supporting inflationary growth in costs for a stable set of programs, as shown by the straight line that moves upward to the right. In contrast the revenues of this organization are expected to grow during economic expansions and to decline during economic recessions. Typical examples of revenues that grow and decline or stagnate with the economy are fees or admissions, individual and corporate gifts, and, unfortunately, endowment revenues. Foundation or government support or grants may or may not change with the economy depending on the particular programs involved.

If you are not comfortable in predicting an economic recession, it may be helpful instead to think of this exercise as planning for an unexpected adverse sequence of events. You need not pick a particular set of events in order to plan properly. Adversity could occur through a sudden loss of key employees that affects your ability to deliver services or attract revenues. It could occur through a sudden discovery that taxes or invoices have not been paid. It also could occur through legal judgments, thefts, vandalism, fire, or other natural events.

The illustration below represents an organization that had rapidly growing revenues from 1995 through 1999 and declining revenues from 2000 through 2004. Its goal of sustaining its mission is represented by steady expenditures keeping up with inflation.



Step Two: Review the benefit and feasibility of several options that would enable you to sustain your mission through a recession.

Discuss the implications for sustaining your mission in 2000-2004 if you had taken the following actions during 1995-1999:

1. *You used your budget surplus to expand services or programming.*
2. *You ran a budget surplus to build your endowment.*
3. *You ran a budget surplus through building restricted gifts.*
4. *You ran a budget surplus by building unrestricted cash or board designated reserves.*

Step Three: Choose one or more options to provide your organization with increased capability to sustain your mission through adversity.

Which options are available to your nonprofit to build some cushion against future adversity?

What choices will you have to make in order to make those options feasible for your nonprofit?

If you do not believe any of these options are feasible, how will your organization likely have to react if your financial situation deteriorates in the future?

Chapter 13

Four Priorities for Regular Board Discussion

The combination of effective reporting by the staff and probing questioning by the board is the best method to keep on top of the budget during the year and to make sure that emerging problems are flagged without your having to get involved in operational micromanagement. Now it's time to talk about the most important items you need to stay on top of if you are to fulfill your role as a board member.

Remember, your job is to make sure of four things:

1. Your top priorities and initiatives are a major focus of the executive director's time and attention.
2. Key activities or initiatives in the budget are occurring in the way and on the schedule that the budget anticipated.
3. No significant bills have been received but not paid by the end of the month (payables), including payroll taxes, unemployment insurance, workers compensation, and retirement contributions that are owed.
4. You have sufficient cash available now and for the next few months, and no major events could possibly occur in the coming months to make you unable to pay future bills on time (including payment to you of major pledges, grants, and other "receivables.")

These four points represent the source of most organizational failures, yet they are relatively easy to track. It may be hard to believe that your job can boil down to so few things, or that you need to pay less attention to all the other things, so let's delve a bit deeper.

To begin with, the disruptions of everyday management can easily distract staff and board from their mission and from the priorities designated by the board to achieve that mission. But the board—by its more periodic and strategic attention to the organization—can in many circumstances be better equipped to maintain focus on priorities than the operationally focused staff.

Next, slippage of key programs or initiatives can harm constituents, mislead donors, violate grant requirements, or erode goodwill. There is always a reason for something to slip. The board needs to be on top of this so that remediation can occur and course corrections can be made. If the staff is overcommitted, the board needs to recognize this and rearrange priorities and commitments in a way that is positive and helps the staff to keep the highest priorities on track.

Excerpt from *Linking Mission to Money* © 2004 by Allen J. Proctor. Published by The Academy for Leadership and Governance, 65 Jefferson Avenue, Columbus, Ohio 43215.

The third point illustrates that juggling is the name of the game in daily management. But juggling, however well-intentioned, can go too far. A well-intentioned but disastrous example of juggling is the gradual putting off of paying some bills in order to pay more pressing bills: the payroll is paid but the withholding taxes don't get sent to the IRS; the screaming vendor gets paid but the insurance premium doesn't, and so on. And while the board shouldn't micromanage, the financial report should routinely include how many and which bills weren't paid at the end of each month (payables) and how long those bills have remained unpaid ("aged payables.") This list most often will not be large, but it is critical for the board to be sure that the list isn't growing from month to month and that the organization isn't being put at risk by any of the delayed payments. If either situation is occurring, stop the meeting and have a calm, reasoned discussion of how and when these payments are going to get back on track. You may have to conclude that some activities—maybe even some of your top priorities—need to be canceled or scaled back in order to allow you to catch up or stay current with your bills.

Lastly, the fourth objective points to the tripwire of crisis: running out of cash. Every month the financial report should include a narrative and some key numbers so you know the amount of cash that is readily available and are able to have a discussion with staff to identify possible future events that could potentially jeopardize your operations.

- Are there major pledges that you expect to be paid? What could affect their timely payment?
- Are there major grants you are expecting to receive? What could affect their timely payment?

If any of these issues seem likely or significant, make sure steps are taken before your next meeting to give you better assurance that the cash will be received when expected.

- Is there a major payment due in the coming months?

Again, if so, make sure steps are taken before your next meeting to accumulate enough cash in advance so that payment can be made on time without pushing back payment of other, less critical bills.

Cash versus accrual accounting

These four discussion items count money in two different ways, which we call cash basis and accrual basis. Each has advantages and disadvantages. Cash is concrete; you either have it or you don't. In contrast, accrual accounting requires some estimating, it can be subjective, and it involves making some guesses. For example, accrual accounting records a pledge as a revenue and asks the staff to estimate how much of that pledge will be paid and when. Alternatively, cash accounting records a pledge as a revenue only when it is actually paid. It is good to know what pledges you have, but you can't pay bills with pledges. At the same time, accrual accounting records all bills as expenses when you receive the bills, while cash accounting doesn't record any expense until the bill is paid. When bills pile up unpaid, accrual accounting will tell you about the pile while cash accounting will not. So in a very simplified sense, you can think of cash accounting as a concrete report on today (checks received against pledges and checks sent out to pay bills) and accrual accounting as an estimate of your future (checks still to be received against pledges and bills still waiting to be paid).

Accrual accounting rules and reports can easily be confusing. For example, consider fundraising pledges. Once you receive a pledge card, accrual accounting records the pledge as a revenue called a "receivable." There is no change in assets on an accrual basis when that pledge is paid to you in cash. And this pledge can stay on your accrual books for a year or so until your staff reluctantly concludes that the pledge will not be honored. If that happens, accrual accounting "writes off" the pledge, reduces your receivables, lowers your current year revenues, and shows a budget deficit on your accrual books. Using a cash basis that pledge would have been meaningless financially until it was honored, and you would have based no spending on the presumption that the pledge would be honored.

Considering these pluses and minuses, neither method of accounting should be ignored. The financial reports that are most commonly prepared follow Generally Accepted Accounting Principles (GAAP,) which require accrual basis accounting. As a consequence, the financial reports you would normally receive would likely use accrual accounting. Unfortunately, accrual accounting reports can be especially confusing when you are trying to use them to evaluate monthly budget results.

I suggest that you consider preparing your budget on a cash basis and track monthly revenues and expenses on a cash basis for your board reports. I place this emphasis on cash because your annual financial report and audit should guarantee that you receive a good accrual reading by experts every year, and it is crucial for the board to have information on finances that can be readily understood by both the generalists and the specialists on the board. This will require additional work by the organization's financial staff, but the extra effort will help the board to make informed decisions and effectively monitor its priorities. Having multiple ways of tracking finances is not unusual. For example, for-profit companies routinely have at least two ways of tracking their finances since tax accounting and financial accounting can differ markedly.

