Breaking the *Gala* Addiction

A Board Member's Guide to Understanding & Assessing the Value of Fundraising Events

BOARDSOURCE®
Building Effective Nonprofit Boards

Prudential

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CONTENTS

FOREWORD

Dear Nonprofit Leader:

We are delighted to bring you “Breaking the Gala Addiction,” a publication intended to help board and staff members work together productively and creatively in fundraising.

This document is the result of an almost yearlong process we collaborated on with nonprofit partners. The catchy title, “Breaking the Gala Addiction,” was intended to draw attention to economic challenges and social shifts that require a close examination of special events as a way to raise friends and funds for our nonprofits. “Breaking the Gala Addiction” is part of Prudential’s “Strength for Capacity Initiative,” a multiyear strategy partnering with nonprofits to strengthen their ability to deliver on their mission.

As grantmakers and sponsors of numerous events, we know the significance of the general operating support that special events generate — and how crucial general operating support is to the health of a nonprofit. But we are also aware that many nonprofits underestimate the true costs of raising funds, and that society is asking tough questions about how nonprofits operate. At Prudential’s clinic, also titled “Breaking the Gala Addiction,” we invited our nonprofit partners to examine the effectiveness of their galas and look at emerging trends in special events fundraising and general revenue generation.

This publication — written by BoardSource in partnership with The Prudential Foundation — is designed to stimulate the same dialogue among a broader range of board and staff members and to empower you with some important tools. We hope it enables your board and staff to collaborate in planning the most effective approach to raising general operating support for your organization. We expect it may also generate other conversations that help improve the overall efficiency of your institution.

Encouraging productive nonprofit board/staff partnerships is a long tradition at Prudential. As part of our more than 130-year commitment to corporate citizenship, we encourage company employees to volunteer as nonprofit board members — and we provide them with tools and training to help them be effective in their work. Our “Strength for Capacity Initiative” is an effort that yields multiple rewards for Prudential. We strengthen our communities at the same time our colleagues learn valuable skills and enjoy the deep satisfaction of making a difference.

We are delighted to collaborate with BoardSource in this work, knowing how well it encourages and supports effective board/staff partnerships. The good health of our nonprofit community is a crucial part of the good health of our society. We hope you find this publication and the work it guides you through helpful to creating a strong future for your nonprofit.

Gabriella E. Morris, President, The Prudential Foundation

CHAPTER 1

WHAT EVERY BOARD MEMBER SHOULD KNOW ABOUT FUNDRAISING STRATEGY

Successful fundraising does not happen on its own. It requires an understanding of the organization and its fundraising history, a willingness to think critically about the opportunities and challenges ahead, and — most important — a comprehensive plan to meet the organization's financial goals.

This is true for small organizations as well as large nonprofits with millions of dollars in their budgets. A fundraising or development plan takes a comprehensive look at what needs to be accomplished, then analyzes and chooses the appropriate strategies to meet these goals.

While all board members may not be directly involved in developing the fundraising strategy for their organization, it's critical that they have a basic understanding of the different factors and variables that go into the development of a fundraising strategy so that they can ask informed questions around the board table and fully leverage their capacity to support the organization's fundraising efforts.

This chapter explores key considerations in determining an organization's fundraising strategy, as well as provides an overview of different types and forms of fundraising.

Organizational Factors in Developing Fundraising Strategies

Each organization is different, and has a different set of needs, priorities, opportunities, and challenges, all of which need to be taken into account when developing a successful fundraising strategy.

Each organization develops fundraising plans and strategies based on various factors, including

- **Type of organization:** Guides what type of support is/is not allowed
    - Example: An organization that does political work may not be able to secure funds from a foundation, or may be limited to receiving gifts from individuals.
- **Mission and "natural audience":** Establishes organizational values and key stakeholders, which narrows the audience of potential funders
    - Example: A religious congregation or organization may focus its fundraising efforts on members or potential members, rather than a broader audience of individuals, foundations, or corporations.

- **Organizational history:** Builds on past successes/challenges in raising funds
  - Example: An organization that has a successful direct mail program that brings in 50 percent of its annual operating budget may want to continue to invest in renewing and acquiring support through mail campaigns.
- **Access to unique tools and resources:** Identifies special opportunities to raise funds
  - Example: An organization that has the ability to offer special opportunities such as event tickets, tours, or celebrity meet and greets may want to build strategies that leverage those assets.

There are also a number of factors that are not organization-specific, but are critical considerations when developing a comprehensive fundraising strategy. The two most important: cost of fundraising and diversification of support.

Cost of Fundraising

Raising funds costs money; cost of fundraising is a measure of how much an organization spends to raise each dollar it brings into the organization. But how much is too much when it comes to fundraising expenses?

There is no easy answer, and the subject of much debate about the topic among funders, donors, and nonprofit leaders themselves. The Better Business Bureau recommends that organizations maintain no more than a 35 percent cost of fundraising and in scoring charities on the criteria of fundraising expenses, Charity Navigator gives its highest score to organizations with a 10 percent cost of fundraising or lower, and its two lowest scores to organizations with costs of fundraising of 35 percent or higher. Others have argued that there is too much emphasis on the cost of fundraising, and that it shouldn't be used as a measure of organizational effectiveness.

Regardless of your opinion about the role of cost of fundraising in evaluating an organization's effectiveness, there is no arguing that it is a critical lens through which to evaluate an organization's fundraising strategy. Different types of fundraising have different costs associated with them, and there are some types of fundraising that are simply more expensive than others.

Some might ask, "Why would any organization choose a method of fundraising that is more expensive than another one?" A good question, but one that doesn't have as straightforward an answer as you might expect. The reality is that organizations have to balance a variety of factors when planning their fundraising strategy, and cost of fundraising is just one of them.

Diversification of Support

Diversification is another key factor in developing a fundraising strategy. Relying on one method of fund development is not a smart formula for securing financial health and stability. An organization's revenues are more stable if they come from multiple, diverse sources rather than one, single source.

Consider a small, nonprofit social service organization that receives 60 percent of its annual operating budget from a single federal program. If Congress decides to eliminate that program, the nonprofit is crippled by the immediate loss of more than half its budget. However, if the organization has an active fundraising program that provides a broad base of community support from individuals, foundations, and corporations, the loss of a single revenue stream will not diminish the organization's ability to function.

Balancing Competing Priorities

The need for diversified funding streams is one of the best reasons that organizations include some types of fundraising that have higher costs in their overall fundraising strategy.

In fact, those two variables can have an inverse correlation: In general, the more diversified a fundraising strategy is, the higher its overall cost of fundraising will be.

Why is that? Because the two variables have different guiding principles, or strategic purposes. Imagine for a moment that your organization needed $1 million to run your annual operations. And consider what your fundraising strategy might look like if you considered only one of these two variables:

Strategy: Low Cost of Fundraising

- **Motivating Principle:** Spend as little as possible to raise as much as possible.
- **Taken to the Extreme:** Secure $1,000,000 of revenue from one donor through a direct ask.

Strategy: Diversification of Funding Streams

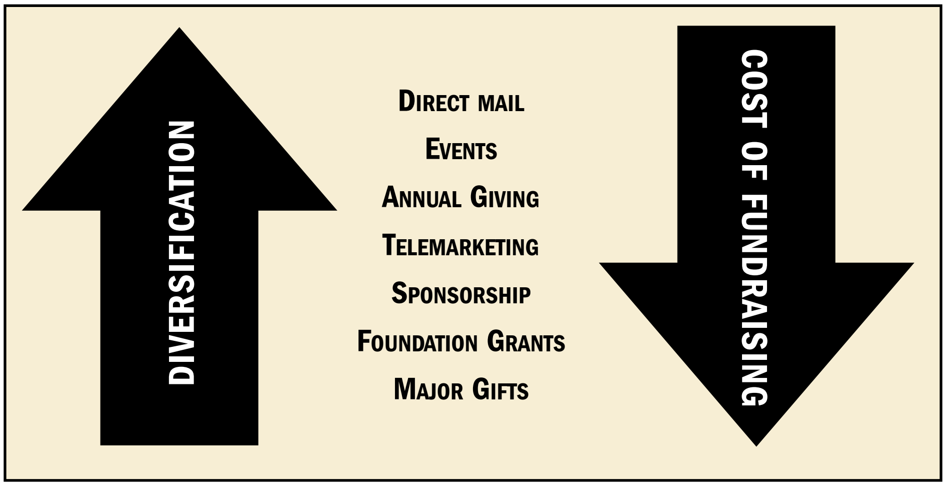
- **Motivating Principle:** Secure as many different gifts as possible, so that your organization is not dependent on any single donor.
- **Taken to the Extreme:** Secure a $1 donation from 1,000,000 different donors.

There's no question that both of these examples are far-fetched and extreme, but they demonstrate how interconnected these two variables are

- An organization can have an extremely low cost of fundraising, but will likely sacrifice a diversification of funding streams, making it overdependent on a small number of gifts.
- An organization can have extremely diversified sources of funding, but will likely sacrifice a reasonable cost of fundraising, making it inefficient and costly.

The most effective fundraising strategies acknowledge that neither of these approaches make sense in the extreme and — instead — reconcile these competing priorities by leveraging several different types of fundraising approaches and creating a balanced portfolio of financial support.

A balanced fundraising strategy typically includes funding from multiple sources, which is raised through a number of different types of fundraising.



Sources of Funding

Individuals
Individuals are the largest source of giving, providing more than 80 percent of the overall charitable contributions in the United States, according to Giving USA 2010, which reported on 2009 charitable giving. Gifts from individuals can come to an organization through a number of different strategies and can be the direct result of personal conversations with board members.

