

Board Governance: Strategies for Building Exceptional Boards

Tuesday, October 18, 2011

PANELISTS:

**Meade Thayer, Executive Director
Pacific Northwest Association of Independent Schools**

**Scott Kerman, Board Chair
The International School**

**Pam Dreisin, Head of School
French American International School**

**Moderated By:
Mark Stevenson, President and CEO
Capital Pacific Bank**

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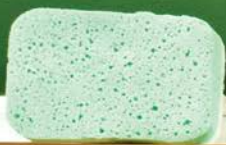
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Panel Biographies

Meade Thayer, Executive Director, Pacific Northwest Association of Independent Schools. Meade is in his fourteenth year as the Executive Director of Pacific Northwest Association of Independent Schools (Seattle, WA). Previously, he was the Director of Financial Aid Services with the National Association of Independent Schools (NAIS) from 1989-1998 where he oversaw the School and Student Service for Financial Aid (SSS), a needs analysis system used by over 2200 schools nationwide. Prior to NAIS, Meade served as Director of Admissions and Financial Aid at Friends' Central School (PA) from 1979-1989. His current volunteer efforts include serving on the NAIS Commission on Accreditation and the Greater Seattle Business Association's Scholarship Steering Committee. Previously he served on the boards of the of the Washington Society of Association Executives (WSAE), Independent School Association Network (ISAnet), Barrie School (MD), St. George's School (RI), the Philadelphia Chapter of the Juvenile Diabetes Foundation, and numerous dysfunctional soccer club boards.

Scott Kerman, Board Chair, The International School. Scott is in his third year as a trustee at The International School, and his second year as Board President. He is a parent of students at The International School and Gilkey Middle School (FAIS). Scott has worked in education for nearly twenty years, beginning as an early member of Teach for America in 1992. His teaching experience ranges from 6th grade to college, including two years at Northwest Academy. Scott has extensive independent school experience from all vantage points: parent, teacher, administrator, and trustee. Recently, he served as the PNAIS Self Study Coordinator for Northwest Academy's re-accreditation project, giving Scott a spectacularly detailed and thorough view of the school's program and community. As Dean of Curriculum, Scott's role is to provide curriculum oversight and to support the faculty and administrative staff in their efforts to execute and enhance the program.

Pam Dreisin, Head of School, The French American International School. Pam has been involved in independent school education for over 15 years. Her early years were spent at FAIS, when she served as the chair of the FAIS Board of Trustees, co-chaired the first successful Capital Campaign, and eventually became the Assistant Head of School. She then spent eight years at Oregon Episcopal School, a PreK-12 independent school with 835 students, where she served as the Assistant Head of School focusing on institutional advancement. She returned to FAIS in 2008 as Head of School, once again teaming with Jean-Francois Genay to lead FAIS through its next phase of strategic development. Pam has a Master of Science degree in Cellular & Molecular Biology, is a founding Board member of the Association of Independent School Admission Professionals (AISAP) and currently serves on the Board of Directors of the Pacific Northwest Association of Independent Schools (PNAIS).

Mark Stevenson, President and CEO, Capital Pacific Bank. Mark has more than 25 years of experience in commercial banking, credit management and corporate finance, including positions with U.S. Bancorp and Security Pacific Bank. Most recently, he was a Managing Director of Debt Capital Markets for Piper Jaffray & Co. (previously U.S. Bancorp Piper Jaffray and U.S. Bancorp Securities) from December 1997 to May 2005, where he specialized in providing high quality capital structure advisory services to corporate clients. From 1991 to 1997, Mr. Stevenson was Senior Vice President and Credit Approval Manager for U.S. Bank's national corporate and international banking groups, where he was responsible for credit approval and management of a \$1.7 billion credit portfolio. Immediately prior to joining Capital Pacific Bank, Mark spent a month on a Mercy Corps project where he trained management and staff of Mongolia's XacBank on effective small business lending practices, underwriting and new business development. He serves on the boards of the Oregon Bankers Association (chair-elect), Oregon Wildlife Heritage Foundation, and I Have a Dream Foundation-Oregon. He is a past board member of The International School.

