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Appendix III-B: Training Materials

Financial Management
English language text

Final Report to
the United States Agency for International Development
of the Private Voluntary Organizations Initiatives for the Newly Independent States Project
World Learning Inc.
1992 - 1997

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WORLD LEARNING INC.

Founded in 1932 as
The US Experiment in
International Living

FINANCIAL MANAGEMENT

Participant Resource Book

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Section 1

Workshop Program



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Financial Management St. Peterburg, Russia, 8-10 February, 1996

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Section 2

List of Participants, Guests and Trainers



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Section 3

Linkages Between Strategic Planning and Financial Management

WHAT IS STRATEGY AND STRATEGICAL PLANNING?

(For definitions of notions)

Strategy is initiative, a manifestation of leadership. It is a manifestation of leadership even when the same strategy was used several times in various organizations. If you are playing the game that no one has played before, all strategies are very risky. Strategies are a complex system of definitions of what should be done. Strategy is a declaration of intentions to make a certain choice in the future, when the moments of choice are achieved.

*By Peter Veil. The Art of Management,
Moscow, Novosti, 1993*

Strategic planning is a process of defining what the organization wants to be like in the future, and how it will achieve it. It means finding a better future for your organization and a better way of fulfilling its mission.

This kind of planning includes the following important decisions about the future of your organization:

- * The mission and the goals that you will follow
- * Programs, services and products that you will offer while fulfilling the mission
- * How will you attract and use necessary resources - people, money, experience, experts, professional skills, etc.

*Bryan W. Barry. Strategic Planning Workbook for
Nonprofit Organizations. Amherst H. Wilder Foundation. 1986*

Strategic planning implies adapting resources and campaign goals to various and changing conditions of activity.

*John D. Daniels, Lee H. Radeba. International Business.
Moscow, Delo, Ltd., 1994*

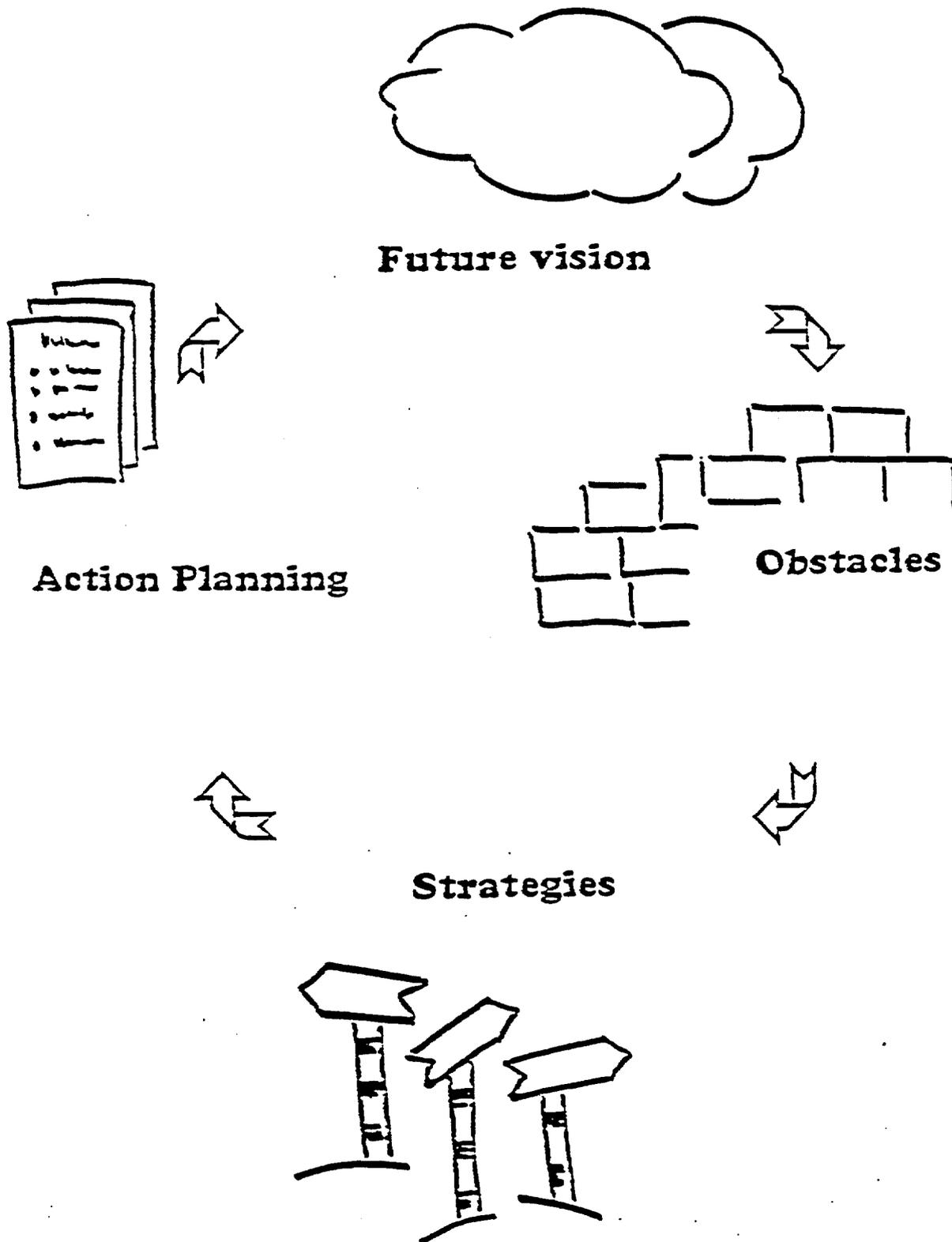
Strategy is such a combination (correspondence) of resources and organizational skills on the one hand and opportunities and risks, generated by the external environment, on the other, which acts in the present and the future and which the organization uses to achieve its main goal.

The main features of strategic planning are as follows:

- it includes the main problems and tasks of the organization
- it creates the framework for detailed planning and current decision-making
- it is most long-term in comparison with other types of planning
- it makes activity orderly and internally uniform at different stages
- it makes the top officials accelerate their work.

*T. Santalainen et al. Managing by results.
Moscow, Progress, 1993*

Strategic Planning Cycle



HUMAN FACTOR IN STRATEGIC PLANNING

by Ken Whitney, Consultant (Denver, Colorado, USA)

I have leafed through the pages of three booklets with the company's logo and titled "Strategic Planning for 1992". They had everything: summary report on services, overview of interviews with employees, analysis of costs and expenses, description of the organization's status, perspectives for the coming year, recommendations, etc. And a remarkable proposal. The planning department have done a great job.

"What's the problem?" I asked. Strategic planning department answered that they could not implement it. They had had five meetings with representatives of several departments. They all were finding faults with it and looked for mistakes in the main chapters. Only one department was interested in running in a couple of their recommendations.

I am sure that it will be difficult to implement strategic plans developed by an isolated group, especially if you did not participate in the creation of these plans, but really need them. It is not surprising: those who listen to instructions have a very low level of enthusiasm.

Great plans are a living thing, it is difficult to imagine them in a booklet. They take a final shape in the imagination of those who aim at success. Strategic planning can be a process that strengthens and consolidates the organization. It happens there, where people participate in strategic planning, contribute their experience, hopes and their ideas to the common strategic drive to the future.

Successful planning helps the group make a imaginative trip into the future, choose the results that are easy to remember and that can be achieved.

1. THE MAIN QUESTION

Without clear vision of where the organization is moving, discussions about the future will not go beyond the enumeration of questions without answers.

The following signs indicate that the organization needs a new strategic plan: meetings end with feverish decisions, executives' enthusiasm runs low, employees have more questions, than answers about their mission and what tasks they are to perform and how to do it.

My technology of planning starts with raising these questions for the general discussion and joint decision about the most important question. Strategic planning will be focused on this question.

A quickly developing engineering company had a planning meeting. Someone asked: "How shall we increase the profit?". Another question was: "How shall we raise the morale?". The third question was: "What plans we are going to develop?". Then followed: "What will our business plan be like?". All in all there were nine questions on the whiteboard, when I asked the team to choose the only one that will link up all the others.

After several attempts someone said: "I liked to come to work when everybody was smiling to each other and we had common dreams which we discussed together. Now we do not have such a common vision. We are too busy with routine work to talk to each other. I think our strategic plan should concentrate on the question: How shall we enjoy life and thus make our company the best one in the industry?"

This question drew the line. Everybody was eager to get an answer. When you formulate the main question, the planning process becomes important for all members of the group and becomes a living thing.

2. HISTORICAL ANALYSIS

Courage comes from the knowledge of who you are and where you come from.

I asked a young engineer why he liked his work. "We are the best in the industry", he said and told me about several projects, implemented by the company during the past years. Those projects and stories were myths. They expressed the essence of employees' attitude to their company, which could be defined by "we can do everything" and this made them enjoy their work.

The past is a storage of victories, examples of courage and struggle. This is a source of knowledge and personal experience and a step into the future. This is the basis of our future. The time does not have to be an oppressing factor, if people remember what they were through and how they won.

At this stage of planning I ask people to enumerate the key events and results from the past, write them down on cards and put in a timeline from 5 to 20 years, which passed before the meeting. While we are getting to know what and why was so important for them and their organization, the people change: a feeling of involvement and pride for what they were and what they did appears.

When people look back on the examples and tendencies in the past, coordinate them with dates, and think over the changes that took place in their environment and how they changed themselves, they become a knowledgeable organization. When they re-evaluate their mission and reestimate the values of their organization, they can discover, why their work is worth spending their lives for it.

3. THE VISION OF THE FUTURE

If you know where you are going, you will find a way to get there.

One needs certain courage to define what you will do in one or five or seven years. The analysis of the past is a decisive factor for a far-sighted person, because one needs a feeling of continuity of historical process to create the vision of the future. The knowledge of "what we did before" wipes away our doubts, which prevent us from implementation of our hopes and dreams.

Hopes and dreams take us to the future. Without them we can lose the goal and enthusiasm.

On the personality level creating the picture of what we want is more attractive than the vision of the future. This is also true for organizations. When the people see their dreams included in the vision of the future of the organization, such an organization will move forward and you can be sure that all their dreams will come true.

The vision of the future is not what it "should be". "Must" and "should" seldom fill people with enthusiasm. The most powerful vision of the future are creative ideas born in brain storms.

The motivating vision of the future comes from the heart. It corresponds to human need for security, success, recognition and self-realization.

At this stage of the planning process I asked the owners and employees of a construction company to tell me what they would like to see in one or three years. Someone wanted to have a higher personal income, someone dreamed about a special prestigious bonus for quality. The planning manager saw all contractors and subcontractors working like partners. Foremen wanted to have opportunities for growth and recognition of their achievements. All in all there were 38 specific elements of the vision of the future, which we used to build a picture of inspired people in a winning company. This motto still works, because both the owners and the employees link their hopes with it.

4. PROBLEMS. OBSTACLES.

*If we understand where we want to come,
then why aren't we there yet?*

Dreams are not achieved. They are unlocked and set free. This is not a question of how we should achieve the desired vision of the future, but what does not let us reach it.

Some activities and events create obstacles and block people on the way to the desired future. They are similar to mines on the road. There is an old saying which was once pinned to my wall: if there is a dragon in the neighborhood, you'd better include it in your plans. Organizations may find themselves in a difficult position because dragons were ignored at the stage of planning.

These dragons are not external factors like "government actions" or "taxes", "living standards", "employees consciousness" and so on, which can be blamed for our problems. In fact, the habit of accusing other people of your own failures does not let us take the responsibility upon ourselves.

Obstacles do not mean a shortage of something. Obstacles do exist. They are real factors, which can cause real damage and if they are not identified and defined, a high risk for the future of the organization may be created. The full definition of the obstacles is the first step to avoiding them.

Edward Deming, the famous consultant on raising the quality of products and services, instructed his clients and suggested they look for contradictions in the organization of industrial activity and the management style. Many of those of leaders who stand for total quality, contradict themselves. In reality they do not let ordinary employees take the responsibility and do not support their initiative.

Companies that wish to grow often contradict their vision of the future, if they continue acting as a small company. They make mistakes when they develop industrial facilities and do not use the advantages of dynamic growth.

It is necessary that contradictions are identified by the people who are involved in them. It is appropriate to remember the famous words of Pogo: "We have met an enemy, and the enemy is ourselves." The right way to find obstacles is to answer the question: "how do you participate in creation (support) of this problem?"

We start to understand the problems through the stress points in the organization. I ask people to enumerate the questions and irritating factors, which create disappointments. "Where is your creative work blocked on the way to the goals?" Team members group the answers around similar reasons. Then they check them by examples from their past and determine the main reasons which give rise to these problems. Contradictions and obstacles - they are both bad and good news. No one wants to recognize the fact they are in a blind alley. But you will be relieved when you admit the fact.

A properly formulated problem is a window to the future, a point which can help to implement the vision of the future in our life and in our organization.

5. STRATEGIC GUIDELINES

"March forward" is unlikely to be the best way to the desired future.

There is a difference between long-term planning and strategic planning. Long-term planning often implies the development of clear-cut, well-defined, established directions and ways of managing the organization. These are clearly defined samples that should be achieved, and here strategy is not a serious issue. This is an example of classical linear thinking, used in many organizations irrespective of the fast-changing environment.

Strategic planning, unlike long-term planning, is not aimed at how everything should be organized in 2 or 3 years. It is aimed at the search of new initiatives, new directions, overcoming obstacles and contradictions.

In the process of defining the problems and obstacles people start thinking how to overcome them. Japanese managers noticed that if you take the problem with all your heart, the decision becomes obvious. This is the fastest part of the process. Ideas, invented or discovered by people, hit the target.

Brainstorming helps to enumerate both innovative and tested ideas. Then ideas are classified by groups according to the meaning of initiatives and goals. Proceeding from this, strategic guidelines for future activities are formulated.

The process of going deep to the detail allows people to invent ways of moving forward to the vision of the future in accordance with the present-day situation and its contradictions, problems and opportunities.

6. IMPLEMENTATION

Start with description of your future victories.

The task of the next stage of the planning process is building up the way to achievements of the coming year. The team is divided into groups. Each group discusses one of the strategic guidelines and decides which goals should be achieved in 12 months.

When talking about the current work they describe check points and intermediate achievements for every three months. It is necessary to describe these achievements with a special language: precisely and with a possibility of evaluation, specifying the time periods. Such check points are located on the timeline. Then the team checks if this can be achieved by the determined date.

The groups describe the events and achievements for the first quarter. plan activity on the timeline and demonstrate them to all members of the group. The team updates each plan to avoid conflicts and misunderstandings. Finally, all the timelines are checked for correspondence with the general direction of organizational development. Measures for mutual support are planned.

By the end of the discussion the documents of the meeting are summarized. These documents include the brain storm results, as well as group analysis and decisions.

This is the final stage of a planning meeting.

7. GO FORWARD

*One of the simplest and most effective ways
of management is regular questioning
your people about how they are moving ahead,
what problems they faced, what decisions
they develop and what support they need from you.*

In order to support the energy of movement, the team gets together in the end of the quarter. They discuss their achievements and think about the things they learned. They discuss the future victories. They make new plans of actions, discuss them with each other and exchange helpful information.

When the year is over, the team celebrates its achievements and confirms its vision of the future, checks if the organization still aims at it and makes plans for the first quarter of the next year.

RESULTS

The construction company have created a special department for mutual obligations of company owners and company employees. Managers and foremen have recorded their mutual expectations and constantly exchange reports in order to understand each other better and receive mutual support in achieving results. The team evaluates its achievements every quarter and specifies its plans.

Actions in the engineering company go faster than the elaborated plan. This is the nature of their business. The president says, "The main thing is that we make money, talk to each other and most of us are in joyful mood. However, there is a couple of engineers who do not know what joy is....."

MANAGEMENT BY OBJECTIVES: A PERSPECTIVE FOR NEW NGO MANAGERS

Scott Charlesworth

Management by Objectives, commonly known as MBO, is a management system which has been on the American scene since the mid 1950's, introduced principally by Peter Drucker the well known authority on organizational management practices (1). Certainly since my earliest days working with non-profit organizations, starting in the 1970's, MBO or elements thereof have typically been implemented -- both in my work in the US and internationally. While MBO is not the only way to "conduct business", and variations do exist especially in regards to evaluating staff performance, if carried out faithfully this type of management does impart and reinforce the values of participation and feedback which are essential in human relations and human development work. Furthermore, in my opinion, by working in the field of human development organizations (e.g. community and human service organizations) have a responsibility to carry out this work in a participatory and developmental way. Effective MBO has these characteristics.

The purpose of this paper is to share some of my thoughts and interpretations of MBO and its appropriate use in the work of non-profit and non-governmental organizations (NGOs). While I am an MBO advocate, systems don't solve problems or create successes -- people do. But as useful management systems are developed and implemented by committed and thoughtful managers, I believe that all organizational stakeholders will benefit.

WHAT IS MBO?

In preparation for this topic I recently came across the following definition: "Management by Objectives is a system that features a periodic agreement between a superior (or supervisor) and a subordinate (a staff person being supervised) on the subordinate objectives for a particular period and a periodic review of how well the subordinate achieved those objectives" (2). In plain terms, MBO provides the opportunity for supervisors and staff to mutually agree on the staff person's job objectives for a period of time, and through concerted effort and ongoing feedback ensure the greatest opportunity to achieve the stated objectives. Furthermore, the review or job appraisal is a way to adjust or correct certain deficiencies, and to plan for both training needs and in the development of the future job objectives.

What the above definition does not elaborate on is the link between organizational priorities and objectives, and the specific job objectives of individual staff members. The following discussion will address this broader MBO issue.

IMPLEMENTATION OF MBO

In a current management text, I came across a discussion of "collaborative MBO" (3). The key message here is that throughout the MBO process, collaboration among various units or departments, supervisors and those whom they supervise, and among staff peers is essential if the maximum organizational benefit is to be realized. A look at the key stages of implementing MBO will shed further light on the elements of this system.

1.) Collaborative Organizational Diagnosis - First there needs to be a collaborative look at an organizations major problems and priorities, by a variety of persons in the organization, to develop a generally agreed upon prognosis of the organization.

2.) Information and Education - During this stage, various work groups are formed and specific information is discussed concerning the purposes and strategies of MBO. This is to ensure that there is broad understanding and consensus for the implementation of such a system.

3.) Analysis of Organizational Readiness - With the information derived from the first two steps, an organization is able to assess its ability to implement the system, the time table, the required staff orientation sessions, etc. These first three steps are the ground work needed before the development of organizational and individual objectives.

4.) Goal Setting - Organizational Level - At this point, a collaborative process is employed looking at the "big picture" - what the organization wishes to accomplish in the long and short-term. Longer term targets are generally classified as goals, while the more specific and shorter-term (generally within a 12 month period) projections are objectives.

In my own planning work, I look at two kinds of objectives: 1) program or output objectives and 2) management or process objectives. Examples of **program objectives** include:

- To involve 1000 youth in the city in drug prevention education programs by October 1, 1996
- To reach 400 less advantaged households by providing opportunities in a variety of counseling and prevention programs by December 1996
- To construct wheel chair access ramps for all city secondary schools by December 1996

Management or process objectives might include:

- Recruit 6 new board members and complete board orientation by July 1996
- Conduct an annual fundraising campaign raising a minimum of \$20,000 from local by September 1996

Another kind of management or process object, a "**value objective**", is difficult to quantify but nonetheless should be written as an organizational objective. These objectives are value statements which are essential to the well-being of an organization. One example might be:

- To develop an organizational code of ethics (or statement of principles) and ensure that all staff and volunteers exemplify the organization's principles of cooperation and honesty.

While more difficult to evaluate objectively, these value objectives should not be overlooked while striving to achieve other more quantifiable program and management objectives.

5) Goal Setting - Unit Level - In organizations with more than just a few people the work is often divided into different units or departments. Lets consider the earlier organizational objective of "reaching 400 less advantaged households by providing opportunities for a variety of counseling and prevention programs by December 1996". Given the scope of the work, an organization might create two divisions; a family counseling division and a youth services division. In this case, the family counseling division might establish an annual unit objective of: establish a peer counseling program involving a minimum of 400 heads of households by December 1996. The youth services division would then identify a series of programs for youth such as summer camps, youth employment training, sports programs, etc., listing the number of youth to be served as well as the related time frame.

6) Goal Setting - Individual Level - This is the point where supervisors and staff meet to establish how much, how well, by when, and by whom work will be accomplished. All the decisions from the previous stages, if done in a thorough a collaborative manner, will feed directly into individual work plans. The key benefit to collaboration is that staff will see

these objectives (organizational and individual) as their objectives, thus serving as further motivation to accomplish the work.

Returning to the previous example of the youth services division's objectives, individual job objectives might include:

- Involve 250 youth-at-risk , ages 8-14, in a summer camping program by August 15, 1996.
- Involve 150 low income high school students, throughout the school year, in small business training and provide them with apprenticeship opportunities with local businesses by December 1996.

Another factor, not previously mentioned, is the establishment of personal and professional goals and aspirations of the staff person, and to seek the commitment from both the staff person and the supervisor to make progress in this area. This commitment goes beyond the "bottom line" objectives of the organization, with a focus on the motivation and well-being of all those involved with the organization.

7) Performance Review - This is the formal process where supervisors and their staff review the progress being made in comparison with the established objectives. This is the time to make any changes to the plans, identify further training needs, and in general offer further clarification of expectations for both parties. It is important that attention also be given to the "values" objectives as well as the personal and professional goals established by the staff member, as stated above.

While the formal review process should take place at least twice a year, informal feedback is critical and ongoing communication among staff and supervisors is an important part of the process.

8) Re-diagnosis - At the completion of reviews throughout all levels of the organization, wage increases, promotions, and any disciplinary actions are instituted and the organization once again looks at the first step of the process; to diagnose problems and priorities for the next cycle. By following the same steps collaborative planning begins once again.

SOME CLARIFICATION OF TERMS

As one can see, there seems to be a striking similarity between MBO and strategic planning in some of the terminology and the process. This similarity is by design as MBO is a method of linking annual objectives to long-term goals (developed in a strategic planning process). While an organization's strategic plan looks 3-5 years into the future, MBO is key in the annual implementation phase which enables an organization to move toward its long-range goals.

While goals are long-term and less specific, objectives are more specific and have a time frame generally of one year or less. Job objectives, performance standards, job segments or targets are interchangeable terms which establish how much, how well and by whom the work will be achieved. Various examples of these have been stated above.

Job descriptions, however, describe what is to be done and outline various tasks or functions. Job descriptions should be used to organize and clarify the work of staff, but not as an evaluative tool. Its important to have a clear understanding of the difference between job objectives and job descriptions.

ADVANTAGES AND DISADVANTAGES OF MBO

It is my belief that when conducted in the proper manner and with a considerable level of commitment throughout the organization, there are numerous benefits to MBO.

- Evaluations are based on results and thus are more objective
- Staff have a clearer picture of what is expected of them
- As major participants in the process, individual staff members help determine the work to be done
- Builds stronger relationships among supervisors and staff
- Enhances staff motivation, staff responsibility and staff development
- Enables an organization to establish a more fair and objective salary administration system
- Is an integral part in strategic planning and organizational development

There are, however, potential problems in all management systems including MBO.

- When done properly, the process can be very time consuming - at all levels.
- Without proper care, it is possible that the setting of individual staff objectives may shift the focus from the big picture to individual results, thus reducing the spirit of team work.
- While quantitative objectives are what are sought, certain qualitative indicators (such as team work) must not be lost in the process.

PRINCIPLES FOR SUCCESS IN THE IMPLEMENTATION OF MBO

- Top management supports the process
- Mutual goal setting (by supervisor and staff) both quantitative and qualitative in nature
- Supervisors work to remove obstacles to staff performance and growth
- Success is recognized as it occurs, not just twice a year during the formal appraisal sessions
- Performance appraisals given periodically, both formal and informal
- Collaboration and team approach used in planning and problem solving
- Personal and professional goals and aspirations of staff are supported by management, as appropriate
- The environment within the organization (organizational culture) is supportive and developmental.

CONCLUSION

In my view, the most successful managers place a high priority on the development of their human resources (staff and volunteers), and establish the kind of systems that foster motivation, commitment and skill building. If applied with the proper spirit, Management by Objectives can have a positive impact on the an organization's performance as well as on the people within the organization. But systems have their limitations, therefore it the responsibility of thoughtful managers to ensure that the values of the organization and the well-being of the individuals involved not be overlooked as daily struggles challenge organizational viability.

Research Notes:

- (1) Drucker, Peter, "Practice of Management", Harper & Row, New York, NY 1954.
- (2) French, Wendall L., "The Personnel Management Process - Human Resources Administration and development", Sixth Edition, Houghton Mifflin Co., 1987, pg 341.
- (3) Ibid, pg.344.

DE-MYSTIFYING THE BUDGET PROCESS

Scott Charlesworth

A number of years ago I began my work with non-governmental organizations (NGOs) as a director for youth programs for the YMCA organization in Florida, USA. When I started my new job it was a very busy time of year with many new programs underway. As the program director of this organization I was the only full-time person on staff. This required that I handle not only the program functions but many administrative functions as well. Once I got settled, I said to my supervisor, "I know how to organize these programs but I know very little about setting up the budget." His response to me was that the budget was the easy part of the job. It was the logical the act of assigning numbers to the stated program priorities. In other words, once the program objectives and design are specified, developing a budget requires only "plugging in" numbers or costs in order to carry out specific activities. Once the costs are known, then the income side of the budget can be developed in order to cover the projected costs. While developing budgets, especially large organizational budgets, can be a bit more complex than stated above this initial experience helped to de-mystify many of the concerns I had about the budget process.

Some years later I began working for the national office of the YMCA in the United States. The focus of my work was program and organizational development of YMCAs (NGOs) around the world. During this time I conducted a number of training workshops in various parts of the world including Latin America, Africa and some new work in Russia. I recall one training workshop when we were discussing program development. I asked the participants to think of a small program (they worked in small groups) and then to develop a budget for the program activity. After describing the exercise, I asked if anyone had any questions. One gentleman raised his hand and said, "how much money do we have to conduct these programs?" I answered, "I don't know. That is for you to decide. It depends on the kind of program you want to run." This caused much confusion, and many others began to ask the same question. Finally one person said, "You tell us how much we can spend and then we'll make a plan. Without knowing that we cannot plan a program!" My response was that this person had the notion backwards: "Plan the program first and then see what level of funding is needed." Even after further explanation I still had difficulty convincing some of the people in the room of the value of this approach.

The events that I have just described taught me early on in my career three important lessons regarding budgeting and financial planning.

- First, the budget should directly reflect the program priorities of an organization. If the organization has as its priority the well-being of youth, for example, then the amount of total funds spent on youth programs compared to total funds spent by the organization should consistently reflect this priority.
- Secondly, plan the program priorities first and then develop the budget. NGOs are in business to offer programs and services to people and communities. Therefore, the program being developed should be in response to a need or interest of a specified group of people. The development of the budget, therefore, is the means by which the organization translates the language of the program planning into financial terms. By so doing, the organization can then determine how much will be needed and verify if the program, as initially designed, is feasible financially.
- Finally, a budget should not be seen as a trap or harness but rather as a flexible and helpful management tool in looking at program and financing options. Specific budget line items (costs) can be adjusted to ensure a better functioning program. Once the program begins, new situations may arise which make it helpful or necessary to adjust the projected budget figures.

Take, as a case in point, a small NGO which has as its principle purpose to create positive educational and recreational opportunities for children with disabilities. To achieve that purpose, this NGO has decided that it will organize a summer camp for these children. Therefore the program objective might be: **to conduct a two week summer camp for 60 children with disabilities by August 1996** (see the following article on MBO). To put this program objective into financial terms a camp program budget may look as follows: (This is a simplified example using imaginary costs for a day camp program for 10 days, where the children leave and return home each day - Monday through Friday)

EXPENSE

Staff

1 program coordinator @ \$200 per week x 2 weeks	\$ 400
2 program assistants @ \$125 per week x 2 weeks	\$ 500
6 volunteers	\$ 0

Day Camp Site Rental

\$200 per week x 2 weeks	\$ 400
--------------------------	--------

Equipment

Sports equipment (this should be detailed in an actual budget)	\$ 250
Crafts equipment (paper, paint, glue, etc.)	\$ 100

Food and Drink

Lunch provided each day @\$2 per child x 60 children x 10 days	\$1,600
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Transportation

Bus rental - 1 66 passenger bus @ \$250 per week x 2 weeks	\$ 500
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Camp staff training/orientation

2 meals/day, 10 people, 1 night lodging @ \$12 per persons x 2 days	\$ 240
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<u>Miscellaneous Expenses</u>	\$ 150
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Administrative Overhead

10% of direct cost of \$3,140	\$ 314
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TOTAL COST	\$3,454
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With the total estimated cost of \$3,454 the organization can now look at the various strategies or sources of revenue (income) to cover these costs.

INCOMECamp Fees

60 children @ \$10 per child per week (subsidized rate) x 2 weeks	\$1,200
Sponsorship from the Mayor's office	\$ 750
Fundraising required	\$1,004
TOTAL INCOME	\$3,454

This simple example is intended to illustrate the flexibility of the budget process. First of all, it is important to always estimate the expenses first (estimate costs "comfortably" on the high side") and then consider the income (estimate on the low side). If the projected income meets or exceeds the cost of the 2 week program, then it can be conducted as designed. If the fundraising amount required, the \$1,004 indicated for example, is not achievable then a number of variables can be introduced. These include:

- 1) Reducing certain expenses on the expense budget such as securing donations of food and equipment or involving more volunteers and less paid staff, thus reducing the amount of income needed to balance the budget:
- 2) Increasing, in a realistic manner, certain line items on the income budget such as involving more children in the program, raising the camp fee slightly, or securing additional financial donations:
- 3) Using a combination of both approaches by reducing certain expenses and increasing elements of the income budget.

To conclude, my past experiences working with NGOs have shown me that the most effective organizations are those which successfully carry out their program priorities which enable them to fulfill their missions or purposes. As a management tool, organizational budgets should directly reflect the program priorities of the organization. The budget should not be viewed as separate from its program or activities but rather a numerical interpretation of such activities. Developing and using budgets is not a restrictive action but an informed and flexible process which leads to more effective program and organizational management.

17A



WORLD LEARNING INC.

Founded in 1932 as
The U.S. Experiment in
International Living

Section 4

Budget Preparation

BUDGETS

FUNCTIONS:

1. A budget shows what an organization hopes to achieve within a certain time frame, and the way of using its available resources to achieve organizational objectives.
2. A budget is a means of carrying out financial activity; it helps an organization to make effective financial operations.
3. A budget is an action plan. Its key task is to plan the use of financial resources in time.

USERS:

1. The organization's top management: to control the right use of the available funds.
2. Executives: to successfully plan and guide the organization's operations.
3. Donor organizations: to evaluate the proposed programs.

BUDGET ELEMENTS:

1. The budget has two parts:
 - revenue budget
 - expenditure budget
2. The revenue budget shows all the possible sources of financial support available for the organization in the budget period.
3. The expenditure budget groups expenditures in easily definable categories, i.e., expenditure items. The standard group of 15 categories is sufficient for most organizations.

4. The last line in the budget shows the difference between the projected revenues and costs for the budget period.
5. The preceding year's budget is provided for comparison.
6. There are two approaches to drawing the budget:
 - budget by programs
 - budget by costs

In the *budget by programs* the organization first decides what it strives to achieve, and then determines the related expenditures. In the *budget by costs* the organization first determines the amount of available resources, then decides how to use them.

Chapter 5

The Operating Budget: Key to Planning and Control

We are about to look at the basics of developing a reliable operating budget. The brief overview preceding this chapter, of what is involved in financial management, has important ideas needed to understand its important role in running your organization effectively.

This chapter and the one that follows focus on the operating budget, which is basic to the other three budgets defined in the preceding overview. We begin with basic budgeting: how it relates to planning and evaluating performance, the mechanics involved, whether your objective should be just to break even, and how to predict cost behavior, pricing issues, and the timing problem in budgeting. It will deal with your overall agency budget, while also considering problems involved in budgeting for different programs or contracts.

FIVE STEPS IN BUDGETING

Once the operating plan for the coming fiscal period is approved by your board (see Chapter 3), the budget can be worked out from the logistics involved:

1. Expenses are commonly estimated first. This is the simple process of multiplying the number of people, quantity of supplies, amount of space needed, etc., by the estimated cost per unit of each such item. Normally this process is handled by the staff, who are the most familiar with the details. A tentative expense budget should then be submitted to the board for review and approval. There are some instances, covered in the next section, in which the income side comes first. The expense budget is only tentative at this point.

2. Next comes an assessment of potential sources of income. This is best accomplished by the people involved in fundraising, including the board. It may well involve different kinds of funding: grants, fund drives, and fees for service, among others.

Some groups have relatively stable and predictable kinds of income, such as from government contracts, recurring annual grants from United Way or similar funds, or earned income from client fees, or they can relate the total of major expenses to ticket sales. When this is the case, the income side of the budget may be calculated first, and then expenses projected.

3. In either situation expenses must be brought into line with reality. Attention may have to be

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the business manager, etc.) more time will be needed to get this layer of input, to negotiate, revise, and resubmit requests. Where grant or contract proposals to funding agencies are basic to the budget, the planning schedule must include the necessary time to develop and submit them and obtain approval, which commonly takes many months. Other fundraising efforts, such as direct-mail or telephone campaigns, print advertisements, or personal solicitation, take time to plan, organize, and carry out. (See Fig. 6-1 in Chapter 6 for an example of a budgeting timetable.)

THREE BASIC APPROACHES TO BUDGETING**Using Last Year as a Base**

Other than newly minted organizations, the most common way budget estimates are made is what professionals call "incremental budgeting": "How much was this item last year and what changes should we make?" This has only one thing to recommend it: it's easier than detailed planning, which requires converting plans to logistics, logistics to dollars. Incremental budgeting works fairly well only in stable situations, with the same levels of the same ongoing activities each year. Its flaw as the sole way to budget, in most situations, is that it is backward-looking.

1. It assumes that what we did last year was the best we can do. It is better to base our projections on the most up-to-date estimates of possibilities and opportunities—in terms of income as well as outgo. How much *could* we bring in, and what economies *could* we make without reducing program quality or level?

2. What if plans or costs have changed since last year? That could mean increased (or decreased) program levels, such as number of clients or patients, new programs or services, increased staff or facilities planned; increased prices, pay scales or fringe benefits. Such changes must be taken into account.

3. There is a problem of timing: since we have to do our budgeting before the year ends, we don't yet know what "last year's" figures are. A budget worksheet is a useful device for reviewing the year-to-date figures and projecting income and expenses for the rest of the year (see Fig. 5-1).

	Actual Amounts Year-to-Date	Estimated Amounts			Tentative Final Budget
		Balance of Year	Current Year	Increase or Decrease	
REVENUE AND SUPPORT (listed by type or source)	_____	_____	_____	_____	_____
OPERATING EXPENSES (listed by types)	_____	_____	_____	_____	_____
NET INCOME	_____	_____	_____	_____	_____

FIGURE 5-1. INCREMENTAL BUDGET WORKSHEET

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shifted back and forth between projected income and outgo before a balanced budget can be written.

4. The final proposed budget must then be reviewed and approved by the board, after any fine-tuning required.

5. During the year the budget must be evaluated periodically to determine whether projected and actual income and expenses are in line. If not, and the variances (amounts over or under budget) are substantial, due to incorrect estimates or new developments, the budget must be updated and revised if it is to be of any use at all.

The heart of budgetary control is studying and investigating the cause of variances between budgeted figures and actual income and expenses. To use a budget known to be out-dated by events or known errors is to invite wrong conclusions and decisions.

THE BOARD'S ROLE IN BUDGETING

Here is where the board's ultimate responsibility for the well-being of the organization, discussed in Chapter 4, becomes essential and inescapable. The annual plan is assumed to embody the board's decisions and policies as to the kind, level, and priorities of program activities needed to advance the mission and objectives of the agency (see Chapter 3). The budget is the plan expressed (primarily) in dollars; it incorporates decisions regarding the allocation of what are always scarce resources. Thus the budget and the plan must be inseparable. To say, "We plan to increase the number of clients served by 20%," but not provide sufficient monies for the increased expenses that will result, is just talk. To say, "Okay, you'll have an assistant next year" is an empty promise unless the proposed staff member's salary and benefits are in the budget.

These are matters too important and complicated to be handled at a regular board meeting, unless it is dealing with a real financial crisis. The well-run organization has a budget or finance committee, whose job it is to work with the CEO and CFO in developing the budget, and during the year to monitor and help revise it, if necessary. The board itself must of course approve the initial budget and any such revisions. This approval should never be a mere rubber-stamp formality.

WHEN SHOULD BUDGETING BEGIN?

Perhaps a better question is when should planning begin, since the two are one. An obvious answer is "Not after the new fiscal year starts!" (We've seen that happen, believe it or not.) Not even the month before. Planning and budgeting are complex processes. If they are to be more than going through the motions, they demand adequate time—to think, research, discuss, solicit, and receive input from those who must live with (and within) the budget, do the calculations, and identify funding sources. Even in the simplest, single-program nonprofit, that process should take at least two months, unless the organization is stable with regard to both activity level and funding.

A budget timetable or calendar is a useful working tool, to make sure it all gets done in time. It should include the first four of the "Five Steps in Budgeting" presented earlier in this chapter. A date should be attached to each, allowing a realistic amount of time to accomplish it, preferably based on past experience. When there is more than one program or segment, and input is needed from segment managers (program directors, department or unit heads, the fundraising director,

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Note that this approach is not based squarely on converting the annual plan's logistics into what they will cost, except to the extent the proposed increases and decreases can do that. Because the estimates for the balance of the year may not be absolutely accurate, we still won't have this year's true amounts as a basis for next year's budget.

A tip: Don't project the balance of the year mechanically. For example, at the end of September, don't simply add one third to each of the year-to-date amounts; rather, use your most up-to-date budget projections for the fourth quarter, or better yet, try to predict what will actually happen through the end of the year. Be sure that your books are up to date, so that you will have the latest actual figures as your basis for any projections.

Logistics-Based Budgeting

A better way to budget is to "price out" the logistics for all activities planned for the next year. This approach is sometimes (incorrectly) called "zero-based budgeting" (ZBB), apparently because it starts from zero rather than building on the previous year's figures. (Actually ZBB is a much more complex and sophisticated method suited primarily to very large organizations such as governments.) It is a forward-looking method that first considers the plan and then determines how to finance it.

A Combined Approach

A practical compromise is used by many organizations. Stable costs like core staff payroll, rent, and other recurring expenditures can be estimated on an incremental basis and adjusted for known increases or decreases in rates and prices. Expenses that vary with the level of activity, such as additional payroll, space rental, program supplies, and increased utilities usage (telephone and electricity), are then projected on the basis of the annual plan. Worksheets are shown below using the logistics-based method for expenses as well as for revenue and support, using hypothetical figures.

Yet another approach, flexible budgeting, can also be used. It involves cost behavior analysis and is examined later in this chapter.

THE BUDGET: A DELICATE BALANCE

It's easier to figure out how much you need than how much you'll get. Though we've said most nonprofits budget expenses first, to get it out of the way, let's first look just at the mechanics of budgeting revenue and support, since Chapter 8 will deal with how you go about generating income. The rest of this chapter and the next one will deal with the more complicated problems of budgeting expenses.

To avoid going in the red, it's better to estimate income (our generic term for both revenue and support) on the conservative side, expenses on the high side. While income limits what you can afford, expenses determine what you need to bring in. Which comes first? The two sides of the dollar equation must be worked together for a balanced budget. Operating plans must be realistic, based on anticipated income; new or increased sources may have to be developed to make priority plans possible.

Is Breaking Even Good Enough?

Most small nonprofits would feel great just to be able to break even. But let's look a bit deeper and look ahead, past that happy day. Would that be good enough? One school of thought holds

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that breaking even is the only legitimate financial goal of a nonprofit: that whatever funds are received should be spent on delivering services, and therefore that any "profit" is somehow illegitimate.

It is to be hoped that this viewpoint is on its way out. Though it may seem a contradiction in terms for a nonprofit to "make a profit," that is more a semantic question than a matter of substance.

What distinguishes a nonprofit from a business is not whether it earns a profit, but what becomes of it. For a business, profit is the primary goal, the main incentive to invest, since all profits legally belong to the owners. Profits are paid to them either in dividends or high salaries.

No one owns a nonprofit in the legal sense. Unless profits are used to enrich its leaders—a violation of the law exempting it from taxes—they will be used to carry out its mission. Making a profit should be a performance indicator of your organization. It should never be the most important one.

Practically speaking, a nonprofit must earn profits to survive. Assuming that correct accounting methods are used (see Chapter 10), profits are the only way to generate funds for the following:

1. Repayment of loans or advances.
2. Investment in capital improvements like equipment and property
3. Working capital: i.e., funds needed to pay the rent and payroll until approved funding actually comes in.
4. Reserves to carry the organization through periods of underfunding.
5. Funds to invest in program expansion or in income-producing ventures or activities.

Woe betide the nonprofit therefore that just manages to break even each year: any of the above needs that are not provided for may well cripple the organization.

Pricing and Rate-Setting Issues

Someone must pay for whatever a nonprofit provides in the way of goods or services. Some agencies function like charities, in that they provide free services and look to funding agencies and donors for all their resources. Others charge for what they provide, in one or more of the following ways:

1. At full market value, like a business.
2. At cost plus some percentage to cover overhead (indirect or general expenses).
3. At cost. But how is that defined? Only the direct costs of the goods or services? What do these include? What about shared occupancy costs? Indirect, shared costs such as administrative expenses? (See Chapter 6.)
4. Below cost (however defined), at a price subsidized by grants or donations?
5. Some combination of all these, perhaps using "scholarships" or "sliding-scale" fee schedules, which are related to ability to pay.

The above methods are suggested as policy options. How to deal with them in a technical sense is examined in Chapter 6. Prices charged to clients, patients, or customers is a board decision that is

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part of its strategic and annual plans. It will often be based on objective factors such as how well you are funded, whether you need to meet competition, and client's ability to pay.

Price subsidies paid to the nonprofit by government or other funding agencies—often called rates—are decided by the funding agency or negotiated. Having a good handle on actual costs can be a major factor in getting an adequate return.

Pricing with Multiple Programs

Here is a dilemma that has faced many nonprofits, one with philosophical as well as practical aspects: What if you have two programs, one of which is operating "at a profit"; the other, "at a loss"? Should you raise prices in the "losing" program? Cut its expenses to where it breaks even? Find a way to shift some expenses to the other program?

The ultimate decision may result from philosophical rather than practical considerations, but first the practical aspect:

- How have you defined the expenses that are being charged to each program? (This is a complicated process that is explored in Chapter 6.)
- If you're considering raising prices in the "loser" program, what if clients can't afford to pay, or simply won't? They may either go somewhere else, or just do without.

Businesses recognize that they should not expect every product to make a profit, and they often set prices on one product or service deliberately low to help sales of a more profitable one. (Kodak got started by giving away box cameras so that people would buy film. Stores use advertised "loss leaders" to bring in customers.)

In a nonprofit setting, one program or department might subsidize another. If a program is important to your mission, it need not break even. Why risk losing your target market, either by raising prices or cutting the amount or quality of service? Would changing to a more popular service to increase the total revenue be consistent with your mission, or would it betray it?

The best answer may be one of the following:

1. Adopt the view that it doesn't really matter if one program subsidizes another.
2. Look for legitimate cost savings in the "losing" segment that do not hurt the program—for example, through economies, increased efficiency, use of volunteers, or in-kind contributions of services, facilities, or supplies.
3. Seek increased funding or donations for that program that will balance income and outgo.

Never forget that you're not running a business. Your primary goal is not profit for its own sake, but to succeed in your mission by meeting the needs of those it seeks to serve. It is here that what we call "the bottom line mentality" can endanger your whole cause. It could alienate your community, your clients, and your donors or funding agencies, who might begin to see you as a business and withdraw their support. (On the other hand, you can't go on operating at an overall loss either!)

Estimating Income Realistically

A successful business bases its sales forecasts, which represent its primary income, on a combination of such methods as market research; test marketing; sales estimates by its marketing and sales

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personnel; studies of demographics, economic conditions, and trends; competitors' efforts; prices and products affecting its market share. The result is at best an educated guess, unless the firm has a corner on the market.

It is the fortunate nonprofit that can use many of these techniques, although they should be used wherever appropriate, especially where the organization is engaged in a for-profit venture. This is an area in which nonprofits differ greatly, depending on the nature of their mission and organizational structure.

As discussed in Chapter 8, human service nonprofits are often captive agencies of a state, which has found it more cost-effective to contract out services than to provide them directly. In such cases, an agency's funding source is relatively stable and predictable. Human service agencies in some fields may therefore find it difficult to raise additional funds to use in strengthening programs or support services, supplementing inadequate salaries, or adding new, non-contract programs because they are perceived by donors and funders as being sufficiently "wealthy." Similar problems occur in other nonprofit fields, as in the case of community development corporations trying to develop affordable housing.

Other types of nonprofits may have more freedom of operation, but their funding is less reliable. Because this book seeks to be of value to the maximum number of nonprofit leaders, we now deal with a wide range of problems that affect funding.

To begin, what follows is a generic list of the common types of income and the factors involved in estimating each type for the budget:

1. Routine types of income (dues, individual contributions, investment income). Unless you are starting from scratch, use last year's figures, broken down by quarter (or monthly), as a base. Consider how economic conditions and planned activities, such as drives, can be expected to affect them. Changes in available funds will affect investment income.
2. Service income (fees and admissions charged to patrons or clients). Again, use last year's amounts and monthly patterns, if such income is stable, and the anticipated effects of the same factors as above. Take account of planned changes in prices and activity level. Revenues of short-run projects—such as those of performing arts groups—should be estimated conservatively.
3. Fundraising events and drives should be considered, and the funds expected to be raised should be estimated conservatively. Again, consider the economic conditions and the level of effort planned. Previous results can be used as a starting point.
4. Foundation, government, or corporate grants should be classified by type (unrestricted and restricted, or program grants) and each evaluated as to how definite it is. Installment payments due from prior grants must, of course, be taken into account. Grants to fund entire programs should be linked in the budget to related expenses, so that both aspects can be cancelled if the funds are not granted. This is one value of program budgeting, described in Chapter 6.

The need to raise revenues adequate to pay for budgeted costs must be constantly kept before the planners. The board must take all necessary steps to assure adequate funding. The *timing* of cash flow on a quarterly or monthly basis is also a matter of considerable concern: you cannot pay February's bills with a grant due next November.

To project the timing of regular monthly revenues, the new estimated total can be broken down according to percentages derived from the past. (Table 5-1). Assume that routine revenues such as

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membership dues or service fees totaled \$100,000 last year, and were collected in the quarterly amounts shown below. If the estimate for these revenues for next year is \$125,000, then quarterly revenues can be projected by applying the percentages derived from last year's quarterly collections to the new total.

TABLE 5-1. PROJECTED QUARTERLY REVENUES BASED ON PERCENTAGE DISTRIBUTION OF PREVIOUS YEAR'S INCOME

	Last year's actual revenue	% of last year's total received each quarter	Projected revenues
1st quarter	\$ 20,000	20%	\$ 25,000
2nd quarter	20,000	20	25,000
3rd quarter	20,000	20	25,000
4th quarter	40,000	40	50,000
	<u>\$100,000</u>	<u>100%</u>	<u>\$125,000</u>

A Working Example

To give you an idea of how budgeting techniques work in practice, let's look at a hypothetical example of a nonprofit organization. We'll call it . . .

CENTER FOR COMMUNITY SERVICE, INC.¹

Revenues Anticipated: The Center has been in existence for several years, and until the current year ending December 31, it had a single program, Program A. A grant of \$15,000 has again been approved for the coming year by ABC Foundation.

In addition, a state agency grant of \$8,800 has been approved. This will cover the salary and fringe benefit costs of an administrative assistant needed to lighten the workload of the executive director. At this stage, all paid staff work on a part-time basis.

Other revenues have been from annual fundraising events held during the spring and winter months, annual dues from about 100 members, and a small amount of interest on the bank account. Program A is making a modest charge for its services. Program A revenues are expected to total \$15,000 this year, and \$17,000 next year. A neighborhood bank has also provided 2,000 square feet of space, rent-free, with an estimated value of \$500 a month.

The XYZ Foundation is reported to be in the final stages of approving a \$46,000 grant for Program B, a new type of service to be provided by the Center without charge.

Services and Facilities: Assuming that the XYZ grant comes through, the next year's paid staff will consist of an executive director (ED), an administrative assistant, program directors for Programs A and B, plus an administrative assistant/secretary for Program B. Fundraising is done by the ED, with the help of a paid outside consultant.

Program B will also have a paid outside program consultant. Other essential outside services will include an attorney and public accountant, each paid a regular fee for services

¹Note that budgeted and actual amounts for this agency are integrated throughout this book, to permit tracing data.

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during the year; the CPA is also paid extra for annual audit services, provided at a reduced fee. A maintenance company provides a weekly janitorial service for a regular monthly fee.

As for other facilities, Program A has a station wagon and some equipment, which originally cost about \$8,000; another \$4,800 of office furniture and equipment is used for administration and fundraising. Program B will rent all additional equipment necessary: an automobile, copying machine, and typewriter.

Expenses Projected: The Center carries basic insurance, including employee health, workmen's compensation, liability, and fire protection. All employees are covered by contributions made under the Social Security (FICA) and state unemployment laws, and deductions are made from weekly payroll checks for FICA and federal income taxes withheld. The board has also authorized \$1,000 a year as a budget "cushion," or contingency reserve, to take care of unexpected items.

Other expenses are the ones common to nonprofits, such as travel and conferences, supplies, telephone, printing and stationery, postage, utilities, and miscellaneous office expenses.

Putting the Budget Together

Now that you have been formally introduced to the Center for Community Services, Inc., it is time to pull all the relevant information about the Center together in a systematic form, and use it to start our exploration of the budget process itself. First, we will need a projection of revenues for the coming year, as illustrated in Table 5-2.

TABLE 5-2. SCHEDULE OF ESTIMATED REVENUES

Source	Estimated amount for year	Estimated amount per quarter			
		1Q	2Q	3Q	4Q
Foundation grants					
ABC Foundation (Program A—approved)	\$ 15,000	\$ 5,000	\$ 5,000	\$ 5,000	
XYZ Foundation (Program B—pending)	46,000	15,000	11,000	10,000	\$10,000
State government grant (approved)	8,800	2,200	2,200	2,200	2,200
Free rent (definite)	6,000	1,500	1,500	1,500	1,500
Fundraising events	11,000		5,000		6,000
Program "A" revenues	17,000	4,000	5,000	3,000	5,000
Membership dues (100 @ \$27)	2,700	1,000	500	200	1,000
Interest income	500	125	125	125	125
Estimated total income	<u>\$107,000</u>	<u>\$28,825</u>	<u>\$30,325</u>	<u>\$22,025</u>	<u>\$25,825</u>

Later in this chapter, when we get down to preparing the budget for the organization, we'll pick up these figures and incorporate them into the operating budget.

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How to Estimate Expenses

Projected expenses for a coming year depend on the planned activities for that year, and on the specific goods and services required. Working out the necessary details is commonly the job of the staff, but is always subject to board approval.

It's clear that you will want to develop a logical and reliable way to estimate what your various expenses will be next year, and more than that, by quarterly or monthly periods.

In putting the annual plan to work, start with the detailed plans of program activities and support services worked out by the board. You'll need the following information to begin:

- How many people will you need to carry out these activities? With what skills, and for how long? When will any new people come on staff? What employee benefits and employer payroll taxes will be incurred?
- Where will they work and what facilities (space and equipment) will they need?
- Will they need transportation? How often, how far, and by what means?
- How often do you expect to advertise or do mailings, and how big is your mailing list?
- What part of these needed resources can you have donated as an "in-kind" contribution?

These are not all of your costs, but some of the larger ones that are most affected by plans and decisions of the board.

Notice that up to this point, money hasn't been mentioned—but only those things you automatically have to think about. *Next*, we'll talk about money.

LOGISTICS-BASED BUDGETING: SAYING IT ALL IN DOLLARS

Once the needed resources and their uses have been defined, each must be translated into dollars. Those closest to the process should be in the best position to calculate or estimate what each element in the plan (facilities, goods, and services) will cost. For example: payroll costs are the product and the sum of the number of people, the pay scales they will accept, the total hours per day and periods of time they'll be employed, plus "payroll fringe costs." These include payroll taxes and any benefits the nonprofit can offer (vacation pay, health insurance, pension costs, etc.).

Remember that only the mechanics of logistics-based budgeting will be covered here: should you project any expenses on an incremental basis, use the procedures explained previously.

Before attempting to write the new budget, it is useful to analyze budget variances (amounts over and under budgets). Analyzing such variations for the current budget period can be of help in budgeting for the next period, because they may reflect one or more of the weaknesses in the last budget, rather than poor performance or later events which required its revision.

The Five Most Common Errors in Budgets

1. Mistakes in arithmetic when pricing goods or services.
2. Known changes in prices or pay scales not taken into account. On the income side, this can also apply to changes in grants or contract rates.
3. Known changes in plans affecting quantities of goods and services, not taken into account.

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4. Expense (or revenue) items overlooked in the budget.
5. Expense or revenue items included in error, that are no longer relevant.

Budgeting should be a collective effort; it will be harder for such errors to go unnoticed if enough people get in the act, or if someone has the job of checking prices, quantities, and arithmetic. Once a system is firmly in place, experience will guarantee that the leadership will get sharper in detecting errors. Budgeting is a skill you develop with experience.

Typical Examples of Budget Calculations

Salaries. Salaries are usually the largest and most important expense of a nonprofit, and they are often the easiest to project (Table 5-3).

Make a list of personnel you expect to have on the payroll (by job titles), and indicate their rate of pay for next year, and also by quarter and month. If you have hourly staff, you should calculate planned hours \times hourly rate. Don't overlook overtime and provisions for covering vacation or other paid leave.

TABLE 5-3. SAMPLE ESTIMATE OF SALARIES

Position	Monthly salary ^a	Annual salary	Salary per quarter
Administration			
Executive Director	\$1,667	\$20,000	\$ 5,000
Administrative assistant	667	8,000	2,000
Program A Director	1,333	16,000	4,000
Program B Director	1,500	18,000	4,500
Administrative assistant secretary	750	9,000	2,250
Total salaries	<u>\$5,917</u>	<u>\$71,000</u>	<u>\$17,750</u>

^aSource: Board resolution, contract or current payroll records. These are all part-time scale.

"Pretty obvious and elementary," you might say. True, but not all expense items are that easy. Suppose that the staff were not all full-time, permanent employees, but one or more worked only part of the year. It would take a bit more figuring to get the total for the year, and for each quarter, or for each month, if you are preparing a month-to-month budget.

Note: Unless your revenue and expense levels are the same each month, budget items should be estimated—or at least broken down—by quarterly period, even month by month. The obvious way to derive monthly or quarterly estimates—dividing the year's totals by twelve (or four)—is more dangerous than helpful, because seasonal or periodic fluctuations cannot be taken into account.

Printing and stationery costs. Another example that's a bit more complex would be calculating printing and stationery costs. A problem might be deciding whether the expenses should be in the month the materials were bought, or if they should be spread over the periods in which they were used. As a practical matter, the latter procedure is usually not worth the time and effort involved. Table 5-4 offers a practical guide to making an annual estimate.

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TABLE 5-4. SAMPLE ESTIMATE OF PRINTING AND STATIONERY COSTS

Item	Quantity per year	Price ^a amt./per	Annual cost	Bought per quarter
Letterheads	500	\$30/1,000	\$ 15	All in 1st Q
Envelopes	500	32/1,000	16	All in 1st Q
Brochures for Program B	1,000	30/100	300	\$150 1st Q & 2nd Q
Fundraising letter (self-mailer)	500	50/100	250	\$125 1st Q & 2nd Q
			<u>\$581</u>	

^aEstimating expenses frequently involves checking prices with suppliers of goods and services. The more carefully these are analyzed, the more accurate your estimates will be.

Making Means and Ends Meet

It is often desirable to consider both minimum and maximum (or optimum) amounts for many items. This is so because exact costs are hard to anticipate, and certain activities can sometimes be done either better *or* cheaper, which may mean using either more or less expensive resources. In such cases, budget strategies depend on how adequate and firm the funding prospects are. If financing looks promising, estimating expenses at generous levels will provide a cushion that may help prevent running short of funds later, as well as providing funds to do the best job possible. On the other hand, if there is a resistance to the proposed budget by the board, or if funding falls short, setting expenses at generous levels leaves room to cut back items, if necessary.

If preliminary totals of anticipated expenses are considerably *below* anticipated revenues—even using optimum expense levels—the board should consider whether to add or expand activities, or whether to replace or acquire additional capital equipment, or whether to accumulate funds for such acquisitions later on.

Should even minimal levels of expense exceed projected revenues, the board must develop ways to increase funding. Otherwise one or more activities or expense items must be scaled down or dropped. For example, substituting a temporary or part-time staff member for a full-time one, renting equipment rather than buying it, or using cheaper supplies. Perhaps certain required items of goods or services could be secured as an “in-kind” contributions, or some staff functions might be provided by volunteers.