Foundations
In 2009, foundations provided 13 percent of all charitable support; the second largest source of charitable dollars. Foundations are structured to give away at least 5 percent of their annual asset value — but only to those that most closely match their well-defined policies and procedures. With fierce competition for these grants, board members can be instrumental in leveraging their acquaintances, where appropriate, to make contact with foundation board members on behalf of the nonprofit organization.

Corporations
Corporations provided 4 percent of all charitable gifts in 2009, making them the third largest source of support. Corporations can make both annual and major gifts, and often consider their overall business objectives when considering the types and amount of their support. This sometimes leads corporations to focus on giving opportunities where they can achieve visibility within customer audiences or target markets.

Other Sources of Funding
In addition to charitable gifts from individuals, foundations, and corporations, many organizations generate earned revenue or receive support through government grants or reimbursements. Earned support — in particular — can be effective strategy for providing reliable and sustainable revenues.

Types of Fundraising

There are many different types of fundraising, and not all organizations focus on all of them. The key to a successful fundraising strategy is to determine which types of fundraising will give the organization the strongest, most stable sources of revenue, and ensure that the organization has the resources it needs to fulfill its mission.

Major Gifts

Organizations define what constitutes a major gift differently, but typically this level of giving represents a significant gift to the organization that was cultivated and solicited through direct engagement with the donor, sometimes over a period of weeks, months, or even years.

Typically, major gifts are raised through personal solicitation made by key staff and board members. Because of the focus on individual relationships with donors and potential donors, major gifts fundraising is one of the best ways for board members to leverage their fundraising role by identifying, cultivating, and soliciting major gifts from donors.

Annual Giving

Most organizations have an annual giving program, which is designed to raise funds in support of the current operating budget of the organization. Often referred to as a membership or direct marketing program, annual giving focuses on acquiring, retaining, and upgrading support from a large number of individuals who are typically making modest-sized gifts.

Annual giving programs are incredibly valuable to organizations because they provide diversified and sustainable support from a large number of individuals. By nature, annual giving programs provide a broad base of support, which enables the organization to rely on a large group of donors for ongoing program support instead of a limited number of large donations.

Annual gifts are cultivated and solicited through a variety of channels through a number of programmatic entry points, including

<table>
<tr><th>Channels: The way that the organization communicates with a donor or potential donor</th><th>Entry Points: The specific approach used to invite a donor or potential donor to give to the organization</th></tr>
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Online: E-mail campaigns and Web-based giving is the fastest growing fundraising method today. Many organizations have designed their Web sites or social media presence with this solicitation technique in mind. Often organized and messaged as a part of the overall direct marketing campaign, online giving offers a different channel through which donors can be reached, and allows organizations to reach a large number of potential donors quickly and inexpensively.
Mailings: Mailings are a reliable method to reach a broad audience of current and prospective donors. Mailings are expensive, so many organizations have staff or consultants who test and track different strategies to ensure that they're reaching the right people with the right message.
Telephone: Some donors respond to telephone solicitation, but not to e-mail or mail campaigns, which is why so many organizations continue to use telephone strategies to renew or acquire new donors, despite its high costs. Interacting with prospects on the telephone enables the caller to answer questions and address concerns, which can lead to higher response rates and larger contributions.
Special Events: Along with mailings, benefits and special events are the most pervasive forms of public solicitation in current practice and can be highly popular with volunteers and attendees. They have many benefits, but can also be very staff-intensive and expensive. Galas, one form of special event, will be discussed more thoroughly in Chapter 2.
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Membership: A membership program actively invites donors to join as annual partners with the organization in meeting its mission and vision. Such programs typically use a range of gift levels and offer a variety of benefits and privileges to maintain the member's interest and involvement.
Donor Club: Similar to membership programs, donor clubs help identify and recruit major gift prospects with higher levels of giving and associated recognition programs. Located at the nexus of an annual membership program and a major gifts program, donor clubs can be a very successful way of encouraging donors to invest more in the organization and actively engage in its programs.
Honorary & Memorial Gifts: Many donors participate in memorial gifts to a charitable organization to honor the life of a relative, friend, or business associate as an expression of sympathy to the family. Another form of testimonial giving is to honor someone, such as a retiring administrator, professional staff member, or board member.
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Given the depth and breadth of these efforts, annual giving — including special events — is typically the most expensive type of fundraising and requires a significant investment of staff time and financial resources.

Planned Giving

Donations made through planned giving — future assets that a donor commits to contribute through bequests, charitable trusts, gift annuities, life insurance, or other forms — can offer donors, prospects, and friends another means to increase their contributions and leave a legacy gift to their favorite nonprofit organization.

There are two areas of planned giving or estate planning:

- **Current Planned Gifts.** With these major contributions, the decision and the gift are made today, with the funds invested and managed by the nonprofit for the donor's lifetime (or other term as described in the contract). The donor derives income by transferring a current financial asset, by contract, to a charity, with the residual principal delivered to the nonprofit organization following the donor's death.
- **Future Estate Gifts.** With these major contributions, the decision is made today but the organization does not receive the funds until after the death of the donor. For example, a donor may decide today to stipulate a specific gift for his or her favorite performing arts center in a will or living trust. The gift may be in the form of a specified cash amount, specific asset, or percentage of the overall estate, all decided at the time the will or living trust is created — but not transferred to the organization until after the donor's death. Wills and living trust documents can be modified over time, suggesting that continued attention to the donor is needed to limit any unfavorable changes.

Current donors may consider increasing their current contributions by adding a planned gift, once its benefits (including tax advantages) are explained clearly. Donors should be encouraged to review any proposed planned giving with their own advisors to ensure the proposed gifting arrangement meets their personal needs and long-term financial requirements.

The board's fiduciary duty includes the oversight of the organization's planned gift and endowment funds management. The board must ensure faithful observation of donors' wishes and be vigilant about investment policies and how donors' money is managed. Planned gift contracts require the nonprofit organization to accept full trusteeship responsibility or to place the funds where all such legal obligations will be met faithfully on the donor's behalf (for example, with a local community foundation or bank trust department). Policies should define the trusteeship for each contractual agreement and what professional investment policies and procedures will be in place to ensure the donor's interests are preserved for the life of the contract.

Grant writing and Foundation Outreach

Securing a foundation grant requires research, planning, and a strong understanding of the foundation's philanthropic mission and goals. Due in part to the fact that foundations exist primarily to distribute philanthropic dollars, the competition for a grant can be quite fierce.

Each year, foundations accept and review thousands of requests for funds, searching for innovative and creative projects and organizations that match their giving criteria and social goals. Because of such specialized requirements, grant writing tends to be a labor-intensive and therefore staff-centered activity, though board members can be very helpful in cultivating relationships with foundation leaders and helping to support and strengthen those relationships through thoughtful stewardship.

Special-Project Campaigns

By designing a fundraising objective around specific priorities — like getting the younger generation interested in classical music — a performing arts organization has a chance to remain particularly mission-centered. Other forms may be designed around a unique situation (for example, a retiring conductor or artistic director) thus bringing the patrons together for a special celebration. The board's role is to decide on the project and delay its implementation until all the funds required have been received. Board members also should participate visibly in one or more leadership positions in this special campaign as well as support it financially.

Capital Campaigns

Capital campaigns are a method for raising large sums of money for the highest priorities in the organization's future plans, usually developed from a thoroughly prepared strategic plan. A capital campaign requires several years in planning and preparation prior to initiating the multiyear campaign itself and is applied only when other revenue sources are insufficient to fully fund the overall plan.

A capital campaign typically includes new construction, major renovations, new equipment, and/or building the endowment (if the capital project does not include a separate endowment campaign). In most cases, the strategic plan identifies the most urgent needs for one or more (or all) of these objectives, which is why extensive campaign planning and preparation is required. Campaigns reach the public only after all preparations are complete and the board, staff, employees, and closest friends have made their best gift commitments to the project in advance. It is not unusual for this entire process, from initial planning and feasibility studies to conclusion, to take from three to five and even seven to eight years.

No capital campaign should be started without full support of the board. In fact, board members should be among the initial lead donors and remain the most active participants throughout the campaign.

CHAPTER 2
GALA EVENTS — THE GOOD, THE BAD, AND THE UGLY

Gala events are a unique form of fundraising event that create significant opportunities — and challenges — for nonprofit organizations. As one of the most expensive — and highest risk — methods of fundraising, there has been much debate about whether or not organizations should be employing this type of fundraising as they seek support for their organizational missions.

Organizations have been publicly criticized for spending exorbitant amounts on extravagant events that sometimes feel out of synch with their missions, and some chief executives have even lost their jobs over the perceived — or real — excess associated with gala events. The challenges associated with gala events are real, yet many gala events are extremely successful mechanisms for raising awareness — and funds — for an organization's mission.

Because of the complicated nature of gala events, and the potential exposure to organization in terms of staff time and potential public controversy, it is critical that board members understand what questions they should be asking about the role of gala events at their organization, and how they can play a role in ensuring that any event their organization hosts — gala or otherwise — is a successful example of mission-focused and resource-responsible fundraising.

First Things First: What Is a Gala Event?

The term "gala event" refers to a large-scale, fundraising event. Often the most visible fundraising strategy for a nonprofit organization, gala events can be a prominent way to raise awareness — and funds — for an organization.

Gala events can take many different forms, and often leverage a number of different fundraising strategies, including

- ticket sales
- silent auctions
- program book advertising
- sponsorship
- on-site "asks" for additional gifts

Why Do So Many Organizations Host Galas?

Events can play an important role in building a strong and vibrant fundraising program and organization — and gala events are no exception. They are fun, entertaining, and help build community among some of an organization's most generous and engaged supporters. They also provide opportunities for high media visibility for the charity and its cause, and can be good vehicles for volunteer recruitment.

