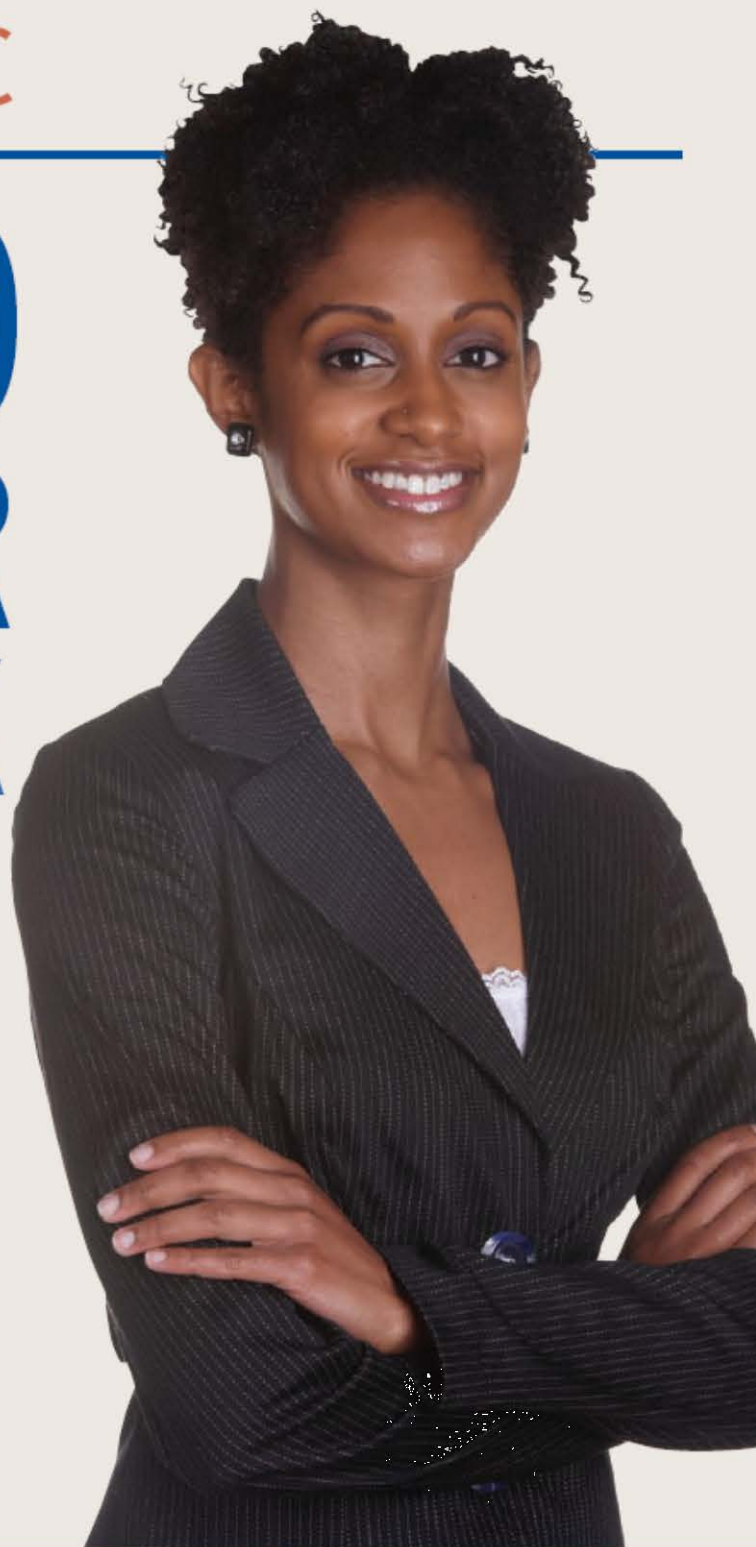


BoardServeNYC

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# BOARD MEMBER HANDBOOK



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## United Way of New York City BoardServeNYC

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## Table of Contents

|                                                                       |    |
|-----------------------------------------------------------------------|----|
| Welcome to BoardServeNYC:.....                                        | 5  |
| BoardServeNYC Services .....                                          | 6  |
| About the BoardServeNYC Board Governance Training .....               | 7  |
| BoardServeNYC Training Modules .....                                  | 7  |
| Module 1: Board Roles and Responsibilities .....                      | 9  |
| Nonprofit Organization Facts .....                                    | 9  |
| Primary Types of Nonprofits.....                                      | 9  |
| Sources of Information about Nonprofits .....                         | 10 |
| Why Are Nonprofit Organizations Tax-Exempt? .....                     | 10 |
| Governance .....                                                      | 12 |
| Outstanding Nonprofit Board Practices .....                           | 12 |
| Governing Principles for Boards.....                                  | 13 |
| Principles of Nonprofit Governance.....                               | 14 |
| Primary Board Responsibilities .....                                  | 16 |
| Individual Board Member Responsibilities.....                         | 17 |
| Three “Hats” Often Worn By Board Members .....                        | 17 |
| Board Responsibilities and the Executive Director .....               | 18 |
| The Board-Staff Partnership, Relations and Structure.....             | 18 |
| Nonprofit Organization Life Cycle.....                                | 20 |
| Nonprofit Board Legal Obligations .....                               | 22 |
| Risk Management and Oversight: FAQs .....                             | 23 |
| Creating Policies.....                                                | 24 |
| Safeguarding Against Conflict of Interest .....                       | 26 |
| Bylaws .....                                                          | 28 |
| MODULE 1 HOMEWORK: Board Roles and Responsibilities .....             | 29 |
| Module 2: Strategic Directions .....                                  | 30 |
| Strategic Planning: The Five Drucker Questions.....                   | 30 |
| The Planning Process.....                                             | 30 |
| Innovation-Based Planning .....                                       | 31 |
| Transition Scenarios .....                                            | 32 |
| MODULE 2 HOMEWORK: Strategic Decisions.....                           | 33 |
| Module 3: Fiduciary Oversight.....                                    | 34 |
| Nonprofit Financial Statements .....                                  | 34 |
| Interim Financial Statements.....                                     | 35 |
| Glossary of Common Terms Used in Nonprofit Financial Statements ..... | 36 |

|                                                                        |    |
|------------------------------------------------------------------------|----|
| 20 Questions Board Members Should Ask to Assess Financial Health ..... | 38 |
| Exhibit 1: Budget.....                                                 | 39 |
| Exhibit 2: Statement of Financial Position .....                       | 39 |
| Exhibit 3: Statement of Activities .....                               | 40 |
| Exhibit 4: Statement of Functional Expenses .....                      | 41 |
| Exhibit 5: Auditor's Management Letter.....                            | 42 |
| Exhibit 6: Budget.....                                                 | 43 |
| Exhibit 7: Sample Cash Flow Report.....                                | 46 |
| Nonprofit Public Disclosure Requirements .....                         | 47 |
| Some Board Responsibilities in the New Form 990.....                   | 48 |
| Intermediate Sanctions .....                                           | 49 |
| MODULE 3 HOMEWORK: Fiduciary Oversight .....                           | 51 |
| Module 4: Resource Development .....                                   | 52 |
| Introduction: An Overview of Fundraising.....                          | 52 |
| Successful Fundraising — What It Takes.....                            | 53 |
| Elevator Speech: Making the Case .....                                 | 53 |
| Fundraising: Whose Responsibility? .....                               | 54 |
| What You as a Board Member Can Do to Fundraise .....                   | 54 |
| MODULE 4 HOMEWORK: Resource Development.....                           | 55 |
| Module 5: Board Leadership and Board Dynamics .....                    | 56 |
| Boards Make Good Decisions.....                                        | 56 |
| Board Structures.....                                                  | 58 |
| Consent Agenda .....                                                   | 59 |
| Roberts Rules of Order — Short Form.....                               | 60 |
| Board Committees .....                                                 | 61 |
| MODULE 5 HOMEWORK: Board Leadership and Dynamics.....                  | 62 |
| MODULE 6: Board Building and Placement .....                           | 63 |
| Board Composition, Structure and Development .....                     | 63 |
| The Board Manual .....                                                 | 64 |
| Board Mentoring .....                                                  | 64 |
| The Board-Building Cycle .....                                         | 65 |
| Questions for Prospective Nonprofit Board Members.....                 | 66 |
| Materials to Review.....                                               | 66 |
| Other Documents.....                                                   | 67 |
| Board Recruitment and Orientation Process .....                        | 68 |
| BoardServeNYC.org .....                                                | 69 |
| Board Fairs .....                                                      | 70 |
| Nonprofit Governance Glossary .....                                    | 71 |

|                                                                       |    |
|-----------------------------------------------------------------------|----|
| The BoardServeNYC Team .....                                          | 71 |
| Selected Bibliography on Governance, Leadership, and Management ..... | 72 |

## **Welcome to BoardServeNYC:** **A United Way of New York City Initiative** **in partnership with NYC Service**

For more than 60 years, United Way of New York City has been assisting nonprofits with financial, technical, management, and volunteer support. In 2003, United Way honed its mission and developed a set of Action Areas to tackle the most pressing issues facing the city.

### **United Way of New York City's Action Areas include:**

- Income
- Education
- Health
- Strengthening New York City Nonprofits

BoardServeNYC builds the capacity of nonprofits in New York City by connecting them to a pool of prospective board members. This initiative has been undertaken in response to "NYC Service – A Blueprint to Increase Civic Engagement," Mayor Michael R. Bloomberg's bold and ambitious plan to maximize service opportunities and increase volunteerism in New York City.

Nonprofit organizations that participate in BoardServeNYC represent a wide range of missions, from health and social services to art, culture, and the environment. They are actively seeking to broaden, strengthen, and diversify their existing boards.

Training the board member candidates in nonprofit governance and actively preparing nonprofits to recruit, engage, and utilize new board members are integral components of BoardServeNYC.

### **Goals of BoardServeNYC**

It is crucial that boards perform their responsibility to act in the public interest, fulfill their legal duties and provide leadership for the organization.

BoardServeNYC promotes and sustains effective governance in nonprofit boards by helping to:

- Develop and strengthen nonprofit board leadership
- Provide the nonprofit community with an available pipeline of trained leaders with the expertise and commitment to serve on nonprofit boards
- Diversify nonprofit board membership to ensure the inclusion of different perspectives, experiences and backgrounds

To achieve these goals, BoardServeNYC provides recruitment, training and placement services to nonprofit agencies and prospective board members.

## BoardServeNYC Services

### Recruitment

BoardServeNYC provides nonprofits access to prospective board members who have completed the BoardServeNYC training. An added benefit of BoardServeNYC is that United Way of New York City helps nonprofits assess what they need in new board members and facilitates the recruitment process. Many nonprofits need board members with professional expertise in various fields, particularly in finance, fundraising, law, auditing/accounting, communications and marketing/public relations. BoardServeNYC aims to help meet these needs.

### Training

Potential board members who participate in the BoardServeNYC program possess varied business and professional skills and demonstrate a strong commitment to the nonprofit sector. BoardServeNYC supports these individuals by helping them understand the expectations, responsibilities and rewards of trusteeship. The BoardServeNYC training demystifies the role of a board member by addressing issues such as board culture, strategic planning, financial oversight, meeting protocol, and fundraising, as well as explaining organizational dynamics.

### Matching and Placement

After completing the training course, potential board members will have an opportunity to meet executive directors and board leaders from New York City's diverse nonprofit sector to find an organization whose needs and mission complement their own interests and skills. This will be accomplished through attending live board fairs and using United Way of New York City's online matching tool.

Neither agency directors nor BoardServeNYC participants are required to enter into a working relationship unless both parties feel it is an appropriate match.

### Post-Placement Support

BoardServeNYC provides post-placement support. All program graduates receive a discount voucher for a class of their choosing at the **Support Center for Nonprofit Management**. Invitations to additional workshops and events will also be offered to graduates.

## About the BoardServeNYC Board Governance Training

### BoardServeNYC Training Modules

Being a board member of a nonprofit organization is an important position of leadership and trust. Trusteeship offers an excellent opportunity for volunteers to use their education, professional competency, and life experiences to provide an organization with guidance and oversight. No matter how skilled individuals are, however, there is still more to learn about nonprofit governance. BoardServeNYC is designed to help new board members become knowledgeable about the roles and responsibilities, expectations and rewards of board membership.

The BoardServeNYC Board Training program consists of six interactive modules, totaling six hours. The curriculum is designed to share insights and materials, promote peer interaction, and encourage the exchange of information and experience among participants. The modules are designed to create a network of individuals dedicated to the New York City nonprofit community.

#### **Module 1: Board Roles and Responsibilities**

In order to maintain the public trust and to serve the organization's constituency, a board must fulfill a number of basic responsibilities in terms of mission, oversight, resources, and outreach. This module will provide essential background information on the nonprofit sector, a snapshot of a board's legal obligations and an overview of board roles and responsibilities.

#### **Module 2: Strategic Directions**

One of the key responsibilities of the board is to work in collaboration with the executive director and senior staff to set the vision, strategic goals and program outcomes for the organization. This module will explore the strategic planning process and the questions that leadership must ask to enable the achievement of results.

#### **Module 3: Fiduciary Oversight**

A nonprofit board is responsible for ensuring that the organization operates within federal, state, and local laws. It also has fiduciary obligations to safeguard the organization's mission and resources. This module will examine the fiduciary duties of boards, nonprofit financials, and risk management needs.

#### **Module 4: Resource Development**

This module will focus on how the board fulfills its responsibilities for providing access to financial resources through support of fundraising and by personal giving.

#### **Module 5: Board Leadership and Board Dynamics**

Board leadership is expressed most powerfully during times of transition and crisis. This module will explore a board's actions and culture that serve to move organizations forward so they can successfully meet these challenges.

#### **Module 6: Board Building and Placement**

The success of the board relies on finding and engaging the right board members. This final module will review the board building cycle as well as the questions potential board members should ask themselves before joining a board.

The training curriculum is developed and designed in consultation with the **Support Center for Nonprofit Management** and **Michael Davidson**.

**Support Center for Nonprofit Management** is a nonprofit organization that develops and nurtures nonprofit leaders and organizations at all stages of their development. It works to help individuals develop practical skills and knowledge, build productive relationships, and find the information resources they need to further their own professional development. It also works to increase the effectiveness of nonprofit organizations enabling them to better serve their clients and communities and increase the quality of life in their neighborhoods.

**Michael Davidson**, lead trainer for BoardServeNYC, has over 20 years' experience in nonprofit management as a board president, manager, consultant and attorney. His broad experience includes the successful resolution of complex legal matters, leadership of nonprofit boards, management of a citywide community service program, and interim management of organizations during periods of change. He brings experience and expertise along with hands-on assistance that can help organizations achieve their vision. Michael also serves as Chairman of Governance Matters, a nonprofit organization that improves board governance by fostering an open exchange of ideas and information among a broad cross-section of the nonprofit community. He was a volunteer with the Peace Corps, an assistant professor of anthropology, an assistant district attorney, and an attorney in private practice. He holds a BS in mathematics from New York State University College on Long Island, a JD from Columbia Law School and an M.Ph. in anthropology from Yale University.

## Module 1: Board Roles and Responsibilities

### Goals

- To understand the scope, variety and importance of the nonprofit sector
- To understand the basic responsibilities of nonprofit boards and the legal framework that governs nonprofit organizations
- To understand the distinction between the management and governance needs of nonprofit organizations
- To understand the different developmental stages of nonprofit organizations and the varying nature of the governance and management responsibilities

### Nonprofit Organization Facts

Nonprofit organizations serve society through a unique, charitable structure that differs from both business and government. Nonprofits do not have owners in the traditional sense; however, they must have boards of directors that have governing responsibility for the organization.

They draw heavily on volunteerism and contributions from all sectors. The nonprofit sector includes more than one million organizations that spend nearly \$500 billion each year. They constitute about 6 percent of all organizations in the United States. One in 15 Americans, or 7 percent of all employees, works for a nonprofit.