Design of the Partnership—Board/Head
*** From the NAIS Trustee Handbook—8th Edition**

Policies	Time and Attention Graph
STRATEGIES · <input type="checkbox"/> Mission · <input checked="" type="checkbox"/> Survival · <input type="checkbox"/> Leadership · <input checked="" type="checkbox"/> Major ADVICE	BOARD'S DECISIONS <div style="text-align: right;">HEAD'S</div>
PARTNERSHIP · <input checked="" type="checkbox"/> Authorizations · <input checked="" type="checkbox"/> Finance Policies · <input checked="" type="checkbox"/> Enrollment · <input checked="" type="checkbox"/> Employment Terms	SHARED DECISIONS BOARD & HEAD
OPERATIONAL · <input checked="" type="checkbox"/> Admissions · <input checked="" type="checkbox"/> Staffing · <input checked="" type="checkbox"/> Programs · <input checked="" type="checkbox"/> Systems	BOARD'S ADVICE (when asked) <div style="text-align: right;">HEAD'S DECISIONS</div>

Above: The Diagonal Line = Allocation of Board's Time

Below: The Diagonal Line = Allocation of Head's Time

Exceptional Boards ~ The Source
12 Principles of Governance that Power Exceptional Boards
from BoardSource – www.boardsource.org

1. Constructive Partnership - Exceptional boards govern in constructive partnership with the head, recognizing that the effectiveness of the board and head are interdependent.
2. Mission Driven - Exceptional boards shape and uphold the mission, articulate a compelling vision, and ensure the congruence between decisions and core values.
3. Strategic Thinking - Exceptional boards allocate time to what matters most and continuously engage in strategic thinking to hone the organization's direction.
4. Culture of Inquiry - Exceptional boards institutionalize a culture of inquiry, mutual respect, and constructive debate that leads to sound and shared decision-making.
5. Independent Mindedness - Exceptional boards are independent-minded. When making decisions board members put the interests of the organization above all else.
6. Ethos of Transparency - Exceptional boards promote an ethos of transparency by ensuring that donors, stakeholders, and the interested members of the public have access to information regarding finances, operations, and results.
7. Compliance with Integrity - Exceptional boards promote strong ethical values and disciplined compliance by establishing appropriate mechanisms for oversight.
8. Sustaining Resources - Exceptional boards link bold visions and ambitious plans to financial support, expertise, and networks of influence.
9. Results Oriented - Exceptional boards are results-oriented, measuring the organization's advancement towards mission and evaluate the performance of major programs & services.
10. Intentional Board Practices - Exceptional boards intentionally structure themselves to fulfill essential governance duties and to support organizational priorities.
11. Continuous Learning - Exceptional boards embrace the qualities of a continuous learning organization, evaluating their own performance and assessing the value they add to the organization.
12. Revitalization - Exceptional boards energize themselves through planned turnover, thoughtful recruitment, and inclusiveness.

Primary Board and Board Member Responsibilities *Courtesy of BoardSource*

Establish Strategic Direction

1. Determine Mission and Purposes
 - i. Mission – *why we exist*
 - ii. Vision – *what would world look like if we achieve our mission (aspirational)*
 - iii. Values – *principles that guide our work*
2. Ensure Effective Planning

Ensure the Necessary Resources

1. Ensure Adequate Financial Resources
 - i. *Contribute financially – “one of top 3 gifts”*
 - ii. *Help plan fundraising activities*
 - iii. *Support Head’s solicitation efforts*
2. Select the Chief Executive
 - i. One of the most important decisions you make
3. Build A Competent Board
 - i. *Get “right” people on the Board*
4. Enhance the School’s Public Standing
 - i. Develop accurate image
 - ii. Build positive reputation
 - iii. Effectively communicate value and Board’s role

Provide Oversight

1. Monitor; Strengthen Programs and Services.
2. Protect Assets and Provide Financial Oversight
3. Ensure Legal and Ethical Integrity
4. Support and Evaluate the Chief Executive

Individual Board Member Responsibilities

1. Actively Participate (time, talent, treasure)
2. Be Informed
3. Be Independent-Minded
4. Ask Good Questions
5. Promote Organization
6. Safeguard Legal Standards, Ethics, and Values

Board Member Legal Obligations

1. Duty of Care (*use best judgment, ask good questions*)
2. Duty of Loyalty (*avoid conflicts of interest*)
3. Duty of Obedience (*stay true to mission*)

Protecting Assets and Financial Oversight: What Does This Entail?