The Qualitative Effect of Budgeting Changes

While efficiency and economy are important, the nonprofit is not a business, and cannot afford to lose its effectiveness to achieve them. That is why we put *first*, among the possible alternatives above, that of the board’s shouldering its basic responsibility for providing essential funding.

A STEP-BY-STEP GUIDE TO PREPARING A BUDGET WORKSHEET

A budget worksheet offers an orderly and systematic way of doing well what is often done badly on the backs of old envelopes! The worksheet helps to organize the budgeting process in a way that helps to minimize errors and oversights.

The Operating Budget: Key to Planning and Control

Step 1—Expense Budget Worksheet

The expense budget worksheet (Table 5-5) is used to price out details and accumulate totals for each of the items in a budget. The detailed information itself is the key; a worksheet can only *organize* the process. The estimates of quantities and prices of goods and services are up to you. No worksheet can improve them.

TABLE 5-5. LOGISTICS-BASED EXPENSE BUDGET WORKSHEET

Item	Base Amount	Annual total ^a	Quarter Ending			
			Mar. 31	June 30	Sept. 30	Dec. 31
Salaries						
Exec. Dir.	\$1667/mo	\$20,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Admin. assist.	667/mo	8,000	2,000	2,000	2,000	2,000
Prog. Dir A	1333/mo	16,000	4,000	4,000	4,000	4,000
Prog. Dir B	1500/mo	18,000	4,500	4,500	4,500	4,500
Admin. asst. B	750/mo	9,000	2,250	2,250	2,250	2,250
Total salaries		71,000	17,750	17,750	17,750	17,750
Payroll fringe costs^b						
FICA		4,352	1,088	1,088	1,088	1,088
State unemp. ins. tax		810	479	236	95	—
Health ins.		2,500	625	625	625	625
Total fringe		7,662	2,192	1,949	1,808	1,713
Occupancy						
Rent (donated)	\$500 mo	6,000	1,500	1,500	1,500	1,500
Utilities						
Elect. & heat	200 mo	2,400	600	600	600	600
Water	20 mo	240	60	60	60	60
Janitorial svce.	150 mo	1,800	450	450	450	450
Total occupancy		10,440	2,610	2,610	2,610	2,610
Telephone						
Administration	\$50 mo	570	150	150	120	150
Program A	25 mo	275	75	75	50	75
Program B	25 mo	275	75	75	50	75
Total telephone		1,120	300	300	220	300
Printing & stationery^c						
Letterhead—500 @ 30 M		15	15	(Based on acquisition, not usage)		
Envelopes—500 @ 32 M		16	16			
Brochures, Prog. B, 1000 @ 30 C		300	150	150	(periods in which used)	
Fundraising letter 500 @ 50 C		250	125	125		
Total printing & stationery		581	306	275		
Postage						
Administration—300 @ 25c		75	20	20	15	20
Program B—600 @ 25c		150	75	75		
Fundraising—200 @ 25c		300	150	150		
Total postage ^d		525	245	245	15	20
Travel & conferences						
Administrative	\$ 60 mo	650	180	180	120	180
Program A	50 mo	550	150	150	100	150
Program B	120 yr	110	30	30	20	30
Total travel & conferences		1,320	360	360	240	360
Subtotals (carried forward)		\$92,648	\$23,763	\$23,489	\$22,643	\$22,753

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TABLE 5-5. LOGISTICS-BASED EXPENSE BUDGET WORKSHEET (continued)

Item	Base Amount	Annual total ¹	Quarter Ending			
			Mar. 31	June 30	Sept. 30	Dec. 31
Subtotals (brought forward)		<u>\$92,648</u>	<u>\$23,763</u>	<u>\$23,489</u>	<u>\$22,643</u>	<u>\$22,753</u>
Supplies						
Program A: "x" - 60 @ \$19		1,140	570	300	270	
Program B: (unknown)		—	—	—	—	—
Total supplies (timing based on acquisition, not usage)		<u>1,140</u>	<u>570</u>	<u>300</u>	<u>270</u>	<u>—</u>
Equipment rentals (Prog. B)						
Office typewriter	\$300/ yr	300	75	75	75	75
Copying machine	\$960/ yr	960	240	240	240	240
Automobile	\$95 mo	1,045	285	285	190	285
Total equipment rental		<u>2,305</u>	<u>600</u>	<u>600</u>	<u>505</u>	<u>600</u>
Professional fees						
Consultants						
Fundraising	\$2,400 yr	2,400	600	600	600	600
Program B	2,400 yr	2,400	600	600	600	600
Legal	500 yr	500	125	125	125	125
Accounting						
Quarterly fee	150 Q	600	150	150	150	150
Annual audit	500 yr	500	500			
Total professional fees		<u>6,400</u>	<u>1,975</u>	<u>1,475</u>	<u>1,475</u>	<u>1,475</u>
Miscellaneous expenses						
Office expense	\$30 mo	330	90	90	60	90
Insurance						
Liability	200 yr	200	50	50	50	50
Workmen's comp.	300 yr	300	75	75	75	75
Fire	100 yr	100	25	25	25	25
Contingency reserve	1,000 yr	1,000	250	250	250	250
Total miscellaneous expense		<u>1,930</u>	<u>490</u>	<u>490</u>	<u>460</u>	<u>490</u>
Grand Totals		<u>\$104,423</u>	<u>\$27,398</u>	<u>\$26,354</u>	<u>\$25,353</u>	<u>\$25,318</u>

¹Lower amounts in certain categories in the 3rd Quarter are due to closing shop during July.

²Payroll fringe costs (taxes and benefits): FICA is the IRS abbreviation for Social Security Tax. Not many nonprofits calculate each of these items separately as shown above, preferring the shortcut of using a flat percentage of payroll for all periods. The average for the year shown above would have been 10.79%; it varies each quarter, as employees exceed the cut-off ceiling on unemployment insurance. (A flat amount using 11% could have been used for all quarters to simplify the job.)

³The cost of letterheads and envelopes is shown in the period to be bought, not in the period used. To show the alternative method, brochures and fundraising letters were treated as expense in period used.

⁴1990 first class rate. Lower nonprofit rate may be available.

You'll notice on the worksheet that the list of budgeted salaries shown earlier in Table 5-3 makes up the first group of words and figures. The only difference is that we've set up four quarterly columns so that we can derive quarterly totals later on.

You'll also see that the calculations for printing and stationery expenses from Table 5-4 make up another group. The other expense categories and amounts are intended to represent typical examples, and are by no means all the items that might be included. All items except the "Payroll Fringe Costs" group should be self-explanatory. Payroll fringe costs, which include payroll taxes

The Operating Budget: Key to Planning and Control

and, in this case, health insurance, are explained in detail in Chapter 17. (See also footnote b, Table 5-5.)

Step 2—Preparing the Operating Budget

The first thing you will have to decide is which form of budget to use. There is no single standard or best form. Because it must reflect the activities of organizations that come in many sizes and shapes, and which conduct activities of innumerable types, a budget is more a concept than a standard format. Although general-purpose formats for budgets and budget worksheets are illustrated later in this chapter, they must be designed or adapted to meet the specific needs of the nonprofit using them.

How to "Invent" a Line-Item Budget

Once you have the raw data you need for budgeting (revenues and expenses), what should your budget look like? First of all, you're probably wondering if you need all those complicated calculations in the budget itself. Chances are you'll agree the answer is "no." Second, it is obviously necessary to compare expenses against revenues to see if they are "covered." Finally, since you'll need to use the budget more than just once a year, you'll want to divide it into a series of monthly or quarterly budgets.

Putting these ideas into operation, you'll end up with the simplest budget format—the one used most widely by small or new nonprofits; the "line-item" budget (Table 5-6). It consists of columns of figures for the year and by quarter, showing the total amount budgeted for each kind of expense (salaries, rent, etc.) without regard to program or activity. This form may be adequate for a small and non-complex nonprofit, one with only a single kind of activity.

There is one rule that applies to every form of budget: if the budget is to be of any value in evaluating actual results, it must be prepared using the same classifications, categories, and accounting methods as those used in the financial reports. For example, the budgeted cost of apples cannot be readily compared with the actual cost of the apples bought, if the latter are included in an expense item called "Fruit." (This will be spelled out more clearly in Chapter 12, under the explanation of Charts of Accounts.)

The data in Table 5-6 come from the Schedule of Estimated Revenues (Table 5-2) and the Expense Budget Worksheet (Table 5-5).

Now, trace the figures, item by item, from the Revenue Schedule and Expense Worksheets to the Operating Budget, and you will notice that the amounts have merely been transferred (or "posted," in accounting jargon) from the worksheets to the budget itself, using the quarterly columns provided to make it easy to obtain a total for each quarter.

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TABLE 5-6. CENTER FOR COMMUNITY SERVICE, INC.
QUARTERLY OPERATING BUDGET (LINE-ITEM FORMAT)

	Annual total	Quarter ending ^a			
		Mar. 31	June 30	Sept. 30	Dec. 31
Estimated Revenues					
Foundation grants					
ABC (Program A—approved)	\$ 15,000	\$ 5,000	\$ 5,000	\$ 5,000	—
XYZ (Program B—pending)	46,000	15,000	11,000	10,000	\$10,000
Government grants					
(Admin. assistant—approved)	8,800	2,200	2,200	2,200	2,200
In-kind contribution (free rent)	6,000	1,500	1,500	1,500	1,500
Fundraising events	11,000		5,000		6,000
Revenues from Program A					
Services (show by program)	17,000	4,000	5,000	3,000	5,000
Membership dues (100 @ \$27)	2,700	1,000	500	200	1,000
Interest income	500	125	125	125	125
Total estimated revenues	<u>107,000</u>	<u>28,325</u>	<u>30,325</u>	<u>22,025</u>	<u>25,325</u>
Budgeted expenses					
Salaries	71,000	17,750	17,750	17,750	17,750
Payroll fringe costs	7,662	2,192	1,949	1,808	1,713
Occupancy	10,440	2,610	2,610	2,610	2,610
Telephone	1,120	300	300	220	300
Printing & stationery	581	306	275		
Postage	525	245	245	15	20
Travel & conferences	1,320	360	360	240	360
Supplies	1,140	570	300	270	
Equipment rentals	2,305	600	600	505	600
Professional fees	6,400	1,975	1,475	1,475	1,475
Office expenses	330	90	90	60	90
Insurance	600	150	150	150	150
Contingency reserve	1,000	250	250	250	250
Total expenses before depreciation^b	<u>104,423</u>	<u>27,398</u>	<u>26,354</u>	<u>25,353</u>	<u>25,318</u>
Depreciation ^c	2,577	645	644	644	644
Total budgeted expenses	<u>\$107,000</u>	<u>\$28,043</u>	<u>\$26,998</u>	<u>\$25,997</u>	<u>\$25,962</u>
Excess of revenue over expense	<u>-0-</u>	<u>\$ 782</u>	<u>\$ 3,327</u>		
Excess of expense over revenue ^d	<u>-0-</u>			<u>\$ 3,972</u>	<u>\$ 137</u>

^aQuarterly, rather than monthly, columns have been used here, to save space. An operating budget finds maximum usefulness for control and evaluation purposes when it is set up and compared with actual revenues and expenses on a month-to-month basis.

^bIn preparing budgets from worksheets, make use of the grand total or any other group totals as a cross-check of accuracy in transferring figures. For example, the five column totals above marked "Total expenses before depreciation" should agree with the corresponding figures on the "Grand totals" line in the worksheet (Table 5-5).

^cDepreciation is included for the sake of completeness and comparability with financial reports. For the reasons for using it and where the figures come from, see Chapter 10.

^dInterim excesses of expenses over revenues, as shown in the third quarter, are not significant in an operating budget, which is usually prepared on an accrual basis (see Chapter 6); i.e., the timing of expenses is based on date incurred, not when paid. They are crucial, however, in a cash budget, or where the operating budget takes such timing into account.

USING COST BEHAVIOR PATTERNS IN BUDGETING

Just to get the feel of this subject, just suppose you had only one program, and your board planned to increase its activity level, in terms of the number of people served next year, by 25%. If this year's total expenses are \$80,000, would you advise the board that you will need \$20,000 more (25% more money) to cover increased costs? Most people, even if it's a new question, give the right answer to that question intuitively. They point out that not all expenses would increase in the same proportion as the number of clients.

While some costs are *variable* (change in proportion to activity level), others are *fixed* (do not change with the activity level). Thus your rent is usually fixed, unless you add space; program supplies used generally vary with the number of clients.

Now suppose you've determined that a quarter of your current expense is variable, the rest fixed. You'd then be in a position to give your board a more reliable rough estimate of how much more funding you'd need, as follows:

	Present costs	Increase	Next year
Variable costs	\$20,000 (25%)	\$5,000	\$25,000
Fixed costs	60,000	-0-	60,000
Total	<u>\$80,000</u>	<u>\$5,000</u>	<u>\$85,000</u>

Without considering this distinction, you'd be exaggerating the size of the problem.

Keep somewhere in the back of your mind, nevertheless, that even fixed costs are only fixed within a certain range of activity, which accountants call the "relevant range." For example, with your present program space, you can often handle up to a certain number of clients. Above that number you might need more space; considerably below it, you may need less—meaning possibly less rent to pay.

Knowledge of how your agency's own costs behave can be an important budgeting tool. Note at this point that all expenses can be classified into one of the following behavior patterns:

1. Variable costs, which change in proportion to some activity level (not always number of clients).
2. Fixed costs, which are unaffected by changes in activity level.
3. Mixed costs, which are part variable, part fixed. Telephone expense, for example: a fixed minimum charge, plus variable charges depending on usage—which incidentally may vary with fundraising activity rather than number of clients. (Some people call these "semi-variable costs.")
4. Step-variable fixed costs are used to describe fixed costs that go up in jumps (steps) when activity increases by certain numbers. An example would be salaries of case workers, teachers, or nurses, who could each handle up to a certain number of people; above that number, you'd need to add salary for another person in that job category.

(These cost behavior patterns are illustrated graphically in Fig. 5-2.)

Using these cost behaviors makes possible still another budgeting approach, *flexible budgeting*.

Chapter 7

Cash and Capital Budgeting

If there is any subject seen as a life-and-death matter by nonprofits, cash flow is it! Staying afloat is the name of the game here, and our phrase for how you sometimes have to do it is "beg, borrow or stall!"—But that comes after you're in trouble. This chapter is about survival planning, by anticipating cash flow—to the extent you can do so in the nonprofit's uncertain world.

In case you think you've already taken care of that with your nifty operating budget, think again, or you may be in for a big (and unpleasant) surprise.

THE CONCEPT OF CASH FLOW

Cash flow is a much misused and misunderstood term, in the business world as well as that of the nonprofit. Correctly used, it means the excess of cash received over cash paid out during a given period. Organizations sometimes approximate it by adding to the net income ("profit") any expenses that did not require the current use of cash, such as depreciation expense. That has misled a lot of people, since it ignores cash received and paid that does not directly affect the bottom line.

What is important to understand about cash flow is its timing and its cyclical nature. Fig. 7-1 illustrates the flow of cash: where it comes from and where it goes. It is interesting that credit is a concept that has a place in the cash flow cycle. One way to view the purpose and effect of credit on the cycle is to see it as merely delaying the *timing* of cash payments from when they would be made if all transactions were strictly for cash. A way to view the role of your creditors in that respect is to imagine that they have loaned you the money to pay for current supplies and expenses, which you will pay back later. That puts the repayment in a different period than the expense itself.

A well-run organization can make good use of three different working tools in staying on top of cash flow:

1. An annual cash flow budget, for over-all financial planning, since the operating budget only deals with the income and expense part of your activities.
2. A month-by-month cash budget, to anticipate possible cash shortfalls during the year that won't show up in the annual cash flow budget.

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3. A monthly worksheet, for scheduling payments, assigning priorities if necessary, and for making sure you'll have enough in the bank to cover the payments.

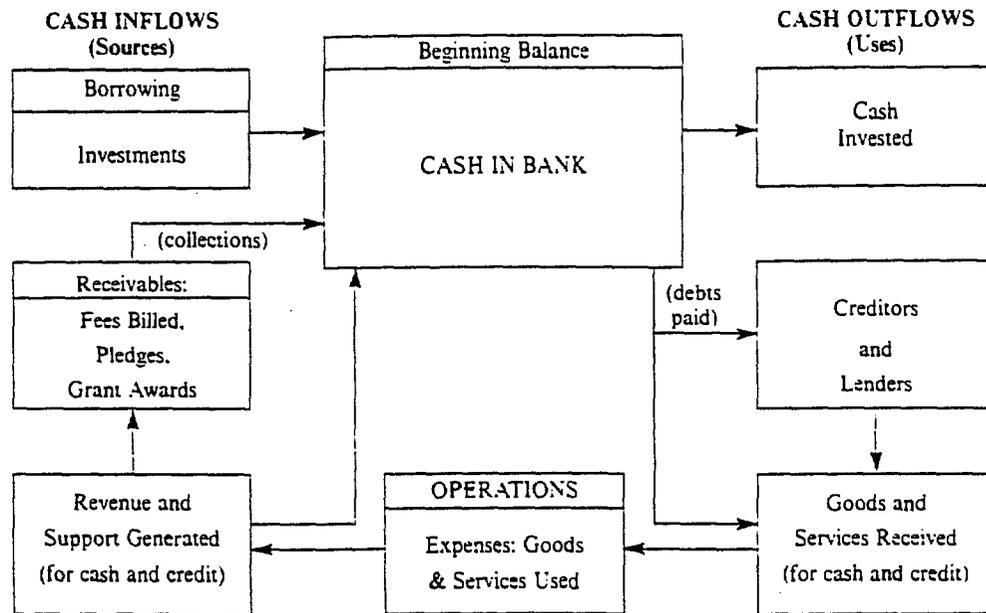


FIGURE 7-1. THE CASH FLOW CYCLE.

Note that the cash balance is decreased if total outflows exceed total inflows.

A CASH BUDGET ENHANCES AN OPERATING BUDGET

In our overview of the role of financial management that preceded Chapter 5, we briefly made the point that a cash budget is necessary. Now let's see why the two are different, and why both are needed:

1. To project your incoming and outgoing cash, you can't stop at income and expenses, as you do in an operating budget. There are deposits and payments that are neither income nor expenses. Take for example money borrowed. That's a debt, not income, since it must be repaid eventually.

Other examples are payments of amounts owed, loans or advances by the agency, and purchases of equipment or property. These are not expenses, yet they must be taken into account, therefore all such cash transactions must be covered in the cash budget.

2. Even the monthly amounts of income and expenses are not exactly the same in a cash budget as in an operating budget. For example, when you prepare your operating budget, your

Cash and Capital Budgeting

mind is on what income you expect to earn or be granted, and what expenses you expect to incur—not *when* you expect the cash to be received or paid. Both income and expenses may fall in a later month—sometimes even in the next fiscal year. It is also possible that you will receive or pay for something in an earlier month, such as collecting a grant in the last month of one year that applies to a program beginning in the first month of the following year. (In Chapter 10 we will come back to this mind-set, a description of the accrual method of accounting.)

Note also that the operating budget deals, as its name indicates, only with income and expenses, regardless of when cash changes hands. To repeat, it is therefore not an overall financial budget, which would include other sources and uses of cash. It is prepared on a basis we will later refer to as the accrual basis.

Your cash budget differs from the operating budget both in what it contains and in the timing of when income and expense items are included (Fig. 7-2). In fact, timing is the crucial difference. There's no point in using an operating budget that might show a "profit" for a given month or quarter, when in fact there might be a cash shortage that will have to be covered.

A chart summarizing the differences between operating and cash budgets is shown below at Fig. 7-2.

Type of Item	Operating Budget		Cash Budget	
	Included?	When?	Included?	When?
Revenue & support:				
Services for cash	Yes	Date earned	Yes	Date of collection
Services on credit	Yes	Date earned	Yes	Date of collection
Grants awarded	Yes	Date earned	Yes	Date of collection
Pledges	Yes	Date earned	Yes	Date of collection
Cash donations	Yes	Date earned	Yes	Date of collection
Investment income	Yes	Date earned	Yes	Date of collection
Other sources of cash:				
Borrowed money	No	—	Yes	Date cash received
Investments sold	Gain only	At sale	Yes (all)	Date cash received
Other assets sold	Gain only	At sale	Yes (all)	Date cash received
Operating expenses:				
Paid in cash	Yes	At payment	Yes	Date paid
Incurred on credit	Yes	Incurred	Yes	Date paid
Paid in advance	Yes	As used	Yes	Date paid
Other uses of cash:				
Loans repaid	No	—	Yes	Date paid
Cash invested	No	—	Yes	Date paid
Equipment purchases	No	As used (via depreciation)	Yes	Date paid

FIGURE 7-2. COMPARISON OF ITEMS INCLUDED, OPERATING AND CASH BUDGETS.

A NONPROFIT ORGANIZATION OPERATING MANUAL

A BUDGETED CASH FLOW STATEMENT: POWER TOOL
IN FINANCIAL PLANNING

Let's start with the big picture: your financial plan for the year as a whole. When your operating budget for the year is completed, to do a cash flow projection you still must add to it the nonincome and nonexpense items already mentioned, even before considering the more detailed question of timing.

You'll probably need to consult all of your annual planning documents. The operating budget tells you how much you plan to spend for expenses and where you plan to get it. (In this case, you can work on revenue and support first, expenses afterwards.) The organization's annual plan should reflect any planned purchases of equipment and increases or reductions of debts; if not, these are matters to be determined and provided for. Work plans should normally consider when new equipment is to be bought, which will help with the timing. Your capital budget, formal or informal, which we will cover later in this chapter, is the source of information about how much you plan to spend on new capital equipment, and how you plan to pay for it, which affects the timing.

When you've pulled together all of the above figures, there is one more step: the timing of income and expense payments. You need to consider whether there are any items omitted that may affect the first month or two of the fiscal year you are budgeting. These would include any expected inflows or outflows of cash that relate to the current year. (Let's number the years we are talking about for clarity: the current year, Year 1; next year, Year 2; the year after next, Year 3.) Here are examples: collections in Year 2 of grants, pledges or service fees set up as receivables in Year 1, or payment in Year 2 of expenses or other obligations of Year 1. These payments should be *added* to the income and expense figures derived from your operating budget for Year 2, which will not include payments of amounts that apply to Year 1.

The same process in reverse should be undertaken for the final months of Year 2 (the budgeted fiscal year): income and expenses included in the operating budget that will not be paid until Year 3. These items should be *subtracted* from the amounts of income and expense derived from the operating budget, which include Year 2 income and expense that will not become cash transactions until Year 3.

At best, this is a wide-angle view, since trying to anticipate how much cash will come in each month for a whole year is virtually impossible. And if the cash doesn't come in, you can't spend it; that means that your month-by-month cash budget for expenses is even less reliable than your budgeted cash inflow. A budgeted cash flow statement for a year, before developing monthly amounts, is shown in Table 7-1.

Cash and Capital Budgeting

**TABLE 7-1. CENTER FOR COMMUNITY SERVICE, INC.
BUDGETED STATEMENT OF CASH FLOWS**

Cash flow from operations		
Budgeted net income per operating budget ^a		-0-
Add back noncash expenses ^b		
Depreciation	\$2,577	
Amortization of prepaid insurance	300	
Add/deduct changes in balances of receivables/payables ^c		
Net (increase)/decrease in receivables	-0-	
Net increase/(decrease) in accounts payable	-0-	
Increase/(decrease) in accrued expenses	200	
Increase/(decrease) in accrued taxes	-0-	
Increase/(decrease) in withholding taxes payable	\$ 500	
Total adjustments		<u>\$3,577</u>
Net cash from operations		3,577
("Net cash used for operations" if negative)		
Cash flow from planned investments		
Proceeds of planned sale of fixed assets ^d	-0-	
Payments for planned purchase of fixed assets ^e	(2,000)	
Money market account investment/transfer	-0-	
Net cash from (used for) investments		<u>\$(2,000)</u>
Balance		\$1,577
Cash flow from planned financing		
Planned borrowing	4,000	
Planned payments on loans, mortgages, etc.	<u>\$(2,000)</u>	
Net cash from (used for) financing		<u>\$2,000</u>
Budgeted net increase (decrease) in cash		3,577
Add: cash balance—beginning of year		<u>\$2,000</u>
Budget cash balance—end of year		<u>\$5,577</u>

^aIt is possible, but far more time-consuming, to work with the details of income and expenses instead; however, these amounts are shown on the Operating Budget. This short-cut is usually used.

^bChanges in these balances adjust the Net Income from an accrual basis to a cash basis.

^cActual cash proceeds of sale are substituted for gains or losses on the sale of assets. Only down payments and cash purchases are shown here.

Using the Budgeted Cash Flow Statement

At this point you have a financial overview useful for answering some basic financial questions. For example, as a general proposition, will our projected cash inflows for the year cover our planned cash payments for expenses, plus other nonexpense outlays?

If the answer is no, as it may well be, how do we bring the two into agreement? Can we realistically plan for increased fundraising, and if so, what type? This will give us early warning to start the planning, which takes time (see Chapter 8). If we cannot raise funds, what outlays can be deferred or even reduced (an equipment purchase, for example)? If none of the above, we know that arranging for borrowing may be the only answer. Since that too takes time, we are in a position to start the process early.

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If the answer is yes (inflows will cover outflows), it probably means the previous work that made the cash flow statement possible—our annual plan and operating budget—was done carefully and thoroughly. Before deciding to go on a spending binge, however, don't overlook the timing factor. Never forget that all accounting statements and budgets chop up the past and future into arbitrary windows of time: a year, a quarter, or a month. That fat cash balance projected for the year's end may be a beautiful illusion that will evaporate the following month when some big outlay is necessary!

If that is not a problem, meaning you'll have more cash than needed, you'll now have the pleasant problem of deciding what to do with the excess cash. Your options are fairly clear:

1. Increase the budgeted allowances, where appropriate, to put some or all of it to use—such as bringing staff and, or salaries into line.
2. Buy that equipment you need, but didn't think you'd have enough money for this time around.
3. Pay off back debt to improve your credit rating and reduce or eliminate interest charges.
4. Invest it (conservatively) to earn revenue. Use this investment as a cash reserve, to be drawn on when you have a future shortfall.

The thing to see here is that the cash flow budget is a power tool for overall financial planning. It should, to the extent possible, be worked on in parallel with the operating budget, since operations and finances need to go hand in hand. At the end of your fiscal year, an actual cash flow statement should be prepared, to see whether your overall financial plan was carried out as intended (see Chapter 15). If your actual ending cash balance is a lot different than was projected, a line-by-line comparison of the actual cash flow statement with the budgeted one will pinpoint why that happened. That will then serve as a review of your agency's overall financial performance, as distinguished from the results of its program and support activities. As the only financial report that makes this possible, the cash flow statement should be used far more often than it usually is.

YOUR MONTH-BY-MONTH CASH BUDGET

A month-by-month cash budget can serve to fine-tune the annual cash flow budget. There's no point going to sleep happy that your total cash inflows budgeted for the year will exceed your budgeted outflows. Money doesn't flow like a river, but often comes in spurts—or perhaps “drips and drabs” would be more descriptive. When you look at it on a month-to-month basis, therefore, you may find one or more months in which your outflow exceeds your inflow. Unless you start out with enough in the bank to cover a shortfall, you'd be in trouble. That's why you need a month-by-month cash budget. You may be able to get by with an operating budget that shows quarterly amounts, but without a cash budget laid out by months, you are risking problems.

As with the operating budget, it's best to start preparing your cash budget with the money to be spent, then the funds you expect to receive, month by month. If any month shows a shortfall, that's something you'll have to plan how to cover. It may mean drawing on invested funds, if you have any, arranging for a short-term loan or a special fund drive, or perhaps changing the timing of one or more expenditures. We'll be looking at cash management as such in Chapter 14. Here it is a matter of anticipating such problems in the planning stage.

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TABLE 7-2. CENTER FOR COMMUNITY SERVICE, INC.
MONTHLY CASH BUDGET WORKSHEET¹

Cash Balance—beginning ²	Operating budget 1st quarter	Date payment due ³	Cash budget for month of:		
			Jan. \$ 2,000	Feb. \$ 3,285	March \$ 7,919
Estimated cash receipts					
Revenues (operating budget)					
ABC Foundation grant	\$ 5,000	Feb.		\$ 5,000	
XYZ Foundation grant	15,000	(monthly)	5,000	5,000	5,000
State grant	2,200	(monthly)	800	700	700
In-kind (rent)	1,500	(noncash)	—	—	—
Program "A" services	4,000	(as shown)	1,000	2,000	1,000
Dues	1,000	(as shown)	500	400	100
Interest	125	(monthly)	20	20	85
Total estimated revenues	<u>28,825</u>				
Estimated cash revenue			7,320	13,120	6,885
Nonrevenue receipts ⁴					
Temporary loans borrowed Jan.		(repay in Apr.)	2,000		
Est. total cash received			<u>9,320</u>	<u>13,120</u>	<u>6,885</u>
Est. total cash available			<u>11,320</u>	<u>16,405</u>	<u>14,804</u>
Estimated cash disbursements					
Expenses (operating budget plus worksheet)					
Salaries (all)	\$17,750	(monthly)	5,917	5,917	5,916
Less taxes withheld (30%)			<u>1,775</u>	<u>1,775</u>	<u>1,775</u>
Net salaries			4,142	4,142	4,141
Payroll fringe costs ⁵					
Payroll taxes	1,567	(for previous Q.)	674	—	—
Health insurance	625	(for previous Q.)	375	—	—
Rent (donated) ⁶	1,500	(noncash)	—	—	—
Electricity & heat ⁷	600	(monthly)	200	200	200
Water ⁸	60	(March)	—	—	60
Janitorial services ⁹	450	(monthly)	150	150	150
Telephone (all)	300	(monthly)	100	100	100
Printing & stationery	306	(Feb.)	—	306	—
Postage	245	(Jan.)	245	—	—
Travel & conferences	360	(as shown)	60	180	120
Supplies	570	(Feb.)	—	570	—
Equipment rentals	60	(monthly)	200	200	200
Professional fees ¹⁰					
Consultants	1,200	(monthly)	400	400	400
Legal	125	(March)	—	—	125
Accounting (Q; annual)	650	(Feb., Mar.)	—	150	500
Office expense	90	(monthly)	30	30	30
Insurance ¹¹					
Liability (prepaid 1 year)	50	(March)	—	—	200
Workmen's comp.	75	(prior quarter)	75	—	—
Fire (prepaid 1 year)	25	(Dec.)	—	—	—
Contingency reserve	250	("cushion")	84	83	83
Depreciation	645	(noncash)	—	—	—
Total estimated expenses (carried forward)	<u>\$28,043</u>		<u>\$6,735</u>	<u>\$6,511</u>	<u>\$6,309</u>

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TABLE 7-2. CENTER FOR COMMUNITY SERVICE, INC.
MONTHLY CASH BUDGET WORKSHEET* (continued)

Cash balance—beginning ¹	Operating budget 1st quarter	Date payment due ²	Cash budget for month of:		
			Jan. \$ 2,000	Feb. \$ 3,285	March \$ 7,919
Total estimated expenses (brought forward)	\$28,043		\$6,735	\$6,511	\$6,309
Add: nonexpense payments:		For Dec., Jan. & Feb. (monthly)			
Withholding taxes paid			1,100	1,775	1,775
Equip. installment payments			200	200	200
Est. total cash disbursements			8,035	8,486	8,284
Cash balance end of month			\$ 3,285	\$ 7,919	\$ 6,520

*Cash balance at beginning of January comes from December 31 checkbook balance—actual or estimated. February 1 and March 1 balances are carried over from "Estimated Balance—End of Month" (January and February). "Estimated Total Cash Available" equals beginning balance plus cash receipts. "Estimated Balance—End of Month" is total cash available minus total cash disbursements.

¹Information in "Date Payment Due" column is based on analysis of payment arrangements or possibilities affecting timing. Note items paid in advance, such as insurance for the whole year, and items due creditors willing to defer payment; e.g., audit fee.

²Note especially noncash items (in-kind contribution of free rent and rent expense, also depreciation) and handling of withholding taxes (deduct from current period salary, pay in following period. January payment for December W.T. and payroll taxes reflected lower payrolls last year, before Program B increase).

³Data for nonrevenue receipts and nonexpense payments: from the books, supplementary records (payroll, amounts receivable or payable, etc.). Budgeted equipment purchases would appear here. (It is assumed that there were no other unpaid expenses or revenues as of January 1.)

⁴Data derived from Tables 5-5 and 5-6, "Mar. 31" column.

Still, you must start somewhere, in order to anticipate the best you can any months in which you may run dry. You can't afford to let that happen unexpectedly, because unpaid bills can damage your credit, and unpaid salaries can ruin morale. An illustration of a monthly cash budget is given in Table 7-2. It is developed from the monthly or quarterly operating budget, taking into account the timing of items they contain (see "Mar. 31" column in Tables 5-5 and 5-6), the Budgeted Statement of Cash Flows (Table 7-1), and the text preceding it. The footnotes to Table 7-2 give detailed explanations.

Cash flow budgets can be prepared more easily with microcomputer spreadsheet programs (see Appendix II C).

WHERE TO FIND THE DATA YOU NEED

Now that you've broken your operating budget down by month, you have a fair idea of how much expense you'll incur each month. But how much will you need to pay out in the same month? Is the budgeted amount of income each month the same as the amount of cash you expect to deposit? Probably not. Don't forget about the differences in timing, or about other obligations and plans.

Timing Differences

To calculate timing differences and their effects, use the same approach as described above for preparing the income and expense parts of the annual cash flow budget. Adjust the beginning and

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end of each month to a cash flow basis. Shift amounts from the month expenses are incurred to the month that cash will be paid for them. Use the same technique for shifting income. The footnotes below Table 7-2 give further information about some of the detailed procedures necessary.

If your annual statement is prepared on an accrual basis, your balance sheet may contain items such as Accounts, Pledges or Grants Receivable or Accounts Payable and Accrued Expenses. If your monthly or quarterly statements are prepared the same way during the year (regardless of how your books are kept), you should find the same balance sheet items. You can use them nicely to help your cash budgeting. All you need to know or anticipate is what your collection or payment patterns are.

For example, if you usually pay all your bills the following month, January's Accounts Payable and Accrued Expense should be February's Payments for Expense. The same approach may be used—probably somewhat less reliably—with your receivables, unless you have a good idea of how long they usually take to collect.

You can often come pretty close by examining past patterns: if grants are generally recorded as receivables when approved, and received, say, two months later, you can enter their budgeted collection two months after the actual or anticipated approval date. If 20% of the service fees billed are usually collected in the same month, 70% the following month and the balance two months later, you can apply these percentages to the fee income budgeted each month to find the months in which to include them in the cash budget.

Here's a worked out example for service fees, based on the above percentages:

	Total Amount	To be collected in		
		January	February	March
Accounts receivable Balance 12. 31	\$63,000	\$56,000	\$ 7,000	\$ 0
Budgeted fees				
January	50,000 (100%)	10,000 (20%)	35,000 (70%)	5,000 (Bal.)
February	40,000 (100%)	0	8,000 (20%)	28,000 (70%)
March	60,000 (100%)	0		12,000 (20%)
Estimated Fees Collected		<u>\$66,000</u>	<u>\$50,000</u>	<u>\$45,000</u>

This example assumes that December 31 Accounts Receivable consisted of the remaining balances of November and December fees earned. It also assumes that 20% of fees are collected in the month earned, 70% the following month, and the remaining 10% the month after that.

This type of calculation is used in automated cash flow budget spreadsheets used on micro-computers (sometimes via the use of a so-called "template"). Using the computer saves a lot of time. (See Appendix 11C.)

Don't overlook other sources of information about incoming cash. Items that may be contained in "off-the-books" records include pledges, unrecorded receivables for grants awarded or for reimbursements on contracts or grants, anticipated payments to your organization on the principal of notes or loans receivable, on installment sales you have made, on mortgages receivable you hold as investments, or on past sales of realty. (Any interest that will be earned should have been included in your operating budget.)

A similar approach can be used if you usually pay part of your bills in the month received,

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and for payments due on the principal of installment sales, loans, notes, and mortgages you owe to others. (Again, any interest expense should be in your operating budget.)

Cash Budgeting in the Real World

The work of the CFO (financial manager) should involve monitoring your cash needs on a weekly (or bi-weekly) basis, depending on how often you pay your staff. To do a good job of this, two working tools are needed:

1. The monthly cash budget, shown in Table 7-2, would usually show a whole year. Because of space limitations, we have shown only three months. The best way to use the budget is to keep adding a new month at the end, dropping the first month: that way you always have the long view ahead.
2. A worksheet covering only the current month, which gets down to the detailed planning within that month: whom do we pay when, based on how much we'll have in the bank each week, is a tool of cash management, rather than budgeting in the usual sense. It is explored further in Chapter 14.

Items Not from the Operating Budget

Notice in Table 7-2 that "cash receipts" includes monies borrowed as well as income: the temporary loan to be borrowed in April. Note also the nonexpense payments: payment of taxes withheld and of equipment installments. The loan repayment scheduled for April would also appear in this section, during the month of April.

HOW ACCRUAL BASIS ACCOUNTING AFFECTS THE BUDGET FIGURES

We gave a brief definition of accrual basis accounting in Chapter 6; however, if the subject is new to you, the following introduction may be useful. The cash budget illustrated in Table 7-2 made use of certain unstated assumptions about the operating budget on which it is based:

1. That expenses were projected basically (though not fully) on an accrual basis, and revenues essentially on a cash basis. (For example, the three grants, if approved by January 1, might be considered first quarter revenues, but the anticipated amounts due quarterly have been shown instead.) A few items in the operating budget were, for the sake of simplicity and realism, actually recorded on a cash basis: e.g., letterheads and envelopes (under Printing & Stationery) and Supplies, which were based on date purchased, not date consumed.
2. That there will be little quarterly or month-to-month variation in expense items and that most expenses will be paid in the same quarter as incurred. Any exceptions have been taken into account in the operating budget, or in the cash budget worksheet (Table 7-2). Note for example the effect of increased payroll for Program B on the amount of withholding and payroll taxes paid in January vs. February.
3. That no salary payments are due after the end of the month earned; otherwise the cash budget would have to take that into account, and January's salary payment would

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be lower than February's due to accrued (unpaid) January salaries under the new program exceeding similar amounts carried over from December. The accrued payroll taxes for the previous quarter (ended December 31) are lower than those accrued for the current year's first quarter, which will be due in April. (It has been assumed that all payroll taxes and health insurance premiums are due quarterly; in practice, they may be due monthly.)

Caution: It is important to note that where any of these assumptions do not apply, the step-by-step process of adjusting from operating to cash budget would be affected accordingly. Thus, where any expenses do vary substantially in amount between periods, the time lag between incurring and paying them will show the amounts in the wrong period, unless this pattern is taken into account.

WHEN YOUR BOOKS ARE ON THE ACCRUAL BASIS

We haven't discussed the distinction between budgets or financial statements prepared on the accrual basis and keeping your books that way, which is not the same thing. That comes up in Chapter 10. Since we won't be talking about budgeting again after that, this is the only appropriate place to deal with that situation. This material will be clearer later, when you need to deal with it.

Where the books are kept on a full accrual basis, the unpaid expenses at the end of each month are shown as accrued expenses or accounts payable (see Chapter 11), which then do not show up as expenses in the month paid. The same applies to any revenues that have been accrued on the books but not collected.

A cash budget worksheet prepared from an operating budget prepared on a *full accrual* basis is illustrated in Table 7-3. Differences in amounts from Table 7-2 result from the timing differences noted in the worksheet itself. Its complexity suggests preparing the cash budget independently.

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TABLE 7-3. CENTER FOR COMMUNITY SERVICE, INC.
CASH BUDGET WORKSHEET FROM FULL ACCRUAL BASIS OPERATING BUDGET

	Quarter ending March 31		Cash budget, month of		
	Operating budget	Cash budget	Jan.	Feb.	March
Cash balance—beginning of period*		\$ 2,000	\$ 2,000	\$ 8,797	\$13,431
Estimated cash receipts					
Total est. revenues:					
derived from operating budget (see Table 5-6)	\$28,825	27,325	7,320*	13,120*	6,885*
Add: accounts receivable beginning balance (collected)		5,000*	5,000*		
		32,325	12,320	13,120	6,885
Less: acct. rec.—ending balance (uncollected)		5,000*			5,000*
Cash basis revenues		27,325	12,320	13,120	1,885
Nonrevenue receipts					
Temporary loans (due Apr.)		2,000	2,000		
Estimated cash received		29,325	14,320	13,120	1,885
Estimated cash available		31,325	16,320	21,917	15,316
Estimated cash disbursements					
Expenses (operating budget plus worksheet)					
Salaries (earned: all)	17,750	17,750	5,917	5,917	5,916
Less taxes withheld (30%)		5,325	1,775	1,775	1,775
Net salaries (take-home pay)		12,425	4,142	4,142	4,141
Payroll taxes (incurred)	1,567	1,567	522	522	523
Health insurance	625	625	208	209	208
Rent (donated)	1,500	(noncash)	—	—	—
Electricity & heat	600	600	200	200	200
Water (due Mar. for Jan., Feb.)	60	60	—	—	—
Janitorial service	450	450	150	150	150
Telephone	300	300	100	100	100
Printing & stationery (due Feb.)	306	306	—	306	—
Postage	245	245	245	—	—
Travel & conferences	360	360	60	180	120
Supplies (due Feb.)	570	570	—	570	—
Equipment rentals	600	600	200	200	200
Consultants	1,200	1,200	400	400	400
Legal (pay Mar.)	125	125	—	—	125
Acctg. (pay Feb., Mar.)	650	650	—	150	500
Office expenses	90	90	30	30	30
Insurance					
Liability (1 yr. prepay.)	50	200	—	—	200
Workmen's comp. (prior Q.)	75	(accrued)	—	—	—
Fire (1 yr. prepaid Dec.)	25	(noncash)	—	—	—
Contingency reserve	250	250	84	83	83
Depreciation	645	(noncash)	—	—	—
Total current expense (carried forward)	\$28,043	\$20,623	\$ 6,341	\$ 7,242	\$ 7,040

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TABLE 7-3. CENTER FOR COMMUNITY SERVICE, INC.
CASH BUDGET WORKSHEET FROM FULL ACCRUAL BASIS OPERATING BUDGET (continued)

	Quarter ending March 31		Cash budget, month of		
	Operating budget	Cash budget	Jan.	Feb.	March
Total current expense (brought forward)	<u>\$28,043</u>	<u>\$20,623</u>	<u>\$ 6,341</u>	<u>\$ 7,242</u>	<u>\$ 7,040</u>
Add payment of accounts payable; accrued expenses (accrued at end of previous month)					
Salaries (4th week of previous month)		917	917	1,479	1,479
Payroll taxes (prior Q.)		674	674		
Health insurance (prior Q.)		375	375		
Water (two previous months due)		50	50		
Insurance—Workmen's Comp.		75	75		
Total accruals paid currently		<u>2,091</u>	<u>2,091</u>	<u>1,479</u>	<u>1,479</u>
Subtotal		<u>22,714</u>	<u>8,432</u>	<u>8,721</u>	<u>8,519</u>
Less accrual of accounts payable; accrued expenses (accrued at end of current period)					
Salaries (last week of current period)		1,479	1,479	1,479	1,479
Payroll taxes (current Q.)		1,567	522	522	523
Health insurance (current Q.)		625	208	209	208
Total accruals eliminated		<u>3,671</u>	<u>2,209</u>	<u>2,210</u>	<u>2,210</u>
Cash basis expenses		19,043	6,223	6,511	6,309
Add nonexpense payments					
Withholding taxes paid for prior period		4,650	1,100	1,775	1,775
Installment payments—equipment		600	200	200	200
Estimated total cash disbursements		<u>24,293</u>	<u>7,523</u>	<u>8,486</u>	<u>8,284</u>
Estimated balance end of period		<u>\$ 7,032</u>	<u>\$ 8,797</u>	<u>\$13,431</u>	<u>\$ 7,032</u>

*Note that balance at beginning and end of the quarter (Jan. 1 and March 31) are the same as balances at the beginning of January column and end of March column.

*Only monthly totals shown here. Details would be derived as in Table 7-2.

*Represents ABC Foundation grant—balance due from prior year grant accrued at December 31.

*To eliminate accrual of uncollected ABC grant at March 31.

*The ending balances differ from those in Table 7-2 as a result of differences between amounts accrued at the beginning and end of each period. Also reflected are differences in the amounts of revenues and expenses that would be reported on an operating budget prepared on a full accrual basis.

BREAK-EVEN CASH FLOW

This is a suggested tool that can serve as a rule-of-thumb in day-by-day financial management. You probably won't find it in textbooks. The idea is to list your basic recurring monthly cash outlays for such items as payrolls, payroll taxes and employee benefits, rents for space and equipment, installment payments on loans, mortgages, and equipment purchases, plus an average figure for other recurring expenses paid monthly, such as supplies, office expense, travel, auto expense, and consultants, among others.

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Business people call this the minimum "nut," the amount of cash you need each month to cover expenses. In the best of all possible worlds, that amount would always be available (in a checking account plus temporary investments like savings or money market accounts). You should plan to collect at least this amount each month to replenish bank accounts. If income does not at least match the monthly "nut," it's a signal to do something about it now, rather than wait for the inevitable crisis to develop.

Ideally, an organization should try to build up reserve funds of three (or at least two) month's "nut," to carry it over the bad times when a grant falls through or is delayed.

MINIMUM CASH BALANCE

Whether or not you have a reserve available, your budget should include a minimum balance (to be decided by the board or the treasurer), budgeted for as a matter of prudence. If the budgeted (or actual) ending balance falls below that minimum, you know steps need to be taken to bring it up to par. Your cash flow may be too tight at a given time for this minimum to be enough to cover your monthly "nut," but that is a goal you can work toward in your annual budgets. This can be thought of as a reserve or contingency fund, if you wish—a so-called "rainy day" fund—perhaps one based on the break-even cash flow figure discussed above.

If your projection shows one or more months in which the ending balance will fall below the established minimum (or is just plain negative), you can take steps to raise or borrow enough money to bring your balances up to where you want them to be.

CAN YOUR BALANCE BE TOO BIG?

Although having a cash balance that is too high may seem like dreaming, it is our hope that using what you learn in this book could bring it about. (Even if you usually have trouble just staying afloat, you may be notified of a big grant or pledge that temporarily will create a large cash balance when it comes in.) In such cases, the answer to the question whether it can be too large is yes, but only if it refers to your checking account balance, which is what your cash budget usually projects. To deal with such a happy event you should develop a policy for dealing with excess cash. What you should not do is leave it in an account that earns no interest; it belongs, at least temporarily, in a savings account (which is insured under F.D.I.C.) or a money market account (which may not be insured). Its use for other purposes should be planned in the budgeting process, or in a budget revision. Even a temporary cash excess should be reflected in your budget revision because you don't want to spend it on such things as equipment or debt repayment. It is pretty likely that you'll need those funds to pay regular expenses. For example, March may show an excess that will be eaten up by expenses in April and May. This is especially true with "up-front" grants (which are becoming very hard to get!)

The best planning is to invest funds temporarily in a safe, interest-bearing account, or in a certificate of deposit that will mature just before the time you'll need it. (It's best to invest in accounts insured by F.D.I.C.). Don't overlook planning to use as much of the temporary excess as you can to build up a "rainy day" reserve fund.

This approach to budgeting is more a form of cash management and is dealt with in depth in

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Chapter 14. Nevertheless, you should anticipate any such "problems" in budgeting cash, and have a plan and policy for dealing with them when the time comes.

CAPITAL BUDGETING

Capital budgeting is a subject that can be approached on different levels, from simple to very complex. Sophisticated techniques are used primarily by large, complex organizations. We will within this chapter adopt a simple, common-sense approach that can be used for routine capital budgeting. The Appendix to this chapter offers an overview of some more sophisticated methods. Those who need them (or who don't suffer from math anxiety!) can pursue them in greater depth if necessary, in books aimed primarily at larger business firms and nonprofits.

A Simple Basic Approach to Capital Budgeting

Budgeting for the purchase of major items of real property or costly equipment may be looked upon as a special variant of cash flow budgeting in a nonprofit organization. What is different about it is essentially a longer time frame, and the linking of the uses of funds with their proposed sources.

Factors to consider in capital budgeting.

- How well the present equipment or property serves the needs of the organization, in terms of its condition or capacity. Whether repair and maintenance costs have reached the point where it would be economical to replace worn equipment with new, or even consider factory-reconditioned used equipment.
- What alternative facilities would cost under alternate plans of financing: outright purchase, installment purchase, borrow-and-buy, long-term rental.
- What sources exist for financing each of these alternatives: special grants, installment purchases, long- or short-term loans. From which sources and on what terms, including collateral, could this money be raised? Is a special fund drive among supporters a possibility?
- The cash flow aspect presents itself with respect to the payment of installment loans or rentals, including any interest factors which may be present, explicitly or implicitly. For example, a piece of equipment may cost \$1,000 if paid for in cash, or \$1,100 if paid for in 24 monthly installments. The difference is what accountants refer to as implicit interest, which is an additional acquisition cost, in terms of cash outlay.

Examples of considerations that influence capital budgeting. Let us assume that our fictitious organization, the Center for Community Services, Inc., needs a new \$12,000 van and has the alternative of acquiring one through any one of the following arrangements: (Note: all figures are rounded)

1. Pay \$12,000 cash.
2. Borrow funds to purchase for cash. Repay loan in one year at 12% interest in 12 monthly payments of \$1,066.
3. Pay for it in 24 monthly installments of \$565, including finance charges (interest).

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4. Rent on two-year lease at a monthly rental of \$450.

5. Accumulate (save the funds) over the two-year period before purchasing for cash. This is called a "sinking fund."

Assume that the Center could invest spare funds at 5% per annum, compounded monthly, and that if purchased the vehicle could be sold at the end of two years for \$5,000.

The approach to this somewhat complex decision might be as follows:

Alternatives	Total cost	Cash outlay per year
1. <i>Purchase for cash</i> (if cash available) 5% interest lost (two years) if taken from savings. (compounded monthly)	\$12,000 1,259 <u>13,259</u>	\$12,000 (first year only)
2. <i>Borrow funds to purchase with cash</i> Cost of 12 monthly loan payments of \$1,066	<u>12,792</u>	12,792 (first year only)
3. <i>Installment purchase</i> Cost of 24 monthly payments of \$565.	13,560	6,780 (2 years)
4. <i>Rent on two-year lease</i> Cost of \$450 per month rental for 24 months.	10,800 ¹	5,400 (2 years)
5. <i>Sinking fund</i> Save up for the purchase over a two-year period: monthly amount needed to be deposited, at 5% interest, compounded monthly, to accumulate to \$13,230 in two years is \$525. ²	\$12,600	\$6,300 (12 × \$525)

This last alternative is not directly comparable to the first four, since it involves postponing acquisition of the vehicle for two years. It is useful as a long-range planning alternative, however.³

Intuition would tell you that anything costs less if you save for it than if you pay with borrowed funds (which includes installment purchases). On the other hand, during an era of high inflation, it was often argued that the erosion of the dollar at rates as high as 12% made it advantageous to pay with borrowed funds. The loan repayments or installments will be made with dollars worth less and less, and thus easier to come by, whereas the value of dollars accumulated by savings will shrink with time: it will therefore take more of them to buy the same item, as illustrated in alternative 5, above. (Inflation is moderate at this writing.)

Analyzing the results of calculations in the example.

1. Rental requires the lowest cash outlay per year, but it results in twice as much cost (or more), for it must be renewed annually, possibly at an increased rate. (And you never own the item.)

¹Note that while rental appears to be cheaper, this rental continues each year you need a car, whereas with other options you have a fully paid car after 2 years.

²At an annual inflation rate of 5%, the vehicle would cost \$13,230 in two years, not \$12,000. Due to the interest earned, the vehicle would cost less than \$13,230. The monthly deposit was derived from present value tables, discussed in the appendix to this chapter.

³In order to save, revenues must exceed expenses, excluding depreciation expense, which does not involve a cash outlay. Thus a break-even result after adequate depreciation means funds are being accumulated.

Cash and Capital Budgeting

2. Installment purchase over two years takes a lower cash outlay per year than the one-year loan. Repaying the loan over two years at 13%, if possible, would reduce cash outlays per year to \$6,846, which is still more than the installment payments (\$6,780.)

3. Based on the above data, and assuming the vehicle is needed *now*, the best options would be:

- (a) pay in installments in two years;
- (b) borrow and repay over two years.

Note that this example is based on arbitrary data. Different terms could change the analysis—and your decision. There is no substitute for working out such an analysis yourself, using the actual terms of loans, installments, leases and interest rates, and after shopping for the best deal available.

In the first and last alternatives, an unpredictable factor is interest rates, which change over time. It is therefore best to use a conservative rate in such calculations.

In weighing the decision to buy, it is also wise to find out the trade-in and resale value of any vehicle or equipment being replaced by the new one. (The Center has one vehicle in use in Program A.) (And don't forget the new one's eventual value.)

Business enterprises use a more complex approach to capital budgeting involving, among other things, the time value of money.⁴ This involves the use of compound interest, and "present value" tables. A large nonprofit considering purchase or lease of a building or major equipment might want to consider such an approach. Should such substantial acquisitions be planned, advice should be sought of a professional in the field of financial management. Your bank may be able to help with advice. (See the appendix to this chapter for an overview.)

Capital budgeting formats checklist. There is no typical form for the capital budget of a nonprofit organization, only the need for a clear and orderly presentation of the board's plans for major asset acquisitions, including its plans for funding them. A capital budget should cover at least the following points and future annual periods:

- Major asset acquisitions planned: descriptions, acquisition dates, suppliers, whether additions or replacements of existing assets, and estimated costs.
- Mode of acquisition: lease or purchase; trade-in or sale of present asset being replaced, and estimated value for that purpose.
- Source of funds to purchase: savings or investments, cash borrowings or installment payments, source of borrowings. If a special fund drive is possible, over what period? Indicate grant proposal (if possible) and list names of funding agencies. (The latter course is dangerous unless already explored with such agencies and encouragement has been received.)
- Sinking fund: schedule of deposits or payments on loans or installments, showing individual amounts and grand total for each month and year covered in the capital budget.
- Capital assets and related liabilities: show whether these are to be set up as restricted funds (e.g., plant fund; see Chapter 13).

The capital budget then becomes an adjunct and resource in preparing both the cash budget and the operating budget. It is both a long-range planning tool and an operating document to be used in executing the plan, for it sets forth schedules to be followed in acquiring capital assets and paying for them.

⁴Also income-tax considerations, which can affect a nonprofit subject to the tax on Unrelated Business Income (see Chapters 1 and 16).

A NONPROFIT ORGANIZATION OPERATING MANUAL

Such acquisitions will affect accounting and budgeting in the following areas:

- Cash flow budgeting, for their financing and presumed reduction in repair and maintenance costs.
- Balance sheets, which should reflect both the cost of assets purchased and any related loan or installment obligations undertaken (and elimination of assets replaced).
- Operating budgets and operating statements, which should reflect the reduced repair and maintenance costs, and presumably increased depreciation expense covering the new assets over that of the assets replaced.

The role of depreciation. Although nonprofit organizations have not used depreciation accounting, and many have even treated the cost of capital assets acquired as a current expense, the new rules prescribed for external financial reporting by nonprofits (see Chapter 15) will probably end those practices and bring nonprofit accounting into line with overall accounting theory in these respects.

A 1978 policy statement issued by the American Institute of CPAs made the observation that depreciation accounting is designed to charge each period for its share of the cost of using an asset, making depreciation expense analagous to rental expense.⁵ At the same time, it points out that depreciation "is sometimes confused with funding replacements," which is a separate financial question.

While this is unquestionably true, some organizations properly relate the two by "funding depreciation"—i.e., setting up a sinking fund in which amounts equal to the periodic depreciation expense are deposited in a special "sinking fund savings account" or otherwise invested. The investment plus accumulated investment income is then tapped for asset replacement. (The board should designate this a "board restricted fund": see Chapter 13.)

The point made previously about the effect of inflation on the funding of replacements is relevant here, for the amount of depreciation is based on the cost of the present asset, not what it will cost to replace it at an inflated price in the future. The addition of interest or dividends to the amounts added to the sinking fund will help offset the effect of inflation, however.

Other Basic Issues

Not only comparative costs are involved in capital budgeting, but also other factors of a serious nature:

- A wrong decision can result in hiring—or not hiring—people who would be involved in operating or managing the property or equipment—or worse, in eventually laying people off, if the decision was a bad one.
- How efficient is the new equipment? How easy to learn, maintain, and repair? Will the seller or manufacturer provide support in these areas? Service contracts? On-site or nearby authorized service? What about ready availability of repair or replacement parts, components, or supplies? How big a job is installation? Will it require any additional costs for special wiring, plumbing, or work on the building? How flexible is it for different uses?
- Money may also be wasted on fundraising, advertising, training, or other related activities, if a bad decision is made.

⁵Statement of Position 78-10 (Dec. 1978), paragraphs 107 and 111.