What gala events can do:

1. Build community among donors, supporters, and volunteers and provide opportunities for attendees to network
2. Enable attendees to learn more about an organization's work, celebrate organizational achievements, and create an opportunity for the organization to cultivate and ask for additional contributions
3. Put a "face" to your organization, both through speakers and through the attendees themselves
4. Enable the organization to reach out to new and diverse individuals to attend and learn more about the organization's mission
5. Provide a way to engage volunteers on a specific project
6. Encourage leadership from corporations to support your organization and gain exposure with your community of donors through sponsorships and underwriting

Gala events can be a positive way to engage and inspire current supporters of your organization. The reality is that many donors are motivated to give by their social or emotional connection to an organization's mission and its leadership, and gala events can be a successful way to build that emotional or social connection on a large scale.

Corporate support is another reason many organizations host gala events. While galas are not the only mechanism for securing corporate support, many organizations have built their corporate fundraising program around an annual signature event or gala, which can be a successful strategy for engaging corporate supporters. Corporate support, as mentioned in Chapter 3, is often connected to a strong recognition or sponsorship program, which many gala events can provide due to their relatively large audience size, planned presentation, and program book.

For board members, one of the best opportunities that gala events provide is a fun, relatively easy way to introduce new potential donors and supporters to your organization's mission. Inviting someone to attend an event can be a great way to begin cultivating a potential donor. For board members who are more intimidated by fundraising, the opportunity to invite a potential donor to a gala event can be just the "easy ask" they need.

It's important to understand, however, that in most cases the event serves only as an introduction, and it's up to the board member and/or a staff member to follow up with the potential donor to provide additional information, answer questions, and make an ask. Without these crucial next steps, the donor cultivation opportunity is lost, and the gala becomes a one-time affair for the individual who attended.

Why Don't More Organizations Host Galas?

So, if gala events provide such wonderful opportunities to cultivate new potential donors and create community among current supporters, why don't more organizations host them?

The reality is that gala events are a lot of work, and they don't always generate the financial resources necessary to warrant the investment of staff time and direct costs. In general, gala events have higher costs of fundraising than many other types of fundraising, especially when staff and volunteer costs are included, which some organizations fail to consider.

One of the unique challenges associated with gala events is that — unlike many other types of fundraising — the costs associated with a gala event are largely fixed, meaning that it can cost the same amount of money to raise $10 as it would to raise $10 million.

Consider the following expenses, often associated with a gala event:

Type of Cost	Fixed vs. Variable
Venue	**Fixed.** Venue fees are typically a significant fixed cost, which requires signing a contract and agreeing to cancellation penalties. Sometimes, the cost of renting the space will be waived if the venue also provides catering and the organization commits to a minimum amount in food and beverage costs.
Talent/Entertainment	**Fixed.** Talent and entertainment costs can be significant "hidden" costs associated with a gala event. Some celebrities and musicians will participate in an event for free, but many charge an honorarium or booking fee that can be tens — or even hundreds — of thousands of dollars. Once this is booked, it can be extremely difficult — if not impossible — to cancel it. And the fee does not change if fewer people buy tickets to the event.
AV/Production	**Fixed.** An organization can make decisions about how much audiovisual equipment and what level of production design is needed, but once that is decided and contracted, the costs remain fixed, and do not go down if fewer attendees participate.
Decorations	**Fixed.** An organization can choose how much or how little to spend on decorations, but once the decorations are purchased, that amount is spent, regardless of how many people participate in the event.
Catering	**Variable.** Catering costs are variable, meaning that they go up or down based on the number of attendees who participate in the event. Organizations can get in trouble, however, when their anticipated head count does not meet the food and beverage minimum that may be required by the venue, as described above. In that scenario, the organization will have to pay the minimum fees for catering, even if they don't have ticket purchasers to cover those costs.

Program Book	**Variable & Fixed.** Many organizations produce a program book as a part of their gala event. While printing costs can adjust up and down based on the number of anticipated attendees, the largest expense is typically the design, which is a fixed cost.
Advertising and Invitations	**Fixed.** These are the costs associated with publicizing the event, so they are decided upon in advance, and cannot be recouped if ticket sales are lower than anticipated. In fact, these costs typically increase if the response is low, as staff work to employ last-minute efforts to boost ticket sales.
Staff Time	**Variable & Fixed.** While there is some ability to adjust the amount of staff time invested in a gala event, it's limited by the fact that the event's success relies on staff inputs and efforts in each of the following areas: • **Program Planning & Implementation:** Staff are needed to plan and implement all aspects of the event program, including securing speakers, organizing the flow of the program, scripting participants, integrating entertainment, and live auction elements. • **Event Production:** Staff are needed to produce the event, including decorations and staging, sound and stage management, video production elements, and managing the stage during the program. • **Ticket Sales & Table Captain Outreach:** Staff are needed to guide and implement a strategy to sell tables and tickets, and ensure that the event delivers the needed crowd and ticket revenue. • **Volunteer Management:** Staff are needed to recruit and manage any and all volunteers that will be helping to plan and implement the event, including management of any host or planning committees, which can be very labor-intensive. • **Auction Planning & Implementation:** Staff are needed to identify potential silent and live auction item donors and produce the silent auction element of the gala. • **Sponsor Outreach:** Staff are needed to identify, cultivate, and solicit potential sponsors of the event, as well as to ensure that all of their promised sponsorship benefits are activated as a part of the event. • **Program Book Production:** Staff are needed to compile the relevant information and applicable sponsor and advertiser information for the program book. • **Individual Donor Outreach:** Staff are needed to reach out to current and potential donors before and after the event, to ensure that the event fulfills its potential to cultivate and steward potential donors to the organization. This is one of the most important — and often overlooked — staff inputs as a part of a gala event.

Of course, different events require different investments of time and resources. But depending on the size of your organization and its staff, even a relatively affordable gala event could be more than your organization can afford.

This is an important lens through which to consider gala events, as many individuals — board members, staff members, and supporters alike — assume that gala events are relatively easy to produce, and that they generate big bucks for the organizations that host them.

In actuality, gala events are extremely time-consuming efforts, which rely on staff and volunteer inputs that may exceed the fundraising potential of the event. There's little — if anything — that a gala event can do on its own.

What events **cannot** do:

1. Automatically generate additional donations
2. Pay for themselves
3. Deliver a message on their own
4. Publicize themselves
5. Provide ongoing, year-round opportunities for donors to engage with your organization

Delivering Results

Given the expense and challenges associated with gala events, some may question whether or not it is possible to host a successful gala event. Many organizations prove that it can be, but they do so by focusing on two critical measures of success:

- **Net:** A successful gala event delivers a significant net to the organization, meaning that the amount of revenue the event brings in far exceeds the expenses associated with producing the event (including staff costs).
- **Cost of Fundraising:** In addition to delivering a significant net, a successful gala event does not spend an unreasonable percentage of the gross revenue to deliver the net. As discussed in Chapter 1, there is some debate about what an appropriate cost of fundraising is, and there's no question that gala events are one of the most expensive types of fundraising. Depending on the other types of fundraising an organization employs, an organization may try to keep its gala's cost of fundraising to as little as 20 percent, or be willing to have it reach as much as 60 percent. Regardless of what it sets as its target range, each organization needs to be thoughtful about its investment in fundraising events, and board members must be comfortable with the allocation of resources and the usage of donor-provided financial resources.

To achieve both of these success factors, an organization needs to identify strategies that enable it to spend less to raise more. The following are a few ways that organizations can reduce expenses and raise revenues, many of which can be supported by individual board members:

Strategies for Raising More Money

Ticket sales alone will not make a financially successful gala event, both because of the finite amount of space in any given venue, and because of the significant costs associated with feeding each individual attendee.

The most successful gala events have sophisticated strategies around each of the following types of revenue:

- **Corporate Sponsorships:** Corporate sponsorships can be an extremely successful way of bringing in large donations, as a part of a gala event. Best of all, they typically have low — or no — costs associated with fulfilling the sponsorship (e.g., free tickets, etc.). Consider corporations that are interested in your mission and your audience, as well as those corporations with which your board members and staff have existing connections and relationships.
- **Silent and Live Auctions:** A silent or live auction can be a lot of work, but a great way to generate additional revenue from your guests, as well as create a fun and memorable activity for participants. Board members can help find items, as well as bid on items themselves!
- **Program Book Advertisements:** Ads in your program book can be another low-cost way to generate larger gifts. Just be sure that you set your advertising fees in a way that complements, rather than competes with, your sponsorship program, and that you have clear guidelines about who you will — and will not — allow to advertise in your program book.
- **Ticket Sales & Table Captains:** A successful table captain program can take the pain out of ticket sales and serve as a great way for board members and other donors to play a leadership role with the event. Be sure to set clear expectations about what a table captain's role is, and how you will handle situations where a table captain does not fill or sell their table.
- **Individual Contributions:** Oftentimes, gala events include an invitation to attendees to make an additional contribution in support of the organization's mission while at the event, or as a tribute to a special honoree or award winner. While these on-site fundraising appeals can be somewhat unpredictable in their results, they can make a big difference on the bottom line. Some of the most successful event appeals involve pre-solicited gifts or matching challenges from a pre-solicited donor or group of donors.

Strategies for Reducing Expenses and Spending Less

As described above, some costs associated with an event are fixed, but others leave room for creative cost savings.

Here are a few ideas that can make a big difference when it comes to the bottom line

- **Venue:** Host the event in a private home or at another "no-cost" venue.
- **Advertising & Invitations:** Leverage social networking platforms like Facebook and Twitter to reach out to potential attendees. It will help you save on invitations and advertising, as well as reach new potential audiences of supporters.
- **Talent/Entertainment:** Identify connections that board, staff, donors, and other friends of your organization members may have to special guests and seek out local talent.
- **AV/Production:** Keep it simple. Get the sound and video equipment you need to produce a professional event, but limit the expenditures to things that you really need.