Accrual accounting is a complex and sophisticated system for *estimating* the financial *condition* of your organization, but you as a board member need reports that tell you about *execution* of your *budget priorities* in straightforward terms. I suggest cash for your monthly budget reports because most crises emerge as cash problems, and cash reports can be more easily used to identify cash problems. Regardless of the confidence you have in the staff to make good accrual estimates, cash is a fact that you can and should know.

The top priorities for regular board discussion require information from a diverse set of sources that cannot be satisfied by cash or accrual statements alone:

- The knowledge that your executive director's focus is on the board determined priorities and initiatives can come from an executive narrative prepared monthly.
- The knowledge that the board-determined initiatives in the budget are on track can also come from a monthly narrative that includes a brief table illustrating progress on the revenues and expenses for each initiative.
- The knowledge about the organization's unpaid bills can come partially from an accrual statement, but knowing how long bills have remained unpaid comes from the innards of an accounting system.
- The knowledge of your cash situation can come partially from the cash statement, but knowing future significant cash events comes from your cash budget and its related scenarios.

You should focus on receiving the information you need in the form that is easiest for you to use and understand. Leave the complexity of accrual financial statements to the staff and, if your board is large enough, to the finance and audit committee(s).

Resources

1. **How to order *Linking Mission to Money***
2. **Selected references**
3. **Reprint "Consultant urges boards to master finances" *The Columbus Dispatch* November 10, 2004**
4. **Reprint "Fixing accounting isn't enough to deter scandals; heed the nonprofits" *The Columbus Dispatch* July 24, 2002**
5. **How to access the Guidestar database of nonprofit filings of IRS Form 990**
6. **IRS Form 990 and selected pages from Schedules A and B**

©2004 ALLEN PROCTOR CONSULTING, LLC

LINKING MISSION TO MONEY
Finance for Nonprofit Board Members

Table of Contents

Critical Praise for *Linking Mission to Money*

"Proctor provides trustees with advice for participating in the financial management of a nonprofit group without becoming overwhelmed by financial statements and other minutiae."
Chronicle of Philanthropy

"The book offers tips on how to review an organization's priorities, how to better match the budget to those priorities, how to make sure the money is spent properly, and how to prepare for bad financial times."
The Columbus Dispatch

"Proctor's demystifying book is important, and he argues powerfully that while budgets, projections, and fiscal prudence are essential, we must never forget the higher aspirations of our institutions."
Professor Jeremy Knowles, Harvard University, Formerly Dean, Faculty of Arts and Sciences

"Allen Proctor has provided the new and experienced board member with a treasure trove of insights on overseeing the financial processes of nonprofit institutions. A must read for anyone interested in improving governance in the nonprofit sector!"
Len Schlesinger, Vice Chairman - Limited Brands

"*Linking Mission to Money* is an indispensable guide on how to make budgets and other financial tools work for nonprofit organizations. Allen Proctor has done a wonderful job of describing how to link budget decisions to organizational goals. It is easy to understand, accurate, and complete."
William J. Shkurti, Senior Vice President for Business and Finance, The Ohio State University.

Order Form

Name: ______________________ Company: ______________________
Street ______________________ City ______________ State ________ Zip ________

Linking Mission to Money ____ copies at $16 each ....$________
____ copies at $12 each (*orders of 10 or more*) ......$________
Shipping ____ copies at $1 each (*50 cents for 10 or more*) ....$________

Total ....$________

Please make checks payable to The Jefferson Center, the parent organization of the Academy for Leadership and Governance, and mail to 65 Jefferson Avenue, Columbus, OH 43215. Questions? Call us at (614) 228-7444 or log onto our web site, www.thejeffersoncenter.org/alg. Thank you!

©2004 ALLEN PROCTOR CONSULTING, LLC

Selected References

"Accountability, The Buck Stops Here" *Board Member* (Vol. 11 No. 8 September 2002)

http://www.guidestar.com

Higgins, Robert C. *Analysis for Financial Management, Seventh Edition* (Homewood, IL: McGraw-Hill/Irwin) 2003.

Lang, Andrew S. *Financial Responsibilities of Nonprofit Boards, Rev. Ed.* (Washington, D.C.: BoardSource) 2003.

National Advisory Council on State and Local Budgeting, *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* (Chicago, IL: Government Finance Officers Association) 1998.

Proctor, Allen J. "Managing Budgetary Pressure during Economic Downturns" *Government Finance Review* (February 2002).

_________, "Budgeting for Structural Balance" *Government Finance Review* (Vol.10 No. 4 August 1994) pp. 7-12.

_________, *Helping non-profit boards get down to business: Essential Questions Concerning Financial Oversight for Non-Profit Boards* (Columbus, Ohio: Greater Columbus Arts Council) 2002.

The Sarbanes-Oxley Act and Implications for Nonprofit Organizations (BoardSource and Independent Sector) 2003.

Sorrels, Michael and Andrew S. Lang, *The IRS Form 990* (Washington, D.C.: BoardSource) 2001.

Stack, Philip and Larry Ladd, "Connecting the Numbers: Accountability through Integrated Planning" *NACUBO Business Officer* (January 2003) pp. 34-39.

The Columbus Dispatch

WEDNESDAY, NOVEMBER 30, 2004

NONPROFIT ORGANIZATIONS

Consultant urges boards to master finances

By Bill Mayr
THE COLUMBUS DISPATCH

Allen J. Proctor speaks with a touch of missionary zeal; when he gets wound up, the words tumble out.

His passion?

To urge the thousands of citizens who serve on the boards of nonprofit organizations to be careful custodians of scarce dollars and to keep a laserlike focus on their missions.

This is no arcane mission for Proctor, a Worthington resident, a consultant to nonprofits and former chief financial officer of Harvard University.

In central Ohio alone, there are more than 600 such organizations — raising and spending millions of dollars a year to shelter the homeless, support symphonies, help immigrants learn American ways, present notable art and conduct other worthy activities.

These groups are governed by volunteer board members who might not be up to the task of guiding their organizations, especially in tough economic times.

"In my professional life I've seen six recessions. What you see over and over again is nonprofits expand in the good times and have wretched cutbacks in the recessions," Proctor said.

His book about finances and nonprofits was published recently by the Academy of Leadership and Governance, a Columbus organization that provides nonprofits with research and education services.

The prescription contained within the 99-page *Linking Mission to Money* is straightforward: Follow the dollars to

In central Ohio alone, there are more than 600 such organizations — raising and spending millions of dollars a year.

Allen J. Proctor

ensure your organization is accomplishing its mission.

"You have to link together what you're doing and the finances. It has to pervade every single thing that you are doing," Proctor said.

The key, he said, is sustainability.

"If you are an arts organization, people want to know, will there be a dance season? If you want to donate a large amount to an orchestra, you want to know if it's going to be around for a while."

The book offers tips on how to review an organization's priorities, how to better match the budget to those priorities, how to make sure the money is spent properly and how to prepare for bad financial times.

Mastering finances can be a challenge, said Donn Vickers, executive director of the leadership academy.

"There are a lot of people on boards who are fairly sophisticated in their work, their profession, but who are not sophisticated about nonprofit boards and their financial reports, and sometimes they are embarrassed to speak up about that."