Cash and Capital Budgeting

- If assets are bought and are not usable, the money is tied up wastefully, and there may well be ongoing related costs that cannot be easily avoided, such as insurance, security, and maintenance. Space can be tied up that could be used more advantageously.
- Money invested unproductively is money not available for productive purposes. Opportunities for better use of the funds are thus lost.
- A mistaken decision not to invest the funds also represents a lost opportunity, which may have a material effect on the organization's future, especially if nothing as good turns up.

SSA



WORLD LEARNING INC.

Founded in 1932 as
The U.S. Experiment in
International Living

Section 5 Fundraising



Three Components - Diversification

Self-financing activities:

Sale of service or products; membership fees; interest from investments

Local fundraising:

General public; local government; private sector

External fundraising:

Long-term flexible grants

Self-financing

- * Membership contributions
- * Income-generating activities
- * Interest from investments
- * Fundraising from the general public
- * Administrative overhead on project grants

Sale of Services

- * Secretariat: photocopying; typing; printing; general services
- * Publications: sell others publications; publish your own books/manuals; publish your own periodical
- * Vehicles & equipment: rent trucks/lorries/vehicles; rent machines/tools
- * Premises: space for offices; meeting space/facilities; warehouse space
- * Consultancy: training, evaluations, research

Financing the Core Budget

1. Cut down administrative budget.
2. Reduce the administrative budget to minimum by shifting expenses to program budget.
3. Request an "overhead" administrative expenses allowance from donors.
4. If no overhead available, debit the project for all services provided the project.
5. Negotiate on institution building grants from donors.
6. Increase your own income sources and use this money to cover administrative expenses.

MARKETING

Marketing is a process that helps you to exchange something valuable for something you need.

Marketing helps to establish exchange relations, and the world of non-profits has many. Non-profits exchange with the participants in their programs or with the public, with donors, volunteers, friends, elected officials, media representatives, other non-profits, businesses and corporations. In each good exchange, a non-profit offers something valuable to others in exchange of something it needs.

Exchanges satisfy both sides because they are mutually beneficial: each gets something valuable for itself. However, such exchanges will not happen (except for unexpected luck or coincidence) unless someone initiates them.

If you have something valuable and you want to exchange it for something you need, you yourself should come out with an initiative, and cultivate the relations of exchange.

In other words, it is time to start marketing.

Mellon Bank Corp. "Discover Total Resources". A Guide for Nonprofits



Money isn't everything, but you can't run a nonprofit without it. And the less you spend to make money, the more money you'll have left for your program.

Everyone has money. According to the American Association of Fund-Raising Counsel, 86% of all Americans give to one or more charitable organizations. They represent all ages, incomes, occupations, and education levels.

Individual donations account for almost 90% of all charitable giving in America. More than 83% is from living persons, and another 7% from bequests. The remaining 10% of charitable contributions comes from foundations and corporations (including corporate foundations), each giving approximately 5% annually.

Religion receives the largest share of contributions, followed by education, health and hospitals, social services, arts and humanities, and civic and public affairs.

Donations aren't the only source of money for nonprofits. There also are investment income; membership dues; earned income from businesses, goods and services; government grants and contracts, and program related investments. *Table 3* offers a more complete listing, and potential sources.

Table 3: Money

Resources

Internal money management	Matching gift
Operating economy	Annual giving
Cost sharing	Memorial
Investment income	Planned giving
Membership dues	Bequest
Earned income	Life Insurance
Service fee	Trust
Income-producing business product	Annuity
Individual solicitation	Pooled Income
Door to door canvass	Securities
Phone-a-thon/telethon	Endowment
Direct mail	Grant
Canister	Program-related investment
Payroll deduction	Special event

Sources

Board of directors	Small businesses
Employees	Corporations
Members	Doctors lawyers other professionals
Clients	Foundations
Consumers	Government (city, county, state, federal)
Family and friends	Schools colleges universities
Alumni	Unions
Auxiliaries	Professional organizations
Contributors	Police fire emergency departments
Volunteers	Political organizations
Retirees	Religious organizations
Neighbors	News entertainment education media
Vendors	Other nonprofits
Civic groups	

Looks complicated. But it's manageable. *Start inside your organization* with those who know you best and share your goals. Then gradually *move outward* into the community.

A brief summary of the primary money resources follows. Evaluate each of them according to your needs and capabilities.

Internal Money Management

Making the most of the money you have

Analyze your internal financial situation. Have you cut unnecessary expenses? Are you making money with the money you have? Have you tried sharing costs with other organizations? Good internal money management not only saves money, it also tells potential donors that you'll use their money wisely.

Operating Economy

The first way to make money is to *eliminate waste*. Employees, volunteers, board members, everyone closely associated with your organization can suggest ways to cut costs. Place a *suggestion box* within easy access. Award a monthly *prize* for the best idea. If your situation is critical, ask a *management expert* to volunteer as a consultant until your problems can be resolved.

Other money savers:

- Get accounts receivable off your desk and into the bank.
- Avoid penalties and late charges. Pay taxes and bills on time.
- Make a payment schedule and stick to it.
- Maintain facilities and equipment on a regular basis. Deferred maintenance is expensive.
- Review insurance coverage and costs annually. Get new bids at least every three years.
- Avoid duplication of efforts and documents: assign staff responsibilities in job descriptions, route and share records and other paperwork.
- Determine your unit cost, e.g., service cost per hour, client, facility.
- Salaries and benefits are a major cost. Enforce productivity standards and conduct employee evaluations at least annually. Use volunteers at every opportunity.

Cost Sharing

Cost sharing possibilities include joint purchase of goods, equipment, and services; shared office space, equipment, and services; group purchase of medical and other insurance.

Example:

Louise Child Care Center in Pittsburgh acts as bulk purchasing agent for over 55 child care providers, at an average savings of 15-30%. Individual agencies select items from the catalogs of five suppliers. The Center consolidates and places orders quarterly, and sorts deliveries. Agencies pick up orders at the Center, paying their share of the total, plus 5% handling.

Investment Income

Consider the short- and long-term investment of available cash. A *Money Market Account* offers fund liquidity and higher earnings than interest bearing checking accounts. If you can do without your money for 6-12 months, consider investing in a *Certificate of Deposit* (CD) or other fixed term, fixed rate instrument. However, do so only if the guaranteed rate is at least 1.5% higher than the money market rate at time of purchase. Because money market rates fluctuate with the market, these accounts can yield higher earnings. The Working Assets Money Fund of San Francisco offers these and the following tips to determine how much you should invest (see Chapter 8, Print Resources):

- Do a cash flow projection to determine all cash needs for the next 12 months.
- Shop around at financial institutions for the best deal on a checking account. Some regular accounts may be better than interest-bearing accounts due to hidden service charges.
- Consolidate all necessary operating funds into one checking account, and possibly a second account for payroll. Be careful to manage separate fund accounts through bookkeeping entries.
- Invest all remaining discretionary cash in a money market account or CD.

If cash assets are sizeable, consider long-term investments such as stocks, bonds and real estate. However, do so only at the advice of a professional.

More Internal Management Clues

- Review and understand donor requirements. Noncompliance can lead to disallowances, fund returns, and can jeopardize future funding.
- Be aware of the pitfalls of cash basis accounting. Account for and report all liabilities.
- Get to know your banker and other financial experts. Their free advice can be invaluable.
- Be aware that some grantors, particularly government agencies, require the return of investment earnings.

Membership Dues

Banking on their belief in you

People buy memberships because they believe in an organization and want to help further its goals. The value goes beyond the immediate payoff of unrestricted income. Members are a form of *collateral* for attracting other "investors" from the community. Grantmakers like to know you have strong community support. Members also are prime prospects for personal donations.

Some membership clues:

- Adjust dues to keep pace with inflation and cover membership maintenance costs.
- Price dues on a sliding scale, based on ability and willingness to pay. Start with a basic, minimum rate, increasing the price and attendant privileges as you move up the scale, e.g., family, friend, supporter, sponsor, life member, etc.
- Offer discount memberships to students and senior citizens.

- Inform members about the tax deductibility of their dues. This can vary considerably. Dues covering the cost of benefits received are not deductible. Dues essentially are a contribution. Ask your tax expert for a ruling.
- The nonrenewal rate is high—approximately one-third in most organizations. Reduce renewal costs by replacing expensive second and third mailings with a membership phone-a-thon. It costs less and works better.
- Memberships must be sold. Sharpen your selling skills and develop a creative marketing plan. Let prospects know about benefits which accompany memberships. See *The Grass Roots Fundraising Book* by Joan Flanagan (see Chapter 8, Print Resources).

Earned Income

Anything worth doing is worth money too

There's no rule saying nonprofits can't make money, only that the money must be used for charitable purposes. *Services are marketable*. So are program-related products. The possibilities are limited only by your creativity, skills, and management abilities. Be forewarned that some ideas involve *considerable risks*. A brief summary of tried and proven income producers follows.

Service Fee

The safest, most obvious way to earn income is to charge for services you're providing free. Base fees on a *sliding scale* according to income and ability to pay.

If you serve only low income persons, consider *extending your services* to others, especially if you face budget deficits. It's better to broaden your service base and stay in business.

Example:

A local nonprofit organization faced closing because of its tradition of serving only low income families. Administrators were slow to see that fees charged to higher income clients could help subsidize care for those unable to pay. They also overlooked the obvious: the interaction of individuals from diverse income groups could be an enriching experience for all. The agency now is successfully charging according to ability to pay and pursuing other income generating ideas.

Other income-earning ideas:

- Sell services to government, local businesses, and corporations. Convince them you can provide a needed service better and less expensively. This can range from a one-time consultation to a long-term contract. Classic examples include employee child care, health and fitness programs, and educational and research services.
- Offer unused space to businesses, other nonprofits, and government agencies for conferences for a fee.
- Sell newsletter subscriptions to "outsiders" based on the publication's informational value. Sell ad space, too.
- Share computer time, print shop, and other in-house services with other nonprofits, for a mutually beneficial fee.

Caution: Never sell services to outsiders at the expense of program goals. Staff time and talents should be shared only when it does not interfere with your primary purpose.

Income-Producing Business/Product

A program-related business can be a money-maker for nonprofits. Possibilities include the sale of services, as mentioned earlier; the manufacture and sale of products; and the sale of products purchased for resale. Perhaps the best known example, *combining program goals and earnings*, is Goodwill Industries. By teaching handicapped persons to refurbish donated household goods, this organization fulfills its primary purpose of individual rehabilitation and helps support itself through sales of the items in its retail stores. Goodwill also earns money by contracting with businesses for such jobs as assembling, collating, and packaging to be done in its sheltered workshops.

Other well known money-makers are Girl Scout cookies, UNICEF cards and gifts, art and wildlife posters and calendars, hospital gift shops, ticket sales, community and celebrity cookbooks.

Nonprofits are venturing into *nontraditional businesses* as well. The Denver Children's Museum is perhaps most notable for its creative efforts: leasing advertising characters to a commercial business, selling exhibit space to toy manufacturers, and producing special children's books for corporate sponsors.

The Pittsburgh Public Theater has boosted earnings and pleased patrons through a variety of program-related activities. They include the sale of t-shirts, albums, and other featured play memorabilia and the sale of specialty wines and box snacks during intermission. When the theater is dark, the hall is rented for business meetings and other activities.

Beware, however. Not all income-producing activities are tax-exempt. And there's increasing resistance from commercial enterprises to so-called "unfair" competition from nonprofits. Generally, any activity substantially related to your charitable purpose is tax-exempt. If an activity is mostly unrelated, and provides over 15-20% of your income, you *may jeopardize* your tax-exempt status. At this point, you must decide whether to abandon the business, or to start a profit-making subsidiary.

Before undertaking any business venture:

- Define the type of business, market, growth potential, and competition.
- Identify which staff will be involved, for what percentage of their time, and at what cost to your organization.
- Develop a business plan, including preliminary budgets, funding sources, projected cash flow, and projected profit/loss for first three years. Include a contingency plan.
- Get financial and tax advice from experts such as an attorney, accountant, banker, lender, IRS specialist, and the Small Business Administration.
- Talk to other nonprofits about their successful business ventures. Contact New Ventures, Inc. for more ideas (see Chapter 8, Print Resources).
- Weigh all these factors with your organizational goals and make a decision.

The risk can be great. Over half of all new commercial businesses fail in their first year. Nonprofits have a higher rate of failure. But nonprofits are succeeding and finding more and more creative ways to turn their skills into money-making businesses.

Individual Solicitation

If you don't ask, you won't receive

Because *individual giving accounts for nearly 90%* of all charitable contributions in America, it should be a mainstay of your support. Develop a plan for soliciting individual donations and *allocate time accordingly*. Like memberships, this income tells other funding sources that the community values your organization.

There are many formulas for success. Regardless of the strategy you pursue, keep in mind these suggestions:

- Ask your board members for donations first, so others will follow their lead.
- Be resourceful in choosing prospects. Develop a list from members, volunteers, clients, businesses, neighbors, meeting sign-up sheets, alumni, phone books, special interest directories. The Coles Directory lists phone numbers by neighborhoods. The Federal Census publishes lists of neighborhoods by income level.
- Everyone is fair game. High density, middle income neighborhoods should be more profitable and less time consuming than others, as should areas in which your solicitation team are known. People give more readily to neighbors than to strangers.
- Recruit volunteer solicitors from directors, members, volunteers, clients, alumni, and the general public. Challenge local schools, colleges, or community groups to compete for a trophy or other prize for the most money collected.
- Provide orientation for solicitors. Include sample greeting, organizational fact sheet, and paper to record complaints that may need follow-up. Make sure everyone has facts about you and how their money will be used.
- Check regulations regarding charitable solicitations in your chosen area(s) and always obey local laws. Provide a copy of solicitation permits and agency ID to all solicitors, as applicable.
- Give contributors a receipt. Give everyone you contact a leaflet or other visual reminder about your organization and your fundraising purpose.
- Use every opportunity to send follow-up letters, e.g., new programs, achievement awards, research findings.
- Keep a record of each contact for future reference, according to whether they are *hot* (current giver), *warm* (former giver) or *cold* (new contact or refusal).
- Weigh time and expenses in relation to value received, i.e., money and visibility— for all solicitation methods. Allow time for success, but watch for danger signs. Quickly revamp or drop obvious losers.
- Say “Thank You.”
- Dare to be different. Compare your plan to others you know. Be creative. Be true to your purpose. Remember the simplest approach can be the most effective.

Door to Door Canvass

The more *direct and personal* a fundraising method, the more *effective*. This puts door to door canvassing at the top of the list. But it isn't right for every organization. To be successful, a door to door campaign must be well staffed, by paid or volunteer solicitors. Your cause should have *wide appeal*. And you must be willing to commit a great deal of time to planning and management, possibly year-round.

The results can be most rewarding. Though many gifts will be small, there will be many of them. And you will be creating *grass roots awareness* and support of your organization. People remember the causes they support, regardless of the amount they donate.

Phone-A-Thon/Telethon

Less direct than door to door, a phone-a-thon nevertheless permits a *personal appeal* for contributions. Volunteers are recruited to donate a set number of hours or days for telephoning potential givers. Respondents who pledge a gift are mailed a thank you letter and invoice listing the amount promised. Follow-up calls are made to those not honoring their pledges within a specified time period. Thank you notes are sent when pledges are received.

Phone-a-thon costs are relatively small, and results *usually profitable*. You may be able to find a business willing to donate office space, telephones, and other needed equipment. This method requires a firm commitment of volunteer time and good organization.

A *telethon* is a televised phone-a-thon. Rather than phoning prospects, volunteers wait for viewers to call them following regular on-air appeals, usually by celebrity guests.

Before you consider a telethon, be aware that it is a *major event* that requires tremendous time and resources. Television time must be donated or purchased. Celebrities must be booked. Most telethons raise a majority of their pledges ahead of time, and use the event to announce the gifts—for visibility and new prospects.

Direct Mail

Less personal than the canvass or telephone, direct mail still offers *individual communication* with prospective donors. An organization develops a mailing list, writes a form letter, and mails it, bulk rate.

It sounds easy. But there are *drawbacks*. Direct mail is expensive, involving printing, paper, postage, and staff time. It has a low rate of return—only one percent of the initial mailing. It requires thorough planning and follow-through. But it's an excellent way to reach large numbers of people, some of whom will become regular contributors; a few others, major givers.

Direct mail has been refined to *an art and a science*. There are excellent books detailing everything from how to develop a mailing list to how to choose the most effective paper color and format. After you've done your homework, contact another nonprofit that has conducted a direct mail campaign. Most will share dos and don'ts. There also are professional mail services.

Example:

St. Peter's Child Development Centers more than doubled their direct mail income in just three years through a special test campaign. Their successful strategy included:

- Seed grant to fund campaign's first year.
- Purchased mailing list to supplement in-house list.

- Two-tier marketing plan to encourage major gifts. New prospects and regular givers under \$25 received computerized, third-class mailings. Major donors (\$25 and above) received personalized, first-class mailings (produced by St. Peter's on word processing equipment at Mellon Bank).
- Creative marketing, including photography, headlining and special graphic effects, and celebrity endorsement, all carried through on letters, brochures, response forms, and envelopes.

St. Peter's increased both the number of major donors and the average amount given. More than 50% of their individual gift dollars now come from major donors, compared to 30% before the campaign.

Canister

The canister offers advantages of both direct and indirect contact. Among its numerous variations are the Salvation Army Christmas pot, UNICEF Halloween coin box, and baseball caps and collection cans at traffic intersections and special events. All make a *personal appeal* for support, while increasing the organization's *visibility*.

A stationary canister, placed near a busy cash register or other high traffic area, reminds discretionary spenders of your cause and need.

Though relatively simple to implement, this fundraising method still requires good organization and volunteer commitment.

Payroll Deduction

Getting to the money *before* your contributors is the philosophy behind employee payroll deduction programs. Make it easy for the employee to give, easy for the employer to collect, and, in theory, you have easy money. But it isn't that simple. The competition is stiff, and most employers prefer to collect for one organization, rather than for many. However, due to *high profitability*, you should consider at least one of the following payroll deduction options:

Federation Membership

The United Way is the best known payroll deduction federation. Member organizations agree to limit individual fundraising in favor of *group solicitation*. The federation handles all solicitation, collection, and allocation, reserving a percentage of funds raised for administrative expenses. Member agencies are allotted money by citizen review committees based on various criteria, including community need.

The advantages are obvious. Both employers and members save on administrative costs. However, there are disadvantages. Membership isn't guaranteed. Some federations have been criticized for being slow to add new organizations. Allocations aren't always sufficient to make up for restrictions on individual fundraising. Still, federations continue to be a mainstay of individual donations.

Donor Option

Until recently, only member agencies were eligible to receive federation funds. However, some United Ways have instituted a Donor Option Plan which permits donors to contribute to *qualified non-member agencies*. Though still experiencing growing pains, the Plan is gaining community support, for obvious reasons. It allows greater personal choice in giving, and therefore encourages broader-based donor participation. It also reinforces the idea of regular giving.

In southwestern Pennsylvania, the Plan works as follows. The United Way distributes Donor Option cards, upon request, during its regular annual campaign. Employees designate their gift to the charitable organization of their choice. The United Way deducts an administrative fee and distributes the money as designated.

Donor Option agencies must do their own soliciting. Due to employer resistance to multiple solicitations, many nonprofits contact potential givers through direct mail, flyers, personal contacts, union and employee meetings, and other methods. Prospects include members, directors, patrons, clients, volunteers, others associated with the organization, and the community at large.

Participating agencies generally report profitable returns. Donor Option is on its way to becoming one of the basics of a comprehensive fundraising program. Contact your local United Way office for details.

Do It Yourself Deduction Program

If participation in an existing federation isn't feasible, a nonprofit can start its own payroll deduction program. You can act *independently*, or form a *coalition* of nonprofits (federation). It won't be easy, but it is possible. Though many employers restrict payroll deductions to one organization, there are those who don't.

Start with employers sympathetic to your cause. If refused, be courteous, and go to the next prospect on your list. Include local colleges, small businesses, and government offices. Be prepared to knock on many doors, and be persistent. An employer who can't make a long-term commitment may be willing to help once.

Example:

The City of Pittsburgh initiated a payroll deduction program in response to a local food emergency. Every City employee was asked to contribute one dollar per payday (two dollars per month) to The Salvation Army Good Neighbor Emergency Food Fund. Seventy percent of the employees participated, donating \$30,000 during the eight-month campaign.

Once you locate a willing employer, recruit an employee to coordinate the campaign at the work site. Provide brochures, posters, and other promotional materials. Schedule speakers and slide shows for different departments and employee groups. Arrange to have contributions collected through the employer's personnel office.

Employer Program

Not all employee payroll deduction programs are donee initiated. One of the largest—the *combined federal campaign*—is a fund drive conducted annually by the federal government to help its employees give to charitable causes. Some state and local governments offer similar assistance.

If you aren't receiving donations from one of these programs, contact officials at various levels of government to learn who's in charge of payroll deductions. Ask how your organization can join the list of qualified recipients. Ask to be included in speaking engagements and other campaign activities.

Matching Gifts

Many companies encourage employee support of nonprofits through a matching gifts program. Details vary, but employers generally match worker contributions according to a set ratio, such as one or two to one, up to a specified maximum. There may be minimum amounts eligible for matching. The program may be open to retirees, directors, and spouses.

In addition to cash gifts, some employers match the cash value of employee donations of real estate, art, bequests, and life insurance. A few match payroll deductions. Some companies contribute to organizations where their employees volunteer time, based on a dollar/hour formula. Mellon Bank honors its outstanding volunteers through a Volunteer of the Month Program. Winners receive a check for \$500, payable to the organization for which the winner volunteers.

Most matching gifts traditionally have gone to educational institutions, but the door is opening to include cultural, health-related, and social service groups. Many experts see this area of giving as a *rich, largely undiscovered resource*, just waiting to be tapped. It's particularly attractive to employers who want to extend their philanthropy to communities beyond headquarter locations.

Though the potential is great, there are challenges. Contributions must be solicited through the employee. This should be done on an ongoing basis, through regular communications with members, contributors, directors, volunteers, clients, customers, everyone associated with your organization.

A few additional clues:

- Get a list of matching gift companies from the Council for Advancement and Support of Education (see Chapter 8, Print Resources). Localize to your community.
- Print a brochure or other listing of local matching gift companies. Distribute to potential donors.
- Promote matching gifts at every opportunity, e.g., newsletter, direct mail, phone-a-thon.
- Acknowledge gifts to both the employee and company.
- Keep accurate records of gifts—pledged, received and outstanding.
- Send a gentle reminder if the gift isn't received within a reasonable time period. Everyone makes mistakes.

There are occasions when you should contact the company directly: to initiate a program; to expand an existing program to include your organization; to encourage increased company participation through a change in giving ratios.

Annual Giving

Every organization needs a *core of loyal supporters* who can be counted on for a gift every year. These givers usually are developed over a period of years and include individuals and companies.

Once a year, the contributor is sent a personal letter requesting a pledge for a specified amount. The pledge may be paid in a lump sum or in payments. Thank you letters are personalized and signed by the board president. Regular contact is maintained to keep donors informed of the organization's activities and need for continuing support.

If a gift is substantial, the contributor may be honored with a special award. Inexpensive, creative reminders of the nonprofit's purpose often are the most valued.

Organizations differ on what constitutes an annual campaign and the best time to solicit, but there are some basics to remember:

- Set a fundraising goal and collection deadlines based on your annual budget.
- Review donor records to determine if and how much pledge requests should be raised over the preceding year.
- Don't take anyone for granted. Thank contributors for their past support and explain why you still need them.
- Add new prospects to your list regularly. Possibilities include directors, other contributors, corporate and business contacts. Ask community and religious leaders, bankers, and estate attorneys for recommendations.
- Maintain regular contact with contributors through newsletters, annual reports, progress reports, invitations to special events, phone calls, and personal visits.
- Remember that everyone is a potential major giver. An annual pledge of \$10 monthly is \$120 per year.

Memorial

Many nonprofits benefit from the custom of *honoring a friend or loved one* with a memorial (deceased) or tribute (living) contribution. Though not a mainstay of support, these gifts provide unrestricted income and increased community visibility.

Memorial and tribute donations can be solicited, indirectly, through reminders in newsletters and other regular communications with members and friends, and in informational or fundraising brochures. *Suggest occasions* for making tribute gifts, e.g., birthday, anniversary, retirement.

Send acknowledgements to both the contributor and the person or family of the person in whose name the gift has been made. Some organizations also publish memorials and tributes in newsletters or annual contributor reports. Major memorial gifts can be recognized by naming a special fund, room or section of the building in their honor.

Planned Giving

Where there's a will, there's a payday

As noted earlier, 7% of all charitable giving in America comes from bequests—gifts received at a donor's death. This is more money than either corporate donations (5%) or foundation grants (5%). And many experts feel it *will be much higher*—most Americans still die without a will.

Many nonprofits avoid the area of bequests and other planned gifts due to fears of high costs and the loss of regular contributions needed for daily operations.

Though a planned giving program can be *costly* to implement, experience shows it more than pays for itself for most organizations. Rather than siphoning off regular donations, it *encourages increased giving*, for the present and the future. It helps build a solid financial base, decreasing vulnerability to prevailing economic winds. Thus it should be part of every serious development program.

Stated simply, planned giving is the making of charitable gifts through wills, trusts, gift annuities, life insurance, securities, and real estate. Though sometimes called deferred giving, not all planned gifts are deferred. A brief description of the best known planned gifts follows.

<i>Bequest</i>	A gift made to a charity through a donor's will.
<i>Life Insurance</i>	In addition to death benefits, a nonprofit can be assigned annual policy dividends, annuity payments, maturing endowments, and cash surrenders.
<i>Charitable Trust</i>	Money or property given in trust to a charitable organization, in return for tax benefits and a fixed dollar or percentage income for the donor's lifetime, or as otherwise specified. Trusts can be short-term, and are irrevocable for the term of the trust. All have the potential for producing regular income for the nonprofit, over and above the amount reserved for the donor.
<i>Charitable Gift Annuity</i>	Cash or securities given in exchange for a fixed amount of annual income and tax benefits.
<i>Pooled Income Fund</i>	A trust formed with assets from several different donors. Each receives a pro rata share of income based on amount given.
<i>Life Estate Contract</i>	Real estate donated in return for tax advantages and the lifetime use of property by the donor.
<i>Securities</i>	Stocks and bonds donated outright in favor of reduced taxes.

These planned gifts may sound alike, but there are distinct differences between them, and complex variations within categories. Each type of gift offers special advantages based on tax laws and donor needs.

This is where cost enters in. A comprehensive planned giving program *requires expertise* in estate planning and law, taxes and investments. It's advisable to have a staff person just to solicit and manage planned gifts. This is in addition to a development director.

A planned giving program can be initiated on a smaller scale, by the organization director and volunteer experts. In time, with strong board of director support, you can have a full scale program. Any planned giving program will take from three to five years to show significant results.

Begin with research. Get all the facts and figures and sell the idea to your directors. Then develop a marketing plan, keeping in mind the following clues:

- Survey present contributors to establish a general donor profile. Most planned givers come from the top three percent of regular donors, but there are exceptions. A small contributor may be rich in property or securities, and thus a prime prospect. These and similar considerations should determine what kinds of gifts your donors are most likely to give. Solicit accordingly.
- Promote the idea of planned giving. Stress the importance of will and estate planning in your newsletter. Follow up with articles about the planning services you offer, changes in tax laws, and other giving updates. Announce important gifts received.
- Solicit regular contributors—your prime prospects—through direct mail, special fundraising newsletters and brochures, telephone calls, and personal visits.
- Periodically contact local life underwriters and estate attorneys. Remind them of your willingness and ability to help solve their clients' estate planning needs.
- Offer will and estate planning workshops. If individualized attention seems appropriate, suggest personal consultation, including visits to the home or attorney's office.

- Once an individual becomes a planned giver, maintain regular communication. Recognize special contributors through an annual dinner or other social event.
- Publicize significant gifts through news releases, with donor permission.
- Cultivate associations with planned giving experts such as attorneys, financial trust officers, investment brokers, CPA's, tax specialists, and insurance underwriters. Most willingly share general information, if you don't ask too often.
- Be smart about investments. If you lack expertise, get it from paid or volunteer consultants. Trust management can be arranged through a financial institution or management firm.
- Never underestimate a donor's potential. Many regular contributors, large and small, can give now for the present and future. Show them how to do it to your mutual benefit, and they're likely to share the good news with friends, thus creating new prospects.

Because planned giving is such a vast, complex resource area, it's imperative that you do extensive research before starting a program. A good place to start is Robert F. Sharpe's **Planned Giving Idea Book** (see Chapter 8, Print Resources). With patience, persistence, and planning, you'll be rewarded with a substantial payoff.

Endowment Foundation

The gift that never stops giving

Some nonprofits take planned giving one step further and establish their own internal endowment or foundation. Large and small contributions are pooled into a single fund and invested—ensuring permanent interest income. Some also use a portion of the principal.

Growing numbers of nonprofits are developing such funds. Donors enjoy knowing they're *helping to perpetuate* a favorite charity. Organizations gain important protections against the loss of funding in certain government contractual agreements.

Like planned giving, the creation of an endowment or foundation involves complex legal and financial issues. It should be undertaken only after extensive research and planning.

Grant

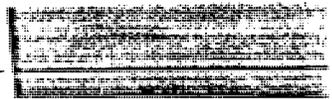
The munificent obsession

Somewhere in America, some time ago, someone must have started the rumor that grants are the solution to every nonprofit money problem... because many nonprofits allocate a disproportionate amount of time and money chasing grants, when they should be pursuing renewable resources.

True, a few grants are renewable, and grants play a vital role in the funding of America's nonprofits. But they can't possibly live up to everyone's expectations. And they *aren't easy money*. The competition is getting tougher, the criteria more explicit, and grantors more discerning.

Still, there's a time and place for grant solicitation. To discover what that is, it's essential to understand grants and their purposes. A grant is money given in return for action promised. A grantor agrees to give a specified amount only on the condition that the nonprofit use it for a designated purpose. Though names and descriptions vary, a brief summary of the most commonly known grant types follows:

<i>Capital</i>	Usually made to established organizations to meet future service demands. Includes funding for land acquisition, building construction, and equipment purchase.
<i>Challenge/matching</i>	The pledge of a specified sum, to be paid only if the nonprofit raises an equal or otherwise designated amount.
<i>Conditional</i>	Similar to a challenge grant, but the grantee must satisfy some condition other than matching funds.
<i>Earmarked</i>	Grant made to a third party for use by a nonprofit just getting organized and that has applied for 501(c)(3) tax-exempt status. Allows the grantor to meet contributions requirements, and still help an organization it believes in.
<i>Endowment</i>	Funds donated for investment to provide a nonprofit with regular income.
<i>Funding crisis</i>	A number of grants to assist nonprofits experiencing unexpected or temporary financial problems, including: cash reserve, debt reduction, and emergency grants.
<i>General support/unrestricted</i>	The most liberal of grants, funds may be used for a broad range of organization needs, including general operating—usually at the recipient's discretion.
<i>Research</i>	Grants for medical, educational, and other types of research and associated research activities. Range from special projects to the construction of a research facility.
<i>Seed</i>	Start-up funding for a new program or organization. Sometimes renewable.
<i>Technical assistance</i>	Grant awarded to a nonprofit or to a third party to provide needed services (see Chapter 6, Services).
<i>Foundation</i>	<p>After deciding what kind of grant you need, discover where to get it. There are a number of possibilities. Though the best known grantmaker is the foundation, grants also are made by corporations, government and civic, service, and religious organizations. A brief outline of their basic characteristics follows.</p> <p>A foundation is a nonprofit organization created for the purpose of establishing or maintaining charitable, educational, religious, social, and other activities for the common good. Because foundations enjoy special tax privileges, they are required to donate at least five percent of the market value of their assets to charitable causes.</p> <p>It's important to note that there are various <i>types of foundations</i>. Know the differences before making a grant request. Though exact definitions vary, they basically are as follows:</p>
<i>Independent/family foundation</i>	Usually funded or endowed by a single source, such as an individual or family. Sometimes limits support to special purposes, such as the founder's designated cause or charity.
<i>Company foundation</i>	Funded by profit-making companies for the purpose of corporate giving. Often responsive to grant requests from organizations serving employee needs; research in company-related areas, and community projects located near company headquarters, plants, or branch offices. Typically give a large number of small grants.
<i>Community foundation</i>	Funded by gifts and bequests from many sources who want their contribution to benefit a particular city or region. Gifts may be restricted to a specific agency or field of service.



Operating foundation

Generally established by a nonprofit to fund its own programs. External grants are unusual.

For more information on foundations, visit the Foundation Center Collection in your area (see Chapter 8, Print Resources).

Corporation

Not all corporations have company foundations to channel their charitable giving. Even those that have foundations often reserve part of their gift dollars for direct allocation by the corporation.

The grantmaking *process differs* from company to company. In most cases, there is a contributions committee comprised of the chief executive officer and other senior management. It may meet monthly, quarterly, or annually. Some corporations give preference to organizations recommended by branch managers, or charities in which their employees are actively involved. Learn who does the staff work and ask for criteria and deadlines.

The Conference Board publishes an annual survey of corporate contributions (see Chapter 8, Print Resources).

Community Organization

Civic, service, and religious organizations are good prospects for *small grants* for ongoing programs or special projects. Jaycees, Junior League, Rotary, and auxiliaries are prominent examples. Contact usually is made through the local president or other leader, though some requests may be referred to state or national funding levels. Most likely to be funded are programs that provide for a well-known, shared, community need.

Government

Despite periodic changes in funding policy, *government is still big business*. Government continues to make grants—large and small—to nonprofits with creative ideas and aggressive follow-through. Though the emphasis may shift from federal to state or local offices, public funding is available for those interested enough to track it down.

Bank Trust Departments

Banks and other financial institutions manage an impressive number of *trust funds* of all sizes. In some cases, the investment income is pre-designated for a specific purpose. In others, there may be more freedom for disseminating to charitable causes.

The decision making process differs, but typically includes the donor, family members, and perhaps, a trust officer. A phone call or visit to various trust officers should result in a listing of trust funds and eligibility requirements.

The Grantseeking Process

Learn as much as possible about grants and grantmakers to increase your opportunities for success. They vary almost as much as grantseekers do. Some discovery clues follow:

- Research potential grantmakers thoroughly. Use the library, chamber of commerce, local business and organization directories, yellow pages, government development and program offices. Put your ingenuity to work.
- Regularly review grant publications and periodicals. The **Foundation Directory** lists foundations according to preferred grant categories (capital, general operating, research) and special interests (art, education, health). The **Foundation Index Bimonthly** provides updates on current giving. The **Federal Register** and other government publications announce available grants and application requirements. These should be in the public library.

- Request an annual report and funding guidelines. Review interests and requirements. Note special restrictions and application deadlines and procedures. List the best prospects.
- Make an informal inquiry, by letter or phone, to the top prospects. Briefly describe your organization and need. Offer to send a formal funding proposal. Schedule a preliminary meeting to discuss proposal basics.
- Be realistic about the amount you request. It enhances your credibility and chance for success.
- Be aware that some grantmakers *expect* to be consulted in the early stages of project planning. This is particularly true of major project sponsors.
- Keep trying. If at first you don't succeed, go to the next grantmaker on the list. Some projects require multiple grants, thus simultaneous submissions to several grantmakers. Most funders appreciate knowing about all outstanding proposals.
- Don't limit yourself to local funding sources. If your proposal is unique, or of national significance, approach major, national grantmakers.
- Send proposals only to grantmakers expressing an interest in the project. Grant applications greatly exceed available funds and staff review capability. Repeated submissions of inappropriate requests may cause reviewers to pass over your proposals for those they know to be on target.
- Consider sharing a grant with another nonprofit. Grantmakers have long joined together to fund community projects. Creative nonprofits are gaining their support by doing the same.

Example:

Five cultural nonprofits on Pittsburgh's Northside secured a single grant from Mellon Bank to publish a cooperative inter-institutional brochure promoting educational tours to neighboring facilities. Institutions were individually highlighted, while the overall theme stressed the value of five learning experiences within close proximity. As a result, the single brochure was less expensive, and more effective, than individual ones would have been.

- Get to know the people who make the decisions and let them get to know you.

Good research, followed by a good proposal, will gain you consideration. A great proposal may get you the grant. There are numerous books explaining how to write a grant proposal. *Read several.* Use them for reference, along with grantmaker guidelines, as you prepare your request. Though criteria vary, most grantmakers expect a proposal to include the following:

Cover letter

Proposal Summary (Abstract)

Limit to one page and include the amount requested, total budget, project purpose, and planned results.

Introduction to Organization

History, general purpose, goals and objectives, accomplishments, service area, and population served.

Statement of Problem or Need

Project Goals and Objectives

Staffing Requirements

Job description, personal resumes, recruitment and training plans.

Implementation Method and Schedule

Evaluation Criteria and Procedures

Itemized Budget

Program and operating costs, other sources of funding.

Future Funding Plans

Appendix

Support documents, including tax-exempt status letter, board of directors listing, annual report, current operating budget, audited financial statement, recent and current funding sources (cash and in-kind), and community support letters.

Despite the volume of information required, keep the proposal *brief and to the point*. Don't beg. You have a legitimate need, prove it. Grantmakers want to know how their money will benefit the community, economy, and their special interests. Tell them in as *concrete terms* as possible. If you have an emotional story to tell, do it in the appendix, or on a follow-up visit.

Submission of the proposal is not the end of your involvement. There are several ways to remain active in the grantmaking process and enhance your chances for this and future grants.

- Two to four weeks after submitting a proposal, follow up with a phone call to confirm its arrival. Offer additional materials in support of the project. Arrange a personal visit to the grantmaker for further discussion. Invite the grantmaker to visit the site of the proposed project.
- Many corporation and foundation grant decisions are made by a board of directors or contributions committee. Learn when they're meeting and call the day before to provide additional last minute details.
- Grant decisions can take from a few weeks to more than a year. Plan accordingly and be patient, but persistent, in checking your proposal's progress.
- Upon acceptance, remember to say thank you. Also send regular progress reports on the project and other major activities. Keep grantmakers informed of your continuing success.
- Acknowledge rejections with a thank you (for consideration).
- Keep detailed records of all grant activities, including contacts and payments. Make an activity schedule for report deadlines and follow-up calls. This is particularly important for campaigns of long duration, such as capital fund drives.

Program-Related Investment *Getting credit for your good work*

The next best thing to an outright grant is a program-related investment (PRI). Stated simply, a PRI is an equity investment, loan, or loan guarantee made by a foundation to serve a charitable purpose. It is sometimes called a *social investment*. Unlike grants, *PRI's must be repaid*, sometimes with the addition of a low interest rate.

Though PRI's vary by type and complexity, a majority support low-income and minority community development programs. Others include temporary advances to educational or cultural institutions for projects expected to become self-supporting, and the purchase of stock in a for-profit business that uses the money for charitable purposes. PRI's often are used to leverage broad-based community support for projects that otherwise might seem too risky for a single funder's involvement.

Strict regulations govern the making of PRI's. Foundations must prove that the money is being used only for a charitable purpose, and that the recipient could not have secured funding through normal financial sources. Despite this and other complications—and the risk of non-repayment—increasing numbers of foundations are making PRI's.

Before requesting this type of support, get all the facts. Start with the Ford Foundation, a PRI pioneer, and the Cooperative Assistance Fund, a PRI funding pool formed by several foundations (see Chapter 8, Print Resources).

Special Event

One for the money; two for the show

Overrated, underrated—special events have the distinction of being both. Overrated because they don't magically produce a year's operating budget at the flick of a wrist. Special events are *hard work*, even when they fail. Underrated because they offer much more than money. Community visibility and involvement, new donor prospects—special events have the *potential* to keep you in the public's eye and budget.

Thus, with the increasingly competitive nature of nonprofit fundraising, no organization can afford to ignore special events. The challenge is to find the right event—and the possibilities are unlimited. Art shows, athletic events, auctions, bazaars, benefit performances, bingo, celebrity events, cocktail parties, dances, dinners, excursions, flea markets, galas, holiday events—through every letter of the alphabet there are countless ideas.

Choosing the right event(s) is just the beginning. You also need *dedicated volunteers*, at least a minimal operating/promotional budget, and good organization. Hard work isn't enough. Creativity, timing, even the weather can make the difference in success or failure.

Therefore, it pays to do thorough research and planning before undertaking any special event. The place to start is **The Grass Roots Fundraising Book** by Joan Flanagan (see Chapter 8, Print Resources). It offers everything from creative ideas to planning and execution details. You might also want to remember the following clues:

- Allow plenty of lead time for planning and developing community support. Too many great ideas fail due to poor timing and organization. A year in advance isn't too soon to start on major events.
- Be creative. Choose an event that relates to your good work. Or, take advantage of current events. Caution: you need strong organizational skills and volunteer support to cash in on "in" events.
- Develop a budget and planning schedule—and stick to them. Keep detailed records of contacts, expenses, and receipts.
- Recruit volunteers to form a central planning committee. Get them to ask friends to serve as workers.

- Seek broad-based community support. This can vary, depending on the event, but there are numerous ways to involve students, businesses, employee groups, and civic organizations. Ask them to be sponsors, participants, underwriters. The March of Dimes uses all these methods to raise over \$275,000 annually in their Greater Pittsburgh Walkathons.
- Annualize your most successful event. Turn it into a major fundraiser.
- Ask community groups to sponsor special events for you. One extremely successful example is Pittsburgh's Children's Hospital. Countless individuals, businesses, and community groups try to out-do one another year after year—raising millions of dollars annually through creative, fun, grass roots events. However, this type of support doesn't happen overnight, nor in a year. It takes years of ongoing awareness and development effort.
- Publicize the event through members, volunteers, everyone connected with your organization, and the general public. Use posters; flyers; bulletin board notices; announcements in newsletters and employee/civic group publications, and on school public address systems; public service announcements on radio, television and cable TV stations; feature stories in local papers, and other standard promotional methods. Ask for pro bono service from advertising and public relations firms.
- Include time for fun in your planning. Though most people participate for the cause, they're more likely to help again if they've had a good time.
- Show appreciation. Consider rewarding workers and top money raisers with inexpensive mementos of the event, such as a t-shirt. Some 500 volunteer harvesters are sporting colorful t-shirts provided by Mellon Bank which claim "I know how to pick 'em" at The Great Tomato Patch, a project which yielded 70 tons of produce for the Greater Pittsburgh Community Food Bank. Some nonprofits award more valuable prizes to top money-makers.
- Learn from your mistakes—and successes. Evaluate each event according to timing, visibility, cost, and financial gain. Determine how to do it better the next time. Get rid of events that consistently lose money, or bring too little return for the effort.

This concludes the outline of primary money resources. But it should be just the beginning of your discovery. As noted earlier, *everyone has money*. The nonprofit community hasn't begun to reach everyone, nor even potential major givers. It is for you to develop these and other resources to meet your organization's financial needs.

As you progress, keep in mind the following major points:

- *Know your organization*—who you are, what you do, why you're needed and what you need.
- *Know potential funders*—who they are, why they give and what they expect in return.
- *Be creative and organized*. Neither excels alone, but great ideas supported by thorough planning rarely fail.
- *Learn to share*—ideas, techniques, solutions to mutual problems.
- Remember that institutions, companies, other organizations don't give money; people in them *do*. Don't neglect the personal touches.

The final, most important, point is this: money isn't everything. For long term success, you must *integrate financial resources with other community resources*—people, goods, and services—into a program that makes the most of total resources.





Access to Respite Care and Help
 ARCH National Resource Center Coordinating Office
 Chapel Hill Training-Outreach Project, 800 Eastowne Drive, Suite 105, Chapel Hill, NC 27514
 Phone: 1-800-473-1727 or (919) 490-5577; FAX: (919) 490-4905
 Human Services InterNet/SpecialNet Username: NC.CHOUTREACH

Marketing for Charitable Nonprofit Organizations

uring the last decade, competition between charitable nonprofits for diminishing financial resources has inspired them to embrace new skills that will improve their fundraising ability while also serving their constituents better.

Although fundraising results are tied to the capacity to communicate to donors and persuade them to give, they are also tied strongly to functions that occur much earlier than the actual request for funds. In particular, they are tied to the level of satisfaction with the organization's services that is expressed by its primary constituents, i.e. those served by the organization's mission. A philanthropy positions itself best to compete for all kinds of support, including funds, by doing the following:

- carefully defining who its constituents are;
- measuring the needs of its constituents;
- designing programs to suit those needs;
- measuring the constituents' satisfaction with those programs;
- using those results to fine tune its services regularly; and,
- communicating the above to potential donors (and others) clearly and simply.

This process is easily recognizable in the commercial business setting; it is called marketing. Transferral of marketing principles to the nonprofit community happened about 1975 when business marketing genius Philip Kotler wrote *Marketing for Nonprofits*.

Definition

Kotler defines marketing as the *analysis, planning, implementation, and control* of a charitable nonprofit's programs, which have been carefully designed to bring about voluntary *exchanges of values* with target markets for the purpose of achieving organizational objectives.

Application to Operations

Let's examine that definition in segments.

Management

Analysis, planning, implementation, and control are managerial functions performed by the board and staff (usually through a strategic planning process) for a term of year. [Note: See Factsheet 8 for more information on strategic planning.] The group first measures the needs of its primary constituents (clients, users, etc.) and then designs (or redesigns, or reaffirms) services to suit those needs. Asking focus groups of constituents regularly to review programs and react to them is the charitable nonprofit world's version of market testing. It is a variation of what happens when you walk through a shopping mall and someone asks to you drink a sample of orange juice and react to the taste, color, consistency, and smell of the product. *The ability of a charitable nonprofit organization continually to adjust its services to suit client need is key to ensuring the organization's survival and its financial support. Tip: The existence of a Market Evaluation Committee within the board is a sure sign that the organization is seeking a maximum fit between programs and constituent need. Potential funders look for that sign.*

Exchange

The organization and the constituent each seek something from each other. The constituent needs specific services. The charitable nonprofit has two needs: (1) maximum use of its service so as to justify its existence; (2) financial resources. Each voluntarily seeks a response from the other, and when those responses happen, it is called an exchange of values, or a *market exchange*.

So there are really *two* kinds of market exchanges that result from the aforementioned management processes: (1) enhanced appreciation and use of programs and (2) financial support.

To focus on the second exchange, financial support, let us acknowledge that there are really *two sources* of financial support: (a) donations from those who actually *use* the programs, and (b) *contributions* from others who approve of the programs and who want to facilitate that exchange with their own money on behalf of the constituents.

LEGAL AND INVESTMENT CONSIDERATIONS IN ESTABLISHING AN ENDOWMENT

Some issues currently being explored in Mali as part of identification of variables/options in planning a Malian foundation for NGO support (likely to include an endowment element):

Legal climate

Identify relevant sections of Malian law, regulation, and practice bearing on the several endowment and institutional forms (capital fund, trust fund, free-standing institution). Specifically:

- (1) What institutional forms are available in Mali for an endowment? (for example, does prevailing law in Mali recognize the juridical form of "fidéicomis"?)
- (2) What are the tax and regulatory implications of the different endowment forms with respect to:
 - endowment assets (e.g., is there tax exemption or abatement? can the endowment assets include real estate? can it have foreign investments?)
 - endowment receipts (e.g., what are the relevant laws/regulations governing gifts to associations? are endowment earnings taxable?)
 - endowment disbursements (e.g., are endowment payouts taxable at any point?)
 - endowment management (e.g., are trustees "fiduciaires" or "dépositaires") subject to regulatory or judicial oversight?
- (3) Is there a process (and precedent) for a special act of the "Assemblée Nationale" to create a special institution for the proposed endowment? What are the advantages and disadvantages of such an "institution-by-decree" in Mali?

Investment Climate

- (1) Does the Government of Mali have an officially sanctioned debt-swap or debt-exchange program? What are its terms and procedures?
- (2) What, overall, is the range of options for investments that can be accessed directly in Mali? For example, is there any level of a stock exchange? What is the structure and practice, accessible in Mali, for trading in "paper" (government or parastatal bonds, bank bonds, certificates of deposit, mortgages, commercial paper, etc.)?

What is the structure and practice, accessible in Mali, for trading in equities?

What are the leading firms that engage in brokerage or arbitrage (whether local or international investments)?
- (3) Is there a legal regulatory scheme affecting investment activities -- and actors -- in Mali?
- (4) Near-, medium- and long-term macro-factors likely to influence investment calculations for an endowment?

ORGANIZATIONAL CHARACTERISTICS OF SUSTAINABLE (AND ENDOWABLE) ORGANIZATIONS

- The programs or Mission must be seen as warranting a more or less "permanent" existence.
- The organization must have an acceptable level of competence and reliability:
 - of the board or trustees, for stewardship of the endowment; and
 - of the management team and systems:
 - financial management (management and accountability of diversified funding mix required for sustainability; cost controls; integration of planning, budgeting systems)
 - of its management information system (timeliness, pertinence of financial information as needed for management decisions) and
 - of its monitoring valuation system
- The organization must have (with its trustees and its management) a capacity and disposition for longer-term, strategic planning (program and financial) of which the endowment element is to be but a part.
- The organization should have several sources of income, to include:
 - income from its programs
 - donations from more than one area
- While "matching" endowment funding is not an absolute requirement, usually there should be some program and likelihood of future endowment growth. This could be through recapitalization of earnings as well as "natural" growth from other donors or other income sources.

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GLOSSARY OF ENDOWMENT TERMS

Campaign

In fundraising, a special effort to raise a particular amount of money in a specific amount of time for a designated purpose.

Capitalization of Earnings

Reinvesting the interest and dividends earned by the endowment fund rather than paying them out to the NPO.

Cause-Related Marketing

A fundraising process wherein a commercial business and a charity form an alliance to benefit each other resulting in higher profits going to the business and greater contributions going to the charity. The charity allows its good name to be attached to the advertising of the business; the business increases the price on a particular product and remits the excess to the charity. Today, more than 60% of all corporate contributions are cause-related as opposed to the traditional corporate gift.

Charity

A particular class of nonprofit organization that operates for the benefit of the general public under Section 501 (c)(3) of the IRS Code. Contributions to organizations in this category are tax deductible.

Note: "Nonprofit organization" and "charity" are often used interchangeably in common parlance but, in fact, should be separate. All charities are nonprofit, but all nonprofit are not charities.

Corpus

Funds comprising the endowment

Development Committee

A committee of the board of directors which oversees and assists in strategic planning, financial management, and fundraising.

Direct Gift

Funds given to an organization for immediate use.

Directors' and Officers' Liability Insurance

A specialized insurance policy bought by nonprofit organizations which indemnifies its board members against claims of negligence or wrong doing.

Endowment

A gift that is invested to provide income, which is either retained to allow the gift to grow or is used to support the organizations' programs and/or administration.

Types of Endowment

True Endowments contain provisions prohibiting the principal from being spent.

Quasi-Endowments are treated as an endowment, but are not subject to legal prohibitions against spending.

Term endowments fund with provisions that state the principal can be spent at a prespecified time.

Forms of Endowment

Capital Fund is typically managed by the fund's institutional beneficiary. Generates several streams of revenue for the organization.

Trust Fund is managed by independent trustees, or by the trust department of a bank. The trustees pay out earnings to the beneficiary in accordance with the terms of the trust and pursuant to the laws of the country concerning roles of fiduciaries.

Fiduciary Responsibility

A legal responsibility of the board of directors and certain staff to oversee the use of funds in accordance with accepted standards of the nonprofit management field.

Marketing

The process of assessing the needs of a constituency and designing programs as a response to those needs.

Mission

The central work of a nonprofit organization.

Nonprofit Organization

A broad class of organizations that operate for the benefit of the general public under Section 501 (c) of the Internal Revenue Code. Not all contributions to the 21 subgroups in this class are tax deductible.

Non Program Funds

Funds expended or received for the administrative or fundraising side of the organization.

Program Funds

Funds expended or received for the charitable mission or "programs" of the organization.

Related Business Income

Non-taxable income of a non-profit organization from a mission-related venture of the organization.

Restricted Funds

A pool of funds that is held separately from other funds for specific use designated by either a donor or the board of directors.

Seed Money

Funds received or expended for the purpose of starting a program, usually experimental.

Tangible Property

In fundraising, property other than real estate, such as art objects, automobile collections, racehorses, table china, book collections, jewelry, etc.

Unrelated Business Income

Taxable income of non-profit organization which comes from a commercial business owned by the organization.

Unrestricted Funds

A pool of funds in a nonprofit organization that the board of directors may allocate for the organization's work without designation.

ORGANIZING YOUR RESOURCES

HOW TO RAISE FUNDS

"Money makes the world go round", as the saying goes. For consumer organizations this is equally true, and more. Knowing what money there is allows them to plan ahead.

There are four main sources of income for consumer organizations: (1) membership fees, (2) sale of its publications and other products (for instance posters, T-shirts) which carry messages related to the work of the organization, (3) direct public appeals and (4) grants from appropriate donor organizations.

It is possible for the source of funding to distort the independence of the consumer organization. So consumer groups cannot be too careful about taking money from those who might influence the organization's impartiality, independence or freedom from bias.

Ways to fundraise are many. The choice of which method or methods to use depends largely on what kinds of acceptable potential donors there are – foundations, a charity-minded middle class, a general public that can make small but widespread donations – as well as the ability of the organization to provide the number of people and the money needed for the fundraising activities.

Membership fees

Membership fees and pledges – based on members' ability to pay so that those on tight budgets aren't barred from your organization – are the most obvious sources of revenue.

A decision about the importance of fees is critical in determining what the membership will be. Some groups regard fees as the 'backbone' of the organization. These groups establish membership fees based on minimal operating needs. Other groups see fees as a way of bringing in additional support, and receive their main support through grants and the organizing of fundraising events.

Types of membership fees:

- flat fee – based on anticipated expenses divided by the projected number of paying members

Basic principles of fundraising

- **Ask for contributions**
Money is rarely given without being asked for. Volunteers and staff involved in fundraising have to be prepared to ask for contributions.
- **Get sufficient people to help**
Whether volunteers or staff, there must be sufficient people to undertake and carry out successfully the requirements of a fundraising campaign.
- **Communicate the need and the programme**
People who give want to be assured that their money is going to meet a need that is important, and to an organization that is effective.
- **Select the target-donors carefully**
Volunteers and staff are too scarce and too valuable to waste in widespread and largely useless efforts. Too many rejections and no answers discourage fundraisers.
- **Know what is needed**
If fundraisers don't know how much money is needed to run the kind of programme the organization requires, don't expect prospective donors to know.
- **Be specific**
Know the overall goal; but let the prospective donors know how much of that goal they are expected to meet. Vague requests for money tend to get routine contributions. Set a definite sum to be raised.

- **Be persistent**

If the campaign is addressed to the general public, plan the campaign to run over a sufficient period to get the appeal across.

If an appeal is addressed to an individual donor, remember that people get a lot of mail, telephone calls and even visits, and the best fundraising solicitation may get lost unless it is followed up effectively.

- **Fundraising knows no season**

Keep the organization and its fundraising campaign in the public eye. Regular communications to the general public and to individual donors should be maintained throughout the year. If people have already contributed, these communications show them that the money is being well spent, and the way is paved for an increased contribution the following year. Most donor organizations on the other hand have a timetable for dealing with applications. Find out what the tables are.

- **Say 'thank you'**

When individual gifts do come, letters of thanks are a must, as personal and warm as possible. When a general fundraising campaign has been successful, announce it in the press or on radio/TV, and thank the public for their help.

- fees in kind – to prevent fees excluding people who cannot afford to pay, you might want to offer some kind of exchange, eg, volunteering a certain number of hours per month
- discounts – a special reduction in fees can be offered to specific population groups, eg, the elderly or unemployed
- sliding scale – set up a scale based on the ability to pay, or on scale benefits to be received

Promoting your magazine

This can be an effective way of increasing your income. For ways of doing this, see article 'How to promote your magazine'.

Direct appeals

- Mail appeals
- The despatch of a 'personalised' appeal to a list of potential generous donors. This should come from the President of the organization or from a senior volunteer or figure in public life.
- The despatch of an 'appeal' letter to selected groups of potential donors, eg, doctors, lawyers, schoolteachers. You can obtain mailing lists from community, church and other groups. Keep fundraising letters brief and to the point – usually no more than one page. It is helpful to have such letters signed by a prominent and popular national figure. Don't expect to get rich quickly. An exceptionally good return is \$2 for every \$1 spent.
- Personal appeals
This method is heavily dependent on the availability of volunteers and staff, but it is the best way of approaching a potential donor. Armed with the facts and convinced of the organization's case, the fundraiser's best chance of obtaining a donation is by a personal approach. In view of the expense in volunteer/staff time, this method should be used to approach those donors with the most to give. Remember that considerable preparation beforehand and follow-up will be required.

Fundraising events

Walkathons, fairs, donation parties. There are many ways of raising money. Not all are appropriate for every organization. Special events such as fairs and auctions are time-consuming and should be undertaken only if you are confident of a substantial return. Fundraising events should not be organized only for the sake of raising money. They should have the dual purpose of raising public awareness on a specific issue or on the range of issues on which you are working.