- **Decorations:** Don't get carried away. Decorations set the look and feel of the event, but a lot can be done with a little. If live flowers and expensive fabrics are not in your budget, get creative with candles, lighting, and a few things to create visual interest.

Beyond the cost-saving and revenue-generating opportunities listed above, board members and volunteers can support staff in a way that significantly reduces the overall staff costs associated with the event. The board and staff roles are different, but active engagement from board members can make a big difference, both in saving costs and in generating additional revenue:

- **Individual Donor Outreach:** Board members can leverage the event as a way to
  - reach out to their personal contacts to introduce them to the organization's mission
  - follow up with guests after the event to ask them to consider supporting the organization with a donation
  - personally support the event by buying a ticket, sponsoring a table, or securing a contribution from their company
  - see box for other ideas about how board members can support individual donor outreach as a part of events
- **Sponsor Outreach:** Board members can help identify potential sponsors and work with staff to cultivate and solicit potential sponsors of the event.
- **Ticket Sales & Table Captain Outreach:** Board members can help staff identify potential table captains for the event and sell tickets.
- **Program:** Board members can help identify speakers and entertainers who might be willing to participate for free.
- **Silent Auction:** Board members can contribute auction items and help secure other items for the silent auction from their friends, families, and business contacts.
- **Program Book Production:** Board members could help identify pro bono volunteers who can design the program book, or a printing press that would print the program books as an in-kind donation.

LITTLE THINGS THAT MAKE A BIG DIFFERENCE: HOW BOARD MEMBERS CAN HELP LEVERAGE THE FUNDRAISING POTENTIAL OF EVENTS

- If your organization has a special giving club or program, wear your membership pin or special nametag to visibly show your support.
- Act as an organizational ambassador by greeting guests at the event, introducing yourself as a board member, and thanking them for attending.
- Introduce staff to potential corporate sponsors of the event and help facilitate the ask.
- Identify potential attendees, speakers, table captains, auction donors, and advertisers, in coordination with fundraising staff.
- If there's a fundraising ask made at the event, consider providing a personal gift that can be used as a match or fill out a pledge card at your table and encourage others to do the same.

The most successful events do not end after the last attendee leaves. When all the money is counted, the receipts are given, and the floor has been swept, it will be time to take stock of the event, and board members can help ensure that the organization engages in a full and honest appraisal by asking important questions in the boardroom:

- Did the gala achieve the objectives the organization set forth, including its financial goals?
- Did the event draw the constituents the organization hoped would attend?
- Did staff and board members fully leverage opportunities to engage new and existing corporate and individual donors?
- Were the expenses associated with the event appropriate and reasonable, given the level of funds generated?
- Was the staff time involved more or less than anticipated, and what was the impact on staff members' other fundraising and program responsibilities?
- Are the funds generated being used to leverage the mission of the organization, as was described to event attendees?
- And most important, was the gala worth the time, expense, and effort?

What Should My Organization Do, and What's My Role as a Board Member?

Fundamentally, decisions about the implementation of the fundraising plan and the specific strategies within it are the responsibility of staff management. But board members benefit from having the information and understanding they need to ask the important questions about fundraising strategy, including whether or not hosting a gala event makes sense for their organization.

As discussed earlier, there are other types of fundraising that are far more cost-effective and efficient than gala events, so dollars alone may not be a good reason to host a gala event; but what is? And what questions should board members be asking themselves and their chief executive about the value of gala events?

If your organization already hosts a gala event:

- Does the event have stated financial and nonfinancial goals, and does it meet them?
- Do you know how much it costs to host the event?
- Do you include staff time — and not just for the event planner or development staff, but all staff who are involved in planning and executing the event — when you calculate the costs of the event?
- Does the event bring in enough revenue to justify the investment of time and resources or are you keeping up a "sacred cow" that keeps losing attendees?
- What is the current cost of fundraising of the event, and how does it impact your overall, organizational cost of fundraising?
- Do you raise funds from new donors at your event, or is it primarily from your current donors and supporters?

- Do donors who begin supporting the organization through the event grow to become ongoing supporters of the organization?
- Have you asked your donors (both those who do and do not attend the event) what they think about the event? If so, what are they telling you?
- Of the larger gifts that you secure through your event (sponsorships, tables, auction sales, etc.), are there other ways that you could secure that support, or do they rely entirely on the existence of the event?
- Are board members and staff members leveraging the opportunities to cultivate new major donors through the event? How are you measuring that?

If your organization is considering hosting a gala event:

- Do you know what the goals of the event would be, both financial and nonfinancial?
- Is a gala event the best or only way to meet those goals?
- Do you have expenses and revenue for the event built into your budget? If so, what assumptions are built into the projections?
- What is your project cost of fundraising for the event, and how would that impact your overall, organizational cost of fundraising?
- Do you have the staff and expertise you need to plan and execute an event, or would you need to add personnel?
- What are your expectations for board and staff engagement in the event?
- Is this the right time to organize a gala? Have you considered the financial constraints your potential attendees might be facing?
- What are the opportunity costs of the gala: Would the organization forgo other fundraising activities because of resources committed to planning and executing the gala and can it afford to do so?

At the end of the day, fundraising events are designed to fuel the work of an organization and support its mission. It is critical that members and donors understand that the vast majority of the hard-earned money that they give to an organization goes directly toward funding its mission, and is not used to fund costly events. As organizations plan events, it is critical that they consider all of the required costs involved and make sure that each cost is a wise investment of donor contributions.

Many organizations ask themselves these questions — among staff or in the board room — and allow that conversation to guide their future plans. For some organizations, the decision to continue or create a gala event is clear, but by asking tough questions, they are able to create clearer, more realistic goals and expectations, and more effectively engage board members in the success of the event and related follow-up activities.

For others, the cost-benefit analysis leads them to abandon the idea of a gala event, or cancel an existing one. For those organizations, the decision is made that the cost or risk of the gala event is simply too high, and they focus their efforts on other fundraising strategies, perhaps including simpler, less expensive types of events.

Smaller-scale or more simple events can be a way to achieve the benefits of a gala event, without incurring the risks:

Seek Benefits	Avoid Risks

• Opportunity to thank current donors
• Build community
• Educate donors and potential donors about the organization
• Put a "face" to your organization and give attendees an opportunity to experience the organization
• Reach out to new and diverse individuals to
  · engage volunteers
  · secure corporate support through sponsorships and underwriting
	• Large, high-risk contracts with venues
	• Time-intensive planning for staff, volunteers, and board members
	• High cost

Some examples of potential events that achieve these benefits, but avoid these risks include

- hosted cocktail party at a board member or donor's home
- open house or tour at your organization's facility
- gallery opening or event
- informal networking happy hours or gatherings
- hosted parties at a retail store or dealership
- book signing or release of research
- wine tasting event
- family picnic or outing

At any of these events, it's critical that your organization

- thanks donors and participants
- educates them about your mission and inspires them to support your organization
- encourages them to participate again…and bring friends!

Regardless what your organization decides about whether or not to begin — or continue — hosting a gala event, it's important that you actively engage in your fundraising role as a board member. Events — gala or otherwise — rely on the support of board members to identify, connect, and host donors and potential donors to build a vibrant and diverse group of individuals who are supporting and strengthening the organization.

CHAPTER 3
THE BOARD'S ROLE IN FUNDRAISING

The board plays an important role in an organization's fundraising efforts that spans far beyond supporting events programs and carefully considering fundraising strategies. But one of the most frequent causes of discord among board members and chief executives is confusion over fundraising roles.

Who is actually responsible for bringing in charitable support, and who determines the overall fundraising strategy and policies?

What tasks belong to the staff and what duties are carried out by the board?

Without a true understanding of fundraising as part of the overall financial plan and without appropriate division of labor, it is difficult to fully leverage the fundraising potential of individual board members and the board as a whole, and to secure a strong fiscal base for the organization. Therefore, it is critical that the board and the chief executive have a mutual understanding and shared expectations about the roles of each.

Role of the Board as a Whole

One of the key roles of a board is to ensure adequate resources for the organization. Although fundraising can play an integral role in ensuring these resources, the board's responsibility goes beyond members' function as fundraisers.

The board must ensure the organization's current revenues are stable and encourage the cultivation of diverse sources of revenue that are sustainable for the long term. The board must also agree on the programmatic goals, and how the work gets financed. The board must also ensure that funds raised are used for the purposes that donors intended. Regular reports, provided by staff, should explain how these funds were applied for the benefit of the community the organization serves.

The board's annual fundraising goals should be explicitly tied to the budget since the budget represents the amount of money the organization needs to implement its mission. But boards should be cautious not to oversimplify or make unrealistic assumptions about annual fundraising goals, and should ensure that the fundraising goals are realistic before approving the budget.

Organizations often determine fundraising goals based on projected deficits, which can be a formula for failure and is a dangerous way of managing the organization's funds. Fundraising is one method of creating revenue to help the organization advance its mission, but its purpose is not to correct financial miscalculations or failures, or serve as a backup for missing funds.

Setting realistic fundraising goals is also critical to the long-term engagement of board members. Unattainable goals temper motivation and wear out individual board members and the board as a whole, which can have long-term impact on the ability of the board to effectively and successfully engage in fundraising efforts.

Finally, the board creates and approves the master policies related to fundraising. It ensures that appropriate gift-acceptance guidelines are compatible with the mission of the organization and it clarifies board members' personal responsibility to make a contribution or to participate in fundraising activities.