Nonprofits can earn a profit (though it is generally referred to as a “surplus”). Nonprofits differ from business in that their surplus must go back into the organization, rather than be distributed to shareholders or partners.

### Primary Types of Nonprofits

#### 1. **Charitable Institutions**

Exempt under Section 501(c)(3) of the Internal Revenue Code, charitable organizations are founded to serve public purposes, often by providing free or reduced-cost services. Contributions to charitable institutions are tax-deductible.

*Examples of charitable institutions:*

- Private schools
- Some hospitals and other healthcare organizations
- Performing arts groups, public television, and public radio
- Museums
- Organizations that care for children, victims of abuse, and the homeless

#### 2. **Foundations**

Also exempt under Section 501(c)(3) of the Internal Revenue Code, foundations are established for the specific purpose of giving money to support the nonprofit sector. Regulations vary, but most foundations are required to give away a certain percentage of their assets (usually 5 percent) each year. They generally pay a modest tax on net investment proceeds.

*Examples of foundations:*

- Private foundations which receive their assets from a single source
- Community foundations which pool the resources of many donors
- Corporate foundations which are private foundations established by corporations to make charitable contributions

- Operating foundations which provide services rather than grant funding but otherwise function like charities
3. **Social Welfare Organizations**
- Exempt under Section 501(c)(4) of the Internal Revenue Code, social welfare organizations have the primary function of providing advocacy for specific groups. They have broader freedom to participate in lobbying and political campaigns. Contributions to social welfare organizations are not tax-deductible. However, many 501(c)(4) organizations create and control related 501(c)(3) charitable organizations, to which contributions are tax-deductible.
- Examples of social welfare organizations:*
- League of Women Voters
  - American Association of Retired People

**Please note that BoardServeNYC only recruits new board members for 501(c)(3) organizations.**

4. **Professional and Trade Associations**
- Exempt under Section 501(c)(6) of the Internal Revenue Code, professional and trade associations promote the business or professional interests of a community, an industry, or a profession. Contributions to these organizations are not tax-exempt, however dues for membership may be deductible as business expenses.
- Examples of professional and trade associations:*
- American Medical Association
  - American Institute of Certified Public Accountants

## Sources of Information about Nonprofits

The best source of information about a nonprofit organization is usually the organization itself: Many nonprofits produce annual reports and most have audited financial statements which they will provide upon request.

IRS Form 990, which must be filed by most nonprofits and is a public document, provides basic financial information about each tax-exempt organization. These are available from the agency itself, through local IRS centers under the Freedom of Information Act, and increasingly over the Internet at sites such as [www.guidestar.org](http://www.guidestar.org).

## Why Are Nonprofit Organizations Tax-Exempt?

All nonprofits are exempt from federal corporate income taxes. Most also are exempt from state and local property and sales taxes, though sometimes professional associations and social welfare organizations do not meet local and state exemption requirements. Of course, nonprofits are not exempt from withholding payroll taxes for employees, and are required to pay taxes on income from activities that are unrelated to their mission. A university that owns a commercial office building, for example, would probably pay taxes on rental income. Similarly, private foundations pay substantial excise taxes on their investment income.

The notion that churches, charities, and other organizations that operate for the public good should be tax exempt can be traced back through medieval England to ancient times, and has been taken for granted throughout U.S. history. When nonprofits were excluded from the first federal income taxes, for example, Congress didn't even debate the issue. An unintended result is the lack of an overarching theory or rationale as to why nonprofits are tax-exempt. Here are some of the most common explanations offered by scholars and leaders within the nonprofit sector:

**Nonprofits relieve government's burden.** Private schools and hospitals, day care centers, homeless shelters, and other nonprofits provide services that government might otherwise be required to offer. Through tax-exemption, government supports the work of nonprofits and receives a direct benefit in return.

**Nonprofits benefit society.** Even when nonprofits do things that government wouldn't be required to do in their absence, they still provide valuable services to society. Nonprofits encourage civic involvement, provide information on public policy issues, encourage economic development, and do a host of other things that make society richer and more vibrant. Even though government benefits from these services only indirectly, the public benefits overall.

**Taxing nonprofits would be difficult and counter-productive.** Lawyers and economists have pointed out problems that could arise if government attempted to tax nonprofits. These include the difficulty of determining what qualified as taxable income and the adverse affects taxation might have on the viability of many worthwhile organizations.

**Exemption for religious nonprofits preserves separation of church and state.** Tax exemption for religious nonprofits limits government's ability to use tax policy as a tool to promote one religion over another or to tax a church out of existence.

Over the years, as the nonprofit sector has grown and distinctions between nonprofits and for profits have become less clear, an increasing number of state and local governments have launched challenges to the tax-exempt status of nonprofits. A number of states — Pennsylvania, for example — have attempted to establish narrow criteria for tax exemption so that far fewer nonprofits would qualify. These initiatives, in turn, have challenged nonprofits to do a better job of explaining their partnership with government, why they deserve exemption, and how they benefit society.

From the "Board Q&A" Section of the BoardSource website at [www.boardsource.org](http://www.boardsource.org).

## Governance

This resource manual focuses on the governance of 501(c)(3) organizations. All charitable organizations in the state of New York must have a board of directors consisting of at least 3 individuals, 18 years of age or older, to govern the organization.

### What is Governance?

**“To Steer”:** The word *governance* comes from an ancient Greek word, *kebernon*, which means “to steer.” In current usage, *to govern* means “to steer, to control, and to influence from a position of authority.” Governance deals with the legitimate distribution of authority throughout a system, be it a country or an organization.

**To Hold and Exercise Authority:** Authority to govern an organization may be granted by a variety of sources, ranging from organizational members and supporters to public officials. When an organization is incorporated, the state in which the incorporation takes place assigns responsibility for the affairs of the organization to a governing board. This responsibility includes both authority to make organizational decisions and accountability for the outcome of such decisions.

An organization's articles of incorporation (or constitution) and its bylaws will specify how its board is to be constituted and organized. Boards vary in size and structure, as well as by board member selection. Regardless of their differences, though, boards are always charged with the responsibility of organizational governance. This means that not only do they have the authority to establish and control organizational direction, but also that the board – as a group – will be held accountable for how this authority is carried out. The board is where the proverbial buck stops.

**To Provide Accountability:** The legal framework for governing nonprofit boards has evolved. For a long time, laws related to trusts were used to determine issues of nonprofit board accountability. This placed a great deal of responsibility on individual trustees. A number of court cases have since placed interpretation of nonprofit board accountability within the framework of corporate law, leaving legal responsibility on the board as a collective body rather than on individual trustees.

## Outstanding Nonprofit Board Practices

As the nonprofit sector evolves, becoming more accountable to its varying constituencies and more effective in its management, boards are also changing to meet the needs of the sector. The following list of Outstanding Board Practices highlights some of the procedures and systems that support good governance. Boards that adopt some or all of these practices tend to be more efficient and more reflective, have the flexibility to respond to changes and the processes to guarantee consistency, and make better use of the limited time of its members. The organizations these boards govern are more likely to accomplish their missions.

- Governance structures, operations, and relationships built around organizational vision, mission, and values
- Boards that “pay attention”
- More effective board and committee meetings
  - o Fewer but more strategic meetings
  - o Make use of the consent agenda
  - o Hold meetings that allow for enhanced relationship building
  - o Conduct ongoing board meeting evaluation
  - o Include board development activity on each board agenda
- Governance committee guiding and institutionalizing of ongoing board development
- Diminished role of the executive committee
- Fewer board standing committees; more task forces and organization-wide groups

- Understanding of roles; agreed-upon job descriptions/expectation statements for the (collective) board, individual board members, officers, committees and committee chairs
- Formal board self-assessment every 2 – 3 years, including a retreat and ongoing monitoring
- Making boards that add value to the work of the organization, especially in regard to the chief executive
- Technological advances incorporated into board operations (technology clause in bylaws, electronic participation, online meetings, publishing board agenda and minutes on website, agendas sent to board via e-mail or from a confidential board message center)
- More compact timeframe in governance leadership/succession planning and selection; term limits for officers and committee chairs to keep the board 'fresh'
- Parliamentary procedure alternatives to Roberts Rules of Order
- Formal new board member orientation program balanced between information about the organization and individual board development education and training
- Audit committee as a standing committee on boards of organizations with a \$1 million+ operating budget
- Annual board review of risk management issues

## Governing Principles for Boards

**Basics about Boards:** The board governs the life of the organization. As a rule, this means that the board holds the ultimate power within the organization. Exceptions to the rule may be cases where the organization's articles of incorporation and/or bylaws assign ultimate responsibility for certain decisions to the organization's membership or, in the case of a subsidiary, to the parent organization.

Regardless of whether or not a board is accountable to another body, a board is always accountable to the public trust. It is responsible for ensuring that the organization operates within federal, state and local laws. It also has a moral responsibility for safeguarding the organization's mission and resources in such a way as to maintain the public trust. When a board neglects its moral and/or legal obligations, the whole nonprofit sector suffers because the public trust in nonprofits in general is weakened.

In order to maintain the public trust and to serve the organization's constituency, a board must fulfill a number of basic responsibilities. The way in which these responsibilities are carried out will depend on the size and maturity of the organization as well as on its mission and organizational structure.

For any board to operate effectively it must be clear about its own responsibilities and about what responsibilities have been delegated to the staff. Board members must always be aware, however, that the ultimate responsibility for organizational effectiveness rests with the board. This knowledge must not result in the board trying to micromanage the affairs of the organization or attempting to know everything that goes on at the agency. On the contrary, it should compel a board to establish adequate policy guidelines for organizational operations and to determine what information it will need in order to monitor implementation of these policies.

## Principles of Nonprofit Governance

Every organization needs a strong volunteer board to achieve a high-level of quality and long-term effectiveness. There is no one model for how a board should operate. As an organization and its environment change, the board's operating style may need to change along with it. Instead of formulas for success, board members must rely on broad principles, developed over time and seasoned by experience.

## Mission & Planning

One of a board's primary responsibilities is to create a mission statement that articulates the organization's reason for being, to link that mission to the major issues of its particular field and community. The board should review that statement regularly to be sure that plans and programs flow from the mission.

### **A mission statement defines the purpose of the organization and communicates its values.**

Reviewing the mission statement can energize for the board because it is an opportunity to reflect on whether the organization is achieving what it set out to achieve. By looking at the environment, a board can then determine whether a modification in the focus of the mission is necessary to meet changing needs. A clear expression of mission is essential for planning, board and staff decision-making, generating resources, and organizational assessment.

A strong grasp of and commitment to the mission is a prerequisite for all the other responsibilities of nonprofit boards:

- Given the amount of time that the staff has to concentrate on day-to-day operations, the board can much more easily focus on the future
- Boards play a vital role in shaping what the organization wants to accomplish over the next three to five years
- Nonprofit board members should engage in a formal planning process to better understand the environment in which the organization operates and then decide what changes it should make to function more effectively in that environment

## Oversight

The second area of board responsibility is *oversight*: establishing appropriate checks and balances to ensure that the organization is well managed and that its mission is carried out.

- **General Oversight:** Most board members know that oversight includes highly significant legal, ethical, and fiduciary obligations. In today's climate, oversight is especially crucial as the actions and activities of nonprofit organizations and their boards are subject to intense public scrutiny. Board members must be well informed about the organization, study and understand financial information, and—most of all—ask tough questions. Openness and honesty are essential at all times, especially in the board's relationship with the executive director.
- **Fiscal Health:** Boards should watch over an organization's resources as they would their own. This doesn't mean everyone needs to be an expert, however they must be diligent about reviewing financial reports. Boards should listen to those board members who are highly experienced in finance or seek the counsel of financial experts.
- **Board-Staff Relations:** Board-staff relations begin with the responsibility of the board to hire, support, and evaluate the chief staff person. Oversight is also connected to the board's relationship with the staff, especially with the executive director. A major challenge in nonprofit organizations is deciding where governance ends and management begins—and where the distinction is blurred. Finding a balance is easier when board and staff have a sense of shared vision and common purpose, enjoy cordial but frank communication, and understand and respect

one another's roles. The board chair (or board president) provides the key leadership when it comes to board-staff relationships.

- **Conflict of Interest:** Nonprofits need to avoid conflict of interest, or even the appearance of such conflict. Board members often come from the same field as the organizations they serve, and for that reason they are well equipped to be knowledgeable volunteers. But no board member should participate in a discussion or vote on an issue when he or she has the potential to derive personal gain from the situation.
- **Evaluation:** This valuable oversight process can be easy to understand in theory but difficult to put into practice. The board is responsible for the overall performance and effectiveness of the organization. It should commission periodic assessment of *programs and services*, as well as management, to ensure that the organization is wisely and soundly serving the community.
  - The board is also responsible for *evaluating the executive director*. The evaluation process is most productive when success is measured against clear goals and should be a positive learning experience for both the board and the executive.
  - *Board self-evaluation* is essential too. This ongoing process promotes an active, engaged, and knowledgeable board and helps each member bring his or her full value to the table. In addition, periodic retreats with an outside facilitator allow the board to step back and think about how it functions as a group and how to strengthen its effectiveness.

## Resources

One of the most challenging areas of board service is resource development: ensuring that the organization has the financial and human resources it needs to fulfill its mission.

- **Fundraising:** For many organizations, the board's most significant contribution in this area is fundraising. Boards see to it that fundraising strategies are in place and that board members contribute their time, skills, and influence to raising money. Individual board members should also show their commitment to the organization by making a personal annual financial contribution. When the board shows 100 percent support, funders know that the organization has a solid base of enthusiastic backing.
- **Human Resources:** Of course, boards should also be concerned with human resources. They need to cultivate board members with skills in marketing, strategic planning, law, and financial management—expertise that can help secure firm financial footing and provide sound counsel. In addition, board members should help cultivate volunteers and other organizational friends.

## Outreach

Every board should be an articulate voice for the organization's mission, values, and programs. Board members provide connections to the community in which the organization operates, and by making use of those connections they make the organization stronger and able to survive change. Board outreach takes a number of forms: board members serve as community ambassadors; recruit new board members, volunteers, and donors; meet with elected officials and testify before legislatures; expand the organization's circle of influence. These efforts require strong board commitment and a well-articulated strategy.

From "Meeting the Challenge: An Orientation to Nonprofit Board Service." Video by BoardSource. 1998.

## Primary Board Responsibilities

1. **Determine the organization's mission and purpose.** It is the board's responsibility to create and review a statement of mission and purpose that articulates the organization's goals, means, and primary constituents served.
2. **Select the chief executive.** Boards must reach consensus on the chief executive's responsibilities and undertake a careful search to find the most qualified individual for the position.
3. **Provide proper financial oversight.** The board must assist in developing the annual budget and ensuring that proper financial controls are in the right place.
4. **Ensure adequate resources.** One of the board's foremost responsibilities is to provide adequate resources for the organization to fulfill its mission.
5. **Ensure legal and ethical integrity and maintain accountability.** The board is ultimately responsible for ensuring adherence to legal standards and ethical norms.
6. **Ensure effective organizational planning.** Boards must actively participate in an overall planning process and assist in implanting and monitoring the plan's goal.
7. **Recruit and orient new board members and assess board performance.** All boards have a responsibility to articulate prerequisites for candidates, orient new members, and periodically and comprehensively evaluate its own performance.
8. **Enhance the organization's public standing.** The board should clearly articulate the organization's mission, accomplishments, and goals to the public and garner support from the community.
9. **Determine, monitor, and strengthen the organization's programs and services.** The board's responsibility is to determine which programs are consistent with the organization's mission and to monitor their effectiveness.
10. **Support the chief executive and assess his or her performance.** The board should ensure that the chief executive has the moral and professional support he or she needs to further the goals of the organization.

Adapted from Richard Ingram. "Ten Basic Responsibilities of Nonprofit Boards." Published by BoardSource.

