

BARBARA LAWRENCE & OUTI FLYNN

THE NONPROFIT
**POLICY
SAMPLER**

THIRD EDITION



BoardSource®

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Empowering Boards. Inspiring Leadership.

BoardSource envisions a world where every social sector organization has the leadership it needs to fulfill its mission and advance the public good. Our mission is to inspire and support excellence in nonprofit governance and board and staff leadership.

Established in 1988, BoardSource's work is grounded in the fundamental belief that boards are critical to organizational success. With decades of hands-on experience working with and supporting nonprofit boards, BoardSource is the recognized leader in nonprofit governance and leadership, and a go-to resource for nonprofit board and executive leaders. BoardSource supports a broad and diverse cross-section of social sector organizations with

- leadership initiatives addressing key opportunities and issues within the nonprofit sector
- research and benchmarking of board composition, practices, and performance
- membership and board support programs
- customized diagnostics and performance assessment tools
- a comprehensive library of topic papers, publications, and downloadable infographics, tools, templates and more
- live and virtual education and training
- governance consultants who work directly with nonprofit leaders to design specialized solutions to meet an organization's needs
- a biennial conference that brings together approximately 800 board leaders for two days of learning and sharing

A note to our global readers:

The need for effective board leadership and governance knows no geographic boundaries, and BoardSource is committed to strong social sector board leadership and governance around the globe. While BoardSource uses United States laws and policies as the legal framework for our resources and recommendations, most of our resources do not focus on legal matters but rather on good governance practices, making them relevant to organizations working outside of the United States. We do suggest, however, that you refer to applicable laws in your country regarding financial reporting and other legal and transparency issues.

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Policy Sampler, Third Edition

ACKNOWLEDGMENTS

No book is ever published without the support of colleagues and friends. *The Nonprofit Policy Sampler* is a unique compilation of business documents from more than 100 organizations around the country. Without their hard work in developing these documents and generosity of spirit in sharing them, we could not have created this collection. We thank them. To maintain confidentiality, we have removed all references to individual organizations in these samples.

BoardSource has a longstanding tradition of having its books peer reviewed. We took extra measures with *The Nonprofit Policy Sampler*, however, to ensure that our selection of sample documents was thoroughly vetted and of the highest quality. Nevertheless, BoardSource encourages organizations to have their policies reviewed and approved by their own professional advisors.

PREFACE

In his book, *Policy Management in the Human Services*, John Tropman defines policy as an idea that is embodied in a written document, is ratified by legitimate authority, and serves as a guide to action. The major policies of a nonprofit organization are created and ratified by its board of directors, are (or should be) written down in a policy manual for easy reference, are (or should be) reviewed frequently to see if they are up-to-date, and cover every aspect of the organization's business.

While bylaws are the foundation for the organization's structure, policies put meat on the bylaw bones to cover the myriad of situations that are not addressed in the bylaws. Many boards intentionally do not make bylaws very easy to amend so that fundamental structures need at least a majority or super-majority vote. Individual policies, however, are more flexible so that decision makers can respond to immediate needs and the majority of the board can establish and change policies. Policies are created for programs, financial management, fundraising, personnel management, public relations, committees, and board operations.

Policies are created at different levels and by different individuals or entities, depending on their ultimate purpose. The chief executive is responsible for drafting policies to guide operations and manage staff. Financial staff ensures that proper policies are in place to guide accounting practices and investment management. The board establishes policies to coordinate its own affairs and its oversight of the organization. Even if it is not directly involved in drafting the actual policies, the board must ensure that they exist, comply with the law, cover critical issues, and remain current. Because the board has ultimate responsibility and accountability for the organization, it needs to ensure that organizational policies at all levels are well documented and routinely followed.

The Nonprofit Policy Sampler is designed to help nonprofit leaders — board and staff — advance their organizations, make better collective decisions, and guide individual actions and behaviors. It contains sample policies, codes, committee charters, job descriptions, and other statements that will help boards move forward in the essential governance task of policymaking. Divided into 10 broad categories, it contains more than 300 samples addressing more than 70 issues. Each policy issue includes key elements, practical tips, multiple samples, and additional resources on the subject. *The Nonprofit Policy Sampler* — available in print and electronic formats, both with access to downloadable content — offers an array of different approaches for each organization to use as a starting point in developing its own policies.

INTRODUCTION

Policies are written rules, statements, principles, or directives for making decisions and taking action. Their purpose is to serve as a guide when the board carries out its governance duties and while staff conducts the organization's daily operations. Policies also establish a standard and recommended way of acting in challenging situations. They function as a protective mechanism for the organization and for individuals when a decision is questioned; those responsible can explain how they reached their conclusion by pointing to an approved policy that was followed.

For nonprofit organizations, policies are tools for setting priorities, making decisions, and defining and delegating responsibilities. Too often, policies are created to be sure a bad decision made during a crisis is never repeated. But, policymaking need not be reactive. In fact, it is far more effective when done proactively. It often begins with the need to address situations that are common to all organizations, such as conflicts-of-interest policies. It is also done preemptively to handle situations that are anticipated as part of a significant organizational change (such as starting an endowment) or opportunities that emerge over time (such as sponsorship). Boards that practice proactive policymaking can save themselves a great deal of anguish in a crisis situation that demands instant response.

Today's Form 990 has numerous questions related to governance issues and the presence of certain policies or practices. The IRS considers the presence of these policies or practices as indicative of an organization's attention to good governance. Even if these questions are not related to new legal requirements, it makes sense for an organization to be able to say that it has certain policies and processes in place as part of its governance structure. This book provides samples of the policies that interest the IRS.

CORE ORGANIZATIONAL DOCUMENTS

Policies are part of the core organizational documents that reflect how a nonprofit fulfills its mission and carries out its business in an orderly, legal manner. Defining policy and its place in an organization's structure is not always easy. In practice, it falls into a hierarchy of rules that flow from government regulation and other compliance requirements. The following structure is one way of understanding how policies relate to an organization's other operating guidelines:

1. The **articles of incorporation** are a legal document that outlines the general purpose and structure of the organization and its intent to operate exclusively with a nonprofit purpose. The articles are filed with the state (if and) when the nonprofit is incorporated. They usually follow a standard form and contain a minimum of detail because they are cumbersome to change. The articles must not contradict what the state nonprofit incorporation statutes indicate.
2. **Bylaws** establish the governance structure of a nonprofit. Following a fairly standard format, they define the duties, authority limits, and principal operating procedures for the board and board members. The highest level board policies are embedded in the bylaws. Revising bylaws requires following a specific process and approval by the membership (when that exists) or the full board. Thus, they too, should not contain overly detailed procedures or restrictions.
3. **Policies** come next in the hierarchy. They serve as operating guidelines at various levels. Some policies set out organizational guidelines for board and staff behavior, such as whistleblower and gift acceptance policies. Others supplement the bylaws and guide board practices and oversight procedures, such as investment, internal controls, and executive compensation policies. Still others direct staff operations, such as personnel and communications policies. Many policies not only apply to the work of the staff, but also have implications for the board.
4. A **resolution** is a specific board decision that describes an action to be taken or a principle to be adopted. Resolutions are specific to a particular board for a given situation. They range from broad statements about organizational values (such as protecting the environment) to elevated recognition of significant contributions (of exemplary board members or retiring staff, for example).
5. **Recommendations and guidelines** are often nonbinding but helpful suggestions for actions or behavior. Coming from the board, the language is more suggestive than directive, as it would be for a policy where the statement is clear and resembles an order. For example, after a lengthy discussion, the board might establish criteria to guide the staff in launching a new program; these criteria may not warrant a formal policy or procedure but will be taken into consideration.

6. **Procedures** define a process for implementing a general policy. There is often a blurry line between policies and procedures because it can be difficult to separate what gets done from how it gets done. In practice, policies should set the broadest parameters, and procedures usually would be handled by staff at the implementation level. But, because the process sometimes matters as much as the results — to ensure transparency, participation, and accountability — some procedures are treated more like policies.

PROPERLY FITTED POLICIES

The types and content of the policies that an organization adopts depend upon its context. Organizational size, complexity, and maturity inevitably shape policies. A smaller, relatively young organization with few staff may operate with simpler policies than those of a more established organization with a large staff and considerable financial resources. Policies should be selected based on what is appropriate for the organization at that particular time in its life. As an organization evolves, the board and staff should review its policies for relevance and update them as necessary.

Policies are also influenced by mission-based practices and community expectations. Museums need to manage their collections, social service agencies need to protect their clients, foundations need to oversee their investment portfolios, and associations need to address industry standards. While the nonprofit sector shares a set of generally accepted policies, each organization also operates within its own realm of practice. Again, the board and staff should ensure that policies are in keeping with the organization's particular circumstances.

Lastly, and importantly, policies may also depend on government regulations, which vary from location to location. Therefore, policies should not be treated as “off the shelf” clothing; each organization needs a tailor to make policies fit its unique situation. Professional advisors — lawyers, accountants, investment managers, and consultants — can be immensely helpful in developing appropriate policies and should be used.

POLICYMAKING

THE PLAYERS

It is a somewhat artificial dichotomy to simply say that boards make policy and staff implements it. Actually, depending upon the nature of the policy, the chief executive or even other staff may develop and implement policy without consulting or notifying the board. Policies established by the staff must support — and not

conflict with — organization-wide policies established by the board. However, this does not excuse the board from its responsibility to stay apprised of the organization's policies.

Usually boards are involved in setting the major policies and then delegate the standard operating procedures to staff, except in the area of board-specific policies. In staffed organizations, too much board involvement in establishing standard operating procedures for the staff risks board micromanagement. In all-volunteer organizations, however, the board is likely to be directly involved in defining and implementing all operating policies and procedures for the organization.

The chief executive and board are responsible for establishing policies regarding their governance roles and responsibilities. The macro issues of how the board operates — board size, officer positions, and committee structure — are usually set forth in the bylaws. But many micro areas are not, and should not be, covered in the bylaws, such as board member fundraising requirements and executive compensation. Boards need policies in these and other areas to clarify expectations and establish guidelines for handling the multitude of complicated situations that arise. Despite the considerable involvement of the chief executive, however, the ultimate policymaking responsibility belongs to the board.

THE PROCESS

A few organizations have diligently documented their policies over the years, and the board periodically reviews and updates them as necessary. Many, however, have accumulated policies haphazardly and maintain them in various places. And, alas, when dealing with a difficult issue, some suffer from the absence of policies and create them retroactively. Whatever the situation, the following key elements are part of a thoughtful, comprehensive approach to developing and maintaining organizational policies:

1. **Start with the end — an up-to-date, comprehensive policy manual — in mind.**

A manual — electronic and/or hard copy — puts all policy documents in one place, in writing. These policies should be shared with new board members during orientation, and board members should be encouraged to reference them appropriately throughout their tenure. For example, the board should establish policies on executive compensation and then review them when it comes time to conduct the chief executive's performance review. Likewise, all board members should sign their conflict-of-interest disclosure statement annually.

2. **Inventory and identify policies.**

Look first for policies in the organization's bylaws. Among the policies that you may find are mission statements, board officer duties, and committee charters. Extract clauses that are, themselves, policy statements or that relate

to policy issues. Then, search board meeting minutes from recent years for explicit policy decisions and examples of decisions that implicitly suggest policy.

3. **Develop an outline of core policies.**

Identify the main policy areas. The section headings in this book serve as a good starting point. In the end, the policies will cover a core set of issues common to all types of organizations, such as codes of ethics, and some that apply only to certain kinds of nonprofits, such as membership voting for associations and spending policies for foundations.

4. **Draft and discuss policy recommendations.**

Someone has to take the first steps: Collect and draft policies, identify the discussion issues for each policy, and compile the actual policy manual. Oftentimes, this responsibility is delegated to the governance committee or an ad hoc task force. Inevitably, it will require support from staff and professional advisors (e.g., lawyers, investment managers, accountants). No commitment to developing policy is real without a deadline for review and consideration. Allot time at board meetings to discuss and approve one or more policies.

The board should adopt each policy only after appropriate adaptation and thorough discussion. Ask: Does this proposed policy reflect the organization's values, mission, and goals? How often should it be monitored? Board members should define the policy in its own context, explore situations where the proposed policy will be used, consider what problems it will head off and what problems it might create, and discuss any concerns.

5. **Finalize and formalize policies.**

Approaches to policy document formats vary, and a number of formats are incorporated in this sampler. Common components of a (rather formal) policy document include:

- Organization name
- Policy number or policy area within hierarchy
- Policy name
- Introduction or statement of purpose
- Policy statement
- Definitions
- Examples
- Assignment of responsibility
- Monitoring and review schedule
- Date approved
- Date last modified

6. **Use the policies.**

Harder than crafting policies is bringing them to life. They should guide decisions and actions; they should not gather dust on a bookshelf but should be part of the organization's routine operations. They need to be accessible to staff for reference, at committee meetings for direction, and during key board deliberations for guidance.

7. **Review and update policies.**

Policies may change over time. In fact, if they don't, the board is probably neglecting them. Some changes are minor — fixing a typo or revising a date. Others are major — drafting a totally new policy or changing the approach in an older one. Policy review is more than just looking at the words of a document against basic regulatory requirements. More importantly, it ensures that the policy is being followed. Did the board review the chief executive's performance in a timely, thoughtful manner? Did the organization observe the gift acceptance policy with the new donor? To manage the daunting task of regularly reviewing policies, it may help to delegate the actual policy review to an appropriate committee or a special task force and to stagger the review cycles for different policies.

Unfortunately, nonprofit boards often spend precious time handling avoidable crises, micromanaging competent staff, or remaking decisions. In the end, time invested in making policy now frees up future time for the board to engage in work more productively and directly related to the mission. The purpose of policies, and the value of this book, is to help nonprofits improve their governance and thus increase their ability to achieve their mission — to make a difference.

HOW TO USE THE NONPROFIT POLICY SAMPLER

The Nonprofit Policy Sampler is a launch pad for making and revising policies. This thoroughly updated third edition contains more than 300 policies, codes of ethics, mission and vision statements, board member agreements, committee charters, and job descriptions; this represents an addition of more than 100 new items from the previous edition. An entirely new section on diversity and inclusion has been added because of the increased emphasis on this topic in the sector. Also another new section outlines board-specific policies that often get included in the bylaws. *The Nonprofit Policy Sampler* is available in print and electronic formats, both with access to downloadable content that may be customized for easy use by purchasers.

BoardSource acknowledges that *The Nonprofit Policy Sampler* is not a complete compendium of organizational or even board policies; rather, it is intended as a menu of choices to help nonprofit leaders jumpstart the essential governance task of policymaking. The samples reflect those most commonly found (and requested)

in the nonprofit sector. While the tool includes both governance and operational policies, the emphasis is on issues related to board roles and structure, as well as important organizational matters (e.g., personnel and public relations). Certain other organizational issues, such as program oversight and facilities maintenance, are so specific to individual organizations that they are not included here, although the board should be involved in reviewing and approving such policies.

The Nonprofit Policy Sampler includes mission, vision, and ethics statements that apply to board and staff members because they are an inherent part of an organization's institutional structure. This new edition covers many of the standard policy clauses in the bylaws. It also includes board member agreements, officer job descriptions, and committee charters that articulate assumptions and document expectations.

The introductory text for each category describes the general issues, highlights key elements in understanding the policies, and offers practical tips for creating and implementing the policies. It is followed by brief descriptions of the different samples provided in the downloadable content. When drafting or updating policies for your organization, we recommend reviewing all of the samples to better understand the different approaches and nuances of the issue.

BoardSource collected these policies and other documents from organizations of varying size, scope, mission, location, and tax-exempt status. Each of the policies has been edited to eliminate any reference to the organization responsible for its submission. Some policies are brief and general; others provide specific, detailed information. As samples from real organizations, rather than a singular standardized policy, they reveal the range of approaches nonprofit organizations use when setting policy. While *The Nonprofit Policy Sampler* has been vetted by a team of professional advisors and nonprofit practitioners, it is incumbent upon each organization to tailor its policies to its own situation and have them reviewed by professional counsel.

HOW TO ACCESS AND USE THE DOWNLOADABLE CONTENT

The downloadable content provides nonprofit leaders with a variety of different sample policies, statements, and job descriptions to choose from and customize. You may adapt these policies freely for your own needs, but the content is the copyright of BoardSource and is protected by federal copyright law. Unauthorized duplication and distribution of this downloadable content is in violation of that copyright. However, as a purchaser of this resource, you are entitled to save this information to your hard drive or make a backup CD in the event that the original files become corrupted.

The downloadable content may be found at:

boardsource.org/nonprofit-policy-sampler-content/

Password: dc_806_399

The documents have been provided in Microsoft Word 2010 (.docx) format. To customize a policy for a specific organization, simply use the search-and-replace function to replace the letters “XYZ” with the name of your organization. When customizing these documents, the user needs to consider the unique situation in which they are being used and make the necessary modifications. Throughout this resource, the term “board chair” has been used in place of “board president” and identifies the board’s principal leader. Likewise, the term “chief executive” is the chosen term in identifying an organization’s senior staff officer. The search-and-replace function can be used to customize each document with the appropriate terms.

PART I

Ethics and Accountability

1. Mission and Vision
2. Values
3. Code of Ethics
4. Diversity and Inclusion
5. Conflict of Interest
6. Confidentiality
7. Whistleblower Protection
8. Record Retention and Document Destruction

1. MISSION AND VISION

INTRODUCTION

The mission statement reflects the heart of the nonprofit organization. It explains why the organization exists and what it hopes to achieve in the future. It serves as the touchstone for all decisions and activities, whether carried out by the board, staff, or volunteers. The mission statement reflects the organization's essential nature, connects to its values, shapes programs and services, and provides the foundation for all fundraising activities. It is not a policy but a statement — the written expression of the organization's purpose that is referred to as a source of guidance and motivation.

The vision statement describes the future aspirations of the organization; it defines the dream, the long-term goals, and the overall direction of the organization. When crafting an effective vision statement, it is essential to focus on innovation and creativity while avoiding shortsightedness. The statement should not be based on future funding, obstacles, or current resources. Although the vision statement may describe an idealized goal, it should not be unrealistic; the best vision statements have reachable goals and serve to motivate the organization towards achieving these goals. A helpful way to think of a vision statement is as an outcome goal rather than as an organizational goal. For example, a food bank's vision statement might be "No one in our town will go hungry" rather than "Our food bank will feed everyone in need."

Two organizations may have similar vision statements but very different mission statements. For instance, a homeless shelter and a job-training center for the unemployed have quite different missions, but both seek to improve the lives of all community members.

KEY ELEMENTS

- A mission statement captures the issue the organization wishes to focus on and adds a simple, powerful statement of what the organization is doing to address the issue.
- A clear mission statement is inspirational yet realistic, emotional as well as informative, concise and complete. It is positive and focuses on achievable accomplishments.
- Some mission statements take a practical approach and define the difference the organization makes, for whom, and how. Others create an image with just a few words. Regardless of the approach, a mission statement should be easy to remember and share.

- A mission statement serves as the starting point for other overarching statements and goals, such as a tag line for marketing or a case statement for fundraising.
- The mission statement is always about purpose. The vision statement is about goals.
- A vision statement should not be so unrealistic and lofty that it seems impossible; it should outline a reachable goal.

PRACTICAL TIPS

- ✓ An organization's purpose is defined in its organization document, often briefly and broadly, to allow for programmatic flexibility — within certain parameters — over time. Consider developing a more compelling, more articulate mission statement for regular internal and external use.
- ✓ Be sure to use the mission statement as a tool when reaching out to constituents, recruiting board members and volunteers, convincing supporters of the difference the organization is out to make, and simply explaining the primary purpose and value of the organization to any potential or present stakeholder.
- ✓ Use the creation of the vision statement as a team-building tool. Have all board members share the ideals and values of what lies ahead for their work.
- ✓ Keep in mind the BHAG concept — dream about Big Hairy Audacious Goals.

SAMPLE MISSION STATEMENTS

The sample mission statements reveal different aspects of the organization through the way they are framed.

1. This simple, direct mission statement explains what the organization does and ends with a statement of a core value.
2. This straightforward mission statement defines the organization's goals and values.
3. This mission statement identifies various services and frames them within a common goal outlined in the last item. This, too, can be adapted easily to fit different types of organizations.
4. This mission statement inspires positive change beyond the organization's work.

SAMPLE VISION STATEMENTS

These vision statements vary from envisioning to inspiring major societal changes.

1. This vision statement inspires every individual to make a difference.
2. This vision statement envisions a better world.
3. This vision statement demonstrates compassion and is focused locally.

Suggested Resources

- Grace, Kay Sprinkel, Amy McClellan, and John A. Yankey. *The Nonprofit Board's Role in Mission, Planning, and Evaluation, Second Edition*. Washington, DC: BoardSource, 2009.
- Fisman, Raymond, Rakesh Khurana, and Edward Martenson. "Mission-Driven Governance." *Stanford Social Innovation Review*, Summer 2009.
- Hesselbein, Frances. *The Organization of the Future 2: Visions, Strategies, and Insights on Managing in a New Era*. San Francisco: Jossey-Bass, 2009.
- Independent Sector. "Checklist for Developing a Statement of Values and Code of Ethics." www.independentsector.org/code_checklist

2. VALUES

INTRODUCTION

Nonprofit organizations are mission-oriented and values-driven. As boards work to gain a sense of mission and create and reaffirm mission statements, it is imperative to know and express your organizational values. Values are embedded in the mission and vision of the organization; they should resonate with individuals who read the organization's materials or experience its products and services. Like a mission statement, a values statement is not a policy, yet it serves as a guide for the organization and its staff, board, and volunteers who deliver services to the community. It sets the standard for all aspects of the organization's programs and operations, from workplace environment and donor relations to client services and vendor relations.

KEY ELEMENTS

- An overarching theme can serve as a helpful starting point for articulating the organization's values. For example, a school for children with learning difficulties might specify a strong belief that "Having a language-based learning disability does not predict academic failure." And, a cancer support group might begin with: "People are not defined by their disease."
- A values statement should accurately reveal the organization's unique qualities and character. While values often seem universal, organizations should identify those principles and beliefs that are most important to their mission. When using common values — such as integrity, quality, trust — they should be tailored to the particular organization and the people or purpose it serves.

PRACTICAL TIPS

- ✓ The true benefit of values statements is the collective process and adoption of the values themselves. To make a values statement meaningful, the entire staff should be involved in the development phase. Active support and true ownership is always easier when those who must live by the rules have participated in their development.
- ✓ Involve the board appropriately in shaping the values statement. At the very least, the board will approve the final values statement and, of course, abide by it in its own deliberations and actions.
- ✓ In your values statement, incorporate the notion of inclusivity. Your personnel policies may already address equal employment opportunities (see Part VII: Personnel, Section 2), but nondiscrimination is a much broader, values-based issue. Include your customers, clients, and members, as well as board and vendors in a wider-ranging statement about inclusivity.

SAMPLE VALUES STATEMENTS

The first three values statements are clear and concise, beginning with a generic statement and ending with one that articulates values in terms of organizational practices. The fourth sample offers a policy related to inclusivity.

1. This example, which describes commonly articulated values, uses an acronym to aid in memorization.
2. This values statement distinguishes among the values that guide different aspects of the organization, from staff to services to the organization in general.
3. This sample begins with basic beliefs and then articulates how these beliefs are put into practice. It also addresses the unique role foundations play in philanthropy and the nonprofit sector.
4. This policy approaches the issue in terms of organizational inclusivity and extends to more than employment opportunities.

Suggested Resources

- Grace, Kay Sprinkel, Amy McClellan, and John A. Yankey. *The Nonprofit Board's Role in Mission, Planning, and Evaluation, Second Edition*. Washington, DC: BoardSource, 2009.
- Fisman, Raymond, Rakesh Khurana, and Edward Martenson. "Mission-Driven Governance." *Stanford Social Innovation Review*, Summer 2009.
- Hesselbein, Frances. *The Organization of the Future 2: Visions, Strategies, and Insights on Managing in a New Era*. San Francisco: Jossey-Bass, 2009.
- Independent Sector. "Checklist for Developing a Statement of Values and Code of Ethics." www.independentsector.org/code_checklist

3. CODE OF ETHICS

INTRODUCTION

There has been increasing concern about ethical behavior in nonprofit — particularly charitable — organizations in recent years. Public scandals in the nonprofit sector have drawn attention to the need for an increased level of board accountability. In response, many organizations have developed codes of ethics. These documents encompass the values of the organization and provide a code of conduct for employees and volunteers. While a values statement, discussed above, guides the organization in a strategic, fundamental way, codes of ethics shape the actions, behaviors, and decision making of an organization in a more explicit way. Although a code of ethics by itself cannot prevent wrongdoing, it conveys a strong message both internally and externally about the culture and work of the organization.

KEY ELEMENTS

- A code of ethics serves as an overarching statement for other policies that establish standards of integrity and accountability.
- A code of ethics should outline the process and/or mechanism for implementing the defined culture and values within the organization from top to bottom. Sometimes a values statement may be incorporated into the code of ethics.
- A code of ethics is often general in nature. Some issues, such as confidentiality, conflict of interest, and nepotism, may be addressed in separate policies (see list of contents to find samples of these more specific topics).

PRACTICAL TIPS

- ✓ Define what ethical behavior means for your organization, and clarify accepted professional standards.
- ✓ Separate staff and board issues. Board members and staff members often get confronted with different situations based on their role vis-à-vis the organization, its constituents, and the community at large.
- ✓ When discussing the code with staff and board members, it is often useful to provide examples of unacceptable behavior.
- ✓ As a way to stress the importance of the code, some organizations request a signature from board and staff members as a sign of understanding and acceptance of the standards.

- ✓ Once the code is established, it should be reviewed periodically by the staff and board for possible revision. In this way, the language of the code will continue to serve the expectations and needs of the organization.

SAMPLE CODES OF ETHICS

The six samples range from very general to exceedingly specific, with each reflecting the organization's values and culture.

1. This brief statement provides broad ethical guidelines and expectations.
2. This policy establishes a formal statement about promoting ethical conduct.
3. This sample is a short statement affirming that a high level of integrity and caring is expected from the board and staff.
4. This ethics policy sets an affirmative tone through the introductory phrase of "We will do the following."
5. This code of conduct sets its standard by stating what the board and key staff will not do. It also includes a signature line and reporting procedures.
6. This comprehensive code of ethics covers many aspects of organizational management and oversight, beginning with a statement of integrity and including a specific section on the board.

Suggested Resources

- "Compendium of Standards, Codes, and Principles of Nonprofit and Philanthropic Organizations." www.independentsector.org/issues/accountability/standards2.html
- Ethics Resource Center. www.ethics.org
- Paul, Sarah E. and Daniel L. Kurtz. *Managing Conflicts of Interest: The Board's Guide to Unbiased Decision Making, Third Edition*. Washington, DC: BoardSource, 2013.

4. DIVERSITY AND INCLUSION

INTRODUCTION

BoardSource believes that exceptional nonprofit boards recognize the role diversity plays in an organization's success. These boards see the correlation among mission, strategy, and board composition and understand that establishing an inclusive organization starts with establishing a diverse and inclusive board.

The purpose of a diversity statement is to publicly declare the commitment of your organization to welcome employees, board members, and any other individuals, vendors, or collaborators who — regardless of their background — help make the organization friendlier and more effective in meeting its goals.

It is not enough for the board to include members from diverse backgrounds. It is essential to create a culture where everyone feels valued, respected, and supported regardless of where they come from. Diversity describes our individual differences. Inclusion defines how we treat each other.

KEY ELEMENTS

- The board is responsible for drafting its own policies as well as those that guide the chief executive in handling major organizational issues. For diversity and inclusion, the tone starts at the top: It is up to the board to ensure that necessary policies and guidelines exist and that they are followed and enforced.
- Define the terms diversity and inclusion in your policy.
- Include guidelines for dealing with vendors, customers, clients, and any other individuals the organization interacts with.
- Indicate that the policy applies to all employment practices, including but not limited to recruitment, hiring, training and development, promotion, transfer, termination, layoff, compensation, benefits, social and recreational programs, and all other conditions and privileges of employment in accordance with applicable federal, state, and local laws.

PRACTICAL TIPS

- ✓ Do not expect any individual to represent a specific segment of society or a constituency. Focus on individuals who bring their knowledge, skills, experience, and sensitivities to your organization.
- ✓ Train staff and board on diversity issues and what that means in your organization. Have a skillful facilitator lead the discussion on sensitive issues.
- ✓ Use a matrix to identify the backgrounds and qualities you are seeking for the board.

- ✓ Some organizations address diversity and inclusion issues in the general ethics statement; however, having a separate policy emphasizes the importance of the issue.
- ✓ Include a diversity aspect in the evaluation of the chief executive's performance.