Vickers said his organization has tallied more than 600 nonprofits locally, not counting religious organizations.

"If they average 15 or 20 (board members), you're talking about a lot of folks involved in the governance of nonprofits."

Laura Ecklar gave copies of Proctor's book to her board. She is president of Friends of WOSU, which supports WOSU public radio and TV stations, and she served on an advisory committee for the book.

Donors who support nonprofits, she said, "want some assurance that the board is watching the money, that the organization is fulfilling its role in the community and that it is preparing for the ups and downs of the economy."

Proctor, 52, provides consulting on such issues to nonprofit and for-profit organizations.

He previously was director of the state's Police and Firemen's Disability and Pension Fund. Proctor also served as executive director of the New York State Financial Control Board and has taught at Harvard and Columbia universities.

His efforts aren't simply an academic interest, he said.

"As a regular citizen and donor to nonprofits, I'm pretty angry that they keep getting into financial trouble over and over again.

"I want to say, 'Stop it. Your work is too serious; it is too valuable.' "

bmayr@dispatch.com

▸ Copies of *Linking Mission to Money*, $16, are available from the Academy for Leadership and Governance. For more information, call 614-228-7444 or visit www.thejeffersoncenter.org/alg.

Reprinted with permission from *The Columbus Dispatch*

The Columbus Dispatch

Wednesday, July 24, 2002

Fixing accounting isn't enough to deter scandals; heed the nonprofits

ALLEN J. PROCTOR

Much of the attention on the spectacular failures of Enron, and most recently WorldCom, has focused on accounting and the accounting firms. The Securities and Exchange Commission has proposed rules requiring that chief executive officers certify the accuracy of accounting statements, and it is considering rules to improve auditing.

While accounting is critically important to investors and reforms are essential, the fundamental failure in all three instances was internal. How were CEOs and boards of directors kept in the dark for so long? This is not an accounting or audit issue; this is an issue of ineffective financial governance.

While the public and nonprofit sectors are not often where we look for solutions to problems in the for-profit sector, the most effective nonprofits, and governments, too, have learned two lessons in financial governance that can be useful in all sectors:

- Numbers can suggest the presence of problems but they rarely tell you enough to know what the problems are. Internal financial reporting that demands questioning and follow-up is essential.
- Budgets, not the audited financial statements, are the best tools for managing and overseeing the health of an organization.

Any responses to the Enron and WorldCom mess that ignore these lessons will not produce fundamental change.

Nonprofits didn't come by these lessons overnight. Nonprofits learned how to use financial reporting and budgeting to engage the board in meaningful ways to make sure that all activities proceed as planned and effectively advance the highest priorities of the organization.

They started by changing the focus of their internal financial reporting. They realized that, although it is under the control of finance specialists, financial reporting exists primarily for use by nonfinancial managers and board members to provide early warning signs and to verify that business activities are occurring as intended and expected. Financial reports are useful only when they help the board to ensure that the organization's strategy makes sense and that progress is effective in advancing that strategy.

Effective nonprofit organizations next changed their behavior by transforming the budget process into their primary tool for setting priorities and assessing organizational performance. A board needs to be forward-looking and it must demand budgets that reveal priorities, explain strategy to deliver those priorities and provide transparent milestones and benchmarks that allow the board to assess the adequacy and appropriateness of management activities to effect their strategy and priorities.

When Enron kept meeting its profit targets, board members should have followed up by asking if management was meeting those targets in the way the budget anticipated. Such inquiries might have led to greater scrutiny of its tangled web of partnerships and revealed the underlying weakness in its core business.

WorldCom's capitalization of expenses should have resulted in reports showing that operating expenses were below what the budget said was needed to meet its operational goals. Correct accounting reports would have revealed this deception as a misclassification, a seemingly technical issue although with huge implications. But the real sin was that management and directors did not question why WorldCom expenses were so low if operational activity was as high as planned or claimed.

Tighter accounting rules are important and better disclosure is important. But boards usually fail, not by missing the trees, but by missing the forest. Financial reports cannot be an end in themselves. They need to be a facilitator of questioning and dialogue about the big picture, which is the only picture a board can usefully assess and oversee.

A board that receives financial reports evaluating progress on specific goals and strategies and that participates in a budget process that adjusts and advances those strategies is a board that is engaged. Its members know what is important. They know the limitations of what management can do and they can react quickly when those limitations appear to be magically suspended by the accounting statements. Weak management and passive boards won't use these tools. Changing the accounting rules may help expose their failings, but looking at their budgeting and internal reporting may expose failings sooner.

Allen J. Proctor was formerly chief financial officer of Harvard University and now advises chief executive officers and corporate boards.
proctorconsulting@Columbus.rr.com

Reprinted with permission from *The Columbus Dispatch*

How to Access Guidestar to examine IRS Form 990 filings by nonprofits throughout the United States

1. Go to http://www.guidestar.org
2. On the right hand side, click on "sign up today."
3. Create an account by typing in your email address, choosing a password, and answering some background information. There is no cost to sign up and Guidestar will not contact you unless you check the boxes asking to be placed on their mailing list.
4. In the search field in the upper left corner, type in the legal name of the nonprofit you would like to research.
5. Click on "go."
6. If there are a number of organizations with a similar name you will reach one of two screens:
   a. A more detailed search screen – put in the city and state where the nonprofit is located; ignore the other fields; click on "search"; you should now get the next screen.
   b. A list of nonprofits showing symbols for what type of information is available on Guidestar – the city, state, and zip code of the nonprofit; and a one-sentence description of its work.
7. Click on the name of the organization.
8. A screen will appear that shows a snapshot summary of the organization's latest IRS filing and its employer information number.
9. On the left, click on any of the items under "Guidestar Plus:" summary, mission & programs, financials, board of directors, or Form 990.

10. If you click on Form 990, a screen will open showing the tax years that are available online. Clicking on the pdf image of the tax year you are interested in will download that form to your computer.
11. Open the file using Adobe Acrobat Reader. If you don't have this program, you can download it free of charge at http://www.adobe.com/products/acrobat/readermain.html. Click on the symbol that says "Get Adobe Reader."
12. Depending on your computer and operating system, the pdf file may be automatically saved onto your hard drive or you may need to manually save it.

Selected pages from Form 990

©2004 ALLEN PROCTOR CONSULTING, LLC

Form **990**

Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

▶ The organization may have to use a copy of this return to satisfy state reporting requirements.

OMB No. 1545-0047

2003

Open to Public Inspection

A For the 2003 calendar year, or tax year beginning , 2003, and ending , 20

B Check if applicable:
- ☐ Address change
- ☐ Name change
- ☐ Initial return
- ☐ Final return
- ☐ Amended return
- ☐ Application pending

Please use IRS label or print or type. See Specific Instructions.

C Name of organization

Number and street (or P.O. box if mail is not delivered to street address) | Room/suite

City or town, state or country, and ZIP + 4

D Employer identification number

E Telephone number
( )

F Accounting method: ☐ Cash ☐ Accrual ☐ Other (specify) ▶

• **Section 501(c)(3) organizations and 4947(a)(1) nonexempt charitable trusts must attach a completed Schedule A (Form 990 or 990-EZ).**

H and I are not applicable to section 527 organizations.