## Individual Board Member Responsibilities

- Understand and support the organization's mission
- Attend board meetings
- Prepare for meetings and otherwise commit to learning about the organization
- Share professional expertise
- Engage in discussion and decision-making
- Respect the opinions of other board members
- Support the board's consensus on governance matters
- Respect and support the executive director's authority
- Make a personal donation each year (if applicable)
- Encourage other individuals, corporations, and philanthropies to give
- Assess your own performance
- Be prepared and willing to lead the board or a committee

## Three “Hats” Often Worn By Board Members

### Governance “Hat”

- Governance is the role of the board as a whole
- *Governance* means “having ultimate responsibility for the organization”
- An individual board member wears this “hat” only during board meetings when developing policy and acting collectively

### Implementation “Hat”

- *Implementation* means “stepping out of the governance role temporarily to take on a task usually done by a staff member or consultant”
- One or more board members may wear this “hat” when the board asks/authorizes them to implement particular tasks, or board policies, or programs

### Volunteer “Hat”

- This is the “hat” worn at all other times when involved with the organization's activities
- By donating their time to the nonprofit, board members are serving as volunteers

Adapted from Andringa, Robert and Ted Engstrom,  
“Nonprofit Board Answer Book: Practical Guidelines for Board Members and Chief Executives.” BoardSource. 1998.

## Board Responsibilities and the Executive Director

**The Leadership Team (Board Chair and Executive Director):** The success of a nonprofit organization relies on a strong relationship between the staff and the board. The leaders of that relationship are the executive director and the board chair. Think of the executive director as the gatekeeper for the staff and the board chair as the gatekeeper for the rest of the board. This helps to prevent miscommunication and it allows both leaders to stay aware of each other's needs.

When the board needs to communicate with the staff it should flow through the board chair to the executive director. Conversely, when the staff wants to communicate a new initiative, program or other message, they should work through the executive director who works through the board chair. As a result, it is crucial for the executive director and the board chair to have a healthy, productive relationship.

Both the board chair and the executive director of the organization need to support, consult, and complement each other. To make this happen, they need to communicate openly and regularly. This leadership team needs constant attention. Personalities change but the positions remain: each partner needs to adapt to and cultivate the working relationship.

## ED and Board: A Dynamic Unique to Nonprofit Organizations

- A collegial relationship between the ED and the chair is vital; it is their joint responsibility to provide the information needed to support their respective roles
- Regular and carefully thought out communication; “no surprises”
- The ED must be an active partner in helping the board to be effective
- Someone on the board should be prepared to say, “Isn’t this something that the staff should decide?”
- The distinction between board and management authority can be clarified by the job description for the executive director
- Does the executive director have a contract? How is compensation determined? Is there an annual evaluation? Is there a transition plan?
- Does the board ever meet in executive session without the executive director?
- Being “in charge” is not based on having the power to fire the executive director
- “Hiring and Firing” is not the essence of the board’s role; their role is to nurture and develop human resources for the organization

## The Board-Staff Partnership, Relations and Structure

### The Board

*Authorized by the state*, the board governs the life of the organization.

- Establishes mission and direction, ensures the necessary resources, and develops guiding principles
- Retains ultimate responsibility and power
- Is accountable to the public trust and to the organization's constituencies

### The Executive Director

*Authorized by the board*, the executive director manages the daily affairs of the organization.

- Supports the board with strategic information, ideas, and connections
- Manages the affairs of the organization by ensuring appropriate planning, coordination, and implementation of the program established by the board to support the mission
- Retains immediate, or operational, responsibility and power

## The Partnership

Organizational health depends on an effective **partnership** between the board and executive director, which:

- Requires regular and open communication between the board chair and executive director
- Requires willingness on everyone's part to examine assumptions
- Benefits from regular and systematic feedback and assessment
- May need redefinition as the organization grows in size and complexity

While there are distinct responsibilities for the staff and the board, there are some that overlap, such as policy formulation, fundraising and community relations. This requires both the board *and* the staff to understand their respective roles and to have clear expectations of each other in order to have an effective partnership.

| Board Responsibilities                           | Overlapping Responsibilities            | ED and Staff Responsibilities |
|--------------------------------------------------|-----------------------------------------|-------------------------------|
| Policy Determination                             | Policy Formulation                      | Program Management            |
| Fiscal Oversight                                 | Fundraising                             | Personnel Administration      |
| Hiring, Supervising, Evaluating, Firing the ED   | Community Relations                     | Day to Day Agency Operation   |
| Establishing Priorities and Allocating Resources | Budget Development and Fiscal Reporting |                               |

## Leading Roles

The following are examples of typical board and staff leadership roles in nonprofits:

The **board** takes the lead when it:

- Articulates the guiding values of the organization through policies that put the organization's mission into action
- Hires, supports, and evaluates the executive director
- Opens the doors to fundraising in the community
- Monitors fiscal management, approves the annual budget, and assures that there is an annual audit
- Selects, recruits, and orients new trustees

The **executive director** takes the lead when he/she:

- Develops and proposes policy questions for the board's consideration
- Hires, supervises, and motivates staff
- Develops and implements programs

The **board, board chair, executive director, and staff** share the lead when they:

- Develop a strategic plan
- Create a fundraising plan and strategies
- Initiate and implement periodic organizational evaluations
- Prepare for board meetings

### *Requirements for an Effective Partnership*

- ☒ Clarity of roles
- ☒ Division of responsibilities
- ☒ Attention to working relationships

## Nonprofit Organization Life Cycle

Like any other organization or corporation, a nonprofit goes through various stages of development and not all will follow the same path. Below are some traits that generally characterize nonprofits at their various stages of development.

### Start-Up Stage: The Beginning.

**Qualities: Creative Founder; Board in Formation**

#### Organization

- Mission-driven
- Entrepreneurial
- Creative
- No or few staff
- One or two funders
- The organization seen as a “family” or “movement”

#### Board

- Small
- Homogeneous
- Hands-on
- Few distinctions between board and staff
- Following or Leading (single founder vs. founding group)
- Establishes the culture

#### Challenges

- Meeting program demand
- Staff burn-out
- Inadequate funding
- Lack of systems

### Adolescence: Growth.

**Qualities: Administrative/Directive; Governing Board**

#### Organization

- Shift from leadership to management, from vision driven to order driven
- Staff grows and becomes more specialized
- Revenues diversify
- Introduction of organizational structures, personnel policies, budget process, job descriptions, evaluation, operating procedures, etc.
- Staff may perceive a loss of the sense of “family”

#### Board

- Board develops clear roles and responsibilities with the ED and staff
- Moving from operation to governance
- More diverse
- Delegation to committees and task forces
- Fundraising
- Greater expectations of accountability for board and staff

#### Challenges

- Maintain program quality
- Staff leader difficulty in managing and delegating

- Unstable cash flow
- Weak operations
- Micro-managing board

## **Maturity: Sustainability.**

**Qualities: Delegating; Institutional Board**

### **Organization**

- Growth-driven
- Programs are established and respected
- Operations systems are formalized
- CEO is professional manager
- Responsibility shifts to operating units
- Senior staff may feel that they are losing control

### **Board**

- Larger
- Major role in fundraising
- Governance may be delegated to Executive Committee
- Most work done in committees
- Auxiliary boards

### **Challenges**

- Maintain program quality
- Staff leader's difficulty in managing and delegating
- Unstable cash flow
- Weak operations
- Micro-managing board

## **Stagnant: Decline.**

**Qualities: Stale; Fragmented Board**

### **Organization**

- Programs designed to attract funding
- Focus on maintaining programs rather than on goals
- Out of touch with market
- Staff fragments into "fiefdoms"
- Systems become red tape
- Stale leadership
- Low morale

### **Board**

- Less involved
- May consider merger or dissolution

### **Challenges to Renew**

- Become aware of decline
- Engage fresh board and staff leadership
- Overhaul programs
- Devise a turnaround plan
- Restore confidence in funders

Adapted from: John Vogelsang. "Maximizing Your Board's Effectiveness." Support Center for Nonprofit Management. 1999.

## Nonprofit Board Legal Obligations

**Legal Duties of the Board:** When organizations incorporate as nonprofits, the law requires that a group of individuals serve as the stewards of the public's and the government's interests in the work of the nonprofit.

Decisions must meet the “prudent person” rule – i.e., *Given a reasonable amount of information and reasonable efforts to gather information, the decision must be one that a prudent person would make.*

Individuals are expected to fulfill the following legal duties:

1. **Duty of Care**

- Board members must exercise *reasonable* care in the decision-making process. This is known as the *business judgment rule* and allows board members to be creative and make mistakes.
- The board is knowledgeable, its members active and willing to engage in discussion and decision-making.
- Part of this care or “due diligence” is ensuring that the organization will comply with government laws and regulations affecting its operations: 1) As an employer; 2) As a taxpayer (unrelated business income tax, employment taxes, applicable property taxes); 3) As a provider of services (professional certification, licenses)

2. **Duty of Loyalty**

- The board will act in the best interest of the organization, rather than in the interest of an individual or of a narrow segment of the population served.
- Board members will refrain from self-dealing and avoid actual as well as perceived conflicts of interest.

3. **Duty of Obedience**

- The nonprofit's actions will be consistent with its tax-exempt purpose, bylaws, and mission.

Adapted from Jacqueline C. Leifer and Michael B. Glomb.  
“The Legal Obligations of Nonprofit Boards: A Guidebook for Board Members”. Published by BoardSource.

## **Risk Management and Oversight: FAQs**

A critical component of board oversight includes safeguarding the organization's mission and future, which means that the board must establish policies to protect it against losing its resources – financial assets, human resources, and reputation. The goals of risk management are to ensure the emotional and physical safety of people, to conserve the organization's assets so that it may pursue its mission, and to ensure compliance with the law. Risk management, therefore, relates to the full spectrum of organizational operations – from programs and services, to financial and legal matters, to moral and ethical issues. Risk management strategies include ruling out certain kinds of programs, instituting safety and security precautions, purchasing insurance, and living with a certain type and amount of risk.

### **Q. As a board member of a nonprofit organization, what are my chances of being sued?**

Slight, but it does occur.

### **Q. If I am sued, what's the most likely reason?**

A dispute over employment practices or neglecting to deduct and pay payroll taxes.

### **Q. If I am sued, what is my central concern?**

Paying for your defense.

### **Q. What might increase my chances of being sued?**

Poor personnel policies, practices and governance. For example: inattention, inadequate oversight, ineffective governance structures, and incomplete understanding of legal responsibilities.

### **Q. If I am sued, and the nonprofit organization says it will pay for costs, settlements, and judgments, am I sufficiently protected?**

If it turns out that the nonprofit organization does not have the money to make these payments, you are left unprotected. It is usually better for the nonprofit organization to purchase directors' and officers' insurance to pay these kinds of costs for board members rather than try to "self-insure" using its own resources.

### **Q. Doesn't my state volunteer protection act grant me immunity?**

For some things, yes. For many others, the answer is no. These laws do not cover most employment-related issues or any claims based on federal law.

### **Q. Do I buy directors' and officers' insurance personally, or does the organization buy it?**

The nonprofit organization purchases directors' and officers' (D & O) insurance. If you serve on more than one board, you would be covered for the service to each nonprofit organization separately, depending upon the benefits of its policy.

### **Q. Does a directors' and officers' policy cover against all forms of liability?**

No. Policies have many exclusions. It's important to understand your specific coverage.

### **Q. Is directors' and officers' insurance worth the cost?**

Only you and your colleagues can answer this question. You might look at the issue in another way: Is not having directors' and officers' insurance worth the risk?

### **Q. One nonprofit organization for which I serve as a board member lacks directors' and officers' insurance. Should I resign?**

The threat of a lawsuit should not prevent you from serving on a board. D & O insurance is only one of several measures that any good organization and good board member constantly employs to reduce risk. Insurance may not be necessary for every organization. Find out what kind of risk-management practices

are in place, and encourage the organization to consult with legal and insurance experts if you feel that coverage is warranted.

Adapted from "Leaving Nothing to Chance", published by the BoardSource and the Nonprofit Risk Management Center.  
For further information visit the Nonprofit Risk Management Center at [www.nonprofitrisk.org](http://www.nonprofitrisk.org).

## Creating Policies

### What is a "policy"?

**Policies** are the operational guidelines for an organization. The purpose of the policies is to protect and steer the staff and the board as they fulfill the mission of the organization. They are a reference tool for appropriate action, ethical decision making, and for dealing with potential or actual conflicts. Policies can paraphrase a law, explain a procedure, clarify a principle, or express a desired goal. They are the protocol to follow which, when properly used, helps diminish embarrassing or potentially harmful situations, improper behavior, and ineffective decision making.

**Bylaws:** the primary policies for an organization are most likely found in its original *bylaws*. These policies define the role of the board members, how they are elected, how they function during board meetings, and how their work is structured. As well, the bylaws clarify how amendments can be made to the original document. As a result, bylaws are an evolving document that needs to be reviewed by the board on a regular basis. However, bylaws normally only create the very basic structure for operative functioning; this document should not be cluttered by every conceivable rule and recommendation.

### How are policies created?

#### Proactive Process

New policies are regularly needed to deal with situations that arise in the life of an organization. Ideally, policy development is a proactive process which foresees eventual conflict situations and thus provides a firm, existing guideline for the staff and the board. Many difficult situations can be avoided if an appropriate policy is in place to serve as a reference.

#### Teamwork

Both staff and board can be involved in policy formulation. However, the final 'blessing' is the task of the board. The board signs each organizational policy to show its responsibility. Often, the staff recommends new policies or identifies a need for them. Staff involvement in the process is important, particularly as they are the ones who will be implementing many of the policies.

#### Research

Drafting and assessing the applicability of new policies takes research, brainstorming, and team effort. It is necessary to know legal requirements as well as to stay tuned to new societal trends. Before voting on a specific policy, the board should accumulate facts and recommendations from knowledgeable sources, deliberate and take a clear position, and afterwards enforce the policy and revise it as the need arises.

#### Board Policy Manual

The secretary or a designated staff member is responsible for keeping all board records easily accessible and up-to-date. A board policy manual is a reference manual that contains all adopted policies in a chronological order. This manual is also an excellent tool for new board member orientation.

## Types of Policies

An organization must identify the policies necessary to direct its activities and decision-making. Below is a sample (but by no means exhaustive) list of policies that can prepare the organization to function in a more effective and accountable manner.

| Board-related Policies          | Personnel Policies                                                                                                         | Financial Policies                                     |
|---------------------------------|----------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|
| Eligibility, powers, duties     | Equal-opportunity employment                                                                                               | Investments: asset mix; asset quality, diversification |
| Election of officers            | Anti-harassment                                                                                                            | Endowment management                                   |
| Conflict of interest            | Substance abuse                                                                                                            | Cash flow                                              |
| Code of conduct                 | Performance review                                                                                                         | Risk management                                        |
| Confidentiality                 | Personnel files                                                                                                            | Reserves                                               |
| Compensation                    | Working schedules: working hours; overtime; flex-time                                                                      | Acceptance of gifts                                    |
| Reimbursement: travel; expenses | Compensation and benefits: paid/unpaid leave; deferred compensation; severance pay; displacement expenses; travel expenses | Fiscal period                                          |
| Personal contribution           | Disciplinary issues: termination; grievances                                                                               | Audits                                                 |
| Meeting attendance              | Nepotism                                                                                                                   | Signing of checks                                      |
| Indemnification                 | Personal appearance                                                                                                        | Use of credit cards                                    |
| Diversity                       | Personal phone/email/web usage                                                                                             | Request for checks                                     |
| Term limits                     | Inclement weather                                                                                                          |                                                        |
| Removal from office             |                                                                                                                            |                                                        |
| Nepotism, fraternization        |                                                                                                                            |                                                        |
| Media/public relations          |                                                                                                                            |                                                        |

K. Zietlin and S. Dorn. "The Nonprofit Board's Guide to Bylaws: Creating Framework for Effective Governance." BoardSource. 1996.  
 Kathleen Fletcher. "The Policy Sampler: A Resource for Nonprofit Boards." BoardSource. 2000.  
 Andringa, Robert and Ted Engstrom. "Nonprofit Board Answer Boo.." BoardSource. Revised 2001.