SAMPLE DIVERSITY STATEMENTS

These sample policies and statements address specific issues and broad concepts. Look at all of them to get ideas for writing your own policy.

1. This policy is a short statement of tolerance.
2. This statement is inspirational for all boards.
3. This statement expresses the board's desire to accept differences.
4. This sample is a statement on an organization's principles concerning diversity.
5. This sample policy is directed to vendors and other business affiliates and makes a statement that the organization supports minority-owned businesses.

Suggested Resources

- "Vital Voices: Lessons Learned from Board Members of Color." BoardSource Learning Center Community Resource. www.boardsource.org
- Jones, Allison. "Round-Up: Tackling Diversity in the Nonprofit." 2011. www.allisonj.org/2011/05/16/round-up-tackling-diversity-in-the-nonprofit-sector/
- Thurman, Rosetta. "More on Nonprofit Diversity: Rethink the Rules." www.rosettathurman.com/2011/05/rethink-your-rules/

5. CONFLICT OF INTEREST

INTRODUCTION

A conflict of interest exists when a board member or employee has a personal interest that may influence him or her when making a decision for the organization. While the law focuses primarily on financial interests and provides some guidelines, nonprofit organizations contend with a variety of potential and perceived conflicts of interest, only some of which may be detrimental to the organization. The key for nonprofit boards is not to try to avoid all possible conflict-of-interest situations, which would be impossible; rather, boards need to identify and follow a process for handling them effectively.

Both board members and employees must abide by conflict-of-interest policies. Generally, conflict-of-interest policies should clarify what a conflict of interest is, what board members and employees must do to disclose possible conflicts of interest, and what board members and employees should do to avoid acting inappropriately if and when a conflict of interest does arise. How an organization ensures open and honest deliberation affects all aspects of its operations and is critical to making good decisions, avoiding legal problems and public scandals, and remaining focused on the organization's mission.

KEY ELEMENTS

- Every organization needs a conflict-of-interest policy. Remember, conflicts of interest are not uncommon and not inherently illegal. Rather, they create situations that need careful attention and a process for handling them appropriately.
- Conflicts are not only financial in nature. Issue conflicts (for example, if a board member takes a position or supports another organization that is counter to the organization's mission and principles) may have to be addressed as well.
- Conflict-of-interest policies should be applicable to the board and key staff, at a minimum; they may also include other employees and key constituents with influence over the organization (e.g., major donors).
- A conflict-of-interest policy should clearly define a consistent process for dealing with conflicts. This process should include, at a minimum, disclosure and recusal. It also often includes the expectation for the board member in question to leave the room for the discussion and voting and, in extreme situations, to resign.
- Ultimately, the policy should clarify the consequences for violating the policy, which may include dismissal.

- Some organizations, instead of using the term conflict of interest, use a term duality of interest. A duality of interest recognizes that, under certain circumstances, even if a board member has multiple interests, those interests do not necessarily create a conflicting situation.

PRACTICAL TIPS

- ✓ Conflicts of interest are sometimes quite obvious and other times more obscure. To provide better guidance, consider including examples of what constitutes a conflict of interest for the organization. These examples may be lengthy, organization-specific, and/or distinguish among real, perceived, or potential conflicts.
- ✓ On the administrative side, determine who will maintain proper documentation of signed conflict-of-interest disclosure statements, as well as who has responsibility for determining whether or not an actual conflict of interest occurs. Often, these responsibilities are shared between the chief executive and a board committee.
- ✓ Keep in mind that many conflicts of interest arise unexpectedly and can't be “planned” for. They may only become apparent during board discussions on a specific topic
- ✓ Busy and engaged people, like board members, are involved in various activities in the community, and these affiliations are likely to collide at times. At least annually, consider requiring board and staff members to disclose — in writing — any relationships that might constitute a conflict of interest. By openly and preemptively disclosing these potentially conflicting connections, the organization is better able to carry out proper due diligence.

SAMPLE CONFLICT-OF-INTEREST POLICIES

The extensive collection of samples provides a range of policies and forms, giving everything from general guidance on issues related to standards of operation, to detailed examples of conflicts of interest, processes for disclosure, and even foundation-specific guidelines.

1. This brief policy provides general guidelines and definitions related to conflicts of interest.
2. This solid example of a conflict-of-interest statement begins by explaining why a conflict-of-interest policy is important, and then defines key components of the policy and the process for handling conflicts.
3. This comprehensive conflict-of-interest policy follows a traditional legal format and is recommended by the IRS. Part V, section 5 of IRS Form 1023 defines who and what constitute a conflict of interest, asks questions to

determine if the organization has procedures on handling conflicts, and makes recommendations on creating a conflict-of-interest policy if one does not exist.

4. This sample is a disclosure form, asking individuals to list their affiliations with other entities that might potentially affect their independent decision making.
5. This more comprehensive disclosure statement is designed to also identify potential conflicts of interest based on a more expansive definition of affiliated persons.
6. This policy acknowledges a duality of interest separate from a conflict of interest and includes a disclosure form.
7. This conflict-of-interest policy begins with a set of “whereas” clauses to provide the context for its policy, then presents the actual policy as a resolution, and concludes with an appendix with organization-specific examples of what does and does not constitute a material conflict of interest.
8. This detailed policy recognizes the potential of structural conflicts, defines the situations with clarity, outlines the entire board process, and includes an annual disclosure form.
9. This sample policy is specifically for foundation boards, which need to have a clear policy and process in place for handling conflicts that arise when board members and staff are affiliated with potential grantees. It also has two elements that may be useful for all nonprofits — guidelines for recording conflict-of-interest proceedings and issues of compensation.
10. This sample policy comes from a community foundation and includes a disclosure form for trustees to record their involvement in other community businesses and nonprofits.

Suggested Resources

- Paul, Sarah E. and Daniel L. Kurtz. *Managing Conflicts of Interest: The Board’s Guide to Unbiased Decision Making, Third Edition*. Washington, DC: BoardSource, 2013.
- Brauer, Lawrence M. and Charles F. Kaiser, III. “Tax-Exempt Health Care Organizations Revised Conflicts of Interest Policy.” www.irs.gov/pub/irs-utl/topice00.pdf
- BoardSource. “Conflicts of Interest at Foundations: Avoiding the Bad and Managing the Good.” Washington, DC: BoardSource, 2005. BoardSource Learning Center Member Resource. www.boardsource.org

6. CONFIDENTIALITY

INTRODUCTION

Nonprofit leaders may find themselves challenged to discover the right balance between transparency and confidentiality. Nonprofit organizations are required by law to disclose certain information, such as their particular IRS Form 990. In addition, many states have sunshine laws — open meeting laws — that require certain nonprofits to make at least some portions of their board meetings open to the public.

Beyond that, it becomes more complicated. On the one hand, it is often in an organization's best interest to share information with donors, stakeholders, and the general public in order to demonstrate its positive impact on the community. On the other hand, nonprofit organizations operate in a demanding and competitive environment. Like any business, they need to plan, manage, and oversee their operations internally on a regular basis. Part of the board's duty of loyalty is to maintain the confidentiality of core organizational information.

Nonprofit organizations often deal with sensitive information about clients, donors, employees, and volunteers. Confidentiality policies are important to an organization's credibility and reputation, and both board and staff should understand their responsibilities in this area.

KEY ELEMENTS

- Boards are often exposed to confidential information critical to the well-being of the organization. Information that generally is considered confidential and/or privileged includes: planning documents (includes budget); business and legal negotiations; client, customer, and patient records; personnel files; anonymous donor records; security guidelines; and any other matters discussed in executive sessions.
- For some nonprofits, because of their service area (e.g., domestic violence) and/or organizational complexity (e.g., hospitals), it is more efficient to proactively categorize certain documents and information as confidential. For other organizations, the board may, in briefing packets and during meetings, identify specific items that are confidential, thereby reminding board members of their commitment to confidentiality. Taken further, the board may vote on whether certain sensitive issues and/or discussions are confidential in nature.

PRACTICAL TIPS

- ✓ Acknowledge the contradiction between confidentiality and transparency broadly. At the same time, educate board and staff about nonprofit public disclosure requirements. Explain that confidentiality, when properly adhered to, does not contradict the organization's need to remain publicly accountable for its actions.
- ✓ Make the confidentiality policy part of the board member and new staff orientation.
- ✓ Discuss the reasons for confidentiality. By understanding the purpose, it is easier to abide by the policy.
- ✓ Connect the confidentiality policy to board members' duty of loyalty, which obligates them to act in the best interest of the organization.
- ✓ Ensure that client privilege for confidentiality is respected. Do not share any information that relates to your clients — even identification of who they are, under certain circumstances. Confidentiality should be automatic in the case of lawyer-client or accountant-client relationships.
- ✓ In the confidentiality policy, recognize legal requirements for confidential records (e.g., HIPAA, personnel files, national security).

SAMPLE CONFIDENTIALITY POLICIES

The six confidentiality policies range from overarching guidelines to detailed documents, and they take into account some concerns specific to certain kinds of nonprofits.

1. This very brief policy is a basic statement of values relating to confidentiality.
2. This general policy provides board and staff members with broad guidelines for handling confidential information.
3. This policy identifies particular information that is confidential, and includes a disciplinary policy for staff. While parts of it are specific to membership organizations, the scope and intent of it is relevant for all organizations.
4. This policy provides more specificity about what information must be kept confidential. While parts of it are specific to foundations and their grantees, the scope and intent of it is relevant for all organizations.

5. This more specific policy outlines what information (e.g., names and addresses) and documents may not be disclosed. A few items are specific to community foundations, but the level of detail could be easily adapted for other nonprofits.
6. This confidentiality policy explicitly states what information employees are prohibited from disclosing during and after their employment, and it requires a signature.

Suggested Resources

- Paul, Sarah E. and Daniel L. Kurtz. *Managing Conflicts of Interest: The Board's Guide to Unbiased Decision Making, Third Edition*. Washington, DC: BoardSource, 2013.
- Nathan, Charles M. "Maintaining Board Confidentiality." Blog posted on January 23, 2010 at the Harvard Law School Forum on Corporate Governance and Financial Regulation. <http://blogs.law.harvard.edu/corpgov/2010/01/23/maintaining-board-confidentiality/>
- "Executive Sessions: How to Use Them Regularly and Wisely." BoardSource Learning Center Member Resource. www.boardsource.org

7. WHISTLEBLOWER PROTECTION

INTRODUCTION

The Sarbanes-Oxley Act of 2002 makes it a federal crime for any organization — nonprofit and for-profit — to retaliate against a “whistleblower” who reports illegal or unacceptable (alleged or real) activity. It also requires publicly traded companies to establish a confidential process for reporting misuse of the organization’s financial assets.

In practice, it is difficult to separate the prohibition against retaliation from the reporting process. So, most whistleblower policies address both. They are also being used to address other improprieties, such as discrimination and sexual harassment. Individuals who witness any kind of unsuitable behavior must feel free to speak out. Nonprofit leaders — board and senior management together — should take complaints seriously, undertake an investigation, and rectify the situation.

KEY ELEMENTS

- The whistleblower policy should state, unequivocally, that fraudulent actions are not tolerated. It may also apply to other improprieties.
- A confidential reporting mechanism sends a message to the entire staff that fraud is not tolerated and that whistleblowers are protected. That mechanism might be automated, such as online services or phone lines. Or, it may include a hierarchy of levels within the organization, from the human resource manager and the chief executive to the audit committee and the board chair.
- To help supervisors handle sticky situations, clarify the hierarchy for solving internal conflicts. Staff members should contact the board directly with alleged ethical, illegal, or fraudulent actions by the chief executive or when it is impossible to get management’s attention in a serious situation.
- Having clear policies that are consistently enforced will help prevent employee complaints. Such policies help supervisors ensure equitable and fair treatment of employees.

PRACTICAL TIPS

- ✓ To ensure clarity, provide definitions in the whistleblower policy that range anywhere from identifying what allegations are governed by the policy to what constitutes retaliation.

- ✓ The policy should also outline a clear and consistent practice for reporting alleged violations. This process should be explicit about how and to whom complaints are submitted.
- ✓ A whistleblower policy functions as an extension of a code of ethics and a parallel process to complaint procedures. In developing the policy and the process, consider its relationship to these other policies.

SAMPLE WHISTLEBLOWER PROTECTION POLICIES

The four samples provide different approaches to reporting procedures, whistleblower protection, and defining fraudulent activity versus misbehavior.

1. This policy is written in simple language and focuses on the intent behind whistleblower protection.
2. This sample provides clear definitions and provisions for handling allegations of misconduct while protecting the organization under difficult circumstances.
3. This sample expands the list of improprieties that are subject to the whistleblower policy to include fraudulent actions *and* actions that violate other codes of conduct.
4. This policy provides a description of reporting procedures in further detail.

Suggested Resources

- BoardSource and Independent Sector. “The Sarbanes-Oxley Act and Its Implications for Nonprofit Organizations.” Washington, DC: BoardSource and Independent Sector. www.independentsector.org/uploads/Accountability_Documents/sarbanes_oxley_implications.pdf
- Zuckerman, Jason. “Whistleblower Protections in the Nonprofit Sector.” Nonprofit Risk Management Center. www.nonprofitrisk.org/library/articles/employment091005.shtml
- Eaton, Tim V. and Michael D. Akers. “Whistleblowing and Good Governance.” *The CPA Journal* 2007. www.nysscpa.org/cpajournal/2007/607/essentials/p58.htm

8. RECORD RETENTION AND DOCUMENT DESTRUCTION

INTRODUCTION

Record retention and document destruction are distinct but complementary issues. Record retention balances the need for an organization to maintain accurate and appropriate files with the challenge of limited physical and electronic space for archives. All businesses need to keep documents that preserve institutional history for strategic planning, regulatory compliance, and legal purposes.

The Sarbanes-Oxley Act of 2002 forbids purging of documents when any organization — nonprofit or for-profit — is under federal investigation. Document destruction policies provide guidelines for the proper disposal of records and prevent destruction of relevant documentation if the organization is involved in litigation.

It is a federal crime to alter, cover up, falsify, or destroy any document to prevent its use in an official proceeding. Retention and destruction policies are helpful under any circumstances. When already in place, these policies not only help nonprofits retain appropriate historical and legal documentation, but they also clarify the steps to take if federal investigation ever takes place.

KEY ELEMENTS

- The document retention policy should cover employee records, accounting and tax records (e.g., bank statements, audits, IRS forms), legal documents (e.g., articles of incorporation, tax-exempt application, the determination letter, contracts, intellectual property documents, real estate records), board-related records (minutes, policies, resolutions), and e-mails and voicemails.
- In some cases, the applicable retention period is dictated by statute. In other cases, it is a matter of judgment. (Accordingly, in a few cases, the recommended retention periods for the sample policies may differ slightly.)
- When under federal investigation or where litigation is either ongoing or imminent — or even if that becomes a possibility — state clearly that all document destruction must stop and documents must be preserved.

PRACTICAL TIPS

- ✓ State that the purpose of the policy is to help establish organizational procedures for the retention, maintenance, and destruction of records, consistent with applicable legal requirements.
- ✓ Indicate the legal and/or desired retention periods for all records (and double check with legal counsel regarding retention periods for your unique organization).

- ✓ Retention of various business documents is mandated by law. Become familiar with these requirements, as the retention period varies depending on the document.
- ✓ Equal care should be given to electronic documents and voicemail. Network and individual computer backup systems need systematic attention and should be part of regular risk-management.
- ✓ Maintain a good filing system. Categorize various records appropriately so they are easy to find. Purging old, outdated documents is also a good practice.

SAMPLE RECORD RETENTION AND DOCUMENT DESTRUCTION POLICIES

The four samples address both record retention and document destruction guidelines, with two policies focusing on retention specifically, one on destruction, and one on both issues.

1. This brief document retention policy is framed as part of compliance with Sarbanes-Oxley; it includes a list of documents and time periods.
2. This straightforward policy — relevant to for-profit companies but helpful because of its additional details — provides more specific guidance for different kinds of documents, and it requires an employee’s signature.
3. This straightforward policy covers both document retention and destruction.
4. This short policy provides explicit guidelines on how to destroy documents containing confidential information, which is particularly important for certain kinds of health and social service providers that are subject to government regulation regarding client privacy.

Suggested Resources

- “The Sarbanes-Oxley Act and Its Implications for Nonprofit Organizations.” Washington, DC: BoardSource and Independent Sector. www.independentsector.org/uploads/Accountability_Documents/sarbanes_oxley_implications.pdf
- Lexis Nexis, Applied Discovery. “Document Retention & Destruction Policies: What You Don’t Know *Can* Hurt You.” www.lexisnexis.com/applieddiscovery/lawlibrary/whitePapers/ADI_WP_DocRetentionDestruction.pdf

PART II

Role of the Board

1. Role of the Board
2. Board Member Agreements
3. Board Chair Job Descriptions
4. Other Board Officer Job Descriptions

1. ROLE OF THE BOARD

INTRODUCTION

The work of the board is guided by the policies it establishes. Policies relating to the overall role of the board remind board members that they are part of a group with authority over, and liability for, the organization. These policies often involve duties of the board as a whole and/or of individual board members. While these documents take many forms — from general lists, to job descriptions, to letters of understanding — they serve a common function: to clearly communicate the board's responsibilities as a governing body (See Section 2, Board Member Agreements).

KEY ELEMENTS

- Defining accountability for the organization is a key element in defining the board's role.
- While there are many ways to describe the role of the board, its fundamental responsibilities derive from three duties — care, loyalty, and obedience. These duties mean that board members must make prudent, educated, and independent decisions; place the organization above their personal preferences; and remain faithful to the mission of the organization.
- The policy should speak to the board as a group with collective duties. Board responsibilities fall into three broad areas: setting direction, overseeing the affairs of the organization, and ensuring adequate resources.

PRACTICAL TIPS

- ✓ Draft these policies to include legal requirements, but frame and style them according to your own board culture.
- ✓ Realize that policies evolve as the organization and the board evolve. Start with the basics but ensure that these documents are constantly reviewed and amended, and new policies are added as they become relevant.

SAMPLE ROLE OF THE BOARD STATEMENTS

The sample policies provided range in style, offering different approaches. Some focus on the team only, some include specific responsibilities of individual board members, some stress accountability, and others spell out general expectations.

1. This short statement defines the role of the board and sets clear expectations for board members.
2. This board code of conduct provides standards for what is expected of individual board members.

3. This statement is a well-organized list of responsibilities for the full board.
4. This statement elaborates on general and individual board responsibilities by outlining the areas of board focus and stating detailed expectations for fundraising and committee service.
5. This list of board responsibilities defines the board's role in key activities, sets expectations of individual board member participation, and outlines basic board operations (e.g., number of meetings, conflicts of interest, etc.).

Suggested Resources

- BoardSource. *The Source: Twelve Principles of Governance That Power Exceptional Boards*. Washington, DC: BoardSource, 2005.
- Chait, Richard P., William P. Ryan, and Barbara E. Taylor. *Governance as Leadership: Reframing the Work of Nonprofit Boards*. Hoboken, NJ: John Wiley & Sons, 2005.
- Hopkins, Bruce R. *Legal Responsibilities of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- Ingram, Richard T. *Ten Basic Responsibilities of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.

2. BOARD MEMBER AGREEMENTS

INTRODUCTION

A board member agreement is the promise a board member makes when accepting a position for nonprofit board service. It is not a legal document but an internal agreement, asserting the board member's commitment to the organization in addition to an understanding of the general board responsibilities (as discussed in Section 1, Role of the Board). These documents can be useful tools for recruitment purposes in that they clearly state what board service is all about; sometimes, they supplement more holistic board job descriptions.

KEY ELEMENTS

- A board member agreement may list specific expectations for board service. Commonly found items include fundraising and personal giving, activity in committees, attendance in meetings, and promises to keep confidential issues confidential.
- If the organization has a separate job description for the board and/or board members, this agreement often focuses on individual pledges to serve as an active and committed member of the board.
- It should be clear that regardless of whether board members sign any type of “contract” with a nonprofit organization, state nonprofit corporation laws in all states automatically impose certain fiduciary duties on nonprofit board members. Board members should be made aware of those legal duties and obligations when they assume their positions. (The typical fiduciary duties imposed by law include the duty of care and the duty of loyalty, as discussed in Section 1, Role of the Board, and both of which require a certain level of diligence and prohibit conflicts of interest.)

PRACTICAL TIPS

- ✓ The tone of the document should reflect the organization's values and the board's culture. What this document is called — contract, agreement, statement of understanding — will shape its style and presentation.
- ✓ Individual board members are often asked to sign the document to stress the importance of their commitment. They may do this once, when they join the board, or it may be an annual reaffirmation.

- ✓ To avoid the sense of one-sided expectations, it is useful to include in the agreement what the organization provides for the members of the board: protection from liability through D&O insurance coverage, accurate and timely reports to facilitate decision making, and gratitude and appreciation for the volunteer service.

SAMPLE BOARD MEMBER AGREEMENTS

The samples provide options for stressing the importance of board member expectations, in addition to the basic roles and responsibilities of the board. As suggested above, some also include the organization's commitment back to the board member.

1. This brief board member job description translates general board duties into individual board member expectations.
2. This short contract begins with the organization's commitment to the board and then outlines expectations of board service.
3. This brief statement of understanding uses a series of "I will" statements.
4. This lengthier sample covers general responsibilities, but also establishes minimum financial contributions and an expectation to resign if a board member is no longer able to adhere to this contract.
5. This document stresses the moral, fiscal, and legal role of board members. Besides listing expectations of individuals, it also states what the organization will provide in return.

Suggested Resources

- Lakey, Berit M. *The Board Building Cycle: Nine Steps to Finding, Recruiting, and Engaging Nonprofit Board Members, Second Edition*. Washington, DC: BoardSource, 2007.
- Ingram, Richard T. *Ten Basic Responsibilities of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- Lakey, Berit M., Sandra R. Hughes, and Outi Flynn. *Governance Committee*. Washington, DC: BoardSource, 2004.

3. BOARD CHAIR JOB DESCRIPTIONS

INTRODUCTION

The job of the board chair is one of the most challenging roles in the nonprofit world. A successful chair inspires a shared vision for the organization and its work, builds and nurtures future board leadership, and manages the work of the board. This position demands exceptional commitment to the organization, first-rate leadership qualities, and personal integrity. For many boards, success may rest heavily on the individual chosen to lead it.

KEY ELEMENTS

- As the chief volunteer officer, the board chair's duties run from managing the board to working closely with the chief executive. Additional duties may relate to his or her role as a spokesperson for the organization. If the board has an executive committee, the board chair also chairs this committee.
- In functioning as the team leader of the board, the board chair sets goals for the board, involves all board members in the work of the board (during meetings and through committee assignments), serves as the contact for all board members on board issues, and facilitates board meetings.
- In working closely with the chief executive, the board chair may be assigned responsibility for managing the overall board-chief executive relationship, such as developing meeting agendas and coordinating the executive's annual performance review.

PRACTICAL TIPS

- ✓ The chair's role is usually defined in the bylaws, but a separate job description should be created to outline the duties in more detail.
- ✓ The official title of the chief volunteer officer varies from organization to organization. The terms "chair" and "president" are one in the same, and the organization's bylaws should dictate which is used. The most common — and least confusing — title is that of "chair." This prevents confusion with the chief staff officer, who may have a title of president and chief executive officer. Also, a title of "chair" accommodates both men and women board leaders.
- ✓ If the expectations for the board chair become too demanding and the position too time-consuming, it will be difficult to recruit new chairs. Often, some of the responsibilities and tasks can be shared with other board officers to make the position more reasonable for a volunteer.

SAMPLE BOARD CHAIR JOB DESCRIPTIONS

The seven job descriptions run the gamut from brief and broad to formal and focused.

1. This bylaws clause broadly defines the role of the board chair.
2. This short statement lists the main duties of the chair as they relate to the functions of the board.
3. This brief sample clarifies the authority of the chair as the leader of the board and the manager of board practices.
4. This basic list outlines expectations for the chair of an organization that does not have a large staff.
5. This brief job description elaborates on core board chair duties towards the organization, chief executive, board process, and community.
6. This more comprehensive job description outlines the various functions of the board chair position in relation to overall board responsibility categories.
7. This detailed job description addresses all aspects of the board chair's position, from purpose to qualifications.

Suggested Resources

- BoardSource. *The Source: Twelve Principles of Governance That Power Exceptional Boards*. Washington, DC: BoardSource, 2005.
- Wertheimer, Mindy R. *The Board Chair Handbook, Third Edition*. Washington, DC: BoardSource, 2013.
- Ingram, Richard T. *Ten Basic Responsibilities of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- “Ten Essential Responsibilities of Foundation Board Chairs.” BoardSource Learning Center Member Resource. www.boardsource.org

4. OTHER BOARD OFFICER JOB DESCRIPTIONS

INTRODUCTION

The most common board officers, beyond the chair, are vice chair, secretary, and treasurer. These positions are most frequently defined by state laws. The law may also indicate whether one individual can hold more than one officer position. In addition, some organizations have a chair-elect, which is one way to secure future leadership for the organization.

Specific officer duties may vary greatly from board to board. Particularly as the organization hires new and different staff, it is important to review and update officer job descriptions to reflect any changes in their focus. The objective is not to turn board officers into staff supervisors or duplicate any management functions.

KEY ELEMENTS

- **Vice Chair:** The office of vice chair provides the board with additional and substitute leadership. The vice chair generally fills in for the chair when the chair is absent and/or must leave the position permanently and without warning. The vice chair often takes on special projects, and some boards may divide various duties among two or more vice chairs.
- **Chair-Elect:** In some cases, a board may determine a candidate to succeed the board chair before the chair's term in office has concluded. The chair-elect may be given specific tasks, such as heading up the strategic planning task force. This position may provide a useful leadership development training ground and help to ensure a smoother transition when he or she assumes the role of board chair. In many professional associations, the chair-elect may be elected or appointed by the membership at large.
- **Treasurer:** The key volunteer financial management role in nonprofit organizations is the treasurer. The treasurer is responsible for overseeing financial operations to make certain that things are done in an appropriate fashion. In staffed organizations, the financial records are kept by the chief financial officer, comptroller, or accountant. In smaller organizations the treasurer may have hands-on responsibilities.
- **Secretary:** Depending upon the organization's size and staff, the job of recording minutes can fall to either a board member or a staff member. In the event that a staff member fills the position, the board's official secretary should review the minutes prior to distribution. In addition, the board secretary acts as the custodian of the board's records, although in most circumstances the board's important documents are kept in the organization's offices.

PRACTICAL TIPS

- ✓ As in the case for the chair, the primary roles for these positions are generally defined in the bylaws; however, consider creating separate job descriptions to describe the specific responsibilities of the officers.
- ✓ On some boards, the individual serving as vice chair may naturally assume the role of chair. In order for this assumption to be automatic, it must be defined that way in the board's policies.
- ✓ It is possible, and increasingly common, to combine the secretary and treasurer into one officer position. However, separate individuals should hold the chair and treasurer positions.
- ✓ Particularly for reasons of accountability and balance, and increasingly to meet the requirements of the nonprofit corporation laws of some states, consider appointing an audit committee to act as the main liaison to the outside auditor, electing someone other than the treasurer to serve as chair of the finance committee.
- ✓ As the organization grows and financial staff is added, the role of the treasurer will change. Make sure the bylaws reflect this change.

SAMPLE JOB DESCRIPTIONS FOR OTHER BOARD OFFICERS

The sample job descriptions include variations on common themes, with the first in each category capturing the basic responsibilities of that position.

1. This very brief job description defines the purpose of the vice chair simply as presiding over the board in the chair's absence.
2. This short job description defines the role of the vice chair as supporting the chair.
3. This sample delegates specific responsibilities to the chair-elect, including acting as liaison to the organization's chapters, if applicable.
4. This brief job description outlines responsibilities commonly assigned to the treasurer and includes chair duties for the finance committee.
5. This sample provides a detailed list of tasks for the treasurer, including working with the organization's regional chapters, if any.
6. This document is a full-fledged job description for a board treasurer, complete with qualifications and opportunities for leadership development.

7. This job description outlines fiscal duties assigned to the treasurer in an all-volunteer organization.
8. This short sample assigns the treasurer role to the chief staff financial officer. This position is a nonvoting board position.
9. This job description focuses on the secretary's responsibility for documenting board meetings.
10. This job description frames the duties of the secretary as the custodian of organizational documents.
11. This sample delegates certain secretarial responsibilities to a staff member who serves as a nonvoting member of the board.