Specific board-level fundraising policies would likely include the following:

- **Gift Acceptance Policy:** What types of gifts will an organization accept (or not accept), from whom, and for what purposes?
- **Personal Giving Policy:** What are the expectations for personal gifts from individual board members? (For more information on personal contribution policies, see page 27).
- **Ethics Statement:** What does the organization consider to be appropriate or inappropriate fundraising practices or interactions with donors or potential donors?

The board's role in ensuring that the organization is ethical in its fundraising practices is especially critical, given its core duties of care, loyalty, and obedience.

- **Duty of Care**
  The duty of care describes the level of competence that is expected of a board member, and is commonly expressed as the duty of "care that an ordinarily prudent person would exercise in a like position and under similar circumstances." This means that a board member owes the duty to exercise reasonable care when he or she makes a decision as a steward of the organization.
- **Duty of Loyalty**
  The duty of loyalty is a standard of faithfulness. A board member must give undivided allegiance when making decisions affecting the organization. This means that a board member can never use information obtained as a member for personal gain, but must act in the best interests of the organization.
- **Duty of Obedience**
  The duty of obedience requires board members to be faithful to the organization's mission and follow all the laws that regulate the organization's activities. They are not permitted to act in a way that is inconsistent with the central goals of the organization. A basis for this rule lies in the public's trust that the organization will manage donated funds to fulfill the organization's mission.

The following are some of the key ethical issues that board members involved in fundraising should consider:

Obedience to the Law — Understand all the legal aspects of soliciting a gift. This includes the value of a tax deduction for a gift if premiums or other benefits are involved. There may be state laws that regulate the solicitation of a gift even by volunteers. For example, in some states the organization's fundraising costs and audited financial statements must be disclosed at the point of solicitation.

Confidentiality — Maintain, in confidence, information about donors obtained through the prospect identification and evaluation processes. Information learned through one organization cannot be shared with another organization. Donors should be notified if the organization shares its donor lists with other organizations.

Respect for Donors — Understand the mission and goals of your organization and ask for gifts based on the case for support. Do not use relationships of power to obtain gifts. Respect the right of a prospect to decide freely whether or not to make a gift and at what level. Be familiar with the Donor Bill of Rights [see page 28] and ensure that organizational policies and practices adhere to its ethical standards.

Prevent Self-Dealing and Conflicts of Interest — Section 501(c)(3) of the Internal Revenue Code, which allows for deductibility of gifts to charitable organizations, specifies that no person associated with a nonprofit organization can benefit directly from the resources of the organization. Donors should not expect preferential treatment for organizational business. Further, avoid even the appearance of impropriety in all transactions. Therefore, it is essential to have an open bid process and to be able to explain to the public any transactions with board members or donors.

Presenting Information to the Public — Be familiar with all fundraising materials the organization is sharing with the public and ensure their accuracy and properness. Read organizational brochures that are shared with potential donors and visit your Web site to make sure the image of the organization is clearly presented. The IRS Form 990 specifies fundraising expenses as a separate category. These figures should reflect reality — we all know that raising funds costs money.

Assure That Funds Raised Are Being Used for Stated Purposes — The key to earning donors' trust is to show that their funds are used for the intended purpose. In the organization's financial books, according to generally accepted accounting principles, donations must be recorded as permanently restricted, temporarily restricted, and unrestricted net assets. Sharing financial statements with donors, as well as regularly updating them on the evolution of the program or activity that they have funded, is an essential way to keep donors posted on how their funds are used and the outcomes of their generosity.

Relying on Outside Consultants — If the organization hires outside fundraising consultants, oversee that guidelines exist for appropriate compensation practices. Percentage-based compensation is not an acceptable method. A fixed-fee schedule helps ensure that the motivation of the consultant remains focused on long-term cultivation of prospects, not on immediate maximum personal remuneration. Bonus incentives can be calculated and included based on performance, but a cap on total compensation must be set ahead of time. A competent consultant understands that fundraising is development of committed supporters for the organization, who remain loyal during the future campaigns as well. Cultivation of major donors is continuous. Results may not be evident for several years.

Accountability of Outcomes — Accountability in soliciting major gifts is not necessarily the responsibility of individual board members, but you do have a vested interest; you do not own explicit responsibilities in this case, but need to be certain that accountability of outcomes is being handled within the organization. Feel comfortable with promises made and review outcomes against what is being promised. Hold oversight for endorsements and where/whom the organization is allowing to use its name. It is important to define from whom you would accept gifts. For example, would it make sense to take donations from a corporation that has dominated the front pages of the national paper as a major abuser of child labor in Thailand? Would your patrons shun away if your performance was sponsored by an individual with strong public political views in one direction?

TO GIVE OR NOT TO GIVE: THAT IS NOT THE QUESTION!

Personal giving by those most closely associated with the organization lends vital credibility to its work, and is an essential ingredient in any effort to raise money. Board members' contributions affirm that those closest to and most responsible for programs believe them worthy of support.

The lack of significant personal giving by board members, on the other hand, can cripple appeals for financial assistance since potential donors are rightfully skeptical if board members themselves are not contributing.

Consider the following:

- The board is responsible for providing a sound financial basis for the organization. By personally contributing, a board member recognizes this responsibility and demonstrates a commitment. Without that personal investment, donors may question the commitment and leadership of the board.
- Many foundations only contribute to organizations where every board member is a contributor.
- According to a recent BoardSource survey, 68 percent of nonprofit organizations have a policy requiring board members to make a personal contribution on an annual basis.
- Boards average 74 percent participation in giving; however, on the average only 46 percent of boards had 100 percent participation.

It is important that the board act unanimously in its display of commitment, for this lends invaluable strength to its solicitations to outside parties. For most boards, achieving 100 percent participation among board members is the goal.

To reach the 100 percent giving goal, some boards ask each member to sign a letter of intent for a specific gift amount. Others take a more informal approach by simply tracking the rate of participation among board members. The board chair may issue friendly reminders during meetings, therefore exerting peer pressure on those who have not yet contributed without mentioning anyone by name. The entire board should celebrate when it reaches the goal of 100 percent participation.

The board should have a policy to guide personal giving by board members; at a minimum, it should explain that every board member is expected to make an annual contribution to the organization. There are many different ways to frame an individual board member's fundraising responsibility. The following are a few different examples:

1. Open-Ended Give and Get: Fundraising is a major part of a board member's responsibility, and financial support of the annual appeal and special events is expected. Board members are expected to make an annual financial contribution according to their personal means.
2. Flexible Give and Get: We ask that each board member be responsible for raising (or giving) a minimum of [amount] annually. We also ask that each board member make a personal contribution, which will be counted as a part of this amount.
3. Specific Give and Get: Each board member is expected to
    - support [organization] by making a meaningful financial gift of at least [amount] each calendar year

- solicit the financial, in-kind, and political support of others and obtain at least [amount] in contributions made to [organization] each fiscal year in addition to his or her personal contribution
- participate in as many [organization] program activities as possible, including applicable fundraising events

DONOR BILL OF RIGHTS

Philanthropy is based on voluntary action for the common good. It is a tradition of giving and sharing that is primary to the quality of life. To ensure that philanthropy merits the respect and trust of the general public, and that donors and prospective donors can have full confidence in the nonprofit organizations and causes they are asked to support, we declare that all donors have these rights:

1. To be informed of the organization's mission, of the way the organization intends to use donated resources, and of its capacity to use donations effectively for their intended purposes.
2. To be informed of the identity of those serving on the organization's governing board, and to expect the board to exercise prudent judgment in its stewardship responsibilities.
3. To have access to the organization's most recent financial statements.
4. To be assured their gifts will be used for the purposes for which they were given.
5. To receive appropriate acknowledgment and recognition.
6. To be assured that information about their donations is handled with respect and with confidentiality to the extent provided by law.
7. To expect that all relationships with individuals representing organizations of interest to the donor will be professional in nature.
8. To be informed whether those seeking donations are volunteers, employees of the organization or hired solicitors.
9. To have the opportunity for their names to be deleted from mailing lists that an organization may intend to share.
10. To feel free to ask questions when making a donation and to receive prompt, truthful and forthright answers.

The text of this statement in its entirety was developed by the American Association of Fund-Raising Counsel (AAFRC), Association for Healthcare Philanthropy (AHP), Council for Advancement and Support of Education (CASE), and the Association of Fundraising Professionals (AFP), and adopted in November 1993.

Role of the Development Committee

Boards may want to form their own development committee to organize and engage the board in fundraising efforts and partner with staff to develop a sound fundraising strategy for the organization.

Ideally composed of individuals with direct fundraising experience or knowledge of a particular funding community (e.g. foundations, corporations, etc.), the development committee can assist the development staff in determining fundraising methods and goals based on the following factors:

- strength of the case for support
- history of fundraising success
- potential for upgraded or increased gifts from donors
- potential for acquiring new donors
- staff and volunteer resources available
- financial resources available
- knowledge of the external environment
- economic conditions
- other fundraising efforts that might impact the organization's donors

By concentrating on the most appropriate methods and defining the most reasonable and reachable goals for fundraising, the development committee and staff work together to ensure that the fundraising goals and activities are achievable and appropriate for the scope or mission of the organization.

This committee can also serve as a board-level motivator for individual board member fundraising as well as take the lead in drafting the necessary organizational fund development policies. As a part of that role, the committee can also ensure that individual board members have the resources and training needed to fundraise in the most productive way possible.

Role of Individual Board Members

Described in more detail in Chapter 4, the role of the individual board member is key to a successful fundraising strategy. There can be confusion about the expected role of individual board members, however, so the board should be sure to have policies on what is expected in terms of personal giving or participation in fundraising for board members, and include that information in the description of board responsibilities as new members are being recruited and oriented to the board.