## Safeguarding Against Conflict of Interest

### What is “conflict of interest”?

When the personal or professional concerns of a board member or a staff member affect his or her ability to put the welfare of the organization before personal benefit, *conflict of interest* exists. Nonprofit board members are likely to be affiliated with many organizations in their communities, both on a professional and a personal basis, so it is not unusual for actual or potential conflict of interest to arise.

### Why must boards be concerned about conflict of interest?

Board service in the nonprofit sector carries with it important ethical obligations. Nonprofits serve the broad public good, and when board members fail to exercise reasonable care in their oversight of the organization they are not living up to their public trust. In addition, board members have a legal responsibility to ensure the prudent management of an organization's resources. In fact, they may be held liable for the organization's actions. A 1974 court decision known as the “Sibley Hospital Case” set a precedent by confirming that board members can be held legally liable for conflict of interest because it constitutes a breach of their fiduciary responsibility.

### Does conflict of interest only involve financial accountability?

No. Conflict of interest relates broadly to ethical behavior, which includes not just legal issues but considerations in every aspect of governance. A recent statement by INDEPENDENT SECTOR, a Washington, D.C.-based coalition of more than 800 nonprofit organizations encouraging philanthropy, volunteering, nonprofit initiative and citizen action, describes three levels of ethical behavior:

1. Obeying the law
2. Decisions where the right action is clear, but one is tempted to take a different course
3. Decisions that require a choice among competing options

The third level of behavior can pose especially difficult ethical dilemmas for nonprofit board members.

### What can we do to prevent conflict-of-interest situations?

Self-monitoring is the best preventive measure. Implement a system of checks and balances to circumvent actual or potential conflict of interest, beginning with well-defined operating policies on all matters that might lead to conflict. Most important, create a carefully written conflict-of-interest policy based on the needs and circumstances of the organization. Ask each board and staff member to agree in writing to uphold the policy. A conflict of interest policy should be reviewed regularly as part of board self-assessment.

### What should be included in a conflict of interest policy?

A policy on conflict of interest has three essential elements:

- *Full disclosure* — Board members and staff members in decision-making roles should make known their connections with groups (or individuals) doing business with the organization. This information should be provided annually.
- *Board member abstention from discussion and voting* — Board members who have an actual or potential conflict of interest should not participate in discussions or vote on matters affecting transactions between the organization and the other group.
- *Staff member abstention from decision-making* — Staff members who have an actual or potential conflict should not be substantively involved in decision-making affecting such transactions.

## Examples of Actual and Potential Conflict of Interest

1. Organization policy requires competitive bidding on purchases of more than \$1,000, but a printing firm owned by a board member's spouse receives the \$25,000 contract for the annual report; no other bids are solicited. Situations like this one are difficult to explain to the media or community at large, especially since they went against a stated organizational policy requiring competitive bids.
2. A board member serves on two boards in the same community and finds herself in the position of approaching the same donors on behalf of both organizations. Although many board members solicit donations for multiple causes, especially in small communities, the appearance of a conflict can be alleviated if the board member is upfront about her position with both the funder and fellow board members. It might be helpful for her to be accompanied by another representative of each organization on fundraising visits – doing so will emphasize the purpose of the particular visit.

### Can an organization contract with a board member for professional services, such as legal counsel or accounting?

Attorneys, accountants, and other professionals can contribute valuable expertise to a board. At the very least, a board member who is associated with a firm competing for a contract should abstain from discussion and voting in the selection process. If a competitive bidding process results in the selection of that board member's firm, he or she should disclose the affiliation and abstain from voting on future board actions connected with that firm's contract with the organization.

For its part, the board must be realistic about its expectations should it contract with a board member or his/her firm. If the work is pro bono, the board must consider whether or not it will get the same quality pro bono as it would if it paid for the work. The board must also hold a fellow board member (or his/her firm) to the same standards it would an outside entity.

**Further Reading:** The BBB Wise Giving Alliance recommends standards for nonprofit management and governance, including dealing with conflict of interest. For more information visit [www.bbb.org/us/charity/](http://www.bbb.org/us/charity/).

## Bylaws

New board members (all board members, in fact) should have a copy of the organization's current bylaws and be familiar with their content. **Bylaws** are not a favorite topic of board discussion. Most boards rarely pay attention to them, a fact that can add fuel to the fire in situations of conflict over governance issues.

Bylaws have three major functions:

1. They determine the organization's structure
  - Does it have members?
  - What are the officers' responsibilities?
  - How are board members selected?
  - They determine the rights of the people involved in the structure.
2. They determine the rights of people involved in the structure
  - Are board members entitled to indemnification?
  - They determine procedures by which rights may be exercised:
3. They determine the procedures by which rights may be exercised
  - Can meetings be held via conference call?
  - Can elections be held by mail?

Incorporated organizations are required to have bylaws. They need to be consistent both with state laws and with the organization's articles of incorporation. The **articles of incorporation** are more general and the bylaws more specific. Board resolutions (or policies) concerning governance issues may be even more specific than the bylaws. Bylaws can be amended more readily than articles of incorporation, and board resolutions are even easier to change.

An organization is obliged to function in accordance with its bylaws. Because circumstances change and organizations need to adjust and grow, it is necessary for boards to review their bylaws from time to time to ensure that they reflect the structure that will best serve the organization's purposes at the time.

From Kim Arthur Zietlin and Susan E. Dorn. "The Nonprofit Board's Guide to Bylaws: Creating a Framework for Effective Governance." Published by BoardSource.

## MODULE 1 HOMEWORK: Board Roles and Responsibilities

### 1. True or False?

|                                                                                                                                                                                      | TRUE | FALSE |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-------|
| Nonprofits cannot make a profit. They must spend all of their revenue each year.                                                                                                     |      |       |
| If a nonprofit dissolves, any remaining assets are distributed to its members and/or the board of directors.                                                                         |      |       |
| 501(c)(3) organizations are exempt from federal payroll taxes.                                                                                                                       |      |       |
| 501(c)(3) organizations are exempt from Federal Income Tax on income derived from any business they operate.                                                                         |      |       |
| Contributions to a charitable organization, 501(c)(3), are tax deductible.                                                                                                           |      |       |
| A member of the board of a nonprofit cannot be personally sued by an employee who claims to have been terminated for a discriminatory reason.                                        |      |       |
| A nonprofit organization cannot enter into a transaction with a member of the board (e.g. lease property, for legal services) if the board member will profit from that transaction. |      |       |

### 2. Who Does What?

Listed below are responsibilities typically carried out in most nonprofit organizations. If the responsibility is carried out primarily by the board, indicate that by writing "board" in the space provided. If the responsibility is carried out primarily by the staff, indicate that by writing "staff" in the space provided. If the responsibility is carried out by both the board and the staff, indicate that by writing "both" in the space provided.

1. \_\_\_\_\_ Hires, supports, and evaluates the executive director
2. \_\_\_\_\_ Develops and implements programs
3. \_\_\_\_\_ Makes a personal, financial contribution to the organization
4. \_\_\_\_\_ Prepares for board meetings
5. \_\_\_\_\_ Develops and proposes policy questions about undertaking new programs
6. \_\_\_\_\_ Identifies, recruits, orients, and involves new board members
7. \_\_\_\_\_ Ensures that adequate financial controls are in place
8. \_\_\_\_\_ Creates a fundraising plan and strategies
9. \_\_\_\_\_ Develops and monitors adherence to personnel policies
10. \_\_\_\_\_ Approves the annual budget reflecting the organization's goals and policies
11. \_\_\_\_\_ Promotes the organization in the community
12. \_\_\_\_\_ Reviews the organization's policies, procedures, and bylaws
13. \_\_\_\_\_ Develops a strategic plan and monitors the organization's initiatives against it
14. \_\_\_\_\_ Determines the organization's mission and purpose
15. \_\_\_\_\_ Monitors income and expenses on a daily basis
16. \_\_\_\_\_ Serves as a liaison and provides information to board committees

## Module 2: Strategic Directions

### Goals

- To learn the strategic planning process and the importance of outcomes-based planning
- To understand the questions that leadership must ask to enable the achievement of results

### Strategic Planning: The Five Drucker Questions

These questions are to be considered and addressed:

1. **What is our mission?**
  - Why should the organization exist?
2. **Who are our customers?**
  - Who should be served and what do they need?
  - What are the changing needs of our clients?
  - How do we maintain an ongoing dialogue with our environment to maintain awareness of changing conditions and opportunities?
3. **What do they value?**
  - How should service be provided?
  - What kind of organization do we aspire to be?
4. **What are our results?**
  - What are the program goals and operational standards that will achieve the organization's mission?
5. **What is our plan?**
  - How will the board monitor program outcomes?

Adapted from Peter F. Drucker. "The Drucker Foundation Self-Assessment Tool: Participant Workbook." Jossey-Bass, Inc. 1998.

### The Planning Process

1. **Gather Data**
  - Identify clients, their needs, program delivery, funding, staff, facilities, competition, etc.
  - Do it in groups so that they can reflect together on the significance of the data
  - Meet with other boards; See other programs
  - Bring in experts in specific areas
2. **Question the Values**
  - Vision: The ideal future
  - Mission: What do we do and why is it important?
  - Values: Principles that guide how we work
3. **Analyze Capacities**
  - Strengths: What do we do well? What is our competitive advantage?
  - Challenges: Where are we weak?
  - Opportunities: What markets are open to us? Where might we collaborate?
  - What might weaken our position?
4. **Develop an Action Plan with Deliverables, Timelines and a Monitoring Process**

Adapted from Peter F. Drucker. "The Drucker Foundation Self-Assessment Tool: Participant Workbook." Jossey-Bass, Inc. 1998.

## Innovation-Based Planning

1. The point of a *strategic plan* is to make things happen that would otherwise not have happened.
2. Strategic plans start by identifying what those in an organization can do—not with what they should prescribe others to do.
3. Strategic plans that do not start with a vision rarely conclude with one.
4. Effective plans begin implementation during planning rather than after it.
5. Strategic plans should enable the achievement of results, not just activities.

William J. Phillips." Approaches to Planning, Innovation." The Rensselaer Institute. Fall 1990.

## Transition Scenarios

### Scenario 1: Starting Up

The Hip-Hop Nation has been operating successful after-school spoken word programs in several high schools under a fiscal sponsorship agreement with the New York Poetry Society, from which it has grown. There is now a full time Executive Director and an Advisory Board made up of former students, poets and academics interested in hip-hop poetry as a genre. Decision making under the aegis of the board of the Poetry Society has become constrained and the Executive Director and the Advisory Board believe that they can attract support and grow as an independent entity. With pro bono legal assistance they have filed a Certificate Incorporation and are completing the 501(c)(3) application.

- What would you advise them as to how to go about building a board?
- What issues if any do you see arising for the Executive Director and/or the Advisory Board in the process of moving towards a governing board?

### Scenario 2: Growth

The Hip-Hop Nation has become a well-respected youth development program. Their initial budget was \$250,000 based on two small foundation grants and a contract with the Department of Education to provide after school services in 5 NYC high schools. The budget for 2008 was \$750,000. They now provide services to 15 public high schools, a few private high schools and have developed a recognized corps of young poets who compete successfully in regional and national poetry competitions. Many of their students have been accepted by colleges with scholarships.

In addition to the founding executive director, they also employ: 10 part time teaching artists; a deputy executive director responsible for communication, grant writing and administrative management; a program director responsible for curriculum development and supervision of the school programs. The founding board has been integral to this growth. They have been an extremely 'hands-on' board, playing important roles in every aspect of the program. The program could not have grown without their extraordinary volunteer contributions in everything from grant writing to staff recruitment.

The Executive Director sees a need for the development of more individual giving and to consider their strategic options for growth. He would like the board to take a greater role in that. In addition, the staff is finding it difficult to manage their responsibilities while maintaining an ongoing dialogue on day-to-day decision making with board members.

The Executive Director has asked for your recommendations on the following:

1. How can he help the board make the changes in board culture from "hands-on" management to more of a governing, supportive and fundraising role?
2. The board and the staff recognize that they need to clarify and measure their program outcomes. What should be the outline of a work plan for the board/staff program committee that would enable them to develop a recommendation to the board that would address this need?
3. A strategic planning committee with board and staff members has been appointed. They have considered hiring a consultant to guide the planning process but funds are not available. What should be the outline of the work of this committee to develop a three-year plan?

## **MODULE 2 HOMEWORK: Strategic Decisions**

Outline the points you would make in answer to the three questions above.

## Module 3: Fiduciary Oversight

### Goals

- To understand the role of the board in financial management
- To understand the financial structure of nonprofit organizations
- To be able to interpret financial statements from fiduciary, operational and strategic perspectives
- To understand the risk management needs of nonprofit organizations

### Nonprofit Financial Statements

Boards should watch over an organization's resources as they would their own. This doesn't mean everyone needs to be an expert; however they must be diligent about reviewing financial reports. Boards should listen to those board members who are highly experienced in finance or seek the council of financial experts.

Nonprofit financial statements typically include the following elements:

1. **Statement of Financial Position:** The statement of financial position summarizes the assets, liabilities, and net assets of an organization. It is a snapshot taken at a specific point in time, presenting the financial position of an organization on a specific date. It was formerly called a *balance sheet* because assets "balance" with liabilities plus net assets.
2. **Statement of Activity:** This statement is also known as a "statement of support, revenue, and expenses and changes in fund balance." The statement of activity summarizes the revenue and expenses for a period of time, which is usually one year and includes a reconciliation of the net assets at the beginning and the end of the period. (In the business world, this statement is usually called the "income statement" or the "profit and loss statement.")
3. **Statement of Functional Expenses:** The statement of functional expenses, prepared for the same period as the statement of activity, shows expenses by expense category—salaries, rent, postage, printing, etc.—according to the purpose for which they were incurred. The primary functional classifications are program and supporting services, such as management, general operating expenses, and fundraising.
4. **Statement of Cash Flows:** The statement of cash flows is also prepared for the same period as the statement of activity. It reports information about the cash receipts and cash payments of an organization during the period. Cash flows are shown by "operating," "investing," and "financing" activities.

Annual financial statements also include the following:

1. **Independent Auditor's Report:** By law, an "independent audit" can only be conducted by an outside certified public accountant (CPA). The auditor reports in a letter to the board of directors, describing the analysis of the fairness of the financial statements and whether or not they conform to generally accepted accounting principles. It should be noted that this report is the only part of the financial statements that truly belongs to the auditors. The financial statements themselves are prepared by the organization's board treasurer or staff and are the responsibility of the board of directors.

2. **Notes to Financial Statements:** Almost all financial statements carry notes. These notes are important and should always be read. The type of information generally included in the notes is: descriptive information about the organization; a summary of significant accounting policies; and explanations or details of specific items in the financial statements.
3. **Supplementary Information:** A board may want information in addition to the required financial statements. An example would be a schedule showing a breakdown of contributions or an analysis of investments. Supplementary information usually follows the notes to the financial statements.

## Interim Financial Statements

Most boards rely heavily on **interim financial statements**, which cover any period of time that is not annual. The interim statement of activity is the tool for reviewing, evaluating, and changing the organization's financial goals and objectives.

A board may decide that it does not need a full set of financial statements monthly, but it should certainly receive the statement of activity each month. Depending upon the circumstances, other financial information may be important and should be shared. This information could include: cash balances; changes in investments; significant amounts due to the organization, particularly if it appears that any of them might be paid late or not paid at all; material acquisition or disposal of land, buildings, furniture and equipment; and unusual amounts payable during the succeeding month, particularly if there is any indication of cash flow problems and the possibility of the need to borrow.