Suggested Resources

- Dambach, Charles, Melissa Davis, and Robert L. Gale. *Structures and Practices of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- BoardSource. *The Nonprofit Board Answer Book, Third Edition*. San Francisco: Jossey-Bass, 2012.

PART III

Board Practices

1. Board Terms
2. Size of the Board
3. Compensation of Board Members
4. Board Member Expense Reimbursement
5. Board Self-Assessment
6. Election of Officers
7. Board Member Removal
8. Board Sabbaticals
9. Board Vacancies
10. Chief Executive on Board
11. Quorum for Board Meetings
12. Special Meetings
13. Virtual Meetings and E-voting
14. Notice of Meetings
15. Executive Sessions
16. Indemnification
17. Dissolution

1. BOARD TERMS

INTRODUCTION

Renewal is essential to the productivity and wellness of a board. Implementing term limits prevents stagnation and allows for the introduction of new ideas; even the best of boards require new ideas to encourage creativity and innovation.

According to the recent *BoardSource Nonprofit Governance Index*, the most common length of a full term is two to three years, renewed once or twice. This provides adequate time for a member to learn the ropes and get fully engaged.

Often it is difficult to let a particularly committed board member go, but there are numerous ways a former member can remain connected. For example, you can form special advisory groups for board members whose advice and assistance you want to rely on or invite these individuals to serve on committees or take leadership roles in your events or other outreach activities.

KEY ELEMENTS

- Ensure that you do not lose all or a majority of board members at one time. This can be avoided by installing staggered terms. For example, renew one-third of the board annually.
- Differentiate between term length and number of terms a board member can serve.
- Consider different terms for officers and board members to provide more opportunities for leadership positions.

PRACTICAL TIPS

- ✓ Never renew a term without evaluating the board member's prior performance. Otherwise, you risk nullifying the entire effect of term limits.
- ✓ Use a spreadsheet or form to keep track of your board members' terms.
- ✓ Determine how to keep valuable retiring board members involved with the organization.
- ✓ Use term limits as a graceful way to remove board members who are less productive.

SAMPLE BOARD TERM POLICIES

The samples emphasize a staggered system to ensure that organizational memory is retained on a regular basis.

1. The first sample initiates a staggered term structure.
2. This sample provides the opportunity for trustees to return to the board after a break in service. This model allows for new blood, but also for extended service by particularly dedicated people.

Suggested Resources

- Dambach, Charles, Melissa Davis, and Robert L. Gale. *Structures and Practices of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- BoardSource. *The Nonprofit Board Answer Book, Third Edition*. San Francisco: Jossey-Bass, 2012.
- Tesdahl, D. Benson, Esq. *Better Bylaws: Creating Effective Rules for Your Nonprofit Board, Second Edition*. Washington, DC: BoardSource, 2010.

2. SIZE OF THE BOARD

INTRODUCTION

The size of your board is less important than the composition of your board and how well each member accepts the responsibilities of board service and is fully engaged in that work.

When building your board, ensure that you define diversity in the broadest sense possible. Do you have the right mix of backgrounds, skills, expertise, attitudes, and perspectives? By drafting and maintaining a board profile matrix, you can be strategic about your recruitment efforts and focus on securing the attributes that your board needs the most in its members at any given time.

KEY ELEMENTS

- Quality is more important than quantity. Assess the needs of your board before settling on the number of board members required.
- Every state has a statute limiting the minimum size for the board. This number varies from one to three. Remember that this is a legal reference and not necessarily a good practice. Few boards manage to reach their potential with so few members.
- Sometimes board size is influenced by mandates. The board may need to fill specific quotas or an outside authority may have the right to nominate board members. Reflect on these requirements periodically to determine if they need tweaking.

PRACTICAL TIPS

- ✓ If your state laws do not prevent it, set a range for the size of your board in your bylaws. This allows you to address a sudden loss of members or take advantage of unexpected promising candidates.
- ✓ Periodically discuss your board's optimal size. Try to justify decreasing or increasing the number of board members.

SAMPLE BOARD SIZE POLICIES

These sample policies state the minimum and/or the maximum size for the board.

1. This is a short, straightforward policy.
2. Sometimes, a board qualifies membership by age, regional representation, organization membership, or other characteristics. This policy does not mention minimum size.

Suggested Resources

- Dambach, Charles, Melissa Davis, and Robert L. Gale. *Structures and Practices of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- BoardSource. *The Nonprofit Board Answer Book, Third Edition*. San Francisco: Jossey-Bass, 2012.
- Tesdahl, D. Benson, Esq. *Better Bylaws: Creating Effective Rules for Your Nonprofit Board, Second Edition*. Washington, DC: BoardSource, 2010.
- “Does Board Size Really Matter?” BoardSource Learning Center Member Resource. www.boardsource.org

3. COMPENSATION OF BOARD MEMBERS

INTRODUCTION

Unlike individuals who serve on boards of for-profit corporations, nonprofit board members are volunteers who are not usually compensated for their time. However, many boards have policies authorizing reimbursement of certain expenses. And, in some organizations, the full board or senior board officers may receive compensation for their services.

The full board should discuss at length any decision related to board member compensation. This information appears in the Form 990.

KEY ELEMENTS

- A compensation policy either states clearly that compensation is not provided or outlines acceptable fees for board service. Separate policies address reimbursement for expenses (see the next section) or how to handle potential payment for additional professional services.
- According to BoardSource's research, only three percent of nonprofit board members are compensated for their board service. But, even if board members are not compensated, a statement to that effect is recommended. This can avoid future misunderstandings and be used during the recruitment process to manage expectations.
- If any board members are compensated, the policy should state that this compensation is approved by the board.

PRACTICAL TIPS

- ✓ Compensating board members may result in a loss of protection from personal liability available only to volunteer directors. Check your state laws before proceeding.
- ✓ Compensation is not illegal, but if the board decides to compensate its members, the pay must be reasonable and due diligence must be followed. Do the research to determine what other, similar organizations pay their board members.
- ✓ Payment for non-governance services and financial transactions for business purposes between a board member and the organization is treated differently than compensation for board service. Board members may be paid for performing a professional service for the organization that is outside of general board responsibilities. For those situations, establish a separate policy to

address these kinds of potential conflict-of-interest situations and provide guidance on how they are to be handled (e.g., sending out RFPs for bids). (See Part I: Ethics and Accountability: Conflict of Interest.)

- ✓ Remind board members that fees for service (not reimbursement for expenses) are taxable income and must be reported by each individual in his or her own tax returns.

SAMPLE BOARD MEMBER COMPENSATION POLICIES

Policies related to board member compensation tend to be brief and explicit. The first three sample policies are for boards that do not compensate members for board service; the last two are for boards that do.

1. This is a short, straightforward, no-compensation statement.
2. This statement, excerpted from the bylaws, allows payment to directors who perform professional services, such as accounting or legal services.
3. This sample statement defines procedures for hiring and compensating board members for their professional services.
4. This statement provides for board member compensation based on attendance at meetings and events related to board service.
5. This sample provides for board member compensation based solely on meeting attendance.

Suggested Resources

- Dambach, Charles, Melissa Davis, and Robert L. Gale. *Structures and Practices of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- BoardSource. *The Nonprofit Board Answer Book*. San Francisco: Jossey-Bass, 2012.
- Tesdahl, D. Benson, Esq. *Better Bylaws: Creating Effective Rules for Your Nonprofit Board, Second Edition*. Washington, DC: BoardSource, 2010.
- Panel on the Nonprofit Sector. *Strengthening Transparency, Governance, Accountability of Charitable Organizations. A Supplement to the Final Report to Congress and the Nonprofit Sector*. Independent Sector, 2006.

4. BOARD MEMBER EXPENSE REIMBURSEMENT

INTRODUCTION

Expense reimbursement policies specify who can be reimbursed for what expenses. Board members need guidelines for acceptable expenses, particularly when required to travel to meetings or annual conferences. Different organizations take different approaches to reimbursing board members. Some organizations expect board members to cover their own expenses; others provide reimbursement upon request, but only up to a specified amount; still others provide per diems to all board members.

KEY ELEMENTS

- When a board member pays for supplies and materials for additional work as a volunteer for the organization (i.e., apart from the traditional role of board member), the nonprofit often reimburses him or her for actual expenses approved, incurred, requested, and documented.
 1. Some nonprofits rely on government reimbursement policies.
 2. In general, it is inappropriate to cover any expenses related to travel to board meetings and events for a board member spouse. Attendance of a board member spouse at a nonprofit function is not considered necessary (unless the spouse is representing the organization on official business and has bona fide duties to perform). Otherwise, this becomes an issue of compensation.

PRACTICAL TIPS

- ✓ The reimbursement policy should clarify the acceptable parameters for reimbursement, such as class of airfare, level of accommodations, gas mileage rates, etc.

SAMPLE BOARD MEMBER EXPENSE REIMBURSEMENT POLICIES

The various policies are arranged in order of general to specific and short to long.

1. This brief policy is a clear, generic policy that lets the board member decide whether he or she requests reimbursement.
2. This brief policy recognizes that travel expenses may be an exceptional burden for some board members and provides a discreet method for requesting reimbursement.
3. This basic policy addresses government regulations and provides some parameters for reimbursement, such as per diems and official events.

4. This more detailed sample policy defines what constitutes acceptable expenses for reimbursement.
5. This comprehensive policy provides considerable details about who and what may be covered, and procedures for getting reimbursed.

Suggested Resources

- Dambach, Charles, Melissa Davis, and Robert L. Gale. *Structures and Practices of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- BoardSource. *The Nonprofit Board Answer Book, Third Edition*. San Francisco: Jossey-Bass, 2012.
- Tesdahl, D. Benson, Esq. *Better Bylaws: Creating Effective Rules for Your Nonprofit Board, Second Edition*. Washington, DC: BoardSource, 2010.
- Panel on the Nonprofit Sector. *Strengthening Transparency, Governance, Accountability of Charitable Organizations. A Supplement to the Final Report to Congress and the Nonprofit Sector*. Independent Sector, 2006.
- *The Principles Workbook: Steering Your Board Toward Good Governance and Ethical Practice*. BoardSource and Independent Sector, 2009. www.independentsector.org/principles_workbook_summary

5. BOARD SELF-ASSESSMENT

INTRODUCTION

The objective of board self-assessment is to help the board improve its own work. It allows board members to better understand their own roles and responsibilities and how they can more effectively fulfill their obligations. The self-assessment process can develop the board's team-building skills, provide structure for problem solving, and increase accountability within the organization.

Simply going through the process is not enough. The board needs to analyze and learn from the results, and incorporate improvements in its future behavior and structure.

The board's policies on self-assessment may clarify whether and/or how individual board member performance evaluation is incorporated. Equally, the board may have policies on meeting and committee evaluations.

KEY ELEMENTS

- Self-assessment does not need to be an annual event, but the policy should state the objectives of regular performance evaluation.
- The policy needs to clarify that the assessment is necessary for reappointment before terms are renewed. This applies to board members and officers.
- The assessment can be carried out by the governance committee; the policy may provide an option to hire an outside facilitator to help with the discussions and aid in the administration of the self-assessment process.

PRACTICAL TIPS

- ✓ Get each board member's buy-in in order to make this a true group effort. Without consensus, the board simply won't participate. Members should be assured that their answers to the questionnaire will remain confidential and that the objective of the exercise is not to be punitive but to improve the board's future performance.
- ✓ If this is the board's first self-assessment effort, a task force should be formed to explore how others have done it and what tools they have used. Board members should determine together which tool is acceptable and fine-tune it to address issues and questions that are important to the board. In addition, the board should determine how individual board member evaluation is included for the purpose of self-reflection. In any event, the board needs to address its general resistance to change. Change does not have to mean that everything from the past will be judged as unacceptable.

- ✓ Adequate time should be devoted to planning — starting well ahead of time in order to ensure that board members may have the proper time set aside to complete the assessment. A date should also be agreed upon for a board retreat to discuss the results.
- ✓ The board should ensure that the final recommendations that come from the board retreat discussions will be implemented by creating proper follow-up procedures. Board members should be provided with possibilities for self-improvement and clarified duties and expectations. Lastly, the board should commit to repeat the process at least every 3–4 years.

SAMPLE BOARD SELF-ASSESSMENT POLICIES

The brief sample statements do not set forth the process and expansive procedures for board self-assessment, but concentrate on the simple importance of this practice.

1. This very simple statement commits the board to a regular self-assessment.
2. This brief policy provides guidelines on what and who will be evaluated, including individual board members.
3. This policy ties board self-assessment to the assessment of the organization.
4. This sample sets the process for an annual self-assessment of the board as a group. It is not an assessment of the individual members.

Suggested Resources

- Lakey, Berit M. and George Hofheimer. *Credit Union Board Self-Assessment: A Research Study*. Madison, WI and Washington, DC: CUES and BoardSource, 2004.
- Board Self-Assessment. Online Tool. Washington, DC: BoardSource, 2009. www.boardsource.org

6. ELECTION OF OFFICERS

INTRODUCTION

State laws stipulate that a nonprofit must have at least one annual meeting per year. Officers and new board members are usually elected at this meeting.

The most common officer positions — and required by most state laws — are chair, vice chair, treasurer, and secretary. Many boards combine secretary and treasurer into one position. To encourage interest in these positions, you should highlight the leadership qualities required.

KEY ELEMENTS

- The full board needs to participate in the officer election unless the organization has a formal membership structure that delegates that right to the membership.
- Officers do not have additional powers but do have supplementary responsibilities and should serve as role models for all board members.
- Involve the governance committee in developing, vetting, and negotiating with candidates for these positions.

PRACTICAL TIPS

- ✓ When possible, elect board members who are familiar with the organization and the role of the board. Use board service and committee leadership as the training ground for officer positions.
- ✓ Eliminate the sense of winners and losers for these positions by presenting only one strong candidate for each position to the board.
- ✓ Detailed job descriptions for each officer position do not need to be included in your bylaws but should exist and should be followed.
- ✓ Use the terms chair and vice chair rather than president and vice president. This eliminates confusion between the chief volunteer officer and the chief staff officer.

SAMPLE OFFICER ELECTION POLICIES

These officer election samples provide options for both self-perpetuating and member-elected boards.

1. This simple policy states that the board elects its own officers.
2. This sample gives the responsibility for identifying final candidates to the governance committee.

3. This basic sample is for member-elected boards.
4. This sample provides more details for member-elected officers, beginning with the nomination process.
5. This sample for member-elected boards introduces the role of the chair-elect.

Suggested Resources

- Dambach, Charles, Melissa Davis, and Robert L. Gale. *Structures and Practices of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- BoardSource. *The Nonprofit Board Answer Book, Third Edition*. San Francisco: Jossey-Bass, 2012.
- Tesdahl, D. Benson, Esq. *Better Bylaws: Creating Effective Rules for Your Nonprofit Board, Second Edition*. Washington, DC: BoardSource, 2010.
- Wertheimer, Mindy R. *The Board Chair Handbook, Third Edition*. Washington, DC: BoardSource, 2013.

7. BOARD MEMBER REMOVAL

INTRODUCTION

Even with a thorough vetting process, there are times when board members do not fulfill their responsibilities as expected and agreed upon. It therefore is crucial to have a process in place for removing board members. Without an established process, you may be forced to tolerate an apathetic or disruptive board member and miss the opportunity to fill the position with someone who has the potential to be an asset to the board.

KEY ELEMENTS

- In most cases, the body that elects the board can also remove board members.
- Clarify the reasons why a board member may be removed, such as criminal or unethical activity, breach of confidentiality, major conflict of interest, absenteeism, and ongoing disruptive behavior. Simply having different opinions is not a reason to move a board member.
- Discuss with your lawyer the pros and cons of using the term “with or without cause.”

PRACTICAL TIPS

- ✓ Before making removal official, the chair should discuss the issue with the board member to ensure that removal does not come as a surprise or, if appropriate, to provide the member with an opportunity to make the required changes.

SAMPLE BOARD MEMBER REMOVAL POLICIES

Most of these sample policies use meeting attendance as an appropriate measure for good service. The number of absences determines the strictness of the policy.

1. This basic policy uses the term “with or without cause.”
2. This straightforward policy focuses on unexcused absence.
3. This policy is slightly more lenient than Policy #2.
4. This policy enables a majority of the board to “save” an otherwise removed board member.
5. This policy states who can recommend removal.

Suggested Resources

- Dambach, Charles, Melissa Davis, and Robert L. Gale. *Structures and Practices of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- BoardSource. *The Nonprofit Board Answer Book, Third Edition*. San Francisco: Jossey-Bass, 2012.
- Tesdahl, D. Benson, Esq. *Better Bylaws: Creating Effective Rules for Your Nonprofit Board, Second Edition*. Washington, DC: BoardSource, 2010.

8. BOARD SABBATICALS

INTRODUCTION

It is a common practice in higher education for presidents and other senior staff and faculty members to take sabbaticals, which provide opportunities to rest from the demands of a challenging, long-term position and rejuvenate. Sabbaticals for board members is a less common practice. Board membership is for a limited time period; the expectation is that a member's term will not be interrupted with a sabbatical.

Some bylaws use the term “sabbatical” to refer to a hiatus in board service between terms.

KEY ELEMENTS

- A policy for short-term sabbaticals — time-outs — for board members should address what is expected of the board member during the absence, the time period, and the liabilities that remain or do not apply during the absence.
- If you do not offer sabbaticals, develop a process by which board members can resign from their positions. Indicate whether it is possible to reapply for membership at a later date.
- When using the term “sabbatical” to refer to a hiatus in board service between terms, be sure to address the conditions for re-election to the board.

PRACTICAL TIPS

- ✓ When recruiting board members, stress the need for them to commit to serving a full term. If this becomes impossible midterm because of illness, travel, or another temporary change in a board member's personal situation, you may need to discuss resignation — with the possibility of being reelected to the board, if desirable, at a later date.

SAMPLE BOARD SABBATICAL POLICIES

Neither one of the sample policies condones sabbaticals for board members.

1. This board policy does not accept sabbaticals for board members.
2. This policy requires a year's absence from the board before a member can rejoin.

Suggested Resources

- Dambach, Charles, Melissa Davis, and Robert L. Gale. *Structures and Practices of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- BoardSource. *The Nonprofit Board Answer Book, Third Edition*. San Francisco: Jossey-Bass, 2012.
- Tesdahl, D. Benson, Esq. *Better Bylaws: Creating Effective Rules for Your Nonprofit Board, Second Edition*. Washington, DC: BoardSource, 2010.

9. BOARD VACANCIES

INTRODUCTION

Even with a well-conceived term-limit schedule, a board may experience sudden vacancies. A board member may resign in the middle of the term due to changes in personal circumstances or be removed from the board. Every board needs a policy to handle these unexpected vacancies.

Although a vacancy may not immediately affect a board's efficiency, your board may be in violation of its bylaws or mandate regulations by being short a board member. In these cases, you must fill the vacancy as soon as possible. If your board size meets the legal limits, however, it is sometimes better to wait until the next regular election to fill the position.

KEY ELEMENTS

- Your policy should cover who has the right to fill vacancies, how the term of the newly elected board member is calculated, and how this affects his or her term limits.
- Address board member and officer vacancies separately. Both need attention, however.

PRACTICAL TIPS

- ✓ Make sure your board has a continuous pool of candidates at different phases of cultivation that you can tap into if you need to fill a position immediately.
- ✓ If an officer vacancy is short term, you may want to divide the duties among other officers and fill the position during the regular election meeting.

SAMPLE BOARD VACANCY POLICIES

The sample policies discuss how to handle unexpected vacancies on the board.

1. This short policy states how to handle a midterm vacancy.
2. This sample is simply a lengthier version of Sample #1.
3. This sample gives the power to designate a nominee for a vacant position to the chair.

Suggested Resources

- Dambach, Charles, Melissa Davis, and Robert L. Gale. *Structures and Practices of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- BoardSource. *The Nonprofit Board Answer Book, Third Edition*. San Francisco: Jossey-Bass, 2012.
- Tesdahl, D. Benson, Esq. *Better Bylaws: Creating Effective Rules for Your Nonprofit Board, Second Edition*. Washington, DC: BoardSource, 2010.

10. CHIEF EXECUTIVE ON THE BOARD

INTRODUCTION

The board delegates the management of the organization to the chief executive, who works closely with the board and particularly the chair in a constructive partnership.

As an active partner, the chief executive should be present at all board meeting, normally in an ex officio (part of it by virtue of holding another office), nonvoting capacity. Serving as a nonvoting member of the board heightens the organization's accountability, lessens many inherent conflicts of interest, and allows for a separation between oversight and implementation.

KEY ELEMENTS

- To avoid misunderstandings, bylaws should have a clause that defines the chief executive's role as an ex officio, nonvoting position.
- No other staff members should serve on the board. It is inappropriate for the chief executive to be supervised by individuals whom he or she supervises.
- A nonvoting position alleviates numerous conflicts of interest, maintains a clear line between oversight and implementation, and helps increase accountability.

PRACTICAL TIP

- ✓ To avoid misunderstanding, clarify what "ex officio" means before writing your policy. Some individuals assume the chief executive position comes with voting rights, but that decision must be made separately.

SAMPLE CHIEF EXECUTIVE ON THE BOARD POLICIES

The role of the chief executive can be defined in one of two ways: as either a voting member of the board or as a nonvoting member of the board.

1. This policy does not confer voting rights to the chief executive.
2. This policy does confer voting rights to the chief executive.

Suggested Resources

- Dambach, Charles, Melissa Davis, and Robert L. Gale. *Structures and Practices of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- BoardSource. *The Nonprofit Board Answer Book, Third Edition*. San Francisco: Jossey-Bass, 2012.
- Tesdahl, D. Benson, Esq. *Better Bylaws: Creating Effective Rules for Your Nonprofit Board, Second Edition*. Washington, DC: BoardSource, 2010.
- Moyers, Rick. *The Nonprofit Chief Executive's Ten Basic Responsibilities, Second Edition*. Washington, DC: BoardSource, 2012.

11. QUORUM FOR BOARD MEETINGS

INTRODUCTION

A quorum defines the minimum number of board members who must be present before a board meeting can take place. No board can conduct business if there is not a quorum in the boardroom. If there is no quorum, the chair must set a new date for the meeting and release those members who are present.

Most state laws declare the majority of voting members as the minimum requirement for a quorum. If you do not have your own quorum policy, the state law will prevail.

KEY ELEMENTS

- Check your state laws; they provide the default should you not define a quorum for your board.
- Be realistic when setting a quorum. If you are too lax, you risk allowing a few members to decide the fate of the organization. If you are too strict, you risk never meeting a quorum.
- Don't confuse member meeting quorums with board meeting quorums. Member meetings, by necessity, tend to have smaller quorums and can generally accept proxies.

PRACTICAL TIPS

- ✓ When defining a quorum, always approach it from the fiduciary point of view. Meeting attendance is an expectation designed to make it difficult for small groups of members to control the board and its decision making.
- ✓ Discuss the impact of properly setting a quorum. If you state that a majority of those present can carry a vote, you risk a situation where, when five members are present out of ten, three have the right to make decisions.

SAMPLE BOARD MEETING QUORUM POLICIES

Both sample policies follow the state minimum requirements.

1. This policy, which reflects common practice, defines quorum as the presence of the majority of voting board members.
2. This sample states that teleconference presence counts as part of the board quorum.

Suggested Resources

- Dambach, Charles, Melissa Davis, and Robert L. Gale. *Structures and Practices of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- BoardSource. *The Nonprofit Board Answer Book, Third Edition*. San Francisco: Jossey-Bass, 2012.
- Tesdahl, D. Benson, Esq. *Better Bylaws: Creating Effective Rules for Your Nonprofit Board, Second Edition*. Washington, DC: BoardSource, 2010.
- Flynn, Outi. *Meeting, and Exceeding Expectations, Second Edition*. Washington, DC: BoardSource, 2009.

12. SPECIAL MEETINGS

INTRODUCTION

Due to unexpected circumstances, most boards occasionally need to meet or communicate outside of the fixed meeting schedule.

Situations that require a special meeting might include emergencies (the sudden departure of the chief executive or the chair, natural or inflicted disasters affecting the office, or even a scandal), special time-sensitive opportunities or threats (exceptional offer to collaborate or to acquire a new location), or any other urgent issue that must be addressed by the board rather than management.

KEY ELEMENTS

- Specify what constitutes a special meeting, who can summon a special meeting, how to notify board members, and in what format the meeting can take place.
- In most circumstances, the chair is the logical person to serve as the contact person when requesting a special meeting.

PRACTICAL TIP

- ✓ Many special or urgent meetings might be easiest to arrange as conference calls.

SAMPLE SPECIAL MEETING POLICIES

These special meeting policies state who can call a special meeting. Organizations following state open meeting laws must address special meetings in more detail.

1. This simple policy allows the board to hold special meetings outside of the regularly scheduled meetings.
2. This sample gives the chair or the majority of the board the right to call special meetings.
3. This policy is for boards that must hold open meetings.
4. This policy for organizations following the open meeting laws calls for posting the meeting and notifying the media 24 hours prior to the meeting.

Suggested Resources

- Dambach, Charles, Melissa Davis, and Robert L. Gale. *Structures and Practices of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- BoardSource. *The Nonprofit Board Answer Book, Third Edition*. San Francisco: Jossey-Bass, 2012.
- Tesdahl, D. Benson, Esq. *Better Bylaws: Creating Effective Rules for Your Nonprofit Board, Second Edition*. Washington, DC: BoardSource, 2010.
- Flynn, Outi. *Meeting, and Exceeding Expectations, Second Edition*. Washington, DC: BoardSource, 2009.

13. VIRTUAL MEETINGS AND E-VOTING

INTRODUCTION

It can be difficult to find board members who can commit to attending all board and committee meetings in person. Busy individuals may need to forgo board service unless the board is flexible about physical meeting attendance. Fortunately, some issues can be handled via a conference call or shared via e-mail. How your board relies on these methods of communication and tools for discussion and decision making needs to be codified and enforced diligently.

Few states accept online meetings (boards voting electronically and simultaneously) but several address acceptable conditions for teleconferences. Sharing documents and informal communication is best done via e-mail as long as every board or committee member is included in the communication.

KEY ELEMENTS

- Do not draft policies that contradict state laws.
- Clarify the difference between a virtual meeting and communicating (sharing information) via e-mail. Also clarify when synchronous and asynchronous communication is acceptable or necessary.
- If you allow online or telecommunication meetings, ensure that every member can hear and speak with each other.

PRACTICAL TIPS

- ✓ Create group e-mail addresses and/or a board portal for communicating with the full board and committees.
- ✓ Chairing a teleconference meeting requires more vigilance than face-to-face meetings. To facilitate, draft clear rules asking participants to always identify themselves before speaking, to not speak at the same time, to use the mute button to keep background noise minimal, and to disconnect when they have a conflict of interest and need to recuse themselves.
- ✓ Remember to update your bylaws if you allow virtual meetings.

SAMPLE VIRTUAL MEETING POLICIES

These virtual meeting policies stress the importance of everyone being able to participate simultaneously and equally.

1. This sample addresses teleconferences only.
2. This example emphasizes this core issue: Participants must be able to hear and speak to each other.
3. This policy directs the board to determine in advance the technical and administrative issues of meeting virtually.
4. This policy discusses when virtual presence is permitted.

Suggested Resources

- Dambach, Charles, Melissa Davis, and Robert L. Gale. *Structures and Practices of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- BoardSource. *The Nonprofit Board Answer Book, Third Edition*. San Francisco: Jossey-Bass, 2012.
- Tesdahl, D. Benson, Esq. *Better Bylaws: Creating Effective Rules for Your Nonprofit Board, Second Edition*. Washington, DC: BoardSource, 2010.
- Flynn, Outi. *Meeting, and Exceeding Expectations, Second Edition*. Washington, DC: BoardSource, 2009.

14. NOTICE OF MEETINGS

INTRODUCTION

Although notice of meeting and waiver of meeting notices are the remnants of an older, more procedural way of handling board meetings, some boards — including those serving membership organizations with large membership meetings and those who must abide by state laws requiring notices — include a clause regarding notice of meetings in their bylaws.

All boards should set and approve their meeting schedules well ahead of time, and, under normal circumstances, board approval serves as a notice of meeting. If your state laws require meeting notices, your board may decide to create a process that accommodates those board members who do not want to receive official notices. This will prevent these board members from contesting a decision made in a meeting they did not attend and for which they did not receive a meeting notice.

KEY ELEMENTS

- If you do not want to make an official notice compulsory for your board meetings, make that clear in the bylaws.
- Specify how notices should be delivered — mail, fax, e-mail.
- A waiver generally works to avoid disputes about notices.