H(a) Is this a group return for affiliates? ☐ Yes ☐ No

H(b) If "Yes," enter number of affiliates ▶

H(c) Are all affiliates included? ☐ Yes ☐ No
(If "No," attach a list. See instructions.)

H(d) Is this a separate return filed by an organization covered by a group ruling? ☐ Yes ☐ No

G Website: ▶

J Organization type (check only one) ▶ ☐ 501(c) ( ) ◀ (insert no.) ☐ 4947(a)(1) or ☐ 527

K Check here ▶ ☐ if the organization's gross receipts are normally not more than $25,000. The organization need not file a return with the IRS; but if the organization received a Form 990 Package in the mail, it should file a return without financial data. **Some states require a complete return.**

I Group Exemption Number ▶

M Check ▶ ☐ if the organization is **not** required to attach Sch. B (Form 990, 990-EZ, or 990-PF).

L Gross receipts: Add lines 6b, 8b, 9b, and 10b to line 12 ▶

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances (See page 18 of the instructions.)

Revenue

1	Contributions, gifts, grants, and similar amounts received:			
a	Direct public support	1a		
b	Indirect public support	1b		
c	Government contributions (grants)	1c		
d	**Total** (add lines 1a through 1c) (cash $ ______ noncash $ ______)		1d	
2	Program service revenue including government fees and contracts (from Part VII, line 93)		2	
3	Membership dues and assessments		3	
4	Interest on savings and temporary cash investments		4	
5	Dividends and interest from securities		5	
6a	Gross rents	6a		
b	Less: rental expenses	6b		
c	Net rental income or (loss) (subtract line 6b from line 6a)		6c	
7	Other investment income (describe ▶)		7	

		(A) Securities		(B) Other
8a	Gross amount from sales of assets other than inventory		8a	
b	Less: cost or other basis and sales expenses		8b	
c	Gain or (loss) (attach schedule)		8c	

d	Net gain or (loss) (combine line 8c, columns (A) and (B))		8d	
9	Special events and activities (attach schedule). If any amount is from **gaming**, check here ▶ ☐			
a	Gross revenue (not including $ ______ of contributions reported on line 1a)	9a		
b	Less: direct expenses other than fundraising expenses	9b		
c	Net income or (loss) from special events (subtract line 9b from line 9a)		9c	
10a	Gross sales of inventory, less returns and allowances	10a		
b	Less: cost of goods sold	10b		
c	Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a)		10c	
11	Other revenue (from Part VII, line 103)		11	
12	**Total revenue** (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11)		12	

Expenses

13	Program services (from line 44, column (B))	13	
14	Management and general (from line 44, column (C))	14	
15	Fundraising (from line 44, column (D))	15	
16	Payments to affiliates (attach schedule)	16	
17	**Total expenses** (add lines 16 and 44, column (A))	17	

Net Assets

18	Excess or (deficit) for the year (subtract line 17 from line 12)	18	
19	Net assets or fund balances at beginning of year (from line 73, column (A))	19	
20	Other changes in net assets or fund balances (attach explanation)	20	
21	Net assets or fund balances at end of year (combine lines 18, 19, and 20)	21	

Part II **Statement of Functional Expenses** All organizations must complete column (A). Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others. (See page 22 of the instructions.)

Do not include amounts reported on line 6b, 8b, 9b, 10b, or 16 of Part I.		(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22 Grants and allocations (attach schedule) (cash $ ______ noncash $ ______)	22				
23 Specific assistance to individuals (attach schedule)	23				
24 Benefits paid to or for members (attach schedule)	24				
25 Compensation of officers, directors, etc.	25				
26 Other salaries and wages	26				
27 Pension plan contributions	27				
28 Other employee benefits	28				
29 Payroll taxes	29				
30 Professional fundraising fees	30				
31 Accounting fees	31				
32 Legal fees	32				
33 Supplies	33				
34 Telephone	34				
35 Postage and shipping	35				
36 Occupancy	36				
37 Equipment rental and maintenance	37				
38 Printing and publications	38				
39 Travel	39				
40 Conferences, conventions, and meetings	40				
41 Interest	41				
42 Depreciation, depletion, etc. (attach schedule)	42				
43 Other expenses not covered above (itemize): a	43a				
b	43b				
c	43c				
d	43d				
e	43e				
44 **Total functional expenses** (add lines 22 through 43). *Organizations completing columns (B)-(D), carry these totals to lines 13—15*	44				

Joint Costs. Check ▶ ☐ if you are following SOP 98-2.

Are any joint costs from a combined educational campaign and fundraising solicitation reported in **(B)** Program services? ▶ ☐ Yes ☐ No

If "Yes," enter **(i)** the aggregate amount of these joint costs $______; **(ii)** the amount allocated to Program services $______; **(iii)** the amount allocated to Management and general $ ______; and **(iv)** the amount allocated to Fundraising $

Part III **Statement of Program Service Accomplishments** (See page 25 of the instructions.)

What is the organization's primary exempt purpose? ▶ ______ All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable. (Section 501(c)(3) and (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants and allocations to others.)	**Program Service Expenses** (Required for 501(c)(3) and (4) orgs., and 4947(a)(1) trusts; but optional for others.)
a ______ (Grants and allocations $)	
b ______ (Grants and allocations $)	
c ______ (Grants and allocations $)	
d ______ (Grants and allocations $)	
e Other program services (attach schedule) (Grants and allocations $)	
f **Total of Program Service Expenses** (should equal line 44, column (B), Program services) ▶	

Part IV **Balance Sheets** (See page 25 of the instructions.)

Note: *Where required, attached schedules and amounts within the description column should be for end-of-year amounts only.*			(A) Beginning of year		(B) End of year
Assets					
45	Cash—non-interest-bearing			45	
46	Savings and temporary cash investments			46	
47a	Accounts receivable	47a			
b	Less: allowance for doubtful accounts	47b		47c	
48a	Pledges receivable	48a			
b	Less: allowance for doubtful accounts	48b		48c	
49	Grants receivable			49	
50	Receivables from officers, directors, trustees, and key employees (attach schedule)			50	
51a	Other notes and loans receivable (attach schedule)	51a			
b	Less: allowance for doubtful accounts	51b		51c	
52	Inventories for sale or use			52	
53	Prepaid expenses and deferred charges			53	
54	Investments—securities (attach schedule) ▶ ☐ Cost ☐ FMV			54	
55a	Investments—land, buildings, and equipment: basis	55a			
b	Less: accumulated depreciation (attach schedule)	55b		55c	
56	Investments—other (attach schedule)			56	
57a	Land, buildings, and equipment: basis	57a			
b	Less: accumulated depreciation (attach schedule)	57b		57c	
58	Other assets (describe ▶ ______)			58	
59	**Total assets** (add lines 45 through 58) (must equal line 74)			59	
Liabilities					
60	Accounts payable and accrued expenses			60	
61	Grants payable			61	
62	Deferred revenue			62	
63	Loans from officers, directors, trustees, and key employees (attach schedule)			63	
64a	Tax-exempt bond liabilities (attach schedule)			64a	
b	Mortgages and other notes payable (attach schedule)			64b	
65	Other liabilities (describe ▶ ______)			65	
66	**Total liabilities** (add lines 60 through 65)			66	
Net Assets or Fund Balances					
	Organizations that follow SFAS 117, check here ▶ ☐ and complete lines 67 through 69 and lines 73 and 74.				
67	Unrestricted			67	
68	Temporarily restricted			68	
69	Permanently restricted			69	
	Organizations that do not follow SFAS 117, check here ▶ ☐ and complete lines 70 through 74.				
70	Capital stock, trust principal, or current funds			70	
71	Paid-in or capital surplus, or land, building, and equipment fund			71	
72	Retained earnings, endowment, accumulated income, or other funds			72	
73	**Total net assets or fund balances** (add lines 67 through 69 **or** lines 70 through 72; column (A) **must** equal line 19; column (B) **must** equal line 21)			73	
74	**Total liabilities and net assets / fund balances** (add lines 66 and 73)			74	

Form 990 is available for public inspection and, for some people, serves as the primary or sole source of information about a particular organization. How the public perceives an organization in such cases may be determined by the information presented on its return. Therefore, please make sure the return is complete and accurate and fully describes, in Part III, the organization's programs and accomplishments.