Watchdog agencies will look at:

- Management & General Expenses/Total Expenses (No more than 20%-25%)
- Program/Total Expenses (At least 65 %)
- Fundraising Expenses/Related Contributions (No more than 35%)

## Glossary of Common Terms Used in Nonprofit Financial Statements

**Accrual Basis:** A method of accounting that reflects transactions when they happen. For example, some copy paper is delivered from the stationery store on February 24 but the bill is not paid until March 6. Using the **accrual basis** of accounting, this expense would be recorded on February 24 and a “liability” (account payable) would also be recorded. On March 6 when the bill is paid, the liability reflecting that transaction is eliminated. A major reason for using the accrual basis is to match income and expenses properly within the same time period. Another advantage is that amounts owed by or to the organization are currently recorded. To be in conformity with generally accepted accounting principles, financial statements must be prepared on the accrual basis. Grants are recorded when approved, regardless of when the cash is received.

**Assets:** Resources owned by the organization, including cash and property. In-kind services or volunteer services that the organization would have to pay for should be recorded as income.

**Audit:** An independent review to determine if the financial statements fairly represent the condition of the organization. The auditor selectively tests the accounting procedures and internal controls.

**Cash Basis:** The cash basis of accounting reflects only cash receipts and cash disbursements. In other words, a transaction is recorded only when cash changes hands.

**Fund Accounting:** A concept particular to nonprofit organizations and government entities. Financial records must be maintained for each program that receives contributions designated from the specific program. Each set of records is called a “fund” and is considered a separate accounting entity with its own financial statements. If all contributions received by an organization are for general operating purposes, the organization would have only one fund. Additional funds are created when grants and donations are received for specific projects. The number and types of funds maintained will vary from organization to organization and may change from year to year within an organization.

**Funds Released from Restriction:** Temporarily restricted funds that have satisfied the restriction and are available for use for that purpose.

### Internal Controls:

- Management systems designed to provide accurate information and to protect assets from misuse, e.g.
- Chart of accounts to define how income and expenses are categorized
- Systems for bank reconciliation and petty cash management
- Check signing procedures, etc.

**Liability:** Debts or obligations owed by an organization.

**Net Assets:** Net assets represent the net amount of resources available for carrying out the objectives of the organization. It is calculated arithmetically:  $\text{Total Assets} - \text{Total Liabilities} = \text{Net Assets}$ .

**Permanently Restricted Net Assets:** The part of the net assets of a nonprofit organization resulting from (a) contributions and other inflows of assets whose use by the organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the organization; (b) other asset enhancements and diminishments subject to the same kinds of stipulations; and (c) reclassification from or to other classes of net assets as a consequence of donor-imposed stipulations.

**Temporarily Restricted Net Assets:** The part of net assets of a nonprofit organization resulting from (a) contributions and other inflows of assets whose use by the organization is limited by donor-imposed

stipulations that either expire by passage of time or can be fulfilled or otherwise removed by actions of the organization pursuant to those stipulations; (b) other asset enhancements and diminishments subject to the same kinds of stipulations; and (c) reclassification from or to other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time or their fulfillment and removal by actions of the organization pursuant to those stipulations.

**Unrestricted Net Assets:** The part of net assets of a nonprofit organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

**Operational Cash Flow Analysis:** A monthly projection to show the projected cash availability to meet obligations.

**Ratio analyses:** Several ratios are used to analyze the ability to meet expenses, e.g. Assets/Liabilities, Cash/Liabilities, etc.

**Statement of Financial Position (Balance Sheet):** A summary of the assets, liabilities and net assets of the organization at a point in time (usually the end of the fiscal year).

**Statement of Financial Activity:** The sources and uses of funds over a period of time (usually the entire fiscal year).

**Statement of Functional Expenses:** Classification of expenses by program and activity.

**Statement of Cash Flows:** Reconciles the end of the year cash balance with the beginning cash balance.

**Trend Analysis:** Compares the variances in financial statements over time.

## 20 Questions Board Members Should Ask to Assess Financial Health

1. Is our financial planning consistent with our strategic plan?
2. Is our cash flow projected to be adequate?
3. Are our cash-flow projections reasonable, objective and not overly optimistic?
4. Do we have sufficient reserves?
5. Has the board adopted a formal policy for the establishment of reserves?
6. Are we regularly comparing our financial activity with what we have budgeted?
7. What procedures do we use to make sure that the differences between what was budgeted and what actually happened are being appropriately addressed?
8. Does the board provide oversight of contractual agreements to ensure that the organization's exempt status will not be questioned or impaired?
9. Does the board provide for internal controls over expenditures?
10. Are we fulfilling our tax-exempt purpose as granted by the IRS?
11. Do we have appropriate checks and balances to prevent errors, fraud and abuse?
12. Are we alert to the possibility of fraud within our organization and are we taking safeguards to try to prevent fraudulent activities?
13. Do we have an external audit?
14. Does our annual audit have an unqualified ("clean") opinion?
15. Is our financial staff providing us with accurate and timely financial statements that allow us to understand the financial state of the organization?
16. Do we regularly review IRS Form 990? Does it accurately represent our organization?
17. Are our key sources of income rising or falling? If they are falling, what are we doing about it?
18. Are our key expenses, especially salaries and benefits, under control?
19. When was the last time our investment policy was reviewed?
20. Are we satisfied with the performance of our investments, given the level of risk appropriate for these funds?

Adapted from Jacqueline C. Leifer and Michael B. Glombs. "The Legal Obligations of Nonprofit Boards: A Guidebook for Board Members" and Steven Berger. "Understanding Nonprofit Financial Statements." Both published by BoardSource.

## Exhibit 1: Budget

### Sincere Society Budget

| Income        |                  | Expenses            |                  |
|---------------|------------------|---------------------|------------------|
| Foundations   | \$300,000        | Salaries & Benefits | \$222,000        |
| Contributions | 50,000           | Rent                | 20,000           |
| Other         | 6,000            | Telephone           | 13,000           |
|               |                  | Copying             | 18,000           |
|               |                  | Postage             | 24,000           |
|               |                  | Stationery          | 24,000           |
|               |                  | Depreciation        | 3,000            |
|               |                  | Insurance           | 12,000           |
|               |                  | Grants              | 20,000           |
| <b>Total</b>  | <b>\$356,000</b> | <b>Total</b>        | <b>\$356,000</b> |

## Exhibit 2: Statement of Financial Position

A summary of the Assets, Liabilities and Net Assets of the organization at a point in time (usually the end of the fiscal year).

### Sincere Society

Statement of Financial Position (Balance Sheet) on December 31, 2003 and 2004

| ASSETS                                                  | 2004             | 2003             |
|---------------------------------------------------------|------------------|------------------|
| Cash and cash equivalents                               | \$ 24,008        | \$ 27,259        |
| Short-term investments                                  | 90,000           | 55,000           |
| Unconditional promises to give                          |                  |                  |
| Unrestricted                                            | 1,650            | 4,500            |
| Restricted to teen pregnancy program                    | 1,550            | 300              |
| Accounts receivable                                     | 650              | 489              |
| Prepaid expenses                                        | 4,337            | 2,189            |
| Property and equipment, net of accumulated depreciation | 18,846           | 23,629           |
| <b>Total Assets</b>                                     | <b>141,041</b>   | <b>113,366</b>   |
| <b>LIABILITIES AND NET ASSETS</b>                       |                  |                  |
| Accounts payable                                        | 11,614           | 8,699            |
| Accrued liabilities                                     | 1,431            | 937              |
| Amounts payable to grantees                             | 7,500            | 5,000            |
| Deferred revenue                                        | 12,000           | 17,000           |
| Total Liabilities                                       | 32,545           | 31,636           |
| <b>NET ASSETS</b>                                       |                  |                  |
| Unrestricted                                            | 28,496           | 16,430           |
| Temporarily restricted                                  | 51,150           | 38,348           |
| Permanently restricted                                  | 28,850           | 26,952           |
| <b>Total net assets</b>                                 | <b>108,496</b>   | <b>81,730</b>    |
| <b>Total liabilities and net assets</b>                 | <b>\$141,041</b> | <b>\$113,366</b> |

## Exhibit 3: Statement of Activities

The sources and uses of funds over a period of time (usually the end of fiscal year).

### Sincere Society

Statement of Activity (or Statements of Income and Expenses) for the Years Ended December 31, 2003 and 2004 (with summarized information for 2004)

|                                        |                 | Temporarily     | Permanently     |                  |                 |
|----------------------------------------|-----------------|-----------------|-----------------|------------------|-----------------|
|                                        | Unrestricted    | Restricted      | Restricted      | Total 2004       | Total 2003      |
| <b>INCOME</b>                          |                 |                 |                 |                  |                 |
| United Way                             | \$ 47,688       | \$ --           | \$ --           | \$ 47,688        | \$ 52,118       |
| Foundations                            | 159,689         | 88,405          |                 | 248,094          | 222,788         |
| Individuals                            | 47,769          | 4,279           | 1,898           | 53,946           | 55,618          |
| Miscellaneous revenue                  | 5,416           |                 |                 | 5,416            | 4,952           |
| Net assets released from restrictions  |                 |                 |                 |                  |                 |
| Satisfaction of program restrictions   | 79,882          | (79,882)        |                 |                  |                 |
| Total income                           | 340,444         | 12,802          | 1,898           | 355,144          | 335,476         |
| <b>EXPENSES</b>                        |                 |                 |                 |                  |                 |
| Program Services                       |                 |                 |                 |                  |                 |
| General Community Services             | 184,312         |                 |                 | 184,312          | 194,113         |
| Teenage pregnancy program              | 79,882          |                 |                 | 79,882           | 65,309          |
| Supporting services                    |                 |                 |                 |                  |                 |
| Management and general                 | 27,699          |                 |                 | 27,699           | 26,984          |
| Fund raising                           | 36,485          |                 |                 | 36,485           | 30,524          |
| Total expenses                         | 328,378         |                 |                 | 328,378          | 316,930         |
| <b>CHANGE OF NET ASSETS</b>            | 12,066          | 12,802          | 1,898           | 26,766           | 18,546          |
| <b>NET ASSETS AT BEGINNING OF YEAR</b> | 16,430          | 38,348          | 26,952          | 81,730           | 63,184          |
| <b>NET ASSETS AT END OF YEAR</b>       | <b>\$28,496</b> | <b>\$51,150</b> | <b>\$28,850</b> | <b>\$108,496</b> | <b>\$81,730</b> |

## Exhibit 4: Statement of Functional Expenses

Classification of expenses by program and activity

### Sincere Society

Statement of Functional Expenses for the Year Ended December 31, 2003

|                       | General<br>Community<br>Services | Teen<br>Pregnancy | Total<br>Program<br>Services | Management<br>& General | Fundraising     | Total<br>Support<br>Services | Total<br>Expenses | Total<br>2003<br>Expenses |
|-----------------------|----------------------------------|-------------------|------------------------------|-------------------------|-----------------|------------------------------|-------------------|---------------------------|
| Salaries & Benefits   | \$119,654                        | \$41,260          | \$160,914                    | \$24,756                | \$20,630        | \$45,386                     | \$206,300         | \$199,930                 |
| Rent                  | 11,020                           | 3,800             | 14,820                       | 2,280                   | 1,900           | 4,180                        | 19,000            | 18,000                    |
| Telephone             | 6,425                            | 2,216             | 8,641                        | 1,329                   | 1,108           | 2,437                        | 11,078            | 12,000                    |
| Copying               | 9,860                            | 3,400             | 13,260                       | 2,040                   | 1,700           | 3,740                        | 17,000            | 16,000                    |
| Postage               | 12,470                           | 4,300             | 16,770                       | 2,580                   | 2,150           | 4,730                        | 21,500            | 19,000                    |
| Stationery            | 11,890                           | 4,100             | 15,990                       | 2,460                   | 2,050           | 4,510                        | 20,500            | 21,000                    |
| Depreciation          | 1,740                            | 600               | 2,340                        | 360                     | 300             | 660                          | 3,000             | 3,000                     |
| Insurance             | 6,960                            | 2,400             | 9,360                        | 1,440                   | 1,200           | 2,640                        | 12,000            | 11,000                    |
| Grants                | 10,440                           | 3,600             | 14,040                       | 2,160                   | 1,800           | 3,960                        | 18,000            | 17,000                    |
| <b>Total Expenses</b> | <b>\$184,312</b>                 | <b>\$79,882</b>   | <b>\$264,194</b>             | <b>\$36,485</b>         | <b>\$27,699</b> | <b>\$64,184</b>              | <b>\$328,378</b>  | <b>\$316,930</b>          |

## Exhibit 5: Auditor's Management Letter

### Cash

1. We noted the Director of Operations is a **new** authorized signor on all checking and investment accounts. To improve internal controls, and continue to have the flexibility of allowing the Director of Operations to sign checks, we would recommend the use of separate checking accounts as follows.
  - All receipts should be deposited into the "General" account. The only checks drawn on this account would be to reimburse the "Director of Operations" account, which is described in the following paragraph. Only officers of The Client would be authorized to draw checks on this general account.
  - The "Director of Operations" account would operate on an imprest basis. Disbursements would continue in the present manner, but receipts would be in the form of a reimbursement requisition, substantiated by paid vouchers in support thereof. The Client's Director of Operations would be the authorized signor on this account.
  - Wire transfers would have the same restrictions.
2. We recommend that the Treasurer, or a member of the Finance Committee, periodically review the monthly bank reconciliations, and that they indicate their review by initialing the bank reconciliation. In addition, we recommend that a Director open an unopened bank statement on a test basis and review the accompanying cancelled checks.

### General

1. The Client does not have a formal manual containing its accounting policies and procedures. We recommend that The Client develop an accounting policies and procedures manual, which at a minimum could include:
  - An outline of the accounting departments organizational structure
  - The components of the accounting system's computers, terminals and files
  - Job descriptions for all accounting personnel
  - The assignment of daily, weekly, monthly and quarterly responsibilities
  - The assignment of appropriate review and approval procedures
  - Listing of required computer procedures and reports
  - Record retention procedures, and
  - Ongoing steps for maintenance of the manual
2. Many nonprofit organizations have begun to ask Directors and employees to sign an annual conflict of interest statement. We recommend that The Client consider establishing formal policies and procedures requiring Directors and employees to sign annual conflict of interest statements. The Client should also consider establishing a "notification" system if a potential conflict of interest arises during the year for Board Members and employees.
3. The Client currently maintains several credit cards. The cardholders include the Director of Operations, a current Board Member, and a maintenance contract worker. We recommend that The Client consider where possible, eliminating all corporate credit cards and adopt an expense reimbursement policy whereby employees submit expenses using their personal credit cards.
4. As of [Financials FYE Date], The Client had approximately \$170,000 due to a governmental agency for possible claims of reimbursements for prior years. We recommend legal counsel contact the governmental agency to ascertain if this liability can be forgiven.
5. We noted The Client only has \$100,000 of employee dishonesty insurance and \$1,000,000 of Director and Officers liability insurance. We recommend The Client review all its insurance coverage. *(From Conroy, Smith & Co.)*