PRACTICAL TIPS

- ✓ Do not set specific dates for meetings in your bylaws. Simply state how often the board meets per year.
- ✓ Take weekends, holidays, and time for the mail to arrive in distant locations into account to keep the notice timeframe reasonable.

SAMPLE MEETING NOTICE POLICIES

These short samples provide a waiver for notices and state how to reschedule meetings.

1. This statement mentions the essential requirements for a notice but also specifies that a waiver of the notice is possible.
2. This sample addresses notices for rescheduled meetings.

Suggested Resources

- Dambach, Charles, Melissa Davis, and Robert L. Gale. *Structures and Practices of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- BoardSource. *The Nonprofit Board Answer Book, Third Edition*. Washington, DC: BoardSource, 2012.
- Tesdahl, D. Benson, Esq. *Better Bylaws: Creating Effective Rules for Your Nonprofit Board, Second Edition*. Washington, DC: BoardSource, 2010.
- Flynn, Outi. *Meeting, and Exceeding Expectations, Second Edition*. Washington, DC: BoardSource, 2009.

15. EXECUTIVE SESSIONS

INTRODUCTION

The board has a need and a right to meet in total privacy when it chooses.

Executive sessions are special meetings of the board that take place when the board wants to ensure confidentiality of its discussions, create a mechanism to manage its own affairs, and develop solid working relationships among board members and with the chief executive. These sessions may take place before, in the middle of, or at the end of a regular board meeting. They are, by definition, exclusive to board members, but others, such as the chief executive or professional advisors, may be invited to join for part or all of the session.

The board should keep minutes — or at least notes — of its executive sessions, which should be shared with everyone who was present. The board meeting minutes should indicate when the board held an executive session and for what purpose, but the details of the discussions should not be included. Any decision made during an executive session should be included in the board meeting minutes as a record of the decision.

KEY ELEMENTS

- In the bylaws, give the board the authority to conduct executive sessions.
- Prior to meeting in an executive session, the board must adopt a motion to go into executive session. The motion should include specific reference to the session's subject matter.
- If your organization must follow a state's open meeting laws, familiarize yourself with the legal requirements for conducting executive sessions.

PRACTICAL TIPS

- ✓ Including a clause for executive sessions in your bylaws allows them to become a standard part of your board meetings, eliminating any sense of secrecy.
- ✓ Debrief the chief executive after the meeting on issues that were discussed or the decisions that were made. This builds trust between the chief executive and the board.
- ✓ Have regular KPAWN sessions in executive session with the chief executive to discuss what Keeps the President Awake at Night. This practice provides him or her with the opportunity to bring up issues that do not belong in a normal board meeting.

- ✓ Share BoardSource’s Learning Center member resource, “Executive Sessions: How to Use Them Regularly and Wisely,” with your board members and chief executive to better understand all the nuances of these sessions. www.boardsource.org

SAMPLE EXECUTIVE SESSION POLICIES

These policies grow in complexity from simple statements into more detailed guidelines on conducting executive sessions.

1. This short policy makes it a standard practice for the board to have executive sessions.
2. This sample defines the circumstances that necessitate an executive session.
3. This sample stresses the confidential nature of executive sessions.
4. This sample specifies under what circumstances an executive session is called.
5. This sample is specifically geared towards government agencies and has a heavy legal tone.

Suggested Resources

- Dambach, Charles, Melissa Davis, and Robert L. Gale. *Structures and Practices of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- BoardSource. *The Nonprofit Board Answer Book, Third Edition*. Washington, DC: BoardSource, 2012.
- Tesdahl, D. Benson, Esq. *Better Bylaws: Creating Effective Rules for Your Nonprofit Board, Second Edition*. Washington, DC: BoardSource, 2010.
- Flynn, Outi. *Meeting, and Exceeding Expectations, Second Edition*. Washington, DC: BoardSource, 2009.
- “Executive Sessions: How to Use Them Regularly and Wisely.” BoardSource Learning Center Member Resource. www.boardsource.org

16. INDEMNIFICATION

INTRODUCTION

Indemnification allows the organization to reimburse any legal expenses a board member incurs if he or she is sued while acting on behalf of the organization. Most states allow nonprofits to provide indemnification protection for their volunteers.

Indemnification can be a double-edged sword for the nonprofit and the affected board member. If expenses end up being immense, the organization may not be able to keep the promise — or at least will suffer seriously from the liability — and the board member is without protection.

KEY ELEMENTS

- Check your state laws to learn whether you are allowed to provide indemnification protection, whether you must have a clause in the bylaws, and what types of activities can be covered.
- This immunity usually is not valid if the board member acts in bad faith, breaches his or her fiduciary duty, or commits criminal acts.

PRACTICAL TIPS

- ✓ Include all details regarding the scope (who is covered, timing of payments, and other constraints) of indemnification in your written policy.
- ✓ If you provide indemnification, you should consider obtaining insurance to cover the organization for the loss of funds.
- ✓ Indemnification loses effect if the organization is not financially able to honor the commitment.
- ✓ Have your legal counsel review your policy.

SAMPLE INDEMNIFICATION POLICIES

Both policies provide the organization with the authority to indemnify board members.

1. This is a straightforward, non-legalese sample.
2. This sample is stated as a legal contract between the organization and those indemnified.

Suggested Resources

- Dambach, Charles, Melissa Davis, and Robert L. Gale. *Structures and Practices of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- BoardSource. *The Nonprofit Board Answer Book, Third Edition*. Washington, DC: BoardSource, 2012.
- Tesdahl, D. Benson, Esq. *Better Bylaws: Creating Effective Rules for Your Nonprofit Board, Second Edition*. Washington, DC: BoardSource, 2010.

17. DISSOLUTION

INTRODUCTION

The articles of incorporation require that a nonprofit includes a statement indicating how the assets are dispersed if the organization is dissolved. The purpose of this statement is to inform staff, board members, and other individuals associated with the organization that any remaining assets may not be distributed to those affiliated with the organization but must be given to another charity. This is one of the key elements of private inurement. As a founder, staff member, or a board member, you have no right to the assets of the organization beyond an appropriate compensation you may receive for the work you do.

KEY ELEMENTS

- Even though the articles address potential dissolution of the organization, it is good practice to also include a clause in the bylaws.
- It is possible to designate a specific charity as the recipient of the assets in case of dissolution, but it is common to simply state that the assets will go to another charity.

PRACTICAL TIP

- ✓ If you name a specific organization as the recipient of the assets, keep in mind that it is possible that this organization will no longer exist at the time of the distribution of assets. In some cases, the courts will then make the decision.

SAMPLE DISSOLUTION POLICIES

These samples elaborate on the basic clause in the articles of incorporation.

1. This sample does not name a specific recipient of the assets.
2. This sample confirms that the assets must go to a qualified organization.
3. This sample names the Superior Court of the county as the distributor of the potential remaining assets after the initial distribution.

Suggested Resources

- Tesdahl, D. Benson, Esq. *Better Bylaws: Creating Effective Rules for Your Nonprofit Board, Second Edition*. Washington, DC: BoardSource, 2010.
- “10 Things Nonprofits Should Consider Before Electing to Dissolve.” Nonprofit Law Blog. www.nonprofitlawblog.com/home/dissolution/
- “From the IRS — Facts about Terminating or Merging Your Nonprofit.” Don Griesmann blog post. <http://dongriesmannsnonprofitblog.blogspot.com/2009/07/from-irs-facts-about-terminating-or.html>

PART IV

Chief Executive

1. Chief Executive Job Descriptions
2. Chief Executive Performance Evaluation
3. Executive Compensation
4. Executive Transition

1. CHIEF EXECUTIVE JOB DESCRIPTIONS

INTRODUCTION

While the board is ultimately responsible for the organization's mission and strategy, the chief executive is the executor — and often the main architect — of that strategy. The chief executive is responsible for the day-to-day leadership of the organization and for its effective management.

Many people feel that the most important duty of a nonprofit board is to hire the right chief executive and supervise him or her well. Before hiring a chief executive, the board needs to clarify the responsibilities of the position and the qualifications of the person who will fill it. Chief executive job descriptions vary a great deal depending on the type of organization, field of service, staff size, and other factors.

While the chief executive is responsible for running the organization's daily affairs, he or she also has a major leadership role in helping the board do its job in the best possible manner. Board development is important and it often falls on the chief executive's shoulders, as he or she has the easiest access to necessary information and governance-related resources. Working closely with the governance committee and the board chair, the chief executive can help the board meet its potential.

KEY ELEMENTS

- Implicitly, if not explicitly, the board delegates daily management to the chief executive through the job description. The job description outlines the leadership framework for the chief executive to manage the daily operations of the organization. It defines the board's expectations and guidelines within which the chief executive must accomplish his or her duties.
- The chief executive's job description usually defines overall responsibility for functional areas within the organization, such as strategic direction, financial performance, personnel, and communications.
- Job descriptions should clarify the lines of authority so that board and chief executive are clear on the chain of command. More specifically, they often articulate the role of the chief executive as the board's sole employee.

PRACTICAL TIPS

- ✓ While this publication uses the term “chief executive,” other organizations may choose to refer to the chief staff officer as the executive director, president, chief executive officer, or director.

- ✓ A clear job description lays the groundwork for annual goals and performance reviews. Review and update the job description regularly as part of the chief executive's performance evaluation. As the organization evolves, the chief executive's responsibilities may also need to be adjusted. Always have a current job description available in the event of an unexpected change in leadership.
- ✓ As long as the state law does not invalidate the intention, a written employment contract (or memorandum of agreement) provides security to the chief executive, the board, and the organization. Clarify the job description and compensation terms in writing to ensure that mutual expectations are clear from the outset of the relationship.
- ✓ The job description should mention the chief executive's role as the governance partner with the board and provide specifics about this responsibility. To stress the importance of board development, indicate clearly how the chief executive is involved in recruitment of board members, orientation, continuous education, and shaping productive board meetings.

SAMPLE CHIEF EXECUTIVE JOB DESCRIPTIONS

The six job descriptions, presented from shortest to longest, cover the chief executive's duties in relationship with the board, staff, and overall organizational success.

1. This short, general job description emphasizes the chief executive's authority in managing staff and operations.
2. This concise job description delegates overall responsibility to the chief executive and calls attention to expectations of the board.
3. This simple job description articulates the basic responsibilities of the chief executive, both as the manager of the organization and a partner to the board.
4. This sample assigns responsibilities to the chief executive in specific functional areas.
5. This job description frames the chief executive's authority and responsibilities in relationship to the board, operations, staff, and the community.
6. This more specific sample defines expectations related not only to performance but also to experience and credentials.

Suggested Resources

- Tebbe, Don. *Chief Executive Transitions: How to Hire and Support a Nonprofit CEO*. Washington, DC: BoardSource, 2008.
- BoardSource. *The Source: Twelve Principles of Governance That Power Exceptional Boards*. Washington, DC: BoardSource, 2005.
- Moyers, Rick. *The Nonprofit Chief Executive's Ten Basic Responsibilities, Second Edition*. Washington, DC: BoardSource, 2012.
- McGinnis, Kathleen A. and Sherrill K. Williams. *Building the Governance Partnership: The Chief Executive's Guide to Getting the Best from the Board, Second Edition*. Washington, DC: BoardSource, 2011.

2. CHIEF EXECUTIVE PERFORMANCE EVALUATION

INTRODUCTION

Although the board delegates management and administrative duties to the chief executive, this does not excuse the board from overall responsibility for overseeing the organization. This oversight includes ensuring that the right person is running the organization at the right time and in the right way. An annual performance review is one of the most effective ways for the board to carry out this duty.

A properly administered chief executive performance evaluation can benefit the chief executive, the board, and the entire organization. Out of this important process, the chief executive gains constructive feedback on his or her performance; the board has the opportunity to measure the organization's progress towards its objectives and previously set annual goals; and the entire organization is able to ensure that the right hands are guiding the organization in the right direction.

The evaluation process helps to enhance the communication between the board and the chief executive. It facilitates the board's oversight function while providing the board with a concrete opportunity to support the chief executive.

KEY ELEMENTS

- An effective performance evaluation begins with a mutually understood process. The board needs to determine the appropriate role for the board chair, individual board members, and any committee. It should also address how the chief executive will participate in the process and what kind of evaluation tool to use.
- The performance evaluation should take into account the chief executive's job description, annual goals and objectives, and any other relevant factors identified by the board. The executive's annual goals and objectives should be closely tied to the organization's annual goals and objectives.
- The evaluation should include the chief executive's own self-assessment as well as the board's evaluation of his or her performance.
- The evaluation should be conducted annually and documented in writing, particularly where the outcome is adverse and/or could lead to dismissal. In all cases, the assessment will provide a permanent record that can be referred to by both the chief executive and the board, greatly increasing clarity and certainty.
- The assessment process should be separated from compensation even if performance is a key element in setting or reviewing the compensation level of the chief executive. Compensation should not drive evaluation; it should be discussed independently after coming to a mutual agreement on evaluation results.

PRACTICAL TIPS

- ✓ Consider conducting the evaluation towards (or shortly after) the end of the fiscal year in order to tie annual goals to organizational performance.
- ✓ The board should provide the chief executive with frequent and constructive feedback. Even if a formal review process takes place annually, both the board and the chief executive should communicate throughout the year to highlight early warning signs and interim accomplishments.
- ✓ In theory, the chief executive's annual goals should be developed in collaboration with the board. In some cases it may be more efficient for the chief executive to present the board with proposed goals for consideration.

SAMPLE CHIEF EXECUTIVE PERFORMANCE EVALUATION POLICIES

The sample policies discuss various aspects of the process, from how to set expectations to who should be involved.

1. This brief statement outlines specific steps in the annual review process, as well as the role of officers, the full board, and the chief executive in the process.
2. This policy stresses the purpose of the performance review and delegates the process to the executive committee.
3. This policy statement defines the chief executive's goals as the organization's goals and provides general guidelines for the performance review.

Suggested Resources

- *Assessing and Supporting Your Chief Executive — A BoardSource Toolkit*. Washington, DC: BoardSource, 2010.
- Grace, Kay Sprinkel, Amy McClellan, and John A. Yankey. *The Nonprofit Board's Role in Mission, Planning, and Evaluation, Second Edition*. Washington, DC: BoardSource, 2009.

3. EXECUTIVE COMPENSATION

INTRODUCTION

The chief executive's compensation package is an important component of a board's responsibility for managing the executive, and putting together a compensation package is a complex activity. It is tied to who the chief executive is expected to be as a professional and to what the chief executive is expected to do for the organization. While very personal for those involved, it is also very public; all compensation sources must be disclosed on the IRS Form 990 and it must comply with stringent legal requirements.

KEY ELEMENTS

- Compensation includes salary and benefits. When developing a compensation policy, the board should list all components of the package. Often, the original employment contract (if any) establishes the chief executive's base compensation, and the board determines annual raises and bonuses each year. All compensation and benefits should be shown in the employment contract; there should be no non-listed, "off-agreement" benefits.
- Compensation is linked to experience, performance, and industry. A compensation policy might list those factors that the board feels are most important, such as prior experience and education level. It should also establish performance goals and compensation adjustments based on accomplishments. Lastly, it should take into account the complexity of the organization, requirements of the job, and market rates.
- A compensation policy should also address the process for determining the chief executive's compensation, such as who communicates with the chief executive, how adjustments will be determined (e.g., cost of living, merit increases, bonus rewards), researching compensation in comparable organizations, and use of external consultants.
- Fair and reasonable compensation is one of the key elements to attract and retain the most qualified chief executive for the organization. While the full board is responsible for determining appropriate compensation, it may delegate certain tasks — such as negotiating with the chief executive (during the hiring process) and reviewing comparable salaries — to a committee or an independent consultant. The full board or a committee of the board must approve the final compensation package.
- The policy should be developed to satisfy the IRS Intermediate Sanctions safe harbor requirements of independent decision making, reliance on comparables, and documentation. (See Internal Revenue Code section 4958 and the regulations thereunder.) The Intermediate Sanctions safe harbor requirements

provide that there is a rebuttable presumption of reasonableness that applies to a financial arrangement with any person with substantial influence over an organization if the financial arrangement was approved by an independent board (or an independent committee comprised of board members) that:

1. Was composed entirely of individuals unrelated to and not subject to the control of the disqualified person(s) involved in the arrangement.
2. Obtained and relied upon “appropriate data” as to comparability.

For compensation, data might include compensation levels paid by similarly situated organizations (both tax-exempt and taxable) for functionally comparable positions; the location of the organization, including the availability of similar specialties in the geographic area; current compensation surveys compiled by independent firms; or actual written offers from similar organizations competing for the services of the disqualified person. For property transactions, relevant information includes current independent appraisals and offers received as part of an open and competitive bidding process.

3. Adequately documented the basis for its decision when the actual decision was made.

For example, the board minutes should include the terms of the transaction and date of approval, the members present and voting, the comparability data relied upon and how it was obtained, and any actions taken regarding consideration of the matter by anyone on the board or committee who had a conflict of interest.

PRACTICAL TIPS

- ✓ In addition to paying close attention to the legal requirements for setting appropriate compensation, be sensitive to the public’s perception of what is acceptable or reasonable.
- ✓ Do your homework: There are numerous national and local nonprofit compensation surveys available.
- ✓ For smaller nonprofits that can’t afford costly consultants or published national surveys, do local research and investigate compensation packages in similar organizations. Contact the organizations directly or rely on GuideStar for posted Form 990s. However, realize that Form 990s are not directly applicable for the coming year. Adjust figures accordingly.
- ✓ Equally, when financial benefits must be limited, there are many other ways the board can compensate and support the chief executive. Consider a more flexible working environment, opportunities for professional development, and sabbaticals.

- ✓ Many of the above-mentioned guidelines should be considered when reviewing compensation of other executive staff, particular the president, chief operating officer, chief financial officer, and anyone else with substantial influence over the organization or a major section of the organization.

SAMPLE CHIEF EXECUTIVE COMPENSATION POLICIES

The three policies range from very simple to very specific. Generally speaking, the more complex the organization and the more money at stake, the more explicit the compensation policy should be.

1. This simple policy delegates responsibility for managing the performance review and compensation determination process to a committee that will work with an external consultant.
2. This comprehensive policy, most suited to larger, more complex institutions (in this case, a university), delegates authority, specifies responsibilities, and outlines a process for determining executive compensation.
3. This sample outlines the organization's compensation philosophy and acceptable sources for comparable pay.

Suggested Resources

- Vogel, Brian H. and Charles W. Quatt. *Nonprofit Executive Compensation: Planning, Performance, and Pay*. Washington, DC: BoardSource, 2010.
- “Nonprofit Excess Benefit Transactions: A Position Paper Submitted to the Commission on Accountability and Policy for Religious Organizations.” BoardSource Learning Center Research Report, 2012. www.boardsource.org
- Chasteen, Christopher S. and Linda M. Lampkin. “Improved Transparency for Charity Executive Pay: A Review of Form 990 Data.” Economic Research Institute, 2012.

4. EXECUTIVE TRANSITION

INTRODUCTION

The search for a new chief executive is an extraordinary opportunity for a board to have a lasting impact on the growth and success of the organization it governs. One of the most concrete performance indicators for a governing board is the quality of the chief executive recruited and retained by the board. All too often, however, board members underplan and underinvest in this critical task. While it is often impossible to plan every step of an executive transition in advance, a board with an established policy and a routine succession planning process will be better prepared to handle the task when it arises.

KEY ELEMENTS

- Executive transitions are normal and inevitable, so the real test is in how they are handled. Chief executives may leave unexpectedly or after a duly announced resignation, or they may be let go before the previously agreed tenure is over. Without any succession planning, the board is in the precarious position of having to manage the transition with limited information.
- The board needs an emergency transition plan to help it move forward quickly when an unexpected loss of a chief executive takes place. This does not mean that a successor is named ahead of time but that the process for handling the transition period is clear and in place.
- Long-term succession plan ingredients include organizational evaluation, the need to define the qualifications and special skills for a new chief executive, and an adjustment of the job description accordingly.

PRACTICAL TIPS

- ✓ Involve the current chief executive in succession planning, which will help take the secrecy out of the situation. Work with the chief executive to ensure that the organization has up-to-date operating manuals and appropriate archives. When possible, engage the chief executive in creating resources and plans to help with transition. One important aspect of preparing for succession is for the chief executive to keep the board informed about his or her own future plans.
- ✓ Develop a public relations plan for notifying key constituencies and the public about the transition.

SAMPLE EXECUTIVE TRANSITION POLICIES

The sample policies address preparedness for the eventual loss of the chief executive and assign transition teams to carry on the activities.

1. This simple policy serves as a reminder to the board of its responsibility for executive succession planning.
2. The brief sample gives the board chair the power to form a search committee.
3. This policy requires the chief executive to have other executives employed who are capable of carrying out critical duties in the event of an emergency.
4. This sample incorporates succession planning into the annual performance review and assigns responsibility to both the executive committee and the chief executive.

Suggested Resources

- Axelrod, Nancy R. *Chief Executive Succession Planning: Essential Guidance for Board and CEOs, Second Edition*. Washington, DC: BoardSource, 2010.
- Tebbe, Don. *Chief Executive Transitions: How to Hire and Support a Nonprofit CEO*. Washington, DC: BoardSource, 2008.
- Cornelius, Marla, Rick Moyers, and Jeanne Bell. "Daring to Lead 2011: A National Study of Nonprofit Executive Leadership." CompassPoint and The Meyer Foundation, 2011. www.compasspoint.org/assets/194_daringtolead06final.pdf.

PART V

Finance and Investments

1. Budgeting
2. Unrelated Business Income
3. Capital Expenditures
4. Financial Controls
5. Investments
6. Reserves and Endowments
7. Financial Audits
8. Loans
9. IRS Forms 990
10. Risk Management

1. BUDGETING

INTRODUCTION

Every responsible organization needs a budget. A budget is a planning document that forecasts expected revenue and expenses for the coming year. The master budget reflects financial activities for the entire organization, and it is a compilation of individual department and project budgets. A budget policy recognizes the importance of this annual process and ensures that the staff and the board remain accountable for their roles in financial planning and oversight.

KEY ELEMENTS

- Preparing the budget is a staff responsibility, but the board needs to approve the final document. The board or finance committee should also monitor how well the budget has been implemented by tracking performance (e.g., financial reports) on a regular basis and reviewing and approving any midyear adjustments.
- A budget policy should outline the timeline and review process for budgeting, ensuring that the appropriate staff and board committees are involved before the final board approval.
- A budget policy may specify additional details for expected percentage of cost increases, assumptions for calculating revenue and expenses, or desired surplus levels.
- Your annual operational plan gets incorporated into the budget; in a way it is “monetizing” the planned activities for the year.

PRACTICAL TIPS

- ✓ The budget policy outlines the responsibilities for different parts of the budgeting process. Use it as a reminder to recruit board members and staff with the necessary financial skills and business planning acumen.
- ✓ Review the budget policy regularly. As the financial situation and maturity of the organization evolves, so does the complexity of the budgeting process.
- ✓ A budget is not a public document; it is an internal planning document. Consider stating in the policy whether the budget can be shared with outsiders. Financial reports show what actually happened and how well the budget was followed.

SAMPLE BUDGETING POLICIES

The sample budgeting policies included vary from outlining respective responsibilities during the budgeting process to providing more detail to guide staff in fund allocation.

1. This policy clarifies that once the budget is approved, it is the chief executive's responsibility to manage within those terms.
2. This sample provides parameters within which the chief executive must work when developing the budget.
3. This policy states the purpose of the budgeting process and addresses preparation, approval, and review.

Suggested Resources

- Lang, Andrew S. *Financial Responsibilities of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- Berger, Steven. *Understanding Nonprofit Financial Statements, Third Edition*. Washington, DC: BoardSource, 2008.
- Nonprofit Accounting Basics. www.nonprofitaccountingbasics.org

2. UNRELATED BUSINESS INCOME

INTRODUCTION

A nonprofit organization plans its activities and establishes new programs within the scope of its mission. However, to enhance its income flow, an organization may undertake business activities that are not substantially related to its core purpose. Engaging in unrelated business is legal as long as the organization follows IRS guidelines. If your unrelated business income (UBI) exceeds \$1,000, you must file Form 990-T and may be required to pay unrelated business income tax (UBIT). The tax rate for unrelated business income is the standard commercial income rate.

KEY ELEMENTS

- The IRS definition of UBI has three components. If all three pertain to your activity, you may be required to pay UBIT. The activity must
 1. be regularly carried on
 2. constitute a generally recognized trade or business
 3. be substantially unrelated to the organization's tax-exempt purpose
- “Regularly carried on” means that the business activity is constant, frequent, or carried on like any normal commercial activity. If a nonprofit sells T-shirts or mugs in its catalog or accepts advertisements in its newsletter, that is business that is regularly carried on. Even if the actual activity takes place only once a year, the IRS can levy a tax if the preparation time for the activity is substantial throughout the year.
- The fragmentation rule, as defined by the IRS, requires that you segment each revenue-generating activity into related (nontaxable) and unrelated (taxable) categories. An unrelated business activity that is a fragment of a related business activity is taxable. For example, a museum selling various products in a gift shop must separate all products according to how they relate to the organization's purpose. Art posters in a museum shop are related and therefore not taxable, whereas mugs would be taxable.
- Even if all of a nonprofit's revenue is directed to tax-exempt purposes, its origin is the determining factor for the IRS. The origin determines whether income is unrelated or related, not how the income is used.
- General accounting rules apply to UBIT. However, special care is needed when dealing with cost allocations, deductions, and depreciation. Only directly connected expenses can be subtracted from unrelated income.

- A nonprofit must be careful about engaging in many unrelated activities because of the risk of losing its tax-exempt status. For the IRS, a substantial amount of UBI is approximately 20 to 25 percent of total revenue. Creating a separate subsidiary, controlled by the nonprofit, to house an unrelated business is a possible option.

PRACTICAL TIPS

- ✓ To avoid complications with IRS regulations, be prudent when engaging in unrelated activities and carefully evaluate potential commercial endeavors. There can be a fine line between related and unrelated activities. Sometimes, however, it makes sense to pay the tax rather than forgo an unrelated business activity. Consult an attorney.
- ✓ To avoid tax, consider the following features for your activity:
 - ✓ Engage volunteers to do the work (parent volunteers in a kindergarten)
 - ✓ Use donated products or services (thrift shop)
 - ✓ Specifically provide these products and services for your members (cafeteria in a hospital/museum)
 - ✓ Arrange only legal games (weekly bingo games)
 - ✓ Rely on royalties, affinity programs, renting of your facilities, etc. Under most circumstances, the IRS accepts them as nontaxable activities.

SAMPLE UBI POLICIES

These samples include a short as well as a more elaborate policy.

1. This sample ensures that all UBI activity is verified and reported.
2. This sample clarifies what is considered unrelated business activity.

Suggested Resources

- “Unrelated Business Income Defined.” IRS. <http://www.irs.gov/charities/article/0,,id=96104,00.html>
- Hurwit&Associates. “Taxation and Unrelated Business Income.” www.hurwitassociates.com/l_unrelated_income.php

3. CAPITAL EXPENDITURES

INTRODUCTION

A capital expenditure is money spent on acquiring or upgrading physical assets of the organization, such as buildings, real estate, furniture, and equipment. Accounting rules define how such expenses may be depreciated.

Some small nonprofits prepare their financial statement on the cash basis. In these cases, fixed assets are neither capitalized nor depreciated. However, procedures should still be in place pertaining to financial controls and approvals of capital items. Because many capital expenditures represent a significant investment and considerable cash outlay, nonprofit boards often establish financial limits beyond which a chief executive cannot go without board approval.

KEY ELEMENTS

- The board should define the level of spending that constitutes a capital expenditure and any approval processes. These should govern routine expenses, such as office equipment, computer upgrades, and building maintenance.
- Expenditure policies should define the useful life of different types of assets and whether depreciation is budgeted or not budgeted from the funds used for capital expenditures.
- Certain states have legal requirements within their nonprofit law pertaining to real estate transactions.

PRACTICAL TIPS

- ✓ When creating a capital expenditure policy, clarify the difference between supply and capital assets.
- ✓ When an organization undertakes a major, planned investment, such as a building a new facility, the board should consider establishing special policies to guide these out-of-the-ordinary capital expenditures.
- ✓ Because capital expenditures are generally large investments, the board and staff should work together on creating a multiyear capital financial forecast. This will help plan ahead for major cash outlays, such as Web designs, accounting software, and office expansions.
- ✓ Consider establishing a separate sinking fund or capital improvement fund savings account for physical assets; the policy should clarify how and when it can be used.

SAMPLE CAPITAL EXPENDITURE POLICIES

The samples provide guidelines for boards in their oversight of capital expenditures.