The major steps to take are:

- making a list of all the possible events you could organize
- choosing one or more of the ideas
- itemising costs of putting on the event

Outline of a fundraising campaign

Statement of the case

This should state:

- (a) the aims of the campaign;
- (b) what the problem is;
- (c) how much money is needed, and when;
- (d) what is being done and what will be done with the money raised.

The statement should be the official 'line' of the fundraising campaign. Campaign literature, request letters, slogans, presentations, etc. should follow this basic line.

Basic structure of the campaign

This should set out the structure of the fundraising committee. It should identify the volunteers and organizations which will support the campaign. The structure should also deal with the salaried staff involved in the campaign, and the relationship of this staff to the campaign committees and to the organization.

The target for the first year and thereafter

Fixing the target of money to be raised is very important. It should be realistic but should also provide a challenge. It should be high enough to attract prestigious leadership to the committee. Targets for subsequent years should also be set, provisionally, to be revised, based upon the first year's experience. Subsequent targets should be higher each year to acknowledge skills acquired and to meet growing needs.

Fundraising methods

The plan should outline the various methods of fundraising to be used, detailing the amounts to be raised by volunteers and staff through these methods.

Administrative and support requirements

This should indicate the number of volunteers and staff necessary, the office space, office equipment, campaign literature, travel requirements, supplies, etc. to carry out the campaign. Public information and media requirements should also be considered.

Special events

A listing of special events should be drawn up. These might include a campaign launching dinner; a charity ball; a fun fair; a membership drive; World Consumer Rights Day; special guest speakers; a TV appeal; a walk; a raffle; a poster campaign; a mail campaign; a sale, and so on.

Time schedule

A campaign calendar should spell out the timing of each aspect of the plan over the 12 months of the campaign. Public information and media requirements should also be considered.

The budget

A budget should be drawn up to include estimated campaign income; staff salaries; cost of supplies and equipment; cost of campaign literature, postage and travel costs.

Grants

Donors or funding agencies are organizations such as foundations, government departments, international agencies or churches that have money to finance

development or charitable activities. They receive their money from individuals or governments who give it for specific purposes

- setting an income goal
- preparing for the event
- post-event discussion

Examples of specific events

Jumble sales

Encourage the concept of reducing waste.

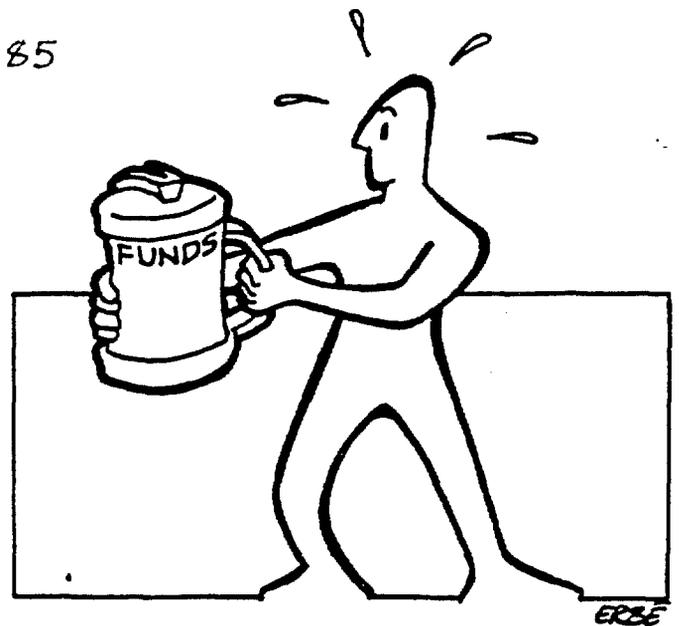
- Ask members and the public to contribute articles for the sale. Specify the type (and condition) of articles that are acceptable. You do not want to be a dump for junk and useless articles.
- Decide on the venue, for example school or a community centre. The location is important. If the people who are likely to come to such a jumble sale come from a certain section of the city, organize it there.
- Publicise the sale. State how the proceeds of the sale will be used. Concentrate the publicity in the area where you expect most interest.
- Have brochures on your organization available. Consider putting on an exhibition about your work.

Pot luck dinners

- Choose a date and assign each volunteer a dish. Themes, such as an international dinner, a picnic or a vegetarian meal are fun.
- Find a large meeting room with tables, chairs and running water. A church or school makes a good choice.
- Before the dinner, lay out the buffet table.
- Set up a ticket table at the door.
- Charge whatever is appropriate for your community and group.
- Prepare a simple programme consisting of a welcome and a short talk about what your organization does.
- Have members circulate and talk with guests. Also have membership forms available.

Donation parties

- Plan a theme such as a May Day celebration or an afternoon tea.
- Ask members to bring refreshments.
- Set a minimum donation such as \$5.
- Publicise the event throughout your organization and within the community by using posters and flyers.
- Have some form of entertainment if possible. This



may include a musical group, an interesting speaker or a fashion show.

- Stage a brief presentation about your organization and have literature available for people to read and discuss.

Auctions

- Select and get permission to use a site; a church or school hall is good.
- Contact everyone in your community for donations – florists, restaurants, car washes, bakeries, gift shops. Don't forget about individual donations such as ball game or concert tickets or a weekend at a private country cottage.
- Have form letters for each donor to fill in and sign.
- Keep detailed records of donors and bidders and arrange how items will be picked up or redeemed. Have a special table for redemption.
- Number all items and make lists of auction goods available to those attending.
- Start the bidding below market value for the item – you will clear money for your group and participants will get a good deal.
- Don't let the donor know the amount of the winning bid. Feelings can be hurt when a beloved item goes for only \$5!

Fairs

- Seek permission from local officials to use the grounds you have selected.
- Estimate the crowd you anticipate, the time of the event and plan a rubbish collection system.
- Plan the activities. These might include games, cake sales and refreshments.
- Have a large booth to display literature on your organization.
- Publicize the fair by distributing leaflets, posters, balloons or banners.
- Notify the local media and keep them informed.

This is why donors have specific requirements and conditions for granting money. Some can only give money for certain types of activities (eg, education), others only for certain kinds of beneficiaries (eg, the poorest, music students, children, etc.), others only for certain geographical areas (eg, the Third World, Asia, or specific countries).

Whenever possible try to have personal contact with donors: visit them, invite them to visit your organization, find people who know someone in a funding agency to introduce you, get names of people in funding agencies, get someone who knows a donor to submit your project proposal, get letters of referral from organizations that have been funded by the donor. When you write to a donor, personalise your letter if possible.

Donor research

If you are starting out and don't know any funding agencies yet, start by making a list.

- Write to embassies in your country asking for a list of donor agencies in their country.
- Write to international organizations, such as the United Nations, the Organization of Economic Cooperation and Development, the European Economic Community, for the same.
- Approach local churches and ask for the names and addresses of their international donors.
- Look up funding agencies in your local library.
- Ask other voluntary groups and organizations for names and addresses of donors.
- Ask your colleagues and friends.

Write to all the funding agencies you can, asking them for their funding criteria and areas of interest. Explain who you are and what kind of work you do. Send them a brochure or flyer about your organization.

Submitting a project proposal

You can submit the same project proposal to more than one donor. In fact, unless you are fairly sure that a particular donor will fund your project, it is advisable to send the proposal to several donors. In that case, tell them that you have sent the proposal to other donors too.

Send the project proposal with a covering letter in which you briefly introduce your organization and state the purpose of the project and the amount of

money you are asking for. If it is a large project, it is best to make it clear whether you are asking the donor to fund all or part of it. In the information that funding agencies send to enquirers they usually state their fields of interest as well as the maximum amount they can grant.

The first time that you apply to a particular donor it is helpful to attach with your project proposal any leaflet about your organization as well as reports on previous projects and, if possible, letters of referral or testimonials on previous projects your organization has done. Also enclose your latest annual report if available.

Project proposal

This is a document outlining the project and its costs in order to seek financial support from a funding agency (donor).

In order to get support you need to convince the donors that you are tackling a legitimate problem and that you can be successful. Therefore, explain:

- The issue or problem you are tackling and why.
- The goals you have set yourself.
- The methods you will use.
- The results you plan to achieve.
- Who is to benefit from the project.
- The structure of your group or organization.
- Why your group can and should carry out this project.
- What it will cost and how much you want the donor to give.

The way in which you present this information is important for convincing the donors. Be precise and clear.

Don't use too many words. Make it easy to understand the problem you are tackling and what you want to do.

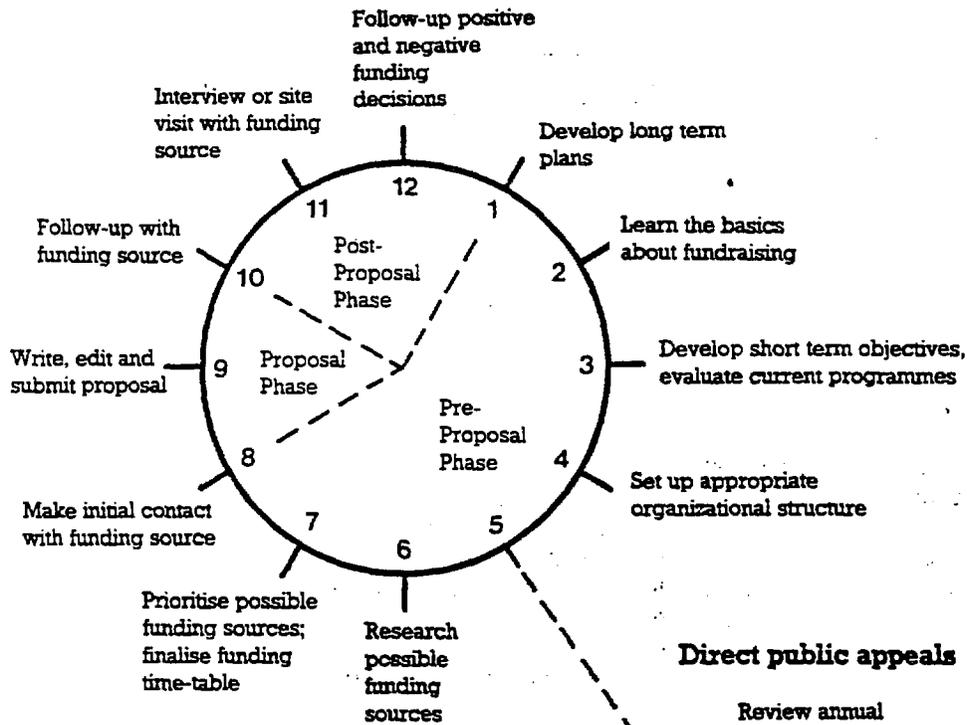
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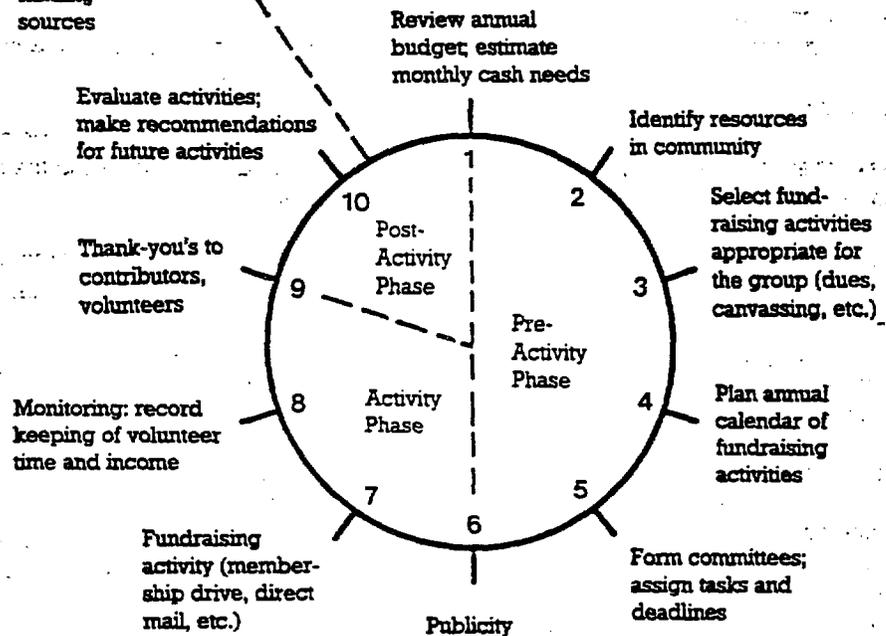
- Lecture notes, Young Consumer Leaders Workshop, Penang, 1985
- 'Fundraising' and 'Project Preparation', papers prepared by Jean-Pierre Allain, IOCU 12th World Congress, 1987.
- 'The Rich Get Richer and the Poor Write Proposals', by Nancy Mitiguy, CITP, 1978
- 'People Power', US Office of Consumer Affairs
- Notes on Fundraising, IPPF, London, 1977

Steps in the fundraising process

The grants process



Direct public appeals



Adapted from a model prepared by the Institute for Fundraising in California.

**WHAT DOES A FIRM CONSIDER
WHEN ASKED FOR SPONSORSHIP**

By Andrei Verbitsky, Soprichastnost Charity Foundation

1. The organization or project to which the firm will provide its name should not necessarily be national, large, or prestigious. It may be original, impressive, interesting, innovative, known etc.

2. The public expected to attend the sponsored action, or the constituents covered by the project, should be interesting for the firm as clients (their age, incomes, origin, occupation, social group, number are relevant), or as influential individuals.

3. The type of the project the firm is offered to sponsor should be interesting as a business opportunity.

4. The firm's potential benefits from sponsoring the action (the action initiators should make a list in advance):

- description of the public that would attend the action or that have contacts with the sponsored organization;

- how broad the publicity would be provided (appreciation to the sponsor in booklets, on posters, stickers, programs, ads; appreciation in the sponsored organization's annual report);

- what mass media would be involved; whether the firm's sponsorship would be covered;

- entertainments during the sponsored action (reception, good seats, cheap tickets for the firm's staff, etc.);

- whether special books, souvenirs, booklets, records will be made to remember the sponsor; when and how these will be distributed.

5. What funds are requested? How does this amount relate to the firm's budget, and how reasonable it is from the perspective of the sponsorship benefit to the firm? Is the amount sufficient for a good arrangement of the action?

SPONSORSHIP'S BENEFITS TO THE FIRM:

- publicity;
- the firm's improved image in the community and on the national scale;
- promotion of goods and services;
- media coverage;
- entertainment for the firm's employees, clients, customers, and partners;
- improved internal relations;
- improved relations with investors;
- involvement in the social activities and formation of the positive image in the community;
- access to a certain market;
- access to certain people;
- association with a high-quality or prestigious action;
- involvement of new employees;
- demonstration of the firm's social responsibility.

CHARITY SUMS

Profits tax: 38 percent

Profits: Rub 1,000,000

Tax: Rub 380,000

Donation: 3 percent of the non-taxable profits

Donation exempt from the profits tax: Rub 30,000

Tax on the 97 percent of the profits: Rub 368,600

Total (donation plus tax): Rub 398,600

The donor pays Rub 18,600 more

The gift of Rub 30,000 costs only Rub 18,600 to the firm (62%)!

Rub 11,400 are covered by the government that has provided exemption

APPROACHING THE FIRM

KEY STAGES OF EFFECTIVE FUNDRAISING

1. SELECTION OF POTENTIAL DONORS (seeking for possible meeting points).
2. PHONE CALL (before writing a letter) to identify the employee in charge of the requests to the firm. Try to learn as much as possible about this employee.
3. LETTER TO THE FIRM.
4. MEETING THE POTENTIAL DONOR
5. PRESENTATION AND DEMONSTRATION OF THE PROJECT/PROGRAM
6. OVERCOMING THE ARGUMENTS
7. REACHING AN AGREEMENT.
8. GETTING THE GIFT.
9. APPRECIATION.
10. EVALUATION, FOLLOW-UP AND LONG-TERM RELATIONS.

WHAT FORMS OF ADDRESS ARE MOST EFFECTIVE

(Increasingly)

1. Distribution of leaflets.
2. Promotion (campaign).
3. News item.
4. Booklet.
5. Newsletter.
6. Xeroxed letter ¹
7. Typed letter.
8. Hand-written letter.
9. Phone talk.
10. Address to a large group.
11. Address to a small group.
12. A person-to-person discussion (personal request).

¹ The targeted distribution to selected and carefully identified addressees is several times more effective than the unselected distribution.

APPROACHING A FIRM (continued)**MEETING A POTENTIAL DONOR**A clearly-defined objective for every meeting:

- to assess the potential donor, obtain the necessary information or get the immediate consent to make a gift.

The best time for a contact:

- at certain times many potential donors can be busy, or they would not have available funds.

Positive and good relations from the start:

- greetings, appreciation for the meeting, positive assessment of the firm's activity, expressing hope that the meeting will be interesting, useful and beneficial to the potential donor.

KEY WORDS:

NOT I OR MYSELF BUT YOU AND YOURSELF!!!

Presenting the project:

- attract attention: use visual materials, such as booklets, charts, models, slides, albums, videos, tables. (The project should be on the table to be seen and touched);

- keep attention: focus on the aspects that can be useful or beneficial for the potential donor; - appeal for action.

Overcoming the objections

- ask your vis-a-vis to clarify the objections;
 - ask questions in such a way that your vis-a-vis would answer his own arguments;
 - try to disprove the objection or turn it into another argument in favor of the gift.

Reaching the agreement:

- say that the potential donor's partners has supported the project (It is useful to have the subscription list!!!);

- ask for a gift directly;
- repeat the key items of the project and possible agreement;
- ask which part of the project/program the potential donor is prepared to support;
- suggest that the donor would make a minor choice (e.g., choose the color of the rug for the playroom, or the model of a TV set for the rehabilitation center);
- discuss the terms and form of appreciation for the gift (how to provide publicity, where to put the poster stating the donor's support of the project, etc.).

**PRESENTATION AND DEMONSTRATION
OF THE PROJECT/PROGRAM**

While speaking about the project and its merits, it is necessary to focus on the aspects that could be useful or beneficial to the potential donor.

DURING THE TALK ONE SHOULD:

- attract attention
- keep interest;
- inspire the wish to participate in the project;
- call for action.

Types of Presentation:

The "rehearsed" method

- the outline of the story are learned by heart. This method is mostly used in the presentations made by phone.

Approach from the potential donor's needs and requirements

first, the potential donor's needs and requirements are identified, then they are worded by the fund-raiser, and the ability of the project/program to meet these needs and motivations is demonstrated; the fund-raiser involves the vis-a-vis into the discussion, makes him/her speak, then expresses the other's needs, motivations, and relations.

The approach to satisfy the potential donor's needs and requirements

- the fund-raiser gets into the potential donor's affairs, outlines the key problems and recommends their solution through participation in the project/program, sometimes in other charities' projects and programs; it is necessary to prove to the potential donor what long-term benefits he can get by participating in the project/program.

Visual materials should be used:

brochures	models	albums
booklets		videos
charts	slides	tables.

"The project should be on the table to be seen and touched."

6

ALTERNATIVE FINANCING STRATEGIES
FOR NGOS

by Fernand Vincent and Piers Campbell.

ALTERNATIVE FINANCING STRATEGIES FOR NGOS

Introduction

Most non-governmental organizations¹ (NGOs) and development associations in the South work on the principle that they should be promoting, and supporting, the self-reliant efforts of local communities to take charge of their own development.

Financial self-sufficiency is, therefore, one of the basic concepts in development today and virtually everybody pays lip-service to its importance.

But reality is very different. Despite several decades of development, Southern NGOs and community associations are largely, if not entirely, dependent on external aid from the North.

This contradiction cannot continue much longer. Yet few organizations, whether they are from the North or from the South, are really prepared to consider how, in very practical terms, NGOs can become genuinely self-sufficient.

The Underlying Model

The main purpose of this paper is to present an alternative financing model² for Third World³ NGOs. The model is based on two essential components:

- * The creation of a capital reserve fund which can generate, through interest earned on investments, enough money to cover the core budget.

/...

¹Non-profit organizations are generally known in the Third World as NGOs. Other variations are: non-governmental development organizations, voluntary agencies and voluntary development organizations. The term "Private Voluntary Organization" (PVO) is mainly used in the United States.

²This paper is based on a recent publication entitled "Towards Greater Financial Autonomy: A Manual on Financing Strategies and Techniques for Development NGOs and Community Organizations" by Fernand Vincent and Piers Campbell.

³The terms "Third World" and "Southern" are used synonymously.

- * The development of regular sources of income through income-generating projects and the sale of services.

However, few NGOs in the South are currently prepared to adopt such activities which they often consider to be too "commercial". In addition, there is often substantial opposition among the donors. In fact, it can be said that the current aid system actively prevents the creation of reserves and even seems to discourage income-generating activities.

A new concept of partnership between donors and Southern NGOs is therefore required, a partnership that implies fundamental changes of attitude on both sides.

In the South, NGOs and community groups should become development enterprises. Instead of being welfare or charitable associations, they need to see themselves as providing well-managed and cost-effective services (or products) for the community.

Instead of depending on benefactors from the North, they have to develop their own sources of funding, by selling their products and services at a reasonable price, by generating income through investments and by local fundraising.

Donors, on their side, also have to change significantly. They should be helping Southern NGOs much more actively to become self-sufficient. This means that the donors and the Southern NGOs must create genuine and effective partnerships* that will lead to long-term flexible grants, both for the programmes and for the institutional development of the NGO.

This will require major policy changes for the donor agencies and a positive approach to the creation of reserves. It also implies the end of the "project approach" to development.

The Domination of Projects

At present, most donors - whether they are governments, intergovernmental organizations² or NGOs - only provide grants for specific, short-term projects. They may call them "micro-projects", small projects or large-scale, integrated projects.

It is widely recognized today³ that the project approach is essentially a tool used by donors to control development assistance. In fact, the

*The debate on relationships between Northern and Southern NGOs is summarized in Campbell (1989a) and Yates (1988).

²The main intergovernmental organizations which fund Southern NGOs are United Nations agencies. Others include the European Community and the Commonwealth Secretariat.

³See Lecomte (1986).

project often ends up as a straitjacket⁷ which prevents the community from effectively managing its own programmes.

Development is, however, a complex, unpredictable process that can rarely be divided up into neatly packaged projects with pre-determined and easily measured results.

Most important, the current enthusiasm for projects puts the focus on the activities of the NGO rather than on the organization itself. Hence institutional development⁸ is a low priority and few resources are given for the development of the capacity of Southern NGOs to initiate and manage large-scale development programmes in the long term.

In addition, donors tend to try, directly or indirectly, to influence the priorities of their local partners. One donor will emphasize micro-projects; another will only finance concrete projects that can easily be photographed; a third focusses on infrastructural or cash-crop activities; a fourth ties its assistance to the provision of technical support by its own nationals.

Donor fashions also complicate the picture. At one time, it used to be integrated rural development and then it was participatory development. Women in Development is still very popular, but the environment ("sustainable development"), social forestry and institutional development are rapidly gaining ground.

One final point: the current funding system is also very inefficient. NGOs have to spend vast amounts of time and resources in preparing fundraising proposals, negotiating with donors, keeping separate accounts and providing long, detailed reports.

Current Financing Situation

The current financing⁷ situation of most Southern NGOs is, therefore, characterized by dependence on external donors. The level of self-financing is very low, local fundraising is rarely taken seriously and few NGOs are able to plan more than a few months ahead.

⁷Ian Smillie (1988a and 1988b) describes it graphically as the "tyranny of the project".

⁸See Campbell (1989b).

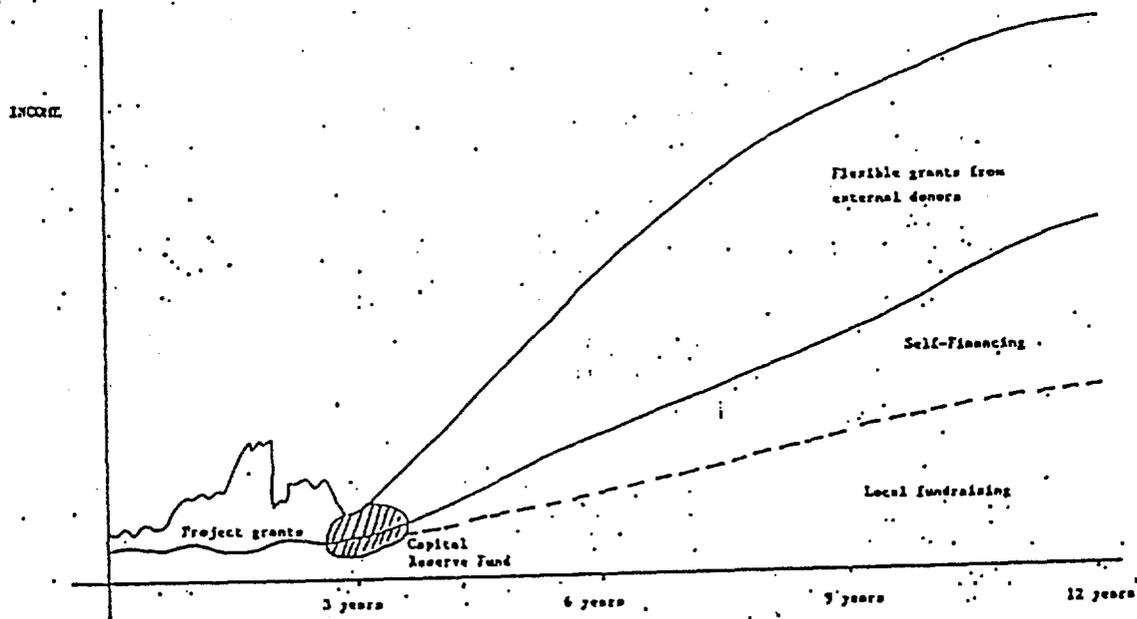
⁷The term "financing" is preferred to "fundraising" as the latter implies grants from donors whether they are individual members of the general public or institutions. "Financing", therefore, covers fundraising and the many other ways of generating funds.

Alternative Financing

There is clearly an urgent need for new financing models that are based on the institutional development of NGOs and community associations. This implies that the focus of development must move from the project to the organization itself. It also implies the creation of genuine and viable partnerships between donors and development organizations.

New funding relationships will not, however, solve the entire problem. It is equally important that the NGO significantly increases its own self-financing activities.

An alternative financial model for social development NGOs is summarized below.



In this model, the NGO starts by fundraising for small projects. After about three years, it launches an alternative strategy based on four components:

1. The organization create a capital reserve fund and regularly allocates 10-20% of its income to the fund (depending on the source of the income).

2. It gives priority to self-financing activities, for example: income-generating projects, the sale of services, and in-kind contributions from members¹⁰.
3. It spends more effort in fundraising locally from the community, businesses, social clubs, and the government¹¹.
4. It negotiates long-term, flexible programme grants from its external donors¹².

As a result, within twelve years, the organization succeeds in generating well over 50% of its income from its own - or local - resources. The dependence on external donors is reduced to less than half.

Social development NGOs are unlikely to be able to eliminate dependence on donors completely and indeed there are significant dangers in even trying to do so, as such NGOs risk turning themselves into profit-making enterprises.

However, an NGO, with more than 50% of its income coming from its own resources, is psychologically and practically independent.

Small Enterprises

The possibilities for small enterprises and community groups are, of course, much wider as they can have access to credit. The second model shows the development towards full autonomy based on three new elements:

1. Credit from revolving loan funds.
2. Credit from bank guarantees.
3. Credit facilities from local banks.

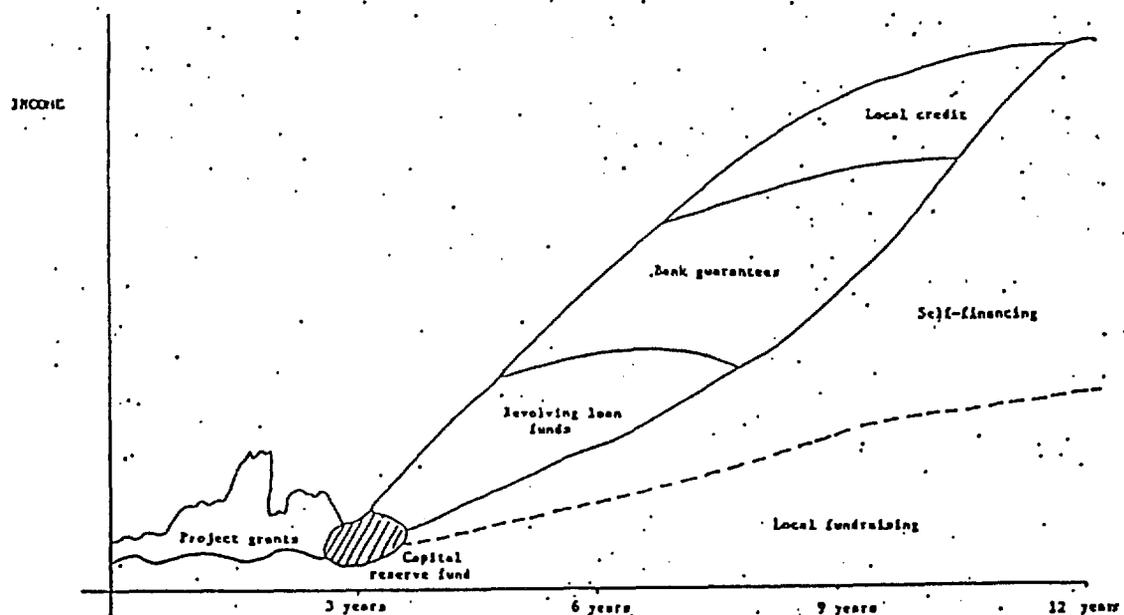
The revolving loan funds and bank guarantees are essential stages in this process as few local banks are prepared to give credit to young small enterprises in the South¹³.

¹⁰See Vincent and Campbell (1989) pp 63-73.

¹¹See Vincent and Campbell (1989) pp 145-149.

¹²See Vincent and Campbell (1989) pp 74-81.

¹³See Vincent and Campbell (1989) pp 104-109.



Pre-conditions for Success

In recent years, a number of Southern NGOs have successfully launched themselves on the path towards financial autonomy¹⁴ and; from their experiences, it is possible to identify three critical pre-conditions for success:

- * Effective management
- * New partnerships between North and South
- * Entrepreneurial attitudes.

¹⁴Examples include the Sarvodaya Movement (Sri Lanka), Six S (Burkina Faso), the Bangladesh Rural Advancement Committee (Bangladesh), and FONGS (Senegal).

Effective Management

The shift of emphasis away from the project towards long-term programmes and self-financing activities will inevitably necessitate more effective management¹⁵ practices by NGOs, particular in such areas as strategic planning, evaluation and financial management. In addition, the new financing strategy means that NGOs will have to negotiate flexible, long-term grants from donors. They will only be able to do this if they can convince the donors that they have the necessary organizational capacity.

Partnerships Between North and South

Both donors and Southern NGOs agree today that the priority need in the South is for the rapid establishment of effective, legitimate and autonomous, development organizations.¹⁶

Yet, as has already been pointed out, grants are tied to specific short-term projects and the underlying mentality is often based on the traditional welfare approach. Thus, the key issue is the fact that donors are still using out-of-date financing methods which are neither appropriate to the needs of Southern NGOs nor consistent with the stated aims of the donor agencies themselves.

Such funding methods do not facilitate the creation of effective and autonomous organizations. In fact, the current aid system is often directly counter-productive to such efforts.

For these reasons, donors need to move towards more flexible funding based on the following principles:

- * The main role of Northern NGOs should be to help Southern NGOs establish and strengthen themselves, and to gain a reasonable degree of financial autonomy.
- * Donors should be prepared to facilitate NGOs' attempts to generate their own resources and, in particular, donors should be positive towards the creation of reserves.
- * Sufficient funds for institutional development should be made available.
- * Long-term relationships should be established.
- * After an initial period, donors should be prepared to provide flexible funds in the form of programme grants, rotating credit funds and bank guarantees.

¹⁵The NGO Management Network was founded in 1986 to promote and facilitate improved management of NGOs, primarily through its quarterly newsletter, NGO Management.

¹⁶Campbell 1989b.

* Donors should equally finance innovative projects and research studies.

In brief, the relationship should be based on mutual trust and a long-term commitment to working together, with the aim of creating financial self-sufficiency for the Southern NGO.

The new ways of financing NGOs should also be accompanied by alternative mechanisms for deciding who gets the money. This can be best done by forming consortia or collaborative funds where the decision-making power is transferred from the individual donor to the consortium¹⁷.

Three stages can be identified¹⁸. In the first, a group of donors form the consortium and decisions are taken by a project committee or the board. In the second stage, representatives of Southern NGOs are invited to join the projects committee or the board. In the third stage, the decision-making power is handed over to the representatives of the Southern NGOs.

Entrepreneurial Attitudes

The basic changes in attitude that have been suggested for the donors must also occur among the NGOs and community groups themselves.

NGOs are used to being dependent on the donors and to receiving aid as a gift. Some people, in fact, seem to believe that this dependence is permanent and they have little interest in looking for different sources of income.

However, there are alternative approaches that can work, provided that the NGOs concerned fundamentally change their attitudes.

Instead of seeing themselves as charitable activities dependent on "generous" benefactors, they must, in future, become development enterprises that produce goods and services. Such products should be of sufficiently high quality that they can be "sold" at a realistic price and hence lead rapidly to financial autonomy.

It is not suggested that NGOs have to change into businesses and to be governed by the profit motive. But, they should be able to manage their organizations effectively, to develop financial reserves and to offer reasonably-priced, effective services to the local community in the long term.

* * * * *

¹⁷See Smillie (1988a).

¹⁸The Canadian International Development Agency is one of the governmental donors that is experimenting with new financing mechanisms; see CCIC (1988).

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Section 6

Accounting of Financial Resources

ACCOUNTING AND FINANCIAL REPORTS

FUNCTIONS:

1. The key function of an accounting report is to facilitate financial management.
2. It is a means of planning, control, and decision taking.
3. Financial reports provide the necessary information to the concerned parties and facilitate the drawing of accurate reports of the organization's financial activity.

USERS:

1. The organization's donors/sponsors.
2. The governance body which is directly responsible for the use of resources in the determined areas.
3. The organization's executive body responsible for the management and control of the organizational activity.
4. The government authorities to which the organization reports.
5. The targeted groups.

REQUIREMENTS:

1. Financial reports must be *understandable* for professionals and non-professionals alike.
2. They must contain *relevant* information, i.e., assist in decision-taking and help the users to have an idea of the outcome of the past, present and future report periods, or confirm or adjust their initial expectations. Furthermore, they must be timely, i.e., available to the policy decision makers before they lose the chance to influence the decision.

3. They must be *reliable*, i.e. provide an accurate reflection of the organization's financial position; they must be *available* for independent auditing; they must be *neutral* in the sense that they would not contain any implicit intention to influence anybody's opinion.

4. They must be consistent, i.e. comparable with the reports provided by similar organizations or reports for the comparable period of the same organization.

THE VITAL ROLE OF FINANCIAL MANAGEMENT

Accountability: Missing Piece of the Puzzle

The words we use not only reflect our attitudes and misconceptions, they often determine our behavior. Take the word "give," as it's used in the nonprofit world: if you really think anyone *gives* your organization money, but *buys* goods and services from a business firm, you're heading for trouble. Some of the trouble many nonprofits are in stems from that misunderstanding.

Whether your funding source is an individual donor, a foundation, a corporation, or a government agency, it is merely paying for specific socially desirable activities that might not otherwise happen. More bluntly, your sources are buying—or investing in—activities they believe in and want to support, even though they are usually buying them for someone else. That is what your exemption from income tax is based on in the first place.

In other words, the "gift" comes with strings attached, not ribbon. The strings: *accountability*, something we have said would come up frequently in this book, and for good reason. Accountability is a pervasive issue and a problem for nonprofits because reliable sources of funds are crucial to survival.

Most funding agency grants go to nonprofit organizations that can not only demonstrate sound program ideas and capability, but have the functional credibility that only sound financial management can supply. The leadership of such organizations has the know-how to use money wisely and to account for what it does with its funding. And the heart of effective financial management is a good system and process of budgetary controls.

The Payoff for Sound Budgetary Control

If long-run success of any nonprofit depends on an effective board, good budgetary control is the key to effectiveness in a more immediate sense. Nonprofit professionals know that sound budgetary control can yield the following results:

1. Force attention to the planning process, including programs and their support functions. This sort of focus makes planning it more thoughtful and concrete; it requires attention to priorities in the use of resources.
2. Insure that you provide enough resources to pay for all program and support service needs.
3. Prevent overspending during the present fiscal year. This guarantees that the organization will avoid "going in the red." The budget is a document embodying decisions of the board regarding how much is to be spent, and for what. (If it's not in the budget, it wasn't meant to be paid for—no matter what anyone said.) The CFO does not make such decisions, but must carry them out faithfully. That is why the budget is the key to internal accountability for the use of funds.
4. Monitoring expenses against budget allowances; control, maximize, and minimize waste of your limited resources.
5. Help in integrating all planned activities by providing an overview of the resources required by each and the impact of each on total resources.
6. Help to create genuine teamwork, mutual understanding, and trust. The budgeting process, ideally, is participatory, because competing needs have to be considered. Properly handled, a common understanding of financial constraints will lead to reasonable budgetary compromises, which can create a good atmosphere.
7. Provide an orderly way to cope with unplanned developments, by budget revision or adjustment in the area of income as well as outgo.
8. Provide one important performance measure of the agency and its managers at all levels: CEO, program and fundraising director. The ability to manage resources and to meet budgetary targets provides both an essential assessment tool and an excellent motivating device for good financial performance.
9. A sound budgetary control process is good evidence to funding agencies (and the best guarantee) of both credibility and accountability.

A budget is a projection of the sources and uses of resources. A budget is always a plan expressed in dollars (not a financial report of actual transactions). But there are four kinds of budgets. In discussing budgetary planning, don't have one type of budget in mind when you mean another.

1. Operating budget. This is your operating plan expressed in dollars: the kinds and amounts of planned income and planned expenses for a specific projected period (usually the fiscal year). The operating budget is the subject of Chapters 5 and 6. It will be your primary financial planning tool, one that includes all income and the expenses of all programs, funds, and support services.
2. Grant or contract proposal budgets. Unless your entire operation is funded by a single agency, these budgets normally cover a single program, fund, or project. They may also cover partial support of general operations. They are explored in Chapter 8, which deals with fundraising.
3. The cash budget (or "cash flow budget, projection"). As demonstrated in Chapter 7, it is not the same as your operating budget—even if you are using the cash basis or method of accounting. Budgeting for cash flow is primarily a short-range planning tool used to make sure you can meet your payroll and other regular bills on time by anticipating any shortfalls.
4. Capital budgets. Not used in a formal sense by every nonprofit, except the larger ones, the capital budget plans for major expenditures to add to or replace major equipment, like vehicles, furniture, and computers, or buildings (or substantial repairs to them). The amount, timing, and methods of financing such outlays are the principal elements of a capital budget, as described in Chapter 7.

Accountability and Accounting

Accountability means being answerable for one's actions, and for resources put into one's care—having to "give an account of them." *Accounting* means more than keeping accounts: it is a whole body of theoretical and practical knowledge about many aspects of a nonprofit's accountability, both internally and externally. Accounting relates to such activities as receiving resources, using them, and having custody or control over them by the organization and those who serve it.

Accounting for the use of resources is also one major way of accounting for what a nonprofit is doing, since one objective way its activities are measured is what it uses its money and other resources for.

Modern accounting evolved from a book on math written by an Italian monk over 500 years ago, which first set forth a double-entry bookkeeping system for keeping track of commercial transactions in Mediterranean trade. It has, in its modern form, been embraced by business, government, and nonprofit organizations as a systematic basis for recording and reporting the exchange and use of economic resources. Accounting means keeping track and keeping score through keeping books, though it is a lot more than that. It should be seen as a means to an end, not an end in itself. It will help your nonprofit achieve its goals by: 1) monitoring activities, 2) getting the most—and the best—for your money, and 3) promoting confidence in your organization and its credibility, by demonstrating full and reliable accountability.

Try not to look on it therefore as just a necessary evil, a headache, or bureaucratic red tape. It is not a mystery, nor does it involve higher mathematics. (After all, there aren't too many geniuses doing it.) A basic grasp of its concepts is too essential for your health as an organization—your fiscal fitness—to allow it to be the private domain of accountants, bookkeepers, or even treasurers. To be an effective nonprofit leader of any kind, you too must understand and be able to use basic accounting and financial management concepts and terms in planning, managing, and decision-making.

The chart below (Fig. 1) shows the relationship of financial management and accounting to the operating functions of a nonprofit organization.

MANAGEMENT FUNCTIONS	PLANNING	MANAGING	ANALYZING EVALUATING RESULTS	REVISING UPDATING PLANS
RELATED FINANCIAL MANAGEMENT FUNCTIONS	BUDGETING & SYSTEM DESIGN	MONITORING INCOME & EXPENSE; CASH MANAGEMENT	ACCOUNTING, FINANCIAL REPORTING & ANALYSIS	REVISING/ UPDATING BUDGETS

The fundraising (development) function is not included in Fig. 1. It is not usually thought of as part of financial management as such, but is explored in Chapter 8 because it is closely related.

The four chapters that follow deal with financial planning and management in what we hope is an unexpectedly "reader-friendly" way.

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Why Sound Accounting Standards Count

by James Don Edwards and Joseph H. Godwin

As more nations develop democratic, market-based economies, adopting standards based on generally accepted accounting principles (GAAP) is becoming increasingly important to the soundness of their financial systems. The adoption of internationally recognized accounting standards can ease privatization efforts because of the confidence they provide individual shareholders. Without such standards, the ability of privately held enterprises to attract capital from bankers and investors is seriously impaired.

Sound accounting standards support efficient financial management and reporting systems that provide vital information to creditors and equity investors so that they can make profitable investments. Investors provide much needed risk capital and are concerned with the risk inherent in, and return provided by, their investments. Investors need information that will help them determine if they should buy, hold, or sell an investment. Lenders, on the other hand, are interested in information that permits them to determine whether their loans, and

the interest attaching to them, will be paid when due.

Creating a Global Standard

While a nation's choice of accounting standards is necessarily unique, some consistencies among various nations' standards make them useful to investors and creditors. The International Accounting Standards Committee (IASC) and the European Union (EU) both articulate accounting standards that are widely respected in the major capital markets.

Under these standards, transparency is achieved by requiring firms to issue financial statements along with footnotes that indicate

the accounting techniques used for certain transactions. The financial statements also provide information about management's stewardship of enterprise resources and thus facilitate managerial control. The most common model regarding the issuance of financial statements calls for the statements to consist of a balance sheet, a profit and loss statement, and a cash flow statement (see box on page 10).

Progress in Eastern Europe

There have been several encouraging developments on the accounting front in Eastern Europe. Hungary and the Czech Republic have recently adopted accounting standards

Accounting Basics

The following are some of the basic concepts that are important to generally accepted accounting standards:

- > **Going concern** requires an enterprise to prepare financial statements on the assumption that the enterprise will continue in operation for the foreseeable future. This assumption permits the allocation of costs and benefits across future periods.
- > The **accrual basis** of accounting requires the effects of transactions and other events to be recognized when they occur (rather than when cash is received or paid).
- > **Consistency** requires an enterprise to use the same accounting methods from one period to the next or provide reasons for not doing so.
- > **Substance over form** requires recording transactions according to the substance of the event rather than strictly according to their legal form.

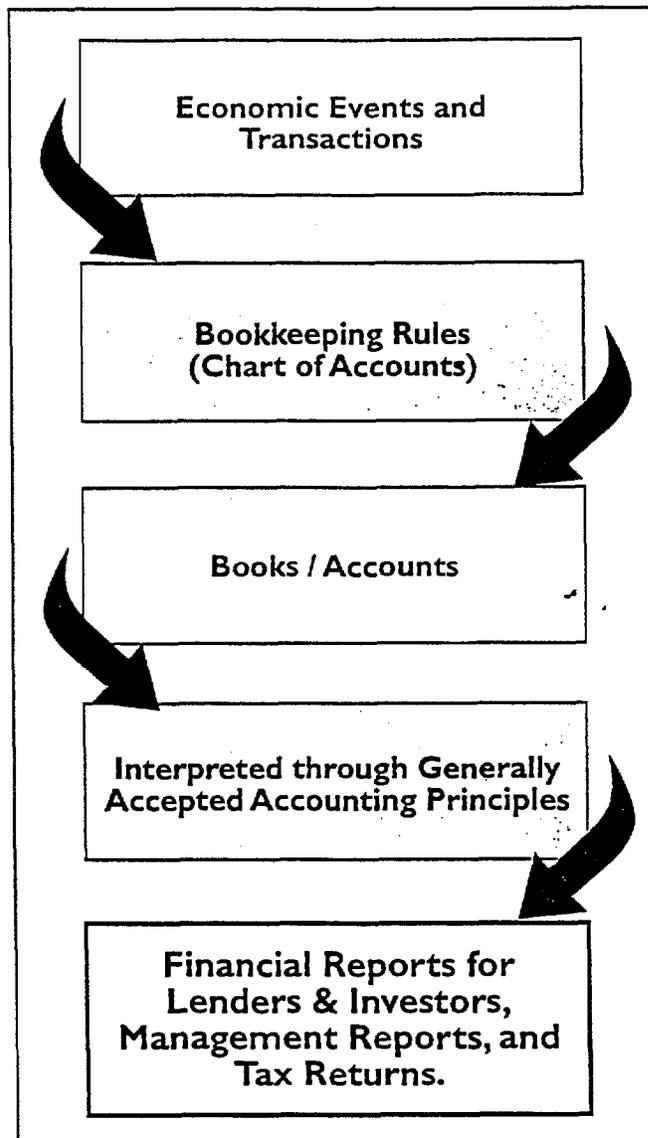
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that address consolidation of group accounts so that the economic and financial situation of group companies is shown as if they were one entity. Since January 1994, Romania has been following new accounting standards modeled closely after the French model. Russia's president approved temporary rules on auditing in December 1993, pending passage of law by the Federal Assembly of the Russian Federation. The basic content and format of financial statements are set out in Russian legislation and regulations issued by the Council of Ministers or, in the case of banks, by the Central Bank of Russia.

Still, Russia and Eastern Europe have little history or tradition of using fundamental, market-based accounting concepts such as going concern, accrual basis, consistency, and substance over form (see box on page 8 dealing with these concepts). Financial statements prepared on the accrual basis inform users not only of past transactions involving the payment and receipt of cash but also of obligations to pay cash in the future and of resources that represent cash to be received in the future. This type of information about past transactions and other events is very useful to investors and lenders.

Russian Practices

In addition to using the historical cost convention to record assets, the old Soviet accounting methods



strictly applied it so that assets were never revalued. Thus, the more conservative approach that would have reduced such items as inventory to the lower of cost or recognized a provision for doubtful debts was not followed. Doubtful accounts were written off only when they were demonstrably uncollectable. In essence, a risk-free environment was assumed where no thought need be given to valuation of assets or determination of profit (net income). Goods were not bought and sold in a free market and there was no risk of a decline in value.

Enterprises did not answer to investors, bankers, or regulators for their performance. Accounting consisted of adhering to a prescribed chart of accounts which was subordinated to requirements of the central planning system and reflected the diminished scope of financial management in a central economy. The primary function of accounting was to record factual data to assess plan accomplishments, rather than an enterprise's finances.

The focus of Russian accounting was more on bookkeeping than on the process of accounting—in fact, they were considered to be the same thing. Accounting, however, involves much more than bookkeeping. Bookkeeping only entails the recording of economic events while the accounting process includes application of generally accepted accounting standards to identify, measure, record, and

report those events and their effect on an enterprise. The accompanying diagram on this page shows the accounting process which includes both the bookkeeping function and the application of generally accepted accounting principles in order to take a view of the enterprise's financial well-being.

From Old to New

Many accountants in Russia and in other centrally-planned economies believed that transformation to a market-oriented accounting system could be accomplished

Why Financial Statements are Important to Lenders

Financial statements portray the effects of transactions and other events by grouping them into broad classes (or elements) according to their economic characteristics.

The *balance sheet* is the primary financial statement that helps determine an enterprise's financial position—and crucial information for potential lenders. Information about financial structure (relative amounts of capital provided by investors and lenders) is useful in predicting future borrowing needs and how future profits and cash flows will be distributed among those interested in the enterprise. Financial structure information also helps predict how successful the enterprise is likely to be in future financing transactions. Information about liquidity and solvency is useful for predicting an enterprise's ability to meet financial commitments. Liquidity relates to short-term availability of cash after taking into consideration short-term financial commitments. Solvency relates to long term availability of cash to meet commitments as they become due.

The primary financial statement that provides information about an enterprise's profitability is the *income statement*, also known as the profit and loss statement. Information about enterprise profitability is useful to assess likely changes in the enterprise's control of economic resources and the ability of the enterprise to generate cash flows from existing resources. Information about the variability of profits is also useful for predicting

future cash flows. In addition, profitability information helps determine how effectively an enterprise might employ additional resources.

The image shows a balance sheet titled "BALANCE SHEET" with a magnifying glass focusing on the "ASSETS" section. The highlighted values are:

- Cash: \$2,000
- Accounts Receivable: \$248,634
- Inventory: \$60,000
- Property, Plant, Equipment, Net: \$54,000
- Goodwill and Intangible Assets: \$6,000

The total assets are listed as \$369,634. The liabilities and equity section shows:

- Accounts Payable: \$100,000
- Notes Payable: \$100,000
- Long-Term Debt: \$100,000
- Common Stock: \$100,000
- Retained Earnings: \$169,634

A lender wants to obtain some confidence an enterprise can generate sufficient cash to meet scheduled debt payments; cash flow information helps determine this. The *cash flow statement* reports cash flows from investing, financing, or operating activities. Lenders are interested in the sources from which cash is generated, the timing and certainty of its generation, and how the cash is used. For example, an enterprise's long-term prospects depend on its ability to generate sufficient cash from profitable operations to provide returns to investors and other financing sources. If current cash requirements are instead generated by investing activities such as

securities, or from financing activities such as long-term borrowing or the sale of stock, this information will be valuable to lenders.

The cash flow statement is not as universally required as the other statements. The EU, for example, does not require it. The cash flow statement is becoming increasingly important, however, in judging management's performance and assessing an enterprise's ability to repay a loan.

Accounting standards also specify supplementary information that accompanies financial statements. These items, summarily called *footnotes*, should contain additional relevant information about items in the balance sheet and income statement. This information could relate to the risks and uncertainties affecting the enterprise, resources and obligations of the enterprise not recognized in the balance sheet, or breakdowns of figures by geographic area, customer type, or other category. Footnotes also contain detailed information about the accounting standards a firm employs, thereby lending transparency to its statements.

No one statement tells the whole story. The income statement, for example, provides an incomplete picture of performance without reference to the balance sheet or the cash flow statement. As a result, lenders and investors need information from each of the statements to make their decisions.

simply by modernizing the chart of accounts according to internationally accepted accounting principles. A new chart of accounts was introduced in Russia in 1992 which attempted to move the Russian system closer to internationally accepted standards by providing for use of accrual accounting, recognition of some of the costs of production as costs of the product and other costs as costs of the period, recognition of a provision for bad debt and future warranty payments, and accounts to recognize the issuance of ownership shares. Leasehold accounting has also been introduced according to international standards.

Problems persist, however, because some of the traditional approaches that do not meet international standards have been retained. For example, enterprises are permitted the alternative of using cash-basis accounting, as well as the alternative of including all product and period costs in the cost of production. Managers also continue to have discretion to create special funds for such items as employee welfare or production development, even though this is not acceptable under international standards. In addition, accounting for interest expense and revenue continues along traditional Russian practices of recognition only with payment or receipt of interest.

Not surprisingly, Russia's failure to comply fully with international accounting standards has had a fall-out effect on its efforts to establish a sound banking system. Coopers and Lybrand's audit of the Russian Federation Central Bank found significant unaccounted-for sums even though the firm did not perform a

A Balance Sheet Under US GAAP Standards: Reuters Holdings PLC

(December 31, 1993, in £million)

Assets	
Fixed tangible assets	555
Current assets	820
Other assets	46
Goodwill & other intangibles	128
Total assets	1549
Liabilities & shareholders' equity	
Current liabilities	626
Long-term liabilities	40
Deferred taxes & minority interest	18
Shareholders' equity	955
Treasury stock	(82)
Loans to employees' share trust	(8)
Total shareholders' equity	865
Total liabilities & shareholders' equity	1549

standard audit of the bank's reports because the "accounting system used in Russia does not yet conform to international accounting standards." Meanwhile, only a handful of the more than 2,000 commercial banks in operation last year met international accounting standards.

Accessing Western Capital

For Russia and Eastern Europe, the first step into US capital markets is likely to come through application of US Securities and Exchange Rule 144-A, which permits lower disclosure and accounting standards than mainstream US stock listings. A downside is that only a limited number of institutions can purchase securities offered under the rule. Thus, enterprises in these countries could have partial access to the US capital market until they are ready to go to full international disclosure. For

example, the Russian oil giant, Lukoil, has retained Bank of New York to serve as its custodian in an offering in the US expected to raise up to \$3.5 billion.

Nonetheless, it is important to note what countries miss when they do not follow international accounting standards in not being able to fully access key capital markets such as those of London, Tokyo and New York. The importance of these capital markets is demonstrated by the \$20 billion foreign companies raised in the US last year, of which 71% which went to emerging markets and privatizing enterprises. For example, Teléfonos de México, a privatized enterprise, became the first firm on the New York Stock Exchange to trade over one

billion shares in a year.

Since full participation in the international capital markets requires the use of generally recognized accounting standards, nations in the early stages of developing a market economy can avoid some of the conflict inherent in developing standards by adopting those provided by the IASC as a basic framework upon which to build. Alternatively, these nations might want to adopt the standards of their current or anticipated trading partners that are likely to have more similar economic environments. This is the practice followed by many of the former Soviet bloc countries. They have drawn heavily upon the standards promulgated by the IASC or made their laws consistent with the European Union's standards in anticipation of eventually obtaining full membership in that group. ❁

SPECIAL-PURPOSE REPORTS TO FUNDING AGENCIES

Foundations, government agencies, and other institutional sources of grants and loans commonly have their own reporting formats, which may differ somewhat from those presented in Chapter 13. Generally speaking, these will correspond with the budget formats they incorporate in their grant application forms or "RFP" (request for proposal). The principal differences may be a greater amount of detail, a somewhat different expense classification scheme (chart of accounts), or a specific requirement that program revenues and expenses be separately presented, which is not mandatory under SOP 78-10. Aside from reporting formats, they may require that books be kept on a fund accounting basis⁶ or even that a separate bank account be maintained for their grant funds. Since he who pays the piper calls the tune, it is clear that, if you want their money, you will do as they say. (Although they may not be able to take it back sometimes, they will find the relationship one that is somewhat less than habit-forming for the future.)

Why Some Funding Agencies Require Detailed Reports

There is a serious accountability issue on the part of the funding agency, since it too may be a tax-exempt organization whose status may be endangered by acts of its grantees. In fact, in some cases, the Internal Revenue Code requires a specific level of supervision by such organizations over nonprofits to which it makes grants, in order to help it administer these provisions of the law.⁷ Understanding a foundation's own problems in this respect may help lessen resentment of the added paperwork and record-keeping sometimes involved in a grant. It is not necessarily just "bureaucratic make-work."

Specific Requirements of Grantors

Any or all of the following may be prescribed by the terms and conditions of a grant from a public or private funding agency.

- That a specified account classification be used (The same classifications should be used on both the proposal budget and reports.)
- That fund accounting be used on the books for the grant
- That grant funds be kept in a separate bank account (not too common, but sometimes required)
- That accrual accounting (or possibly cash accounting) be used with respect to the grant accounts
- That depreciation accounting be used (or not used) in relation to the grant
- That interim progress reports be submitted on the use of grant funds, usually on a quarterly basis (This may be the basis for receiving grant installments.)
- That only specific items of overhead (administrative and joint expenses) are allowable or that such costs are allowable on the basis of a specified percentage limit, based on the total amount of the grant, total payroll for the program, or a combination of these.

It should be clear that complete guidelines or other instructions should be obtained from the funding source, read carefully, and followed closely in submitting grant proposal budgets and reports of grant expenditures to the agency. Since, unfortunately, there are wide variations in terminology used in accounting, it is particularly important to understand and speak the same language as that spoken and understood by the funding agency. Otherwise you may have trouble explaining and/or defending items in your proposal budget or financial reports indicating "where the money went." It is also important to establish credibility as a responsible, accountable grantee, for "repeat business." Aside from following the rules of the game, meeting report deadlines is important, as is making sure that your figures are internally consistent, i.e., that related figures in different places "tie in" with each other. When they do not, an impression is given of sloppiness in accounting, which hardly encourages confidence.

When you get your grant approval, you will naturally contact the grant officer or foundation manager to find out when you can expect your check, whether it will be in installments, and what if anything you are required to do in order to get it, such as obtaining required matching funds or other commitments. Most of the other aspects of grant management are dealt with in the main body of this chapter. Needless to say, if you want to stay in the good graces of your funding source, you will make sure to stay within your budget, deliver what you have promised within the time frame you indicated, avoid playing games with the budget, and submit interim and/or annual reports as required, in the format and by the dates prescribed. Aside from ensuring that you get all the funds you expect, living up to your obligations may result in your being able to come around again in the future.