## Exhibit 6: Budget

LINC Budget Compared to Projected Actual: July 2004 to June 2005

|                                      | FY 05<br>Budget  | Projected<br>Actual | Actual<br>Over/(Under) | NOTES                                                                                             |
|--------------------------------------|------------------|---------------------|------------------------|---------------------------------------------------------------------------------------------------|
| <b>REVENUE</b>                       |                  |                     |                        |                                                                                                   |
| Corporate Contributions              | 130,025          | 111,310             | (18,715)               |                                                                                                   |
| Foundation Contributions             | 507,630          | 565,585             | 57,955                 |                                                                                                   |
| Public Sector Grants                 | 475,000          | 508,199             | 33,199                 |                                                                                                   |
| Individual Contributions             | 110,000          | 102,015             | (7,985)                |                                                                                                   |
| SOURCES TO BE IDENTIFIED             | 141,155          | -                   | (141,155)              |                                                                                                   |
| Interest & Miscellaneous             | 3,350            | 12,063              | 8,713                  |                                                                                                   |
| <b>Total Revenue</b>                 | <b>1,367,160</b> | <b>1,299,172</b>    | <b>(67,988)</b>        |                                                                                                   |
| <b>EXPENSES</b>                      |                  |                     |                        |                                                                                                   |
| Personnel:                           |                  |                     |                        |                                                                                                   |
| Administrative Personnel             | 224,520          | 227,927             | 3,407                  |                                                                                                   |
| Program/Field Supervisors            | 113,000          | 116,128             | 3,128                  |                                                                                                   |
| Program A Staff                      | 115,000          | 109,231             | (5,769)                |                                                                                                   |
| Program B Staff                      | 87,780           | 88,052              | 272                    |                                                                                                   |
| Program C Staff                      | 36,750           | 45,548              | 8,798                  | gave part-time person extra hours<br>did not hire additional line<br>did not hire additional line |
| Program D Staff                      | 59,545           | 39,391              | (20,154)               |                                                                                                   |
| Program E Staff                      | 45,955           | 27,412              | (18,543)               |                                                                                                   |
| Program F Staff                      | 31,200           | 27,966              | (3,234)                |                                                                                                   |
| Program G Staff                      | -                | 4,916               | 4,916                  |                                                                                                   |
| Total Field Coordinators             | 376,230          | 342,515             | (33,715)               |                                                                                                   |
| Total Salaries                       | 713,750          | 686,570             | (27,180)               |                                                                                                   |
| Bonuses/Merit Raises @ 3%            | 21,410           | -                   | (21,410)               |                                                                                                   |
| Fringe Benefits (17% FY04, 18% FY05) | 132,330          | 135,962             | 3,632                  |                                                                                                   |
| <b>Total Personnel Expenses</b>      | <b>867,490</b>   | <b>822,532</b>      | <b>(44,957)</b>        |                                                                                                   |

|                              | FY 05<br>Budget | Projected<br>Actual | Actual<br>Over/(Under)<br>Budget |                                          |
|------------------------------|-----------------|---------------------|----------------------------------|------------------------------------------|
| <b>Sub contractual:</b>      |                 |                     |                                  |                                          |
| Program Consultant (general) | 25,200          | 43,622              | 18,422                           |                                          |
| Capacity Building - Board    | 10,600          | 4,966               | (5,634)                          |                                          |
| Evaluation                   | 25,000          | -                   | (25,000)                         | didn't raise money to do;                |
| Computer Consultant          | 10,000          | 12,101              | 2,101                            | setting up new computers;                |
| Temporary Help               | -               | 6,220               | 6,220                            | staff vacancy;                           |
| Accounting Consultant        | 27,300          | 29,141              | 1,841                            | extra time for writing procedures manual |
| Auditor                      | 13,000          | 13,200              | 200                              |                                          |
| Payroll Processing           | 2,600           | 2,095               | (505)                            |                                          |
| <b>Total Sub contractual</b> | <b>113,700</b>  | <b>111,345</b>      | <b>(2,355)</b>                   |                                          |

|                                                                                                                      |               |               |                 |                                                      |
|----------------------------------------------------------------------------------------------------------------------|---------------|---------------|-----------------|------------------------------------------------------|
| <b>OTPS:</b>                                                                                                         |               |               |                 |                                                      |
| <b>Field Organizing:</b>                                                                                             |               |               |                 |                                                      |
| Coordinator Expenses (includes local travel, books for distribution, meeting refreshments, awards, incentives, etc.) | 18,000        | 24,922        | 6,922           | \$4,000 in overages due to Upstate travel            |
| Field Office Rent                                                                                                    | 3,000         | 3,000         | -               |                                                      |
| Queens Program Consultant                                                                                            | -             | 16,872        | 16,872          |                                                      |
| Dues & Subscriptions                                                                                                 | 1,000         | 1,000         | -               |                                                      |
| <b>Total Field Organizing</b>                                                                                        | <b>22,000</b> | <b>45,794</b> | <b>23,794</b>   |                                                      |
| In-House Training/Staff Professional Development                                                                     | 10,170        | 3,441         | (6,729)         | did less training; cut back, fundraising uncertainty |
| Training of Others Expense                                                                                           | 56,470        | 8,622         | (47,848)        |                                                      |
| Outreach                                                                                                             |               |               |                 |                                                      |
| PR/Marketing Consultant                                                                                              | 6,500         | -             | (6,500)         |                                                      |
| Marketing/PR Expenses                                                                                                | 635           | 192           | (443)           |                                                      |
| Website Upgrade/Maintenance                                                                                          | 5,000         | -             | (5,000)         |                                                      |
| Brochure Design & Printing                                                                                           | 10,000        | 10,000        | -               |                                                      |
| Video Production                                                                                                     | 10,000        | -             | (10,000)        |                                                      |
| <b>Total Outreach Expenses</b>                                                                                       | <b>32,135</b> | <b>10,192</b> | <b>(21,943)</b> | <b>cut back, fundraising uncertainty</b>             |

|                                 | FY 05<br>Budget | Projected<br>Actual | Actual<br>Over/(Under)<br>Budget |                                              |
|---------------------------------|-----------------|---------------------|----------------------------------|----------------------------------------------|
| Printing/Photocopying           |                 |                     |                                  |                                              |
| Printing & Duplication          | 1,000           | 2,372               | 1,372                            |                                              |
| Newsletter Printing/Design etc. | 5,000           | 1,803               | (3,197)                          | printing<br>provided in-<br>kind             |
| Photocopy Lease                 | 6,000           | 5,363               | (637)                            |                                              |
| Total Printing/Photocopying     | 12,000          | 9,538               | (2,462)                          |                                              |
| Office Occupancy                |                 |                     |                                  |                                              |
| Rent & Utilities                | 158,760         | 163,615             | 4,855                            | higher taxes<br>and carting<br>than expected |
| Office Cleaning & Maintenance   | 7,500           | 7,236               | (264)                            |                                              |
| Total Office Occupancy          | 166,260         | 170,851             | 4,591                            |                                              |
| Telephone                       |                 |                     |                                  |                                              |
| Telephone Lease                 | 2,670           | 2,670               | -                                |                                              |
| Telephone Service               | 12,000          | 11,605              | (395)                            |                                              |
| <b>Total Telephone</b>          | <b>14,670</b>   | <b>14,275</b>       | <b>(395)</b>                     |                                              |
| Miscellaneous                   |                 |                     |                                  |                                              |
| Fundraising Expenses            | 4,000           | 713                 | (3,287)                          | didn't have<br>small event                   |
| Office Supplies                 | 8,000           | 8,000               | -                                |                                              |
| Postage/Delivery/Messenger      | 6,000           | 7,108               | 1,108                            | expanded<br>annual appeal                    |
| Contribution to Reserves        | 25,000          | 25,000              | -                                |                                              |
| Executive Discretionary         | 1,500           | 979                 | (521)                            |                                              |
| Local Travel & Meals            | 1,500           | 1,227               | (273)                            |                                              |
| Internet Access                 | 1,750           | 1,893               | 143                              |                                              |
| Liability & Property Insurance  | 2,600           | 3,215               | 615                              | added<br>dishonesty<br>insurance             |
| D&O Insurance                   | 1,175           | 1,229               | 54                               |                                              |
| Interest Expense (loan)         | 500             | 288                 | (212)                            |                                              |
| Bank Service Charges            | 1,700           | 305                 | (1,395)                          | \$1,500 fee<br>on LOC<br>eliminated          |
| Miscellaneous                   | 1,500           | 1,500               | -                                |                                              |
| Total Miscellaneous             | 55,225          | 51,457              | (3,768)                          |                                              |
| Total OTPS                      | 368,930         | 314,170             | (54,760)                         |                                              |
| TOTAL EXPENSES                  | 1,350,120       | 1,248,048           | (102,072)                        |                                              |
| Cash Surplus/(Deficit)          | 17,040          | 51,124              | 34,084                           |                                              |
| Depreciation Expense            | 17,000          | 18,723              | 1,723                            |                                              |
| Equipment Purchases             |                 | 10,335              | 10,335                           |                                              |
| <b>TOTAL SURPLUS/(DEFICIT)</b>  | <b>40</b>       | <b>22,066</b>       | <b>22,026</b>                    |                                              |

## Exhibit 7: Sample Cash Flow Report

|                                                     | Jan-06 | Feb-06 | Mar-06  | Apr-06  | May-06  | Jun-06  | Jul-06 | Aug-06  | Sep-06  | Oct-06 | Nov-06 | Dec-06  | TOTAL   |
|-----------------------------------------------------|--------|--------|---------|---------|---------|---------|--------|---------|---------|--------|--------|---------|---------|
|                                                     | Actual | Actual | Actual  | Actual  | Actual  | Actual  | Actual | Actual  | Actual  | Actual | Actual | Actual  | Actual  |
| Opening Unrest. Cash                                | 41,251 | 40,472 | 40,935  | 38,369  | 34,387  | 29,323  | 23,914 | 42,800  | 41,480  | 37,531 | 39,676 | 41,015  | 41,251  |
| Expected Receipts:                                  |        |        |         |         |         |         |        |         |         |        |        |         |         |
| Personal Contributions                              | 444    | 175    | 250     |         |         | 200     | 291    | 1,255   | -       |        |        | 2,100   | 4,715   |
| Membership Dues                                     | 4,150  | 5,338  | 3,823   | 1,887   | 2,750   | 250     | 3,550  | 325     | -       | 250    |        | 1,450   | 23,773  |
| Gen. Op Grants                                      |        |        |         |         |         |         | 20,000 |         |         | 5,000  | 5,000  |         | 30,000  |
| New Funds to be Raised                              |        |        |         |         |         |         |        |         |         |        |        |         | -       |
| Interest                                            | 18     | 16     | 15      | 17      | 17      | 14      | 14     | 14      | 14      | 26     | 33     | 14      | 212     |
| Networking Event Fees                               |        |        |         |         |         |         |        |         |         |        | -      |         | -       |
| Roundtable Fees                                     |        | 112    | 301     | 393     | 63      | -       | 383    |         | 393     | 380    | 115    | 15      | 2,155   |
| Conf. Income (Prior Year)                           |        | 2,070  |         |         |         |         |        |         |         |        |        |         | 2,070   |
| Miscellaneous                                       |        |        | 1,350   | 184     |         |         |        | 5,132   |         |        |        | 79      | 6,745   |
| Total Expected Receipts                             | 4,612  | 7,711  | 5,739   | 2,481   | 2,830   | 464     | 24,238 | 6,726   | 407     | 5,656  | 5,148  | 3,658   | 69,670  |
|                                                     |        | -      | -       | -       | -       |         |        | -       |         | -      | -      | -       |         |
| Total Cash Available                                | 45,863 | 48,183 | 46,674  | 40,850  | 37,217  | 29,787  | 48,152 | 49,526  | 41,887  | 43,187 | 44,824 | 44,673  | 110,921 |
| Expected Disbursements:                             |        |        |         |         |         |         |        |         |         |        |        |         |         |
| Payroll Expenses                                    | 3,294  | 3,544  | 5,079   | 3,340   | 3,340   | 3,341   | 3,337  | 6,001   | 2,405   | 2,217  | 2,416  | 2,213   | 40,527  |
| Other Fringe Benefits                               | 467    | 467    | 467     | 467     | 467     | 467     |        |         |         | 75     |        |         | 2,878   |
| Occupancy                                           | 700    | 1,350  | 1,350   | 1,350   | 735     | 735     | 735    | 735     | 735     | 735    | 735    | 735     | 10,630  |
| Other Operating                                     | 713    | 431    | 1,409   | 1,306   | 2,138   | 829     | 1,280  | 424     | 1,216   | 484    | 658    | 1,419   | 12,306  |
| Capital/Unusual *                                   | 217    | 1,456  |         |         | 1,214   | 501     |        | 886     |         |        |        | 1,000   | 5,274   |
| Total Disbursements                                 | 5,391  | 7,248  | 8,305   | 6,463   | 7,894   | 5,873   | 5,352  | 8,046   | 4,356   | 3,511  | 3,809  | 5,367   | 71,615  |
|                                                     |        |        |         |         |         |         |        |         |         |        |        | -       |         |
| Ending Unrestricted Cash                            | 40,472 | 40,935 | 38,369  | 34,387  | 29,323  | 23,914  | 42,800 | 41,480  | 37,531  | 39,676 | 41,015 | 39,306  | 39,306  |
|                                                     | 0      | 0      | 0       | 0       | 0       | 0       | 0      | 0       | 0       | 0      | 0      | 0       |         |
| Net for the Period                                  | (779)  | 463    | (2,566) | (3,982) | (5,064) | (5,409) | 18,886 | (1,320) | (3,949) | 2,145  | 1,339  | (1,709) | (1,945) |
| * Unusual Expenses:                                 |        |        |         |         |         |         |        |         |         |        |        |         |         |
| January & February - Annual Meeting                 |        |        |         |         |         |         |        |         |         |        |        |         |         |
| May - \$725 Security Deposit, \$489 Moving Expenses |        |        |         |         |         |         |        |         |         |        |        |         |         |
| June - \$500 Liability Insurance                    |        |        |         |         |         |         |        |         |         |        |        |         |         |
| August - \$886 D&O Insurance                        |        |        |         |         |         |         |        |         |         |        |        |         |         |
| December - \$1,000 - pmt for 2005 Audit             |        |        |         |         |         |         |        |         |         |        |        |         |         |

## Nonprofit Public Disclosure Requirements

Most nonprofits are legally obligated to make certain documents available to the public. Accountability for a nonprofit means worthiness of public trust and fulfillment of qualifying factors for tax exemption. This can be achieved by open and transparent operation of the organization. The primary document to meet public disclosure requirements is the IRS Form 990.

### What is Form 990?

Form 990 is an annual information return that nonprofits file with the Internal Revenue Service. It provides information that allows the IRS to determine whether or not the organization continues to meet the requirements for its tax-exempt status.

### When is Form 990 filed?

The form needs to be filed by the 15th day of the 5th month after the end of the organization's accounting period. Failing to file this information on time, omitting information, or providing incorrect information may result in penalty payments.

### Who has to file Form 990?

All 501(c) organizations, except churches and church-controlled organizations, with annual revenues over \$25,000 need to file this form. A shorter version, Form 990-EZ can be used by small nonprofits. Even if an organization is not obligated to file this form, it is a good idea to do so. The form provides a good summary of financial information for donors or others who are interested in its activities.

### What information is requested on Form 990?

Form 990 explains the mission and program activities of the organization. The organization's financial information details revenues, expenses, and net assets. Expenses need to be categorized under program services, management and general, or fundraising. It is necessary to list the names of board members and key staff and their compensation (if more than \$50,000 annually).

### What information does not need to be disclosed to the public?

The organization does not need to make public the names of donors and the amounts of individual contributions. This information is listed as an attachment and does not have to be handed out when someone requests a copy of Form 990.

### What can you learn from Form 990?

It is important to give accurate information on the form as it can be used to judge the organization's legality and reputation. Besides the IRS, donors, media, and other oversight groups may use it as a source of information.

How you fill out the form will help answer many questions even if other sources may be needed to supplement specific inquiries such as:

- Are you complying with regulations on intermediate sanctions?
- Are your administrative costs out of line?
- Do you spend most of your money on programs related to your mission?
- Do you have a financial safety net?
- What is the amount of your net assets?
- How is Form 990 available to the public?

As of June 1999, all 501(c) organizations are obligated to give a copy of Form 990 to anyone requesting it, including visitors to the office and requests by phone, fax, mail, or email. If the organization posts its Form 990 on the Internet, it does not have to provide hard copies. Currently, 990's can be found on the

internet at [www.guidestar.org](http://www.guidestar.org). It is allowed to charge a reasonable fee (prepayment) for copying and mailing the document. Specific rules apply to harassment campaigns.

## **What other documents are public information?**

In addition to the last three years' copies of Form 990, Form 1023 (application for a tax-exempt status) is a public document.