1. This policy defines capital expenditures and provides guidelines related to budgeting and purchasing procedures.
2. This policy emphasizes different approval authority depending on the nature of the capital expenditure.

Suggested Resources

- Lang, Andrew S. *Financial Responsibilities of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- Berger, Steven. *Understanding Nonprofit Financial Statements, Third Edition*. Washington, DC: BoardSource, 2008.
- Nonprofit Accounting Basics. www.nonprofitaccountingbasics.org/search/node/capital

4. FINANCIAL CONTROLS

INTRODUCTION

As part of its financial oversight of the organization, the board is responsible for ensuring that appropriate internal controls are in place — and adhered to — to protect the organization. These internal controls ensure that the organization is using generally accepted accounting principles, complying with applicable laws and regulations, providing reliable financial information, and operating efficiently. More specifically, financial controls are designed to segregate financial duties, protect against asset loss, protect cash receipts, require second signatures on large checks, keep track of inventory, require an efficient bidding process, produce timely reports, and maintain accurate record keeping.

KEY ELEMENTS

- Good financial practice requires boards to have policies for the handling of money by staff and board alike. Such policies include controls put on check-signing authority, transfer of funds, cash disbursement, and other financial transactions.
- Financial controls provide broad guidelines for significant financial transactions, but the board should not get involved in determining (or monitoring) how the staff handles daily transactions.
- An area of financial concern is the approval of capital expenditures, such as for equipment and other tangible assets, made by the staff. Nonprofit organizations often have financial limits beyond which a chief executive cannot go without board approval.

PRACTICAL TIPS

- ✓ Depending on the scope of the organization's other financial policies, consider ensuring that certain internal management controls are established and requiring that they be reviewed annually.
- ✓ In managing funds, the board generally delegates day-to-day control to staff; however, the board should keep control of borrowing money. Excessive borrowing is not in the interest of the organization and may signal a lack of sufficient financial controls on the part of staff and board.
- ✓ Review the organization's financial policies and procedures regularly. This task can be delegated to the audit or finance committee.
- ✓ If the board approves the establishment of credit card accounts for the organization, the chief executive must set clear processes to ensure proper use of the cards for business purposes only.

SAMPLE FINANCIAL CONTROL POLICIES

If the organization does not have a single, all-encompassing financial policy, the board should ensure that some specific policies are instituted. The samples address a variety of different issues, and they are offered as examples of common internal control policies.

1. This brief policy establishes general guidelines for financial controls and clarifies what requires board approval.
2. This short and simple policy provides basic requirements for check signing and cash disbursements.
3. This short policy covers check signing, withdrawal of funds, and deposits, and requires the check signers to be bonded.
4. This sample provides criteria and guidelines should the organization need to borrow funds or establish a line of credit.
5. Generally, nonprofits do not make loans to board or staff members because they are usually prohibited by state nonprofit corporation statutes and because they may cause “excess benefit transactions.” This policy provides stringent guidelines for those rare instances when they are allowed and appropriate.
6. Through this policy, the board authorizes the chief executive to define processes for credit cards for business use. However, the board should retain the authority to set appropriate credit limits.
7. Because corporate credit cards can complicate accounting procedures and are ripe for abuse, some organizations choose not to use them. This policy allows for a single corporate card to be used only in emergency situations.
8. This brief statement connects the organization’s purchasing activities to its values related to diversity and community service.

Suggested Resources

- Lang, Andrew S. *Financial Responsibilities of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- Berger, Steven. *Understanding Nonprofit Financial Statements, Third Edition*. Washington, DC: BoardSource, 2008.
- Kurtz, Daniel L. and Sarah E. Paul. *Managing Conflicts of Interest: The Board’s Guide to Unbiased Decision Making, Third Edition*. Washington, DC: BoardSource, 2013.

5. INVESTMENTS

INTRODUCTION

Wise investing provides an opportunity to increase revenues and decrease pressure on fundraising and other sources of revenue. Any organization that has assets to invest should also have appropriate policies to safeguard those investments. Such policies can range from simple introductory statements to complex details useful only to the most sophisticated investment committees.

KEY ELEMENTS

- A basic investment policy identifies the assets available for investing, defines general investment objectives, sets asset allocation parameters (e.g., diversification), and clarifies the organization's tolerance for risk (by defining required ratings).
- Investment policies are not only for large organizations with considerable endowments. A responsible board makes sure that policies exist to get the best return from any cash surplus. Likewise, investment policies are reviewed and revised as the organization grows.
- An investment policy often defines the role of an investment manager in day-to-day management of the funds, specifies his or her accountability (e.g., risk in transactions, reporting requirements, and coverage of cash flow needs), and designates a board committee or the full board to monitor the manager's performance and that of the portfolio.
- The investment policy offers some protection from liability. By faithfully adhering to the requirements of the investment policy, the board may reduce the chances of arbitrary or inappropriate investments, and thus limit the viability of any charges that it breached fiduciary duties.
- In 2006, the Uniform Prudent Management of Institutional Funds Act (UPMIFA) replaced the Uniform Management of Institutional Funds Act (UMIFA). UPMIFA provides guidance and authority to charitable organizations concerning the management and investment of funds. It also modernized the rules governing expenditures from endowment funds, both to provide stricter guidelines on spending from endowment funds and to give institutions the ability to cope more easily with fluctuations in the value of the endowment.

PRACTICAL TIPS

- ✓ When determining investment goals, take short-term and long-term goals into consideration. The purpose of the specific fund can help determine the priorities — growth, liquidity, or security — and the level of acceptable risk.

- ✓ When diversifying the portfolio, consider different types of investments (e.g., stocks, bonds, alternative and cash equivalents) in different classes (e.g., corporate vs. U.S. Treasury bonds, and large, medium, or small company stocks) in different industries.
- ✓ Consider adopting socially responsible investment guidelines, restricting investment activity in liquor, tobacco, arms, and other potentially controversial investments.

SAMPLE INVESTMENT POLICIES

Investment policies provide direction for the nonprofit's board about how accumulated funds should be invested. Some organizations simply need a statement to clarify how any cash surplus is treated, and others require a comprehensive policy defining the purpose and use of a substantial endowment. The sample policies included are arranged in order of increasing specificity.

1. This general policy establishes an investment committee, authorizes retention of an investment consultant, and then addresses all of the standard investment policy issues.
2. Goals and responsibilities are thoroughly defined in this sample. It incorporates social investment as part of its investment goals.
3. This policy defines different categories of funds and their investment objectives, and distinguishes responsibilities between board and staff.
4. This simple policy establishes guidelines for short-term operating reserves and delegates responsibility to the chief executive.
5. This sample addresses other investment assets, such as property and equipment, and clarifies priorities in each fund.
6. This comprehensive investment policy addresses the unique needs of a foundation and includes signature lines for the foundation and investment manager.

Suggested Resources

- Fry, Robert P. *Who's Minding the Money: An Investment Guide for Nonprofit Board Members, Second Edition*. Washington, DC: BoardSource, 2009.
- Uniform Prudent Management of Institutional Funds Act (UPMIFA) Council of Michigan Foundations, 2009. www.michiganfoundations.org/s_cmf/bin.asp?CID=2523&DID=38644&DOC=FILE.PDF

6. RESERVES AND ENDOWMENTS

INTRODUCTION

Financial reserves act as a safeguard for rainy days and permit an organization to adjust to seasonal variances in expenses and income. Market forces, economic downturns, natural disasters, or other unexpected expenses cannot be controlled by nonprofit managers, but expenses related to them can — and should — be managed. Reserve funds allow an organization to continue activity when income falls unexpectedly, such as when clients are unable to pay their bills on time, when contributions decline substantially, or when a significant grant is not realized. These funds also allow an organization to seize an unprecedented opportunity, such as financing a new venture, making an advantageous capital purchase, or expanding a program at an opportune time.

Reserve funds usually come from the accumulated surpluses of the organization over time. The board, with input from staff, should establish a reserve policy that maintains an appropriate level for the organization, given its mission. Reserve funds are usually designated or allocated by the board as a way to ensure the long-term financial stability of the organization.

Many nonprofit organizations — besides accumulating operational reserves — have established or wish to establish an endowment fund. Endowment funds are generally maintained so that the principal is continually invested and the withdrawals (usually a percentage of the endowment's market value) are used by the organization for program expenses. However, there can be pressure on organizations to invade the principal or dissolve the fund in periods of financial stress. Policies are needed to guide the board in making decisions about the endowment — how it should be invested and how it should be used.

KEY ELEMENTS

- The distinction between reserves and endowments is significant. An endowment is a pool of money that is invested so that the income can be used to support the nonprofit. Often, donors have restricted these funds so that the principal cannot be used to cover day-to-day expenses. Reserve funds are more flexible. Reserves usually come from the accumulated surpluses of the organization over time, can be spent to expand programs and run the organization, and are usually designated or allocated by the board.
- Reserve policies will state the required reserve level in terms of months of operating cash, meaning that, should all sources of income stop, the organization would be able to keep running for that period of time.
- Board approval is usually required for any disbursements from the reserves fund.

- Establishing an endowment fund requires a special policy that defines its purpose, who manages the fund, the investment approach, and how the money will be disbursed.
- When created by donors, endowment funds are bound by legal agreements. The donors' wishes need to be respected and the money can be used only for the assigned purpose. Even the board may not change the original restrictions on the fund, as it can with operating reserves.
- Generally speaking, endowments of private foundations must disburse 5 percent of the net assets annually. Many nonprofits traditionally use the same percentage when determining the disbursement rate for endowment funds.

PRACTICAL TIPS

- ✓ Responsibility for monitoring the board-designated reserve is often delegated to the finance and/or investment committee.
- ✓ When establishing the level of operating reserves, the board and executive staff need to balance the need for equity that generates future income against immediate operating and cash flow needs.
- ✓ Endowments may be created by special endowment campaigns, major gifts or planned gifts, or by pooling operational reserves into a specified endowment fund. When appropriate for the organization, one useful way to grow an endowment fund is to establish a planned giving program.
- ✓ Gift acceptance policies (see Part VI, Section 3) complement endowment policies by providing guidelines for working with the donors. Likewise, consider including specific requirements for endowments in your investment policies (see Part V, Section 5).

SAMPLE RESERVE AND ENDOWMENT POLICIES

With a policy on operating reserves, the board ensures that the organization is ready to react to unexpected events. By drafting a policy on endowments, the board guarantees that the permanent fund is truly dedicated to the originally intended purpose. The three reserve policies are deceptively simple and require careful consideration by an organization's leaders. The two endowment policies provide basic boundaries for endowments.

1. This brief policy provides basic guidelines related to the reserve fund and board approval.
2. This sample operating reserve objective provides a greater level of detail, which can be applied to specific fund objectives. It is for organizations with significant reserves relative to their regular cash flow requirements and illustrates one approach to increasing returns on these funds.

3. This succinct statement defines the basic description and objective of an endowment.
4. This general policy reserves the right, for the board, to dissolve the endowment fund if the purposes can no longer be met.
5. This endowment spending policy includes specific distribution values.

Suggested Resources

- Fry, Robert P. *Who's Minding the Money: An Investment Guide for Nonprofit Board Members, Second Edition*. Washington, DC: BoardSource, 2009.
- "Principles of Endowment Management." Commonfund Institute. www.commonfund.org/InvestorResources/Publications/Brochures/Principles%20of%20Endowment%20Management.pdf
- "Nonprofit Operating Reserves and Policy Examples." Nonprofits Assistance Fund, October 2010. www.nonprofitsassistancefund.org/clientuploads/directory/resources/Operating_Reserves_and_Policy_Example.pdf

7. FINANCIAL AUDITS

INTRODUCTION

An audit refers to an independent professional examination of the organization's financial statements and its support materials. The audit will attest to the fair presentation of the financial statements; it will not guarantee their accuracy. Nonprofit organizations — and their boards — benefit from the annual audit as an outside assessment of their financial status and their internal financial controls, as a tool to improve financial and risk management, and as a measure of assurance to constituents and supporters who want to know that their trust and support is deserved.

Financial audits are often recommended for organizations with budgets of \$1 million or more. California requires any nonprofit with gross revenues of \$2 million or more to conduct an annual audit, and some states have much lower revenue thresholds (e.g., \$250,000). Furthermore, most organizations that receive government funding are obligated to have an audit. In weighing the benefits of an audit against the expense, many organizations with smaller budgets choose to have an independent accountant prepare or review their financial statements. If the board decides not to have an annual audit, it may choose to conduct a less comprehensive and costly review or to have the audit take place biennially.

KEY ELEMENTS

- The auditor reports to the board and assists management. Responsibility for hiring an auditor belongs to the board, and the full board should receive and review the auditor's report, management letter, and the IRS Form 990.
- Some nonprofits, especially larger organizations, have adopted audit practices that mirror those required of publicly traded companies through the Sarbanes-Oxley Act of 2002. They have addressed concerns about auditor independence by requiring rotation of the audit firm or partner periodically, and by stipulating what other professional services the auditor may or may not perform.
- When a board decides that an audit is desirable, it often delegates certain responsibilities to a separate audit committee (see Part IX: Committees: Financial Committees). The role of this committee is to act on behalf of the full board in carrying out the audit process. This committee may also assume oversight of the organization's overall ethical standards.

PRACTICAL TIPS

- ✓ Have an executive session with the full board and the auditor, without any staff present. This provides the board with an opportunity to openly review

the results of the audit and management letter and to ask candid questions about the organization's financial health without creating unnecessary distrust between the board and senior staff.

- ✓ The auditor is in a good position to provide guidance and expertise concerning internal controls and general financial practices (see Part V: Finance and Investments: Financial Controls). Take advantage of the auditor's presence to learn about current issues in nonprofit accounting and auditing and areas for improvement in the organization's financial systems and structure.
- ✓ Increasingly, nonprofit boards are separating the audit from financial oversight to ensure appropriate checks and balances. If the finance committee also handles the audit, be sure committee members understand the distinction between routine financial review and the annual audit.
- ✓ The auditor also needs support from management to complete the audit. Rather than waiting for the auditor's instructions, the finance staff should organize files and records in advance of the auditor's arrival to save time. The auditor should send a preliminary listing of items needed for an efficient start to the audit.

SAMPLE FINANCIAL AUDIT POLICIES

All three sample audit policies require an annual financial audit. They range from a very simple acknowledgment of the board's responsibility for the audit, to more detailed requirements about the process.

1. This basic policy mandates an annual audit and its distribution.
2. This sample delegates certain responsibilities to the audit committee and requires periodic rotation of the auditors.
3. This more comprehensive policy includes guidelines for selecting the audit firm and monitoring the entire audit process.

Suggested Resources

- McLaughlin, Thomas A. *Financial Committees*. Washington, DC: BoardSource, 2004.
- Lang, Andrew S. *Financial Responsibilities of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- "The Sarbanes Oxley Act and the Implications for Nonprofit Organizations." BoardSource and Independent Sector, revised 2006. www.independentsector.org/uploads/Accountability_Documents/sarbanes_oxley_implications.pdf

8. LOANS

INTRODUCTION

The IRS and Senate Finance Committee are attentive to tax-exempt organizations that provide loans to board members and staff. State laws vary on the legality of loans to board members, so knowledge of one's own state statutes is a threshold issue in this regard. There is no federal law that prohibits loans to board members except in private foundations, where all self-dealing — a financial transaction between the board member and foundation — is illegal. (The foundation may reasonably compensate a board member for his or her governance role and when he or she provides necessary professional services to the organization.) The assets of a nonprofit are to be spent for its tax-exempt purpose. Even if extending a loan to a board member is not illegal, it can be perceived as improper.

KEY ELEMENTS

- Clarify the reasons why the organization would or would not grant loans.
- Discuss who is included in the policy.
- Stakeholders will want to know how the decision was made to grant the loan and whether the beneficiary was part of the board's decision-making process. Even if the decision and transaction occurred with total disclosure and transparency, the question will remain: Should a board member be allowed to rely personally on your organizational funds?
- Unless the organization's mission is explicitly financial — for example, nonprofit credit union and other financial aid group — public charities should not serve as banks for their insiders. Earned and contributed funds are meant to advance the mission.
- Private foundations must not engage in self-dealing and therefore may not grant loans.

PRACTICAL TIPS

- ✓ Remember that loans must be reported on the Form 990. Are you comfortable making this public information?
- ✓ Suggest board members check with their own banks and other financial institutions for financial assistance.

- ✓ If your board approves a loan to a board member, it should be prepared to deal with additional challenges. Placing the organization's financial health under any unusual or questionable risk is in direct conflict with the board members' fiduciary duty. Discuss the following questions:
 - If one board member can be the recipient of the organization's generosity, how can the organization deny the request from others?
 - If the board member in question defaults on the loan, how will the organization address this issue, absorb the loss, or justify its due diligence processes?
 - Should the board not be able to take advantage of an exceptional opportunity because reserves are committed elsewhere, how can the board justify its commitment to the organization and its fiduciary duty?

SAMPLE LOAN POLICIES

Both sample policies oppose internal loans in principle.

1. This policy states that the organization does not provide loans to board members.
2. Generally, nonprofits do not make loans to board or staff members because they are usually prohibited by state nonprofit corporation statutes and because they may cause "excess benefit transactions." This policy provides stringent guidelines for those rare instances when they are allowed and appropriate.

Suggested Resources

- *The Principles Workbook: Steering Your Board Toward Good Governance and Ethical Practice*. BoardSource 2009. www.nonprofitpanel.org
- *Principles of Good Governance and Ethics: A Guide for Charities and Foundations*. The Panel on the Nonprofit Sector, 2007. www.nonprofitpanel.org

9. IRS FORMS 990

INTRODUCTION

The Form 990, 990-EZ, 990-PF, or the simple 990-N are annual information returns that nonprofits file with the Internal Revenue Service (IRS). These Form 990 public documents provide the IRS with the information it needs to determine whether an organization continues to meet the requirements for tax-exempt status. In 2008, the IRS redesigned the form to include questions pertaining to governance. Since then, the IRS has further fine-tuned the form.

Subject to minimal exceptions, the IRS requires all tax-exempt organizations to make their past three Forms 990 available for public inspection and to provide copies to anyone requesting them in writing.

KEY ELEMENTS

- The Form 990 is often completed by a professional advisor (e.g., accountant or trust officer). Requiring an internal verification adds an additional level of accountability. The signature of the chief executive or the chief financial officer serves as a testament to the accuracy of the information. Any officer of the organization has the authority to sign the Form 990.
- Establishing a policy on public disclosure of Form 990 emphasizes the organization's commitment to public transparency and compliance with the law. The Form also can serve as a marketing tool to gain support for the organization. For these reasons, it is very important to provide accurate and complete information.
- Because the Form 990 is a public document, the governing body of the organization should be knowledgeable of the contents before it is disclosed to the IRS. The form, in fact, suggests this: There is a question asking if the board has reviewed the form.

PRACTICAL TIPS

- ✓ To ensure that each board member is familiar with the contents of the Form 990, the chief executive should provide a copy to each board member and record the distribution of the report in the board meeting minutes. Most auditors review the Form 990 in detail with the board during audit committee meetings.

- ✓ Accountability and transparency are key to retaining public trust. Nonprofits can accomplish this by providing easy and open access to their Form 990. The easiest way to facilitate the availability of the Form 990 is to post a copy on the organization's Web site. Most 990s are also available electronically through GuideStar (www.guidestar.org).
- ✓ A charity need not publicly disclose the names of donors and the amounts of individual contributions. This information may be listed as an attachment marked "Not Subject to Public Inspection." Private foundations must disclose this information.

SAMPLE IRS FORM 990 POLICIES

While brief, the three samples provided address the responsibilities of both board and staff in making the appropriate information available to the public.

1. This checklist outlines a series of proactive steps that staff undertakes, with board oversight, to publicly disclose financial information, including the Form 990 and audited financial statements.

Suggested Resources

- GuideStar. www.guidestar.org.
- Department of the Treasury, Internal Revenue Service. Instructions for Form 990 Return of Organization Exempt from Income Tax. www.irs.gov/pub/irs-pdf/i990.pdf.
- Form 990. www.irs.gov/pub/irs-pdf/f990.pdf

10. RISK MANAGEMENT

INTRODUCTION

One of the board's responsibilities is to safeguard the organization's resources — both human and financial. By putting a risk-management policy in writing, the organization communicates its commitment to managing potential organizational threat. This policy statement reflects the organization's mission and purpose, states the intent of the program, and lists the actions that others throughout the organization can take to contribute to the organization's risk-management efforts.

KEY ELEMENTS

- A comprehensive risk-management policy identifies potential risks to the organization, evaluates their prevalence, and selects suitable techniques to deal with them. These techniques may include ways to avoid the risk (fix broken railing), modify its presence (install burglar alarm), accept the possibility for the risk to materialize (low probability for floods), or transfer the consequences to someone else (purchase insurance).
- For many nonprofits, risk management includes a variety of other policies, such as employee hiring and screening policies, safety and accident reporting policies, investment policies (see Part V: Finance and Investments: Investments), and other personnel-related policies (see Part VII: Personnel Policies).

PRACTICAL TIPS

- ✓ With respect to the risks posed by the decisions and operations of the board, in addition to purchasing directors' and officers' liability insurance, adopt board policies to address issues like conflict of interest (see Part I: Ethics and Accountability: Conflict of Interest) and indemnification (see Part III: Board Practices: Indemnification).
- ✓ The organization's commitment should go beyond developing a policy statement and having proper insurance policies. Be sure to put a risk-management plan in place. A risk-management plan describes an organization's priority risks and the strategies the organization has identified to prevent harm or loss, or to respond to incidents should prevention measures fail. It helps to protect not only paid and volunteer staff, but also the general public.

SAMPLE RISK MANAGEMENT POLICIES

A basic risk-management policy is a brief statement, often just a few sentences. Some nonprofits will include additional guidance about insurance, sources of risk, and risk-management plans.

1. This brief, general statement recognizes the importance of risk management and commits the board to ensuring that a risk-management plan is updated annually.
2. This statement identifies general areas of risk that the chief executive is responsible for managing and provides some guidance on the level of protection.
3. This brief policy specifies what kind of insurance protection must be maintained.
4. This policy reflects the organization's commitment to developing an emergency response and recovery plan. The details are naturally very specific to the organization, but the framework should help others prepare their plan.

Suggested Resources

- Herman, Melanie L., et al. *Managing Risk for Nonprofit Organizations: A Comprehensive Guide*. New York: John Wiley & Sons, 2004.
- The Nonprofit Risk Management Center. www.nonprofitrisk.org

PART VI

Fundraising

1. Board Member Fundraising
2. Donor Relations
3. Gift Acceptance
4. Sponsorships and Endorsements

1. BOARD MEMBER FUNDRAISING

INTRODUCTION

Board members have a crucial role to play in raising funds for the organization they serve. They are volunteers dedicated to the mission of the organization and the people served by the organization. And, they have contacts in the community. The expectation of board member involvement in fundraising continues to rise, yet many boards have not created a policy that specifies what that involvement should entail. A board fundraising policy can take the form of a narrative or a specialized agreement or contract in which board members indicate the amount they expect to contribute to the organization in the coming year and how they will participate in the fundraising efforts of the organization.

KEY ELEMENTS

- Personal giving policies state whether a board member is expected to give a certain amount or to give according to his or her means. Funders often ask if 100 percent of board members give.
- Fundraising policies establish expectations for board members to make a personal donation and to participate in solicitation efforts. The policy may list examples of how board members can or should be involved, such as providing names of potential donors, writing or signing fundraising letters, thanking donors personally, accompanying the chief executive on donor and foundation visits, or making the ask themselves.
- Some organizations use a special pledge form that guides board members in thinking about the array of fundraising activities taking place throughout the year and asks them to make an annual fundraising commitment.
- Some nonprofits incorporate board member fundraising expectations into more general job descriptions (see Part II, Sections 3 and 4).
- If the organization has a separate fundraising body (maybe a supporting organization), it is still important to outline the role for board members and how they relate to this body — and vice versa.

PRACTICAL TIPS

- ✓ To become a committed fundraiser, a board member must first make a contribution. This requirement is the cornerstone of individual fundraising because it allows a board member to use himself or herself as an example of someone who supports the organization.
- ✓ Not every board member will be able to give the same size gift. Some organizations stipulate a minimum gift amount; many do not. The policy should encourage each board member to make the organization a one of the priorities in his or her personal giving plan or to make what, for that person, is a substantial financial contribution. The policy should not, however, eliminate capable and valuable individuals from joining the board and contributing other skills and expertise.
- ✓ Board members possess different skill levels and aptitudes for solicitation. Provide board members with training in fundraising and practical tools like checklists, sample elevator speeches, and steps for approaching a potential donor, to help each member gradually assume more responsibility. Providing mentors and coupling inexperienced board members with staff or more seasoned board members is another way to increase everybody's comfort with personal solicitations.
- ✓ Some individuals, because of their profession or position (e.g., journalists, judges), may be prohibited from certain kinds of fundraising solicitations (e.g., workplace campaigns). Seek other activities so these board members can still support the organization in a meaningful way.

SAMPLE BOARD MEMBER FUNDRAISING POLICIES

The sample fundraising policies included range from broad statements of general expectations to specific requirements and commitments for board member participation. They are arranged in order of least to most specific.

1. This brief statement acknowledges that each board member should give according to his or her means and should participate in all fundraising efforts.
2. This general policy outlines expectations for board member participation that is beyond simply “giving and getting.”
3. This brief sample, which may be incorporated into other statements, identifies a specific sum each board member is responsible for either raising or contributing.

4. This brief statement not only establishes a minimum amount for personal contributions but also separates fundraising obligations from personal giving.
5. This sample statement suggests more personal ways that board members can support the organization's fundraising activities. It was adapted from a national organization to encourage board members to get involved in local fundraising.
6. This statement summarizes how board members are expected to actively participate in fundraising. It refers to three major areas of responsibility in this regard — leadership, personal action, and advocacy — and is also meant to be used as a guide to evaluate board members' performance in fundraising.
7. This more comprehensive sample, in the form of an annual pledge, specifies the level of contribution, level of participation in fundraising activities, and ability to donate or identify in-kind giving sources. This form needs to be prefaced by an explanation in the job description for new board members in order for them to feel comfortable with this expectation.

Suggested Resources

- Sternberg, Dave. *Fearless Fundraising for Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2008.
- Greenfield, James M. *Fundraising Responsibilities of Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2009.
- Tempel, Eugene R. *Development Committee*. Washington, DC: BoardSource, 2004.

2. DONOR RELATIONS

INTRODUCTION

Treating donors with respect, gratitude, and consideration not only makes sense but is also the only way a charitable organization will keep donors coming back. A nonprofit organization is accountable to the public and to the donors who support it. Respecting donors' wishes, first and foremost, demonstrates responsible and ethical behavior. If a donor makes an unrestricted contribution, the organization is free to use the money to advance the mission however it deems appropriate. If a donor specifies what the money is to be used for or puts conditions on the contribution, the organization is obligated to follow the donor's wishes if it accepts the gift. Donors have a right to know that their contributions have been put to good use.

KEY ELEMENTS

- Recognizing donors for their gifts is an essential part of responsible fundraising. There are numerous ways this can be done, but it is best managed by clear guidelines that spell out the process and define the levels and methods of recognition.
- A donor relations policy should be clear about proper handling of confidentiality and anonymity desired by some donors. Additional guidelines should state how to treat donor contact information and how the donor prefers to be listed or named in recognition vehicles.
- Federal tax law imposes rules as to written substantiation of contributions above specific amounts and statements as to whether a donor has received anything in return that might lower the deductible portion of the contribution.

PRACTICAL TIPS

- ✓ Following rules of accounting on how to record unrestricted, temporarily restricted, and restricted grants and donations is the only way to keep track of the use of donated funds.
- ✓ Always keep the donor informed. He or she has the right to know how his or her contribution or grant is being used and what the organization has been able to accomplish with the gift. In the policy, stipulate what information is shared with donors and at what intervals.

- ✓ Donor intent must be honored. If conditions change and the donor's intent can no longer be followed, go back to the donor (if possible) and negotiate another use for the balance of the funds. It is best to do this as soon as it becomes clear that the funds will need to be allocated or the term of the grant extended. It is inadvisable to wait for the formal grant reporting deadline.
- ✓ When defining the different levels of recognition, always leave the options open for a major gift. It is desirable to be able to provide a worthy and equitable recognition for the gift.
- ✓ Share with all major donors your audited financial statements and annual reports.
- ✓ Adopt the Donor Bill of Rights as a way to let donors know that their needs are respected in the organization. (A copy of the Donor Bill of Rights is included at the end of the sample fundraising policies.)