As with all board issues, transparency and communication are critical. Boards and chief executives should be clear about the expectations for fundraising and personal giving when new members are recruited.

Role of the Chief Executive

The chief executive has a key role in fundraising. Working in partnership with the development staff and the board, she or he acts as the primary representative of the organization. The chief executive tends to spend a significant part of his or her time on cultivation of major funders and connecting with key stakeholders and partners. Chief executives should not be on their own, however, in terms of fundraising. Unfortunately, boards sometimes hire chief executives with unrealistic expectations about their ability to raise funds, or even to let themselves off the hook in terms of their own fundraising responsibilities. This is an unfair and unproductive demand. Fundraising is always a team effort; mutual engagement from boards and staff is critical.

Role of Development Staff

When an organization is able to hire professional development staff — development director, major gifts officers, grant writers, planned giving experts, or other specialized development professionals — it is investing in efforts to build a stable and diversified source of funding for the organization's mission.

When there is development staff to coordinate the overall fundraising plan, they can translate the general guidelines for the board or the development committee and have it oversee that each board member follows the unified front and respects the detailed guidance of the plan.

The development director is typically the coordinator of the overall fundraising plan. He or she finds the best way to take advantage of the chief executive's skills and relationships, collaborate with the board to utilize the relationships and reputational capital that board members bring to the organization, and to hire and supervise the rest of the development staff.

Working Together

To ensure a good working relationship, guiding both board members and staff in working together is key in successful team building. Board members should be introduced to the strengths of staff members and the support they can provide, including fundraising expertise, knowledge of the community and the organization's donors and prospective donors, and understanding the details of the organization's programs.

Equally as important, staff members benefit from training that focuses on how to lead fundraising by example, without controlling and micromanaging board members. Staff should also be reminded of the peer relationships board members have with donors and prospective donors as well as the credibility they bring to the organization and its fundraising efforts.

Board and staff roles in fundraising should be complementary, and both are critical to the success of the fundraising strategy. With intentional training, tensions that can occur between board members and staff over fundraising assignments and activities can be kept to a minimum. And once each individual and group understands its role, they can work together to develop a smart, strategic, and coordinated plan that builds on the strengths and assets of the organization as a whole.

CHAPTER 4

WHAT YOU CAN DO TO BREAK THE GALA ADDICTION: HOW BOARD MEMBERS CAN SUPPORT SUSTAINABLE FUNDRAISING BEYOND EVENTS

Board members bring with them important social and reputational capital, making them some of the best askers an organization can have. Board members who do not leverage their relationships and reputation on behalf of the organization are doing themselves — and the organization — a disservice by unnecessarily limiting their potential for positive impact on the organization's mission.

This chapter explores how board members can contribute to the long-term financial health of the organization by initiating, cultivating, and sustaining relationships with donors and potential donors — relationships that will last long beyond the board member's tenure on the board.

Stewardship & Friendraising

What is donor stewardship? Stewardship, or taking the time to recognize, thank, and educate donors, is a critical component of any fundraising strategy. Good stewardship techniques directly affect donors' decisions to renew or increase their support when there is an opportunity to do so.

The following are some examples of potential stewardship strategies that could be employed by individual board members, in support of the organization's fundraising strategy and in coordination with the development staff:

- Send handwritten notes to new donors, renewing donors, and donors who increase their support.
- Take the time to introduce new donors to other board members and supporters, to make them feel welcome at events and activities, and follow up with them after an event.
- Plan and host a "thank you" event designed for donors and think of a creative way to thank donors (e.g. awards for longstanding support, special recognition of recent gifts, etc.).
- Encourage donors to get involved in organizational activities and projects.
- Educate friends and family about your organization's mission and good work via technology and social networking resources, such as Facebook and Twitter.

Sometimes referred to as "friendraising," these types of activities help board members understand the essential roles that relationship-building and ongoing cultivation play for everyone involved — including prospective donors. They also serve the organization by building a strong and personal connection between donors and the organization, which can help ensure that donors remain engaged in the organization's mission and continue supporting its work with their charitable giving.

Cultivating Sustainable Donor Relationships

A personal relationship with a board member is a great place to begin a potential donor relationship, but it's critical that donors and potential donors develop a meaningful connection with the organization and its mission, rather than give "as a favor" to a board member. Such a gift may provide short-term support for the organization, but it's a missed opportunity to build a real understanding and connection with a donor, and the donor is likely to discontinue his or her support once that board member rolls off the board.

To really benefit from the social and reputational capital that former, current, and future board members bring to the organization, there needs to be a meaningful engagement and stewardship strategy for each individual donor, which effectively communicates each of the following key themes:

- **Mission or Cause —** Donors must understand and appreciate the mission of the organization; the reason the organization exists.
- **Case —** Donors must understand why the organization is in need of their support, and how the organization will use their donation to meet that need.
- **Identity —** Members must believe that the organization is a legitimate organization with sound business practices, serving a worthwhile cause.
- **People —** The organization's staff, board members, and volunteers must be known to be committed to the cause and deeply invested in the work of the organization.

When combined successfully, these four elements create a powerful connection between organizations and donors that can last for years. And that's exactly what most organizations need — lifetime donors that are passionate about their missions, and will support it as long and as generously as they are able.

It's not just about what you say, however; how you invite a potential donor to give to your organization is also important. You should work with your development staff on finding the specific approach that will work best for you, but here are a few general tips on how to successfully approach someone that you know for a contribution.

The following are some general tips on how to recruit members and volunteers.

Fundraising Tip #1: Ask

It sounds basic, but the number one reason people say that they do not give is because they were never asked. Asking someone to make a contribution is the first and most important step to securing a contribution. If you do not ask, you will not receive!

Fundraising Tip #2: Be Specific

Many times when asking potential donors to make a contribution, board members can make the mistake of being vague or indirect. Don't fall into that trap. It's not rude to be specific; people need to know what they're being asked to do before they can respond.

Here are a few examples of asks that are clear, direct, and specific:

"Will you help ensure that kids have a positive and safe place to spend the summer by sponsoring a child to attend our summer camp?
You can support one child for the entire summer with a gift of $2,500."

"I'd like to invite you to join our Leadership Giving program;
would you consider a gift of $1,000, in support of our work to provide quality health care to low-income families?"

"We need $25,000 to educate 150,000 community members about the impact of this legislation.
Would you consider a contribution of $5,000 to support this important campaign?"

Fundraising Tip #3: Thank

Supporting your organization should be fun and should make donors feel good. Be sure to thank donors for their investment of time and resources, even if they are not able to give this time. They will remember that you respected and appreciated their time, and may be more willing to consider a donation in the future. At the very least, they will have a positive impression of you and the organization.

Fundraising Tip #4: Communicate

Be sure to share information about your interaction with a donor or potential donor with the development staff, both before and after the interaction. This will ensure that staff can keep you informed about the latest interaction that person had with the organization, as well as document and track what you discussed with the donor or potential donor. There's nothing more embarrassing — and potentially damaging — than having incorrect or incomplete information about an individual's history with an organization, when asking him or her to make a contribution. It sends the wrong message about how the organization values him or her giving and past feedback, and makes it difficult to build trust — the foundation of any strong and sustainable donor relationship.

Board members should partner with the chief executive, development staff, and fellow board members to gain access to appropriate training and educational resources to strengthen their capacity to successfully raise funds for their organization's mission.

Here are a few things you can do to begin building lifelong donors to your organization:

- Invite a friend to coffee or lunch.
    1. Tell him or her in advance that you would like to talk about an organization you are a part of.
    2. Be sure to talk about why you are involved, with a focus on the mission.
    3. At the end of the conversation, ask if he or she would be interested in learning more and would be comfortable with you introducing him or her to a member of the development staff.

- Host a casual event in your home.
  1. Invite your friends and family, and tell them that you are going to be talking about your involvement with an organization that is important to you.
  2. Keep it simple. Focus on whom you are inviting and how you are going to introduce them to your organization, not on elaborate or expensive party preparation.
  3. Prepare yourself or someone else from your organization to share a few words about the work of the organization. This could be a staff member, a fellow board member, or even someone whom your organization serves. If you're planning to speak, be sure to practice your comments; this is no time for improvisation!
  4. Thank them for coming, tell them why it is important to you that they came, and share your enthusiasm and passion for your organization's mission.
  5. Tell them that you are going to call them in the next week to talk with them more about the organization, and that you hope that — if they were inspired by the organization's work — they will consider making a contribution.
  6. Call them — thank them for attending, ask them if they have any questions, and ask them if they'd consider making a gift. Work with the development staff to prepare for the call, including how to ask, and how much to ask for.
  7. Thank them — for whatever they are able to commit: money, time, or the time that they already gave to attend the event and learn more about the organization you are helping to lead!
- Create a personal fundraising campaign.
  1. Set a personal goal for how much you want to raise for your organization.
  2. Develop a short list of friends, family, and colleagues who might consider making a contribution to your organization.
  3. Consider leveraging a personal gift as a challenge or matching gift, meaning that you'll match all of the gifts that your friends and family donate.
  4. Talk with the development staff about your plans, and solicit their feedback and advice, especially around whom you are planning to ask, and how much you are planning to ask them for.
  5. Send everyone on your list an e-mail or letter, sharing information about the organization, and asking them to consider making a gift of a specific amount. Specifically mention that you are planning to call them to talk with them more.
  6. Call them to follow up on your letter or e-mail.
  7. Thank them — for their gift, or their willingness to talk with you about your organization.