Part IV-A **Reconciliation of Revenue per Audited Financial Statements with Revenue per Return** (See page 27 of the instructions.)

a	Total revenue, gains, and other support per audited financial statements . . ▶	a	
b	Amounts included on line a but not on line 12, Form 990:		
	(1) Net unrealized gains on investments . . $		
	(2) Donated services and use of facilities $		
	(3) Recoveries of prior year grants . . . $		
	(4) Other (specify): .... $		
	Add amounts on lines (1) through (4) ▶	b	
c	Line a minus line b. . . . . . . ▶	c	
d	Amounts included on line 12, Form 990 but not on line a:		
	(1) Investment expenses not included on line 6b, Form 990 . . . $		
	(2) Other (specify): .... $		
	Add amounts on lines (1) and (2) ▶	d	
e	Total revenue per line 12, Form 990 (line c plus line d) . . . . . . ▶	e	

Part IV-B **Reconciliation of Expenses per Audited Financial Statements with Expenses per Return**

a	Total expenses and losses per audited financial statements . . ▶	a	
b	Amounts included on line a but not on line 17, Form 990:		
	(1) Donated services and use of facilities $		
	(2) Prior year adjustments reported on line 20, Form 990 . . . . $		
	(3) Losses reported on line 20, Form 990 . $		
	(4) Other (specify): .... $		
	Add amounts on lines (1) through (4) ▶	b	
c	Line a minus line b . . . . . . ▶	c	
d	Amounts included on line 17, Form 990 but not on line a:		
	(1) Investment expenses not included on line 6b, Form 990. . . $		
	(2) Other (specify): .... $		
	Add amounts on lines (1) and (2) ▶	d	
e	Total expenses per line 17, Form 990 (line c plus line d) . . . . . ▶	e	

Part V **List of Officers, Directors, Trustees, and Key Employees** (List each one even if not compensated; see page 27 of the instructions.)

(A) Name and address	(B) Title and average hours per week devoted to position	(C) Compensation (If not paid, enter -0-.)	(D) Contributions to employee benefit plans & deferred compensation	(E) Expense account and other allowances

75 Did any officer, director, trustee, or key employee receive aggregate compensation of more than $100,000 from your organization and all related organizations, of which more than $10,000 was provided by the related organizations? ▶ ☐ Yes ☐ No
If "Yes," attach schedule—see page 28 of the instructions.

Part VI Other Information (See page 28 of the instructions.)

			Yes	No
76	Did the organization engage in any activity not previously reported to the IRS? If "Yes," attach a detailed description of each activity	76		
77	Were any changes made in the organizing or governing documents but not reported to the IRS? If "Yes," attach a conformed copy of the changes.	77		
78a	Did the organization have unrelated business gross income of $1,000 or more during the year covered by this return?	78a		
b	If "Yes," has it filed a tax return on **Form 990-T** for this year?	78b		
79	Was there a liquidation, dissolution, termination, or substantial contraction during the year? If "Yes," attach a statement	79		
80a	Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers, etc., to any other exempt or nonexempt organization?	80a		
b	If "Yes," enter the name of the organization ▶ .... and check whether it is ☐ exempt or ☐ nonexempt.			
81a	Enter direct and indirect political expenditures. See line 81 instructions . . . 81a			
b	Did the organization file **Form 1120-POL** for this year?	81b		
82a	Did the organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value?	82a		
b	If "Yes," you may indicate the value of these items here. Do not include this amount as revenue in Part I or as an expense in Part II. (See instructions in Part III.) . . 82b			
83a	Did the organization comply with the public inspection requirements for returns and exemption applications?	83a		
b	Did the organization comply with the disclosure requirements relating to quid pro quo contributions?	83b		
84a	Did the organization solicit any contributions or gifts that were not tax deductible?	84a		
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	84b		
85	*501(c)(4), (5), or (6) organizations.* a Were substantially all dues nondeductible by members?	85a		
b	Did the organization make only in-house lobbying expenditures of $2,000 or less?	85b		
	If "Yes" was answered to either 85a or 85b, **do not** complete 85c through 85h below unless the organization received a waiver for proxy tax owed for the prior year.			
c	Dues, assessments, and similar amounts from members . . . 85c			
d	Section 162(e) lobbying and political expenditures . . . 85d			
e	Aggregate nondeductible amount of section 6033(e)(1)(A) dues notices . . . 85e			
f	Taxable amount of lobbying and political expenditures (line 85d less 85e) . . 85f			
g	Does the organization elect to pay the section 6033(e) tax on the amount on line 85f?	85g		
h	If section 6033(e)(1)(A) dues notices were sent, does the organization agree to add the amount on line 85f to its reasonable estimate of dues allocable to nondeductible lobbying and political expenditures for the following tax year?	85h		
86	*501(c)(7) orgs.* Enter: a Initiation fees and capital contributions included on line 12 . 86a			
b	Gross receipts, included on line 12, for public use of club facilities 86b			
87	*501(c)(12) orgs.* Enter: a Gross income from members or shareholders 87a			
b	Gross income from other sources. (Do not net amounts due or paid to other sources against amounts due or received from them.) . . . 87b			
88	At any time during the year, did the organization own a 50% or greater interest in a taxable corporation or partnership, or an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? If "Yes," complete Part IX	88		
89a	*501(c)(3) organizations.* Enter: Amount of tax imposed on the organization during the year under: section 4911 ▶ ______ ; section 4912 ▶ ______ ; section 4955 ▶ ______			
b	*501(c)(3) and 501(c)(4) orgs.* Did the organization engage in any section 4958 excess benefit transaction during the year or did it become aware of an excess benefit transaction from a prior year? If "Yes," attach a statement explaining each transaction.	89b		

c Enter: Amount of tax imposed on the organization managers or disqualified persons during the year under sections 4912, 4955, and 4958. . . . ▶ ______

d Enter: Amount of tax on line 89c, above, reimbursed by the organization. . . . ▶ ______

90a List the states with which a copy of this return is filed ▶ ....

b Number of employees employed in the pay period that includes March 12, 2003 (See instructions.) 90b

91 The books are in care of ▶ .... Telephone no. ▶ (......) ....
Located at ▶ .... ZIP + 4 ▶ ....

92 *Section 4947(a)(1) nonexempt charitable trusts filing Form 990 in lieu of* ***Form 1041***—Check here . . . ▶ ☐
and enter the amount of tax-exempt interest received or accrued during the tax year . . . ▶ 92

Part VII Analysis of Income-Producing Activities (See page 33 of the instructions.)