For more information on how to read the IRS Form 990 and what it means, you can visit [www.npccny.org/Form\\_990/990.htm](http://www.npccny.org/Form_990/990.htm).

## **Some Board Responsibilities in the New Form 990**

### **(1) Review**

- Must be signed and sworn to by an Officer of the Corporation (Part II)

### **(2) Program achievements**

- Describe the achievements of the three largest programs (Part III)

### **(3) Audit**

- Did the organization receive an audited financial statement? (Part IV, line 12)

### **(4) Conflicts**

- Did the organization engage in an excess benefits transaction with a disqualified person or become aware of one from a prior year? (Part IV, Line 25)
- Did the organization make a loan or provide other assistance to an officer, director, key employee, substantial contributor or a person related to such an individual? (Part IV, line 26, 27)
- Did any current or former officer, director, key employee or family member of such an individual have a direct business relation with the organization? (Part IV, line 28)
- Has the organization complied with other IRS filing requirements (Payroll taxes, unrelated business income, etc.) (Part V)

### **(5) Board Process**

- How many board members are there and how many are "independent?" (Part VI, line 1)
- Did any officer, director, trustee or key employee have a family or business relationship with any other? (Part IV, line 2)
- Are minutes kept of board and committee meetings? (Part VI, line 8)
- Describe the process used by the board to review the Form 990 prior to filing. (Part VI, line 10)

### **(6) Policies**

- Does the organization have a written conflict-of-interest policy? Are officers, directors and key employees required to disclose annually interests that could give rise to a conflict? (Part VI, line 12)
- Describe the process used to monitor and enforce compliance with the conflicts policy. (Part VI, line 12)
- Does the organization have a Whistleblower and Document Retention policy? (Part VI, line 13,14)
- Describe the process used for determining compensation of the Executive Director and other key employees. (Part VI, line 15)
- Describe how the organization's governing documents, policies, Form 1023 and Form 990 are made available to the public. ( Part VI, line 17-19)

## Intermediate Sanctions

The Internal Revenue Service is paying more attention to the financial transactions of nonprofits. Those in positions of influence must understand the implications of the new regulations and realize how they – personally – can be financially affected. Intermediate sanctions make insiders the watch-dogs against private exploitation of a nonprofit's assets.

### History

Traditionally, the IRS had only one tool, revocation of tax exemption, to use against nonprofits that exploited their exempt status by engaging in *excess benefit transactions* in favor of someone in a position of influence within the organization. The organization had to pay the full price for an individual's wrongdoing.

In 1996, the Tax Payer Bill of Rights II (Section 4958 to the Internal Revenue Code) established specific excise taxes that could be imposed on *disqualified persons* who receive or approve of excessive compensation within their nonprofit. The IRS has fine-tuned these sanctions. New penalties seek to cover virtually all financial transactions with insiders, not only the most flagrant. The final IRS regulations were issued on January 23, 2002.

### Which organizations are affected?

501(c)(3) organizations, excluding private foundations, and 501(c)(4) welfare groups are subject to intermediate sanctions. 501(c)(6) trade associations are not.

### Who is a “disqualified person?”

Anyone who has exerted substantial influence over the organization within the past five years is a *disqualified person*. Specifically disqualified persons may include: highest level managers, highest paid employees, board members, founder(s), major donor(s), family members of the above, and an entity in which the above disqualified persons own more than a 35 percent interest. A disqualified person can be a disinterested party if there is no proven conflict of interest in the particular transaction.

### What is “excessive benefit?”

*Excessive benefit* transactions between a nonprofit and a disqualified person may subject the intermediate sanction penalties. Anything that exceeds fair market value or reasonable compensation for services rendered constitutes excessive benefit. These requirements complement the “reasonableness” test that the IRS has never fully clarified.

### Compensation

For purposes of the IRS, “reasonableness” is based on *total compensation* — including health and welfare, retirement benefits, incentive plans and other income — as compared to similar organizations. It is important to realize that all benefits and perks should be considered when the total amount of the compensation is calculated; what matters is their value, not their cost. Therefore, when the board sets executive compensation it should document its rationale for the compensation, including the sources it used to find comparative salary information.

The nonprofit organization is expected to rely on nationally-recognized compensation and salary surveys for comparison. If these are not available, it should study similar organizations and their compensation practices for comparable positions. Historical precedence alone is not a valid comparison. If a totally new position is created, the organization should be able to show that the final contract was a result of good faith, arm's-length negotiations. All benefits and perks should be considered when the total amount of the compensation is calculated; what matters is their value, not their cost.

## **Buying, Selling, or Renting Property**

When dealing with property, comparable prices and fair market value provide guidelines for financial decisions. The organization needs to show that it has examined like transactions of at least five similar organizations. Document any deviations with explanations.

## **What are the possible sanctions?**

If the IRS has determined that a disqualified person has engaged in an excessive benefit transaction, this person is obligated to pay a tax equal to 25 percent of the excess amount. In addition, she or he needs to return the excessive amount to the organization.

A board member or manager who knowingly approved the transaction is fined 10 percent of the excess amount. If the penalty is not paid within a specified time, a supplemental tax equal to 200 percent of the excess amount can be levied.

These sanctions are severe enough so that ignorance or carelessness becomes a very costly offense. Any taxes imposed on the organization need to be disclosed on IRS Form 4720.

## **'Safe Harbor' Mechanism**

Pre-emptive behavior is the best protection and shield against the sanctions. Every organization should have a clear conflict of interest policy that requires full disclosure. This allows every board member who proves to be a disqualified person in a transaction to abstain from discussion and voting during any decision-making.

The organization can rely on legal counsel and expert advice to review, approve and/or determine compensation and details of financial dealings. It is important to document the decision-making process. Fair market value and comparable practices in similar organizations provide an objective base value for financial transactions.

- Hopkins, Bruce and D. Benson Tesdahl. "Intermediate Sanctions: Curbing Nonprofit Abuse". John Wiley & Sons. 1997.  
website: <http://philanthropy.com/update.dir/regstext.htm>.
- Barnaby Zall. "Know the Rules: A Board Member's Guide to Intermediate Sanctions." Board Member. National Center for Nonprofit Boards. March 1999.
- Barnaby Zall. "Avoiding the Excess Benefits Transaction Tax." American Philanthropy Review. website: [http://charitychannel.com/guestshare/barnaby\\_zall](http://charitychannel.com/guestshare/barnaby_zall).
- D. Benson Tesdahl and Jodi Finder. "Don't Wait For Intermediate Sanctions Guidance." Nonprofit World. v.16, n.1. January/February 1998.
- Quality 990: <http://www.qual990.org/>

## MODULE 3 HOMEWORK: Fiduciary Oversight

Check either True or False after each statement.

|                                                                                                                                                                 | TRUE | FALSE |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-------|
| Nonprofit organizations can use either cash or accrual accounting.                                                                                              |      |       |
| Under accrual accounting, an expense is entered when the bill is paid.                                                                                          |      |       |
| Under accrual accounting, an expense is entered when the bill is received.                                                                                      |      |       |
| Under accrual accounting, a grant for a program in 2006 that was awarded in 2005, is recorded as a restricted asset in 2005.                                    |      |       |
| The board of directors has the authority to use funds from a permanently restricted asset (e.g. an endowment) for emergency purposes.                           |      |       |
| The board of directors has the power to use funds from a temporarily restricted grant for a 2006 youth program to meet emergency needs in that program in 2005. |      |       |

### Board-Staff Financial Responsibilities

Listed below are financial responsibilities typically carried out in most nonprofit organizations. Indicate if the responsibility is primarily carried out by the board, by the staff, or by both the board and staff.

| Board                    | Staff                    | Both                     | Responsibility                                                               |
|--------------------------|--------------------------|--------------------------|------------------------------------------------------------------------------|
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Ensures that adequate financial controls are in place.                       |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Approves the annual budget reflecting the organization's goals and policies. |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Monitors income and expenses on a daily basis.                               |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Approves the organization's investment policies.                             |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Provides monthly and quarterly financial reports.                            |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Prepares the yearly budget.                                                  |
| <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | Reviews the annual audit.                                                    |

### IRS Intermediate Sanctions

The founding executive director of a nonprofit organization demands that the board pay him a salary that is significantly higher than given to executive directors of comparable organizations because of the great value he has provided to the organization. The board reluctantly approves. The average salary for executive directors of comparable organizations in the area is \$100,000 per year. The board approves a salary of \$125,000 and a payment to his retirement fund of \$25,000.

### True or False?

- Each board member who approved the transaction could be personally liable to the IRS for \$5,000.
- The executive director would not be subject to liability because he was not a member of the board.

## Module 4: Resource Development

### Goals

- To understand the role of the board in resource development
- To develop the skills needed to secure resources

### Introduction: An Overview of Fundraising

Fundraising is a complex and increasingly professional endeavor. As an organizational activity, it draws on strategies and techniques from sales and marketing, public relations and communications, and investment practices. Even though it is an absolutely fundamental component of the way most nonprofit operations support their programs, it is often misunderstood and feared — especially by board members.

One of the primary responsibilities of the board is to ensure that the organization has adequate financial resources to carry out its mission. Because the board approves the budget, it must be on top of how the money comes in. If one of the ways the organization fulfills its obligations is by raising additional funds, then the board must commit to making this happen.

If the organization has development staff, as the overall coordinating body it must help integrate board members in fundraising activities while ensuring that all efforts are synchronized.

If there is no staff, naturally the board must organize itself and carry out *all parts* of the fundraising process. A separate fundraising plan — one that closely reflects the strategic plan — allows the organization to choose appropriate fundraising methods.

Before becoming personally involved in fundraising activities, board members need to understand fundraising as a business activity shared by nonprofit organizations of almost all types and sizes. Fundraising has evolved into a sophisticated process with its own set of guiding principles, operating standards, and generally accepted practices.

While the board is responsible for establishing an organization's strategies, individual board members have two general areas of responsibility in terms of resource development:

1. Understanding and overseeing the fundraising process
2. Giving and asking for support for the organization

On average (for nonprofit charitable fundraising), a variation on the 80/20 “business” rule has emerged that distributes the sources of income as follows:

- 80 percent of fundraising money comes from individuals
- 10 percent of fundraising money comes from planned gifts (also from individuals)
- 5 percent of fundraising money comes from corporations
- 5 percent of fundraising money comes from foundations

While these percentages are general and will vary from organization to organization and from year to year, they demonstrate the incredible power and value of individual giving. For example, newer organizations are less likely to have large donor pools and a strong base of planned gifts. Similarly, overall foundation giving sometimes accounts for more than 5 percent of all giving because a large number of private family foundations were formed in the late 1980s. These family foundations operate, in many instances, like individuals and are subject to the personal preferences of the family members who control the distributions.

## Successful Fundraising — What It Takes

1. **A Board and Chair:** Committed and supportive, willing to work tirelessly at raising money.
2. **An Executive Director:** Committed, even if not an experienced fund-raiser.
3. **Staff (Ideally Fundraising Staff):** Has *initiative*, writes well, gets along with people, and is willing to do the tough, hard work without recognition (and deserves appreciation from the board).
4. **Strategic Planning:** A clear understanding of the *mission*; a *vision* of what the organization aims to be and do in the coming years; a realistic appreciation of funding needs and the rationale for support.
5. **The Case or Statement:** An inspiring, compelling statement of why someone should support the organization, focused on:
  - *Why* the organization exists – what is needed in the community, what is changing for the better
  - *What* the organization does
  - *Who* it serves
6. **Sources and Kinds of Contributions:** An understanding of (and access to) charitable giving by *individuals, foundations, corporations, other nonprofits, and government agencies*, and an appreciation of the special nature of *capital giving* for buildings and endowments.
7. **Procedures:** Good records, mailing lists, and acknowledgments.
8. **Research:** Relentless, methodical donor research.
9. **Resource Development Plan:** A comprehensive strategy with realistic goals.
10. **Patience and Enthusiasm:** Acceptance that fundraising is a *process* that takes time, and success comes only with an *enthusiastic* spirit.

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## Elevator Speech: Making the Case

Board members need to become comfortable speaking about their organization. A first step would be for them to have an available **elevator speech** that provides key bullet points for them to include in a conversation.

The points would include:

- What service do you provide? (Mission)
- Who do you serve? Include an anecdotal example that shows the personal value.
- Who supports your effort?
- Who supports you financially?
- What is the strength of your staff and board?
- Who is our competition?
- What makes your organization unique?

## Fundraising: Whose Responsibility?

### The Staff's Role in Fundraising

- Provide clear, accurate, accessible information about the organization
- Keep well-informed about fundraising trends and policies
- Keep detailed funding records
- Provide research, such as newspaper clippings, annual reports, and giving profiles
- Keep on top of deadlines
- Prepare correspondence -- write proposals and acknowledgments
- Support the efforts of the board by motivating, recommending, encouraging, stimulating, and thanking board members

### The Board's Role in Fundraising

- Define the mission and plan for the future
- Oversee the fundraising program
- Contribute — 100 percent participation by the board
- Help identify and evaluate funding prospects
- Share in the cultivation of key prospects
- Write letters and/or make calls supporting the organization
- Publicly identify yourself with the organization and voice support for its mission

From George, Worth, "Fearless Fundraising for Nonprofit Boards." Published by BoardSource.

## What You as a Board Member Can Do to Fundraise

- Make a personal financial contribution each year at your personal best level
- Understand, endorse, oversee, and participate in fundraising planning
- Contribute to the mailing list. For example, provide contact information for new prospects for events, appeals, and informational (cultivation) mailings.
- Help identify and evaluate prospects including individuals, foundations, corporations, religious institutions, small businesses, other nonprofits
- Make introductions to prospects
- Share in the cultivation of key prospects
- Write thank you letters and call donors to thank them for their gifts
- Write personal notes on annual appeals, invitations, and other solicitation materials and make personal follow-up phone calls
- Accompany others (staff and board) on solicitation and site visits
- Solicit others directly
- Speak frequently about your organization, its programs, and purpose
- Know and articulate *why* someone should give to your organization
- Identify and recruit board members and fundraising committee members

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## MODULE 4 HOMEWORK: Resource Development

1. Assume you currently sit on the board of an organization. List the reasons why you might be reluctant to ask a colleague, business relation or friend for a contribution to the organization.
2. For each reason listed above, what could the organization or other board members do to make it easier for you?

## Module 5: Board Leadership and Board Dynamics

### Goals

- To appreciate the leadership responsibilities of the board
- To learn techniques for effective board and committee management

### Boards Make Good Decisions

Board members are decision makers. Making good decisions means coming prepared to board meetings, sharing ideas and perspectives, listening to fellow members with respect and, finally, reaching a collective conclusion that furthers the common purpose and objective of the organization. No board decision gets implemented before a vote has taken place. This all sounds simple and straightforward. If it were, we would have wonderful and productive boards in every nonprofit. To turn all boards into effective decision makers, three factors need to be present: flexible structure, a facilitating process, and constructive interaction between members.

#### Flexible Structure

Structure provides security, a proper framework, and control. When a board meeting runs its course in an expected manner with an accommodating infrastructure to support it, board members know exactly what awaits them when they come to a meeting. For some boards this predictability fosters status quo, for others it stifles creativity. Here are some structural pillars that can make decision making more dynamic.

Know the legal constraints that control board actions. Be familiar with your state laws. Craft bylaws that provide guidance but do not unnecessarily constrain you.

Make sure that your committees and task forces deliver. Expect work groups to dissect major issues and to prepare constructive recommendations for the full board. Don't allow the board to duplicate work that has already been done.

Look at your board size. Realize that too large a group makes it difficult to involve all members in discussion; too small a group may miss the necessary insights needed for wise decision-making. Agree on meeting schedules, locations, and the number of necessary meetings. Compromise and accommodate on the logistics to make it easy for members to come to meetings. Take advantage of technology to facilitate communication between meetings. Processes clarify the steps for making decisions; they define the levels of authority, methods of communication and sharing information, rules that guide the course of action, and the needed results for a decision to be valid.