SAMPLE DONOR RELATIONS POLICIES

The first two samples are policies related to donor recognition and informing donors appropriately. The third sample is the Donor Bill of Rights, which is a good addition to (not a substitute for) a donor relations policy.

1. This succinct policy highlights some of the key elements in donor recognition.
2. This policy includes more specifics about the information provided to donors.
3. The Donor Bill of Rights was created by the American Association of Fund Raising Counsel (AAFRC), Association for Healthcare Philanthropy (AHP), the Association of Fundraising Professionals (AFP), and the Council for Advancement and Support of Education (CASE). It has been endorsed by numerous other nonprofit associations, and many charities incorporate it into their operating policies and procedures.

Suggested Resources

- The Donor Bill of Rights. www.afpnet.org/ethics/enforcementdetail.cfm?itemnumber=3359
- Poderis, Toni. "Building Donor Loyalty." www.raise-funds.com/2003/building-donor-loyalty-chapter-1/
- Sternberg, Dave. *Fearless Fundraising for Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2008.

3. GIFT ACCEPTANCE

INTRODUCTION

Nearly all charitable organizations accept, and most actively solicit, financial gifts. However, there are times when the perception of such gifts might compromise the mission of the organization or the gift might have too many conditions imposed by the donor. Having a gift acceptance policy helps the board decide whether to accept controversial or “high-maintenance” gifts. Because nonprofits also receive non-cash contributions, clear gift acceptance policies provide guidance as to whether the organization should accept gifts of real estate, stock, art, or automobiles, and how those gifts will be liquidated or maintained.

KEY ELEMENTS

- A nonprofit organization need not accept a gift simply because it is offered. A gift acceptance policy defines the types of gifts the organization will allow.
- Not every gift is a blessing. Donors and nonprofits don’t always share the same values and priorities. Gifts that do not enhance the organization’s mission, priorities, and reputation should be not accepted.
- Planned giving vehicles, such as bequests and charitable trusts, require that the organization have the capacity to administer them. They may not be appropriate for every organization.

PRACTICAL TIPS

- ✓ Seek ways to encourage donors to make unrestricted gifts that support the general operating budget. Donor restrictions and conditions must be acceptable to the organization and not endanger the tax deductibility of the contribution. Negotiating with generous but demanding donors may be time consuming, but it is important that both parties agree on the terms of the gift and that the gift reflects an investment in work/activities that advance the mission of the organization.
- ✓ The federal law mandates how certain kinds of gifts (e.g., cars, real estate, art) must be documented, valued, and even taxed. Work with lawyers specialized in charitable giving to avoid problems for the organization, and ask that donors do the same.
- ✓ To protect the organization’s integrity, consider having a policy that requires the immediate sale of gifts of securities. This eliminates ethical concerns about affiliation with certain companies and avoids second guessing the timing of stock sales.

- ✓ Seriously consider whether the nature of the gift or the source of the gift is in conflict with the mission of your organization. For example, should an environmental organization accept funding from a known environmental offender, or should a gun control advocacy organization accept funding from an arms manufacturer?
- ✓ Remain independent to the beliefs and values of the organization and do not allow a major donor to lead you off course or to compromise your objectives.

SAMPLE GIFT ACCEPTANCE POLICIES

The sample gift acceptance policies provided range from very a simple acknowledgment of the board's role in accepting gifts to expansive policies that address values, process, and administrative details. They are arranged in order from least to most comprehensive.

1. This brief policy clarifies the board's right, on behalf of the organization, to refuse a gift.
2. This brief policy specifies how the organization will treat gifts of stock.
3. This short sample establishes the board's role in accepting gifts of property valued over a certain amount.
4. This general policy outlines the basic parameters a nonprofit board and organization should take into account when deciding whether to accept a gift.
5. This policy lists clearly the kinds of gifts that are not acceptable.
6. This comprehensive sample provides detailed guidance for staff in working with major donors and articulates their respective responsibilities.
7. This comprehensive policy outline presents a thorough gift acceptance policy that addresses ethical considerations, legal requirements, and administrative procedures.

Suggested Resources

- Tempel, Eugene R. *Development Committee*. Washington, DC: BoardSource, 2004.
- Fowler, Ronald and Amy Henchey. "In-Kind Contributions." www.irs.gov/pub/irs-tege/eotopice94.pdf

4. SPONSORSHIPS AND ENDORSEMENTS

INTRODUCTION

A corporate sponsorship is a financial relationship between a nonprofit organization and a commercial enterprise that is of mutual benefit. In exchange for money, products, or services, the nonprofit provides the corporation with recognition and, at times, use of its name in corporate marketing. Generally, there are four types of corporate sponsorship:

1. **Event Marketing:** A company sponsors a specific event. For example, Adidas, Heineken, and Hyundai have been sponsors of past Olympic Games.
2. **Partner Sponsorship:** A long-term partnership between a nonprofit and a corporation. For example, a local mechanic sponsors a little league baseball team.
3. **Cause-Related Marketing:** A corporate sponsor promotes a specific cause by donating a percentage of its profits from the purchase of a product or service. For example, American Express gives a percentage of its profits to Share our Strength.
4. **Endorsements:** A corporation pays a royalty fee for the use of a charity's name or logo on its products. For example, Nicoderm has given money to the American Lung Association to use the ALA name and logo in commercials and on its packaging.

KEY ELEMENTS

- A sponsorship policy defines the relationship between the nonprofit organization and its corporate sponsors. It should provide guidelines on the types of companies the organization will work with and any potential concerns related to the nonprofit's mission and values.
- Sponsorships, by their very nature, require giving the company prominent recognition. A sponsorship policy should establish guidelines for corporate recognition based on the level or value of the sponsorship and, likewise, boundaries for use of the nonprofit's name and logo.
- The policy should also acknowledge who has authority for making sponsorship decisions. Depending on the scale and scope of the organization or the activity, the board may reserve the right to review and even approve corporate sponsorships.

- The board should establish and approve the organization's sponsorship policies, but staff will often handle operational issues, such as negotiating contracts, coordinating communication efforts, and implementing the activities.
- The board should establish parameters for sponsorship agreements that address limitations and exclusivity, requirements for entering and terminating contracts, and other basic terms.
- Responsibility for corporate sponsorships can be confusing. In nonprofit organizations, either the development or the marketing department may take charge. In corporations, it is often part of the marketing department, rather than the philanthropic or community affairs department.
- Not every nonprofit organization is suited to corporate sponsorships. Small nonprofit organizations may find sponsorship difficult because they lack the staff and resources required to work with a large company. Other organizations, with strong ideology or controversial missions, will find few companies willing to promote their cause.

PRACTICAL TIPS

- ✓ Engage in the necessary due diligence with respect to a corporation. Make sure that the company's activities, affiliations, business practices, and reputation do not compromise the organization's mission or brand. Ensure that the nonprofit's supporters and stakeholders will be comfortable with this relationship.
- ✓ Clarify expectations on both sides. What does the organization want out of this relationship? How important is it in the short- and long-term? How does the company want to be recognized? Does it want sole sponsorship?
- ✓ Remain independent and true to the values of the organization. Do not allow a donor or a sponsor to steer the organization off of its course or beliefs.
- ✓ Beware of IRS regulations. The IRS regulates sponsorship relationships and separates them from taxable business activities, such as advertising. To avoid taxable income, sponsorship payments should not provide a substantial benefit to the company, but recognition is allowed. You can avoid taxable income and still acknowledge sponsors by citing the sponsor's name, logo, phone number, and address; using value-neutral descriptions of products and services; and linking to the sponsor's Web site's home page.

SAMPLE SPONSORSHIP POLICIES

Because there are so many variations on corporate sponsorships, from high-profile events and program underwriting to co-branding and product endorsements, the policies are relatively general.

1. This succinct statement affirms the organization's commitment to its values and establishes the board's authority for making decisions related to endorsements.
2. This policy encourages active solicitation of sponsors for the organization's programs.
3. This sample provides general guidelines for choosing a sponsor.
4. This policy gives guidelines for product endorsement and sponsorships for special events.
5. This comprehensive policy defines terms, scope, and restrictions for sponsorship activities and clarifies the process for approving contracts.
6. This sample is careful about fulfilling all the legal stipulations with sponsorship and advertising. It details the types of sponsorship and advertising it finds acceptable and unacceptable.

Suggested Resources

- "What is a Corporate Sponsorship?" National Council of Nonprofits. www.councilofnonprofits.org/resources/resources-type/toolkits/corporate-sponsorship-toolkit
- IRS. "Rules and Regulations, Taxation of Tax-Exempt Organizations' Income From Corporate Sponsorship." http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=2002_register&docid=02-9930-filed.pdf
- Poderis, Toni. "Fitting Annual, Endowment, Capital, Sponsorship & Underwriting Campaigns into Your Organization's Plans and then Making Them "Sing." www.raise-funds.com/1999/fitting-annual-endowment-capital-and-sponsorship-underwriting-campaigns-into-your-organizations-plans-and-then-making-them-sing/

PART VII

Personnel Policies

1. Responsibility for Human Resources
2. Equal Employment Opportunity
3. Nepotism
4. Sexual Harassment
5. Workplace Environment
 - a. Substance Abuse
 - b. Solicitation
 - c. Electronic Communication
6. Performance Review
7. General Staff Complaints
8. Severance Pay
9. Sustainability

1. RESPONSIBILITY FOR HUMAN RESOURCES

INTRODUCTION

The board is ultimately responsible for the personnel policies of the organization. In practice, this means that the board should periodically review the personnel policies to ensure that they are appropriate and up-to-date. The board may also consider overarching employment policies that reflect the organization's values and desired interactions with its stakeholders — clients, volunteers, staff, and/or the public. That said, except for its supervision of the chief executive, the board does not usually get involved with human resource management. In practice, this means that the board delegates general responsibility to the chief executive for the nonprofit's employment practices.

Personnel policies cover such things as hours of work, paid holidays, paid leave for illness and personal reasons, and employment status. They also cover issues that may lead to litigation, such as employee complaints, discrimination, and sexual harassment. It is especially important for the board to provide guidance on these latter areas. So, in delegating responsibility to the chief executive, the board should be sure to articulate core elements related to human resource issues and the workplace environment.

KEY ELEMENTS

- A simple policy helps to delegate responsibility for the organization's employment practices and procedures to the chief executive. The chief executive, in turn, may carry out that responsibility himself or herself or by assigning it to another employee (e.g., a human resource manager).
- Nonprofit organizations often borrow personnel policies — from more established organizations and/or those with similar programs — to serve as guidelines, but the personnel policies of each organization should reflect the values of that particular organization. The board should ensure that any borrowed policies meet the requirements of the state laws that are applicable to them.
- In young nonprofit organizations, with their first paid staff, the board may be reluctant to create personnel policies out of fear that the policies imply a lack of trust. While board members may want to maintain the collegial work environment, they should not underestimate the value of clear guidelines in helping the organization function better and avoiding potential problems in the future.

PRACTICAL TIPS

- ✓ Make certain that the dissemination of policies to employees does not constitute a contract between management and employees that could result in legal liability under state laws if the policies are not followed. In states where policy manuals may be deemed to constitute contracts, employers can protect themselves by adding a waiver in prominent language, preferably at the beginning of the manual, which states that the manual and/or the policies stated in it do not constitute a contract. Often, this waiver clarifies that employment with the organization is at will, meaning that employees can be terminated for any reason that does not violate federal or state law.
- ✓ Be sure to have specialists in human resource management and employment law review all personnel policies to make sure they are fair and equitable and that they include all legally required elements. Sometimes, a board member with special expertise may serve as a resource for reviewing and updating the policies.

SAMPLE HUMAN RESOURCES RESPONSIBILITY POLICIES

The two policies provided delegate overall responsibility for employment policies and practices to the chief executive: the first by establishing a positive framework, and the second by defining the minimum requirements.

1. This brief, affirmative statement sets the framework for the organization's employee philosophy and assigns responsibility for personnel policies to the chief executive.
2. This policy defines the management boundaries within which the chief executive must operate vis-à-vis employees and personnel policies.

Suggested Resources

- Heathfield, Susan M. "What Does a Human Resources Manager, Generalist, or Director Do?" http://humanresources.about.com/od/jobdescriptions/f/hr_job_mgr.htm
- Society for Human Resource Management. www.shrm.org
- U.S. Department of Labor, Occupational Safety & Health Administration. www.osha.gov

2. EQUAL EMPLOYMENT OPPORTUNITY

INTRODUCTION

The most frequent legal actions against nonprofit organizations are in employment areas such as wrongful termination, discrimination, and sexual harassment. It is crucial for nonprofit boards to be vigilant about having nondiscrimination and antiharassment policies, seeing that staff carries them out appropriately.

KEY ELEMENTS

- Discrimination in employment based on race, color, gender, national origin, ethnic background, religion, age, sexual orientation (in some state and local jurisdictions), and disability is illegal, and an organization's policies must be clear about this.
- Equal employment opportunity policies are generally meant to cover the hiring, promotion, job assignments, development, and termination of staff.
- As part of its equal opportunity policy, the organization should also define a complaint process so that employees can speak when they feel that the organization is not treating them fairly or equally (see Part VII, Section 7).
- Policies related to equal opportunity may be found in several places, ranging from the employee handbook or a code of ethics, to board policies or even bylaws.

PRACTICAL TIPS

- ✓ When crafting equal opportunity employment policies, consider emphasizing proactive efforts alongside the legal requirements. (Employers must be careful to avoid quotas. These are illegal unless the employer has a demonstrated history of illegal discrimination.) The value in equality policies lies in their implementation and in the results they produce. This may require proactive efforts, from training to monitoring to outreach. For example, to broaden the pool of employee applicants, ask staff to scrutinize where they advertise. To ensure nondiscrimination in the workplace, offer diversity training.
- ✓ To truly live up to your equal opportunity policies, ensure that you also implement the principles when seeking bids from vendors, recruiting members, or providing services to your customers.

SAMPLE EQUAL EMPLOYMENT OPPORTUNITY POLICIES

The set of policies provided includes basic nondiscrimination policies for employment situations. Some closely mirror the law, while others have more expansive categories and organizational procedures for employee complaints.

1. This short statement fits well within a code of ethics, and lays the foundation for equal employment opportunity.
2. This policy relies on federal nondiscrimination laws as the basis for its employment practices and establishes an Equal Employment Opportunity Commission officer to handle complaints.
3. This document expands the list of protected individuals beyond those required by law, and it provides more clarity about which acts constitute discrimination.
4. This sample has an expansive definition of protected classes, and it includes vendors and customers within the purview of the equal employment opportunity policy.
5. This policy takes a more proactive stance on nondiscrimination, explains what the organization is committed to doing, and provides a reporting procedure for those who want clarification or redress.

Suggested Resources

- Society for Human Resource Management. www.shrm.org
- The U.S. Equal Employment Opportunity Commission. www.eeoc.gov/facts/qanda.html

3. NEPOTISM

INTRODUCTION

Nepotism is a conflict-of-interest issue involving favoritism shown to relatives or friends; or more specifically, to the employment of relatives and the supervision of one relative by another. Usually nepotism refers to employment practices, but it also has board implications. The simple fact of having family members or spouses reporting to each other or serving on the same board raises questions concerning accountability, conflicts of interest, and independent mindedness. At the staff level, it may also foster resentment among colleagues.

KEY ELEMENTS

- Nepotism policies should define what the organization means by nepotism, specify who is a relative, and make clear what the prohibited employment relationships are.
- A nepotism policy can reduce the likelihood of questionable practices and perceptions by providing the chief executive with a routine way to avoid pressures to hire individuals based on their relationship with someone close to the organization rather than on needed skills.

PRACTICAL TIPS

- ✓ Consider extending the definition of a family member to include “significant others” (who should be clearly defined) and close friends.
- ✓ Especially for community-based organizations, it may help to illustrate examples, such as the major donor’s daughter who can build the Web site for only \$250, the staff member trying to find summer work for his college-age son, the board member’s cousin who promises to do the job cheaply, or the employee’s friend looking for a career change.

SAMPLE NEPOTISM POLICIES

The sample policies, while all relatively short, start with the most straightforward and include various nuances, ranging from spouses to donors.

1. This sample forbids family relationships between board members and staff members.
2. This short policy starts with a justification for avoiding nepotism.

3. This policy, which stresses that supervisors may not work closely with family members, is more applicable for larger organizations with different departments.
4. This policy distinguishes between a spouse and other family members.

Suggested Resources

- Hamlett, Christina. "Nepotism in the Workplace with Friends." <http://smallbusiness.chron.com/nepotism-workplace-friends-13206.html>
- Nepotism in Workplace Essays and Term Papers. www.oppapers.com/subjects/nepotism-in-workplace-page1.html
- Lakshminarasimhan, Suba. "Nepotism: Is it a Boon or Bane for the Organization?" www.brighthub.com/office/human-resources/articles/119324.aspx

4. SEXUAL HARASSMENT

INTRODUCTION

Anti-sexual harassment policies are necessary for all employees, including nonprofit organizations. Sexual harassment is not only an infringement on personal dignity but it can create serious legal consequences for an individual and the entire organization. Every nonprofit should have a statement that reprobates this kind of behavior and ensures prompt and thorough resolution.

KEY ELEMENTS

- A good policy should define sexual harassment, set forth a procedure for bringing a sexual harassment complaint, and define the responsibility of the nonprofit organization in responding to the complaint.
- The rights of both the accused and the accuser should be specified in the policy.
- The policy should also address the process for handling allegations, investigations, disciplinary actions, and retaliation.

PRACTICAL TIPS

- ✓ In many organizations, simply having a policy is not sufficient. Consider providing sensitivity training and initiating discussions among staff on what constitutes harassment, providing a foundation for proper professional behavior. It is important to distinguish between discriminatory harassment and obnoxious behavior that does not target another individual because of sex.
- ✓ Provide managers with special training on their personal legal liability, as well as guidance on how to manage staff on either side of the situation.

SAMPLE SEXUAL HARASSMENT POLICES

The policy statements provide clear examples of sexual harassment guidelines and procedures for taking action in a sexual harassment claim.

1. This sample policy provides brief definitions of what constitutes harassment and outlines the basic steps for addressing it. It is written to apply to any kind of harassment, though it addresses sexual harassment explicitly.
2. This policy offers more detailed definitions about what constitutes sexual harassment, and assigns responsibility for addressing it to the human resources staff.

3. This policy clearly defines that sexual harassment is explicit and provides detailed steps for addressing a complaint.
4. This comprehensive sample provides a thorough outline of what constitutes harassment, what procedures to follow to address the issue, and what steps to take for any necessary disciplinary action.

Suggested Resources

- The U.S. Equal Employment Opportunity Commission. www.eeoc.gov/facts/fs-sex.html
- “Know Your Rights: Sexual Harassment at Work.” Equal Rights Advocates. www.equalrights.org/publications/kyr/shwork.asp
- “Development of Sexual Harassment Law.” www.calstate.edu/HR/SHLaw.pdf

5. WORKPLACE ENVIRONMENT

INTRODUCTION

A safe, congenial, and considerate work environment is essential for efficiency and teamwork. Staff must be able to come to work feeling comfortable about collaborating and communicating with colleagues in a professional setting. Policies and guidelines should protect the employees and their time, as well as the property of the organization. This section addresses substance abuse, solicitation, and electronic communication.

SUBSTANCE ABUSE

Alcohol and illegal drugs have no place in the work environment. They adversely affect productivity, employee morale, safety, and health-care costs. An effective substance abuse policy establishes the organization's commitment to creating a safe place for employees and clients alike.

KEY ELEMENTS

- The organization's values will shape its philosophy towards substance abuse. Some organizations follow a legal model that focuses on detecting and disciplining those who violate the policy. Others prefer a policy that emphasizes performance and offer assistance to those struggling with substance abuse problems.
- The terminology used for policies ranges from substance abuse to drug-free workplace policies, and the level of specificity in the policy is likely to depend on the organization's scope of programs and services. Some organizations — such as those who work with children, the elderly, or substance abusers — need more stringent prohibitions and explicit guidelines to protect both their employees and their clients.

PRACTICAL TIPS

- ✓ Consider beginning the drug-free workplace policy with a values statement about the organization's commitment to a safe and healthy environment.
- ✓ Include strict prohibitions of substance abuse within the facility and during delivery of services. The policy should specifically define what activities and behavior are prohibited. Especially for organizations that host special events, the policy should address any exceptions, such as moderate alcohol consumption at certain types of organization-sanctioned events.

- ✓ Include a definition of the organization's procedures for investigating reported violations and drug testing processes. The policy should also address issues of confidentiality and due process for employees.
- ✓ Articulate consequences for those who violate the policy. Disciplinary action may include referral for assistance and/or termination.

SOLICITATION

The objective of all organizations is to promote a productive, uninterrupted, and noncoercive work environment. Solicitation within the work premises can easily get out of hand, while, in general, most offices are accustomed to the annual Girl Scout cookie drives by parents on behalf of their children. Clear policies on solicitation create acceptable parameters for what is acceptable and what is inappropriate within the office setting.

KEY ELEMENTS

- The policy should indicate who is covered: employees and/or nonemployees.
- The policy should specify types of solicitation (e.g., political and lobbying efforts, commercial promotions, personal fundraisers) that are strictly forbidden versus those that are tolerated.
- The policy should address the specific areas where solicitation is allowed.
- Some organizations may require permission to be granted for all solicitation efforts.

PRACTICAL TIPS

- ✓ Discuss solicitation during a staff meeting to clarify the reasons for a policy. Discuss 'forced' solicitations and political propaganda and their potentially negative impact on co-workers. On the other hand, acknowledge that some personal solicitations — properly conducted — may provide an opportunity to help someone in need or contribute to a cause.
- ✓ Provide bulletin boards or designate the office kitchen for personal announcements in order to keep the solicitation in a contained area.

ELECTRONIC COMMUNICATION

Practically all work places today communicate at least through voicemail, e-mail, and the Internet. These modes of communication are essential tools to getting work done. It is necessary to remember, however, that these tools are owned by the organization and that using them for personal purposes during work hours is rarely acceptable.

KEY ELEMENTS

- The organization may reserve the right to monitor messages and Internet usage.
- All potential misuses should be listed to differentiate between personal and professional communication.
- It is safe to assume that no electronic communication is fully confidential. Special discretion is necessary.

PRACTICAL TIPS

- ✓ Remind employees that the organization owns the communications systems and expects employees to spend work hours fulfilling work-related responsibilities.
- ✓ Change all systems passwords regularly as an added protective device.

SAMPLE WORKPLACE ENVIRONMENT POLICIES

The eight policies address the above-defined subcategories: substance abuse, office solicitation, and electronic communication.

1. This policy, with emphasis on working with minors, provides stringent prohibitions against alcohol and drugs, as well as cigarettes, within the office environment.
2. This policy frames the restrictions for substance use in terms of the workplace environment, allows moderate alcohol consumption during work-related events, and calls for drug testing when necessary.
3. This sample provides detailed guidance for handling the service of alcohol during events.
4. This policy elaborates on the use of drugs and alcohol and includes more specific guidelines about drug testing.

5. This policy generally prohibits solicitations in the office space, except when approved by management or otherwise allowed by law.
6. This policy frames solicitation issues in terms of work disruptions and generally prohibits any solicitations, with the exception of recognized charities.
7. This policy limits electronic communication to legitimate business purposes.
8. This sample provides clear guidelines for e-mail and Internet use, as well as personal telephone calls during business hours.

Suggested Resources

- Society for Human Resource Management. www.shrm.org
- U.S. Department of Health and Human Services. <http://workplace.samhsa.gov/WPWorkit/safety.html#intro>

6. PERFORMANCE REVIEW

INTRODUCTION

Even if the board is not involved in evaluating the performance of staff, other than the chief executive, it is valuable to have organizational policies in place that stress the importance of these assessments. The purpose of annual performance evaluation is to clarify goals and ensure that they are met, foster communication between an employee and the supervisor, and identify areas that benefit from professional development.

KEY ELEMENTS

- It should be clear who is involved in the assessment process, how, and when.
- Regardless of possible informality of the process, written records of the process and results should be kept.
- All employees should understand how the evaluation results are used in setting compensation and sharing potential bonuses.

PRACTICAL TIPS

- ✓ Create a standard form for the employee's self-assessment and another one for the use of the supervisor. Evaluate the effectiveness of these forms from time to time.
- ✓ Require all employees to review their job descriptions annually to ensure that they are still accurate.
- ✓ Ensure that there is a meeting between the employee and the supervisor to discuss any discrepancies in the evaluation and/or steps to take to implement recommendations.

SAMPLE PERFORMANCE REVIEW POLICIES

The policies provide the basis for performance evaluation by stating that there is a process in place, how to deal with performance that does not meet expectations, and how the assessment results relate to compensation.

1. This short policy simply states that performance evaluation takes place annually.
2. This policy focuses on how the performance evaluation affects compensation.

3. This policy outlines the disciplinary courses of action for unsatisfactory performance or unprofessional conduct. While not a complaint policy, it follows similar steps and processes for dealing with a difficult situation.

Suggested Resources

- “Guide to Effective Staff Evaluations.” California State University Long Beach, Staff Human Resources. http://daf.csulb.edu/offices/bhr/staffpersonnel/perf_eval_guide/perf-eval-guide_ati.pdf
- Society for Human Resource Management. www.shrm.org
- Heathfield, Susan. “360 Degree Feedback: the Good, the Bad, and the Ugly.” <http://humanresources.about.com/od/360feedback/a/360feedback.htm>

7. GENERAL STAFF COMPLAINTS

INTRODUCTION

While it is generally the chief executive's responsibility to hear staff complaints, a responsible board may attempt to resolve a dispute that threatens to go outside of the organization and result in costly lawsuits or adverse publicity. To avoid undermining the authority of the chief executive, however, the board should provide guidance on the specific types of cases it will address, such as accusations of improper conduct against the chief executive. The board should therefore ensure that its complaint procedure policy is up-to-date and is being implemented by management.

KEY ELEMENTS

- Standard and clear policies that are consistently enforced are the primary prevention against employee complaints. Supervisors should always treat employees fairly and equitably.
- The policy may provide a process for the use of outside conciliation when no other solution seems feasible or acceptable to both parties.
- A complaint procedure document functions as a parallel process to whistleblower policies (see Part I: Ethics and Accountability: Whistleblower Protection). In developing the procedure, consider its relationship to this other policy.

PRACTICAL TIPS

- ✓ Clarify the proper hierarchy for complaints. Unless the supervisor is the cause for a complaint, he or she should generally be the first contact.
- ✓ Indicate the role of the board in the complaint process. Most personnel issues should remain within the purview of the chief executive, and the board should not get involved. However, when the complaint concerns the chief executive or management has allegedly not reacted to a serious complaint, it may be advisable to permit the staff to contact the board.
- ✓ Immediate reaction and thorough investigation are essential in handling employment complaints. Supervisors should keep a written record of every complaint.

SAMPLE COMPLAINT POLICIES

These policies provide alternative ways of framing complaint policies by focusing on different aspects of the resolution process.

1. This brief policy provides basic guidelines for a speedy resolution to a complaint.
2. This brief policy stresses that the board is only to be used as a court of last resort.
3. This sample outlines a process and timeline for resolving a complaint.
4. This policy outlines an informal and a formal administrative review process for handling complaints, including suggested time limits for resolving them.
5. This sample document clarifies the respective responsibilities of those involved in addressing a complaint.
6. This policy — or rather process guidelines — explains how an individual board member should react if a staff member contacts him or her directly with a concern.

Suggested Resources

- Pierce, Britenae. “Defending Against Employee Complaints and Litigation.” Ryan, Swanson, and Cleveland, 2007. www.ryanswansonlaw.com/Documents/Articles/Winds_of_Change_Article_-_Defending_Against_Employee_Complaints_and_Litigating.pdf
- *Taking the High Road: A Guide to Effective and Legal Employment Practices for Nonprofits*. Washington, DC: The Nonprofit Risk Management Center, 2006.
- Murray, Jean. “Arbitration vs. Litigation: What is the Difference?” <http://biztaxlaw.about.com/od/resolvingbusinessdisputes/a/arbitratelitiga.htm>

8. SEVERANCE PAY

INTRODUCTION

Severance pay refers to compensation that an employee may receive when he or she has been laid off, the position has been eliminated, or there has been a mutual agreement of separation. Some organizations have a formal written policy or general guidelines, but many have no explicit policy and handle specific situations as they arise. Executive staff members often have a separation pay clause in their employment contract but no law requires organizations to provide severance pay. Providing severance pay can contribute to a positive mindset for other employees, however, who may see it as proof that the organization cares for its employees.