Courtesy of Capital Pacific Bank

Strategic Plan

Review and approve this forward-looking long-term plan for the school. Important variables within the strategic plan include enrollment growth assumptions, growth/improvement in physical plant, changes in operations, which have a longer term cost impact, such as bringing teacher salaries up to market averages if your school is currently below market in salaries.

Annual Comprehensive Budget

Review and approve the next year's financial plan including: Enrollment level, tuition increase, financial aid target, expense levels, capital expenditures and staffing resulting from the enrollment & tuition assumptions. Many schools approve an initial full line item budget in January of the prior year to justify tuition changes, and then approve a "final" budget in late spring or early summer, once actual enrollment is known in order to adjust staffing and other expenses most closely tied to enrollment.

Cash Flow Projection

Review expected monthly cash flow projections based on year to date performance and remaining budget periods to determine if a cash flow shortfall is likely. Advance warning of a deficit will allow Board to pursue fundraising, require expense cuts, or find an interim funding source before the need actually arrives.

Current Financial Statement Review and Oversight

Each financial reporting period (either monthly or quarterly) the Board should receive, review and ask questions so that they understand each of these statements: Balance Sheet - Assets, Liabilities and Net Assets; Statement of Activities - Tuition, Expenses, Fundraising; Key Indicators - Comparison to budget, Comparison to last year, Enrollment level, A/R Collection, expense management, Trends

Financial Review Checklist for Board Members

- Does bottom line meet expectations and do we have positive cash flow from operations?
- How are we addressing large variances between budget and actual?
- Are there unusual trends?
- Are we prepared for surprise expenses?
- How does overall cash activity compare to prior year?
- Is cash sufficient for remainder of the year's needs
- Are we complying with loan covenants?
- What impression would a donor or lender have after reading our statements?
- What is the right level of strategic reserves that we should have/build?

- Maintenance - for replacement of physical assets such as roof, furnaces, desks, or other.
- Capital Expansion - for improvements in physical assets such as a gym, additional classrooms, or other.
- Operational – for unexpected expenses or to fund expenses in the event that there is a delay in expected revenue from tuition or fundraising.
- Should we start or increase an endowment fund? Endowments differ from reserves because endowments cannot be used up or spent. Proceeds from earnings on endowments can be used as reserves. Many schools use endowment income to fund scholarships or to help build capital reserves.

Glossary of Accounting and Financial Terms

Accounts Payable: The amount owed to others (i.e. vendors) for services or merchandise received by the school.

Accounts Receivable: The amount owed to the school for services or merchandise provided to others.

Accrual-Basis Accounting: A system of financial record keeping in which transactions are recorded as expenses when they are incurred and as income when it is earned, rather than when cash is paid or received. The alternative is cash-basis accounting. Accrual-basis accounting is more complex than cash basis accounting, but it is more precise.

Accrued Expenses: Expenses that have been incurred but have not been paid (such as salaries and benefits)

Accrued Interest: Interest costs that have accumulated but have not been paid.

Allocation: A method of dividing expenses among different programs, administrative and fundraising categories using a reasonable and consistent basis (common bases include staff time, number of employees, and square footage.)

Allowance for Doubtful Accounts: An estimate reflecting the portion of accounts or pledges receivable that the organization believes is likely not to be collected.

Assets: What is owned by the organization.

Audit: An examination conducted by CPA's retained by the Board of Directors that provides assurance to the internal and external users of the school's financial statements that the statements are presented in accordance with generally accepted accounting principles (GAAP). The audit results are presented to the Board in the form of an opinion from the CPA.

Balance Sheet: A report showing a snapshot of the financial condition (that is, assets, liabilities, net assets and retained earnings) of the organization at a particular moment in time. Also referred to as the statement of financial position.

Board-Designated Funds: Funds earmarked by an organization's Board for a specific purpose, such as an operating reserve. For accounting purposes these funds are still considered unrestricted because the condition was not specified by a donor.

Capitalizing an Asset: Recording the cost of land, building or equipment as fixed assets (on the balance sheet) rather than as an expense (on the income statement) when purchased. These assets (except for land) are depreciated over time as an expense item in the income statement, with a concurrent reduction in the stated asset value on the balance sheet (Net Book Value of Assets).

Cash and Cash Equivalents: Funds that can be quickly and easily converted to cash (usually bank accounts, money market funds and other investments that mature within 90 days.)