As a board member, you can play a central role in building solid relationships between your organization and its donors. By connecting your friends, family, and colleagues with the organization you care about in a mission-focused and meaningful way, you can ensure that the legacy of your commitment and support lives on through the donors who continue to support your organization's important mission, even after you're no longer serving on the board.

CHAPTER 5

IS IT TIME FOR A CHANGE?: HOW BOARD MEMBERS CAN EVALUATE FINANCIAL HEALTH AND ADJUST STRATEGY ACCORDINGLY

It is rare for a nonprofit to continually do business as usual. Financial pressures are a daily reality, regardless of the country's general economic situation. When facing an unsustainable financial situation, some organizations may be forced to make tough decisions and close their doors — or at least trim activities to the bare minimum. Others may be luckier with reorganization and manage to continue with new structures or new ideas. Here are some suggestions for struggling nonprofits and nonprofits that want to be proactive and avoid or prepare for potential hard times.

Evaluating Financial Health

Before considering strategic and structural changes, it is critical that the organization — and the board — understand the financial position of the organization. But how can a board member really tell if the organization is in good shape, or if it is floundering?

The following are some early warning signs, which could indicate that an organization is in financial trouble. Board members should pay close attention to these indicators, and ask questions when they feel they need more information.

Decline in Critical Income Sources

Every nonprofit organization relies on certain major sources of income. A membership organization, for example, may rely on dues, meeting income, education, or publications as its key sources. A charitable organization's revenue may come primarily from contributions, from foundations, or from government grants. The board should carefully track income from these key sources because any significant decline points to trouble in the future.

Although an organization may appear, on the surface, to be financially sound with a healthy surplus, its expendable resources may not be adequate to cover a significant decline in income. This can occur because the organization has tied up many resources in illiquid assets such as property, receivables, or inventory. Another possibility is that most of the resources are donor restricted and therefore cannot be used for general operations.

In particular, boards must understand the difference between donor-restricted endowments and quasi-endowment (or board-designated endowment) funds. Because quasi-endowment funds are legally unrestricted, the board can use them for any purpose. Such funds, however, can provide income in perpetuity, so a board should carefully consider whether depleting them for a short-term fix is in the organization's best long-term interest.

Increase in Certain Expenditures

Certain expenses require more scrutiny than others in nonprofit organizations. The most important of these are salary and benefits, which represent a major portion of the organization's expenditures. Nonprofit organizations use benefits as an incentive somewhat more frequently than do for-profits, and tracking these expenses as a percentage of total expenses can be illuminating.

One expense that tends to indicate problems is the miscellaneous expense account. If this item increases, hidden costs or less-than-adequate bookkeeping may be the cause. In either case, the situation warrants an inquiry. Another expense to watch is consultants' fees. If this expense goes up noticeably, it may reflect activity that could be better brought in-house. In addition, a rise in consulting or legal costs can signal an undisclosed major issue.

Private Inurement

When the IRS audits a nonprofit organization, it invariably attempts to ferret out incidents of private inurement, or private benefit. If it finds any appreciable amount, it can revoke the entity's tax-exempt status. Examples of private inurement include excessive compensation, buying or selling of assets at prices unfavorable to the organization, loans on terms unfavorable to the organization, and the like.

The only people who should gain financially from a nonprofit organization are those it employs — and the benefit they receive should only take the form of reasonable salary and benefits. (Rarely will a nonprofit organization compensate its board members with a salary or any type of benefits.) All others who receive benefit should do so as a result of the organization fulfilling its exempt purpose.

Unplanned Auditor Turnover

If the external auditor resigns from the assignment, this may indicate a substantial disagreement between management and the auditing firm. Or, it may point to financial problems within the organization, which the board must promptly identify and address.

The board, either directly or through its finance or audit committee, should hold a private meeting with the auditors without management present. Upon investigating the situation, the board may find it simply a matter of the organization's inability or unwillingness to pay a fee that the auditor finds satisfactory. Whatever the case, the board needs to understand the reasons behind the auditor's departure.

Irregular Financial Statements

Financial statements carry all kinds of warning signals — if you know where to look and how to interpret them. The following is a list of red flags that board members should watch for, within the audited financial statements:

- **"Going Concern":** If the opinion letter accompanying the audit includes the words "going concern," it's the auditor's equivalent of pulling a fire alarm. It means the auditor is worried that the organization may go out of business within the next 12 months.
- **Delayed Opinion Letter:** Ordinarily, audits should be wrapped up within 90 days of the end of the fiscal year. The longer the elapsed time, the greater the cause for worry; it may suggest the nonprofit was unable to get itself organized in time to complete the audit. If the difference between the end of the fiscal year and the date of the opinion letter is more than 120 days, that is a red flag. Ask probing questions about the reasons for the delay. Even if there are good reasons, it means the information in the audited financial statement is stale by the time the board receives it.

The following yellow flags are potentially less serious, but warrant additional questions from the board:

- **Asset Imbalance on Balance Sheet:** Look for the single largest number under "assets." Depending on the category of asset, you could be seeing evidence of problems. If the amount of cash on hand is large — more than, for example, 10 percent of the total yearly revenue — it may mean the organization's financial managers aren't making efficient use of their excess cash. If the amount of cash is small — 5 percent or less of the total yearly revenue — it could mean the organization is cash-starved.

  If "accounts receivable" is the largest category of assets, it means the organization doesn't truly control its most valuable resource. Accounts receivable represent bills that have been sent out but not yet paid. What happens if the people or groups that received those bills never pay them? That would mean the balance sheet needs to be completely restructured, and the financial picture would look grim as a result.
- **More Expenses than Revenue:** You'll see parentheses around the number representing the total expenses subtracted from the total revenue. This is not a major cause for alarm, as long as the number appears manageable, but find out why there was a deficit. Is it a fluke, or yet another in a string of bad years? The answers to these questions could reassure you — or prompt you to wave a red flag instead.
- **Related Party Transactions:** Not usually forbidden by law (doing so might be a restraint of trade), related party transactions can cause outsiders to question whether the organization is dealing fairly with vendors. Why did the executive director find it necessary to award her husband that lucrative direct mail contract when there were other companies available?
- **High Interest Rates Charged on Short-Term Borrowing:** Banks are pretty good at assessing risks. If they feel it is necessary to charge a high rate on a line of credit (more than about 1.25 percent over the prime rate), maybe you should be worried too.
- **Lawsuits against the Agency:** A lawsuit can devastate a nonprofit organization, even if it is unfounded. See if management's response is included in the footnote. A sad reality — the larger and more complicated your organization is, the more likely it is you will routinely have one or more active lawsuits. Check your state's liability laws. You may have more protection than you think.

Exploring Options

To improve the financial bottom line, an organization either needs to increase its revenue or cut its expenses. This can happen by setting priorities, by being innovative and implementing new ideas, or by restructuring to improve efficiency. Some organizations manage to accomplish positive results through focused efforts alone; others collaborate and reinvent themselves through partnerships. Each organization must choose a method that caters to its specific challenges. Some choices have immediate impact; others rely on longer-term effects.

Establishing Priorities

When a nonprofit is under duress, its priorities matter more than ever before. Prioritizing starts by dealing with the big issues first. For the board, this means:

- **Validate mission —** Reassess the purpose of the organization. Do only what enhances and advances the mission.
- **Plan —** Don't rely on fate and opportunities. Comprehensive strategic planning with detailed operational plans provides a road map that helps make tough choices.
- **Agree on objectives —** Don't hurry to make changes until each change — or non-change — has a justification. Align activities between all departments and programs.
- **Define essentials —** Trim the unnecessary. When resources are limited, put your efforts into managing the most important activities, particularly those in which you excel.
- **Budget conservatively —** First, determine the source of your money. Don't start spending it until you have verified the long-term stability of that source.
- **Stress accountability —** Make sure that personal accountability reigns. Ensure that every staff member is aware of his or her responsibilities and meets the expectations.

Raising the Bridge: Strategies for Increasing Revenue to Your Organization

Get an immediate and firm grip on all your revenue streams and be clear as to what is — or is not — genuinely bringing in revenue. This does not mean cutting all non-revenue or negative revenue programs; it does mean seeing the whole picture and where your real costs are with open eyes.

It also means identifying new opportunities to generate revenue, including exploring types of revenue-generation that have not been employed in the past. Some opportunities worth considering include

- **Earned income:** Developing mission-related earned income streams can increase an organization's financial stability while decreasing its dependence on foundation or corporate funding. Fees for service and product sales can help recover the cost of operations. In addition, entrance fees, season tickets, and subscriptions bring in revenue. A thoughtful pricing policy is important to determine an organization's competitiveness.

- **Unrelated business income:** To bring in extra money, some nonprofits sell products that are not directly related to their mission. A homeless shelter might open a thrift shop, a symphony might sell T-shirts, or a zoo might sell refreshments. Most unrelated business income is subject to a tax. The IRS provides information on Unrelated Business Income Tax (UBIT) on its Web site at www.irs.gov/charities/article/0,,id=96104,00.html. Pay this tax annually by filing Form 990-T.

- **Investment income:** An endowment that is wisely invested can direct annual earnings back into an organization's programs. If the endowment proceeds are restricted, they must be used as stipulated in the original agreement. Operational reserves should equally be appropriately invested and their income can be used to cover any needed expenses.

- **Subsidiaries:** Some nonprofits create for-profit subsidiaries to bring in additional income for the organization. They can be structured as normal businesses but must be controlled by the parent organization. The parent must have authority to choose at least a majority of the subsidiary's board members.

- **Affinity programs:** Whether offered by credit card, car rental, or overnight shipping companies, these programs pay royalties to the nonprofits in return for use of their names, logos, and mailing lists. If someone carries a credit card with your organization's logo, for instance, you'll receive a royalty every time the card is used. These programs differ from sponsorships because they are not custom-crafted. Affinity programs typically offer a one-size-fits-all solution for which the nonprofit simply signs up as a participant.