Note: Foundation managers and grant officers also network and exchange experiences. Even if you never plan to seek another grant from the same agency, you want to keep your credibility and good name in the foundation and nonprofit world, because they are what will keep you afloat in long-range terms. (Consider the alternative.) Even rejection of a grant proposal should be accepted in good grace.

It is well to keep in mind that a program grant is not a gift but a contract to deliver services in exchange for money. Although not as widely used for foundation grants, the term "contract" is commonly used as part of the standard jargon in government agency grants, and with good cause.

Padding Allocated Expenses (A Word of Warning)

A related issue, one fraught with danger, is that some nonprofits see an opportunity for "profit" in the allocation area. If unreasonable allocations are made to a program, or, worse, if the total of an expense allocated to all programs equals more than the actual total of the line item, the nonprofit is playing a potentially dangerous game, one that is specifically discussed and barred by the OMB circular mentioned previously. To illustrate, the circular states the following regarding allocated payrolls.

(2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members . . . whose compensation is charged, in whole or in part, directly to awards. . . .

(a) The reports must reflect an *after-the-fact* determination of the actual activity of each employee. Budget estimates . . . do not qualify as support for charges to awards.

(b) Each report must account for the total activity for which employees are compensated. . . .

(c) The reports must be signed by the individual employee. . . .

That would seem to take care of things quite nicely, since (1) more than 100% of an employee's time could not be allocated to his or her activities; (2) actual time spent on the grant program, not a before-the-fact estimate, must be used; and (3) the *employee* is the one making the determination. This is just another way of pointing out that you are up against "pros" on the other side.³

The overall conclusion would seem to be that a nonprofit should seek a reasonable and fair allocation of its indirect costs to program budgets but should resist the temptation to make a profit out of such allocations, if it values its future credibility.

Playing Games May Cost You Money

The temptation may exist to pad or load proposal budgets and/or the charging of actual expenditures against grant funds; in fact, a cynical attitude often expresses itself in this area on the part of people who are idealistic in other respects. It is not intended here to moralize, only to point to the difference between short- and long-range self-interest. Grant officers of funding agencies are often skilled at detecting unreasonable charges. Sometimes they tend to become cynical on the subject and may look with suspicion even on wholly valid items. Another potential that should not be overlooked is that the agency with which you may consider playing games sometimes has an audit capability, which exists in the case of government agencies and large foundations (see Appendix 15A). In the event of an audit, improper charges are not difficult to detect from your own records, and clear evidence of this can be most embarrassing, not to mention the likely reaction next time you come knocking at their door for funds.

Again, a reminder is in order about accountability. Not only are you spending someone else's money for purposes other than what they intended, you may also overlook the fact that the funding agencies, too, are allocating other people's money to you. These are contributions or taxes given to them to promote particular socially desirable purposes and for which they in turn are accountable. The moral is that if you want to stay afloat in the nonprofit environment, remember the goldfish bowl you're in. And remember that, unlike a business, the money received by the organization as restricted grants, endowments, and contracts is not its own to do with as it sees fit, except within the restrictions and limitations imposed by its funding sources.

To the Board of Directors
Nonprofit Organization
Chico, California 95926

ACCOUNTANTS' COMPILATION REPORT

We have compiled the accompanying balance sheet of Nonprofit Organization as of June 30, 1995 and the related statement of revenues and expenditures and cash flows for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

HARRISON-DAILEY
Accountancy Corporation

May 17, 1994

NONPROFIT ORGANIZATION
BALANCE SHEET
JUNE 30, 1995

ASSETS

CURRENT ASSETS:

CASH	\$	3,000.00
CASH - RESTRICTED		5,000.00
ACCOUNTS RECEIVABLE		6,000.00
PREPAID EXPENSES		1,000.00

TOTAL CURRENT ASSETS \$ 15,000.00

FIXED ASSETS:

EQUIPMENT		5,000.00
LESS ACCUMULATED DEPRECIATION		(2,500.00)

TOTAL FIXED ASSETS 2,500.00

TOTAL ASSETS \$ 17,500.00

LIABILITIES AND FUND BALANCE

CURRENT LIABILITIES:

ACCOUNTS PAYABLE	\$	750.00
PAYROLL TAXES PAYABLE		500.00
DEFERRED REVENUE		4,000.00

TOTAL CURRENT LIABILITIES \$ 5,250.00

FUND BALANCE:

FIXED ASSETS		2,500.00
UNRESTRICTED		3,750.00
RESTRICTED		6,000.00

TOTAL FUND BALANCE 12,250.00

TOTAL LIABILITIES AND FUND BALANCE \$ 17,500.00

The accompanying Accountants' Compilation Report
should be read with these statements.

NONPROFIT ORGANIZATION
STATEMENT OF REVENUES AND EXPENDITURES
June 30, 1995

	TOTAL	DONATIONS	CITY OF CHICO	UNITED WAY	STATE GRANT	BUTTE COUNTY
REVENUE:						
DONATIONS	6,000.00	6,000.00				
FUNRAISING	500.00	500.00				
GRANTS	97,000.00		10,000.00	15,000.00	50,000.00	22,000.00
TOTAL	103,500.00	6,500.00	10,000.00	15,000.00	50,000.00	22,000.00
EXPENDITURES:						
ADVERTISING	400.00		400.00			
ACCOUNTING	4,500.00	1,000.00		750.00	1,250.00	1,500.00
AUDIT	3,500.00	1,000.00		1,500.00	500.00	500.00
CONFERENCES	2,250.00			250.00	2,000.00	
DEPRECIATION	500.00	500.00				
DUES & MEMBERSHIPS	350.00			150.00	200.00	
EDUCATIONAL MATERIALS	2,650.00			650.00	2,000.00	
EQUIPMENT RENTAL	1,000.00				1,000.00	
FUNRAISING	500.00	500.00				
INSURANCE	4,000.00			500.00	2,000.00	1,500.00
MISCELLANEOUS	650.00					650.00
OFFICE SUPPLIES	2,500.00			1,000.00	1,500.00	
RENT	5,000.00		5,000.00			
SALARIES	56,750.00	2,750.00	4,000.00	5,000.00	30,000.00	15,000.00
TAXES	5,400.00	250.00	400.00	250.00	3,000.00	1,500.00
TELEPHONE	6,250.00			1,250.00	5,000.00	
TRAVEL	850.00			600.00	250.00	
UTILITIES	4,950.00		200.00	2,500.00	1,300.00	950.00
TOTAL	102,000.00	6,000.00	10,000.00	14,400.00	50,000.00	21,600.00
EXCESS REVENUE OVER EXPENDITURES	1,500.00	500.00	0.00	600.00	0.00	400.00

The accompanying Accountants' Compilation Report
should be read with these statements.

NONPROFIT ORGANIZATION
STATEMENT OF CHANGES IN FUND BALANCE
JUNE 30, 1995

FUND BALANCE, JUNE 30, 1994	\$	10,750.00
EXCESS OF REVENUES OVER EXPENDITURES		<u>1,500.00</u>
FUND BALANCE, JUNE 30, 1995	\$	<u><u>12,250.00</u></u>

The accompanying Accountants' Compilation Report
should be read with these statements.

NONPROFIT ORGANIZATION
STATEMENT OF CASH FLOWS
JUNE 30, 1995

CASH FLOWS FROM OPERATING ACTIVITIES:	
EXCESS OF REVENUES OVER EXPENDITURES	\$ 1,500.00
DEPRECIATION EXPENSE	500.00
INCREASE IN ACCOUNTS RECEIVABLE	(1,000.00)
DECREASE IN PREPAID EXPENSES	2,000.00
INCREASE IN ACCOUNTS PAYABLE AND DEFERRED REVENUE	1,000.00

NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,000.00
CASH FLOWS FROM INVESTING ACTIVITIES:	
PURCHASE OF EQUIPMENT	(1,000.00)
INCREASE IN RESTRICTED ASSETS	(2,000.00)

NET CASH USED FOR INVESTING ACTIVITIES	(3,000.00)
CASH FLOWS FROM FINANCING ACTIVITIES:	
PAYMENT OF LINE OF CREDIT	(500.00)

NET INCREASE IN CASH	500.00
CASH AT JUNE 30, 1994	7,500.00

CASH AT JUNE 30, 1995	\$ 8,000.00
	=====

The accompanying Accountants' Compilation Report
should be read with these statements.

NONPROFIT ORGANIZATION
A NONPROFIT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 1995

NOTE 1 - ORGANIZATIONAL INFORMATION

The corporation was organized and established in 1977 as a private nonprofit organization serving Butte and Glenn counties. The corporation's primary purpose is to shelter women and their children from abusive situations in their homes by offering them a safe place to stay and receive counseling.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies followed in the preparation of the financial statements.

A. Income

The organization records income from grants in the period designated by the grantor, and donations when received.

B. Fund Accounting

The accounts of the corporation are organized on the basis of funds and account groups, each of which is considered a separate set of self-balancing accounts that are composed of assets, liabilities, fund balance, revenues and expenses. Resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be used.

C. Property and Equipment

Property and equipment are stated at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income for the period.

D. Accounts Receivable

Accounts receivable represent amounts due from state and local grant fund sources. Losses on uncollectible accounts receivable are recognized when such losses become known or indicated. Management considers all accounts fully collectible.

The accompanying Accountants' Compilation Report
should be read with these notes.

NONPROFIT ORGANIZATION
A NONPROFIT CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 1995

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Income Taxes

The corporation, a voluntary health and welfare organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code, and therefore has no provision for income taxes.

F. Contributed Services

A substantial number of unpaid volunteers have made significant contributions of their time to Nonprofit Organization. Nonprofit Organization has contracted with California State University, Chico to accept student interns as volunteers to the program. The hours of these interns are monitored and valued in the financial statements at \$10.00 per hour for matching purposes for a grant with the California State Department of the Office of Criminal Justice Planning (OCJP). Other volunteers devote time to the organization including staffing the 24 hour crisis line, office work and other client services. The value of this contributed time is not reflected in these statements as it is not susceptible to objective measurement or valuation.

NOTE 3 - DEFERRED REVENUE

The Office of Criminal Justice Planning (OCJP) has advanced grant funds to the organization equal to 17% of the cash award for the fiscal year. The advance will be repaid in three monthly payments during the last three months of the fiscal year and will be deducted from the request for funds monthly billing to OCJP.

NOTE 4 - FUND BALANCE

The fund balance at June 30, 1995 represents \$3,750 in unrestricted funds, \$2,500 in fixed assets, \$4,000 in deferred revenue and \$2,000 restricted by the Board of Directors for future fundraising activities.

The accompanying Accountants' Compilation Report
should be read with these notes.

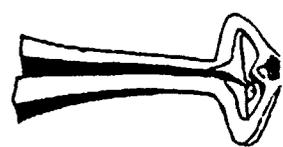
БАЛАНСОВЫЙ ОТЧЕТ БЛАГОТВОРИТЕЛЬНОГО ФОНДА «ДУША ЧЕЛОВЕКА» ЗА 1992 ГОД

Поступления на текущий счет фонда		Статьи расходов	
Источники поступлений (спонсоры)	Суммы пожерт- вований, тыс. руб.	Целевые фонда	программы Затраты, тыс. руб. / % %
АКБ «Бизнес»	400,0	«Острова надежды» (про- филактика одиночества, са- моубийств, клубы психоло- гической поддержки) —	13,2/1,3
РТСБ (К. Боровой)	200,0	Коммерческий социальный щит (помощь инвалидам, бесплатное питание, ма- тер. помощь) —	523,0/50,4
Русский национальный банк	100,0	«Гуманная психиатрия» (медико - психологическая помощь душевноболь- ным и их родственникам)	— 35,4/3,5
СП «Комстар»	100,0	«Собственные силы» (тру- доустройство, консуль- тации, переобучение) —	69,4/6,6
АО «РосШтерн»	50,0	Кадры (обучение, клуб ру- ководителей благотворит. организаций)	7,7/0,7
АО «ЦСТЭ»	46,0	Заработная плата персо- нала —	141,7/13,6
МНПЦ «Прибой»	25,0	Накладные расходы (арен- да, телефон, хозрасходы, оборуд.) —	249,5/23,9
АО «Стекло России»	20,0		
ССЗЯ «Шанс»	20,0		
ТОО «Проба»	18,0		
СП «МСИ»	18,0		
СП «Коринер»	10,0		
ВАО «Ассамблея»	10,0		
ММПП «Салют»	10,0		
СП «Лаикс-Москва»	10,0		
Другие спонсоры	31,3		
Членские взносы	3,7		
ИТОГО	1072,0		1039,9
ОСТАТОК			27,6

NEWSletter

ГАЗЕТА НЕКОММЕРЧЕСКИХ ОРГАНИЗАЦИЙ
Издается педагогическим объединением "Радуга" с ноября 1992 г.

Февраль, 1994 • № 2(14)
125 Март, 1994 • № 3(15)



ДУША ЧЕЛОВЕКА
БЛАГОТВОРИТЕЛЬНЫЙ ФОНД

ОТЧЕТ БЛАГОТВОРИТЕЛЬНОГО ФОНДА "ДУША ЧЕЛОВЕКА" за 1993 год

(Продолжение. Начало см. в номере 2(14))

"Душа человека" - некоммерческая негосударственная общественная организация помощи душевнобольным и их семьям. Мы - группа добровольцев - врачей, социальных менеджеров, реализующих программы социальной, медико-психологической, организационной поддержки.

Спонсоры

АКБ "Бизнес", АБ "Империал", АО "Гринфилд", СП "Интерюнити", МЭЮЗ "Ювелирпром", АО "Росштерн", "Нефтехимбанк", "Росдорбанк", АОЗТ "Линквейл Трейдинг Ко, Лтд", СП "Акела", СП "Эпек", "Русский Национальный банк", АО "Ритек", СП "Совэлан Арома", ВАО "Ассамблея", АО "Росдетспецпродукт", ТОО "Зубари", БФ "Калитники", АО "ЦСТЭ Интур", АОЗТ "ТК Опгалант", КБ "Восток", КБ "Юнибест", НПМК "Совком", МП "Технология", ТОО БД "Ратмир Инвест", СП "Амскорт Интернэшнл", СП "Орботек", АО "Баярд", Православное религиозное общество Храма Преподобного Пимена, КБ "Лесинтербанк", фирма "Траст", АОЗТ "Восток", фирма "Информэлектро", КООП "Вланд", фирма "Ортекс", ГОО "Эдвайзер", КБ "Единство", МКЦ "Карачарово", ТОО "Визит", СП "Комстар", КАО "Виктори", ТОО "Стройкомплекс"

Частные пожертвования

А.Алавердян (Москва), Конрад фон Эюдос (Германия), В.Доненко (Подольск), Э.Воронова (Топки), О.Зазнобина (Солнечногорск), Т.Никифорова (Москва).

Неденежные пожертвования:

МОТП "Глазсервертор", ТД "Конверсия", фирма "Лоза", фирма "Эсто", к/т "Березка", фирма "Графика М", фирма "Эос", редакция "Полезные советы", АО "Инфра М", институт "Промстройпроект", "РАУ-Корпорация", ИЧП "Норма", ПО "Печатный двор", МП "АС ПЛЮС", АО "Виктория", НПК "Согласие", АО "ИТП", рекламное агентство "Русская Пресс Служба", издательство "Евроадрес", АП "МОЭФТНИ", Музей Вадима Сидура.

ПРИМЕЧАНИЕ: Диаграммы отражают только денежные пожертвования организаций и не учитывают частных и неденежных пожертвований.

Ген. директор БФ "Душа человека" Доненко И.Е. Гл. бухгалтер Минский Ю.В.
Телефон: (095) 301-72-04

111194, Москва, ул. Марьяновская, 30
Тел. 301-7204, 301-1810. Факс 301-1810

Тип "Транспечать"

ОТЧЕТ БЛАГОТВОРИТЕЛЬНОГО ФОНДА "ДУША ЧЕЛОВЕКА" за 1993 год

"Душа человека" - некоммерческая негосударственная общественная организация помощи душевнобольным и их семьям. Мы - группа добровольцев - врачей, социальных менеджеров, реализующих программы социальной, медико-психологической, организационной поддержки.

Медоневные пожертвования 17%
Оплата счетов 13%



Денежные пожертвования 70%

ПОСТУПЛЕНИЯ	(тыс руб.)	(%)
Денежные пожертвования	13 985,7	
Депозит	65,0	
Неденежные (товары, услуги, пожертвования)	3 516,1	
Прямая оплата счетов фонда	2 614,1	
Членские взносы	14,3	
Итого	20.195,2	

РАСХОДЫ

Программы фонда		
Программа надежды	943,8	4,7
Реабилитация одиночества - самоубийств, социальной опущенности - работа с группой психологической поддержки душевнобольных	10 084,4	49,9
Коммерческий социальный щит		
Помощь в выживании - работа благотворительной столовой, помощь продуктами - для семьи медикоментами и одеждой	559,1	2,8
"Собственные силы"		
Поддержка и развитие и общества деятельности душевнобольных и их родственников - создание рабочих мест в фонде и выплаты зарплаты	237,5	1,2
Гуманитарная психиатрия		
Социально-психологическая реабилитация консультаций, тренинг для родственников	276,2	1,4
Помощь пострадавшим от сексуального насилия		
Психологическая реабилитация, консультации, личный и дистанционный тренинг	70,0	0,3
Тренинг сектор "Кадры"		
Работа с группой "Профи Нонпрофит", повышение квалификации лидеров некоммерческого сектора, организация семинаров	837,6	4,1
Дары, использованные для технической поддержки программ организации для функционирования организации	13.008,6	64,4
Итого	13.008,6	64,4

Обеспечение деятельности фонда

Тех средства	Прочие	
Зарплата сотрудников	2 476,4	12,3
Договора подряда	193,0	0,9
Подоходный налог	287,7	1,4
Пенсионный фонд	1 061,7	5,3
Соцстрах	202,3	1,0
Медицинское страхование	106,9	0,5
Налог на имущество	1,4	0,0
Услуги банка	35,9	0,2
Хозяйственные расходы	66,3	0,3
Почтовые расходы	82,5	0,4
	1 113,7	5,5
	80,8	0,4
	16,7	0,1
	335,2	1,7
	191,5	0,9
Итого	6.252,0	30,9

Итого расходов		
Остаток на 31.12.93	934,6	4,7

Зарплата и договора 42%



Зарплата и договора 42%

Ген. директор БФ "Душа человека" Доненко И.Е. Гл. бухгалтер Минский Ю.В.
Телефон: (095) 301-72-04

В 3 номере мы опубликуем список спонсоров БФ "Душа человека"

111194, Москва, ул. Марьяновская, 30
Тел. 301-7204, 301-1810. Факс 301-1810



United Way
International
Russia-NIS Initiative

126 Newsletter

ГАЗЕТА НЕКОММЕРЧЕСКИХ ОРГАНИЗАЦИЙ
Издается Педагогическим Объединением "Радуга" с ноября 1992 г.

Юнайтед Уэй Интернэшнл содействует развитию сильного, получающего поддержку местных властей благотворительного сектора, помогая местным благотворительным организациям работать с наибольшей эффективностью и завоевывать общественное признание

Редакция газеты
Некоммерческих организаций
Коп Фотел

ПОЗДРАВЛЯЕТ
Благотворительный фонд "Душа Человека",
их активисты и спонсоры
поздравляют участников
и организаторов конференции
и надеются, что и в дальнейшем
успешно будут работать
вместе

Воронежское отделение Российского фонда милосердия и здоровья

БЛАГОДАРИТ
руководителей
акционерных компаний
Сергея Ивановича
Мозгового и Василия
Степановича Копылова
за финансовую поддержку
(4 млн руб.) медицинским
приоритетам фонда

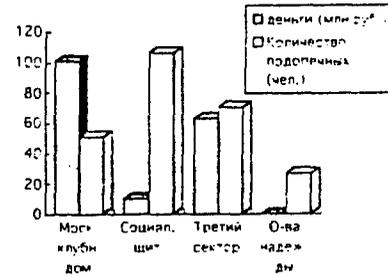
ОТЧЕТ БЛАГОТВОРИТЕЛЬНОГО ФОНДА "ДУША ЧЕЛОВЕКА" ЗА 1994 ГОД

"Душа человека" - некоммерческая негосударственная общественная организация помощи инвалидам и их семьям. Мы - группа добровольцев - врачей, социальных менеджеров, релитиозных программ, социальной, медико-психологической и организационной поддержки

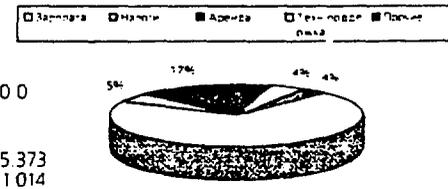
тыс руб

ПОСТУПЛЕНИЯ	
Денежные (руб)	33 199
Денежные (валюта)	158 916
В натуральной форме	5 537
Прямая оплата счетов	6 500
Неденежные целевые средства	69 128
Итого поступлений	273.283

РАСХОДЫ	
Программы фонда	
Московский клубный дом (социальная реабилитация душевнобольных, психологическая поддержка, восстановление трудовых навыков; число подопечных - 51)	100.267
Социальный щит (благотворительная столовая, снабжение продуктами, медикаментами, одеждой; число подопечных - 106)	10 127
Третий сектор Кадры (работа клуба "Профи-Нонпрофит"; число участников - 70)	63 102
Острова надежды (Ассоциация родственников душевнобольных) (подготовка метод. материалов, обучение активистов, переводы и т.д.; число участников - 26)	0 0



Обеспечение деятельности фонда (персонал 5 чел.)	
Зарплата сотруд и по договору	15 373
Налоги ичисления	1 014
Аренда, комм услуги, телефон	3 826
Техническая поддержка	830 0
Транспортные и прочие расходы	845 0
Итого	21.888
Итого расходов	195.384



Спонсоры
АБ Импернал, АКБ "Бизнес", СП "Медсервис Инт", АО "Роснедра", Росдорбанк, АО "Баярд", СП "Ахела", КБ "Юнибест", АОЗТ "Опталант", ВАО "Ассамблея", АО "Росдетспецпродукт", АОЗТ "Восток", АО "ЗВИ", ТОО "Млечный путь", АО "ОЛК", МН "Санпласт", "Нафта Москва", АО "ТД ГУМ", ЧИФ "МН-Фонд", ТД "Итема", АО "Красный октябрь", КБ "Северный торговый банк", редакция журнала "Хозяйство и право".

Частные пожертвования г-н Алавердян, г-н Гайял М Сидур, Бемер, Смирнова, Ульяева, Павлова, Новожилова, Мочалин, Неродовский, Косиненко, Монгуле, Переввердина, Миронова, Лукьянова, Исаева

Неденежные пожертвования фирма "Крафтвей", АО "Росштерн", РА "Русская Пресс Служба", АО "ЭСТ", ТОО "Оргсервис", типография "Транспечать", фирма "Патрон", фирма "Регент"

Гранты USAID (World Learning) CAF-Россия
Зарубежные партнеры International Center for Clubhouse Development (ICCD), USA, Fountain House, New York, Fontanhuset, Malmo, Sweden, European Federation of Associations of Families of Mentally ill People.

Президент БФ "Душа человека" - И.Е.Доненко (з бухгалтер - И.В.Митинки
Адрес 111394, Москва, Мартеновская ул., д 30 Тел (095) 301-72-04

**БЛАГОТВОРИТЕЛЬНЫЙ ФОНД
"СОПРИЧАСТНОСТЬ"**

**CHARITY FOUNDATION
"SOPRICHASTNOST" ("EMPATHY")**

103055, Москва, ул. Новослободская, д. 62, корп. 19, кв. 294
103055, Russia, Moscow, Novoslobodskaya, 62-19-294
Тел./Tel: (095) 972-18-06
Электронная почта/E-mail: pulse @ iptce.su
Расчетный счет 700010 в Морском акционерном банке,
корр. счет 161309 в ЦОУ при ЦБ РФ МФО 299112
Валютный счет (for currency) 070414/001 в Межрегиональном банке,
корр. счет 09011301 в Международном банке экономического сотрудничества

Поддерживая наиболее нуждающихся, пробуждая в людях чувства сострадания и милосердия, призывая их к проявлению социальной ответственности, поощряя их помогать своим ближним и самим себе, мы несем в общество согласие и мир. Мы содействуем становлению и развитию благотворительного сектора, открывая новые возможности для взаимодействия и партнерства в социальной сфере, для совершенствования социальной политики как в Москве, так и в России.

ОТЧЕТ О РАБОТЕ БЛАГОТВОРИТЕЛЬНОГО ФОНДА "СОПРИЧАСТНОСТЬ" ЗА 1992 ГОД

**ДОХОДЫ ФИНАНСОВЫЕ И
НАТУРАЛЬНЫЕ
(В ФИНАНСОВОМ ВЫРАЖЕНИИ)
(рублей):**

- пожертвования частных лиц - 118.830
 - пожертвования коммерческих фирм - 1.008.076
 - пожертвования и гранты фондов - 2.451.500
 - отчисления от хозяйственной деятельности предприятия - 1.300
 - другие источники - 66.052
- ВСЕГО: 3.874.758**

ПЕРЕЧЕНЬ НАТУРАЛЬНЫХ ПОЖЕРТВОВАНИЙ:

- компьютеры и иная электронная техника - 6 единиц
- ремонт помещения, изготовление и установка решеток на окна
- гуманитарные продовольственные посылки - 7650 кг
- одежда, обувь, книги, предметы обихода - 5.000 единиц
- газеты "Маклер" и "Кушать подано" - 17.000 экземпляров
- предоставление автотранспорта - 64 часа
- бумага для журнала "Сопричастность" - 2 тонны
- подержанная мебель - 20 единиц
- печатная продукция бесплатно - свыше 2.000 страниц

**РАСХОДЫ ФИНАНСОВЫЕ И
НАТУРАЛЬНЫЕ (В ФИНАНСОВОМ
ВЫРАЖЕНИИ) (рублей):**

- программа "Геронтология" - 66.151 (3,1%)
 - программа "Десница мира" - 1.712.129 (80,1%)
 - программа "Культура филантропии" - 299.362 (14%)
 - административные расходы и фандрайзинг - 59.373 (2,8%)
- ИТОГО: 2.137.015**

ФИНАНСОВЫЕ РАСХОДЫ ПО СТАТЬЯМ (рублей):

- заработная плата постоянных сотрудников - 190.982 (27,9%)
 - начисления на заработную плату - 89.375 (13,5%)
 - дополнительные льготы постоянным сотрудникам (проезд, оплата детского сада, медицинское страхование) - 67.230 (9,8%)
 - оплата услуг сторонних организаций - 323.676 (47,3%) в том числе:
 - полиграфические услуги - 75.000 (11%)
 - питание пожилых в столовой - 177.140 (25,9%)
 - обучение добровольцев уходу за пожилыми - 32.939 (4,8%)
 - аренда помещения, почтовые расходы, коммунальные услуги, телефон - 14.718 (2,2%)
- ИТОГО: 684.999**

ОБРАЗОВАТЕЛЬНЫЕ ГРАНТЫ

(не поступавшие на расчетный счет Фонда) - использованы для поездки на учебу в США и Великобританию двух сотрудников Фонда - \$ 4.500

ЧТО СДЕЛАНО ЗА 1992 ГОД:

- ПРОГРАММА "ГЕРОНТОЛОГИЯ":** - обслуживание на дому на долгосрочной основе 56 престарелых - групповые и индивидуальные психологические занятия с пенсионерами - 24 занятия для 73 человек - разработана и апробирована программа "Социально-психологическая адаптация к выходу на пенсию"
- ПРОГРАММА "ДЕСНИЦА МИРА":** - выдано 10.000 бесплатных обедов для пенсионеров - юридические консультации для 455 человек - обеспечено одеждой 4.000 человек, продуктовыми посылками 765 человек - выдано для реализации газет и журналов 16.000 экземпляров для 320 человек - информационно-справочные услуги получили 8.220 человек - 100 человек обеспечили миссией продуктами по дешевым ценам - помощь в трудоустройстве оказана 57 инвалидам и многодетным - проведено 30 культурных мероприятий для инвалидов и пенсионеров с охватом 2.080 человек - работает клуб литературного творчества инвалидов (10 заседаний по 30 человек)
- ПРОГРАММА "КУЛЬТУРА ФИЛАНТРОПИИ" И ЦЕНТР "ИНКОТРИС" (СОВМЕСТНО С МОСКОВСКИМ ДОМОМ МИЛОСЕРДИЯ):** - участие в подготовке и проведении 20 конференций и семинаров - вышел первый номер журнала "Сопричастность" - совместно с United Way International выпущена серия брошюр по законодательству в сфере благотворительности - участие в подготовке лекции "О благотворительности" и просвета положения "О благотворительности в Москве", в разработке концепции взаимодействия государственного и благотворительного секторов - ведется работа по созданию банка данных по российским благотворительным организациям - участие в подготовке справочника "Благотворительные организации России" - проведено 6 социологических опросов среди работников благотворительных организаций, органов социальной защиты, журналистов - консультирование руководителей благотворительных организаций и инициативных групп, тренинги и семинары - 202 организации (291 человек) - обучение добровольцев уходу за пожилыми (Колледж социального служения) - два выпуска - 38 человек - начаты выпуск газеты "Вестник благотворительности" (вышло три номера)

МЫ БЛАГОДАРИМ ЗА ПОДДЕРЖКУ И ПОМОЩЬ:

ТОО "ЭКЗОТЕРМ"	А/О "ВЫСТАВОЧНЫЙ ЦЕНТР ПРОФ. СОЮЗОВ"	СП "АС"
А/О "ДОМИНО"	ИПП "МОСТ"	СП "ЭЛЕКТРОМАТИК"
ТОО "АЛЬЯНС ТМБ"	ИПП "МЕЧНИКОВ"	А/О "АЛМАС"
Филиал "ПРОМЕТЕЙ" Центра НТТМ "ЭВРИКА"	А/О "ВОЙТКО И ПАРТНЕРЫ"	Посольство Норвегии
МП "ПРОГРЕСС" Росденибанк	МП "МАК"	Голландскую авиакомпанию
Ростепкобанк	UNITED WAY INTERNATIONAL	Редакцию газет "МАКЛЕР"
Банк "РАЗВИТИЕ"	Прогрессбанк	ИПП "ИКВАЛ"
МП "ЕМА"	Морской акционерный банк BEARR-TRUST	ИПП "ИКВАЛ"
МП "ИНТЕРПЛЕКС"	CHARITY KNOW HOW	Кооператив "КОПИР"
ТОО "БТО НАГОРНОЕ"	ASSOCIATED CATHOLIC CHARITIES JOINT	Библиотека МГУ
Московский дом милосердия	Институт политических исследований Университета Джона Хопкинса (США)	ТОО "БОИУМ"
Благотворительное общество "НЕВСКИИ АНГЕЛ" Приемник-распределитель №1	СП "ИНТЕРКРОСС"	Муниципальное предприятие "ФОНД СОЦИАЛИЗАЦИИ"
А/О "ЭКСПОЦЕНТР"	Отделение Российского пенсионного фонда по г. Москве	Столовую № 1 А/О "АВАНГАРД"
ТОО "МЕРКУРИЙ 13"	Торговый дом "АПИКО"	Редакцию газет "КУШАТЬ ПОДАНО"
А/О "ТРУД-ДИАЛОГ"	ТОО "ВИДАЛ"	Редакцию газет "РУСЬ КУПЕЦКАЯ"
	Экспериментальный завод ВНИИДМАШ	и всех российских и иностранных граждан, которые пожертвовали нам своим временем, деньгами, имуществом.

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127A



WORLD LEARNING INC.

Founded in 1932 as
The U.S. Experiment in
International Living

Section 7

Financial Control and Evaluation of NGO Activity

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AUDIT

Definitions¹

Auditing is a process for a competent independent specialist to accumulate and evaluate the properties of information subject to evaluation in quantitative terms and related to a specific economic system, with the view of defining and reflecting in his report the degree of this information's compliance with the established criteria. (E. A. Arens, G. C. Lobbeck. Audit).

Auditing is a business activity of auditors (audit firms) to carry out independent non-ministerial inspections of economic entities' accounting (financia) reports, payment and settlement documentation, tax returns and other financial liabilities and claims, as well as provide other auditing services. (*Provisional Regulations of Auditing in the Russian Federation*, approved by Decree of the President of the Russian Federation, dated December 22, 1993).

Types of Auditing

Operations auditing is auditing of any part in the procedures and methods of an economic system's functioning to evaluate its productivity and efficiency. In operations auditing, inspections are not limited to mere accounting. They can include evaluation of the organizational structure, production methods, marketing, or any other area in which the auditor is qualified.

Compliance auditing. The purpose of compliance auditing is to determine whether specific procedures or rules prescribed for the personnel by the senior management are observed. Almost any private and non-profit organization has its mandated activities, contracts, and legal norms, and compliance auditing

¹ Definitions given below, with the exception of the last one, are back translations from the Russian version of books originally published in English. Therefore, they may differ from the original English wording.

may turn out to be necessary to assess compliance with these norms.

Financial documentation auditing is carried out to define whether financial reports are consistent with the established criteria. Typically, the generally accepted accounting principles are used as criteria. The most general financial documentation includes the balance sheet, profit and loss statement, cash flow statement, and reference supplementary documents. ((E. A. Arens, G. C. Lobbeck. Audit).

Financial auditing is a systemic process of receiving and evaluating objective data on economic actions and events, that determines the degree of their consistency with a certain criterion and provides the results to the relevant users. (G. Robertson. Audit).

Audit Program: Key Units**1. AUDITING OF THE LEGAL FRAMEWORK FOR THE ORGANIZATION'S ECONOMIC ACTIVITY**

- Expert study of the organization's constituent documents (charter/articles of incorporation, constituent agreement).
- Auditing of other internal documents (minutes of the Board meetings, orders, directives).
- Auditing of economic operations' legal character.

2. AUDITING OF ACCOUNTING PRACTICES

- Auditing of accounting situation
- Auditing of cash operations
- Auditing of settling accounts with the reportable entities
- Auditing of the company's operations in its bank accounts
- Auditing of settlements
- Credits and loan accounting
- Capital investment accounting
- Long-term financial investment accounting
- Payments to the budget and extra-budgetary funds
- Auditing of the fixed and non-tangible assets
- Auditing of stocks
- Auditing of small value and wearable items
- Auditing of wages and salaries
- Production costs accounting
- Finished goods and sales accounting
- Auditing of financial reserves and the use of profit
- Auditing of the balance sheet

3. AUDITING OF TAX ACCRUAL AND PAYMENT TO THE BUDGET; MANDATORY PAYMENTS TO EXTRA-BUDGETARY FUNDS

- Expert study of the documents that determine the company's relations with the government tax inspectorate and extra-budgetary funds (registration in the tax inspection office, notification of extra-budgetary funds about the dates of transferring the company's mandatory payments, etc.).

- Auditing of tax accruals and summary notes submitted to the tax inspection office, statistics office, bank institution, Pension Fund, Employment Fund, Social Insurance Fund, Medical Insurance Fund, and other funds and organizations).
- Auditing of compliance with the schedule of tax payments to the budget and mandatory payments to extra-budgetary funds.
- Expert study of the company's statements that record its settlements with the budget and extra-budgetary funds.

4. AUDITING OF THE COMPANY'S FINANCIAL SITUATION

- Expert study of the form of ownership and charter capital distribution
- Expert study of the company's financial situation
- Expert study of cooperation contacts and sales
- Expert study of wages and salaries
- Expert study of the company's social infrastructure
- Expert study of the balance sheet structure to reveal the company's solvency
- Expert study of the company's financial performance indicators

5. CONCLUSIONS AND RECOMMENDATIONS

Conclusions are given about the overall performance and in each section of the audit program, and recommendations are provided to correct the revealed defects.

6. POST-AUDIT CONSULTING

Consultations are provided on the company's legal and economic performance, its finances, accounting and reports, tax issues, and electronic data processing.

The user's long-term servicing is provided by the auditing firm.

(M. Rappoport. Audit Objects and Instruments. Moscow, Audit-Training, 1995, p. 77).

TEMPLATE OF AN EXPERT AUDIT REPORT ON A COMPANY'S FINANCIAL AND ECONOMIC POSITION (Western model)

INTRODUCTION

- auditor's name
- purpose
- when the auditing is carried out; the report period
- brief history (who set up the firm; when)
- data on core and non-core activities

ECONOMIC DIAGNOSIS

A general characteristic of the products (services) is given, as well as their advantages and weaknesses, the company's market share, and evaluation of the company's distribution, pricing, and promotion policies.

SOCIAL DIAGNOSIS

Evaluation is given of the company's employee corps in terms of their age, social and professional characteristics, and employment policies (downsizing, job creation).

FINANCIAL AND ECONOMIC DIAGNOSIS

This section is the central one. It contains conclusions on each of the following stages:

Stage 1 - an expert moves from the company's turnover to its net assets.

Stage 2 - assets analysis in terms of economic profitability and the outcome of economic activity.

Stage 3 - financial aspect. The study is focused on the outcome of the company's financial operations.

Stage 4 - the results of the analytical study are synthesized. The expert makes general conclusions on:

- the company's achievements and potential development;
- the level of its' viability

AUDIT RESULTS

The company's advantages and weaknesses in its financial and economic performance are reported, and recommendations are given to improve the situation, as well as a forecast of the future financial and economic position.

SUPPLEMENT

Contains computations on each of the four stages of the financial and economic diagnosis.

From: *Expert Diagnosis and Auditing of a Company's Financial and Economic Situation*. Moscow, Perspektiva, 1995.

Types of Government Audits

Purpose

2.1 This is description of the types of audits that government and nongovernment audit organizations conduct and that organizations arrange to have conducted, of programs, activities, functions, and funds. This description is not intended to limit or require the types of audits that may be conducted or arranged.

2.2 All audits begin with objectives, and those objectives determine the type of audit to be conducted and the audit standards to be followed are classified as financial audit and performance audits.

2.3 Audits may have a combination of financial and performance audit objectives or may have objectives limited to only some aspects of one audit type. For example, auditors conduct audits of government contracts and grants with private sector organizations, as well as government and nonprofit organizations, that often include both financial and performance objectives. These are commonly referred to as "contract audits" or "grant audits." Other examples of such audits include audits of specific internal controls, compliance issues, and computer-based systems. Auditors should follow the standards that are applicable to the individual objectives of the audit.

Financial Audits

2.4 Financial audits include financial statement and financial related audits.

a. Financial statement audits provide reasonable assurance about whether the financial statements of an audited entity present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles. Financial statement audits also include audits of financial statements prepared in conformity with any of several other bases of accounting.

b. Financial related audit include determining whether (1) financial information is presented in accordance with established or stated criteria, (2) the entity has adhered to specific financial compliance requirements, or (3) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.

2.5 Financial related audits may, for example, include audits of the following items.

a. Segments of financial statements; financial information (for example, statement of revenue and expenses, statement of cash receipt and disbursements, statement of fixed assets); budget request; and variances between estimated and actual financial performance.

b. Internal controls over compliance with laws and regulations, such as those governing the (I) bidding for, (2) accounting for, and (S) reporting on grants, contracts (including proposals, amounts due on termination claims, and so forth).

e. Internal controls over financial reporting and/or safeguarding assets, including controls using computer-based systems.

d. Compliance with laws and regulations and allegations of fraud.

Performance Audits

2.6 A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.

2.7 Performance audits include economy and efficiency and program audits.

a. Economy and efficiency audits include determining (I) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently, (2) the causes of inefficiencies or uneconomical practices, and (S) whether the entity has complied with laws and regulations on matters of economy and efficiency.

b. Program audits include determining (I) the extent to which the desired results or benefits established by the legislation or other authorizing body are being achieved, (2) the effectiveness of organizations, programs, activities, or functions, and (S) whether the entity has complied with significant laws and regulations applicable to the program.

2.8 Economy and efficiency audits may, for example, consider whether the entity a. is following sound procurement practices; b. is acquitting the appropriate type, quality, and amount of resources at an appropriate cost;

c. is properly protecting and maintaining its resources;

d. is avoiding duplication of effort by employees and work that serves little or no purpose;

e. is avoiding idleness and overstuffing;

- f. in using efficient operating procedures;
- g. is using the optimum amount of resources (staff, equipment, and facilities) in producing or delivering the appropriate quantity and quality of goods or services in a timely manner;
- h. is complying with requirements of laws and regulations that could significantly affect the acquisition, protection, and use of the entity's resources;
- i. has an adequate management control system for measuring, reporting, and monitoring a program's economy and efficiency; and
- j. has reported measures of economy and efficiency: are valid and reliable.

2.9 Program audits may, for example

- a. assess whether the objectives of a new, or ongoing program are proper, suitable, or relevant;
- b. determine the extent to which a program achieves a desired level of program results;
- c. assess the effectiveness of the program anti/or of individual program components;
- d. identify factors inhibiting satisfactory performance;
- e. determine whether management has considered alternatives for carrying out the program that might yield desired results more effectively or at a lower cost;
- f. determine whether the program complements, duplicates, overlaps, or conflicts with other related programs;
- g. identify ways of making programs work better;
- h. assess compliance with laws and regulations applicable to the program;
- i. assess the adequacy of the management control system for measuring, reporting, and monitoring a program's effectiveness; and
- j. determine whether management has reported measures of program effectiveness that are valid and reliable.

The qualifications of the auditors and the audit organizations

Purpose

3.1. The standards described below are general standards for conducting financial and performance audits. These general standards relate to the qualifications of the staff, the audit organization's and the individual auditor's independence, the exercise of due professional care in conducting the audit and in preparing related reports.

3.2 These general standards apply to all audit organizations, both government and nongovernment (for example, public accounting firms and consulting firms), conducting audits of organizations, programs, activities, and functions and of government assistance received by nongovernment organizations.

Qualifications

The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required.

3.4 This standard places responsibility on the audit organization to ensure that each audit is conducted by staff who collectively have the knowledge and skills necessary for that audit. They should also have a thorough knowledge of government auditing and of the specific or unique environment in which the audited entity operates, relative to the nature of the audit being conducted.

3.5 The qualifications mentioned here apply to the knowledge and skills of the audit organization as a whole and not necessarily to each individual auditor. An organization may need to employ personnel or hire outside consultants knowledgeable in such areas as accounting, statistics, law, engineering, audit design and methodology, automated data processing, public administration, economics, social sciences, or actuarial science.

3.6 To meet this standard, the audit organization should have a program to ensure that its staff maintain professional proficiency through continuing education and training. Thus, each auditor responsible for planning, directing, conducting, or reporting on audits should complete, every 2 years, at least 80 hours of continuing education and training which contributes to the auditor's professional proficiency. At least 20 hours should be completed in any 1 year of the 2-year period. Individuals responsible for planning or directing an audit, conducting substantial portions of the field work, or reporting on the audit should complete at least 24 of the SO hours of continuing education and training in subjects directly related to the government environment and to government auditing. If the audited entity operates in a specific or unique environment, auditors should receive training that is related to that environment.

3.7 The audit organization is responsible for establishing and implementing a program to ensure that auditors meet the continuing education and training requirements just stated. The organization should maintain documentation of the education and training completed.

3.8 The continuing education and training may include such topics as current developments in audit methodology, accounting, assessment of internal controls, principles of management or supervision, financial management, statistical sampling, evaluation design, and data analysis. It may also include subjects related to the auditor's field of work, such as public administration, public policy and structure, industrial engineering, economics, social sciences, or computer science.

3.9 External consultants and internal experts and specialists should be qualified and maintain professional proficiency in their areas of expertise and/or specialization but are not required to meet the above continuing education and training requirements.

3.10 Qualifications for staff members conducting audits include:

a. Knowledge of the methods and techniques applicable to government auditing and the education, skills, and experience to apply such knowledge to the audit being conducted.

b. Knowledge of government organizations, programs, activities, and functions.

c. Skills to communicate clearly and effectively, both orally and in writing.

d. Skills appropriate for the audit work being conducted. For instance:

(1) if the work requires use of statistical sampling, the staff or consultants to the staff should include persons with statistical sampling skills;

(2) if the work requires extensive review of computerized systems, the staff or consultants to the staff should include persons with computer audit skills;

(3) if the work involves review of complex engineering data, the staff or consultants to the staff should include persons with engineering skills; or

(4) if the work involves the use of nontraditional audit methodologies, the staff or consultants to the staff should include persons with skills in those methodologies.

e. The following qualifications are needed for financial audits that lead to an expression of an opinion.

(1) The auditors should be proficient in the appropriate accounting principles and in government auditing standards.

(2) The auditors-accountants engaged to conduct audits should be (a) licensed certified auditors or persons working for a licensed auditing firm.

Independence

3.11 Audit organization and the individual auditors, should be organizationally independent, and should maintain an independent attitude and appearance.

3.12 This standard places responsibility on each auditor and the audit organization to maintain independence so that opinions, conclusions, judgments, and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties.

3.13 Auditors should consider not only whether they are independent and their attitudes and beliefs permit them to be independent but also whether there is anything about their situations that might lead others to question their independence.

3.14 Auditors, including hired consultants and internal experts and specialists, need to consider three general classes of impairments to independence - personal, external, and organizational. If one or more of these impairments affects an auditor's ability to do the work and report findings impartially, that auditor should either decline to perform the audit, or in those situations where that auditor cannot decline to perform the audit, the impairment(s) should be reported in the scope section of the audit report.

Personel Impairments

3.16 There are circumstances under which auditors may not be impartial, or may not be perceived as impartial. The audit organization is responsible for having policies and procedures in place to help determine if auditors have any personal impairments. Auditors are responsible for notifying the appropriate official within their audit organization if they have any personal impairments. These impairments apply to individual auditors, but they may also apply to the audit organization. Personal impairments may include, but are not limited to the following:

a. official, professional, personal, or financial relationships that might cause an auditor to limit the extent of the inquiry, to limit disclosure, or to weaken audit findings in any way;

- b. preconceived ideas toward individuals, groups, organizations, or objectives of a particular program that could bias the audit;
- c. previous responsibility for decision-making or managing an entity that would affect current operations of the entity or program being audited;
- d. biases, including those induced by political or social convictions, that result from employment in, or loyalty to, a particular group, organization, or level or government;
- e. subsequent performance of an audit by the same individual who, for example, had previously approved invoices, payrolls, claims, and other proposed payment of the entity or program being audited;
- f. concurrent or subsequent performance of an audit by the same individual who maintained the official accounting records; and
- g. financial interest that is direct, or is substantial though indirect, in the audited entity or program.

External Impairments

3.17 Factors external to the audit organization may restrict the audit or interfere with an auditor's ability to form independent and objective opinions and conclusions. For example, under the following conditions, an audit may be adversely affected and an auditor may not have complete freedom to make an independent and objective judgment:

- a. external interference or influence that improperly or imprudently limits or modifies the scope of an audit;
- b. external interference with the selection or application of audit procedures or in the selection of transactions to be examined;
- c. unreasonable restrictions on the time allowed to complete an audit;
- d. interference external to the audit organization in the assignment, appointment, and promotion of audit personnel;
- e. restrictions on funds or other resources provided to the audit organization that would adversely affect the audit organization's ability to carry out its responsibilities;
- f. authority to overrule or to influence the auditor's judgment as to the appropriate content of an audit report; and
- g. influences that jeopardize the auditor's continued employment for reasons other than competency or the need for audit services.

Internal Auditors

3.19 A federal or local audit organization, or an audit organization within other government entities, such as a public college, university, or hospital, may be subject to administrative direction from persons involved in the government management process. To help achieve organizational independence, audit organizations should report the results of their audits and be accountable to the head or deputy head of the government entity and should be organizationally located outside the staff or line management function of the unit under audit. The audit organization's independence is enhanced when it also reports regularly to the entity's independent audit committee.

3.20 Auditors should also be sufficiently removed from political pressures to ensure that they can conduct their audits objectively and can report those findings, opinions, and conclusions objectively without fear of political repercussion. Whenever feasible, they should be under a personnel system in which compensation, training, job tenure, and advancement are based on merit.

External Auditors

3.23 Government auditors employed by audit organizations whose heads are elected and legislative auditors auditing executive entities may be considered free of organizational impairments when auditing outside the government entity to which they are assigned.

Due Professional Care

Due professional care should be used in conducting the audit and in preparing related reports.

3.28 Exercising due professional care means using sound judgment in establishing the scope, selecting the methodology, and choosing tests and procedures for the audit. The same sound judgment should be applied in conducting the tests and procedures and in evaluating and reporting the audit results.

3.29 Auditors should use sound professional judgment in determining the standards that apply to the work to be conducted. The auditors' determination that certain standards do not apply to the audit should be documented in the working paper. Situations may occur in which auditors are not able to follow an applicable standard and are not able to withdraw from the audit. In those situations, the auditors should disclose in the scope section of their report, the fact that an applicable standard was not followed, the reasons therefor, and the known effect that not following the standard had on the results of the audit.

3.30 While this standard places responsibility on each auditor and audit organization to exercise due professional care in the performance of an audit assignment, it does not imply unlimited responsibility; neither does it imply infallibility on the part of either the individual auditor or the audit organization.

Quality Control

Each audit organization conducting audits in accordance with these standards should have an appropriate internal quality control system in place and undergo an external quality control review.

3.32 The internal quality control system established by the audit organization should provide reasonable assurance that it (1) has adopted, and is following, applicable auditing standards and (2) has established, and is following, adequate audit policies and procedures.

3.33 Organizations conducting audits in accordance with these standards should have an external quality control review at least once every 3 years by an organization not affiliated with the organization being reviewed. The external quality control review should determine whether the organization's internal quality control system is in place and operating effectively to provide reasonable assurance that established policies and procedures and applicable auditing standards are being followed.

3.34 An external quality control review under this standard should meet the following requirements

- a. Reviewers should be qualified and have current knowledge of the type of work to be reviewed and the applicable auditing standards.
- b. Reviewers should be independent (as defined in these standards) of the audit organization being reviewed, its staff, and its auditees whose audits are selected for review. An audit organization is not permitted to review the organization that conducted its most recent external quality control review.
- c. Reviewers should use sound professional judgment in conducting and reporting the results of the external quality control review.
- d. Reviewers should use one of the following approaches to selecting audits for review: (1) select audits that provide a reasonable cross section of the audits conducted in accordance with these standards or (2) select audits that provide a reasonable cross section of the organization's audits, including one or more audits conducted in accordance with these

f. A written report should be prepared communicating the results of the external quality control review.

3.36 Audit organizations seeking to enter into a contract to perform an audit in accordance with these standards should provide their most recent external quality control review report" to the party contracting for the audit. Information in the external quality control review report often would be relevant to decisions on procuring audit services. Audit organizations also should make their external quality control review reports available to auditors using their work and to appropriate oversight bodies It is recommended (hat the report be made available to the public.

Work Standards for Financial Audits

Purpose

4.1 This part prescribes standards of work for financial audits which include financial statement audits and financial related audits.

4.2 For financial statement audits three generally accepted standards work are:

- a. The work is to be adequately planned and assistants, if any, are to be properly supervised.
- b. A sufficient understanding of the internal control structure is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed.
- c. Sufficient competent evidential matter is to be obtained through inspection, observation, inquiries, and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.

Planning

The work is to be properly planned, and auditors should consider materiality, among other matters, in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures.

4.7 The additional planning standard for financial statement audits is:

Auditors should follow up on known material findings and recommendations from previous audits

Materiality

4.8 Auditors' consideration of materiality is a matter of professional judgment and is influenced by their perception of the needs of a reasonable person who will rely on the financial statements. Materiality judgments are made in light of surrounding circumstances and necessarily involve both quantitative and qualitative considerations.

4.9 In an audit of the financial statements of a government entity or an entity that receives government assistance, auditors may set lower materiality levels than in audits in the private sector because of the public accountability of the auditee, the various legal and regulatory requirements, and the visibility and sensitivity of government programs, activities, and functions.

Audit Follow-up

4.10 Auditors should follow up on known material findings and recommendations from previous audits that could affect the financial

statement audit. They should do this to determine whether the auditee has taken timely and appropriate corrective actions. Auditors should report the status of uncorrected material findings and recommendations from prior audits that affect the financial statement audit.

4.11 Much of the benefit from audit work is not in the findings reported or the recommendations made, but in their effective resolution, Auditee management is responsible for resolving audit findings and recommendations, and having a process to track their status can help it fulfill this responsibility. If management does not have such a process, auditors may wish to establish their own. Continued attention to material findings and recommendations can help auditors assure that the benefits of their work are realized.

Irregularities, Illegal Acts, and Other Noncompliance

4.12 Standards require the following:

- a. Auditors should design the audit to provide reasonable assurance of detecting irregularities that are material to the financial statements.
- b. Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material illegal acts.
- c. Auditors should be aware of the possibility that indirect illegal acts may have occurred. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible illegal acts that could have a material indirect effect on the financial statements, the auditors should apply audit procedures specifically directed to ascertaining whether an illegal act has occurred.

4.13 *The additional compliance standard for financial statement audits is:*

Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the determination of financial statement amounts. If specific information comes to the auditors' attention that provides evidence concerning the existence of possible noncompliance that could have a material indirect effect on the financial statements, auditors should apply audit procedures specifically directed to ascertaining whether that noncompliance has occurred.

Auditors' Understanding of Possible Irregularities and of Laws and Regulations

4.14 Auditors are responsible for being aware of the characteristics and types of potentially material irregularities that could be associated with the area being audited so that they can plan the audit to provide reasonable assurance of detecting material irregularities.

4.15 Auditors should obtain an understanding of the possible effect on financial statements of laws and regulations that are generally recognized by auditors to have a direct and material effect on the determination of amounts in the financial statements. Auditors may find it necessary to use the work of legal counsel in (1) determining which laws and regulations might have a direct and material effect on the financial statements, (2) designing tests of compliance with laws and regulations, and (3) evaluating the results of those tests. Auditors also may find it necessary to use the work of legal counsel when an audit requires testing compliance with provisions of contracts or grant agreements. Depending on the circumstances of the audit, auditors may find it necessary to obtain information on compliance matters from others, such as investigative staff, audit officials of government entities that provided assistance to the auditee, and/or the applicable law enforcement authority.

Due Care Concerning Possible Irregularities and Illegal Acts

4.16 Auditors should exercise due professional care in pursuing indications of possible irregularities and illegal acts so as not to interfere with potential future investigations, legal proceedings, or both. Under some circumstances, laws, regulations, or policies may require auditors to report indications of certain types of irregularities or illegal acts to law enforcement or investigatory authorities before extending audit steps mid procedures. Auditors may also be required to withdraw from or defer further work on the audit or a portion of the audit in order not to interfere with an investigation.

4.17 An audit will not guarantee the discovery of illegal acts or contingent liabilities resulting from them. Nor does the subsequent discovery of illegal acts committed during the audit period necessarily mean that the auditors' performance was inadequate, provided the audit was made in accordance with these standards.

4.18 The term noncompliance has a broader meaning than illegal acts. Noncompliance includes not only illegal acts, but also violations of provisions of contracts or grant agreements, standards do not discuss auditors' responsibility for detecting noncompliance other than illegal acts. But auditors have the same responsibilities for detecting material misstatements arising from other types of noncompliance as they do for detecting those arising from illegal acts.

4.19 Direct and material noncompliance is noncompliance having a direct and material effect on the determination of financial statement amounts. Auditors should design the audit to provide reasonable assurance of detecting material misstatements resulting from direct and material noncompliance with provisions of contracts or grants agreements.

4.20 Indirect noncompliance is noncompliance having material but indirect effect on the financial statements. A financial statement audit provides no assurance that indirect noncompliance with provisions of contracts or grant agreements will be detected. However, if specific information comes to the auditors' attention that provides evidence

concerning the existence of possible noncompliance that could have a material indirect effect on the financial statements, auditors should apply audit procedures specifically directed to ascertaining whether that noncompliance has occurred.

Internal Controls

4.21 Standards require the following:

Auditors should obtain a sufficient understanding of internal controls to plan the audit and determine the nature, timing, and extent of tests to be performed.

4.22 This provides guidance on the following four aspects of internal controls that are important to the judgments auditors make about audit risk and about the evidence needed to support their opinion on the financial statements:

- a. control environment,
- b. safeguarding controls,
- c. controls over compliance with laws and regulations, and
- d. control risk assessments.

Control Environment

4.23 Auditors' judgments about the control environment influence—either positively or negatively—their judgments about specific control procedures. For example, evidence indicating that the control environment is ineffective may lead auditors to question the likely effectiveness of a control procedure for a particular financial statement assertion. Conversely, based on evidence indicating that the control environment is effective, auditors may decide to reduce the number of locations where they will perform auditing procedures.

4.24 Auditors' judgments about the control environment also can be affected by the results of their tests of other internal controls. If auditors obtain evidence that specific control procedures are ineffective, they may find it necessary to reevaluate their earlier conclusion about the control environment and other planning decisions they had made based on that conclusion.