KEY ELEMENTS

- Determine the formality of the organization's approach to severance pay.
- If there is a formal policy, clarify who is covered (not all employees may get the same benefits), how to calculate the amount of pay, how unused vacation days are included, and when it is paid.
- In return for severance pay, require an employee to sign a release that frees the organization from all potential lawsuits in the future.

PRACTICAL TIPS

- ✓ Calculate the benefits and disadvantages of a formal written policy. Discuss potential negotiations, individual flexibility, policy as a retention tool, and impact of changes in the economic environment.
- ✓ Informality may be an obstacle in potential mass layoffs.
- ✓ Ensure that all employees in similar positions are treated equally.
- ✓ Ensure that your budget is able to cover potential severance packages.
- ✓ Have your policy reviewed by your legal counsel.

SAMPLE SEVERANCE PAY POLICIES

These samples are not legal documents; they simply address the various ways you can approach a severance pay agreement.

1. This statement makes severance pay a standard practice for the organization.
2. This sample shows how to calculate the amount received by employees eligible for severance pay.

3. This statement looks at the amounts in a slightly different way from Sample #2 and states when severance pay is not due.
4. This statement is geared towards executive staff.

Suggested Resources

- Unites States Department of Labor. “Severance Pay.” www.dol.gov/dol/topic/wages/severancepay.htm
- “Should You Offer Severance Pay?” www.nolo.com/legal-encyclopedia/should-you-offer-severance-pay-29796.html
- Skladany, Bob. “Read This Before Accepting Severance Offer.” AARP, 2007. www.aarp.org/work/employee-rights/info-07-2009/skladany_severance_pay.html

9. SUSTAINABILITY

INTRODUCTION

Sustainability is based on the concept that our society's future is dependent on how well we manage to balance and regenerate our economic, environmental, societal, and personal systems. The goal is to renew resources at the same or greater rate than we consume them. Sustainability requires us to be cognizant of how our actions affect future generations. In 1987, a UN report defined the sustainability process as "meeting the needs of the present without compromising the ability of future generations to meet their own needs."

When committing to sustainability, you are tying your organization's existence and activities to a cause that transcends its immediate goals and objectives. No organization functions in a vacuum, but rather as a part of an increasingly intertwined world. By controlling your practices in a responsible way, you play a role in preserving the integrity of our planet.

KEY ELEMENTS

- Define what sustainability means for your organization. How can your activities incorporate "green" initiatives?
- Address recycling, flexible work hours, electronic filing, office cleaning supplies, and socially responsible investing.
- Discuss allocation of resources, cost reduction, schedules for reaching goals, and monitoring processes.

PRACTICAL TIPS

- ✓ Start the process of embracing sustainability by gaining the board's and senior staff's support and the necessary funds.
- ✓ Often, interested staff members can facilitate the organization's education by organizing an internal green task force that evaluates your processes and suggests new ways of being more responsible.

SAMPLE SUSTAINABILITY POLICIES

1. This short statement lists the key objectives of sustainability.
2. his statement is internally focused and accommodates staff interests.
3. This sample clarifies the leadership's motivation and beyond-compliance commitment.

Suggested Resources

- Jones, Gary. “How to Prepare a Sustainability Policy.” Management Portfolio, 2009. www.boisestate.edu/printing/ipma/how-to-prepare-sustain-policy-g-jones-mp-jan09.pdf
- United States Environmental Protection Agency. www.epa.gov/sustainability/basicinfo.htm
- “Sustainability Goals and Guiding Principles.” ICMA 2010. http://icma.org/en/icma/knowledge_network/documents/kn/Document/301986/Sustainability_Goals_and_Guiding_Principles
- Soyka, Peter A. *Govern Green*. Washington, DC: BoardSource, 2011.

PART VIII

Communications

1. Media Relations
2. Social Media
3. Electronic Media
4. Crisis Communications
5. Lobbying and Political Activity

1. MEDIA RELATIONS

INTRODUCTION

Organizations can get into public relations trouble if too many people attempt to speak to the media on behalf of the organization, especially in emergency situations. An organizational media policy should include the development of positive, consistent messages; print and other supporting documents (including a one-page description of the organization and a press kit); and a pool of official spokespeople versed on issues that are important to the organization. By having a media policy and establishing a designated media contact — whether an officer or a staff member — the organization can help to avoid potential story inaccuracies, conflicting messages, and/or press leaks. And, in the event that the story relates to improper actions by the chief executive or members of the board, the board may want to elect an impartial spokesperson to act as the principal media contact.

KEY ELEMENTS

- The rationale behind a media policy is to ensure consistency of message. Therefore, the policy should clearly state who may speak on behalf of the organization. For some nonprofits, such as those that work on public policy issues, the media policy may designate subject matter experts on staff who have more latitude in speaking with the media on certain issues.
- The media policy needs to establish the chain of command for handling media inquiries and clarify the communication process. It should also include alternatives if the primary spokesperson is not available or if the inquiry relates to that individual.
- The policy should provide direction on whether (and what) documents may be shared with the media. All media relations should be consistent with and supportive of the overall communications objectives of the organization.
- The policy emphasizes that, as a general rule of law, individual board members (other than the board chair) are normally not authorized spokespersons for an organization. Instead, the board chair, the chief executive, or another designated representative should speak for the organization.

PRACTICAL TIPS

- ✓ In sharing the media policy with board and staff, explain why it is important to have a single contact person (or a designated group) for all media inquiries. Also, press is used to being transferred to the primary communications director.

- ✓ This designated spokesperson must be able to communicate with a reporter, even if she or he needs to rely on others to provide talking points or to designate someone else to handle technical information. When appropriate, the designated spokesperson may have other staff members provide additional information to the reporter.
- ✓ Develop and share documents that contain basic organizational talking points that board and staff members can use to introduce the organization and its activities.
- ✓ If any media inquiry involves or may involve an allegation of wrongdoing by the organization or any of its officers, directors, or employees, engage the organization's legal counsel prior to any statements being made to the media or to the general public. In some instances, an individual accused of wrongdoing may need to retain his or her own legal counsel and may not be able to communicate with the organization's legal counsel in order to avoid waiving the attorney-client privilege.

SAMPLE MEDIA RELATIONS POLICIES

General media policies tend to be brief, with more specific guidelines included in procedures. The samples provided include general media policies and a media procedures document.

1. This short policy is for a small organization that is concerned about consistency of the message.
2. This brief policy provides additional guidelines, such as including the board president as an authorized spokesperson and requiring advance approval from the chief executive.
3. This succinct policy allows the chief executive to speak out on public policy issues on behalf of the organization.
4. This statement outlines the procedures for anyone responding to a media inquiry and serves as a useful complement to the basic policy.
5. This policy, tailored to federated organizations, guides chapters to share media attention with the national office.

Suggested Resources

- Fritz, Joanne. "Top 10 Tips for Local Media Relations." <http://nonprofit.about.com/od/nonprofitpromotion/tp/localmedia.htm>
- Patterson, Sally J. *Generate Buzz! Strategic Communication for Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2011.

2. SOCIAL MEDIA

INTRODUCTION

Several years ago, it became evident that a nonprofit would not be able to function effectively without a Web site. Today, the same can be said about a Facebook page or a presence on LinkedIn, YouTube, Twitter, Instagram, Pinterest, etc. Today's nonprofit constituents expect instant communication through social media. The key to effective social media communication is to customize and target your messages to the various segments of your constituency.

KEY ELEMENT

- Draft your social media strategy. Determine which methods are appropriate for your organization and draft guidelines specifically for these tools.
- Define your “communities” — the various groups of individuals and types of organizations that would benefit from one type of messaging or a method of mobilization. These target groups could be your funders, colleagues, various age groups using your services, members, former members, new audiences, and so on.
- In your policies, discuss the line between personal and organizational messages. If your organization has a special “account,” ensure that the messages that originate from that account meet your integrity rules.
- Empower people to use social media; don't simply provide restrictions.

PRACTICAL TIPS

- ✓ Draft guidelines and train your staff on the importance and use of the various social media. Don't assume only the younger generation is interested in it.
- ✓ Don't get involved just because others are doing it. Be clear how the various media help you advance your cause.
- ✓ Look at sample blogs, tweets, and Facebook postings with your staff to define the acceptable tone, vocabulary, and “slant” of the messaging. For instance, provocative blogs get attention as long as your organization stands behind the message.
- ✓ Overall, the use of social media is economical, but investigate what expenses are necessary from a technology and staff standpoint for you to be efficient and up-to-date.
- ✓ Differentiate between proactive and reactive messaging. Your approach for sharing information ahead of time, mending a situation, or preparing for a situation should be different.

SAMPLE SOCIAL MEDIA POLICIES

The sample policies mainly guide employees in appropriate social media interactions.

1. This policy provides straightforward guidelines for responsible social networking.
2. These guidelines are for employees who communicate about work outside of the official organizational media.
3. This short safety policy is part of risk management.
4. This template will help you draft a comprehensive policy. It specifies which circumstances may require a response or action from the organization.

Suggested Resources

- Patterson, Sally J. *Generate Buzz! Strategic Communication for Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2011.
- Kanter, Beth and Allison H. Fine. *The Networked Nonprofit: Connecting with Social Media to Drive Change*. John Wiley & Sons, 2010.
- 2010 Nonprofit Social Network Benchmark Report, 2012. <http://nonprofitsocialnetworksurvey.com/download.php>
- Aaker, Jennifer and Andy Smith. *The Dragonfly Effect: Quick, Effective, and Powerful Ways To Use Social Media to Drive Social Change*. Jossey-Bass, 2010.

3. ELECTRONIC MEDIA

INTRODUCTION

Nonprofit organizations communicate with a vast array of audiences in many different formats. Technology increases the opportunities for better communications but introduces a new set of risks related to electronic media.

It is quite challenging — if not sometimes impossible — not to use e-mail, have a Web site, or not conduct commercial activities via the Internet. Accuracy of information and individual privacy are critical issues. The scope of electronic media policies seems limitless as electronic communications become the primary means of sharing information.

KEY ELEMENTS

- It is important for Web sites to offer accurate information and provide copyright clarification, and to be updated regularly.
- Policies should cover risk-management issues, such as electronic backups, data storage, access authorities, passwords, and general office etiquette for electronic communication.

PRACTICAL TIPS

- ✓ On your Web site, make sure visitors know what to expect when using your materials or engaging in a transaction — both to protect the organization's intellectual capital and ensure their privacy.
- ✓ Don't make promises you can't keep. State carefully what information is shared and what is not shared with outsiders. For instance, if your organization accepts credit card payments via the Web Site and your fulfillment is handled by a third party, you end up sharing this information.
- ✓ Have your IT team regularly communicate with staff to remind them of the expected procedures for everyone.

SAMPLE ELECTRONIC MEDIA POLICIES

These sample policies address multiple issues, from updating electronic information, to privacy, to public access to online services. They are designed only as a sampling of the different aspects of electronic media that might warrant policies.

1. This brief policy statement provides guidelines for updating electronic documents and records that the organization uses to communicate with its constituents.
2. This privacy policy sets parameters for use of electronic data collected through the Internet.

Suggested Resource

- Patterson, Sally J. *Generating Buzz! Strategic Communication for Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2011.

4. CRISIS COMMUNICATIONS

INTRODUCTION

In every organization there is the possibility of a crisis, internal or external. The nature of that crisis, its origin, and its potential impact will determine how the organization responds. Potential crises should be identified before they happen, with overall processes to set in motion when necessary. These processes naturally need to be fine-tuned and finalized when actually faced with the real thing.

Nonprofits generally deal with two kinds of crises: emergencies and controversies. Emergencies are unpredictable events that wreak havoc on the organization and those it serves; they include everything from thefts and accidents to fires and tornadoes. Controversies are crises that threaten the organization's reputation, such as accusations of fraud, legal disputes, or leadership conflicts. Regardless of the situation, a crisis communication policy is intended to help the board and staff act swiftly and consistently under stressful circumstances.

KEY ELEMENTS

- The follow-on to a crisis communications policy is a crisis communications plan. Having a plan and following it (in order to determine that response) is essential in minimizing or avoiding negative effects.
- Staff members shoulder the responsibility for emergencies, and they often tap the board for support and resources. The chief executive and the board usually bear the burden of controversies, unless the chief executive is actually involved in the controversy.

PRACTICAL TIPS

- ✓ Define the process for communicating with media and the general public.
- ✓ Set organizational priorities in the policy during a crisis. Safety of employees and customers must always come first.
- ✓ Address the different kinds of crises your organization may be faced with and provide guidelines for how to deal with them.
- ✓ Clarify authority levels and supervisory roles. In a crisis situation, accountability is important in order to avoid mixed messages.
- ✓ Identify the crisis team, the key spokespersons, and the chain of command through a telephone tree or other immediate communication mechanism.

SAMPLE CRISIS COMMUNICATION POLICIES

The first sample policy offers a general approach; the second provides more explicit details when faced with a crisis.

1. This general policy captures the organization's approach to media relations and contemplates an emergency situation.
2. This longer policy addresses crisis communications specifically, and it includes clear guidelines and responsibility for responding.

Suggested Resources

- Mission Controls Fact Sheets on Crisis Management.” The Nonprofit Risk Management Center. www.nonprofitrisk.org/library/fact-sheets/communicate.shtml
- Patterson, Sally J. *Generate Buzz! Strategic Communication for Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2011.
- Daniels, Jenifer R. “Social Media in Crisis Communication.” Charlotte Mecklenburg Library. www.nten.org/blog/2010/11/11/social-media-crisis-communication-lesson-learned-charlotte-meckelnburg-library

5. LOBBYING AND POLITICAL ACTIVITY

INTRODUCTION

Nonprofit organizations frequently want to — and do — engage in political activities, but federal tax laws regulate what is permissible. The restrictions are very important because the penalties for violating them are serious, from taxes to fines, and even revocation of tax-exemption. Federal law defines actions designed to influence or affect legislation as lobbying, and actions designed to affect elections as electioneering. The nature of an organization's tax exemption shapes what it may and may not do.

For example, public charities (501(c)(3)s) may engage in lobbying, within limits, but not electioneering. Yet, they may conduct voter education and get-out-the-vote efforts, which are not considered electioneering. In contrast, social welfare organizations (501(c)(4)s) and trade associations (501(c)(6)s) have more latitude with both lobbying and electioneering. Private foundations, on the other hand, may not earmark any part of their grants for lobbying purposes. Nor may organizations use federal grant funds for lobbying activities.

KEY ELEMENTS

- Even though the law is strict about lobbying by public charities, a policy not only spells out what is acceptable within your organization but also reminds people of what is prohibited.
- It is not uncommon to find two related but independent entities. Charities that deal with public policy issues, such as children's welfare, environmental protection, or human rights, may create a social welfare organization to separate lobbying and advocacy work from educational and service delivery activities. Likewise, trade associations and professional societies may create foundations so they can receive charitable contributions for scholarships and other educational programs. It is important that the distinction between the two organizations is clear in their structure (boards, bookkeeping, etc.) as well as their messaging.
- If a public charity engages in lobbying, it should distinguish grassroots from direct lobbying. Grassroots lobbying includes activities designed to influence legislation by encouraging the general public, or a segment of it, to contact legislators. Direct lobbying includes communicating directly with legislators involved in formulating the legislation.

PRACTICAL TIPS

- ✓ Within the organization, clarify who is responsible for lobbying activities and how the funds will be tracked. The latter, in particular, has implications for the organization's overall reporting requirements.
- ✓ Federal tax law allows 501(c)(3) public charities to engage in lobbying within certain limits. An organization may choose one of two tests when determining the extent of its lobbying activities: 1) the "no substantial part" test, which the IRS does not define; and 2) the expenditures test, also known as the 501(h) election, which sets specific dollar limits based on the organization's total expenses.
- ✓ Before embarking on lobbying activities (under a 501(h) election), a charity should be sure that it is administratively equipped to handle the significant record keeping required. For example, it must be able to track staff time and expenses not only for communicating with legislators but also for preparing for the contact, conducting the research, and writing the communications. Additionally, it must document all direct costs, such as printing and mailing, related to lobbying activities.
- ✓ Because the definitions of legislative activity can be murky and because of the many exceptions and exemptions, those nonprofit organizations that are involved in any kind of legislative activity should seek guidance from legal counsel. The risks are too great should the organization make a mistake.

SAMPLE LOBBYING AND POLITICAL ACTIVITY POLICIES

The samples cover a range of issues, including definitions, limitations, and acceptable practices.

1. This policy outlines the parameters for limited lobbying, reporting requirements, and clarifies what constitutes lobbying. It also provides guidance to field offices of the organization.
2. This brief policy statement is strict about inappropriate political contributions.
3. This more complicated policy, from an organization that focuses on public policy issues, outlines what employees may and may not do during elections.

Suggested Resources

- Independent Sector. *About Nonprofit Advocacy*. www.independentsector.org/advocacy
- Alliance for Justice. www.afj.org
- National Council of Nonprofits. www.councilofnonprofits.org

PART IX

Committees

Introduction to the Role of Committees

Sample Protocol for Board

1. Governance Committee
2. Financial Committees (Finance, Audit, and Investment)
3. Development Committee
4. Executive Committee
5. Other Common Committees
6. Advisory Council
7. Committee Chair Job Description

INTRODUCTION TO THE ROLE OF COMMITTEES

Committees are often considered the work horses of the board because they do the majority of the board's work between meetings, thereby allowing the full board to focus on the big picture and critical decisions. Committee work engages all board members in activities that extend their responsibilities beyond participation in board meetings. Committees allow the organization to tap into an individual board member's full experience, talents, interests, and enthusiasm. They can also expand the board member's understanding of the organization and are often the training ground for prospective board members and future board officers.

KEY ELEMENTS

- The full board determines which committees or task forces are necessary and the general purpose of each committee. Remember, the board determines the charter for the committee, not the committee itself.
- Committee structure should flow from the organization's strategic goals and the board's priorities. Periodically, the board should review its committee structure and determine which committees are necessary.
- The easiest way to keep the committee structure simple and flexible is to limit the number of standing committees to the bare minimum and to supplement these with a few less-permanent work groups (e.g., ad hoc committees, task forces, advisory councils) to deal with specific short-term assignments such as an executive search, strategic planning, or planning a special event.
- No matter how many committees it needs, the board should always make sure each committee has a significant amount of ongoing and important work to do. If a committee does not have ongoing work, it should be disbanded.
- Board committees often fail when they do not know what they are supposed to do. Therefore, giving them definite areas of responsibility, or charges, is crucial for their success. While the bylaws may state the roles of particular standing committees, separate committee charters should define their specific responsibilities.
- A guiding statement about committees may articulate how committee chairs are selected and who may serve on each committee. Often, the board chair appoints committee chairs from the board. Committee members may be board members or other interested individuals, and they may be appointed by the board chair or by the committee chair.
- The role of the committee chair should always be defined. The chair of the committee runs the committee process and leads the work group to accomplish the expected tasks.

SAMPLE PROTOCOL FOR BOARD

1. The board will decide what committees will be formed and appoint a board member to chair each committee.
2. Non-board members can be invited to be part of the committee.
3. The committee chair is authorized to approach prospective committee members based on the prior approval of the board chair.
4. A committee meeting can be called by the chair of the committee or by the chair of the full board.
5. Each committee will be made up of a minimum of three and maximum of eight members approved by the board chair. A majority of the committee members shall constitute a quorum for any decision of the committee.
6. The board will set the goals of the committee, while the committee will set its own strategies for reaching those goals.
7. Prior to the first meeting of the committee, the board chair, the chief executive, and the committee chair will meet to review the goals and expectations set by the board and this protocol.
8. Committees will meet at least every other month, alternating with full board meetings. The chair of the committee will report in writing the progress and activities of the committee at the following board meeting.
9. The board chair and the chief executive can sit on any committee ex officio. They will be copied on all committee correspondence.
10. Staff persons present at a committee meeting will be present to assist because of knowledge of the actual day-to-day operations. An important job of the head of the committee is to protect the staff from being assigned tasks appropriate to the committee.
11. The chief executive is responsible for communicating to staff members their role in committee deliberations.
12. A committee will not enter into any contractual obligations on behalf of the board.

1. GOVERNANCE COMMITTEE

INTRODUCTION

A growing trend among nonprofit boards is the establishment of a governance committee that deals with a range of issues around board development and performance. This committee is often responsible for assessing the board's current composition and identifying needs, developing board member and officer job descriptions, creating a recruitment plan and timeline, identifying and cultivating prospective members, and coordinating officer elections. In addition, the governance committee may be responsible for broader board management issues, such as reviewing board policies, board self-assessment, and a board action plan.

KEY ELEMENTS

- The governance committee is the board's mechanism for looking after itself. As such, its work is vital to the health of the board and the entire organization. It should ensure that the board is providing leadership and oversight to the organization and that individual board members are carrying out their duties.
- This committee has evolved from the traditional nominating committee and is sometimes known as the board development committee or committee on trustees. Framing it as a governance committee, rather than a nominating committee, addresses the need to consider recruitment as one critical step in a larger board building process.
- Many governance committees have the difficult task of deciding how to handle the poor performance of individual board members. This will occur naturally when their terms come up, and it may also happen along the way. Because these are often sensitive issues, they are best handled in this kind of smaller work group setting and with active involvement by the board chair and chief executive.

PRACTICAL TIPS

- ✓ In the committee charter or job description, define the committee's role as the coordinating group for overall board performance.
- ✓ In the committee charter or job description, articulate the committee's coordinating role in board recruitment and, as appropriate, board policies and procedures related to composition. For example, clarify whether board members (and officers) are elected individually or as a slate. Or, consider providing authority for this committee to handle difficult issues related to individual board member performance.

- ✓ Indicate what other aspects of board education fall into the governance committee's purview, such as officer job descriptions, orientation, educational items on board meeting agendas, and board retreats.
- ✓ The committee may also be charged with addressing board structure and performance, such reviewing the current committee structure, leading the board self-assessment process, and updating bylaws.

SAMPLE GOVERNANCE COMMITTEE JOB DESCRIPTIONS

The sample governance committee descriptions range from short and general to more comprehensive and explicit.

1. This short sample clearly defines the committee's purpose as recruiting and educating board members.
2. This sample articulates the general committee purpose and outlines the recruitment process.
3. This charter defines the composition of the committee and assigns the committee responsibility for reviewing individual board member performance.
4. This more comprehensive job description outlines five areas of responsibility related to board effectiveness.

Suggested Resources

- Lakey, Berit M. *The Board Building Cycle: Nine Steps to Finding, Recruiting, and Engaging Nonprofit Board Members*. Washington, DC: BoardSource, 2007.
- Lakey, Berit M., Sandra R. Hughes, and Outi Flynn. *Governance Committee*. Washington, DC: BoardSource, 2004.

2. FINANCIAL COMMITTEES (FINANCE, AUDIT, AND INVESTMENT)

INTRODUCTION

The financial committees of a nonprofit organization are truly at the heart of the public's trust. The full board has the ultimate responsibility for and fiduciary obligation to the organization; it also has the authority to delegate specific tasks to a single or multiple financial committees. Common financial committees include finance committees, audit committees, and investment committees. The appropriate committee structure depends on several factors, including organizational size, financial complexity, sources of income, and regulatory oversight.

KEY ELEMENTS

- **Finance Committee:** The finance committee is responsible for monitoring the organization's overall financial health. Its core duties include overseeing budgeting and financial planning, safeguarding the organization's assets and reviewing its insurance coverage, reviewing and proposing internal controls and fiscal policies, anticipating financial problems, and ensuring that the board receives accurate and timely financial reports.
- **Audit Committee:** When feasible, a separate audit committee provides a nonprofit with better checks and balances. The audit committee's principal responsibilities are to hire an independent auditor, review the audit report with the auditor, and ensure that appropriate internal controls are in place. This is not a policymaking body; rather, its role is to help the board carry out its fiduciary duties.
- **Investment Committee:** For nonprofits with considerable reserves, a separate investment committee offers additional guidance and oversight of the organization's assets. The committee's purpose is not to provide professional investment advice and services, but to establish guidelines, hire and evaluate professional advisors, and monitor investment performance.

PRACTICAL TIPS

- ✓ When recruiting board members, keep in mind the need for financial proficiency. Not every board member needs to be a financial expert, but each board needs some members with specialized skills and knowledge — such as accounting, taxes, investing, and financial planning — to guide the board's oversight and to communicate complicated financial issues to the rest of the board.

- ✓ Particularly in the beginning of an organization's lifecycle, one committee may be responsible for all financial oversight. As the nonprofit's fiscal activities become more complicated, consider creating separate committees. These specialized committees often require more professional expertise and technical skills from board members.
- ✓ For those organizations with a single financial committee, be sure committee members understand when they are wearing the budget, financial oversight, investment, and audit hats.
- ✓ In the wake of the Sarbanes-Oxley Act of 2002, some state laws require that organizations with certain budget levels have a separate audit committee with independent and financially literate members. Whether the audit committee is established as a standing committee or on an ad hoc basis, it is recommended that its membership be different from that of the finance committee. (See Part I: Ethics and Accountability for information about other Sarbanes-Oxley related policies; also see Part V: Finance and Investments for sample policies related to fiscal oversight.)
- ✓ When an organization has accumulated sizable reserves, manages a significant planned giving program, or has an endowment, create a separate investment committee. For organizations with limited investments, investment oversight is often part of the finance committee's charge.

SAMPLE FINANCIAL COMMITTEE JOB DESCRIPTIONS

The included job descriptions — except for the first two — separate the finance, audit, and investment committees and address a variety of duties that range from brief to more specific.

1. This all-purpose list of finance committee responsibilities, especially appropriate for a small organization without staff, includes budgeting, financial reporting, the audit, and investment management.
2. This committee job description provides a basic framework for a combined finance and audit committee.
3. This short job description separates basic financial oversight duties from audit and investment responsibilities.
4. This more comprehensive job description defines the role of the finance committee in terms of planning and oversight. Please note that it does not involve the board in managing the finances on a daily basis.
5. This short committee job description, which assumes a separate audit committee, outlines specific duties of the committee in hiring and working with the auditor.

6. This job description provides a more specific list of responsibilities for a separate audit committee.
7. This thorough committee charter describes the role and structure of the audit committee in great detail. It is most suitable for organizations with complex financial systems, revenues from multiple sources, and/or numerous funds to manage.
8. This job description lists the basic responsibilities of a separate investment committee.
9. This concise job description assigns the monitoring and reporting of investments to a separate investment committee and acknowledges the role of outside investment professionals.

Suggested Resources

- Fry, Robert P. *Who's Minding the Money: An Investment Guide for Nonprofit Board Members, Second Edition*. Washington, DC: BoardSource, 2009.
- McLaughlin, Thomas A. *Financial Committees*. Washington, DC: BoardSource, 2004.

3. DEVELOPMENT COMMITTEE

INTRODUCTION

The development committee is often charged with planning and implementing the organization's fundraising program in concert with the professional staff. The development committee follows the basic premise of other board committees: to establish policies for decision making, to engage the board in developing strategy, and to monitor implementation. In addition, development committees often get involved directly in implementation — in this case, making personal contributions, soliciting funds, opening doors to other potential individual and institutional donors, and coordinating special events.

KEY ELEMENTS

- Nonprofit organizations often have a preferred term for development — from resource development to fundraising to advancement — that reflects nuances in their approach to activities that generate non-fee-for-service income for the organization.
- A development committee ensures that appropriate fundraising policies exist and defines the role of individual board members in fundraising. Some development committees may also undertake the task of training fellow board members on the essentials of fundraising.
- Some individual and institutional donors are most effectively cultivated by a peer or professional contact. The development committee can often gain access or initiate contact more readily than staff to such prospective donors.
- The development committee (and in turn, board members) work closely with staff. Committee composition may include non-board members, ranging from staff to volunteers. Regardless, all board members should be directly involved in fundraising (See Part VI, Section 1 for more information on the board's role in fundraising).

PRACTICAL TIPS

- ✓ The organization's mix of income sources and its development plan should guide the board in determining if it needs a development committee and, if so, the scope of its activities and who should be involved in them.
- ✓ Because fundraising is an organization-wide effort that requires board leadership, staff planning and execution, and considerable volunteer effort, be sure to clarify whether the development committee is a board-level committee or an organization-wide committee (or both).

- ✓ Depending on the scope of the organization’s fundraising program, consider forming subcommittees that are responsible for the various kinds of activities appropriate for the organization, such as capital campaigns, special events, or planned giving.

SAMPLE DEVELOPMENT COMMITTEE JOB DESCRIPTIONS

Development committees, in particular, need clear charges that are customized to an organization’s circumstances. The sample committee job descriptions, while all relatively straightforward, provide for a range of different ways for the board to delegate responsibility for fundraising oversight and implementation.