Note: *Enter gross amounts unless otherwise indicated.*	Unrelated business income (A) Business code	Unrelated business income (B) Amount	Excluded by section 512, 513, or 514 (C) Exclusion code	Excluded by section 512, 513, or 514 (D) Amount	(E) Related or exempt function income
93 Program service revenue:					
a					
b					
c					
d					
e					
f Medicare/Medicaid payments					
g Fees and contracts from government agencies					
94 Membership dues and assessments					
95 Interest on savings and temporary cash investments					
96 Dividends and interest from securities					
97 Net rental income or (loss) from real estate:					
a debt-financed property					
b not debt-financed property					
98 Net rental income or (loss) from personal property					
99 Other investment income					
100 Gain or (loss) from sales of assets other than inventory					
101 Net income or (loss) from special events					
102 Gross profit or (loss) from sales of inventory					
103 Other revenue: a					
b					
c					
d					
e					
104 Subtotal (add columns (B), (D), and (E))					

105 **Total** (add line 104, columns (B), (D), and (E)) . . . . ▶ ______

Note: *Line 105 plus line 1d, Part I, should equal the amount on line 12, Part I.*

Part VIII Relationship of Activities to the Accomplishment of Exempt Purposes (See page 34 of the instructions.)

Line No. ▼	Explain how each activity for which income is reported in column (E) of Part VII contributed importantly to the accomplishment of the organization's exempt purposes (other than by providing funds for such purposes).

Part IX Information Regarding Taxable Subsidiaries and Disregarded Entities (See page 34 of the instructions.)

(A) Name, address, and EIN of corporation, partnership, or disregarded entity	(B) Percentage of ownership interest	(C) Nature of activities	(D) Total income	(E) End-of-year assets
	%			
	%			
	%			
	%			

Part X Information Regarding Transfers Associated with Personal Benefit Contracts (See page 34 of the instructions.)

(a) Did the organization, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? . . ☐ Yes ☐ No

(b) Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? ☐ Yes ☐ No

Note: *If "Yes" to (b), file Form 8870 and Form 4720 (see instructions).*

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

▶ ______ Signature of officer ______ Date

▶ ______ Type or print name and title.

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ▶ ☐	Preparer's SSN or PTIN (See Gen. Inst. W)
Firm's name (or yours if self-employed), address, and ZIP + 4 ▶		EIN ▶	
		Phone no. ▶ ( )	

Selected pages from Form 990 Schedule A

SCHEDULE A
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Organization Exempt Under Section 501(c)(3)

(Except Private Foundation) and Section 501(e), 501(f), 501(k), 501(n), or Section 4947(a)(1) Nonexempt Charitable Trust

Supplementary Information—(See separate instructions.)

▶ **MUST be completed by the above organizations and attached to their Form 990 or 990-EZ**

OMB No. 1545-0047

2003

Name of the organization	Employer identification number

Part I **Compensation of the Five Highest Paid Employees Other Than Officers, Directors, and Trustees**
(See page 1 of the instructions. List each one. If there are none, enter "None.")

(a) Name and address of each employee paid more than $50,000	(b) Title and average hours per week devoted to position	(c) Compensation	(d) Contributions to employee benefit plans & deferred compensation	(e) Expense account and other allowances
Total number of other employees paid over $50,000 . . . . ▶				

Part II **Compensation of the Five Highest Paid Independent Contractors for Professional Services**
(See page 2 of the instructions. List each one (whether individuals or firms). If there are none, enter "None.")

(a) Name and address of each independent contractor paid more than $50,000	(b) Type of service	(c) Compensation
Total number of others receiving over $50,000 for professional services . . . . ▶		

Part III Statements About Activities (See page 2 of the instructions.)

			Yes	No
1	During the year, has the organization attempted to influence national, state, or local legislation, including any attempt to influence public opinion on a legislative matter or referendum? If "Yes," enter the total expenses paid or incurred in connection with the lobbying activities ▶ $ ________ (Must equal amounts on line 38, Part VI-A, or line i of Part VI-B.)	1		
	Organizations that made an election under section 501(h) by filing Form 5768 must complete Part VI-A. Other organizations checking "Yes" must complete Part VI-B AND attach a statement giving a detailed description of the lobbying activities.			
2	During the year, has the organization, either directly or indirectly, engaged in any of the following acts with any substantial contributors, trustees, directors, officers, creators, key employees, or members of their families, or with any taxable organization with which any such person is affiliated as an officer, director, trustee, majority owner, or principal beneficiary? *(If the answer to any question is "Yes," attach a detailed statement explaining the transactions.)*			
a	Sale, exchange, or leasing of property?	2a		
b	Lending of money or other extension of credit?	2b		
c	Furnishing of goods, services, or facilities?	2c		
d	Payment of compensation (or payment or reimbursement of expenses if more than $1,000)?	2d		
e	Transfer of any part of its income or assets?	2e		
3a	Do you make grants for scholarships, fellowships, student loans, etc.? (If "Yes," attach an explanation of how you determine that recipients qualify to receive payments.)	3a		
b	Do you have a section 403(b) annuity plan for your employees?	3b		
4	Did you maintain any separate account for participating donors where donors have the right to provide advice on the use or distribution of funds?	4		

Part IV Reason for Non-Private Foundation Status (See pages 3 through 6 of the instructions.)

The organization is not a private foundation because it is: (Please check only **ONE** applicable box.)

5 ☐ A church, convention of churches, or association of churches. Section 170(b)(1)(A)(i).

6 ☐ A school. Section 170(b)(1)(A)(ii). (Also complete Part V.)

7 ☐ A hospital or a cooperative hospital service organization. Section 170(b)(1)(A)(iii).

8 ☐ A Federal, state, or local government or governmental unit. Section 170(b)(1)(A)(v).

9 ☐ A medical research organization operated in conjunction with a hospital. Section 170(b)(1)(A)(iii). **Enter the hospital's name, city, and state** ▶ ____________

10 ☐ An organization operated for the benefit of a college or university owned or operated by a governmental unit. Section 170(b)(1)(A)(iv). (Also complete the **Support Schedule** in Part IV-A.)

11a ☐ An organization that normally receives a substantial part of its support from a governmental unit or from the general public. Section 170(b)(1)(A)(vi). (Also complete the **Support Schedule** in Part IV-A.)

11b ☐ A community trust. Section 170(b)(1)(A)(vi). (Also complete the **Support Schedule** in Part IV-A.)

12 ☐ An organization that normally receives: **(1) more than 33⅓%** of its support from contributions, membership fees, and gross receipts from activities related to its charitable, etc., functions—subject to certain exceptions, and **(2) no more than 33⅓%** of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975. See section 509(a)(2). (Also complete the **Support Schedule** in Part IV-A.)

13 ☐ An organization that is not controlled by any disqualified persons (other than foundation managers) and supports organizations described in: **(1)** lines 5 through 12 above; or **(2)** section 501(c)(4), (5), or (6), if they meet the test of section 509(a)(2). (See section 509(a)(3).)

Provide the following information about the supported organizations. (See page 5 of the instructions.)

(a) Name(s) of supported organization(s)	**(b)** Line number from above

14 ☐ An organization organized and operated to test for public safety. Section 509(a)(4). (See page 6 of the instructions.)

