

Carolyn,

I am puzzled over your comment about diverting ongoing revenue away from ESCR. Does this relate to the issue of including the registry in the Club's annual budget? If so, I think there are some significant misunderstandings. That discussion (including ESCR in annual budget) had nothing to do with diverting revenue, it was about recognizing it.

### **Background:**

Information on the registry's income & expenses was removed from the Treasurer's books as of 2010; following that, ESCR was no longer included in the Treasurer's financial reports (you will see a line item on the balance sheet -- ES Registry = 0 -- and nothing on the profit & loss report from 2010 - 2013).

There was no mention of this change in book-keeping and reporting to club members, nor - as far as I can tell -- did the Board actually vote on what was a SIGNIFICANT change in fiscal practices: the assumption by another Board member of the Treasurer's duties with respect to the Registry's finances.

Please note: the registrar's contract does NOT include acting as treasurer for the registry. That (registrar as treasurer) was specifically discussed AND REJECTED during the planning for the registrar's position. The Registrar's banking responsibilities are limited to **depositing payments**. Please see a copy of the Registrar contract if confused about this!!

### **Consequences:**

Following this change, it was no longer possible to track the Club's financial position by reading a Treasurer's report. In addition, the removal of the registry from the Treasurer's reports meant that it was no longer included in the Club's annual budget -- so, from 2010 to the present, the Board has not been authorizing registry budgets and/or approving registry expenditures.

This all may seem like irrelevant administrative detail. The current strife within the Board can be traced directly to this change in practices, however.

Below are some of my attempts to respond to some of the objections about recognizing ESCR in the Club's financial reports... perhaps some of these shed light on the conversation that has been going on within the Board. Sorry this is kind of long.

Please note: the confusion over how ESC & ESCR finances are reported that resulted in ESC

**completely omitting all the information on registry finances in our re-application to IRS in 2011 is STILL a problem.** The CT-12 filed with the state of Oregon this spring ALSO mis-reports our finances -- in this case, by counting the registry TWICE. At the end of 2013, ESC had roughly \$28,000 in total assets (12,000 + 16,000), NOT \$40,000 as was reported (12,000 + 12,000 + 16,000). At some point, the Board will need to amend our report to correct this mistake.

I do not see the present confusion getting resolved as long as problems are treated as personal failures or evidence of ill will.

~ Mary

#### **Re. including registry in annual budget:**

"Including ALL sources of funding and ALL operations in the Annual Budget approved by the Board does not mean that all revenue is dumped into one big pot and "mingled" to fund the various activities. It is common for nonprofit organizations to have dedicated funding streams for their different activities. Reporting all of those on the annual budget does not hide the different sources of funding & their uses -- it does the opposite. **It provides a clear picture of the organization's financial plan for the year.**"

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#### **Re. incomplete picture of finances resulting from removal of ESCR from Treasurer's reports:**

"As a member who was not privy to the insider view of a Board member, I can tell you it is/was IMPOSSIBLE to know what ESC's financial position was for the past 5 years -- there were NO financial reports at all many years, and **NEVER were ESC and ESCR financial reports provided in a way that allowed members to see the Club's position at any point in time.**"

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#### **Re. identifying source of funds using a functional budget:**

"Yes, we can have individual budgets for individual activities (membership, fundraising, publications, registry, health & genetics, administration)... all of those budgets get folded together in the annual budget authorized by

the Board.

**A unified budget does not imply a single source of funds for all activities.**

The simplest way to present a budget so that it is clear where source of funds for particular activities is to present the budget in a "functional budget" format. That would go a long way towards clearing up any **confusion about "mingling" of funds.** "

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**Re. Mis-reporting ESC Finances to IRS:**

"Michele,

Here is a very concrete example, from the English Shepherd Club, of how the failure to report the Registry's impact on ESC finances created a very PRACTICAL problem --

**In 2011, the IRS terminated the ESC's 501c3 status.** In order to restore the club's tax exempt status, the Board sent in documentation of our finances and activities. Please look at what was sent (it is in the Board files, under "IRS")...

**The financial reports sent to the IRS in 2011 completely left out the Registry's income, expense and assets.**

In other words, the ESC Board provided incorrect information on our finances to the IRS when trying to restore our tax exempt status. Given that the REGISTRY is the program that the IRS originally had concerns about (resulting in the refusal of our first application for c3 status), the fact that the Registry was omitted from the financials submitted to the IRS looks bad. **It makes it LOOK like the club was trying to conceal an activity that had the subject of earlier scrutiny.**

AGAIN -- I assume this was just an oversight...

At the very least, **we need to make sure that our reports are clear and correct from here on out.** Obviously there was confusion in 2011. From what I can see, there is confusion now. This isn't a complicated problem, and adding the registry to the club's statements does not imply ANYTHING about "mingling" funds. It simply acknowledges the fact that the registry IS part of our organization, contributing to our ability to achieve our mission.

Mary "