Safeguarding Controls

4.25 Internal controls over safeguarding of assets (safeguarding controls) constitute a process, effected by an entity's governing body, management, and other personnel, designed to provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

4.26 Safeguarding controls relate to the prevention or timely detection of unauthorized transactions and unauthorized access to assets that could

result in losses that are material to the financial statements, for example, when unauthorized expenditures or investments are made, unauthorized liabilities are incurred, inventory is stolen, or assets are converted to personal use. Such controls are designed to help ensure that use of and access to assets are in accordance with management's authorization. Authorization includes approval of transactions in accordance with policies and procedures established by management to safeguard assets, such as establishing and complying with requirements for extending and monitoring credit or making investment decisions, and related documentation. Safeguarding controls are not designed to protect against loss of assets arising from inefficiency or from management's operating decisions, such as incurring expenditures for equipment or material that proves to be unnecessary or unsatisfactory.

4.27 Standards require auditors to obtain a sufficient understanding of internal controls to plan the audit. They also require auditors to plan the audit to provide reasonable assurance of detecting material irregularities, including material misappropriation of assets. Because preventing or detecting material misappropriations is an objective of safeguarding controls, understanding those controls can be essential to planning the audit.

4.28 Safeguarding controls are not limited to preventing or detecting misappropriations, however. They also help prevent or detect other material losses that could result from unauthorized acquisition, use, or disposition of assets. Such controls include, for example, the process of assessing the risk of unauthorized acquisition, use, or disposition of assets and establishing control activities to help ensure that management directives to address the risk are carried out. Such control activities would include controls to permit acquisition, use, or disposition of assets only in accordance with management's general or specific authorization, including compliance with established policies and procedures for such acquisition, use, or disposition. They would also include comparing existing assets with the related records at reasonable intervals and taking appropriate action with respect to any differences. Finally, controls over the safeguarding of assets against unauthorized acquisition, use, or disposition also relate to making available to management information it needs to carry out its responsibilities related to prevention or timely detection of such unauthorized activities, as well as mechanisms to enable management to monitor the continued effective operation of such controls.

4.29 Understanding these safeguarding controls can help auditors assess the risk that financial statements could be materially misstated. For example, an understanding of an auditee's safeguarding controls can help auditors recognize risk factors such as:

- a. failure to adequately monitor decentralized operations;
- b. lack of controls over activities, such as lack of documentation for major transactions;

- c. lack of controls over computer processing, such as a lack of controls over access to applications that initiate or control the movement of assets;
- d. failure to develop or communicate adequate policies and procedures for security of data or assets, such as allowing unauthorized personnel to have ready access to data or assets; and
- e. failure to investigate significant unreconciled differences between reconciliations of a control account and subsidiary records.

Controls Over Compliance With Laws and Regulations

4.30 Auditors should design the audit to provide reasonable assurance that the financial statements are free of material misstatements resulting from violations of laws and regulations that have a direct and material effect on the determination of financial statement amounts. To meet that requirement, auditors should have an understanding of internal controls relevant to financial statement assertions affected by those laws and regulations. Auditors should use that understanding to identify types of potential misstatements, consider factors that affect the risk of material misstatement, and design substantive test. For example, the following control environment factors may influence the auditors' assessment of control risk:

- a. management's awareness or lack of awareness of applicable laws and regulations,
- b. auditee policy regarding such matters as acceptable operating practices and codes of conduct, and
- c. assignment of responsibility and delegation of authority to deal with such matters as organizational goals and objectives, operating functions, and regulatory requirements.

Control Risk Assessments

4.31 When auditors assess control risk below the maximum for a given financial statement assertion, they reduce their need for evidence from substantive tests of that assertion. Auditors are not required to assess control risk below the maximum, but the likelihood that they will find it efficient and effective to do so increases with the size of the entities they audit and the complexity of their operations. Auditors should do the following when assessing control risk below the maximum:

- a. identify internal controls that are relevant to a specific financial statement assertion;
- b. perform tests that provide sufficient evidence that those controls are effective; and
- c. document the test of controls.

Work Standards for Performance Audit

Purpose

6.1 This are work standards for performance audits. These standards also apply to some financial related audits.

Planning

6.3 In planning, auditors should define the audit's objectives and the scope and methodology to achieve those objectives. The objectives are what the audit is to accomplish. They identify the audit subjects and performance aspects to be included, as well as the potential finding and reporting elements that the auditors expect to develop. Audit objectives can be thought of as questions about the program that auditors seek to answer. Scope is the boundary of the audit. It addresses such things as the period and number of locations to be covered. The methodology comprises the work in data gathering and in analytical methods auditors will do to achieve the objectives.

6.4 Auditors should design the methodology to provide sufficient, competent, and relevant evidence to achieve the objectives of the audit. Methodology includes not only the nature of the auditors' procedures, but also theft extent (for example, sample size).

6.5 in planning a performance audit, auditors should:

- a. Consider significance and the needs of potential users of the audit report.
- b. Obtain an understanding of the program to be audited.
- c. Consider legal and regulatory requirements.
- d. Consider management controls.
- e. Identify criteria needed to evaluate matters subject to audit.
- f. Identify significant findings and recommendations from previous audits that could affect the current audit objectives. Auditors should determine if management has corrected the conditions causing those findings and implemented those recommendations.
- g. Identify potential sources of data that could be used as audit evidence and consider the validity and reliability of these data, including data collected by the audited entity, data generated by the auditors, or data provided by third parties.
- h. Consider whether the work of other auditors and experts may be used to satisfy some of the auditors' objectives.
- i. Provide sufficient staff and other resources to do the audits.
- j. Prepare a written audit plan.

Significance and User Needs

6.6 Qualitative, as well as quantitative, factor are important in determining significance. Qualitative factors can include

- a. visibility and sensitivity of the program under audit,
- b. newness of the program or changes in its conditions,
- c. role of the audit in providing information that can improve public accountability and decision-making, and
- d. level and extent of review or other forms of independent oversight.

6.8 One group of users of the auditors' report is government officials. Another important user of the auditors' report is the auditee, which is responsible for acting on the auditors' recommendations. Other potential users are the media, interest groups, and individual citizens. These other potential users may have, in addition to an interest in the program, an ability to influence the conduct of the program. Thus, an awareness of these potential users' interests and influence can help auditors understand why the program operates the way it does. This awareness can also help auditors judge whether possible findings could be significant to these other users.

Understanding the Program

6.9 Auditors should obtain an understanding of the program to be audited to help assess, among other matters, the significance of possible audit objectives and the feasibility of achieving them. The auditors' understanding may come from knowledge they already have about the program and knowledge they gain from inquiries and observations they make in planning the audit. The extent and breadth of those inquiries and observations will vary among audits, as will the need to understand individual aspects of the program, such as the following:

- a. **Purpose and goals:** Purpose is the result or effect that is intended or desired, and can exist without being expressly stated. Goals quantify the level of performance intended or desired. Management is expected to set goals for program efforts, operations, outputs, and outcomes. Auditors may use the purpose and goals as criteria for assessing program performance.
- b. **Efforts:** Efforts are the amount of resources (in terms of money, material, personnel, and so forth) that are put into a program. These resources may come from within or outside the entity operating the program. Measures of efforts can have a number of dimensions, such as cost, timing, and quality.
- c. **Program operations:** Program operations are the strategies, processes and activities the auditee uses to convert efforts into outputs. Program operations are subject to management controls,
- e. **Outputs:** Outputs are the quantity of goods and service provided. Examples of measures of output are tons of solid waste processed, number of students graduated, and number of students graduated who have met a specified standard of achievement.

f. Outcomes: Outcomes are accomplishments or results that occur (at least partially) because of services provided. Outcomes can be viewed as ranging from immediate outcomes to long-term outcomes. For example, an immediate outcome of a job training program and an indicator of its effectiveness might be the number of program graduates placed in jobs. That program's ultimate outcome and test of its effectiveness depends on whether program graduates are more likely to remain employed than similar persons not in the program. Outcomes may be intended or unintended, and they may be influenced by cultural, economic, physical, or technological factors external to the program. Auditors may use approaches drawn from the field of program evaluation to isolate the effects of the program from those of other influences.

6.10 One approach to setting audit objectives is to relate the elements of program to the types of performance audits discussed in chapter 2. For example, audits concerned with economy could focus on efforts, that is, were resources obtained at an optimal cost and at an appropriate level of quality? Audits concerned with efficiency could focus on the program operations or the relationship between efforts (resources used) and either outputs or outcomes to determine the cost per unit of output or outcome. Program audits could be concerned with determining whether program outcomes met specified goals or whether outcomes were better than they would have been without the program. Any type of performance audit could encompass program operations if auditors are looking for reasons why the program was successful or not.

Criteria

6.11 Criteria are the standards used to determine whether a program meets or exceeds expectations. Criteria provide a context for understanding the results of the audit. The audit plan, where possible, should state the criteria to be used. In selecting criteria, auditors have a responsibility to use criteria that are reasonable, attainable, and relevant to the matters being audited. The following are some examples of possible criteria

- a. purpose or goals set by management,
- b. technically developed standards or norms,
- c. expert opinions,
- d. prior years' performance,
- e. performance of similar entities, and
- f. performance in the private sector.

6.13 Much of the benefit from audit work is not in the findings reported or the recommendations made, but in their effective resolution. Auditee management is responsible for resolving audit findings and recommendations, and having a process to track their status can help it fulfill this responsibility. If management does not have such a process, auditors may wish to establish their own. Continued attention to significant

findings and recommendations can help auditors assure that the benefits of their work are realized.

Compliance With Laws and Regulations

6.28 Auditors should design the audit to provide reasonable assurance about auditee compliance with laws and regulations.

6.29 Auditors may find the following approach helpful in making their determination:

- a. Reduce each audit objective to questions about specific aspects of the program being audited (that is, purpose and goals, efforts, program operations, outputs, and outcomes).
- b. Identify laws and regulations that directly address specific aspects of the program included in the audit objectives' questions.
- c. Determine if violations of those laws and regulations could significantly affect the auditors' answers to the questions encompassed in the audit objectives. If they could, then those laws and regulations are likely to be significant to the audit objectives.

6.30 The following are examples of types of laws and regulations that can be significant to the objectives of economy and efficiency audits and of program audits.

- a. Economy and efficiency: Laws and regulations that could significantly affect the acquisition, protection, and use of the entity's resources, and the quantity, quality, timeliness, and cost of the products and services it produces and delivers.
- b. Program: Laws and regulations pertaining to the purpose of the program, the manner in which it is to be delivered, and the population it is to serve.

6.33 Auditors should exercise due professional care in pursuing indications of possible illegal acts so as not to interfere with potential investigations, legal proceedings, or both. Under some circumstances, laws, regulations, or policies require auditors to report indications of certain types of illegal acts to law enforcement or investigator authorities before extending audit steps and procedures. Auditors may also be required to withdraw from or defer further work on the audit or a portion of the audit in order not to interfere with an investigation.

6.34 The term noncompliance has a broader meaning than illegal acts. Noncompliance includes not only illegal acts, but also violations of provisions of contracts or grant agreements. Like illegal acts, these other types of noncompliance can be significant to audit objectives. The auditors' considerations in planning and performing tests of compliance with provisions of contracts or grant agreements are similar to those discussed in paragraphs 6.28 through 6.39.

6.35 Abuse is distinct from illegal acts and other noncompliance. When abuse occurs, no law, regulation, contract provision, or grant agreement is violated. Rather, the conduct of a government program falls far short of societal expectations for prudent behavior. However, because the determination of abuse is so subjective, auditors are not expected to provide reasonable assurance of detecting it.

6.36 Auditors' training, experience, and understanding of the program being audited may provide a basis for recognition that some acts coming to their attention may be illegal. Whether an act, in fact, is illegal is a determination normally beyond auditors' professional capacity. However, auditors are responsible for being aware of vulnerabilities to fraud associated with the area being audited in order to be able to identify indications that fraud may have occurred. In some circumstances, conditions such as the following might indicate a heightened risk of fraud:

- a. Auditees offer unreasonable explanations to the auditors' inquiries.
- b. Auditees are annoyed at reasonable questions by auditors.
- c. Auditees refuse to provide records.

Management Controls

6.39 Auditors should obtain an understanding of management controls that are relevant to the audit. When management controls are significant to audit objectives, auditors should obtain sufficient evidence to support their judgments about those controls.

6.40 Management is responsible for establishing effective management controls.

6.41 Management controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. The following classification of management controls is intended to help auditors focus on understanding management controls and in determining their significance to the audit objectives.

- a. Program operations: Controls over program operations include policies and procedures that management has implemented to reasonably ensure that a program meets its objectives. Understanding these controls can help auditors understand the program operations that convert efforts to outputs.
- b. Validity and reliability of data. Controls over the validity and reliability of data include policies and procedures that management has implemented to reasonably ensure that valid and reliable data are obtained, maintained, and fairly disclosed in reports. These controls help assure management that it is getting valid and reliable information about whether programs are operating properly. Understanding these controls can help auditors (l)

assess the risk that the data gathered by the entity may not be valid and reliable and (2) design appropriate tests of the data.

c. Compliance with laws and regulations: Controls over compliance with laws and regulations include policies and procedures that management has implemented to reasonably ensure that resource use is consistent with laws and regulations. Understanding the controls relevant to compliance with those laws and regulations that the auditors have determined are significant can help auditors assess the risk of illegal acts.

d. Safeguarding resources: Controls over the safeguarding of resources include policies and procedures that management has implemented to reasonably ensure that resources are safeguarded against waste, loss, and misuse. Understanding these controls can help auditors plan economy and efficiency audits.

6.43 The need to test management controls depends on their significance. The following are examples of circumstances where management controls can be significant:

a. In determining the cause of unsatisfactory performance if that unsatisfactory performance could result from weaknesses in specific management controls.

b. When assessing the validity and reliability of performance measures developed by the audited entity. Effective management controls over collecting, summarizing, and reporting data will help ensure valid and reliable performance measures.

Evidence

6.46 Sufficient, competent, and relevant evidence is to be obtained to afford a reasonable basis for the auditors' findings and conclusions.

6.47 Evidence may be categorized as physical, documentary, testimonial, and analytical. Physical evidence is obtained by auditors' direct inspection or observation of people, property, or events. Such evidence may be documented in memoranda, photographs, drawings, charts, maps, or physical samples. Documentary evidence consists of created information such as letters, contracts, accounting records, invoices, and management information on performance. Testimonial evidence is obtained through inquiries, interviews, or questionnaires. Analytical evidence includes computations, comparisons, separation of information into components, and rational arguments.

6.54 The following presumptions are useful in judging the competence of evidence. However, these presumptions are not to be considered sufficient in themselves to determine competence.

a. Evidence obtained from a credible third party is more competent than that secured from the auditee.

b. Evidence developed under an effective system of management controls is more competent than that obtained where such controls are weak or nonexistent.

c. Evidence obtained through the auditors' direct physical examination, observation, computation, and inspection is more competent than evidence obtained indirectly.

d. Original documents provide more competent evidence than do copies.

e. Testimonial evidence obtained under conditions where persons may speak freely is more competent than testimonial evidence obtained under compromising conditions (for example, where the persons may be intimidated).

f. Testimonial evidence obtained from an individual who is not biased or has complete knowledge about the area is more competent than testimonial evidence obtained from an individual who is biased or has only partial knowledge about the area,

6.56 The auditors' approach to determining the sufficiency, competence, and relevance of evidence depends on the source of the information that constitutes the evidence. Information sources include original data gathered by auditors and existing data gathered by either the auditee or a third party. Data from any of these sources may be obtained from computer-based systems.

QUESTIONNAIRE TO IDENTIFY AUDIT RISKS AND PROVIDE AN OVERVIEW OF INTERNAL CONTROLS

INTRODUCTION

This questionnaire is designed to help the auditor plan the scope and emphasis of an engagement in accordance with OMB Circular A-110. It is an optional tool and should be adapted to meet the circumstances at a particular organization. The questions are examples of areas to be considered; they are not all-inclusive.

This questionnaire is generally designed for large organizations. For smaller organizations many of the questions may not be relevant and should be answered accordingly.

Management

Information

List the names and titles of individuals who have responsibility for financial and administrative control and the approximate dates each assumed his present position:

Risks

Are there management characteristics which could effect vulnerability to disallowance?
Consider:

- High turnover rate in key financial personnel;
- Lack of supervision by management;
- Inadequate or poorly trained clerical and "first-line" supervisory personnel; and
- Conflicts of interest.

Organizational Structure

Information

List the names and locations of the major departments, etc., in which sponsored activities take place and indicate the approximate annual operating budget and level of sponsored activity for each activity:

Department	Operating Level Total and Program
_____	_____ / _____
_____	_____ / _____
_____	_____ / _____
_____	_____ / _____

Risks

Are there risks associated with the organizational structure? Consider:

- Extreme decentralization of responsibility to individuals not familiar with Federal regulations or lacking financial expertise;
- Lack of segregation of duties; or
- Is there a single unitary system or are there multiple systems being operated by the organization.

Organizational Activity

Information

Indicate below the office or person who has primary responsibility for accountability for Federal funds in each of the following areas:

- a. Financial reporting _____
- b. Cash management _____
- c. Procurement _____

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- | | | |
|----|---|--|
| d. | Invoice clearance and cash disbursement | |
| e. | Labor distribution | |
| f. | Cost sharing | |
| g. | Property management | |
| h. | Proposal and acceptance | |
| i. | Organizational prior approval/rebudgeting | |
| j. | Indirect cost calculation | |
| k. | Indirect cost negotiation | |
| l. | General accounting and account reporting | |
| m. | Accounting for fringe benefits | |
| n. | Allowability, allocability, and reasonableness of costs | |

Risks

Is there evidence that the organization has failed to fix the locus of administrative responsibility for Federal programs? Consider:

- Is there an overall atmosphere of control, definition, and organization of Federal programs?
- Is there no one person with sufficient knowledge of Federal Regulations, or is too much reliance placed on a single person?
- Does the organization provide an adequate "pre-audit" of Federal program related transactions?

Financial Position

Information

May include the financial statements of the organization for the past few years. A detailed, current budget might also be helpful.

Risks

Are there questions as to the financial position of the client or any of its departments?
Consider:

- Deteriorating trends in current operating results of the entity or of particular departments in recent years;
- Increasing reliance on Federal sponsorship of key programs;
- Insufficient cash flow to meet operations or debt payments;
- Impending refunding of debt;
- Unusual circumstances, such as severe liquidity problems;
- Proceeds of short-term borrowings invested in long-term assets;
- Potential noncompliance with restricted covenants;
- Unusual interfund transfers, or interfund balances which are not settled for some time;
- Departures from generally accepted accounting principles;
- Inconsistent application of accounting principles;
- Extraordinary items in the past; and
- Unusual adjustments at the end of an accounting period, or significant adjustments on the basis of an audit.

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Federal Audit History

Information

1. Obtain the following information from the organization, the cognizant audit agency and/or other Federal agencies which provide funding to the organization:

<u>Dept.</u>	<u>Year(s) Audited</u>	<u>Report Date</u>	<u>Response Date</u>	<u>Disallowances</u>	<u>Significant Weaknesses</u>
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

2. Obtain a copy of:

- a. the latest prior audit report;
- b. the prior cognizant agency transmittal letter; and
- c. the audit clearance document related to the prior audit report if that report had findings and recommendations to be resolved which related to Federal programs.

Risks

Is there a history of unsatisfactory findings in past Federal audits? Consider:

- Timeliness of response to or program for complying with Federal regulations;
- Prior audit reports and audit clearance documents indicating the resolution of prior audit findings;
- Findings of past audits;
- Unresolved present findings;

Cash Receipts and Program Income

Information

Briefly describe the significant records, documents, files, journals, ledgers, and reports of the system. This may be done either on this form, in an overview flowchart, or in combination. Be sure to include relevant information not produced as part of the normal processing cycle (e.g., on request, quarterly, annually, etc.):

Questions

1. How does the organization ensure that all cash received is deposited promptly in the bank and credited to the proper project?
2. How does the organization ensure the completeness, accuracy, and timely submission of all periodic reports, related to cash receipts and disbursements, to the government?
3. How does the organization reconcile cash receipts and control accounts?
4. Does the organization have a systematic way of soliciting and accepting Federal support? Consider:
 - a. Occurrence of "problem" projects;
 - b. "Gaps" in funding particular support personnel;
 - c. Establishment of "suspense accounts" to which expenses may be charged before grants or contracts are approved; and

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- d. Lack of control over assignment of grant and contract account numbers, so that expenses may be charged to accounts which are not yet funded.

Risks

Is there a risk that the organization is drawing down Federal funds for other than their intended purpose? Consider:

- Are advances under the letter of credit system drawn down as soon as Federal awards are received?
- Has it been some time since program drawdowns were reconciled with expenditures?
- Are funds commingled with general funds, so that the organization cannot identify them?
- Are interfund loans made to other programs?
- Are high cash deposits maintained with banks to cover the costs of bank services such as payroll preparation or free checking?

Record Retention

Information

Briefly describe the major locations of financial and administrative records which may be used in the examination:

payroll records

invoices

grant correspondence

Risks

Is there a history of difficulty in receiving sufficient documentation from the organization?

Cost Sharing and Matching

Information

Describe the organization's cost-sharing arrangement.

organizational

individual projects

negotiated percentage

types of costs cited most frequently

any special arrangements

Questions

1. How does the organization ensure the completeness, accuracy, and timeliness of cost-sharing reports?
2. How does the organization determine that it has met cost-sharing goals? Is there a periodic comparison of budgeted and actual amounts?
3. Is voluntary cost sharing a significant factor at the organization, or are all expenses on Federal projects accounted for and charged to the projects?

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Risks

- Is there risk that cost sharing and matching funds cannot be identified or documented?
- Does the organization aim to meet minimum cost-sharing or matching requirements, or is there some "cushion" of costs voluntarily shared?
- Has the organization regularly accumulated cost-sharing or matching amounts and compared them with amounts required?
- Is there some control which ensures that expenses used for the purpose of cost sharing or matching are not charged directly or indirectly to Federal projects?
- Does the organization have time sheets for volunteer services performed?
- Does the organization use appraisal values for contributed space and equipment?

General Standards for Financial Management Systems

Information

Briefly describe the significant records, documents, files, journals, ledgers, and reports of the system. This may be done either on this form, in an overview flowchart, or in combination. Be sure to include relevant information not produced as part of the normal processing cycle (e.g., on request, quarterly, annually, etc.):

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Questions

1. Are there any special procedures to ensure the accuracy and completeness of periodic financial reports submitted to:

Managers _____

Government
 officials _____

2. Do the accounting reports include budget and cost data for each project?
3. Are the reports prepared and distributed in a timely manner to assure that they are useful in the management of the projects?

Risks

Is there a general lack of control over financial transactions?

- Does the central financial office consider the director's signature sufficient evidence of the reasonableness, allowability, and allocability of an expense, before processing the item for payment?
- Does the accounting system lack the integrity to identify receipts and expenditures by project and type?
- Are there excessive journal entries, transferring costs from one project to another?

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Questions

1. Are there any special procedures (analytical reviews, reconciliations, comparison to budget, etc.) to ensure the completeness and accuracy of payroll information?
2. Describe how the organization assures that all changes to standing payroll data are authorized.
3. Describe how the organization ensures the accuracy and completeness of labor distribution data.
4. Describe how the calculation of pay is checked.
5. Describe how the organization ensures that payrolls are summarized accurately.

Risks

Consider:

- Are there a number of projects in which there is a risk that an individual may be paid twice for the same effort?
- Do distributions of salary as direct and indirect costs, and as costs cited for cost sharing, come from a single system, or is there a risk that more than 100% of an individual's time can be distributed because these charges are made from systems which are not reconciled with each other?
- Are salaries and wages distributed to Federal projects solely on the basis of the budget?

Cash Disbursement

Information

Briefly describe the significant records, documents, files, journals, ledgers, and reports of the system. This may be done either on this form, in an overview flowchart, or in combination. Be sure to include relevant information not produced as part of the normal processing cycle (e.g., on request, quarterly, annually, etc.):

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- Prevent the identification of unallowable costs for Federal programs?
- Is there a regular reconciliation of bank accounts?
- Prevent unauthorized payments?

Procurement

Information

Briefly describe the means by which the organization procures:

1. supplies and routine services _____

2. consultants and professional services _____

3. construction _____

4. oil, gas, etc. _____

5. equipment and supplies _____

6. computers _____

7. subcontract services _____

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8. other _____

9. total volume of procurements _____
10. total percentage of volume placed centrally _____

Questions

1. How does the organization ensure that it has received the best "deal" on each procurement action, taking into account both economic and other factors?
2. How does the organization ensure that procurements of restricted items, such as equipment, renovation, foreign travel, etc., have been approved in advance either in the award budget or in a special request?
3. How does the organization ensure that procurements are not for items already on hand or available at another location?

Risks

Consider:

- Can anyone commit the organization to a purchase, or will it honor only those purchases placed by a purchasing department?
- Is there a tradition in practice of competitive bidding or price negotiation?
- Are purchases of equipment and other charges paid using normal procedures, or does the organization have some manner by which they require prior agency approval for these purchases?

Cost Transfers and Other Journal Entries

Information

Describe the organization's system for cost transfers and related journal entries.

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Questions

1. Does management often have multiple sources of funding, among which they might allocate expenses without sufficient justification?
2. Do journal entries represent a significant portion of Federal transactions?
3. Is departmental approval sufficient to process a journal entry or is there a central review?
4. Are a significant proportion of expenditure reports and final vouchers submitted late? Do they routinely show expenditures which are exactly equal to budgeted amounts?
5. Is there a significant number of journal entries processed at the end of the fiscal year?

Risk

Consider the possibility of transfers made from over-expended programs to new programs that are unrelated in purpose.

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Property Management

Information

Briefly describe the systems in place for accounting for:

- 1. property owned by the government _____

- 2. property owned by the organization .

Questions

- 1. Are there periodic physical inventories?

- 2. How does the organization discourage the purchase of redundant equipment?

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3. How are disposals and transfers accomplished and accounted for?

Risks

Is there a lack of accountability for property and equipment? Consider:

- Lack of central equipment records;
- Failure to update such records, or to reconcile the records with periodic physical inventories of equipment; and
- Poor control over surplus equipment, and commingling of Federal equipment with organizational property.

Revision of Financial Plans

Information

List the official who is responsible for budgetary changes?

Questions

1. Does the director regularly rebudget line items in order to reflect current circumstances?
2. How does the organization ensure that "restricted" budget categories, and agreement budgets in total, are not overspent?
3. Does the organization's annual budgeting process include direct and indirect costs of projects?

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Risks

Is there a failure to attend to line item budget restrictions? Consider:

- Consistent overexpenditure of certain categories through underexpenditure in others; and
- Absence of agency approval for rebudgeting.

Indirect Costs

These questions and comments are not applicable for organizations that do not have an indirect cost rate.

Information

Briefly set forth general information regarding indirect costs:

1. Departments having separate overhead rates and costs allocated to each:

	<u>Department</u>	<u>Costs</u>
a.	_____	_____
b.	_____	_____
c.	_____	_____

2. Direct Cost (_____) or salary base (_____) in dollars .
3. Rate _____
4. Last year audited _____
5. Carryforward (if any) _____
6. Method used (negotiated fixed rate, predetermined, etc.) .

7. Are calculations computerized? .
8. Any major cost studies? .

Questions

1. How does the organization ensure that costs allocated through indirect cost pools were allowable under the Federal cost principles?
2. How does the organization ensure that calculations of indirect cost proposals were complete, accurate, and in accordance with the regulations?
3. How does the organization ensure that direct costs were not also included as indirect costs?
4. Are proposals up to date or was there an unusual delay in submission?

Risks

Were indirect costs calculated consistently and on the basis of up to date data? Consider:

- Did the organization have a history of maximizing indirect cost reimbursement?
- Were expenses included in indirect cost pools without consideration for their allowability?
- Were proposals submitted without proper supervisory review of judgments, assumptions, or calculations?
- Was the organization aggressive in trying to limit carryforwards, or had actual costs consistently exceeded negotiated amounts?

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- Had a proportionately high amount of indirect costs been reimbursed by the government?
- Were cost studies rudimentary or out of date?
- Had the latest proposal been prepared in accordance with OMB Circular A-122 or its interpretations?
- Did the organization include indirect costs in its carryforward which had not been absorbed because of agency limitations, or because of direct cost overruns on particular projects?
- Were allocations to projects made on a consistent basis? For example, if the total square footage of a building, including common rooms, was allocated to projects, was the denominator of total square footage for the building based on the same square footage or is it usable square feet instead?
- Were bid and proposal costs and costs of peer reviews included without limitation?
- Was there an opportunity to charge costs both as direct and indirect costs (e.g., is it possible for an individual to charge projects directly for certain time, while the rest of his activity, which cannot be attributed directly to a project, went into the indirect cost pool, when a part should be assigned directly to other activities)?
- Were eliminations from the indirect cost pool made consistently?
- If direct costs were transferred from one project to another, was there an automatic adjustment of the related indirect costs?
- Was an under or over absorption of fringe benefit expense in a particular year considered in the determination of rates in successive years?

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- Were there excessive reserves for fringe benefit claims which were incurred but not reported? Were these reserves supported by actuarial calculations?
- Does the organization's accounting system assign indirect costs and fringe benefits only to projects (because it is required), or were these allocated to all the organization's expenses in a consistent manner?

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WORLD LEARNING INC.

Founded in 1932 as
The U.S. Experiment in
International Living

Section 8

Resource Materials

THE WORLD OF NON-PROFIT (PUBLIC) ORGANIZATIONS IN THE USA

It includes: churches, schools, colleges and universities; research institutions; social services, arts and culture organizations; public development organizations; charities.

They involve more citizens than the federal and state government authorities taken together.

Their combined annual budgets exceed the national budget by about 7 times.

The number of volunteers is over 70 million of the U.S. adults and teenagers.

70 percent of the U.S. families make annual donations to the non-profits.

WHAT IS A NON-PROFIT?

1. Profit is not distributed among individuals.
2. It has a certain mission.

NON-PROFITS STATISTICS

About 1.25 million of non-profit (public) organizations are operating in across the United States.

They employ 8 million people, or 7 percent of the total employment.

Compare this to the following:

Construction employs 5 million.

Electronics employs 2 million.

Textiles employ 1.8 million.

Employment growth in 1972 through 1982 in the following sectors:

non-profit (public)	43 percent
profit (business)	21 percent
government	19 percent
overall	22 percent

In 1982 through 1984 (under President Reagan) the rate of employment growth declined in the non-government institutions, but somewhat recovered after 1986.

VOLUNTEERS

Half of the U.S population, 18 years and older, provide volunteer services at least once a year.

A quarter of the population volunteer once a week.

Their contribution to economy is assessed at about US\$ 150 billion.

NON-PROFITS' IMPLICATIONS FOR ECONOMY

They pay US\$ 75 billion to 5.6 million of their employees.

They purchase US\$ 52.6 billion worth of goods and services.

They make an equivalent of almost 3.5 percent of GDP.

INCOME SOURCES

	US\$ billion	%
Contributions, charges, fees	112.5	38
Allocations	82.2	27
Government contracts	81.2	27
Income from investment	15.9	5
Miscellaneous	8.1	3
	<hr/>	
	300	

SOURCES OF DONATIONS

	US\$ billion	%
Individuals	77	82.0
Behests	6	6.4
Foundations	6.4	6.8
Corporations	4.5	4.8
	<hr/>	
	93.9	

BENEFICIARIES, BY TYPE

	%
Religion	47
Health care	15
Education	12
Public services	10
Arts and culture	6.8
Social and public workers	2.6
Other	7.3

Что может дать обучение управлению финансами (успешный опыт)

Всемирный Институт по проблемам инвалидности (World Institute of Disability) и его российский партнер Всероссийское Общество Инвалидов работают по программе, цель которой - дальнейшее операционное и коммуникационное развитие бизнес-структур, связанных с ВОИ. В рамках этой программы планируется проведение семинаров по написанию бизнес-планов и подготовке бизнес-консультантов в пяти регионах России. Осуществляя свой проект по проведению обучающих семинаров на тему "Финансовое управление", осенью этого года они провели семинар, основной задачей которого было - научить правильному и грамотному составлению бизнес-плана.

Насколько необходимы и полезны такие мероприятия могут свидетельствовать приведенные ниже два примера успешного применения полученных на этом семинаре знаний на практике.

Пример 1:

До семинара на Стерлитамакской фабрике "Дружба" не было компьютера. Участие в семинаре убедило директора фабрики в необходимости его приобретения. В настоящее время фабрика имеет компьютер и программное обеспечение, начато обучение ведущих специалистов по работе с ним.

Благодаря полученным знаниям в ходе семинара и с помощью программы "SUCCESS" был самостоятельно разработан бизнес-план на производство мягкой игрушки. Работа над бизнес-планом укрепила полученные в ходе семинара знания и позволила применить их на практике. Особенно ценным на сегодняшний день для фабрики является применение плана движения денежных средств. Он помогает более четко и оперативно влиять на производственный процесс и реализацию продукции, а значит улучшает экономические результаты работы предприятия. На фабрике также усилена служба маркетинга.

Программа семинара и его практические результаты вызвали большой интерес у руководителей подобного рода предприятий. У них возникла заинтересованность в продолжении сотрудничества с ВИПИ и желание расширить тематику семинаров.

Пример 2:

Учеба по составлению бизнес-плана помогла не только директору предприятия "Художественные кисти" ВОИ (Киров), но и части управленческого персонала. Было обращено внимание на такие важные моменты, как конкуренция, цены, сильные и слабые стороны предприятия и его продукции, поставляемой на экспорт. Особое внимание при составлении бизнес-плана было уделено разделу - финансовый план, при подготовке которого возникли определенные трудности.

После проведения второй части семинара предприятию удалось через некоторое время преодолеть многие, ранее возникавшие проблемы. После правильно составленного бизнес-плана руководство предприятия смогло определиться с суммами и направлениями инвестирования. В настоящее время ведутся переговоры с инвесторами.

Коллектив уверен в том, что результат применения полученных знаний на практике не заставит себя долго ждать.

ЗАКОН "ОБ ОБЩЕСТВЕННЫХ ОБЪЕДИНЕНИЯХ": ЭКСПЕРТЫ ГОВОРЯТ

Нина Беляева, "Интерлигал"
7 июня 1995

Не все читают внимательно "Российскую газету", не все слушали Филатова, который представлял этот закон, поэтому одна из задач нашего фонда и нас с вами — чтобы люди знали, что такой закон есть, что он даст много новых прав.

Итак, 25 мая вступил в силу новый закон, провозглашающий новый принцип отношений гражданского общества и государства. Новое в нем то, что теперь граждане имеют право на объединение независимо от разрешения на это государственных органов, в том числе Минюста. Об этом говорит статья третья, которая раскрывает содержание права на объединение. Там есть такое положение: организация считается созданной с момента проведения учредительного собрания, утверждения устава и выборных руководящих органов. То есть организация считается созданной и таким образом легитимной с момента ее создания, а не с момента получения печати и штампа Минюста.

Мы считаем это принципиальнейшим положением, вокруг него шла основная борьба по закону. Ведь Гражданский кодекс говорит о юридических лицах, Гражданский кодекс говорит о гражданском обороте, и там совершенно ясно написано, что не может быть субъекта гражданского оборота без регистрации юридического лица. Поэтому основным аргументом со стороны правового управления, Минюста, Совета безопасности, милиции было именно это положение: организация может считаться созданной только с момента регистрации. В реальной жизни это означает разрешение Минюста или запрещение Минюста. Мы же считаем совершенно принципиальным вернуться к международному принципу, когда право создания организации не ограничивается предварительным разрешением властей.

В законе прошла такая формулировка — мы очень признательны депутатам и президенту, что они поддержали эту позицию — сказано там буквально следующее: граждане имеют право на объединение в ассоциации, на создание независимого объединения, которое считается созданным с момента проведения учредительного собрания, принятия устава и выбора руководящих органов и может существовать без регистрации и прав юридического лица и выполнять свои уставные задачи (то есть организация не просто считается вообще созданной — она должна начать работать), либо — продолжение фразы — зарегистрироваться, если она это сочтет необходимым, и приобрести права юридического лица. То есть в одной статье совершенно прямо и четко говорится, что это выбор организации, она может сама решать, будет она регистрироваться или нет, это не делает ее менее законной или менее легитимной.

Если организации свободны в своем создании, то и правовые формы, которые они выбирают, предусматривают возможность существования этих форм без регистрации. Статьи с 6 по 12 описывают различные формы существования таких организаций — мы описали все существующие на сегодняшний день и теоретически возможные формы существования таких общественных организаций, независимо от того, создают они юридическое лицо по гражданскому кодексу, или нет. Формы это следующие.

Традиционная форма членской организации, с которой все знакомы и которая была единственной до сих пор возможной формой, основана она на принципах демократического централизма: члены организации выбирают совет, совет ответственен перед членами, члены могут его переизбрать. При этой форме собственностью управляет только общее собрание, и

именно только общее собрание вправе решать, как будет расходоваться бюджет организации.

Другая форма объединения — движение. Принципиальное его отличие в том, что здесь не существует членства, это просто участники движения, которые не имеют такой прямой связи, как члены, то есть не имеют, скажем, возможности влиять на финансовую политику, не имеют прав переизбрать руководящие органы и т.д., потому что участники, например, Дем-России, или какого-то другого массового движения считаются только присутствующими на митинге, их даже посчитать очень трудно, и тем более невозможно передать участникам права принятия решений. В этом случае все решения принимают руководящие органы движения. Есть формы их легитимации, в частности, на съезде — когда проводится большой съезд движения, их формально утверждают, но потом программой и бюджетом управляют именно эти



Н.Беляева комментирует новый закон.

руководящие органы. Участники движения не могут предъявлять никаких претензий, что дескать мои права как члена не учитываются — если они хотят иметь членскую организацию, они должны работать в другой правовой форме, это должны понимать и участники движения, и члены общественных организаций.

Следующая форма — общественное учреждение. И раньше существовали советские или государственные учреждения. Сейчас у нас появилась возможность создавать негосударственные, поэтому их назвали «общественные учреждения». Таких форм создано на самом деле очень много — начиная от частной школы и студий работы с детьми по месту жительства, школы каратэ, которую старый мастер спорта создал в своем дворе, и заканчивая благотворительной столовой или приютом. Здесь нет членов, нет участников, а определяющим принципом является предоставление социальных услуг. Очень много благотворительных, экологических, научных и культурных организаций создаются именно по принципу учреждения, когда есть директор, который нанимает штат сотрудников, управляющих имуществом,

которым он сам владеет. Здесь главное лицо — учредитель, который имеет собственность (либо это моя квартира, либо моя машина, на которой я развожу гуманитарную помощь, либо это моя личная интеллектуальная собственность, которой я делюсь с людьми, либо навыки педагогической работы, или методики тренинга, которые я как тренер могу отдавать бесплатно, продавать и т.д.). Форма учреждения необходима в том случае, когда нет отношений членства, когда люди объединяются не для того, чтобы решать совместные проблемы, как в членской организации или в клубе, а когда есть разделение между тем, кто услугу предоставляет и тем, кто её получает. Это принципиально разные отношения, и в этом случае форма учреждения гораздо более адекватна, поэтому она и была легитимирована. Если учреждение при этом официальное юридическое лицо, оно действует в рамках гражданского кодекса.

Следующая — форма фонда, которая тоже описана в гражданском кодексе. Отличие фонда в первую очередь в том, что снимается необходимость членства, которая всегда была опорным пунктом для создания фонда. Даже частным фондам, как Каспарова или Осипяна, приходилось придумывать десять каких-то учредителей, чтобы как-то подделаться под существующий порядок Минюста. По новому закону учредителями могут быть не менее трех физических лиц, потому что желания одного-единственного человека недостаточно, должен быть минимальный совет директоров, даже в фонде Каспарова пять членов Совета директоров. Это могут быть члены семьи, то есть ни собственность, ни управление не выходят за пределы интересов конкретной семьи, но тем не менее должно быть как минимум три человека, которые создают любое общественное объединение, в том числе и фонд. Не думаю, что будет большим препятствием для учредителя найти двух соратников, пусть даже членов семьи, которые могли бы поддержать его инициативу создать частный фонд. Отличительный признак фонда — наличие имущества. Для учреждения тоже очень важно наличие собственности, но там может быть просто интеллектуальная собственность, для фонда же необходимо наличие материального имущества. До сих пор у нас образовывались фонды, которые не имели ни копейки, только ходили с протянутой рукой и собирали деньги. Это неестественная ситуация, фонд — это организация, которая делится своими ресурсами, раздаёт их, предоставляет услуги, предоставляет возможности. Она может быть и получателем, и «отдавателем», но тем не менее в соответствии с новым гражданским кодексом не может существовать фонд, не имеющий ресурсов. Фонд — учреждение, которое создаётся на основе вкладов учредителей, это могут быть и юридические лица, общественные объединения, и лично граждане. В любом случае у фонда должен быть

некий финансовый и материальный ресурс, а дальше он преследует общественно значимые социальные цели и по гражданскому кодексу, и по нашему закону. Соответственно управляет имуществом совет директоров или правление фонда.

Наконец, последняя форма — орган общественной самодеятельности (community board), который был у нас, активно работал, был в советском законодательстве о местных советах, а потом о нем забыли, как бы потеряли эту форму. Это известные всем домкомы и уличные комитеты (сейчас их стало образовываться очень много уже в новом измерении), стачкомы и рабочкомы на предприятиях (их легализация вызвала восторг у независимых профсоюзов), это советы при библиотеках, родительские советы при школах, советы при поликлиниках, то есть все те органы, которые непосредственно на месте работы, учёбы или проживания занимаются интересными людьми, связанными с местом работы, учёбы или проживания. Благоустройство собственной территории, своего дома, футбольная команда, студенческие кружки, рабочие кассы, женсоветы — суть органы общественной самодеятельности. Отличительная их черта, что у них тоже нет членства, нет членских билетов, у них есть участники, есть организаторы, у них полностью инициативный принцип и над ними нет никаких вышестоящих органов. Они суть инициатива. Теперь эта форма легитимирована полностью, органы общественной самодеятельности по месту жительства могут стать юридическими лицами, приобретать имущество и т.д.

Это что касается непосредственно общественных объединений. Ещё остановлюсь на статье 17, которая говорит об отношениях с государством.

Одной из задач этого закона было разделить сферу государственного управления, государственного администрирования и управления бюджетом от сферы гражданской активности. Дело в том, и примеров этому очень много, что государство, как бы подделываясь под общественные инициативы, является инициатором разных квазигосударственных структур, которые называет общественными. Идет бесконтрольная перекачка государственных ресурсов и средств. Причем это всё представляется "ведь это всё нужно обществу", а в результате всё достаётся управляющему механизму.

По новому закону запрещено государственным органам быть учредителями общественных объединений, учредителями могут быть только физические лица и отдельные граждане, либо юридические лица, которые являются общественными объединениями. Таким образом, сферы государственного управления и общественной инициативы разведены. При этом если, скажем, у правозащитных организаций полное отторжение от государственной сферы, считается даже непри-

личным использование госсредств, поскольку они считают смыслом своей деятельности отчасти противостояние государству, то организации социальной помощи, работающие с инвалидами, беженцами, детьми, всерьёз рассчитывают и вправе рассчитывать на поддержку государственного бюджета, поскольку это осуществление тех социальных программ, которые государство и обязано предоставлять своим гражданам. Мы предусмотрели конкретные формы в этой же статье, по которым государство вправе оказывать помощь общественным объединениям. Вот эти формы.

Выделение государственных грантов, когда общественное объединение, представляя свою программу, говорит: вот что мы хотели бы сделать, и им предоставляют такую возможность. Такая практика существует во всех странах, в том числе в США, вот сейчас USAID финансирует деятельность и развитие общественных объединений в России, приблизительно 70 миллионов долларов — это чисто государственный грант, и американские общественные организации соревнуются за право управлять этими деньгами и работать здесь в России.

Вторая форма — выделение конкретных субсидий поддержке конкретных социальных программ, то есть в области здравоохранения, в области педагогики, разработка новых методик, создание экспериментальных школ, и вообще если у людей есть новые технологии, они вправе предложить свои программы государственным органам, просить их поддержки, и уже дело государственного органа решить, поддержать или нет.

И третья — это форма контракта, выполнение услуг, т.е. когда уже есть государственная программа, государственная инициатива (работа с беженцами, работа с инвалидами, с престарелыми), и как бы не хватает рук у государства, не хватает новых методик — тогда оно обращается к Союзу инвалидов, к Женскому форуму, к Социально-экологическому союзу и предлагает: мы вам поручаем это сделать, вот вам контракт. Контракт заключается так же, как если он заключался бы с турецкой фирмой для ремонта здания мэрии; так же заключается контракт с Союзом инвалидов для осуществления конкретной социальной программы. Но при этом разница в том, что это есть не содержание организации, не перекачка в неё каких-то денег на поддержание штанов благотворительности, а ответственные отношения юридических лиц, у которых есть совершенно конкретная правовая форма этих отношений. Здесь совершенно новые рамки отношений между государством и общественным объединением.

Вот, если говорить кратко, те новые возможности, которые предоставляет закон об общественных объединениях.

проект

ЗАКОН

РОССИЙСКОЙ ФЕДЕРАЦИИ

“ О ГОСУДАРСТВЕННОМ СОЦИАЛЬНОМ ЗАКАЗЕ “

Статья 1. Предмет регулирования

Настоящий Закон устанавливает общие правовые и экономические принципы и положения формирования, размещения и исполнения на контрактной (договорной) основе заказов на социальные программы для государственных нужд предприятиями, организациями и учреждениями независимо от форм собственности, расположенными на территории Российской Федерации.

Статья 2. Законодательство о государственном социальном заказе.

Законодательство Российской Федерации о государственном социальном заказе состоит из настоящего Закона, других законодательных актов, принимаемых в соответствии с Конституцией Российской Федерации.

Статья 3. Государственный социальный заказ.

Государственный социальный заказ - это механизм реализации задач, направленных на решение социально значимых проблем межгосударственного, федерального, регионального и уровня местного самоуправления, определяемых социальными программами.

Государственный социальный заказ обеспечивается за счет бюджетных средств и внебюджетных источников, привлекаемых для решения социально значимых проблем.

Статья 4. Государственный заказчик.

Организацию работы по выполнению региональных и уровня местного самоуправления целевых программ обеспечивают государственные заказчики, определяемые органами управления

соответствующих уровней. Указанные государственные заказчики являются ответственными за выполнение целевых программ и обеспечение государственных нужд.

Выполнение межгосударственных и федеральных целевых программ обеспечивают государственные заказчики, определяемые Правительством Российской Федерации.

Государственный заказчик обеспечивает подрядчика финансовыми средствами для реализации государственного контракта в соответствии с утвержденными целевыми программами.

За государственным заказчиком закрепляется право контроля за целевым использованием финансовых и материальных средств, выделяемых на осуществление государственного социального заказа.

Статья 5. Государственный подрядчик.

Государственные подрядчики - предприятия, учреждения и организации, независимо от их организационно-правовой формы и формы собственности, выполняющие работы по государственному социальному заказу на основе государственного контракта с государственными заказчиками.

Подрядчики государственного социального заказа (далее - подрядчики), определяемые ... результатам конкурса являются непосредственными исполнителями государственного заказа.

Статья 6. Порядок финансирования государственного социального заказа.

Финансирование государственного социального заказа осуществляется из федерального бюджета путем выделения средств государственным заказчикам.

Средства, выплачиваемые государственными заказчиками подрядчикам предназначаются только для возмещения затрат, связанных с выполнением государственного социального заказа.

При утверждении межгосударственных, федеральных, региональных и местных целевых программ, а также перечней других государственных нужд государственным заказчикам выделяются необходимые финансовые средства, включая валютные.

Статья 7. Виды государственного социального заказа.

В соответствии со структурой органов государственного управления и бюджетным устройством Российской Федерации устанавливаются три уровня формирования и размещения государственных социальных заказов:

- для федеральных государственных нужд;
- для региональных государственных нужд субъектов Российской Федерации;
- для нужд местного самоуправления.

Статья 8. Формирование государственного социального заказа.

Проекты государственного социального заказа в соответствии с порядком, определяемым Правительством Российской Федерации, разрабатываются государственными заказчиками совместно с государственными органами соответствующего уровня, осуществляющими государственную политику в области социальной политики на основе утвержденных целевых программ и с учетом установленных в государственном бюджете расходов на эти цели.

Целевые программы разрабатываются с учетом условий и порядка формирования бюджетов соответствующих уровней.

При разработке целевых программ необходимо обеспечивать согласованность и комплексность решения межгосударственных, федеральных, региональных и местных социальных проблем.

Разработка межгосударственных (в которых участвует Российская Федерация) и федеральных целевых программ осуществляется органами государственного управления Российской Федерации, определяемыми Правительством Российской Федерации, региональных целевых программ - органами управления субъектов Российской Федерации и муниципальных целевых программ - органами местного самоуправления.

Порядок разработки и реализации межгосударственных и федеральных целевых программ, а также перечень других федеральных государственных нужд, устанавливается Правительством Российской Федерации; региональных целевых программ и перечень других региональных государственных нужд - органами управления субъектов Российской Федерации; местных целевых программ и перечень местных государственных нужд - органами местного самоуправления.

Межгосударственные и федеральные целевые программы и перечень других федеральных государственных нужд утверждаются Государственной Думой Федерального Собрания Российской Федерации по представлению Правительства Российской Федерации и финансируются за счет государственного бюджета Российской Федерации и внебюджетных источников, привлекаемых для выполнения этих программ и обеспечения нужд под государственные гарантии.

Региональные целевые программы и перечень других региональных государственных нужд, утверждаются высшими органами власти субъектов Российской Федерации по представлению программ органами управления указанных субъектов и финансируются за счет соответствующих бюджетов, а также внебюджетных источников, привлекаемых для этих целей.

Местные целевые программы и перечень местных государственных нужд, разработанные органами местного самоуправления, утверждаются местными органами представительной власти и финансируются за счет местных бюджетов и внебюджетных источников.

Статья 9. Размещение государственного социального заказа. Порядок проведения конкурса.

Размещение государственных социальных заказов производится на конкурсной основе. В конкурсе по размещению государственного социального заказа могут принимать участие любые юридические лица независимо от организационно-правовых форм, имеющие местонахождение на территории Российской Федерации.

Типовое положение о проведении конкурса по размещению государственного социального заказа (далее - конкурса) утверждается постановлением Правительства Российской Федерации.

Победители конкурсов получают статус подрядчиков государственного социального заказа (далее - подрядчики) и подписывают с государственным заказчиком государственный контракт.

Статья 10. Контракт о государственном социальном заказе.

Государственный контракт - договор, заключаемый между государственным заказчиком и государственным подрядчиком, регламентирующий их права, обязанности и ответственность по выполнению государственного социального заказа. Он регулирует экономические, правовые и организационно-технические взаимоотношения сторон.

Типовые формы и виды государственных контрактов на выполнение государственного социального заказа, порядок и условия их заключения и реализации определяются Правительством Российской Федерации.

Изменение условий или расторжение государственного контракта осуществляется по согласованию сторон, оформляется дополнительным соглашением. В случае расторжения государственного контракта, указанное соглашение подлежит утверждению органом управления соответствующего уровня.

Споры между подрядчиком государственного социального заказа и государственным заказчиком при заключении, исполнении, изменения и расторжении государственных контрактов на выполнение государственного социального заказа, а также о возмещении имущественного либо иного ущерба рассматриваются в установленном законом порядке судом или арбитражным судом.

Статья 11. Ответственность за невыполнение государственного социального заказа.

Всю полноту юридической ответственности за неисполнение или ненадлежащее исполнение государственного социального заказа перед государством, в лице органов его управления, несет государственный заказчик, который вправе, в порядке регрессного иска, требовать возмещения материального, имущественного или иного ущерба от подрядчика.

Государственный подрядчик несет ответственность за использование средств, выделенных на исполнение государственного социального заказа в соответствии с государственным контрактом и действующим законодательством Российской Федерации.

Статья 12. Налогообложение.

Федеральными законами могут предоставляться льготы по уплате налогов, таможенных и иных сборов и платежей и иные льготы подрядчикам государственного социального заказа, являющимся непосредственными исполнителями работ.

По решению органов власти субъектов Российской Федерации и местного самоуправления, в пределах их компетенции, непосредственным исполнителям государственного социального заказа могут быть предоставлены налоговые и иные льготы, |

Статья 13. Введение закона в действие.

В течение 1995-1996 годов разработать и утвердить:

“Положение о порядке разработки государственного социального заказа”

“Положение о проведении конкурсов при размещении государственного социального заказа”

“Положение о государственном контракте на выполнение социального заказа”

**Федеральный закон от 11 августа 1995 г. N 135-ФЗ
"О благотворительной деятельности и благотворительных
организациях"**

Принят Государственной Думой

7 июля 1995 года

Статья 1. Благотворительная деятельность

Под благотворительной деятельностью понимается добровольная деятельность граждан и юридических лиц по бескорыстной (безвозмездной или на льготных условиях) передаче гражданам или юридическим лицам имущества, в том числе денежных средств, бескорыстному выполнению работ, предоставлению услуг, оказанию иной поддержки.

Статья 5. Участники благотворительной деятельности

Благотворители - лица, осуществляющие благотворительные пожертвования в формах:

бескорыстной (безвозмездной или на льготных условиях) передачи в собственность имущества, в том числе денежных средств и (или) объектов интеллектуальной собственности;

бескорыстного (безвозмездного или на льготных условиях) наделения правами владения, пользования и распоряжения любыми объектами права собственности;

Статья 11. Реорганизация и ликвидация благотворительной организации

3. При ликвидации благотворительной организации ее имущество, оставшееся после удовлетворения требований кредиторов, используется на благотворительные цели в порядке, предусмотренном уставом, или по решению ликвидационной комиссии, если порядок использования имущества благотворительной организации не предусмотрен в ее уставе.

Статья 12. Деятельность благотворительной организации

5. Благотворительная организация не вправе расходовать свои средства и использовать свое имущество для поддержки политических партий, движений, групп и кампаний.

Статья 13. Филиалы и представительства благотворительной организации

3. Филиалы и представительства не являются юридическими лицами, наделяются имуществом создавшей их благотворительной организацией и действуют на основании утвержденных ею положений. Имущество филиалов и представительств учитывается на их отдельном балансе и на балансе создавшей их благотворительной организации.

Статья 15. Источники формирования имущества благотворительной организации

Источниками формирования имущества благотворительной организации могут являться:

взносы учредителей благотворительной организации;

членские взносы (для благотворительных организаций, основанных на членстве);

благотворительные пожертвования, в том числе носящие целевой характер (благотворительные гранты), предоставляемые гражданами и юридическими лицами в денежной или натуральной форме;

доходы от внереализационных операций, включая доходы от ценных бумаг;

поступления от деятельности по привлечению ресурсов (проведение кампаний по привлечению благотворителей и добровольцев, включая организацию развлекательных, культурных, спортивных и иных массовых мероприятий, проведение кампаний по сбору благотворительных пожертвований, проведение лотерей и аукционов в соответствии с законодательством Российской Федерации, реализацию имущества и пожертвований, поступивших от благотворителей, в соответствии с их пожеланиями);

доходы от разрешенной законом предпринимательской деятельности;

поступления из федерального бюджета, бюджетов субъектов Российской Федерации, местных бюджетов и внебюджетных фондов;

доходы от деятельности хозяйственных обществ, учрежденных благотворительной организацией;

труд добровольцев;

иные не запрещенные законом источники.

Статья 16. Имущество благотворительной организации

1. В собственности или на ином вещном праве благотворительной организации могут находиться: здания, сооружения, оборудование, денежные средства, ценные бумаги, информационные ресурсы, другое имущество, если иное не предусмотрено федеральными законами; результаты интеллектуальной деятельности.

2. Благотворительная организация может совершать в отношении находящегося в ее собственности или на ином вещном праве имущества любые сделки, не противоречащие законодательству Российской Федерации, уставу этой организации, пожеланиям благотворителя.

3. Благотворительная организация не вправе использовать на оплату труда административно-управленческого персонала более 20 процентов финансовых средств, расходуемых этой организацией за финансовый год. Данное ограничение не распространяется на оплату труда лиц, участвующих в реализации благотворительных программ.

4. В случае, если благотворителем или благотворительной программой не установлено иное, не менее 80 процентов благотворительного пожертвования в денежной форме должно быть использовано на благотворительные цели в течение года с момента получения благотворительной организацией этого пожертвования. Благотворительные пожертвования в натуральной форме направляются на благотворительные цели в течение одного года с момента их получения, если иное не установлено благотворителем или благотворительной программой.

5. Имущество благотворительной организации не может быть передано (в формах продажи, оплаты товаров, работ, услуг и в других формах) учредителям (членам) этой организации на более выгодных для них условиях, чем для других лиц.

Федеральный закон от 19 мая 1995 г. N 82-ФЗ "Об общественных объединениях"

Принят Государственной Думой

14 апреля 1995 года

Статья 25. Реорганизация общественного объединения

...Имущество общественного объединения, являющегося юридическим лицом, переходит после его реорганизации к вновь возникшим юридическим лицам в порядке, предусмотренном Гражданским кодексом Российской Федерации.

Статья 26. Ликвидация общественного объединения

Имущество, оставшееся в результате ликвидации общественного объединения, после удовлетворения требований кредиторов направляется на цели, предусмотренные уставом общественного объединения, либо, если отсутствуют соответствующие разделы в уставе общественного объединения, - на цели, определяемые решением съезда (конференции) или общего собрания о ликвидации общественного объединения, а в спорных случаях - решением суда. Решение об использовании оставшегося имущества публикуется ликвидационной комиссией в печати.