Part IV-A **Support Schedule** (Complete only if you checked a box on line 10, 11, or 12.) ***Use cash method of accounting.***

Note: *You may use the worksheet in the instructions for converting from the accrual to the cash method of accounting.*

Calendar year (or fiscal year beginning in) ▶	(a) 2002	(b) 2001	(c) 2000	(d) 1999	(e) Total
15 Gifts, grants, and contributions received. (Do not include unusual grants. See line 28.)					
16 Membership fees received					
17 Gross receipts from admissions, merchandise sold or services performed, or furnishing of facilities in any activity that is related to the organization's charitable, etc., purpose					
18 Gross income from interest, dividends, amounts received from payments on securities loans (section 512(a)(5)), rents, royalties, and unrelated business taxable income (less section 511 taxes) from businesses acquired by the organization after June 30, 1975					
19 Net income from unrelated business activities not included in line 18					
20 Tax revenues levied for the organization's benefit and either paid to it or expended on its behalf					
21 The value of services or facilities furnished to the organization by a governmental unit without charge. Do not include the value of services or facilities generally furnished to the public without charge					
22 Other income. Attach a schedule. Do not include gain or (loss) from sale of capital assets					
23 Total of lines 15 through 22					
24 Line 23 minus line 17					
25 Enter 1% of line 23					

26 **Organizations described on lines 10 or 11:** a Enter 2% of amount in column (e), line 24 ▶ 26a

b Prepare a list for your records to show the name of and amount contributed by each person (other than a governmental unit or publicly supported organization) whose total gifts for 1999 through 2002 exceeded the amount shown in line 26a. **Do not file this list with your return.** Enter the total of all these excess amounts ▶ 26b

c Total support for section 509(a)(1) test: Enter line 24, column (e) ▶ 26c

d Add: Amounts from column (e) for lines: 18 ______ 19 ______ 22 ______ 26b ______ ▶ 26d

e Public support (line 26c minus line 26d total) ▶ 26e

f **Public support percentage (line 26e (numerator) divided by line 26c (denominator))** ▶ 26f %

27 **Organizations described on line 12:** a For amounts included in lines 15, 16, and 17 that were received from a "disqualified person," prepare a list for your records to show the name of, and total amounts received in each year from, each "disqualified person." **Do not file this list with your return.** Enter the sum of such amounts for each year:

(2002) .... (2001) .... (2000) .... (1999) ....

b For any amount included in line 17 that was received from each person (other than "disqualified persons"), prepare a list for your records to show the name of, and amount received for each year, that was more than the **larger** of **(1)** the amount on line 25 for the year or **(2)** $5,000. (Include in the list organizations described in lines 5 through 11, as well as individuals.) **Do not file this list with your return.** After computing the difference between the amount received and the larger amount described in **(1)** or **(2)**, enter the sum of these differences (the excess amounts) for each year:

(2002) .... (2001) .... (2000) .... (1999) ....

c Add: Amounts from column (e) for lines: 15 ______ 16 ______ 17 ______ 20 ______ 21 ______ ▶ 27c

d Add: Line 27a total ______ and line 27b total ______ ▶ 27d

e Public support (line 27c total minus line 27d total) ▶ 27e

f Total support for section 509(a)(2) test: Enter amount from line 23, column (e) ▶ 27f

g **Public support percentage (line 27e (numerator) divided by line 27f (denominator))** ▶ 27g %

h **Investment income percentage (line 18, column (e) (numerator) divided by line 27f (denominator))** ▶ 27h %

28 **Unusual Grants:** For an organization described in line 10, 11, or 12 that received any unusual grants during 1999 through 2002, prepare a list for your records to show, for each year, the name of the contributor, the date and amount of the grant, and a brief description of the nature of the grant. **Do not file this list with your return.** Do not include these grants in line 15.

Part V Private School Questionnaire (See page 7 of the instructions.)
(To be completed ONLY by schools that checked the box on line 6 in Part IV)

		Line	Yes	No
29	Does the organization have a racially nondiscriminatory policy toward students by statement in its charter, bylaws, other governing instrument, or in a resolution of its governing body?	29		
30	Does the organization include a statement of its racially nondiscriminatory policy toward students in all its brochures, catalogues, and other written communications with the public dealing with student admissions, programs, and scholarships?	30		
31	Has the organization publicized its racially nondiscriminatory policy through newspaper or broadcast media during the period of solicitation for students, or during the registration period if it has no solicitation program, in a way that makes the policy known to all parts of the general community it serves?. If "Yes," please describe; if "No," please explain. (If you need more space, attach a separate statement.)	31		
32	Does the organization maintain the following:			
a	Records indicating the racial composition of the student body, faculty, and administrative staff?	32a		
b	Records documenting that scholarships and other financial assistance are awarded on a racially nondiscriminatory basis?	32b		
c	Copies of all catalogues, brochures, announcements, and other written communications to the public dealing with student admissions, programs, and scholarships?	32c		
d	Copies of all material used by the organization or on its behalf to solicit contributions? If you answered "No" to any of the above, please explain. (If you need more space, attach a separate statement.)	32d		
33	Does the organization discriminate by race in any way with respect to:			
a	Students' rights or privileges?	33a		
b	Admissions policies?	33b		
c	Employment of faculty or administrative staff?	33c		
d	Scholarships or other financial assistance?	33d		
e	Educational policies?	33e		
f	Use of facilities?	33f		
g	Athletic programs?	33g		
h	Other extracurricular activities? If you answered "Yes" to any of the above, please explain. (If you need more space, attach a separate statement.)	33h		
34a	Does the organization receive any financial aid or assistance from a governmental agency?	34a		
b	Has the organization's right to such aid ever been revoked or suspended? If you answered "Yes" to either 34a or b, please explain using an attached statement.	34b		
35	Does the organization certify that it has complied with the applicable requirements of sections 4.01 through 4.05 of Rev. Proc. 75-50, 1975-2 C.B. 587, covering racial nondiscrimination? If "No," attach an explanation	35		

Part VI-A Lobbying Expenditures by Electing Public Charities (See page 9 of the instructions.)

(To be completed **ONLY** by an eligible organization that filed Form 5768)

Check ▶ a ☐ if the organization belongs to an affiliated group. Check ▶ b ☐ if you checked "a" and "limited control" provisions apply.

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)		(a) Affiliated group totals	(b) To be completed for ALL electing organizations
36 Total lobbying expenditures to influence public opinion (grassroots lobbying)	36		
37 Total lobbying expenditures to influence a legislative body (direct lobbying)	37		
38 Total lobbying expenditures (add lines 36 and 37)	38		
39 Other exempt purpose expenditures	39		
40 Total exempt purpose expenditures (add lines 38 and 39)	40		
41 Lobbying nontaxable amount. Enter the amount from the following table—			
If the amount on line 40 is— / **The lobbying nontaxable amount is—**			
Not over $500,000 / 20% of the amount on line 40			
Over $500,000 but not over $1,000,000 / $100,000 plus 15% of the excess over $500,000			
Over $1,000,000 but not over $1,500,000 / $175,000 plus 10% of the excess over $1,000,000	41		
Over $1,500,000 but not over $17,000,000 / $225,000 plus 5% of the excess over $1,500,000			
Over $17,000,000 / $1,000,000			
42 Grassroots nontaxable amount (enter 25% of line 41)	42		
43 Subtract line 42 from line 36. Enter -0- if line 42 is more than line 36	43		
44 Subtract line 41 from line 38. Enter -0- if line 41 is more than line 38	44		

Caution: *If there is an amount on either line 43 or line 44, you must file Form 4720.*

4-Year Averaging Period Under Section 501(h)

(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 45 through 50 on page 11 of the instructions.)