Cash-Basis Accounting: A system of financial record keeping in which transactions are recorded when cash is received or spent. For schools this results in wide fluctuations of reported net asset growth or net loss in an interim period, as tuition is received early in the school year, but salary and other fixed expenses occur evenly throughout the year.

Cash Flow Statement: a report showing cash inflows and outflows for a specific period of time.

Chart of Accounts: A list of all accounts used in an accounting system, including assets, liabilities, equity (net assets), income and expenses.

Conditional Promise to Give: A commitment by a donor to make a contribution to the organization if a specific requirement is met.

Contribution: A donation, gift or transfer of cash or other assets.

Current Assets: Cash, investments, receivables and other assets that are expected to be available as cash within the next 12 months.

Current Liabilities: Those liabilities due to be paid within the next 12 months including the current portion of long-term debt (loan principal payments that are due and payable within the next 12 months.).

Deferred Revenue/Deferred Income: Income for which payment has been received before it is earned. It is reflected as a liability on the balance sheet until it is earned and can be recognized as income.

Deficit: Expenses in excess of income. also referred to as net loss or a negative change in net assets.

Depreciation: The recognition of the decrease in value of a fixed asset over its expected physical or economic life. This is recorded as an expense each year.

Endowment: A class of investment assets received from external donors with restriction that the principal or gift amount is to be retained in perpetuity and cannot be spent. Term Endowment funds can have principal expended after a stated period of time or occurrence of a specified event, depending on donor wishes.

Financial Accounting Standards Board (FASB): The national governing board which sets the accounting standards known as Generally Accepted Accounting Principles (GAAP).

Fixed Assets: Tangible assets that have a useful life in excess of one year such as land, buildings, furniture, equipment & vehicles.

Fiscal Year: A 12-month period, which the organization uses for accounting and 990 purposes. This period may be a calendar year, but most schools choose a June year-end as it matches the end of a school year cycle.

Form 990: IRS Form 990 (Return of Organization Exempt from Income Tax) is the annual tax return document used by most tax-exempt organizations to report information about their finances and operations to the federal government.

Functional Expenses: Categories of expense delineated by the type of expense: program services, management and general, and fundraising. Required for IRS Form 990 and audited financial statements.

Fundraising Expense: Expenses incurred in soliciting contributions, gifts, grants and other funding sources.

Generally Accepted Accounting Principles (GAAP): The standard framework of guidelines for financial accounting established by the Financial Accounting Standards Board (FASB) to help ensure the accuracy and consistency of financial records and reports.

Income Statement: A report that summarizes the organizations activity of revenue and expenses during a specified time period. also referred to as the statement of activities, statement of changes in net assets or the profit and loss statement (p&l).

In-Kind Contribution: A contribution made of goods or services rather than cash.

Letter of Determination: A letter from the IRS to a not-for-profit organization stating that the IRS recognized the organization as a tax-exempt entity. In this document, the IRS indicates under which section of the Internal Revenue Code an organization is qualified.

Liabilities: What the organization owes.

Management and General Expense: Expenses for the general functioning of the organization, but not related to fundraising or programs.

Net Assets: The difference between the organization's total assets and its total liabilities on the balance sheet indicating the net financial worth for the organization (similar to equity in for-profit organizations). Divided into unrestricted, temporarily restricted and permanently restricted net assets.

Permanently Restricted Funds: Contributions that may never be spent by the organization. The most common are endowment gifts, which are invested and produce income that can be spent each year.

Pledge: A formal commitment to make a contribution of a specific amount. Also called, "promise to give" or "unconditional promise to give."

Prepaid Expense: An expense that is paid for before use of the good or service such as insurance paid in advance.

Release from Restrictions: Transfer of temporarily restricted funds into the organizations accounts when the restriction has been satisfied.

Reserves: An amount set aside by the organization to be used in case of losses, unexpected expense or emergency.

Restricted Funds: Contributions restricted by the donor for a specific use. The restrictions can be temporary or permanent in nature.

Temporarily Restricted Funds: Contributions given for a specific use or for use during a specific period of time. Once funds have been spent for the specified purpose or the period of time has lapsed the funds are released from restriction.

Unrestricted Funds: Contributions given without the donor placing any restrictions or limitations as to their use.