Статья 30. Собственность общественного объединения

Общественное объединение, являющееся юридическим лицом, может иметь в собственности земельные участки, здания, строения, сооружения, жилищный фонд, транспорт, оборудование, инвентарь, имущество культурно-просветительного и оздоровительного назначения, денежные средства, акции, другие ценные бумаги и иное имущество, необходимое для материального обеспечения деятельности этого общественного объединения, указанной в его уставе.

В собственности общественного объединения могут также находиться учреждения, издательства, средства массовой информации, создаваемые и приобретаемые за счет средств данного общественного объединения в соответствии с его уставными целями.

Федеральным законом могут устанавливаться виды имущества, которые по соображениям государственной и общественной безопасности либо в соответствии с международными договорами Российской Федерации не могут находиться в собственности общественного объединения.

Общественные фонды могут осуществлять свою деятельность на основе доверительного управления.

Собственность общественного объединения охраняется законом.

Статья 31. Источники формирования имущества общественного объединения

Имущество общественного объединения формируется на основе вступительных и членских взносов, если их уплата предусмотрена уставом; добровольных взносов и пожертвований; поступлений от проводимых в соответствии с уставом общественного объединения лекций, выставок, лотерей, аукционов спортивных и иных мероприятий; доходов от предпринимательской деятельности общественного объединения; гражданско-правовых сделок; внешнеэкономической деятельности общественного объединения; других не запрещенных законом поступлений.

Политические партии, политические движения и общественные объединения, уставы которых предусматривают участие в выборах, не вправе получать финансовую и иную материальную помощь от иностранных государств, организаций и граждан на деятельность, связанную с подготовкой и проведением выборов.

Статья 32. Субъекты права собственности в общественных организациях

Собственниками имущества являются общественные организации, обладающие правами юридического лица. Каждый отдельный член общественной организации не имеет права собственности на долю имущества, принадлежащего общественной организации.

В общественных организациях, структурные подразделения (отделения) которых осуществляют свою деятельность на основе единого устава данных организаций, собственниками имущества являются общественные организации в целом. Структурные подразделения (отделения) указанных общественных организаций имеют право оперативного управления имуществом, закрепленным за ними собственниками.

В общественных организациях, объединяющих территориальные организации в качестве самостоятельных субъектов в союз (ассоциацию), собственником имущества, созданного и (или) приобретенного для использования в интересах общественной организации в целом, является союз (ассоциация). Территориальные организации, входящие в состав союза (ассоциации) в качестве самостоятельных субъектов, являются собственниками принадлежащего им имущества.

Статья 33. Субъекты права собственности в общественных движениях

От имени общественных движений права собственности имущества, поступающего в общественные движения, а также созданного и (или) приобретенного ими за счет собственных средств, осуществляют их постоянно действующие руководящие органы, указанные в уставах этих общественных движений.

Статья 34. Субъекты права собственности в общественных фондах

От имени общественных фондов права собственности имущества, поступающего в общественные фонды, а также созданного и (или) приобретенного ими за счет собственных средств, осуществляют их постоянно действующие руководящие органы, указанные в уставах этих общественных фондов.

Статья 35. Управление имуществом в общественных учреждениях

Общественные учреждения, созданные и финансируемые собственником (собственниками), в отношении закрепленного за ними имущества осуществляют право оперативного управления указанным имуществом.

Общественные учреждения, являющиеся юридическими лицами и владеющие имуществом на праве оперативного управления, могут быть собственниками созданного и (или) приобретенного ими иными законными способами имущества.

Общественные учреждения получают имущество на праве оперативного управления от учредителя (учредителей). В отношении указанного имущества общественные учреждения осуществляют права владения, пользования и распоряжения в пределах, установленных законом, в соответствии с их уставными целями.

Учредитель (учредители) - собственник (собственники) имущества, переданного общественным учреждениям, вправе изъять излишнее, неиспользуемое либо используемое не по назначению имущество и распорядиться им по своему усмотрению.

При переходе права собственности на имущество, закрепленное за общественными учреждениями, к другому лицу данные учреждения сохраняют право оперативного управления указанным имуществом. Общественные учреждения не вправе отчуждать или иным способом распоряжаться закрепленным за ними имуществом и имуществом, приобретенным за счет денежных средств, выделенных им по смете, без письменного разрешения собственника.

Если в соответствии с учредительными документами общественным учреждениям предоставлено право осуществлять приносящую доходы деятельность, то доходы, полученные от такой деятельности, и приобретенное за счет этих доходов имущество поступают в самостоятельное распоряжение общественных учреждений и учитываются на отдельном балансе.

Общественные учреждения отвечают по своим обязательствам находящимися в их распоряжении денежными средствами. При их недостаточности субсидированную ответственность по обязательствам общественного учреждения несет собственник соответствующего имущества.

Статья 36. Субъекты права собственности в органах общественной самодеятельности

Субъектами права собственности в органах общественной самодеятельности являются сами органы общественной самодеятельности, за которыми после их государственной регистрации закрепляются права юридического лица. Органы общественной самодеятельности могут быть собственниками имущества, созданного и (или) приобретенного ими иными законными способами.

ФЕДЕРАЛЬНЫЙ ЗАКОН «О НЕКОММЕРЧЕСКИХ ОРГАНИЗАЦИЯХ»

Принят Государственной Думой 8 декабря 1995 года

Глава I. ОБЩИЕ ПОЛОЖЕНИЯ

Статья 1. Предмет регулирования и область действия настоящего Федерального закона

1. Настоящий Федеральный закон определяет правовое положение, порядок создания, деятельности, реорганизации и ликвидации некоммерческих организаций как юридических лиц, формирования, использования имущества некоммерческих организаций, права и обязанности их учредителей (участников), основы управления некоммерческими организациями и возможные формы их поддержки органами государственной власти, органами местного самоуправления.

2. Настоящий Федеральный закон применяется по отношению ко всем некоммерческим организациям, созданным или создаваемым на территории Российской Федерации, поскольку иное не установлено настоящим Федеральным законом и иными федеральными законами.

3. Настоящий Федеральный закон не распространяется на потребительские кооперативы. Деятельность потребительских кооперативов регулируется нормами Гражданского кодекса Российской Федерации, законами о потребительских кооперативах, иными законами и правовыми актами.

Статья 2. Некоммерческая организация

1. Некоммерческой организацией является организация, не имеющая извлечение прибыли в качестве основной цели своей деятельности и не распределяющая полученную прибыль между участниками.

2. Некоммерческие организации могут создаваться для достижения социальных, благотворительных, культурных, образовательных, научных и управленческих целей, в целях охраны здоровья граждан, развития физической культуры и спорта, удовлетворения духовных и иных нематериальных потребностей граждан, защиты прав, законных интересов граждан и

законных интересов организаций, оказания юридической помощи, а также в иных целях, направленных на достижение общественных благ.

3. Некоммерческие организации могут создаваться в форме общественных или религиозных организаций (объединений), некоммерческих партнерств, учреждений, автономных некоммерческих организаций, социальных, благотворительных и иных фондов, ассоциаций и союзов, а также в других формах, предусмотренных федеральными законами.

Статья 3. Правовое положение некоммерческой организации

1. Некоммерческая организация считается созданной как юридическое лицо с момента ее государственной регистрации в установленном законом порядке, имеет в собственности или в оперативном управлении обособленное имущество, отвечает (за исключением учреждений) по своим обязательствам этим имуществом, может от своего имени приобретать и осуществлять имущественные и неимущественные права, нести обязанности, быть истцом и ответчиком в суде.

Некоммерческая организация должна иметь самостоятельный баланс или смету.

2. Некоммерческая организация создается без ограничения срока деятельности, если иное не установлено учредительными документами некоммерческой организации.

3. Некоммерческая организация вправе в установленном порядке открывать счета в банках на территории Российской Федерации и за пределами ее территории.

4. Некоммерческая организация имеет печать с полным наименованием этой некоммерческой организации на русском языке.

Некоммерческая организация вправе иметь штампы и бланки со своим наименованием, а также зарегистрированную в установленном порядке эмблему.

Статья 4. Наименование и место нахождения некоммерческой организации

1. Некоммерческая организация имеет наименование, содержащее указание на ее организационно-правовую форму и характер деятельности.

Некоммерческая организация, наименование которой зарегистрировано в установленном порядке, имеет исключительное право его использования.

2. Место нахождения некоммерческой организации определяется местом ее государственной регистрации, если в соответствии с законом учредительными документами некоммерческой организации не установлено иное.

3. Наименование и место нахождения некоммерческой организации указываются в ее учредительных документах.

Статья 5. Филиалы и представительства некоммерческой организации

1. Некоммерческая организация может создавать филиалы и открывать представительства на территории Российской Федерации в соответствии с законодательством Российской Федерации.

2. Филиалом некоммерческой организации является ее обособленное подразделение, расположенное вне места нахождения некоммерческой организации и осуществляющее все ее функции или часть их, в том числе функции представительства.

3. Представительством некоммерческой организации является обособленное подразделение, которое расположено вне места нахождения некоммерческой организации, представляет интересы некоммерческой организации и осуществляет их защиту.

4. Филиал и представительство некоммерческой организации не являются юридическими лицами, наследуют имущество создателем их некоммерческой организации и действуют на основании утвержденного

го его положения. Имущество филиала или представительства учитывается на отдельном балансе и на балансе создавшей их некоммерческой организации.

Руководители филиала и представительства назначаются некоммерческой организацией и действуют на основании доверенности, выданной некоммерческой организацией.

5. Филиал и представительство осуществляют деятельность от имени создавшей их некоммерческой организации. Ответственность за деятельность своих филиалов и представительств несет создавшая их некоммерческая организация.

Глава II. ФОРМЫ НЕКОММЕРЧЕСКИХ ОРГАНИЗАЦИЙ

Статья 6. Общественные и религиозные организации (объединения)

1. Общественными и религиозными организациями (объединениями) признаются добровольные объединения граждан, в установленном законом порядке объединившихся на основе общности их интересов для удовлетворения духовных или иных нематериальных потребностей.

Общественные и религиозные организации (объединения) вправе осуществлять предпринимательскую деятельность, соответствующую целям, для достижения которых они созданы.

2. Участники (члены) общественных и религиозных организаций (объединений) не сохраняют прав на переданное ими этим организациям в собственность имущество, в том числе на членские взносы. Участники (члены) общественных и религиозных организаций (объединений) не отвечают по обязательствам указанных организаций (объединений), а указанные организации (объединения) не отвечают по обязательствам своих членов.

3. Особенности правового положения общественных и религиозных организаций (объединений) определяются иными федеральными законами.

4. Организации, преследующие религиозные цели, могут создаваться и в иных формах, предусмотренных законом.

Статья 7. Фонды

1. Для целей настоящего Федерального закона фондом признается не имеющая членства некоммерческая организация, учрежденная гражданами и (или) юридическими лицами на основе добровольных имущественных взносов и преследующая социальные, благотворительные, культурные, образовательные или иные общественно полезные цели.

Имущество, переданное фонду его учредителями (учредителем), является собственностью фонда. Учредители не отвечают по обязательствам созданного ими фонда, а фонд не отвечает по обязательствам своих учредителей.

2. Фонд использует имущество для целей, определенных уставом фонда. Фонд вправе заниматься предпринимательской деятельностью, соответствующей этим целям и необходимой для достижения общественно полезных целей, ради которых фонд создан. Для осуществления предпринимательской деятельности фонды вправе создавать хозяйственные общества или участвовать в них.

Фонд обязан ежегодно публиковать отчеты об использовании своего имущества.

3. Попечительский совет фонда является органом фонда и осуществляет надзор за деятельностью фонда, принятием другими органами фонда решений и обеспечением их исполнения, использованием средств фонда, соблюдением фондом законодательства.

Попечительский совет фонда осуществляет свою деятельность на общественных началах.

Порядок формирования и деятельности попечительского совета фонда определяется уставом фонда, утвержденным его учредителями.

Статья 8. Некоммерческие партнерства

1. Некоммерческим партнерством признается основанная на членстве некоммерческая организация, учрежденная гражданами и (или) юридическими лицами для содействия ее членам в осуществлении деятельности, направленной на достижение целей, предусмотренных пунктом 2 статьи 2 настоящего Федерального закона.

имущество, переданное некоммерческому партнерству его членами, является собственностью партнерства. Члены некоммерческого партнерства не отвечают по его обязательствам, а некоммерческое партнерство не отвечает по обязательствам своих членов.

2. Некоммерческое партнерство вправе осуществлять предпринимательскую деятельность, соответствующую целям, для достижения которых оно создано.

3. Члены некоммерческого партнерства вправе:

участвовать в управлении делами некоммерческого партнерства;

получать информацию о деятельности некоммерческого партнерства в установленном учредительными документами порядке;

по своему усмотрению выходить из некоммерческого партнерства;

если иное не установлено федеральным законом или учредительными документами некоммерческого партнерства, получать при выходе из некоммерческого партнерства часть его имущества или стоимость этого имущества в пределах стоимости имущества, переданного членами некоммерческого партнерства в его собственность, за исключением членских взносов, в порядке, предусмотренном учредительными документами некоммерческого партнерства;

получать в случае ликвидации некоммерческого партнерства часть его имущества, оставшегося после расчетов с кредиторами, либо стоимость этого имущества в пределах стоимости имущества, переданного членами некоммерческого партнерства в его собственность, если иное не предусмотрено федеральным законом или учредительными документами некоммерческого партнерства.

4. Член некоммерческого партнерства может быть исключен из него по решению остающихся членов в случаях и в порядке, которые предусмотрены учредительными документами

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некоммерческого партнерства.

Член некоммерческого партнерства, исключенный из него, имеет право на получение части имущества некоммерческого партнерства или стоимости этого имущества в соответствии с абзацем пятым пункта 3 настоящей статьи.

5. Члены некоммерческого партнерства могут иметь и другие права, предусмотренные его учредительными документами и не противоречащие законодательству.

Статья 9. Учреждения

1. Учреждением признается некоммерческая организация, созданная собственником для осуществления управленческих, социально-культурных или иных функций некоммерческого характера и финансируемая полностью или частично этим собственником.

Имущество учреждения закрепляется за ним на праве оперативного управления в соответствии с Гражданским кодексом Российской Федерации.

Права учреждения на закрепленное за ним имущество определяются в соответствии с Гражданским кодексом Российской Федерации.

2. Учреждение отвечает по своим обязательствам находящимися в его распоряжении денежными средствами. При их недостаточности субсидиарную ответственность по обязательствам учреждения несет его собственник.

3. Особенности правового положения отдельных видов государственных и иных учреждений определяются законом и иными правовыми актами.

Статья 10. Автономная некоммерческая организация

1. Автономной некоммерческой организацией признается не имеющая членства некоммерческая организация, учрежденная гражданами и (или) юридическими лицами на основе добровольных имущественных взносов в целях предоставления услуг в области образования, здравоохранения, культуры, науки, права, физической культуры и спорта и иных услуг.

Имущество, переданное автономной некоммерческой организацией ее учредителями (учредителем), является собственностью автономной некоммерческой организации. Учредители автономной некоммерческой организации не сохраняют прав на имущество, переданное ими в собственность этой организации. Учредители не отвечают по

обязательствам созданной ими автономной некоммерческой организации, а она не отвечает по обязательствам своих учредителей.

2. Автономная некоммерческая организация вправе осуществлять предпринимательскую деятельность, соответствующую целям, для достижения которых создана указанная организация.

3. Надзор за деятельностью автономной некоммерческой организации осуществляют ее учредители в порядке, предусмотренном ее учредительными документами.

4. Учредители автономной некоммерческой организации могут пользоваться ее услугами только на равных условиях с другими лицами.

Статья 11. Объединения юридических лиц (ассоциации и союзы)

1. Коммерческие организации в целях координации их предпринимательской деятельности, а также представления и защиты общих имущественных интересов могут по договору между

собой создавать объединения в форме ассоциаций или союзов, являющихся некоммерческими организациями.

Если по решению участников на ассоциацию (союз) возлагается ведение предпринимательской деятельности, такая ассоциация (союз) преобразуется в хозяйственное общество или товарищество в порядке, предусмотренном Гражданским кодексом Российской Федерации, либо может создать для осуществления предпринимательской деятельности хозяйственное общество или участвовать в таком обществе.

2. Некоммерческие организации могут добровольно объединяться в ассоциации (союзы) - некоммерческих организаций.

Ассоциация (союз) некоммерческих организаций является некоммерческой организацией.

3. Члены ассоциации (союза) сохраняют свою самостоятельность и права юридического лица.

4. Ассоциация (союз) не отвечает по обязательствам своих членов. Члены ассоциации (союза) несут субсидиарную ответственность по обязательствам этой ассоциации (союза) в размере и в порядке, предусмотренных ее учредительными документами.

5. Наименование ассоциации (союза) должно содер-

жать указание на основной предмет деятельности членов этой ассоциации (союза) с включением слов «ассоциация» или «союз».

Статья 12. Права и обязанности членов ассоциаций и союзов

1. Члены ассоциации (союза) вправе безвозмездно пользоваться ее услугами.

2. Член ассоциации (союза) вправе по своему усмотрению выйти из ассоциации (союза) по окончании финансового года. В этом случае член ассоциации (союза) несет субсидиарную ответственность по ее обязательствам пропорционально своему взносу в течение двух лет с момента выхода.

Член ассоциации (союза) может быть исключен из нее по решению остающихся членов в случаях и в порядке, которые установлены учредительными документами ассоциации (союза). В отношении ответственности исключенного члена ассоциации (союза) применяются правила, относящиеся к выходу из ассоциации (союза).

3. С согласия членов ассоциации (союза) в нее может войти новый член. Вступление в ассоциацию (союз) нового члена может быть обусловлено его субсидиарной ответственностью по обязательствам ассоциации (союза), возникшим до его вступления.

Глава III. СОЗДАНИЕ, РЕОРГАНИЗАЦИЯ И ЛИКВИДАЦИЯ НЕКОММЕРЧЕСКОЙ ОРГАНИЗАЦИИ

Статья 13. Создание некоммерческой организации

1. Некоммерческая организация может быть создана в результате ее учреждения, а также в результате реорганизации существующей некоммерческой организации.

2. Создание некоммерческой организации в результате ее учреждения осуществляется по решению учредителей (учредителя).

Статья 14. Учредительные документы некоммерческой организации

1. Учредительными документами некоммерческих организаций являются:

устав, утвержденный учредителями (участниками), для общественной или религиозной организации (объединений); фонда, некоммерческого партнерства и автономной некоммерческой организации;

учредительный договор, заключенный их членами, и устав, утвержденный ими, для ассоциации или союза; решение собственника о создании учреждения и устав, утвержденный собственником, для учреждения. Учредители (участники) некоммерческих партнерств, а также автономных некоммерческих организаций вправе заключить учредительный договор.

В случаях, предусмотренных законом, некоммерческая организация может действовать на основании общего положения об организациях данного вида.

2. Требования учредительных документов некоммерческой организации обязательны для исполнения самой некоммерческой организацией, ее учредителями (участниками).

3. В учредительных документах некоммерческой организации должны определяться наименование некоммерческой организации, содержащее указание на характер ее деятельности и организационно-правовую форму, место нахождения некоммерческой организации, порядок управления деятельностью, предмет и цели деятельности, сведения о филиалах и представительствах, права и обязанности членов, условия и порядок приема в члены некоммерческой организации и выхода из нее (в случае если некоммерческая организация имеет член-

ство), источники формирования имущества некоммерческой организации, порядок внесения изменений в учредительные документы некоммерческой организации, порядок использования имущества в случае ликвидации некоммерческой организации и иные положения, предусмотренные настоящим Федеральным законом и иными федеральными законами.

В учредительном договоре учредители обязуются создать некоммерческую организацию, определяют порядок совместной деятельности по созданию некоммерческой организации, условия передачи ей своего имущества и участия в ее деятельности, условия и порядок выхода учредителей (участников) из ее состава.

Устав фонда также должен содержать наименование фонда, включающее слово «фонд», сведения о цели фонда; указания об органах фонда, в том числе о попечительском совете, и о порядке назначения должностных лиц фонда и их освобождения, о месте нахождения фонда, о судьбе имущества фонда в случае его ликвидации.

Учредительные документы ассоциации (союза), некоммерческого партнерства также должны содержать условия о составе и компетенции их органов управления, порядке принятия ими решений, в том числе по вопросам, решения по которым принимаются единогласно или квалифицированным большинством голосов, и о порядке распределения имущества, остающегося после ликвидации ассоциации (союза), некоммерческого партнерства.

Учредительные документы некоммерческой организации могут содержать и иные не противоречащие законодательству положения.

4. Изменения в Уставе некоммерческой организации вносятся по решению ее высшего органа управления за исключением устава фонда, который может быть изменен органами фонда, если уставом фонда предусмотрена возможность изменения этого устава в таком порядке.

Если сохранение устава фонда в неизменном виде влечет за собой последствия, которые невозможно предвидеть при учреждении фонда, а возможность изме-

нения его устава не предусмотрена либо устав не изменяется уполномоченными лицами, право внесения изменений в соответствии с Гражданским кодексом Российской Федерации принадлежит суду по заявлению органов фонда или органа, уполномоченного осуществлять надзор за деятельностью фонда.

Статья 15. Учредители некоммерческой организации

1. Учредителями некоммерческой организации в зависимости от ее организационно-правовых форм могут выступать граждане и (или) юридические лица.

2. Число учредителей некоммерческой организации не ограничено, если иное не установлено федеральным законом.

Некоммерческая организация может быть учреждена одним лицом, за исключением случаев учреждения некоммерческих партнерств, ассоциаций (союзов) и иных случаев, предусмотренных федеральным законом.

Статья 16. Реорганизация некоммерческой организации

1. Некоммерческая организация может быть реорганизована в порядке, предусмотренном Гражданским кодексом Российской Федерации, настоящим Федеральным законом и другими федеральными законами.

2. Реорганизация некоммерческой организации может быть осуществлена в форме слияния, присоединения, разделения, выделения и преобразования.

3. Некоммерческая организация считается реорганизованной, за исключением случаев реорганизации в форме присоединения, с момента государственной регистрации вновь возникшей организации (организаций).

При реорганизации некоммерческой организации в форме присоединения к ней другой организации первая из них считается реорганизованной с момента внесения в единый государственный реестр юридических лиц записи о прекращении деятельности присоединяемой организации.

4. Государственная регистрация вновь возникшей в результате реорганизации организации (организаций) и внесение в единый государственный реестр юриди-

ческих лиц записи о прекращении деятельности реорганизованной организации (организаций) осуществляются в порядке, установленном законом о государственной регистрации юридических лиц.

Статья 17. Преобразование некоммерческой организации

1. Некоммерческое партнерство вправе преобразоваться в общественную или религиозную организацию (объединение), фонд или автономную некоммерческую организацию.

2. Учреждение может быть преобразовано в фонд, автономную некоммерческую организацию, хозяйственное общество. Преобразование государственных или муниципальных учреждений в некоммерческие организации иных форм или хозяйственное общество допускается в случаях и в порядке, которые установлены законом.

3. Автономная некоммерческая организация вправе преобразоваться в общественную или религиозную организацию (объединение) либо в фонд.

4. Ассоциация или союз вправе преобразоваться в фонд, автономную некоммерческую организацию, хозяйственное общество или товарищество.

5. Решение о преобразовании некоммерческого партнерства принимается учредителями единогласно, ассоциации (союза) — всеми членами, заключившими договор о ее создании.

Решение о преобразовании учреждения принимается его собственником.

Решение о преобразовании автономной некоммерческой организации принимается ее высшим органом управления в соответствии с настоящим Федеральным законом в порядке, предусмотренном уставом автономной некоммерческой организации.

6. При преобразовании некоммерческой организации к вновь возникшей организации переходят права и обязанности реорганизованной некоммерческой организации в соответствии с передаточным актом.

Статья 18. Ликвидация некоммерческой организации

1. Некоммерческая организация может быть ликвидирована на основании и в порядке, которые предусмотрены Гражданским кодексом Российской Федерации, настоящим Федеральным законом и другими федеральными законами.

2. Решение о ликвидации фонда может принять только суд по заявлению заинтересованных лиц.

Фонд может быть ликвидирован:

если имущества фонда недостаточно для осуществления его целей и вероятность получения необходимого имущества нереальна; если цели фонда не могут быть достигнуты, а необходимые изменения целей фонда не могут быть произведены;

в случае отклонения фонда в его деятельности от целей, предусмотренных его уставом;

в других случаях, предусмотренных федеральным законом.

3. Учредители (участники) некоммерческой организации или орган, принявший решение о ликвидации некоммерческой организации, назначают по согласованию с органом, осуществляющим государственную регистрацию юридических лиц, ликвидационную комиссию (ликвидатора) и устанавливают в соответствии с Гражданским кодексом Российской Федерации и настоящим Федеральным законом порядок и сроки ликвидации некоммерческой организации.

4. С момента назначения ликвидационной комиссии к ней переходят полномочия по управлению делами некоммерческой организации. Ликвидационная комиссия от имени ликвидируемой некоммерческой организации выступает в суде.

Статья 19. Порядок ликвидации некоммерческой организации

1. Ликвидационная комиссия помещает в органах печати, в которых публикуются данные о государственной регистрации юридических лиц, публикацию о ликвидации некоммерческой организации, порядке и сроке заявления требований ее кредиторами. Срок заявления требований кредиторами не может быть менее чем два месяца со дня публикации о ликвидации некоммерческой организации.

2. Ликвидационная комиссия принимает меры по выявлению кредиторов и получению дебиторской задолженности, а также уведомляет в письменной форме кредиторов о ликвидации некоммерческой организации.

3. По окончании срока для предъявления требований кредиторами ликвидационная комиссия составляет промежуточный ликвидационный баланс, который содержит сведения о составе имущества ликвидируемой некоммерческой организации, перечне предъяв-

ленных кредиторами требований, а также о результатах их рассмотрения.

Промежуточный ликвидационный баланс утверждается учредителями (участниками) некоммерческой организации или органом, принявшим решение о ее ликвидации, по согласованию с органом, осуществляющим государственную регистрацию юридических лиц.

4. Если имеющиеся у ликвидируемой некоммерческой организации (за исключением учреждений) денежные средства недостаточны для удовлетворения требований кредиторов, ликвидационная комиссия осуществляет продажу имущества некоммерческой организации с публичных торгов в порядке, установленном для исполнения судебных решений.

При недостаточности у ликвидируемого учреждения денежных средств для удовлетворения требований кредиторов последние вправе обратиться в суд с иском об удовлетворении оставшейся части требований за счет собственника этого учреждения.

5. Выплата денежных сумм кредиторам ликвидируемой некоммерческой организации производится ликвидационной комиссией в порядке очередности, установленной Гражданским кодексом Российской Федерации, в соответствии с промежуточным ликвидационным балансом, начиная со дня его утверждения, за исключением кредиторов пятой очереди, выплаты которым производятся по истечении месяца со дня утверждения промежуточного ликвидационного баланса.

6. После завершения расчетов с кредиторами ликвидационная комиссия составляет ликвидационный баланс, который утверждается учредителями (участниками) некоммерческой организации или органом, принявшим решение о ликвидации некоммерческой организации, по согласованию с органом, осуществляющим государственную регистрацию юридических лиц.

Статья 20. Имущество ликвидируемой некоммерческой организации

1. При ликвидации некоммерческой организации оставшееся после удовлетворения требований кредиторов имущество, если иное не установлено настоящим Федеральным законом и иными федеральными законами, направляется в соответствии с учредительными документами некоммерческой организации на цели, в интересах которых она была создана, и (или) на бла-

гтворительные цели. В случае, если использование имущества ликвидируемой некоммерческой организации в соответствии с ее учредительными документами не представляется возможным, оно обращается в доход государства.

2. При ликвидации некоммерческого партнерства оставшееся после удовлетворения требований кредиторов имущество подлежит распределению между членами некоммерческого партнерства в соответствии с их имущественным взносом, размер которого не превышает размер их имущественных взносов, если иное не установлено федеральными законами или учредительными документами некоммерческого партнерства.

Порядок использования имущества некоммерческого партнерства, стоимость которого превышает размер имущественных взносов его членов, определяется в соответствии с пунктом 1 настоящей статьи.

3. Оставшееся после удовлетворения требований кредиторов имущество учреждения передается его собственнику, если иное не предусмотрено законами и иными правовыми актами Российской Федерации или учредительными документами учреждения.

Статья 21. Завершение ликвидации некоммерческой организации

Ликвидация некоммерческой организации считается завершенной, а некоммерческая организация — прекратившей существование после внесения об этом записи в единый государственный реестр юридических лиц.

Статья 22. Запись о прекращении деятельности некоммерческой организации

Запись о прекращении деятельности некоммерческой организации вносится органом, осуществляющим государственную регистрацию юридических лиц, при предоставлении следующих документов:

заявления о внесении записи о ликвидации (в случае добровольной ликвидации) или о прекращении деятельности некоммерческой организации, подписанного лицом, уполномоченным некоммерческой организацией;

решения соответствующего органа о ликвидации или о прекращении деятельности некоммерческой организации;

устава некоммерческой организации и свидетельства о ее государственной регистрации;

ликвидационного баланса или передаточного акта или разделительного баланса;

документа об уничтожении печати некоммерческой организации.

Статья 23. Государственная регистрация изменений учредительных документов некоммерческой организации

1. Государственная регистрация изменений учредительных документов некоммерческой организации осуществляется в порядке, установленном законом о государственной регистрации юридических лиц.

2. Изменения учредительных документов некоммерческой организации вступают в силу с момента их государственной регистрации.

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Статья 24. Виды деятельности некоммерческой организации

1. Некоммерческая организация может осуществлять один вид деятельности или несколько видов деятельности, не запрещенных законодательством Российской Федерации и соответствующих целям деятельности некоммерческой организации, которые предусмотрены ее учредительными документами.

Законодательством Российской Федерации могут устанавливаться ограничения на виды деятельности, которыми вправе заниматься некоммерческие организации отдельных видов.

Отдельные виды деятельности могут осуществляться некоммерческими организациями только на основании специальных разрешений (лицензий). Перечень этих видов деятельности определяется законом.

2. Некоммерческая организация может осуществлять предпринимательскую деятельность лишь постольку, поскольку это служит достижению целей, ради которых она создана. Такой деятельностью признаются приносящее прибыль производство товаров и услуг, отвечающих целям созда-

ния некоммерческой организации, а также приобретение и реализация ценных бумаг, имущественных и неимущественных прав, участие в хозяйственных обществах и участие в товариществах на вере в качестве вкладчика.

Законодательством Российской Федерации могут устанавливаться ограничения на предпринимательскую деятельность некоммерческих организаций отдельных видов.

3. Некоммерческая организация ведет учет доходов и расходов по предпринимательской деятельности.

4. В интересах достижения целей, предусмотренных уставом, некоммерческая организация может создавать другие некоммерческие организации и вступать в ассоциации и союзы.

Статья 25. Имущество некоммерческой организации

1. Некоммерческая организация может иметь в собственности или в оперативном управлении здания, сооружения, жилищный фонд, оборудование, инвентарь, денежные средства в рублях и иностранной валюте, ценные бумаги и иное имущество. Некоммерческая организация может иметь в

собственности или в беспрочном пользовании земельные участки.

2. Некоммерческая организация отвечает по своим обязательствам тем своим имуществом, на которое по законодательству Российской Федерации может быть обращено взыскание.

Статья 26. Источники формирования имущества некоммерческой организации

1. Источниками формирования имущества некоммерческой организации в денежной и иных формах являются:

регулярные и единовременные поступления от учредителей (участников, членов);

добровольные имущественные взносы и пожертвования;

выручка от реализации товаров, работ, услуг; дивиденды (доходы, проценты), получаемые по акциям, облигациям, другим ценным бумагам и вкладам;

доходы, получаемые от собственности некоммерческой организации;

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другие не запрещенные законом поступления.

Законами могут устанавливаться ограничения на источники доходов некоммерческих организаций отдельных видов.

2. Порядок регулярных поступлений от учредителей (участников, членов) определяется учредительными документами некоммерческой организации.

3. Полученная некоммерческой организацией прибыль не подлежит распределению между участниками (членами) некоммерческой организации.

Статья 27. Конфликт интересов

1. Для целей настоящего Федерального закона лицами, заинтересованными в совершении некоммерческой организацией тех или иных действий, в том числе сделок, с другими организациями или гражданами (далее — заинтересованные лица), признаются руководитель (заместитель руководителя) некоммерческой организации, а также лицо, входящее в состав органов управления некоммерческой организацией или органов надзора за ее деятельностью, если указанные лица состоят с этими организациями или гражданами в трудовых отношениях, являются участниками, кредиторами этих организаций либо состоят с этими гражданами в близких родственных отношениях или являются кредиторами этих

граждан. При этом указанные организации или граждане являются поставщиками товаров (услуг) для некоммерческой организации, крупными потребителями товаров (услуг), производимых некоммерческой организацией, владеют имуществом, которое полностью или частично образовано некоммерческой организацией или могут извлекать выгоду из пользования, распоряжения имуществом некоммерческой организации.

Заинтересованность в совершении некоммерческой организацией тех или иных действий, в том числе в совершении сделок, влечет за собой конфликт интересов заинтересованных лиц и некоммерческой организации.

2. Заинтересованные лица обязаны соблюдать интересы некоммерческой организации, прежде всего в отношении целей ее деятельности, и не должны использовать возможности некоммерческой организации или допускать их использование в иных целях, помимо предусмотренных учредительными документами некоммерческой организации.

Под термином «возможности некоммерческой организации» в целях настоящей статьи понимаются принадлежащие некоммерческой организации имущество, имущественные и немущественные права, возможности в области предпринимательской деятельности, информация о деятельности и планах неком-

мерческой организации, имеющая для нее ценность.

3. В случае, если заинтересованное лицо имеет заинтересованность в сделке, стороной которой является или намеревается быть некоммерческая организация, а также в случае иного противоречия интересов

указанного лица и некоммерческой организации в отношении существующей или предполагаемой сделки:

оно обязано сообщить о своей заинтересованности органу управления некоммерческой организацией или органу надзора за ее деятельностью до момента принятия решения о заключении сделки;

сделка должна быть одобрена органом управления некоммерческой организацией или органом надзора за ее деятельностью.

4. Сделка, в совершении которой имеется заинтересованность и которая совершена с нарушением требований настоящей статьи, может быть признана судом недействительной.

Заинтересованное лицо несет перед некоммерческой организацией ответственность в размере убытков, причиненных им этой некоммерческой организацией. Если убытки причинены некоммерческой организации несколькими заинтересованными лицами, их ответственность перед некоммерческой организацией является солидарной.

Глава V. УПРАВЛЕНИЕ НЕКОММЕРЧЕСКОЙ ОРГАНИЗАЦИЕЙ.

Статья 28. Основы управления некоммерческой организацией

Структура, компетенция, порядок формирования и срок полномочий органов управления некоммерческой организацией, порядок принятия ими решений и выступления от имени некоммерческой организации устанавливаются учредительными документами некоммерческой организации в соответствии с настоящим Федеральным законом и иными федеральными законами.

Статья 29. Высший орган управления некоммерческой организацией

1. Высшими органами управления некоммерческими организациями в соответствии с их учредительными документами являются: коллегияльный — высший орган управления для автономной некоммерческой организации;

общее собрание членов для некоммерческого партнерства, ассоциации (союза).

Порядок управления фондом определяется его уставом.

Состав и компетенция органов управления общественными и религиозными организациями (объединениями) устанавливаются в соответствии с законами об этих организациях (объединениях).

2. Основная функция высшего органа управления некоммерческой организацией — обеспечение соблюдения некоммерческой организацией целей, в интересах которых она была создана.

3. К компетенции высшего органа управления некоммерческой организацией относится решение следующих вопросов:

изменение устава некоммерческой организации;

определение приоритетных направлений деятельности некоммерческой организации, принципов формирования и использования ее имущества;

образование исполнительных органов некоммерческой организации и досрочное прекращение их полномочий;

утверждение годового отчета и годового бухгалтерского баланса;

утверждение финансового плана некоммерческой организации и внесение в него изменений;

создание филиалов и открытие представительств некоммерческой организации;

участие в других организациях;

реорганизация и ликвидация некоммерческой организации (за исключением ликвидации фонда).

Учредительными документами некоммерческой организации может предусматриваться создание постоянно действующего коллегиального органа управления, к ведению которого может быть отнесено решение вопросов, предусмотренных абзацами пятым — восьмым настоящего пункта.

Вопросы, предусмотренные абзацами вторым — четвертым и девятым настоящего пункта, относятся к исключительной компетенции высшего органа управления некоммерческой организацией.

4. Общее собрание членов некоммерческой организации или заседание коллегиального высшего органа управления некоммерческой организацией правомочно, если на указанном собрании или заседании присутствует более половины его членов.

Решение указанного общего собрания или заседания принимается большинством голосов членов, при-

сутствующих на собрании или заседании. Решение общего собрания или заседания по вопросам исключительной компетенции высшего органа управления некоммерческой организацией принимается единогласно или квалифицированным большинством голосов в соответствии с настоящим Федеральным законом, иными федеральными законами и учредительными документами.

Для автономной некоммерческой организации лица, являющиеся работниками этой некоммерческой организации, не могут составлять более чем одну треть общего числа членов коллегиального высшего органа управления автономной некоммерческой организацией.

Некоммерческая организация не вправе осуществлять выплату вознаграждения членам ее высшего органа управления за выполнение ими возложенных на них функций, за исключением компенсации расходов, непосредственно связанных с участием в работе высшего органа управления.

Статья 30. Исполнительный орган некоммерческой организации

1. Исполнительный орган некоммерческой организации может быть коллегиальным и (или) единоличным. Он осуществляет текущее руководство деятельностью некоммерческой организации и подотчетен высшему органу управления некоммерческой организацией.

2. К компетенции исполнительного органа некоммерческой организации относится решение всех вопросов, которые не составляют исключительную компетенцию других органов управления некоммерческой организацией, определенной настоящим Федеральным законом, иными федеральными законами и учредительными документами некоммерческой организации.

Глава VI. НЕКОММЕРЧЕСКИЕ ОРГАНИЗАЦИИ И ОРГАНЫ ГОСУДАРСТВЕННОЙ ВЛАСТИ

Статья 31. Экономическая поддержка некоммерческих организаций органами государственной власти и органами местного самоуправления

1. Органы государственной власти и органы местного самоуправления создают государственные и муниципальные учреждения, закрепляют за ними имущество за праве оперативного управления в соответствии с Гражданским кодексом Российской Федерации и осуществляют их полное или частичное финансирование.

Органы государственной власти и органы местного самоуправления в пределах своей компетенции могут оказывать некоммерческим организациям экономическую поддержку в различных формах, в том числе:

предоставление в соответствии с законодательством льгот по уплате налогов, таможенных и иных сборов и платежей некоммерческим организациям, созданным в благотворительных, образовательных, культурных и научных целях, в целях охраны здоровья граждан, развития физической культуры и спорта, других установленных законодательством целях, с учетом организационно-правовых форм некоммерческих организаций;

предоставление некоммерческим организациям иных

или частичное освобождение от платы за пользование государственными и муниципальными имуществом;

размещение среди некоммерческих организаций на конкурсной основе государственных и муниципальных социальных заказов;

предоставление в соответствии с законом льгот по уплате налогов гражданам и юридическим лицам, оказывающим некоммерческим организациям материальную поддержку.

2. Не допускается предоставление льгот по уплате налогов в индивидуальном порядке отдельным некоммерческим организациям, а также отдельным гражданам и юридическим лицам, оказывающим этим некоммерческим организациям материальную поддержку.

Статья 32. Контроль за деятельностью некоммерческой организации

1. Некоммерческая организация ведет бухгалтерский учет и статистическую отчетность в порядке, установленном законодательством Российской Федерации.

Некоммерческая организация предоставляет информацию о своей деятельности органам государственной статистики и налоговым органам, учредителям и иным лицам в соответствии с законодательством Российской Федерации и учредительными документами некоммер-

2. Размеры и структура доходов некоммерческой организации, а также сведения о размерах и составе имущества некоммерческой организации, о ее расходах, численности и составе ра-

ботников, об оплате их труда, об использовании безвозмездного труда граждан в деятельности некоммерческой организации не могут быть предметом коммерческой тайны.

Глава VII. ЗАКЛЮЧИТЕЛЬНЫЕ ПОЛОЖЕНИЯ

Статья 33. Ответственность некоммерческой организации

1. Некоммерческая организация в случае нарушения настоящего Федерального закона несет ответственность в соответствии с законодательством Российской Федерации.

2. В случае, если некоммерческая организация совершила действия, противоречащие ее целям и настоящему Федеральному закону, некоммерческой организации может быть вынесено предупреждение в письменной форме органом, осуществляющим государственную регистрацию юридических лиц, или прокурором внесено представление об устранении нарушений.

3. В случае вынесения некоммерческой организации более двух предупреждений или представлений об устранении нарушений некоммерческая организация мо-

жет быть ликвидирована по решению суда в порядке, предусмотренном статьей 19 настоящего Федерального закона и Гражданским кодексом Российской Федерации.

Статья 34. Вступление в силу настоящего Федерального закона

1. Настоящий Федеральный закон вступает в силу со дня его официального опубликования.

2. Предложить Президенту Российской Федерации и поручить Правительству Российской Федерации привести свои правовые акты в соответствие с настоящим Федеральным законом.

Президент
Российской Федерации
Б. ЕЛЬЦИН

Москва, Кремль
12 января 1996 года
№ 7-ФЗ

Министерство юстиции Российской Федерации
Зарегистрировано
21 июня 1993 г.
Регистрационный № 282

Государственные налоговые инспекции по республикам в составе Российской Федерации, краям, областям, автономным образованиям, городам Москве и Санкт-Петербургу

Министерства финансов республик в составе Российской Федерации, финансовые управления (отделы) администраций краев, областей, автономных образований, Главные финансовые управления администраций городов Москвы, Санкт-Петербурга и Московской области

О порядке налогообложения грантов, получаемых от иностранных благотворительных организаций

В связи с поступающими запросами по вопросу налогообложения грантов Государственная налоговая служба Российской Федерации и Министерство финансов Российской Федерации сообщают следующее.

Под термином «грант» для целей налогообложения понимаются целевые средства, предоставляемые безвозмездно иностранными благотворительными организациями предприятиям, организациям и физическим лицам в денежной или натуральной форме на проведение научных или других исследований, опытно-конструкторских работ, обучение, лечение и другие цели с последующим отчетом об их использовании.

В соответствии с пунктом 10 статьи 2 Закона Российской Федерации от 27.12.91 «О налоге на прибыль предприятий и организаций» бюджетные учреждения и другие некоммерческие организации уплачивают налог на прибыль, если они имеют доходы от предпринимательской деятельности. В этом случае они уплачивают налог с получаемой от такой деятельности суммы превышения доходов над расходами.

Не являются объектом обложения налогом на прибыль гранты, полученные от иностранных благотворительных организаций бюджетными учреждениями или другими некоммерческими организациями для осуществления целевых программ, относящихся к их уставной деятельности.

Организации, получившие гранты, по окончании отчетного года представляют в налоговый орган по месту своего нахождения отчет о поступивших суммах и об их расходовании. В случае использования предоставленных средств не по назначению сумма этих средств взыскивается в установленном порядке в доход федерального бюджета.

В остальных случаях согласно пункту 6 статьи 2 указанного Закона суммы средств, полученных безвозмездно от других предприятий и организаций, при отсутствии совместной деятельности включаются в состав доходов от внереализационных операций и

подлежат налогообложению в установленном порядке.

По смыслу статьи 3 (подпункт «а» пункта 1) Закона РСФСР от 07.12.91 «О подоходном налоге с физических лиц» гранты, предоставляемые физическим лицам иностранными благотворительными организациями, не включаются в совокупный годовой доход этих лиц и, следовательно, налогообложению не подлежат.

Если гранты, полученные предприятиями, организациями (в том числе бюджетными), были использованы ими на материальное поощрение (в денежной или натуральной форме) своих сотрудников, то выплаченные суммы подлежат обложению подоходным налогом в соответствии с указанным Законом.

Получение грантов предприятиями, организациями и физическими лицами от иностранных благотворительных организаций должно быть подтверждено справкой компетентного органа иностранного государства (с заверенным переводом на русский язык) о том, что данная благотворительная организация зарегистрирована в установленном порядке в соответствии с законодательством этого иностранного государства.

Средства в денежном или натуральном выражении, предоставляемые безвозмездно иностранными юридическими лицами, не являющимися благотворительными организациями, а также гражданами, не являются грантами и подлежат налогообложению на общих основаниях в соответствии с действующим налоговым законодательством.

Заместитель Руководителя Госналогслужбы
России - Государственный
советник налоговой службы 1 ранга
Ю.М.Ульянов

Заместитель Министра финансов Российской Федерации
С.В.Горбачев

ПРОГРАММА
ПОМОЩИ И РАЗВИТИЯ

ПАМИР

РАМИР HELP AND DEVELOPMENT
PROGRAM

КРАТКОСРОЧНЫЙ КРЕДИТ РАЗВИТИЯ*

Дата

1. Ф.И.О. фермера
2. Регистрационный номер
3. Район _____ кишлак _____ совхоз
4. Объем земли фермера _____ га
5. Право на землю
 - А. Собственность фермера
 - Б. Аренда _____ лет

I. Кредит ППРП

1. Семена _____ в количестве _____
2. Горючее _____ л/дизель _____ л/бензин _____
3. Минеральное удобрение _____ селитра _____ кг, аммофос _____ кг

II. Условия возвращения кредита

1. Возврат семян, включая плату за кредит в размере 10% от количества, переданного в качестве кредита _____ кг
2. За _____ л бензина _____ кг
3. За _____ л дизеля _____ кг
4. За _____ кг селитры _____ кг
5. За _____ кг аммофоса _____ кг
- Итого к возврату _____ кг

III. Общие правила

1. Независимо от всех причин, стороны должны выполнять свои обязательства. В случае их невыполнения нарушитель привлекается к судебной ответственности.
2. ППРП с нарушителями, не выполнившими свои обязательства, повторных договоров не заключает.

Получатель

Директор ППРП

* Этот документ - образец договора, который некоммерческая организация "Программа помощи и развития Памира-ППРП" заключает со своими клиентами. Программа на Памире ориентирована на развитие независимых фермерских хозяйств, способных обеспечить снабжение региона продуктами питания. ППРП предоставляет фермерам кредиты в виде семян, топлива и удобрений. Плата за кредиты представляет собой часть урожая фермеров в натуральной форме. Складывающийся таким образом резерв зерна и других сельскохозяйственных культур используется для создания семенного и обменного фондов. Эти фонды предполагается использовать для продолжения и расширения программ ППРП в будущем как один из инструментов обеспечения устойчивости организации после завершения финансирования по гранту "Уорлд Лернинг".

АКТ N ____

вскрытия ящика для пожертвований,

г. _____

" ____ " _____ 199 ____ г.

Комиссия в составе

1. _____

(фамилия, должность в организации)

2. _____

3. _____

произвела вскрытие ящика для пожертвований, установленного по адресу
_____ для сбора средств в

пользу _____
(название организации)

для реализации программы _____
(указать название программы)

Вышеназванный ящик для пожертвований установлен по решению
_____ от " ____ " _____.

(указать наименование органа)

При вскрытии в ящике для пожертвований находилось
_____ рублей.

Указанная выше программа осуществляется неправительственной
(негосударственной и немуниципальной) некоммерческой организацией и цели
этой программы соответствуют целям благотворительной деятельности,
определенным в ст. 2 Федерального закона "О благотворительной деятельности
и благотворительных организациях", а именно:

(указать конкретные части статьи 2)

Члены комиссии:

АКТ N ____

приема денежных средств от анонимного жертвователя

г. _____

" ____ " _____ 199__ г.

Мы, нижеподписавшиеся,

1. _____

(указать фамилию, должность в организации)

2. _____

3. _____

составили настоящий акт в том, что нами сего числа было принято благотворительное пожертвование для

(указать организационно-правовую форму, название организации)

на осуществление программы

(указать название программы, или конкретные пункты программы, если таково было пожелание жертвователя)

в сумме _____

от физического лица, пожелавшего остаться неизвестным.

Указанная выше программа осуществляется неправительственной (негосударственной и немунципальной) некоммерческой организацией и цели этой программы соответствуют целям благотворительной деятельности, определенным в ст. 2 Федерального закона "О благотворительной деятельности и благотворительных организациях", а именно:

(указать конкретные части статьи 2)

Подписи:

ДОГОВОР N ____

г. _____ " ____ " _____ 199__ г.

(наименование организации), именуемая в дальнейшем
 Благотворитель, в лице _____,
(должность, фамилия) действующего
 на основании _____,
(устава, приказа доверенности) с одной стороны, и _____
(наименование организации), именуемая в дальнейшем Благополучатель,
 в лице _____,
(должность, фамилия) действующего на основании
 _____,
(устава, приказа доверенности) с другой стороны, заключили настоящий
 договор о нижеследующем:

1. Благотворитель безвозмездно передает Благополучателю денежные средства для реализации благотворительных программ:

(название программы)

(указать конкретные пункты программы, если необходимо)

2. Сумма первого перечисления составляет _____
(указать сумму)

и перечисляется Благотворителем на счет Благополучателя в течение 10 дней после подписания настоящего договора.

3. Общая сумма безвозмездной помощи и сроки ее предоставления согласовываются сторонами по мере предоставления Благополучателем отчетов о расходовании средств.

4. Благотворитель вправе указывать перечисленные Благополучателю средства в своих отчетных документах в качестве взносов на благотворительные цели в _____
(указать организационно-правовую форму Благополучателя)

При исчислении налога на прибыль, облагаемая база уменьшается на сумму взносов на благотворительные цели, но не более трех процентов облагаемой налогом прибыли. При передаче взносов на благотворительные цели более, чем одному Благополучателю, общая сумма указанных выше взносов не может превышать пяти процентов облагаемой налогом прибыли. (п. 1 ст. 7 Закона Российской Федерации "О налоге на прибыль предприятий и организаций").

5. Благополучатель обязуется использовать полученные взносы строго в соответствии с благотворительными целями, указанными в п. 1 настоящего договора.

Указанные цели соответствуют целям благотворительной деятельности, определенным в ст. 2 Федерального закона "О благотворительной деятельности и благотворительных организациях" от 7 июля 1995г, а именно:

(указать конкретные части статьи 2 Федерального закона)

6. Благополучатель обязуется указывать в своих отчетах, предоставляемых общественности и государственным органам, информацию о поступивших на свой счет взносах в соответствии с настоящим договором, как взносы на благотворительные цели.

7. Настоящий договор действует с момента его подписания обеими сторонами по _____.

8. Благополучатель обязуется ежемесячно представлять Благотворителю письменные отчеты о расходовании средств, перечисленных Благотворителем по настоящему договору.

9. Настоящий договор составлен в 2-х экземплярах, по одному для каждой стороны.

10. Адреса и реквизиты сторон:

Благотворитель:

Благополучатель:

Подписи сторон:

Российское законодательство о фандрайзинге.

Федеральный закон "Об общественных объединениях"
Принят Государственной Думой 14 апреля 1995года.

Статья 10 Общественный фонд

Общественный фонд цель которого заключается в формировании имущества на основе добровольных взносов, иных не запрещенных законом поступлений

Статья 17 Государство и общественные объединения

Государственная поддержка может выражаться в виде целевого финансирования отдельных общественно полезных программ общественных объединений по их заявкам (государственные гранты)

Статья 31 Источники формирования имущества общественного объединения

Имущество общественного объединения формируется на основе добровольных взносов и пожертвований, поступлений от проводимых в соответствии с уставом общественного объединения лекций, выставок, лотерей, аукционов, спортивных и иных мероприятий.....

.....Общественные объединения, уставы которых предусматривают участие в выборах, не вправе получать финансовую и иную материальную помощь от иностранных государств, организаций и граждан на деятельность, связанную с подготовкой и проведением выборов.

Статья 35 Управление имуществом в общественных учреждениях

Если в соответствии с учредительными документами общественным учреждениям предоставлено право осуществлять приносящую доходы деятельность, то доходы, полученные от такой деятельности, поступают в самостоятельное распоряжение общественных учреждений и учитываются на отдельном балансе.

Федеральный закон "О благотворительной деятельности и благотворительных организациях"

Принят Государственной Думой 7 июля 1995 года

Статья 5 Участники благотворительной деятельности

Под участниками благотворительной деятельности понимаются граждане и юридические лица, осуществляющие благотворительную деятельность,а также граждане и юридические лица, в интересах которых осуществляется благотворительная деятельность: благотворители, добровольцы, благополучатели.

Благотворители - лица, осуществляющие благотворительные пожертвования в формах: бескорыстной (безвозмездной или на льготных условиях) передачи в собственность имущества, в том числе денежных средств и (или) объектов интеллектуальной собственности;

бескорыстного (безвозмездного или на льготных условиях) наделения правами владения, пользования и распоряжения любыми объектами права собственности;

бескорыстного (безвозмездного или на льготных условиях) выполнения работ, предоставления услуг благотворителями - юридическими лицами.

Благотворители вправе определять цели и порядок использования своих пожертвований.

Благополучатели - лица, получающие благотворительные пожертвования от благотворителей, помощь добровольцев.

Статья 12 Деятельность благотворительной организации

Благотворительная организация вправе заниматься деятельностью по привлечению ресурсов и ведению внебюджетных операций.

Статья 15 Источники формирования имущества благотворительной организации

Источниками формирования имущества благотворительной организации могут являться:

.....
благотворительные пожертвования, в том числе носящие целевой характер (благотворительные гранты), предоставляемые гражданами и юридическими лицами в денежной и натуральной форме;

.....
поступления от деятельности по привлечению ресурсов (проведение кампаний по привлечению благотворителей и добровольцев, включая организацию развлекательных, культурных, спортивных и иных массовых мероприятий, проведение кампаний по сбору благотворительных пожертвований, проведение лотерей и аукционов в соответствии с законодательством Российской Федерации, реализацию имущества и пожертвований, поступивших от благотворителей в соответствии с их пожеланиями)

Статья 16 Имущество благотворительной организации

В случае, если благотворителем или благотворительной программой не установлено иное, не менее 80% процентов благотворительного пожертвования в денежной форме должно быть использовано на благотворительные цели в течение года с момента получения благотворительной организацией этого пожертвования. Благотворительные пожертвования в натуральной форме направляются на благотворительные цели в течение одного года с момента их получения, если иное не установлено благотворителем или благотворительной программой.

Статья 17 Благотворительная программа

Благотворительной программой является комплекс мероприятий, утвержденных высшим органом управления благотворительной организацией и направленных на решение конкретных задач, соответствующих уставным целям этой организации.

Благотворительная программа включает смету предполагаемых поступлений и планируемых расходов (включая оплату труда лиц, участвующих в реализации благотворительной программы), устанавливает этапы и сроки ее реализации.

Статья 18 Поддержка благотворительной деятельности органами государственной власти и органами местного самоуправления

Органы государственной власти и органы местного самоуправления могут оказывать участникам благотворительной деятельности поддержку в следующих формах:

.....
материально-техническое обеспечение и субсидирование благотворительных организаций
финансирование на конкурсной основе благотворительных программ, разрабатываемых благотворительными организациями.

Статья 19 Контроль за осуществлением благотворительной деятельности

Благотворительная организация ежегодно предоставляет в регистрирующий орган отчет о своей деятельности, содержащий сведения о:

.....

составе и содержании благотворительных программ благотворительной организации (перечень и описание указанных программ)

.....

Средства, затраченные на публикацию ежегодного отчета и информации о деятельности благотворительной организации, засчитываются в качестве расходов на благотворительные цели.

Сведения о размерах и структуре доходов благотворительной организации не могут составлять коммерческую тайну.

Налоговые органы осуществляют контроль за источниками доходов благотворительных организаций, размерами получаемых ими средств и уплатой налогов в соответствии с законодательством Российской Федерации о налогах.

Статья 20 Ответственность благотворительной организации

.....

Споры между благотворительной организацией и гражданами и юридическими лицами, перечислившими ей средства на благотворительные цели, об использовании этих средств рассматриваются в судебном порядке.

Статья 21 Осуществление международной благотворительной деятельности

.....

Благотворительная организация имеет право на получение благотворительных пожертвований от иностранных граждан, лиц без гражданства, а также от иностранных и международных организаций. Использование указанных пожертвований осуществляется в порядке, установленном настоящим Федеральным законом.

**ПРИГЛАШЕНИЕ НА УЧАСТИЕ В КОНКУРСЕ
ПО ПОЛУЧЕНИЮ БЕЗВОЗМЕЗДНЫХ СРЕДСТВ-ГРАНТОВ
РОССИЙСКОГО ФОНДА МИРА**

1. Российский фонд мира - некоммерческий, независимый, миротворческий, благотворительный Фонд, создан в 1990 году, зарегистрирован в Министерстве Юстиции РФ (Свидетельство о регистрации N 6), осуществляет миротворческие и благотворительные программы в РФ, связанные с укреплением и развитием межнациональных отношений, оказанием помощи ветеранам и инвалидам, многодетным семьям, детским домам и школам интернатам, госпиталями детским клиникам, помощь одиноким и немущим, участвует в восстановлении памятников истории и культуры, способствует развитию международных неправительственных связей и контактов.