- **Revenue-sharing programs:** Found often on the Internet, these programs involve a merchant or retailer of goods and services paying a royalty or commission to the Web site's owner based on leads, referrals, or actual sales.

- **Licensing agreements:** Through licensing, you give a company or another nonprofit the right to use the organization's intellectual property (such as a trademarked or copyrighted name, logo, slogan, or products) in exchange for royalties. Licensing agreements are often part of revenue-sharing and affinity programs, but they can stand on their own as well.

- **Cause-related marketing:** In this situation, a corporation makes a designated contribution to the nonprofit organization every time a customer makes a particular purchase. A restaurant, for example, might donate $1 to your organization for every steak dinner it sells — or donate 1 percent of its total sales on a particular evening. Typically, the nonprofit organization is mentioned in the company's advertising and promotional materials, which can boost visibility of its mission.

  Just be sure that you are not linking your organization's good name and reputation with a company that might undermine that very mission. For instance, a health-related organization probably wouldn't want to partner with a company connected to the manufacturing or distribution of tobacco or alcohol products. The connections are not always obvious, especially with multinational corporations, so research potential partners carefully before undertaking any cause-related marketing.

- **Entrepreneurial ventures:** Your organization may have the expertise to launch its own business or commercial enterprise that addresses unmet needs within the community or sector. Often, a nonprofit's venture into the business marketplace is a natural extension of something it was already doing — such as a homeless shelter opening an employment agency. In fact, the board should ensure that any commercial or business venture supports or advances the main reason the organization exists.

Some organizations self-finance such a venture by drawing on their reserves or redirecting funds from another activity. Others take a pure business approach and obtain traditional bank financing, usually using reserves or building equity as collateral. You might even be able to tap into a venture philanthropy source — a funder that provides technical assistance or consulting, as well as dollars, to assist nonprofits with ventures that have a promise of sustainability for the long term. Such funding typically comes with specific conditions the nonprofit must meet.

The board should ask staff to undertake a feasibility study, which includes preparing a financial analysis with projected expenses, revenues, implications for unrelated business income tax, and a break-even point for the business venture. These projections, when considered as part of your organization's financial picture, and the nature of the venture itself (how closely related it is to your mission and purpose) will help you decide whether setting up a for-profit subsidiary may be the best route to take. The feasibility study can form the foundation for a detailed business plan to guide the new venture.

Although the board must approve the policies governing the types of income-generating activities undertaken by the organization, it should hold the chief executive accountable for overseeing all those efforts. The chief executive's duties should include approving contracts, approving the promotional language and images used in marketing efforts, tracking royalty or sponsorship payments to the organization, and ensuring that corporate sponsors or supporters are properly acknowledged.

Lowering the Water: Decreasing Organizational Expenses

Efficiency is feasible. It can be obtained by eliminating unnecessary expenses, fine-tuning processes, and optimizing results. There are numerous ways to cut costs. Some are easy, some painful. Some impact programs, some employees. Board members can strategize with chief executives about strategies they can implement to eliminate and reduce expenses. The following are some specific ideas boards and chief executives might consider:

Program and process costs

- Eliminate or cut back programs and projects that do not embrace mission and simply eat money without return.
- Re-budget. Shave off unnecessary expenses. Ask managers to propose voluntary cutbacks.
- Evaluate all processes and determine whether all steps are necessary.
- Analyze your financial management. Look at your short- and long-term investment policies and endowment spending policy. Renegotiate and refinance loans and mortgages. Pay bills at the end of the cycle. Send past due notices regularly and personally contact those who owe you. Recalculate your inventory needs. Circulate computers; don't upgrade unnecessarily.
- Explore ways to combine resources with other organizations.
- Use your Web site for cost-effective communication.
- Be satisfied with less elaborate efforts without cutting professional quality.

Employee costs

- Freeze hiring. Do not fill openings unless absolutely necessary.

- Provide incentives for early retirement or voluntary attrition.
- Attract volunteers and interns to help with projects.
- Don't approve automatic raises for the coming year. Test — but carefully — temporary and/or voluntary salary cuts.
- Use consultants when appropriate. To save on benefit expenses, turn some full-time positions into part-time. Discover employees' hidden skills.
- Lay off staff only as a final measure.
- Keep staff spirits high by sharing information and providing small perks.

Considering a Merger or Acquisition

It's not just groups facing financial challenges that look into a merger. Heightened competition throughout the nonprofit sector — for top-notch staff, attractive benefits, political clout, media recognition, you name it — often prompts healthy, wealthy groups to seek partners with whom they can achieve even greater success.

Technically speaking, a merger involves two partners that agree to integrate their processes, programs, governance, and staff; a new name is often selected to reflect the fresh start being made by both groups. An acquisition refers to one organization gaining control of another and folding the latter into its own structure.

Before even mentioning the word merger in the same breath as another organization's name, consider collaborating in some way. If the partnership or alliance goes smoothly, thanks to similar missions, cultures, and goals, a merger might be an option down the road.

A merger involves restructuring both organizations and integrating all functions. For instance, merging your nonprofit with another is likely to require delicate negotiation regarding the number (and election process) of board members. You may need to set up a rotation system for the first few years to ensure representatives of both groups have top leadership roles. Other key decisions — and possible sticking points — will involve staffing, finances, property and facilities, fundraising activities, programs, and services.

Take the time to engage in serious debates about the pros and cons of a merger and in frank discussions about every detail of governance and operations. A board's failure to agree on these points in advance can seriously threaten the success of the new organization. Answering these questions can help you clarify your organization's unique situation.

What is our goal? Do you seek organizational growth, a greater diversity of services, a wider geographic scope, a larger market, an enhanced public profile? All of those are valid reasons for a merger, as are realizing greater economies of scale and achieving a greater concentration on core competencies (doing more of what you do best).

If you are contemplating a merger because the organization may collapse financially without one, state that as well. This self-assessment should also include an honest appraisal of your organization's strengths and weaknesses, what makes it an attractive merger partner, and what the potential drawbacks are.

Poll all the board members and you might be surprised by the range of responses. Only after leaders reach unity on organizational goals and agree on the results they expect from a merger can they approach another group at the negotiating table.

How compatible are our missions? Chances are, you are already aware of your potential partner's history, reputation, programs, and financial situation. Still, you will need to conduct due diligence and thoroughly investigate the other group.

Be sure to pay attention to the other organization's mission. Is it similar to your own? Complementary? Even if the groups employ very different strategies, are they, at heart, focused on the same ends? Mergers can be challenging enough on their own; you need a mission on which both can agree to serve as the island in what may be a turbulent sea at times.

What do stakeholders think? Conduct surveys and focus groups with staff, community members, business leaders, funders, clients, customers, members, and so forth. Ask for their opinions on your organization's current situation, including its strengths and weaknesses. Identify concerns they may have about the organization potentially losing its identity through a merger or, conversely, what possibilities might open up if your group joined forces with another.

During the research phase, some groups find that to the wider community they are virtually indistinguishable from their competitors, so a merger would simply clear up existing confusion. Others discover emotions run so deep that a merger would alienate key stakeholders. You will not know unless you ask.

What are the organizational cultures? As objectively as possible, assess the values that guide the way each organization currently does business. Determine what your organization values and rewards (for instance, flexibility, risk taking, personal development, or cross-departmental initiatives). What is your perception of the other group? How manageable might the differences be?

Certainly, each organization will have its own procedures and traditions where board and staff are concerned. Assuming the bedrock beliefs that drive each group are similar — such as the mission — then any feelings of "us versus them" should subside given enough time and effort by all parties. Organizational experts say the best way to create a new culture is through communicating honestly and handling conflict (instead of avoiding it). Ideally, what emerges is a new culture entirely, one with its own traditions.

Who can help us through the process? An outside perspective is invaluable, especially when emotions run high in the boardroom and among staff who do not know what is happening behind those closed doors. After all, a merger might mean a chief executive, other employees, and some board members will not have roles within the new organization.

Hire an attorney or a consultant who has an expertise in nonprofit mergers. He or she will ask questions and raise important issues that might otherwise be ignored and can assist with developing an implementation timetable should the merger occur. Also appoint a merger negotiations committee with equal representation from both groups (including the chief executives) to work through the many issues.

One final caveat: Mergers cost money. You will need to pay attorneys, accountants, organizational consultants, printers, and information technology experts, to name just a few. You may need to craft an attractive severance package for your chief executive. Plus, there are the hidden costs, such as the time devoted by staff to working out details, handling rumors, or simply being too distracted to do their jobs effectively. So if the motivating factor is short-term economic survival, broaden your perspective. A merger is for the long term.

TIME FOR A MERGER?

If some of the following conditions exist, it may be time to consider a merger:

- The merger recommendation is the result of a careful and conscientious study defining the future needs and mission of the organization.
- There are too many organizations in the area with the same mission, delivering quality services. Competition has become counterproductive.
- It is difficult to run the organization efficiently or effectively. Key resources, skills, or tools are not readily available.
- Merging with another organization would broaden the mission and enable the new organization to offer a full or wider range of services to constituents.
- Another organization is offering to merge and this would allow the board's vision for the future of the organization to more rapidly become a reality.
- No other solution except dissolution seems viable.

CONCLUSION

Ensuring that your organization's approach to fundraising is smart, strategic, responsible, and sustainable is a key way that you — as a board member — fulfill your board role and responsibilities. Asking the important questions can be difficult. It's our hope that this guide can serve as an ongoing resource to you and your fellow board members to help you become a more engaged and effective leadership body for your organization, its mission, and the communities it serves.

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