	Lobbying Expenditures During 4-Year Averaging Period				
Calendar year (or fiscal year beginning in) ▶	(a) 2003	(b) 2002	(c) 2001	(d) 2000	(e) Total
45 Lobbying nontaxable amount					
46 Lobbying ceiling amount (150% of line 45(e))					
47 Total lobbying expenditures					
48 Grassroots nontaxable amount					
49 Grassroots ceiling amount (150% of line 48(e))					
50 Grassroots lobbying expenditures					

Part VI-B Lobbying Activity by Nonelecting Public Charities

(For reporting only by organizations that did not complete Part VI-A) (See page 12 of the instructions.)

During the year, did the organization attempt to influence national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of:	Yes	No	Amount
a Volunteers			
b Paid staff or management (Include compensation in expenses reported on lines c through h.)			
c Media advertisements			
d Mailings to members, legislators, or the public			
e Publications, or published or broadcast statements			
f Grants to other organizations for lobbying purposes			
g Direct contact with legislators, their staffs, government officials, or a legislative body			
h Rallies, demonstrations, seminars, conventions, speeches, lectures, or any other means			
i Total lobbying expenditures (Add lines c through h.)			

If "Yes" to any of the above, also attach a statement giving a detailed description of the lobbying activities.

Part VII **Information Regarding Transfers To and Transactions and Relationships With Noncharitable Exempt Organizations** (See page 12 of the instructions.)

51 Did the reporting organization directly or indirectly engage in any of the following with any other organization described in section 501(c) of the Code (other than section 501(c)(3) organizations) or in section 527, relating to political organizations?

		Yes	No
a Transfers from the reporting organization to a noncharitable exempt organization of:			
(i) Cash	51a(i)		
(ii) Other assets	a(ii)		
b Other transactions:			
(i) Sales or exchanges of assets with a noncharitable exempt organization	b(i)		
(ii) Purchases of assets from a noncharitable exempt organization	b(ii)		
(iii) Rental of facilities, equipment, or other assets	b(iii)		
(iv) Reimbursement arrangements	b(iv)		
(v) Loans or loan guarantees	b(v)		
(vi) Performance of services or membership or fundraising solicitations	b(vi)		
c Sharing of facilities, equipment, mailing lists, other assets, or paid employees	c		

d If the answer to any of the above is "Yes," complete the following schedule. Column (b) should always show the fair market value of the goods, other assets, or services given by the reporting organization. If the organization received less than fair market value in any transaction or sharing arrangement, show in column (d) the value of the goods, other assets, or services received:

(a) Line no.	(b) Amount involved	(c) Name of noncharitable exempt organization	(d) Description of transfers, transactions, and sharing arrangements

52a Is the organization directly or indirectly affiliated with, or related to, one or more tax-exempt organizations described in section 501(c) of the Code (other than section 501(c)(3)) or in section 527? ▶ ☐ Yes ☐ No

b If "Yes," complete the following schedule:

(a) Name of organization	(b) Type of organization	(c) Description of relationship

Selected pages from Form 990 Schedule B

Schedule B
(Form 990, 990-EZ, or 990-PF)
Department of the Treasury
Internal Revenue Service

Schedule of Contributors

Supplementary Information for line 1 of Form 990, 990-EZ, and 990-PF (see instructions)

OMB No. 1545-0047

2003

Name of organization	**Employer identification number**

Organization type (check one):

Filers of:	**Section:**
Form 990 or 990-EZ	☐ 501(c)( ) (enter number) organization
	☐ 4947(a)(1) nonexempt charitable trust **not** treated as a private foundation
	☐ 527 political organization
Form 990-PF	☐ 501(c)(3) exempt private foundation
	☐ 4947(a)(1) nonexempt charitable trust treated as a private foundation
	☐ 501(c)(3) taxable private foundation

Check if your organization is covered by the **General Rule** or a **Special Rule. (Note:** *Only a section 501(c)(7), (8), or (10) organization can check box(es) for both the General Rule and a Special Rule—see instructions.*)

General Rule—

☐ For organizations filing Form 990, 990-EZ, or 990-PF that received, during the year, $5,000 or more (in money or property) from any one contributor. (Complete Parts I and II.)

Special Rules—

☐ For a section 501(c)(3) organization filing Form 990, or Form 990-EZ, that met the 33⅓% support test of the regulations under sections 509(a)(1)/170(b)(1)(A)(vi) and received from any one contributor, during the year, a contribution of the greater of $5,000 or 2% of the amount on line 1 of these forms. (Complete Parts I and II.)

☐ For a section 501(c)(7), (8), or (10) organization filing Form 990, or Form 990-EZ, that received from any one contributor, during the year, aggregate contributions or bequests of more than $1,000 for use *exclusively* for religious, charitable, scientific, literary, or educational purposes, or the prevention of cruelty to children or animals. (Complete Parts I, II, and III.)

☐ For a section 501(c)(7), (8), or (10) organization filing Form 990, or Form 990-EZ, that received from any one contributor, during the year, some contributions for use *exclusively* for religious, charitable, etc., purposes, but these contributions did not aggregate to more than $1,000. (If this box is checked, enter here the total contributions that were received during the year for an *exclusively* religious, charitable, etc., purpose. Do not complete any of the Parts unless the **General Rule** applies to this organization because it received nonexclusively religious, charitable, etc., contributions of $5,000 or more during the year.) . . . . ▶ $ ____________

Caution: *Organizations that are not covered by the General Rule and/or the Special Rules do not file Schedule B (Form 990, 990-EZ, or 990-PF), but they* **must** *check the box in the heading of their Form 990, Form 990-EZ, or on line 1 of their Form 990-PF, to certify that they do not meet the filing requirements of Schedule B (Form 990, 990-EZ, or 990-PF).*

Name of organization | Employer identification number

Part I Contributors (See Specific Instructions.)

(a) No.	(b) Name, address, and ZIP + 4	(c) Aggregate contributions	(d) Type of contribution
____		$ ____	Person ☐ Payroll ☐ Noncash ☐ (Complete Part II if there is a noncash contribution.)

(a) No.	(b) Name, address, and ZIP + 4	(c) Aggregate contributions	(d) Type of contribution
____		$ ____	Person ☐ Payroll ☐ Noncash ☐ (Complete Part II if there is a noncash contribution.)

(a) No.	(b) Name, address, and ZIP + 4	(c) Aggregate contributions	(d) Type of contribution
____		$ ____	Person ☐ Payroll ☐ Noncash ☐ (Complete Part II if there is a noncash contribution.)

(a) No.	(b) Name, address, and ZIP + 4	(c) Aggregate contributions	(d) Type of contribution
____		$ ____	Person ☐ Payroll ☐ Noncash ☐ (Complete Part II if there is a noncash contribution.)

(a) No.	(b) Name, address, and ZIP + 4	(c) Aggregate contributions	(d) Type of contribution
____		$ ____	Person ☐ Payroll ☐ Noncash ☐ (Complete Part II if there is a noncash contribution.)

(a) No.	(b) Name, address, and ZIP + 4	(c) Aggregate contributions	(d) Type of contribution
____		$ ____	Person ☐ Payroll ☐ Noncash ☐ (Complete Part II if there is a noncash contribution.)