Впервые Российский фонд мира проводит конкурс (раунд) по распределению грантов.

Темы грантов:

1. Укрепление мира, дружбы и согласия между народами, стабилизация межнациональных отношений.
2. Содействие решению социальных проблем РФ.
3. Развитие милосердия и гуманизма.
4. Развитие международного сотрудничества на неправительственном уровне, обменные программы.

Общая сумма грантов, выделенных на данный раунд - 100 млн. рублей.

Продолжительность программ - не более одного года.

Минимальная сумма гранта - 1 млн. рублей.

Максимальная сумма гранта - 20 млн. рублей.

Фонд выделяет грант при условии, что соискатель имеет не менее 30 процентов средств от общей суммы, необходимой для реализации программы.

Программы, на выполнение которых потребуются суммы свыше максимальной суммы гранта, рассматриваться не будут.

Предложения на рассмотрение грантов принимаются только от некоммерческих, благотворительных, общественных организаций и объединений, зарегистрированных в соответствии с установленным порядком в органах юстиции (копия свидетельства о регистрации должна быть приложена к заявке в виде приложения).

Заявки будут приниматься от общественных организаций только Российской Федерации. Заявки на грант от других организаций, расположенных на территории других государств бывшего СССР, приниматься не будут. К рассмотрению могут быть представлены совместные заявки российских и зарубежных организаций, реализация которых осуществляется только на территории РФ.

2. Основные требования к заявке.

В соответствии с темами грантов, указанных в п.1., проекты и программы, представляемые на конкурс, должны способствовать участию организаций в укреплении мира, дружбы и согласия между народами РФ, содействию решения социальных проблем РФ, развитию милосердия и гуманизма, развитию международного

сотрудничества на неправительственном уровне, развитию обменных программ.

В заявках должны быть представлены программы, предусматривающие проведение конкретных мероприятий и/ или акций.

Заявки рассматриваются только при условии их оформления в соответствии с требованиями, указанными ниже.

ФОРМА ЗАЯВКИ НА ГРАНТ.

1. Титульный лист.
2. Общие сведения об организации-соискателе Гранта.
3. Краткая аннотация проекта (программы).
4. Постановка проблемы.
5. Цели и задачи.
6. Методы решения.
7. Оценка и отчетность.
8. Бюджет (смета расходов).
9. Дальнейшее финансирование.
10. Приложения.

Рекомендации по оформлению заявки даются в Российском фонде мира. Контактные телефоны: 202-4240, 291-7155, факс 202-9648.

3. Утверждение грантов.

Российский фонд мира будет принимать заявки, изучать и давать заключения по ним. Справки по предварительным результатам рассмотрения можно будет получить не ранее одного месяца со дня поступления заявки в Фонд.

Заявки не будут рассматриваться в раунде, если они представлены после объявленного срока приема заявок.

Преимущество будут иметь организации, которые:

- смогут убедительно продемонстрировать в заявке направленность проекта на тематику гранта;
- имеют опыт миротворческой и благотворительной деятельности;
- имеют дополнительные источники для реализации проекта.

Решение о выделении гранта принимает Бюро Правления Российского фонда мира.

После принятия решения о выделении гранта между Российским фондом мира и получателем гранта подписывается безвозмездный договор на предоставление Гранта между Правлением Российского фонда мира и получателем Гранта.

Организации, заявки которых будут отклонены, получают письменное уведомление. Они могут принимать участие в следующем раунде соискателей.

4. Порядок подачи Заявки.

Пакет документов, представляемый на соискание гранта, оформленный в соответствии с п.2. должен быть не более 5 печатных листов. Приложения должны иметь непосредственное отношение к требованиям, предъявляемым данным конкурсом проектов. Материалы и приложения, не имеющие непосредственного отношения к проекту, не рассматриваются.

Оригинал заявки на грант должен быть представлен непосредственно в Российский фонд мира.

Сроки представления заявок:
1-ый раунд до 1 июня 1995 г.
2-ой раунд до 1 ноября 1995 г.

Выделение грантов по первому раунду осуществляется с 1 августа 1995 г., по второму - с 1 января 1996 г.

Заявка должна быть адресована:
Правление Российского фонда мира
Россия, 119889, Москва, ул.Пречистенка дом 10 строение 2.
Проект "Гранты Российского фонда мира".

Заявки, отправленные по факсимильной или электронной почте, а также представленные позже указанных сроков, не рассматриваются.

Гранты не могут быть направлены на поддержание политических партий или организаций, а также на предвыборную борьбу отдельных политиков, объединений или организаций.

Приложение к Заявке
на Грант Российского фонда мира

РЕКОМЕНДАЦИИ
по подготовке Заявки на Грант Российского фонда мира

Из чего состоит Заявка?

1. ТИТУЛЬНЫЙ ЛИСТ - заполняется в соответствии с прилагаемой формой.

2. ОБЩИЕ СВЕДЕНИЯ - содержат сведения об организации - заявителе. Объясняет кто подает заявку, кто будет выполнять проект, и почему заявители (исполнители) (в силу своей квалификации, опыта, убеждений, репутации...) наилучшим образом выполняют задачи проекта.

3. КРАТКАЯ АННОТАЦИЯ - содержит ясное и краткое описание сути заявки. Включает по одному-два предложения, отвечающих на вопросы:

- кто будет выполнять проект
- почему и кому нужен этот проект
- что получится в результате
- как проект будет выполняться
- сколько потребуется денег

4. ПОСТАНОВКА ПРОБЛЕМЫ - описывает, почему возникла необходимость выполнения проекта, и как поставленная проблема соотносится с целями и задачами Фонда и организации-заявителя.

5. ЦЕЛИ И ЗАДАЧИ - дают представления, каковы будут итоги выполнения проекта. Цель - это во имя чего предпринимается проект. Задачи - конкретный эффект, достигнуть которого требуется в ходе выполнения проекта. Из раздела должно быть ясно, что получится в результате выполнения проекта, какие изменения произойдут в существующей ситуации.

6. МЕТОДЫ РЕШЕНИЯ - указываются мероприятия, которые необходимо провести для достижения намеченных результатов и для решения поставленных задач. Приводятся схемы организации работы и календарный план. Из раздела должно быть ясно, что будет сделано, кто будет осуществлять действия, как они будут осуществляться, когда и в какой последовательности, какие ресурсы будут привлечены.

7. ОЦЕНКА И ОТЧЕТНОСТЬ - из раздела должно быть ясно, как представляется оценка организацией-заявителем в конце, достиг ли проект цели, и как будет контролироваться процесс выполнения проекта. В какой форме отчитывается организация-заявитель перед Российским фондом мира об истраченных средствах.

8. БЮДЖЕТ (СМЕТА РАСХОДОВ) - раздел содержит перечень всех ресурсов, необходимых для проведения планируемых мероприятий, отвечает на вопросы:

- сколько денег требуется от Фонда
- из каких источников будут получены остальные требующиеся для выполнения проекта ресурсы и на что будут потрачены.

Средства Гранта не могут быть потрачены на:
-заработную плату сотрудников организации-заявителя
-на административно-хозяйственные расходы
-на арендную плату за офис.

9.ДАЛЬНЕЙШЕЕ ФИНАНСИРОВАНИЕ - содержимое раздела объясняет, каким образом, за счет каких ресурсов заявитель надеется сохранить и расширить достижения данного проекта; убеждает Российский фонд мира в том, что после израсходования средств гранта найдутся ресурсы для поддержания данной инициативы.

10.ПРИЛОЖЕНИЯ - включают дополнительные материалы, поясняющие содержание заявки, рекомендательные письма в поддержку проекта (от Отделений или представительств Российского фонда мира, правительственных и неправительственных, коммерческих организаций, администраций, органов социальной защиты, соответствующих департаментов, ученых, специалистов и пр.).

ДОГОВОР
о выделении безвозмездных средств-Гранта
Российского фонда мира

г.Москва

"___"_____199_ г.

Российский фонд мира - именуемый в дальнейшем "Фонд", в лице Председателя Правления Фонда Мамлеева Дмитрия Федоровича, действующего на основе Устава Фонда с одной стороны и _____ - именуем(ая) в дальнейшем "Получатель" в _____, действующего на основе Устава, с другой стороны заключили настоящий Договор о нижеследующем:

1. ПРЕДМЕТ ДОГОВОРА

1.1. Фонд в соответствии с заявкой Получателя, которая является неотъемлемой частью настоящего Договора (приложение N1), победившей в конкурсе на получение Гранта - грант N __, по решению Правления N _____ от _____ 199_ г. перечисляет средства в размере _____ млн.рублей на расчетный счет Получателя в соответствии с графиком, являющимся неотъемлемой частью настоящего договора (приложение N 2).

1.2. Получатель согласно заявке использует средства Фонда на реализацию программы "_____" в течение _____ осуществляет ее реализацию.

1.3. Использование средств Гранта не по назначению не допускается и влечет за собой возврат Фонду перечисленных Получателю средств, прекращение дальнейшего финансирования и расторжение настоящего договора.

2. ОБЯЗАТЕЛЬСТВА СТОРОН

2.1. Получатель:

2.1.1. Использует сумму Гранта Фонда в строгом соответствии с Заявкой и темой Гранта.

В случае начала реализации проекта позднее срока, указанного в заявке, вся прибыль от использования Получателем средств Фонда, перечисленных до начала его реализации, является собственностью Фонда.

2.1.2. В ходе реализации гранта рекламирует миротворческую и благотворительную деятельность Фонда как среди участников программы, так и в средствах массовой информации.

2.1.3. Не менее одного раза в полугодие с момента получения средств Фонда информирует Фонд о расходовании средств на выполнение проекта.

По окончании проекта представляет в Фонд полный отчет о проделанной работе и использовании средств.

2.1.4. В ходе реализации проекта не может обращаться в Фонд за дополнительным финансированием проекта.

2.2. Фонд:

2.2.1. Осуществляет промежуточный контроль за использованием средств Фонда на выполнение проекта, но не ранее чем через три месяца с момента их перечисления.

2.2.2. По мере своих возможностей оказывает Получателю содействие в реализации проекта.

2.3. Стороны обязуются незамедлительно информировать друг друга о возникающих затруднениях, которые могут привести к невыполнению настоящего Договора в целом или отдельных его условий.

3. ВСТУПЛЕНИЕ В СИЛУ, СРОК ДЕЙСТВИЯ ДОГОВОРА

3.1. Настоящий Договор вступает в силу с момента его подписания сторонами и действует в течении срока реализации программы в соответствии с заявкой Получателя.

4. ПОРЯДОК ПРЕКРАЩЕНИЯ ДЕЙСТВИЯ ДОГОВОРА

4.1. Настоящий Договор подлежит прекращению по:

- окончании сроков проведения проекта (программы) - или в случае использования средств гранта не по назначению.

4.2. В случае, если в течении срока действия настоящего Договора, не будут выполнены условия и положения, составляющие его предмет, Договор может быть расторгнут по требованию любой из сторон.

4.3. Настоящий Договор может быть расторгнут по решению арбитражного суда в случае, если одна из сторон систематически умышленно нарушает условия Договора, что приводит к ущемлению законных прав и интересов другой стороны.

5. АРБИТРАЖ

5.1. Все споры и разногласия, которые могут возникнуть между сторонами по выполнению настоящего Договора и в связи с ним, по возможности разрешаются путем переговоров между сторонами.

5.2. В случае, если стороны к согласию не пришли все споры подлежат рассмотрению в установленном порядке в Арбитражном суде РФ.

6. ЗАКЛЮЧИТЕЛЬНЫЕ ПОЛОЖЕНИЯ

6.1. Настоящий Договор составлен в двух экземплярах, каждый из которых имеет одинаковую юридическую силу и хранится у каждой из сторон.

6.2. Все изменения и дополнения к настоящему Договору оформляются в письменном виде и являются неотъемлемой частью настоящего Договора.

7. РЕКВИЗИТЫ И ЮРИДИЧЕСКИЕ АДРЕСА СТОРОН

"Фонд"

Российский фонд мира: расчетный счет 705001 в Коммерческом банке "Орбита", кор. счет 161227 РКЦ ГУ ЦБ РФ МФО 44583001, уч. 83.
г. Москва, 119889, ул. Пречистенка дом 10 строение 2 (тел. 291-7155, факс 202-9648).

"Получатель"

ПОДПИСИ СТОРОН

Фонд

Получатель

" " _____ 199 г.

" " _____ 199 г.

М.п.

М.п.

г.Москва

ТРЕБОВАНИЯ К НАПИСАНИЮ ЗАЯВОК в рамках регионального конкурса в Центральной России

Заявки должны отражать всю информацию, приводимую ниже. Заявки на получение грантов не будут рассматриваться до тех пор, пока не будет предоставлена вся запрашиваемая информация. Заявки могут подаваться как на русском, так и на английском языках.

I. Титульный лист (1 стр.)

- **Название проекта.**
- **Организация-исполнитель** - название организации, выполняющей проект, ее юридический статус, адрес, телефон, факс, электронная почта, номер расчетного счета и название банка.
- **Организация-заявитель** (в том случае, если проект будет выполняться инициативной группой или организацией без статуса юридического лица - "исполнителем", а заявку подает и официальным грантополучателем будет другая организация - "заявитель") - те же данные.
- **Поддерживающая организация** (если есть).
- **Руководитель проекта** - Ф.И.О., звание, должность, адрес, телефоны, факс, электронная почта. **Бухгалтер проекта** - Ф.И.О., звание, должность, адрес, телефоны, факс, электронная почта.
- **География проекта** - где будет проходить работа по проекту.
- **Срок выполнения проекта** - начало и окончание, продолжительность в месяцах.
- **Запрашиваемая сумма, имеющиеся средства и полная стоимость проекта.**

II. Краткая аннотация заявки (не более 1 стр.)

- Краткое, не более 1 стр., изложение проекта, повторяющее все части полной заявки (по несколько предложений на каждую часть). Отвечает на вопросы: кто будет выполнять проект, почему и кому нужен этот проект, каковы цели и задачи, что получится в результате, как проект будет выполняться, сколько времени он будет продолжаться, сколько потребуется денег.

III. Описание организации (не более 1 стр.)

- Краткое описание целей и задач, истории и основной деятельности Вашей организации и ее перспектив на последующие 2 года, имеющихся в распоряжении организации людских, материальных и иных ресурсов, необходимых для выполнения проекта. При наличии исполнителя и заявителя необходима информация об обеих организациях.

IV. Описание проекта и его обоснование

Проект - это программа, которая будет финансироваться полученным грантом.

- **Постановка проблемы/описание потребности** (не больше одной страницы) - *зачем* нужен этот проект и *какую* проблему он будет решать?
Не путайте проблему с методами ее решения!
- **Цели** (более общие) и **задачи** (конкретные) проекта.
- **Ожидаемые результаты** (результаты описываются максимально конкретно, в количественно измеряемых величинах) - *каких* результатов в итоге проекта намечено достичь? Что конкретно изменится по окончании проекта? Описывайте не то, что будет сделано в ходе проекта, а как изменится ситуация (описанная в разделе "постановка проблемы").
- **Описание проекта: стратегия и методы достижения поставленных целей и механизм реализации проекта** - *как* будут реализовываться цели и задачи, *кто* будет осуществлять действия, *какие* ресурсы будут использованы, *как* будет производиться отбор участников учебной программы или получателей услуг, *как* и *кому* будет распространяться литература и т.д.? Эта часть должна быть подробной.

- **Календарный график/рабочий план** реализации проекта. Опишите основные этапы проекта по неделям/месяцам - *когда* и в какой последовательности будут проходить мероприятия в рамках проекта? Представьте также таблицу-график по месяцам.
- **Оценка достижения намеченных результатов и отчетность:** *как и по каким конкретно критериям* будет оцениваться эффективность и успешность проекта, *кто и каким образом* будет оценивать достижение поставленных целей и задач и намеченных результатов как в ходе выполнения проекта (мониторинг), так и по его окончании?
- **Дальнейшее развитие проекта** после окончания финансирования по гранту: как предполагается развивать эту деятельность по окончании финансируемого проекта.
- **Дальнейшее финансирование:** за счет *каких* ресурсов предполагается сохранить и расширить достижения данного проекта (если предусматривается продолжение работ по проекту по окончании срока действия гранта).

Примечание:

- При составлении заявок на финансирование обучающих программ (семинара, конференции, учебного курса), предоставьте, пожалуйста:
 - а. учебный план (программу мероприятия);
 - б. краткую биографию лиц, которые будут проводить обучение и сообщите, *какой* квалификацией они обладают для проведения данного обучения;
 - в. критерии и механизм отбора участников.
- Фонд Евразия заинтересован в поддержке сотрудничества различных организаций и совместных проектов. Пожалуйста, укажите, *какие* контакты Вы имеете с другими неправительственными и иными организациями в этой области и с *кем* вы будете сотрудничать в ходе реализации проекта. Приветствуется сотрудничество и диалог неправительственных организаций с правительственными структурами и частным коммерческим сектором.
- Если будет необходим перевод, пожалуйста, сообщите, *каким* образом Вы собираетесь решить этот вопрос.

V. Бюджет (в долларах США)

- Общая стоимость проекта и запрашиваемый у Фонда объем финансирования.
- Смета: подробная разбивка бюджета по статьям: оплата труда (включает заработную плату штатных и внештатных сотрудников, гонорары - с указанием доли рабочего времени от полной ставки в %, оплата разовых услуг консультантов по договору, а также обязательные налоги и страхование - 41% от фонда заработной платы; подоходный налог в бюджет не включается и выплачивается из зарплаты или гонораров); основные прямые расходы (аренда помещений, оборудование, офисные расходные материалы, командировки, связь, типографские расходы и др.; непрямые расходы (если имеются). Пожалуйста, указывайте размер вкладов в натуральной форме (включая добровольный труд) и уже изысканных денежных средств из других источников в долларовом эквиваленте. Средства на "непредвиденные расходы" выделяться не будут.
- Детальные комментарии к бюджету, в которых:
 - приводится обоснование расходов (при необходимости прилагаются прайс-листы или иные документы, договоры);
 - указываются источники поступления имеющихся средств (денежных и в натуральной форме). Прилагаются документы, подтверждающие наличие этих средств или гарантии их предоставления;
 - приводится иная необходимая информация.

Примечание:

Бюджет должен быть четко связан с описываемым проектом, каждая статья расходов должна непосредственно обеспечивать только потребности проекта.

На следующей странице приводится образец бюджета.

Образец бюджета

Данный бюджет служит образцом. Ваш бюджет не должен полностью соответствовать прилагаемому образцу (в нем должны отражаться реальные нужды вашего проекта), но он должен быть таким же подробным. Конкретные названия должностей сотрудников, типов расходов внутри приведенных разделов сметы будут, скорее всего, отличаться. Приведенный ниже бюджет является бюджетом несуществующего проекта.

Бюджет

Описание проекта: Обучающая программа по государственному управлению для сотрудников администрации города. Программа включает разработку обучающих материалов, создание библиотеки и проведение семинара.

Директор проекта: Иван Иванович Иванов

Сроки исполнения: 1 января 1995 г. - 31 декабря 1995 г.

1. ОПЛАТА ТРУДА

А. Персонал

колич- ество	должность	оплата труда \$/мес	% вре- мени работы	длитель- ность	всего	имеется	требуется
1	Директор проекта	\$ xxx	100%	12 мес.	\$ xxx	-	\$ xxx
2	Ассистент проекта	\$ xxx	80%	12 мес.	\$ xxx	-\$ xxx	
1	Бухгалтер	\$ xxx	30%	12 мес.	\$ xxx	\$xxx	\$ xxx
2	Старший специалист	\$ xxx	100%	12 мес.	\$ xxx	\$xxx	-
<i>Итого по персоналу:</i>					\$ xxx	\$xxx	\$ xxx

В. Консультанты и другие услуги:

колич- ество	оплата труда \$/день	количество дней	всего	имеется	требуется	
1	Юрист-консультант	\$ 40	20	\$ xxx	-	\$ xxx
3	Эксперты: разработка трех основных курсов и создание обучающих материалов по данным курсам: 1) микроэкономика; 2) финансовое управление в общественных организациях и 3) бюджет и планирование	\$ 30	90	\$ xxx	\$xxx	\$ xxx
2	Тренеры-ведущие семинара	\$ 40	7	\$ xxx	\$xxx	\$ xxx
1	Специалист по разработке макета издания	\$ 20	30	\$ xxx	\$xxx	\$ xxx
<i>Итого по консультантам:</i>				\$ xxx	\$xxx	\$ xxx

В. Социальное, медицинское страхование, другие обязательные выплаты:			
41% от фонда заработной платы	\$ xxx	\$xxx	\$ xxx
ИТОГО НА ОПЛАТУ ТРУДА:	\$ xxx	\$xxx	\$ xxx

2. ОСНОВНЫЕ ПРЯМЫЕ РАСХОДЫ

А. Аренда помещения и коммунальные услуги:

Помещение для офиса - 1 комната 30 кв.м. \$ 200/мес. на 12 мес.	\$ xxx	\$xxx	-
Коммунальные услуги - \$20/мес на 12 мес.	\$ xxx	\$xxx	\$ xxx
Помещение для проведения семинара: учебный зал 200 кв.м. \$ 50/день на 5 дней	\$ xxx	\$xxx	\$ xxx
<i>Итого:</i>	\$ xxx	\$xxx	\$ xxx

Б. Командировки и транспортные расходы:

Ж/д билеты для 3 экспертов из Москвы - 3 билета в оба конца по \$ 35 каждый	\$ xxx	\$xxx	\$ xxx
Проживание 3 экспертов из Москвы	\$ xxx	\$xxx	\$ xxx
Авиабилеты для 2 тренеров - 2 билета в оба конца по \$ 100 каждый	\$ xxx	\$xxx	\$ xxx
Проживание 2 тренеров	\$ xxx	\$xxx	\$ xxx
Местные командировки для привлечения студентов к работе данной программы: 1 поездка директора проекта в 5 областных городов			
Железнодорожные билеты - 5 @ \$xxx каждый	\$ xxx	\$xxx	\$ xxx
Проживание в гостинице - 10 ночей @ \$xxx за ночь	\$ xxx	\$xxx	\$ xxx
Суточные из расчета 10 дней @ \$xxx в день	\$ xxx	\$xxx	\$ xxx
<i>Итого:</i>	\$ xxx	\$xxx	\$ xxx

В. Оборудование:

Компьютер IBM-486DX с комплектом расходных материалов	\$ xxx	-	\$ xxx
Факс Panasonic BX-50	\$ xxx	-	\$ xxx
Модем Courier 2400	\$ xxx	\$xxx	-
<i>Итого:</i>	\$ xxx	\$xxx	\$ xxx

Г. Связь и коммуникации:

Телефонные переговоры междугородные	\$ xxx	\$xxx	\$ xxx
Электронная почта	\$ xxx	\$xxx	\$ xxx
Почтовые отправления	\$ xxx	\$xxx	\$ xxx
<i>Итого:</i>	\$ xxx	\$xxx	\$ xxx

Д. Издание пособий:

Покупка бумаги - 5 тонн по \$xxx за тонну	\$ xxx	\$xxx	\$ xxx
Типографские расходы	\$ xxx	\$xxx	\$ xxx
<i>Итого:</i>	\$ xxx	\$xxx	\$ xxx

Е. Библиотечные материалы

Покупка книг для библиотеки, в дополнение к учебным пособиям, разработанным для программы общественного администрирования согласно учебному плану.

1. Покупка учебников - по 10 экземпляров каждого (Самуэльсон, Микроэкономика) @ \$xxx за экземпляр x 10	\$ xxx	\$xxx	\$ xxx
(Бойд, Принципы Общественного Финансирования) @ \$xxx за экземпляр x 10	\$ xxx	\$xxx	\$ xxx
(Пибоди, Бюджет для Общественного Менеджера) @ \$xxx за экземпляр x 10	\$ xxx	\$xxx	\$ xxx
2. Доставка учебников Самуэльсон - покупка на местах доставки не требует	-	-	-
Бойд - покупка при содействии Фонда Сороса	\$xxx	\$xxx	-
Пибоди - 50 кг. авиагруза @ \$xxx за 1 кг.	\$ xxx	\$xxx	\$ xxx
<i>Итого:</i>	\$ xxx	\$xxx	\$ xxx

Ж. Офисные принадлежности

Бумага, бумага для факса, конверты	\$ xxx	\$xxx	\$ xxx
Папки	\$ xxx	\$xxx	\$ xxx
<i>Итого:</i>	\$ xxx	\$xxx	\$ xxx

ИТОГО ОСНОВНЫХ ПРЯМЫХ РАСХОДОВ: \$xxx \$xxx \$xxx

3. НЕПРЯМЫЕ РАСХОДЫ:

(учитываются только аргументированные не прямые расходы в тех случаях, когда проект использует общие ресурсы организации, что не нашло отражения в иных статьях бюджета)

Полная стоимость проекта: \$ xxx

Имеется: \$ xxx

Требуется от Фонда "Евразия": \$ xxx

Внимание! После сметы необходимо предоставить подробные комментарии к бюджету с обоснованием необходимости расходов по статьям бюджета, использования оборудования, командировок, типографских расходов, путей получения средств из других источников, в том числе уже имеющихся у самой организации (включая все виды - денежные, в натуральной форме и добровольным трудом).

VI. Управление финансами

- Имеет ли Ваша организация опыт управления грантами? Если да, расскажите об этом подробно: источник, сумма и общее описание проекта.
- Коротко опишите Вашу бухгалтерскую систему, а также, как Вы планируете распорядиться полученным грантом. Кто будет наделен полномочиями расходовать средства? Кто будет готовить финансовые отчеты? Вам необходимо будет вести отчетность по гранту отдельно от других средств. Любые расходы в рамках гранта должны быть подтверждены финансовой отчетностью. Все расходы, которые будут превышать сумму в 10 долларов США, должны иметь письменное подтверждение.
- Если возможно, приложите к заявке на получение гранта копию последнего финансового или аудиторского отчета.
- Пожалуйста, сообщите фамилии и телефонные номера двух человек или организаций, с которыми Вы или Ваша организация работала последние два года. Эти справки не обязательно должны быть рекомендательными письмами.

VII. Приложение

- Биография руководителя проекта и другого руководящего состава;
- Копия свидетельства о регистрации и устава;
- Копия баланса за последний год и квартал;
- Копии аудиторских проверок (если проводились);
- Письма поддержки от других организаций (если имеются);
- Договоры о сотрудничестве с другими организациями (если имеются);
- Статьи, иные материалы об организации;
- Образцы деятельности организации (если необходимо: например, экземпляры бюллетеня);
- Иные материалы.

**ATTACHMENT 2
GRANT APPLICATION FORMAT**

Page 2

4. PROJECT CONCEPT/MANAGEMENT PLAN

- a) Describe the project and what needs it is expected to meet and how it will accomplish meeting these needs. Discuss the geographic location of project activities and how it was selected.
- b) Describe how the proposed project fits the goals and objectives of this solicitation.
- c) Discuss the nature of the partnership between the Russian and American NGOs, including any past, current or planned activities.
- d) Describe the role of the Russian NGO in the planning of this project.
- e) Describe proposed monitoring and evaluation plan and specify key indicators. Include an Implementation Plan which highlights the timing for carrying out major project activities.
- f) Discuss how the proposed project is to be/could be replicated once this funding commitment ends and the anticipated lasting impact of the project.
- g) Describe how the project will be managed, in the US and in Russia, and the qualifications of key personnel, including language ability.
- h) If the proposal is submitted by any subgrantee, US or Russian, currently funded under the PVO/NIS Project, describe accomplishments to date under the current grant and realistic expected accomplishments at grant-end. Discuss previously planned objectives which will not be met and why. Describe how this proposed project will complement but not duplicate previously funded activities, if at all.

5. COST PROPOSAL

(FINANCIAL PLAN):

- a) Submit a complete, detailed line item budget following the format provided in Attachment 3; include a detailed narrative description supporting the costs budgeted. Costs must be attributed to sources of funding, clearly indicating which costs will be covered by PVO/NIS Project funds.
- b) Describe the plan for obtaining the private match contribution. Indicate if these funds are in hand or planned, and the timetable for securing them if applicable. Describe how in-kind contributions are recorded and valued.
- c) Describe general procedures for reporting US and Russian office expenditures.
- d) Describe familiarity, if any, with USAID reporting requirements.
- e) Provide an annual institutional budget of the US PVO partner for the last fiscal year, the current year and the next year, which indicates major sources of support.
- f) If the US PVO partner is not registered with USAID, provide explanations and attach documents that may be required, as described in Sections IV and VI.
- g) Clearly delineate in budget notes costs for US and Russian expenses.

PVO/NIS PROJECT---COST PROPOSAL FORMAT---ATTACHMENT 3

BUDGET SUMMARY: In U.S. dollars (\$0)

FUNCTION (specify)	A.I.D.		PVO		TOTAL CONTRIBUTION		
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	YEAR 1	YEAR 2	YEAR 1	YEAR 2	A.I.D.	PVO	TOTAL
I. Personnel:							
II. Procurement:							
III. Travel & Transportation:							
IV. Communications:							
V. Other Direct Costs:							
VI. Evaluation:							
VII. A-133 Audit Costs:							
VIII. Indirect Costs:							

TOTAL

** PVO Match = ** %

** PVO Match = PVO Contribution divided by the Total Contribution (column "f" divided by column "g");
25% cash/in-kind match is required.

PVO/NIS PROJECT---COST PROPOSAL FORMAT---ATTACHMENT 3

LINE ITEM BUDGET: In U.S. dollars (\$0)

PAGE OF

PVO: _____	Year 1		Year 2		TOTAL - Years 1-2		
	(a) A.I.D.	(b) PVO	(c) A.I.D.	(d) PVO	(e) A.I.D.	(f) PVO	(g) TOTAL
					(a)+(c)	(b)+(d)	
I. PERSONNEL							
A. Program - NIS							
B. Program - US							
C. Administration - NIS							
D. Administration - US							
E. Benefits (A-D)							
	-----	-----	-----	-----	-----	-----	-----
SUBTOTAL							
II. PROCUREMENT							
A. Office Equipment & Supplies (Specify)							
1.							
2.							
3.							
4.							
	-----	-----	-----	-----	-----	-----	-----
SUBTOTAL							
B. Consultants (exclude evaluation costs)							
1. Local							
2. External							
	-----	-----	-----	-----	-----	-----	-----
SUBTOTAL							
C. Services (exclude evaluation costs)							
1.							
2.							
3.							
	-----	-----	-----	-----	-----	-----	-----
SUBTOTAL							
D. Other (Specify)							
1.							
2.							
3.							
	-----	-----	-----	-----	-----	-----	-----
SUBTOTAL							
III. TRAVEL & TRANSPORTATION							
(Personnel and Consultants only)							
A. Airfare							
B. Per Diem							
C. Local							
D.							
	-----	-----	-----	-----	-----	-----	-----
SUBTOTAL							

PVO/NIS PROJECT---COST PROPOSAL FORMAT---ATTACHMENT 3

LINE ITEM BUDGET: In U.S. dollars (\$0)

PAGE OF

PVO: _____	Year 1		Year 2		TOTAL - Years 1-2		
	(a) A.I.D.	(b) PVO	(c) A.I.D.	(d) PVO	(e) A.I.D.	(f) PVO	(g) TOTAL
					(a)+(c)	(b)+(d)	
IV. COMMUNICATIONS							
A. Printing/Reproduction							
B. Postage/Courier							
C. Telephone/Fax							
D.							
	-----	-----	-----	-----	-----	-----	-----
SUBTOTAL							
V. OTHER DIRECT COSTS (Specify)							
A.							
B.							
C.							
D.							
	-----	-----	-----	-----	-----	-----	-----
SUBTOTAL							
VI. EVALUATION							
A. External Personnel							
B. Airfare							
C. Per Diem							
D.							
	-----	-----	-----	-----	-----	-----	-----
SUBTOTAL							
VII. A-133 AUDIT COSTS							
	-----	-----	-----	-----	-----	-----	-----
SUBTOTAL							
VIII. INDIRECT COSTS							
A. Overhead/Administration							
B. Other							
	-----	-----	-----	-----	-----	-----	-----
SUBTOTAL							
	-----	-----	-----	-----	-----	-----	-----
TOTAL							
	=====	=====	=====	=====	=====	=====	=====

NGO health program or activities, demonstrate effective interventions and facilitate replication;

(ii) Provide training and technical assistance, and/or equipment and commodities, to enhance the administrative, management and service delivery capacities of Russian HC NGOs. To the extent possible, this assistance should lead to cooperation/joint programming among regional Russian HC NGOs;

(iii) Support commodity and equipment costs linked to the strengthening of local HC NGOs; and

(iv) Leverage, to the extent possible, private sector resources over and above the 25 percent minimum matching requirement.

Total funding for this solicitation will not exceed \$6.5 million. Proposals may request funds for a maximum of two years and the USAID contribution should be limited to between \$375,000 and \$750,000. All proposals must include a private (cash or in-kind) match of no less than 25% of total project costs. Approximately 10-20% of the USAID-funded budget for each subgrant should be allocated to the procurement of commodities such as equipment, medicines and supplies for use by the Russian HC NGO. **All awards will be made subject to the availability of funds.**

Proposals must be submitted in the format outlined in Attachments 1, 2, and 3 to this solicitation. Proposals which request more than the \$750,000 maximum grant award level will not be considered for funding. (See Section VI. PROPOSAL REVIEW AND GRANT APPROVAL PROCESS for additional details.)

Please note that in-depth information is being requested about the Russian NGO partner. Proposals are expected to:

(1) reflect honestly the differences in experience and capacities of Russian and American partners, and (2) outline appropriate roles for the partners which strengthen the Russian NGO while respecting its abilities.

b) COST PROPOSAL

Budgets should include sufficient detail and explanatory notes to facilitate review. They should conform to the instructions in Section V (below), indicating clearly which costs are to be covered with USAID funds, which costs are covered by private contributions, and, where applicable, what funds are covered by another US federal agency. Note that the latter funds will not be counted as "matches."

Budget notes should clearly identify which cost items are earmarked for the Russian NGO and which items are US activities and expenses. Funds may be requested for a maximum period of two years. Cost proposals should include funds for an external mid-term evaluation and an OMB A-133 audit (See Section V). A format for the budget is provided in Attachment 3.

Organizations which budget for indirect costs should include a copy of the most recent Indirect Cost Rate Agreement as negotiated with their cognizant US federal agency. Organizations not

having such a rate agreement with the federal government should describe how the indirect cost rate is derived if one is to be used. No profit or fees are payable under grants.

All US PVOs, whether registered with USAID or not, must submit a copy of their most recent audited financial statement.

c) PROGRAM RESTRICTIONS

In addition to the limitations indicated in Section II. PROGRAM OBJECTIVE, above, PVO/NIS Project grants will not finance projects which are academic or research-oriented (including feasibility studies), sectarian or politically partisan, or which indicate that a disproportionate share of grant funds will favor US activities over Russian activities. Proposals designed primarily to establish a US PVO's presence in Russia will not be considered. Projects based on short-term exchanges of individuals and shipments of commodities will not be considered.

As noted in Section II, above, this solicitation is for projects in Russia only. Projects for other NIS states are not eligible for this particular solicitation. **Final grant awards are subject to the availability of funds.**

IV. MATCHING REQUIREMENTS

All grant activities will be cost-shared by the proposing partner organizations, with USAID support not to exceed 75 percent of the estimated costs of the project. Priority will be given to proposals which meet project guidelines and demonstrate ability to leverage substantial private resources over and above the 25 percent minimum. The match may be cash or in-kind contributions. Funds received from the US Government or USAID intermediaries are not allowable sources for the match.

Grant applications must identify all critical sources of support for the project including private and public cash receipts and in-kind contributions of goods and services which directly support project activities. Applications must specify whether matching contributions are in hand, or when they are expected, and/or include a plan for when over the two-year life of the proposed project the minimum 25 percent private contribution is to be in place.

Criteria for eligibility of the non-federal contributions are set forth in OMB Circular A-110, Subpart C. OMB Circular A-110 is available from: The US Government Printing Office, Superintendent of Documents, Washington, DC 20402; OR Publications, OMB, New Executive Office Building, Room G-236, Washington, DC 20503. (tel. 202-395-7332).

V. ELIGIBILITY CRITERIA

The lead US PVO partner must be a legally incorporated not-for-profit organization with US 501(c)(3) Internal Revenue Service status. Organizations not registered with USAID must:

- submit a copy of their IRS determination letter;

- indicate which type of tax-exempt status held; and
- indicate financial capacity and ability to comply with USAID regulations (including the provisions of OMB Circular A-133, available at the address given immediately above) and reporting requirements.

Proposals may be submitted by coalitions of US PVOs. In such instances, the proposal must clearly detail members' roles and responsibilities, and indicate which organization is designed as the lead organization. Note that subgrants will be negotiated with, and awarded to, the lead PVO.

VI. GRANT APPROVAL PROCESS

World Learning is responsible for soliciting and reviewing all proposals submitted for consideration under the PVO/NIS Project. During the course of review, applicants may be asked for clarifying information on either the Technical or Cost Proposal. During the review process, priority will be given to those applicants demonstrating the following:

- a record of providing development assistance to indigenous groups through domestic or international projects;
- experience working with grassroots organizations, fostering voluntary community action;
- capacity to leverage private sector resources over and above the 25 percent minimum required "matching" contribution;
- awareness of HC NGO activities already underway in Russia, and willingness to build on these activities;
- ability to field staff persons with local language capability; and
- full involvement of the local partner in the planning and execution of the project, including exchanges of financial information.

Based upon reviews for responsiveness to project guidelines, financial feasibility and organizational capacity as outlined in this solicitation, World Learning will present a slate of the most responsive and feasible proposals to USAID for final review and decisions.

Grant agreements will then be negotiated with successful applicants. Agreements will be signed by the US PVO directly with World Learning and will specify the level, terms and conditions of the grant. Unsuccessful applicants will be notified in writing.



WORLD LEARNING INC.

Founded in 1932 as
The U.S. Experiment in
International Living

Section 9
World Learning
General Materials



WORLD LEARNING INC.

Founded in 1932 as
The U.S. Experiment in
International Living

WORLD LEARNING

Private and Voluntary Organizations Initiatives to the Newly Independent States (PVO/NIS)

GENERAL MATERIALS

World Learning, Moscow
13, Volkov Pereulok
4th Floor, Room 8
123242 Moscow
Tel./Fax (095) 255-9001
255-9724
956-5003
e-mail: wldlearn@glas.apc.org

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5. World Learning - Moscow Staff
6. Tentative Training Schedule - Institutional Strengthening Program
7. What is the Third Sector?

Fact Sheet

- School for International Training
- Citizen Exchange and Language Programs
- Projects in International Development and Training
- The U.S. Experiment in International Living



WORLD LEARNING

Founded in 1932 as
The U.S. Experiment in
International Living

HISTORY

World Learning was founded in 1932 as The U.S. Experiment in International Living, a pioneer in people-to-people exchange. It is one of the oldest private, nonprofit, international educational services organizations in the world, and the oldest institution of its kind in the United States. For more than sixty years, it has sustained its founding concept — *learning the culture and language of another country by living as a member of one of its families* — while it has also pioneered new initiatives in response to a changing world.

MISSION

The scope and diversity of World Learning's programs have grown well beyond the institution's original homestay exchanges, but its mission remains intact: *to enable participants to develop the knowledge, skills, and attitudes needed to contribute effectively to international understanding and global development.*

SCOPE

Today, World Learning's broad range of international expertise is represented by its three operating divisions: its accredited college, the School for International Training; its traditional Citizen Exchange and Language Programs; and its private voluntary organization activities administered by Projects in International Development and Training. World Learning currently operates over 260 programs in 110 countries, providing direct program services to more than 265,000 participants.

World Learning's School for International Training was established in 1964 as an outgrowth of the institution's role in providing the original language training and teaching materials for the U.S. Peace Corps. Today, the School offers a bachelor's degree program in international studies, master's degree programs in intercultural management and the teaching of languages, and academic study abroad programs in more than thirty-five countries.

Citizen Exchange and Language Programs is World Learning's cornerstone division, operating the institution's Summer Abroad program which was pioneered in 1932. For sixty years, World Learning has been dedicated to a simple approach known as the homestay, the best cross-cultural learning laboratory. Families and individuals of all ages from all over the globe participate in World Learning's various exchange and language programs.

Building on its pioneering efforts in international educational exchange and training, World Learning applied its expertise to institutions and individuals working in development. Through the Projects in International Development and Training division established in 1977, World Learning has become a prominent private voluntary organization (PVO) dedicated to furthering world peace through economic and social development initiatives.

World Learning is one of more than twenty-five member organizations of the worldwide Federation of National Representations of The Experiment in International Living, which was incorporated in Switzerland in 1954. The Federation has held consultative status with the United Nations Educational, Scientific, and Cultural Organization since 1958, with the United Nations Economic and Social Council since 1978, and with the Council of Europe since 1981. The United Nations recognized the Federation in 1989 as a Peace Messenger organization. The Federation is composed of member organizations that are private, nonprofit, nonpolitical, and nondenominational.

STAFF

World Learning employs more than 1,600 staff, of which about twenty percent are dispersed among its headquarters in Brattleboro, Vermont, and its offices in San Francisco, California; Greenwich, Connecticut; Washington, D.C.; Jacksonville, Florida; Boston, Massachusetts; and London, England; and about eighty percent are dispersed among its field offices around the world.

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WORLD LEARNING

Founded in 1932 as
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International Living

SCHOOL FOR INTERNATIONAL TRAINING

- *Master of Arts in Teaching Program* - A graduate program that prepares language teachers committed to professional development and service in their field. Participants concentrate in French, Spanish, or English to Speakers of Other Languages.
- *Master's Program in Intercultural Management* - A graduate program that provides competency-based, professional-level training for intercultural managers. Participants concentrate in Sustainable Development, International Education, or Training and Human Resource Development.
- *Bachelor's Program in World Issues* - A two-year, upper-division bachelor's program offering a degree in international studies. Participants concentrate in at least one of these studies: Peace, Social and Economic Development, and Environment.
- *College Semester Abroad* - Over fifty study abroad programs in more than thirty-five countries in every part of the world for college and university students.

CITIZEN EXCHANGE AND LANGUAGE PROGRAMS

- *Summer Abroad* - Programs for high school students that offer homestays, travel, language training, ecological adventure, and community service in Africa, Asia, Australia, Europe, and Latin America.
- *Elderhostel™* - International homestay and education programs for participants age 60 years and older, offered in cooperation with Elderhostel, Inc.
- *Homestay/USA* - A homestay program that welcomes international participants, age 13 to over 80, into U.S. homes for several days, weeks, or months.
- *International High School Program* - A traditional academic exchange program for 15- to 18-year-old students from around the world to live with host families and attend high schools in the USA. A similar reciprocal program for U.S. high school students is offered in several European and Latin American countries.
- *AuPair Homestay* - A yearlong cultural exchange program that offers a practical solution to child care for U.S. families and a cost-effective way to work and study in the United States for European *au pairs*. A similar reciprocal program is offered for U.S. *au pairs* to live with host families in several European countries.
- *International Students of English* - An intensive English language training program for college-age and older students, featuring small, four-week classes on U.S. campuses.
- *Executive English Programs* - Intensive language and cross-cultural training for business and professional clients, tailored to the global marketplace and custom-designed to meet the needs of the individual, small group, or entire company.

PROJECTS IN INTERNATIONAL DEVELOPMENT AND TRAINING

- *Development Management* - Projects that strengthen local institutional capacities, primarily in the nongovernmental sector. These projects focus on democratic governance, participatory natural resources management, AIDS education and prevention, nongovernmental organization (NGO) legal and social enabling environments, voluntary sector social services, NGO strategic planning and management, and health and population. PIDT also provides a full range of grant award and management services to NGOs, private voluntary organizations, and educational institutions.
- *Human Resources Development* - Projects that develop individual capacities. Activities include needs assessment, training design, curriculum and materials development, job skills training, NGO leadership training, degree and nondegree participant training, nonformal education, teacher/trainer training, and English as a Second Language.

World Learning, Kipling Road, P.O. Box 676, Brattleboro, Vermont 05302-0676 USA
Tel (802) 257-7751 Fax (802) 258-3248

It is the policy of World Learning to provide, in an affirmative way, equal employment and educational opportunities for all persons regardless of race, color, religion, gender, sexual orientation, national or ethnic origin, age, disability or handicap, or veteran's status.

Fact Sheet



World Learning

- SUBGRANT MANAGEMENT
- MONITORING AND EVALUATION
- INFORMATION SHARING

ALLOCATING PVO/NIS PROJECT FUNDS

In May 1992, the U.S. Agency for International Development (AID) selected World Learning to manage the Private and Voluntary Organizations Initiatives to the New Independent States of the former Soviet Union (PVO/NIS) project.

The PVO/NIS Project is mandated to fulfill three functions. The **first** is to award subgrants to US nonprofit organizations, focusing on NIS NGO development accompanied by respective service delivery. The **second** is the monitoring and evaluation of subgrantees. The **third** mandate of the PVO/NIS Project is to provide "lessons learned" to AID and the broader PVO community on collaborative US PVO/NIS NGO work in the NIS.

FUNDS GRANTED BY SOLICITATIONS

The first round of competitive solicitations under the Project was held in June 1992. Invitations for Applications (IFAs) were sent to over 300 US nonprofit organizations. Over 60 nonprofits answered the call and submitted proposals. The main focus of this round of solicitations dealt with humanitarian aid and health care delivery in order to strengthen the social safety net -- a general void since the breakup of the USSR. Total funding for the first round amounted to \$3,550,000 awarded to 8 organizations.

In October 1992, a second smaller solicitation was held, focusing on the impediments to voluntarism. Developing legislation and NGO advocacy were the main criteria sought. Under this solicitation, \$483,350 was awarded to 3 organizations.

In January 1993, a third solicitation was held with two due dates, in January and March. This effort focused on NGO institutional development as an aid to civil society building and ensuring the survival of NGOs and their service delivery. Sixteen (16) organizations received funding totaling \$6,670,500.

In February 1994, a fourth solicitation, which originated at the AID-Moscow office, was held. This solicitation, which was for Russia only, emphasized support to Russian non-governmental organizations to improve administrative, management, and communications capabilities. Funding totaling \$2,000,000 was awarded to 7 organizations.

A fifth solicitation, originated at the AID-Moscow office with a proposal submission deadline of July 14, 1994, distributed funding to US PVOs and their local Russian partners working together on projects that promote the development of NGOs involved in health care in Russia. Grants were recently selected and range from \$375,000 to \$750,000, from a total funding of \$6.5 million.

FUNDS ALLOCATED TO GEOGRAPHIC REGIONS

To date, most of the funds have been awarded to US nonprofit organizations working in Russia. However, groups working in other countries of the NIS, or in more than one NIS country, have also received support.

Following is a breakdown of funding to the NIS regions.

Russia	\$15,836,350
Western NIS (Moldova, Belarus, Ukraine)	\$ 2,055,000
Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan)	\$ 1,137,500
Caucuses (Armenia, Azerbaijan, Georgia)	\$ 175,000
TOTAL	\$19,203,850



WORLD LEARNING MOSCOW

1. STATEMENT OF PRINCIPLES

World Learning Moscow seeks to be a dynamic force in the development of the NGO community in the former Soviet Union. In so doing, World Learning's principle priority is providing quality service, in the form of training, technical assistance, and information dissemination to the 46 Subgrantee organizations involved in the PVO/NIS Project. This function of support extends to all 46 subgrantees regardless of their current grant status, albeit active or closed.

In further support of the development of the Subgrantee organizations, World Learning Moscow endeavors to promote and advocate for the strengthening of the broader NGO community in the republics in which it operates. This effort is enhanced through forming appropriate linkages and coalitions with other concerned organizations, implementing public education campaigns on areas of common concern to organizations and communities, and by taking leadership in identifying and addressing important and often complex issues which have significant impact on the prospects for successful NGO development.

In carrying out its mandate, World Learning Moscow recognizes that its greatest resource, first and foremost, is its thoughtful, committed, capable, and unified professional staff. This supportive relationship, characterized by its integrated and mutually respectful operational style, is furthermore extended outward to join in cooperation with other key participants in the NGO development process including World Learning Washington, the Subgrantee organizations (PVOs/NGOs), and other organizations and individuals working on behalf of the emerging NGO sector.

While the historic developments leading to the formation of what has come to be known as the New Independent States (NIS) and the subsequent inflow of international organizations and resources can have an intoxicating effect on those involved, World Learning Moscow recognizes that the only true measure of its success is the growth of healthy programs and organizations capable of meeting community needs on an ongoing basis. As such, it is substantive action rather than rhetoric that counts, and as World Learning Moscow conducts its daily affairs it strives to put these principles into practice and never lose sight of the well being of the Subgrantee organizations and the people they serve.

2. PROGRAM PRIORITIES

- I. Project Monitoring and Technical Assistance to World Learning Subgrantees;
- II. Organizational Development Training, specifically in the areas of human resource development, financial management, strategic planning, public education through the media, and the external environment;
- III. Public Education and NGO Advocacy.



WORLD LEARNING

PVO/NIS OFFICE - MOSCOW

Moscow Field Director - Scott Charlesworth

Scott Charlesworth joined World Learning at the beginning of March, 1995, after leaving his position of Associate Director of the International division of the YMCA of the USA. Most recently, Scott managed the YMCA's international development grants, including the World Learning-funded program to assist emerging local YMCAs in Russia, Belarus, Georgia, Armenia and Ukraine. Based overseas for more than six years, he served as Country Director of Covenant House, Panama, working with street children in Panama City, and was the founder/director of the YMCA in Belize. He trained NGO youth leaders in Papua New Guinea and was Peace Corps volunteer in Honduras. Mr. Charlesworth has a BA in Economics from Rollins College and a Masters degree in Public Management from Carnegie Mellon University.

Project Officer (Health) - Donna Barry

Donna Barry joined the PVO/NIS Project in December, 1994 and spent the first month in Washington as the Project's Health Officer. In February Donna moved to Moscow, where she will take on the position of Project Officer, monitoring a number of the Project grants. Donna formerly worked as a Program Officer for Family Health International for the former Soviet Union, organizing, implementing, and evaluating reproductive health related projects. Proficient in written and spoken Russian, Donna lived and worked in Russia and the FSU for three years. In the fall of 1993, she organized and coordinated a training of trainers workshop on reproductive health for physicians in the Central Asian Republics. She has Master's degrees in Public Health and International Affairs from Columbia University.

Project Officer (Operations Management) - Alexander Borovikh

Alexander joined World Learning in 1993. He deals with the overall functioning of the PVO/NIS office in Moscow, and is responsible for logistics for World Learning's conferences and workshops. He reports on financial aspects of the Moscow office, provides information on World Learning's activities in the NIS, and participates in designing articles for the newsletter, as well as maintains and develops the database. Alexander graduated from Moscow Linguistic University and for several years worked as an interpreter in different institutions in Russia and abroad. Recently Alexander received his degree from Moscow State University Law Department.

Program Associate (Training/Information) - Tatiana Galkina

Tatiana joined World Learning (Moscow Office) in June 1995 as a Program Associate. Her responsibilities are organising and coordinating World Learning's training program and assisting in information collection and dissemination. Tatiana formerly worked at the Carnegie Endowment for International Peace/CEIP (Moscow Center) as a Project Coordinator - a joint CEIP and IREX project. Her focus at Carnegie was publishing a guide of Russian research organizations (Institutional Map) working in the international relations and foreign affairs fields. The Guide was published both in Moscow and Washington DC in Russian and English (February-March, 1995). Tatiana has previous experience at the Canadian Embassy maintaining and developing immigration data base files within the Immigration Section. For two years Tatiana was an freelance correspondent at INTERFAX News Agency. Tatiana is finishing her degree at Moscow State University's History Department in Cultural Ethnography.

Project Officer (Information) - Ekaterina Greshnova

Ekaterina joined PVO/NIS Moscow staff in January, 1994. She handles publication issues, collects and coordinates project information, maintains the database, and establishes contacts with mass media and NGOs. In addition Ekaterina coordinates designing and publishing the Moscow Newsletter, "INFOHELP". Ekaterina graduated from Moscow State Institute of International Relations and undertook postgraduate

course work at the Institute of African Studies of the Academy of Sciences. For seven years she worked as a journalist and participated in setting up the first Russian independent news agency "Interfax". Ekaterina has been involved in Russian-American humanitarian projects as a program coordinator for the Citizens Democracy Corps.

Project Officer (Training) - Jeff Jacobs

Jeff joined the PVO/NIS Moscow staff with his experience working for CARE as a sub-office administrator in Alma-Ata, Kazakhstan, Baku, Azerbaijan, Ekaterinburg, Russia, and a project assistant in Togo. Jeff graduated from World Learning's School for International Training and participated in a homestay program in France with The U.S. Experiment in International Living. Moreover, Jeff worked in the Ivory Coast as a program manager in charge of developing rural, micro enterprises and also was an assistant at the African-American Institute in New York.



**WORLD LEARNING
PVO/NIS PROJECT**

TENTATIVE TRAINING SCHEDULE

Public Education through the Media

- | | |
|--|------------|
| 25 - 27 May 1995 - Ekaterinburg, Russia | - complete |
| 15 - 18 January 1996 - Kharkiv, Ukraine | - complete |
| 9 - 13 April 1996 - St. Petersburg, Russia | |
| 16 - 20 April 1996 - Georgia | |
| June 1996 - Moscow, Russia | |

External Environment

- | | |
|--|------------|
| 21 - 23 June 1995 - Nizhnii Novgorod, Russia | - complete |
| 30 October - 2 November 1995 - Dniepropetrovsk, Ukraine | - complete |
| 13 - 16 March 1996 - Georgia | |
| 13 - 16 June 1996 Petrozavodsk or St. Petersburg, Russia | |
| 19 - 21 September 1996 - Ekaterinburg, Russia | |

Strategic Planning

- | | |
|--|------------|
| 14 - 16 September 1995 - Lviv, Ukraine | - complete |
| 28 - 30 September 1995 - Novosibirsk, Russia | - complete |
| 26 - 28 October 1995 - Borjomi, Georgia | - complete |
| 10 - 12 November 1995 - St. Petersburg, Russia | - complete |
| 22 - 24 February 1996 - Moscow, Russia | |

Financial Management / Financial Sustainability

- | | |
|---|------------|
| 7 - 9 December 1995 - Georgia | - complete |
| 14 - 16 December 1995 - Nikolaev, Ukraine | - complete |
| 8 - 10 February 1996 - St. Petersburg, Russia | |

Human Resource Development

- | | |
|--|------------|
| 4 - 7 October 1995 - Yaroslavl, Russia | - complete |
| All Subgrantee Conference | |

Author: N. Belayeva
President of the International Charity Foundation
"INTERLEGAL"

What is the "THIRD SECTOR"?

The Third Sector is a reality that has long been in existence not only in the West but in this country [Russia] as well, although it might not necessarily be aware of being called so. This is a huge sphere, sector, of a society's life that is no part of either state structures, or business but makes up an independent sphere of organized civil initiatives directed at improving the society's life and being implemented independently of the personal material advantage from this kind of activities.

The Third Sector is all the spheres, directions and organized forms of implementing collective non-profit initiative, all types of organized public activities -- from organizing mass social movements to creating charity canteens, homes and doss houses.

The Third Sector is all professional associations and artistic unions; it is voluntary societies and organs of independent public activities as well as associations, councils, guilds and clubs.

The Third Sector is joint realization of common interests -- from philately and cacti-growing to studying the cultures of Northern peoples or mastering the Japanese martial arts.

The Third Sector is organizing regular aid to those who need it -- disabled and sick adults and children. It is also preparing "breakthroughs" in science and culture and technology. It is methods of upbringing and development of mentally handicapped children and campaigning for the human rights of convicts, as well as organizing a tourist club for the teenagers in your neighbourhood.

The Third Sector is your creative initiative or a problem you are concerned about that can only be resolved by forming a team since the state does not want or is unable to address it and business circles disregard it as not-cost-effective.

The Third Sector is "third" exactly for the reason that there is no room for it either in the first, state, or second, private, sectors; it is that sphere of life, those tasks and problems that cannot be resolved either by virtue of authority or by the power of money.

The Third Sector, therefore, is equally needed to the state and to business as it complements them, makes them more "human", creates an opportunity for a more gradual transition from the overall "state" interest, via a collective form of interest, to individual, private interest and does it independently of the authorities.

Besides, the Third Sector is a testing ground for making large-scale experiments as well as for state and profit-making programs; it is an inexhaustible source of businessmen and politicians, the "forge of the cadre" as the popular Russian cliché has it; it is a faultless indicator or public interests. But the main thing is that the Third Sector is a huge reservoir of social energy, when it is efficient and ensured with resources, is needed to the society itself so that it could address the emerging problems and needs by means of civil initiative where and when it is necessary today without waiting for state budget allocations and independently of the financial reliability of the local businessmen and their wish to be "understanding".