1. This charge to the development committee provides a broad framework for board oversight and involvement in fundraising activities.
2. This job description frames the committee’s work as engaging individual board members in fundraising activities at different levels.
3. This committee job description establishes two development committees. The first committee, comprised of board members only, focuses on fundraising policies and board member participation in fundraising activities. The second committee, which is not accountable to or representative of the board, enlists other stakeholders in fundraising.
4. This list of general development committee responsibilities outlines the various ways the committee provides fundraising guidance and support to the organization, the board, and staff.
5. This list addresses the development committee’s responsibilities for a particular type of fundraising — major gifts — and it serves as a model for clarifying committee and/or board responsibilities for other specific types of fundraising activities.
6. This committee charge addresses some of the unique resource development issues related to associations.

Suggested Resources

- Tempel, Eugene R. *Development Committee*. Washington, DC: BoardSource, 2004.
- Sternberg, Dave. *Fearless Fundraising for Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2008.

4. EXECUTIVE COMMITTEE

INTRODUCTION

The structure and function of executive committees have begun to change to avoid having the executive committee as the board's "inner circle." Some executive committees are empowered only to stand in for the board and make decisions when the board cannot meet. Other executive committees have broader duties, such as policy development, evaluating the chief executive, or strategic planning. Still others have simplified their responsibilities to dealing only with emergency concerns and issues that pertain to the employment and performance of the chief executive.

Regardless of the executive committee's particular job description, it is important for the board to understand that the executive committee is not, ever, intended to take the place of the full board and that most decisions made by the executive committee should be ratified by the board. More and more boards realize that in today's world, with easy and quick e-mail and cell phone access, many urgent issues that a traditional executive committee would handle are now handled by the full board through electronic communication and ratification at the next board meeting.

KEY ELEMENTS

- Limitations on the authority of the executive committee are listed in the bylaws. Usually, an executive committee is precluded from making key organizational decisions, such as amending bylaws, removing board members, firing the chief executive, and approving major changes to the organization's structure (such as a merger).
- Executive committees are commonly used to guide and assist large boards, make decisions for the board in the case of an emergency, help coordinate the work of a board with a complicated committee structure, assist work of a geographically dispersed board, and facilitate the chief executive's access to the board.
- The job description should establish who is on the executive committee. Often it is comprised of board officers, committee chairs, and sometimes a few other "at large" board members.
- The job description should define the true purpose of the executive committee. It should also clearly define the circumstances that constitute an unmitigated emergency and when the board is unable or has no need to convene. The purpose of this clarification is to eliminate decisions that the committee makes when an issue is better handled by the full board.

- If the executive committee is responsible for certain board leadership tasks, they should be clearly defined. The ability of the executive committee to act on behalf of the organization without full board approval should be carefully delineated. Such special tasks may include the chief executive's performance review, board self-assessment, and/or serving as the court of appeal. Note that some organizations delegate these tasks to other ad hoc or standing committees.

PRACTICAL TIPS

- ✓ While many boards find the committee to be useful, emerging trends in nonprofit governance lean towards the elimination of an executive committee, opting for a more informal leadership group of board officers with meetings on an as-needed basis.
- ✓ Each board must decide for itself whether an executive committee is the right thing. Remember, however, that the only credible reason to form an executive committee is to help the board do its job, which is to make sure the organization accomplishes its mission within a legal and ethical framework.
- ✓ Periodically, review the performance of the executive committee specifically to determine whether it is an asset or a liability to the organization. This determination depends upon a variety of factors, including the rationale that brought the committee about in the first place, the clarity of its duties and guidelines of conduct, its structure, and how well it keeps the board — its boss — in the loop.

SAMPLE EXECUTIVE COMMITTEE JOB DESCRIPTIONS

The committee job descriptions delegate varying degrees of authority and different kinds of activities to the executive committee.

1. This brief list allows the executive committee to act on behalf of the board in emergencies.
2. This brief sample defines the executive committee as a sounding board for the chief executive.
3. This job description, which is best suited to an organization with few other committees, delegates certain organizational oversight responsibilities to the executive committee.
4. This job description establishes the limits to the authority of the executive committee.
5. This charter provides a detailed job description defining the executive committee as supporting the board and as liaison to the chief executive.

Suggested Resources

- BoardSource. *Nonprofit Board Answer Book: Practical Guide for Board Members and Chief Executives, Third Edition*. San Francisco: Jossey-Bass, 2012.
- Bobowick, Marla J., Sandra R. Hughes, and Berit M. Lakey. *Transforming Board Structure: Strategies for Committees and Task Forces*. Washington, DC: BoardSource, 2004.
- Light, Mark. *Executive Committee*. Washington, DC: BoardSource, 2004.

5. OTHER COMMON COMMITTEES

INTRODUCTION

In reviewing the work needed to accomplish the organization's strategic goals and prepare for a healthy future, a board might need additional committees. Some might be standing committees, but more often these are ad hoc committees or temporary task forces. Their activities may be to carry out the board's leadership and oversight duties, or to provide additional support and resources to the organization at more of a staff or volunteer level. Some of the common additional committees are compensation, strategic planning, and public relations. Additionally, associations often have membership committees, and foundations often have grantmaking committees.

KEY ELEMENTS

- **Compensation:** Boards that are too large and unwieldy to manage the compensation process as a group may delegate oversight of the chief executive's compensation to a special committee or task force. A smaller committee can devote its attention as needed to the often detailed process of managing compensation matters. Some compensation committees also review other staff compensation levels, set annual performance objectives with the chief executive, and facilitate the chief executive's performance review.
- **Strategic Planning:** Strategic planning is usually a periodic activity that requires participation by board and senior staff members. The board's role is to establish strategic direction, and the staff's role is to flesh out goals and create a plan that will guide the organization for the next several years. A strategic planning committee or task force can help ensure that the planning process is well structured, involves the right people at the right time, and integrates all aspects of the organization. Often, a temporary committee will guide the planning process through the approval stage and put mechanisms in place for the full board to monitor progress against the plan.
- **Communications and Public Relations:** While communications and public relations are primarily staff-driven functions, board members often get involved at two levels: oversight and direct support. Board members, because of their personal and professional relationships, can be helpful in leading and supporting outreach activities. A designated committee may help develop, implement, and oversee a public relations plan; suggest strategies for how best to communicate with media and community leaders; recommend ways to involve individual board members in communication efforts; and help the board monitor its reputation.

- **Membership:** Many associations use a membership committee to engage board members in recruiting and retaining members. For associations with dedicated membership staff, a committee can help shape strategy and monitor progress for the membership program. For smaller associations with few or no staff, the board may also play an active role in defining membership criteria and benefits of membership, and recruiting new members.
- **Grantmaking:** Grantmaking committees are specific to private and community foundations that annually distribute part of their assets to public charities whose work the foundation elects to support. Particularly in smaller foundations with no or few staff members, these committees often consist of board members who meet on scheduled dates to select and approve recipients of funds. These committees follow overall grantmaking guidelines approved by the board and that reflect the mission of the foundation.

PRACTICAL TIPS

- ✓ Bylaws often define standing committees (usually governance and finance and/or audit at a minimum), but should allow for the board to create additional committees and task forces as needs arise. This flexibility helps eliminate unnecessary amendments to the bylaws when a committee is formed or disbanded, or its charter is changed.
- ✓ As the role of the committees is to help the board get its work done more efficiently, each board should determine carefully what committees might be necessary or practical. To avoid creating unnecessary standing committees, use ad hoc task forces to address a particular need.

SAMPLE JOB DESCRIPTIONS FOR OTHER COMMON COMMITTEES

The sample committee charters cover functions that some boards delegate to a specific standing committee or ad hoc work group (such as compensation, strategic planning, and communications), and oversight of key program areas unique to associations (membership) and foundations (grantmaking).

1. This sample states who serves on the compensation committee and gives the committee the task to evaluate the performance of the chief executive.
2. This job description outlines the overall responsibilities and structure of the compensation committee.
3. In addition to listing the overall responsibilities and structure of the compensation committee, this charter defines what constitutes total compensation.
4. This basic job description outlines the basic composition, structure, and responsibilities of the strategic planning committee.

5. This job description defines the purpose and activities of a standing strategic planning committee.
6. This sample delegates responsibility for providing guidance to and oversight of the organization's communications activities to a committee of the board.
7. This sample is an association committee job description where committee members are association members and the committee reports to the board.
8. This job description establishes a board committee that is responsible for monitoring public policy and relations with stakeholders.
9. This charter outlines responsibilities of a membership committee for an association that has a national board and local chapters. Note that members of the committee need not be members of the board.
10. This association committee charter defines what the membership committee will do and how. Note that members of the committee need not be members of the board, except for a designated board liaison.
11. This sample gives the membership committee an active role in assessing the value of services provided to members, and recommending elimination or addition of member benefits.
12. This grantmaking committee charter for a foundation clarifies the responsibilities of committee members and addresses conflicts-of-interest issues.
13. These grantmaking committee expectations provide guidelines for committee members to carefully and objectively review grant applications.

Suggested Resources

- Bobowick, Marla J., Sandra R. Hughes, and Berit M. Lakey. *Transforming Board Structure: Strategies for Committees and Task Forces*. Washington, DC: BoardSource, 2001.
- Waechter, Susan A. *Driving Strategic Planning: A Nonprofit Executive's Guide, Second Edition*. Washington, DC: BoardSource, 2010.
- Patterson, Sally J. *Generate Buzz! Strategic Communication for Nonprofit Boards, Second Edition*. Washington, DC: BoardSource, 2011.
- Vogel, Brian H. and Charles W. Quatt. *Nonprofit Executive Compensation: Planning, Performance, and Pay Chief Executive Compensation, Second Edition*. Washington, DC: BoardSource, 2010.
- Council on Foundations. www.cof.org
- American Society of Association Executives. www.asaenet.org

6. ADVISORY COUNCILS

INTRODUCTION

Advisory councils are groups of volunteers typically assembled to supplement the governance activities carried out by the board or the management tasks carried out by staff. They can perform a variety of jobs — for example, assessing the need for new programs, raising the organization’s profile in the community, gathering input from stakeholders to the organization, monitoring industry or community trends, conducting program evaluations — many of which are central to an organization’s activities.

Advisory councils, however, can be difficult to manage well. They have a great deal of responsibility, and little authority. These groups grapple with issues that are central to the organization, yet their membership may well consist of people who have no formal connection with the nonprofit. To ensure their success, advisory councils must be formed with a purpose and with care. And, they must be formed in a way that benefits both the group and the nonprofit it serves.

KEY ELEMENTS

- An advisory council needs to be as large — or as small — as necessary to accomplish its task. It could be five members or 50 members. Fundraising advisory councils might be bigger because a larger size tends to increase an organization’s reach. A group designed to provide technical expertise might be smaller.
- While advisory councils might not meet as often as governing boards, the number of meetings depends on the purpose of the group. Groups designed to promote special events might meet frequently during the height of planning. Others may meet only once a year, related to a particular event or to consider fiscal year-end reviews.
- Some advisory councils are ongoing bodies, while others have a limited term of existence defined by their charge. It is helpful to clarify whether the group is permanent or temporary, and if temporary, to fix the period if it can be determined in advance.
- Advisory councils are not legal bodies and cannot assume responsibility for the governance of an organization. Advisory council members normally have no legal responsibilities. They have no vested right to serve and no immunity from removal.

PRACTICAL TIPS

- ✓ A written statement of purpose helps an advisory council to identify the collective role of the group and to describe the responsibilities of individual members. Define the limits of authority and its role in making recommendations or carrying out specific tasks.
- ✓ The council's goals should determine its membership, not the other way around. For a group that is designed to highlight a nonprofit's standing in the community, perhaps an advisory council packed with luminaries is appropriate. For a group that provides technical expertise, the credentials for membership may be quite different. Clarify who appoints the members and whether members have term limits.
- ✓ Form must follow function — or the group will not function well. Issues like council size, composition, term limits, frequency of meetings, and meeting formats should be guided by the purpose of the council.
- ✓ To avoid confusion over which entity has ultimate responsibility and authority, do not call an advisory council a board. Some alternative work group names include advisory committee, advisory council, auxiliary council, advisory or leadership task force, and sponsors or friends of the organization.
- ✓ To recognize the efforts of the advisory council and enhance its validity, establish a formal relationship between it and the governing board. For example: designate a permanent advisory council member to serve as a liaison with the board, invite advisory council members to attend a particular board meeting, and/or include advisory council members in board/staff retreats and other special events.

SAMPLE ADVISORY COUNCIL JOB DESCRIPTIONS

The advisory council job descriptions begin with statements of generic purpose, and then provide more detailed examples that reflect specific purposes: professional development, community engagement, and fundraising.

1. This basic advisory council is designed to engage leaders in the community as volunteers to advance the organization's mission and goals. Although it mentions specific qualifications, the wording is easily modified to suit any type of organization.
2. This general job description establishes an advisory council for an association that wishes to engage its members in industry-specific issues.

3. This charter defines an advisory council that is designed to serve as a link between the organization and a variety of key stakeholders.
4. This statement of purpose focuses the advisory council on fundraising on behalf of the organization.

Suggested Resource

- Axelrod, Nancy R. *Advisory Councils*. Washington, DC: BoardSource, 2004.

7. COMMITTEE CHAIR JOB DESCRIPTIONS

INTRODUCTION

It is often said that if a committee has a good chair, then it is a good committee. The committee chair ensures that members have the information needed to do the job, and oversees the logistics of the committee's operation. The committee chair is responsible for linking the work of the committee back to the full board with reports to the board chair. Committee chairs are often, but not always, members of the board.

All committees have a chair. The general expectations for the committee chair position tend to be similar, regardless of the specific type of committee.

KEY ELEMENTS

- Job descriptions for committee chairs often define the role as group leader of the committee and liaison with the full board.
- Depending on how structured the board is, committee chair job descriptions may outline particular expectations, such as creating an annual action plan and reporting regularly to the board.
- Form should follow function when it comes to committee chair job descriptions. Depending on the committee's purpose, the chair may fulfill different leadership functions. And, much will also be influenced by the level of staff support.

PRACTICAL TIPS

- ✓ The committee chair is, or should be, held accountable for the committee's performance. This requires that the committee have a clear charter, specific goals, routine monitoring, and even periodic evaluation.
- ✓ The role of the committee chair is a pivotal one, not only for guiding the committee's work but also because committee chairs may be potential board chairs. Consider appointing someone to chair a committee to see how that person functions in a leadership position and/or to provide leadership training.

SAMPLE COMMITTEE CHAIR JOB DESCRIPTIONS

The committee chair job descriptions range from general to specific, depending on how much latitude the committee chair has, the level of staff support, and the degree of autonomy that the board has granted the committee.

1. This succinct job description integrates the basic purpose of committees with the core duties of committee chairs.
2. This brief job description defines the general responsibilities for committee chairs in terms of guiding the committee's internal operations.
3. This sample, which assumes strong staff support, defines the committee chair's responsibilities to the organization, to the committee, and to the board.
4. This job description frames the committee chair's responsibilities in terms of strategy, coordination, facilitation, and communication.
5. This list of responsibilities outlines specific expectations of and procedures for committee chairs.

Suggested Resources

- Bobowick, Marla J., Sandra R. Hughes, and Berit M. Lakey. *Transforming Board Structure: Strategies for Committees and Task Forces*. Washington, DC: BoardSource, 2001.
- Wertheimer, Mindy R. *The Board Chair Handbook, Third Edition*. Washington, DC: BoardSource, 2013.

PART X

Mission-Related Issues

1. Associations
 - Proxy Voting
 - Quorum for Membership Meetings
 - Notice for Membership Meetings
 - Access to Records for Membership Organizations
2. Foundations
 - Discretionary Giving
3. Museums
 - Deaccession
 - Space Rentals

1. ASSOCIATIONS

PROXY VOTING

INTRODUCTION

Most trade and professional associations (as well as other membership organizations) hold member meetings during which the members elect board members. Because it can be difficult or impossible to gather all members in one place to carry out voting in a legal manner, many membership organizations rely on proxies during member meetings to elect new board members and officers.

Allowing proxies in the boardroom is not a desired practice, however. It can have a detrimental effect on board attendance, board deliberation, and decision making. When voting by proxy, board members are not sharing perspectives and are making decisions without due process.

KEY ELEMENTS

- A proxy is a form of power of attorney. A proxy can refer to a person who has the authority to act, usually in a voting capacity, for another person. It can also refer to a document that gives an individual the right to vote for someone else. Its main purpose is to allow an absent member to express his or her opinion.
- A limited proxy, usually in writing, must indicate the meeting or the specific issue for which it is intended, define the timeframe during which it is valid, include the signature of the member granting the proxy, and be revocable by the member executing it. The person who has been given the proxy has a fiduciary duty to respect the wishes of the absent member.
- As long as comprehensive information on the candidates is distributed to all members and the process is allowed by state laws and is clearly defined in the bylaws, mailing out proxies is an acceptable method to keep the membership active.

PRACTICAL TIPS

- ✓ Form a tellers committee to increase confidence in the proxy system and to follow clear guidelines for counting proxies.
- ✓ Share the voting rules with all members to avoid unnecessary missteps.

SAMPLE PROXY POLICIES

1. This broad proxy is provided by the board for the members.
2. This policy is intended for a condominium owners' association and closely follows the permitted allowances in the Common Interest Ownership Act.

Suggested Resource

- American Society of Association Executives. www.asaenet.org

QUORUM FOR MEMBERSHIP MEETINGS

INTRODUCTION

State laws define the parameters for member meeting quorums. As with board meeting quorums, it is possible to be stricter with the organization's regulations but not contradict the minimum legal levels. Due to the practical challenges of bringing together sometimes thousands of members in the same location, member meeting quorums tend to be more lax than board meeting quorums.

KEY ELEMENT

- Indicate that presence and potential proxies count for the quorum calculations.

PRACTICAL TIPS

- ✓ Check your state laws first and then evaluate what is a reasonable quorum for your meetings. If you allow proxy voting, your quorum requirements may be higher.
- ✓ Arranging your annual meetings at the same time as your annual conference provides an incentive for members to attend.
- ✓ In your materials, remind your members that their voting right is a benefit. Coming to meetings allows them to have a say on the future of the organization.

SAMPLE MEMBERSHIP QUORUM POLICIES

These short policies focus on the percentage of members who must be present to reach a quorum.

1. This sample states who must be present at the meeting.
2. This sample clarifies what must happen when a quorum is not present.

Suggested Resources

- American Society of Association Executives. www.asaenet.org
- Jennings, C. Alan. “Roberts Rules for Defining a Quorum.” Dummies.com. www.dummies.com/how-to/content/roberts-rules-for-defining-a-quorum.html
- Your state statutes: www.councilofnonprofits.org/salocator

NOTICE FOR MEMBERSHIP MEETINGS

INTRODUCTION

State laws normally cover membership meetings and may provide regulations for notices, quorums, proxies, and other voting procedures. These laws vary considerably so it is important to be familiar with your own state laws.

It is common to tie annual meetings to the organization’s annual conference. This is because members are more likely to attend an event when it offers opportunities for professional development in addition to taking care of business matters.

KEY ELEMENTS

- Membership meeting notices usually refer to the annual meeting where the regular business is carried out.
- Be sure to include the date of the annual meeting.
- It is important to spell out the manner and minimum timing of notices that will be sent to members.

PRACTICAL TIPS

- ✓ Consider the distance your members must travel to attend your meeting. Time your meeting notices to enable your members plenty of time to reserve flights and arrange their personal and professional calendars.
- ✓ If you have e-mail addresses for members — and your state laws allow it — discuss whether this is an acceptable way of delivering the notice.

SAMPLE NOTICE FOR MEMBERSHIP MEETINGS POLICIES

These policies state how to notify members of the membership meeting.

1. This policy requires that the meeting notice be posted in the organization’s member publications.
2. This policy states that ballot statements must be sent with meeting notices.

Suggested Resources

- American Society of Association Executives. www.asaenet.org
- Jennings, C. Alan. "Roberts Rules for Giving a Notice of a Meeting." Dummies.com. www.dummies.com/how-to/content/roberts-rules-for-giving-notice-of-a-meeting.html
- Your state statutes: www.councilofnonprofits.org/salocator

ACCESS TO RECORDS FOR MEMBERSHIP ORGANIZATIONS

INTRODUCTION

Most state laws regulate member access to the organization's records, so it is important to be familiar with these statutes. In membership organizations, it makes sense for the members to have access to some records because they have the right to approve major organizational decisions. However, to eliminate unnecessary member communication regarding access, it is important to clarify access to records in a separate policy.

KEY ELEMENTS

- Some records are universally available (public), some promote a sense of openness, and some should not be shared with outsiders. Differentiate between these records in the policy.
- State where various records are kept and how to access them.

PRACTICAL TIPS

- ✓ Because many state laws are difficult to find or decipher, it is advisable to have a separate policy.
- ✓ Post any public records on your Web site. Your constituency will thank you.
- ✓ Members are often interested in accessing board meeting minutes and financial records. Educate staff on how to handle these requests.

SAMPLE MEMBER ACCESS TO RECORDS POLICIES

The samples include a simple statement and a more detailed process of sharing documents.

1. This short policy simply refers to the state laws for member access.
2. This statement, adapted from the Virginia state laws, covers records that are not to be shared.

Suggested Resources

- American Society of Association Executives. www.asaenet.org
- Your state statutes: www.councilofnonprofits.org/salocator

2. FOUNDATIONS

DISCRETIONARY GIVING

INTRODUCTION

Some family foundations have policies that provide board members with some funds to designate grants to their favorite charities. These donations are in addition to the official foundation grants and have multiple objectives: to soften ideological differences between board members and keep the foundation's primary focus on the mission, to allow immediate responses in disaster or other emergency situations, and to train future trustees in grantmaking. Some of their challenges include providing indirect personal benefits for board members, taking money away from the primary foundation pool, and deviating focus from the mission to personal preferences.

KEY ELEMENTS

- Include a legal review to ensure personal grants are not contradicting the foundation's mission or values.
- Clarify the types of organizations that are eligible to receive these grants.
- Specify whether a potential grantee needs to submit a written proposal.
- State whether it is acceptable for a family member to give a grant to a charity that has close ties to the family or has board members who are family members.
- Require every grantee to provide a copy of the determination letter.
- Based on your money pool, determine whether you will provide every board member with a set amount of money to distribute personally, whether a specific amount will be distributed among board members, or whether a percentage of your grantmaking budget will be distributed among board members.
- Designate who has the final say in approving specific grants.

PRACTICAL TIPS

- ✓ Keep the amounts modest. These grants should be incidental to the main purpose of the foundation.
- ✓ You are allowed to make restrictions! One option is to allocate a small percentage of the budget to issues or causes recommended by board members.

- ✓ If you allocate a certain amount of money for personal grantmaking, consider making it a percentage of the overall annual giving to ensure that the amount remains reasonable if the board grows in size.
- ✓ Pay attention to self-dealing. Draft a list of conditions that are not acceptable, such as financial or employee relationships with the grantee

SAMPLE POLICIES FOR DISCRETIONARY GIVING

These sample policies provide only a few limits for the use of the discretionary funds.

1. This short policy simply defines the amount for discretionary grants.
2. This policy stresses that personal grants should align with the general mission of the foundation.
3. This policy reflects the culture of the foundation.

Suggested Resources

- “Discretionary Grants: Encouraging Participation or Dividing Families?” National Center for Family Philanthropy. www.cnjg.org/s_cnjg/bin.asp?CID=393&DID=13209&DOC=FILE.PDF
- Council on Foundations. www.cof.org

3. MUSEUMS

DEACCESSION

INTRODUCTION

Deaccession refers to the process of removing a piece of art or object from the museum's regular inventory. Deaccession can be controversial as the principle runs against the very nature of a museum, which is preserving and exhibiting art and objects for today and the next generations. However, every museum has or will have items in its inventory that may no longer be relevant or add value to its collections, no longer meet the museum's standards, require too much effort or money to keep intact or preserve properly, are a duplicate, or by order of court must be returned to the original or legal owner.

KEY ELEMENTS

- Justify the decision to deaccess a work to avoid indiscriminate selling or disposing of permanent inventory.
- State who is responsible for reviewing and approving the disposal of artifacts.
- Demand an independent appraisal of the pieces being removed from the permanent inventory.
- Clarify how the funds will be used if property is sold, such as directing the revenue for acquiring new inventory.

PRACTICAL TIPS

- ✓ To avoid a public scandal and donor anger, disclose the decision and explain why deaccession is a necessary act.
- ✓ Be proactive and discuss the necessity to “declutter” inventory from time to time.
- ✓ In the future, be careful about agreements with donors.

SAMPLE DEACCESSION POLICIES

The sample policies move from reasons for deaccession to detailed process guidelines.

1. This sample lists the reasons for deaccession.
2. This sample stresses that deaccession must benefit the mission.
3. This comprehensive policy sets deaccession guidelines for member museums.

Suggested Resources

- “Deaccession and Disposal in Small Museums.” Fact Sheet from Museums and Galleries. <http://mgnsww.org.au/uploaded/resources/Fact%20Sheets/Collection%20Management/Deaccessioning.pdf>
- American Association of Museums. www.aam-us.org

SPACE RENTALS

INTRODUCTION

The main purpose of a museum’s physical setting is to display its collection and invite patrons to come and appreciate it. And those museums that don’t already own a building that houses the inventory and provides office, research, and preservation space aspire to it.

Often museum spaces are desirable locations for private events, and many museums rent their spaces for such occasions. As long as this practice does not distract from the museum’s primary purpose and become a substantial revenue objective, it can be an acceptable way to bring in additional income.

KEY ELEMENTS

- Define for whom you are willing to rent the space: members only, individuals, nonprofits, for-profits?
- Are there any types of events that would not be appropriate within your premises: weddings, wine tastings, religious ceremonies? Be familiar with the discrimination laws.
- Reserve the right to refuse or cancel any event because of unavailability, security and safety issues, or inappropriate purpose of the event. Your reputation is on the line.
- Require the renter to provide verification of adequate liability insurance.
- Request to approve any event promotional materials if the mission of your museum is sensitive and you do not want to be perceived as a sponsor of the event.

PRACTICAL TIPS

- ✓ Check with your accountant to determine whether rental activity will create any unrelated business income tax (UBIT). Rent income usually is not taxed, but it should not include other services.

- ✓ Determine whether it makes sense to invest in such things as chairs, tables, and glassware. You can charge extra for additional accommodations.
- ✓ Use private events as an opportunity to market your museum and recruit new patrons by making your marketing materials available to those attending private events.

SAMPLE SPACE RENTAL POLICIES

The sample policies cover simple user statements and comprehensive guidelines for acceptable use of the facilities.

1. This sample specifies who can rent the facilities and for what purposes.
2. This comprehensive sample provides detailed guidelines for those who rent the space for private events.

Suggested Resource

- American Association of Museums. www.aam-us.org

ABOUT THE AUTHORS

Barbara Lawrence began working as an independent consultant for nonprofit organizations in 2000, after a career that included senior executive positions in both the for-profit and nonprofit sectors. Her goal is to help nonprofit organizations achieve their missions through evidence-based decision making and sound planning. She brings research skills to the tasks of survey, market, case-building, and prospect research, as well as program evaluation. Her management skills in planning help organizations develop strategic, business, and fundraising plans, and learn to apply project management techniques. She strives to ensure that her clients are smarter and feel in control after her work is done.

Prior to working as a consultant, Barbara held positions as executive director of a nonprofit school for learning disabled children, senior vice president for an educational database and book publisher, and division director for a professional engineering society. As a volunteer, Barbara has served as chair of several boards, including the Alice Paul Institute, the Franklin Township Friends of the Library, and the National Federation of Abstracting and Information Services. In 2011, Barbara was awarded the Robert Semple Award for Consulting Excellence.

Starting her academic career as a chemist, with a bachelor's degree from the University of Vermont and graduate work at Yale, she followed a career path in managing and providing information services. Her continuing education includes the Wharton Executive Effectiveness and IBM Business Systems Planning programs. She is a graduate of the Clark Fellowship Foundation Center training in Fundraising Consulting.

Outi Flynn, governance specialist at BoardSource, has been a member of the staff since 1989. For numerous years, she has developed, structured, and managed the Ask-the-Expert service at BoardSource, which is one of the organization's most highly utilized and popular services.

Outi has created and contributed to the bulk of the governance information available on BoardSource's Web site, including books and papers, and acts as the primary content reviewer for the organization's publications. Her areas of expertise cover overall sector issues, dilemmas that concern nonprofit leaders on a daily basis, and structural and procedural challenges that affect board productivity.