The following points help boards adopt processes that facilitate interaction and encourage active communication.

#### Facilitating Process

- Elect a skilled chair who is able to facilitate deliberation and decision-making. Expect the chair to be fair, inspiring enough to bring members to meetings, able to keep civility in the boardroom by controlling unruly members, and conciliatory to encourage wise decisions.
- Have an agenda that reflects the purpose of the meeting. Follow the agenda — but understand when flexibility means productivity. Create an agenda that focuses on strategic issues and not on operational minutiae. Make decisions on issues that belong to the board.
- Ensure that the chief executive provides adequate and accurate information for the board. Create a communications system that is practical for all board members.

- Stress the importance of the deliberation process. Make sure that enough time is spent on discussion and debate without cumbersome parliamentary rules.
- Experiment with different approaches to reach a decision. Determine whether the consensus method works for your board. Choose a method that reflects your group dynamics.
- Avoid rubber-stamping. Don't neglect the duty of care or lose independence. Challenge weak members to justify their service on the board. Expect everybody to participate.

Determine which issues warrant a greater than majority vote. Include in your bylaws a list of decisions that require either two-thirds or three-fourths vote. Note that unanimous votes probably are not the best option for most boards.

## **Constructive Interaction**

No structure or process is so perfect and smooth that it can triumph without proper human elements in place. A board is made of individuals who have no power to act alone, only as a group. Boards are teams. A basic feature of a functioning team counts on members being able to get along, managing to disagree in a civil manner, learning to step back when necessary, leaping forward when warranted, and addressing conflict in a constructive manner.

Having the right composition for a board is the key to effective interaction. A good decision comes from a continuous exchange of ideas — often differing ideas. People with varying experiences and styles contribute positively to a group action. Diversity does not necessarily make interaction easier, but it is essential for a fair and unbiased diagnosis of a situation. By accepting a common purpose and personal accountability, a diverse board can overcome individual differences. In fact, embracing such differences can help a board better reach its objectives.

Being part of a team is not unproblematic. It is not easy for a strong-minded person to give in or to compromise. It takes courage for a quiet person to be forceful when he strongly disagrees with the direction a debate is taking. By understanding individual operating modes, it is possible to create an accommodating internal support system that is built on trust and mutual respect. Without it, it is impossible to keep personal things personal and focus on business. Behavior can be criticized but attacks on personal attributes do not belong in the boardroom.

Despite good intentions, special cliques can form on a board. They tend to have a divisive impact on interaction and polarize opinions. Reaching consensus under those circumstances is difficult without strong leadership that can direct the debate and focus on the core issue: What is our objective and whom are we serving? Private agendas divert the board's center of attention. They can make it difficult to challenge each other's opinions without turning it into a negative exercise.

Incorporating social activity in a board meeting is a way to introduce board members to each other from a new angle. It is clear that if you get to know your partner better as an individual —and not just as a peer sitting around the same table — you are in a strong position to understand his point of view, values that guide him, and his approach to decision making. A conciliatory board member is always more effective than an adversary in facilitating the search for the common ground.

Robert Andringa and Ted Engstrom. "Nonprofit Board Answer Book." BoardSource. 2001.  
Jon R. Katzenbach and Douglas K. Smith. "The Wisdom of Teams." Harvard Business School Press. 1999.

## Board Structures

### Guidelines for Effective Board Meetings

1. Be prepared.
  - Create an agenda that indicates what issues are up for decision, for discussion, or for information.
  - Read background materials in advance of the meeting.
2. Begin and end on time.
3. Have a commonly understood process for facilitating the meeting and making decisions – e.g., Roberts Rules of Order, consensus, decision mapping, or some other agreed upon format.
4. Promote awareness and understanding of where other people “are coming from.”
5. Provide appropriate participation.
  - Listen, ask relevant questions, and avoid side conversations.
  - Share your knowledge, insights, and opinions, but don't make speeches.
  - If you agree with a position taken by someone else, say so without repeating the whole argument. Only add points that have not already been covered.
  - If you disagree with someone's position, state your disagreement with the position, not the person.
6. Show respect for committee discussions. Don't repeat committee discussions at board meetings. If a committee report or recommendation is not clear or does not address important questions, refer the matter back to the committee.
7. Be clear.
  - Make sure everyone understands the motion before calling for a vote.
  - Make sure it is clear who will be responsible for implementing a decision that is made.
8. Conduct evaluations.
9. Have a sense of humor.

## Consent Agenda

A consent agenda, sometimes called a consent “calendar,” is a component of a meeting agenda that enables the board to group routine items and resolutions under one umbrella. As the name implies, there is a general agreement on the procedure. Issues in this consent package do not need any discussion before a vote. Unless a board member requests the removal of an item ahead of time, the entire package is voted on at once without any additional explanations or comments. Because no questions or comments are allowed on the content, this procedure saves time.

|                                                                                                          |            |
|----------------------------------------------------------------------------------------------------------|------------|
| <b>ANYTOWN HEALTH CLINIC</b><br><b>123 MAIN STREET ANYTOWN, NY 01234</b><br><b>6:30 P.M. – 8:00 P.M.</b> |            |
| MEETING OF THE BOARD OF DIRECTORS<br><i>FRIDAY, OCTOBER 15, 2004</i><br><i>PROPOSED AGENDA</i>           |            |
| Call to Order                                                                                            |            |
| Consent Agenda, <i>Elisha Harris</i>                                                                     | 5 minutes  |
| Chair Report                                                                                             |            |
| Executive Director Report                                                                                |            |
| Approve Minutes of July Board Meeting                                                                    |            |
| Benefit Committee Report                                                                                 |            |
| Marketing Committee Report, <i>May Kong</i>                                                              | 30 minutes |
| Action Item: Approve proposed new name                                                                   |            |
| Program Committee, <i>David Addams</i>                                                                   | 25 minutes |
| Action Item: Approve recommendations on primary constituency                                             |            |
| Finance Committee, <i>Alita Levis</i>                                                                    | 20 minutes |
| Action Items: Approve FY 2005 budget                                                                     |            |
| Approve Investment Guidelines                                                                            |            |
| Governance Committee Report, <i>Saleha Belgaumi</i>                                                      | 10 minutes |
| Discussion: Proposed by-laws changes                                                                     |            |
| Adjourn                                                                                                  |            |

**Note:** The consent agenda is not a tool for avoiding conflict or for securing an easy acceptance of a new idea. The board must read the reports prior to the meeting or they are not exercising *sufficient oversight*.

## Roberts Rules of Order — Short Form

Business is conducted through acting on motions.

1. A board member introduces a motion:
  - a. "I move that we accept the recommendations of..."
  - b. "I move that the board resolves to..."
2. A second board member seconds the motion. The presiding officer restates the motion and invites discussion.
3. The discussion can be closed by a board member calling for the previous question: "I move the previous question." If this motion is seconded and receives a 2/3 majority vote, the discussion is closed and the first motion is brought to vote.
4. Board members can propose additions or amendments to the motion. If an addition does not change the substance of the motion and is acceptable to the person who made the motion, no vote is needed. Each amendment, change or addition in substance to a motion, needs to be moved, seconded, and voted upon separately before the board can vote to end discussion or call for a vote on the main motion. No new main motions can be brought to the floor until the pending motion is dealt with.
5. A motion can be referred to a committee if the board determines that more research needs to be done before the board can vote on the motion.
6. A motion can be postponed until other matters are considered by the board.
7. A motion can be "tabled." The board could vote to postpone consideration of a motion until such time as a majority of the board votes to take it from the "table" in order to decide to accept or reject the motion.
8. A decision can be reconsidered if someone on the prevailing side brings a motion to review and possibly vote again on a previously considered issue.
9. A board member could call for a "point of order" in order to call attention to a breach of the above rules or other agreed to procedures. After hearing the member, the chair rules on the issue. The ruling of the chair can be reversed with a majority vote.
10. Board members can ask at any time during the meeting for clarification of procedures, points of information, or personal privilege to speak on a topic.

## Board Committees

Committees exist to assist the board in carrying out its work by:

- Researching issues and developing well-considered proposals for board action.
  - o Carrying out specific duties on behalf of the board
- All committees should have a written charge approved by the board to guide its work.
- Committee reports to the board should clearly indicate the purpose of the report:
  - o Request for feedback to an idea or an emerging direction, or
  - o Progress report (FYI), no response needed, or
  - o Recommendations for board action
- Committee reports should be in writing and preferably be circulated with the agenda prior to the board meeting.
- Board should respond appropriately by:
  - o Providing feedback, raising questions about material in the report, or asking questions that have not been dealt with by the committee but to which the board wants answers, and
  - o Refraining from repeating the discussion that has already been held in the committee. If issues are not sufficiently worked out for the board to take action, the matter should be referred back to the committee for further work.

Committee chairs are responsible for managing the committee's work. They should:

- Plan meetings, assign tasks, monitor progress, and communicate with staff assigned to the committee, if any.
- Arrange for the committee to evaluate its work at the end of the program year.
- Communicate with the board president/chair concerning the work of the committee.

Short-term projects that are not part of the work of a standing committee might best be assigned to a task force which will cease to exist when the task has been completed.

### Reminders

- ☑ Committees and task forces are necessary for the division of responsibilities.
- ☑ Committees are ongoing, while task forces are time-limited.
- ☑ Each must have a written charge of their roles, responsibilities, and accountability.
- ☑ Each must plan and evaluate its work.
- ☑ Members need to see how the work of their group has an impact on the effectiveness of the whole board.

## MODULE 5 HOMEWORK: Board Leadership and Dynamics

### True or False

|                                                                                                                                                |               |
|------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| 1. The board should decide which plays will be presented.                                                                                      | TRUE or FALSE |
| 2. I want to review all significant purchases and contracts to see if we are getting the best deal.                                            | TRUE or FALSE |
| 3. The Treasurer should directly supervise the bookkeeper and accountant.                                                                      | TRUE or FALSE |
| 4. We should have monthly meetings with the ED to supervise his/her work.                                                                      | TRUE or FALSE |
| 5. The board should approve all hiring/termination decisions.                                                                                  | TRUE or FALSE |
| 6. I have the right to disagree publicly with board decisions.                                                                                 | TRUE or FALSE |
| 7. I want to know how much each board member has contributed and have the right to direct the bookkeeper to provide that information.          | TRUE or FALSE |
| 8. The law does not require board members to raise money or to contribute. It is a staff responsibility.                                       | TRUE or FALSE |
| 9. I do not have time to read all the documents. I want them explained at board meetings.                                                      | TRUE or FALSE |
| 10. My right to speak should not be curtailed by the chair.                                                                                    | TRUE or FALSE |
| 11. We do not need to spend time creating a strategic plan. This is a staff responsibility. The role of the board is to approve or disapprove. | TRUE or FALSE |
| 12. I want to speak privately with program staff to make sure that they working in accord with our mission.                                    | TRUE or FALSE |
| 13. I have a good friend who I want to be on the board.                                                                                        | TRUE or FALSE |

### Questions

Board meetings should be opportunities for the entire board to engage in constructive and creative conversation about issues that are important to the organization.

- What meeting norms would promote that goal?
- What role should the chair play to promote that goal?
- What can individual board members do to promote that goal?

## MODULE 6: Board Building and Placement

### Goals

- To understand the dynamics of board building and recruitment
- To be able to identify the factors that will help determine if there is a personal fit with a prospective board
- To appreciate how board service can serve personal goals
- To learn how to better integrate into a board
- To understand the BoardServeNYC placement process

### Board Composition, Structure and Development

One of the most important responsibilities of a board is to ensure that it continuously adds qualified new members and keeps them engaged. However, board members sometimes neglect this responsibility by spending little time or effort strategically thinking about how to shape the board's composition in a way that matches the organization's culture, current needs, and strategic direction. Board building is a continuous process that should include year-round activities. Organizations with strong, active, involved boards spend significant time and attention on each part of the board building cycle. Good boards don't just happen -- they take care, thought, and planning.

### The Governance Committee (Nominating, Development)

The Governance (or Nominating) Committee Board is, potentially, the board's most important standing committee. Because many organizations now charge this board committee with the responsibility of considering the needs of the board in a broader sense, and not just at the time of annual elections, they are calling this committee the board development (or governance) committee rather than the nominating committee.

It should be composed of members who have many contacts in the community, know where to look for potential board members, offer a variety of perspectives, and represent a range of backgrounds and experiences. It is sometimes beneficial to have non-board members serve on this committee as well.

While this committee helps to facilitate the board's work in identifying the needs of the board and candidates for board election, **it is the responsibility of all board members to suggest possible nominees for the board.**

### Governance Committee Tasks

- Understand the organization's mission and goals
- Develop/update board member responsibilities (job descriptions)
- Identify potential board members and maintain information about each candidate
- Observe and evaluate potential leaders within the board
- Strive for a diverse, representative board
- Evaluate board members' eligibility for re-election
- Cultivate and recruit officers and new board members
- Judge objectively the qualifications of potential members
- Conduct board orientation sessions for new board members
- Plan ongoing board development programs for the board

Ellen Cochran Hirzy. "From The Nominating Committee: Laying a Foundation for your Organization's Future." BoardSource.

## **The Board Manual**

Prior to or at the orientation, each new board member should receive a board manual that introduces him or her to the organization and the board. Although some of this information may have been provided previously to the new board member, the board manual should contain written materials that help familiarize board members with the organization.

The following elements are found in most board manuals:

- History/mission of the organization (including organization member statistics)
- Board member job description
- Legal documents (articles of incorporation, bylaws)
- Budget, financial statements, last annual audit
- Roster of current board members
- Organization's strategic plan, major goals
- Overview of programs, staff information
- Information on committees, committee assignments, and orientation (and selected board meeting minutes)
- Calendar of activities, board meetings, special events, etc.

## **Board Mentoring**

The governance committee could pair up a new board member with a more seasoned board member and ask the experienced member to stay in contact with the new member during his or her first year on the board. The board mentor can answer questions about the board and helping the newcomer to feel welcome. The relationship could be structured or less formal, depending upon the needs of the new member.

## **Other Suggestions**

Each new board member should serve on one or two committees to learn how the board carries out its work and to become more involved with a particular aspect of the organization. It is important to share committee job descriptions and goals with each member and orient them on how to be effective committee members.

## The Board-Building Cycle

1. **Identify board needs.** Skills, knowledge, perspective, connections, etc., needed to implement the strategic plan. What do we have? What is missing? Identify sources of board members with the needed characteristics.
2. **Cultivate potential board members.** Get them interested in your organization and keep them informed of your progress.
3. **Recruit prospects.** Describe why a prospective member is wanted and needed. Describe expectations and responsibilities of board members, and don't minimize requirements. Invite questions, and elicit their interest and preparedness to serve.
4. **Orient new board members to the organization.** Program, history, bylaws, pressing issues, finances, facilities, organization chart—and to the board—recent minutes, committees, board member responsibilities, lists of board members and key staff members.
5. **Activate all board members.** Discover their interests and availability. Involve them in committees or task forces. Assign them a “board buddy.” Solicit feedback. Hold everyone accountable. Express appreciation for work well done.
6. **Educate the board.** Provide information concerning your mission area. Promote exploration of issues facing the organization. Don't hide difficulties. Celebrate accomplishments.
7. **Rotate board members.** Establish and use term limits. Do not *automatically* re-elect for an additional term; consider the board's needs and the board member's performance. Explore advisability of resigning with members who are not active. Develop new leadership
8. **Evaluate the board and individual board members.** Engage the board in assessing its own performance. Identify ways in which to improve. Encourage individual self- assessment.
9. **Celebrate!** Recognize victories and progress, even small ones. Appreciate individual contributions to the board, the organization, and the community. Make room for humor and good laughs.

## Questions for Prospective Nonprofit Board Members

Joining a nonprofit board is an important investment both for you and for the organization whose board you join. Identifying a good match involves many of the same considerations you would address in accepting a new job, taking on long-term clients, or building a relationship with an outside vendor.

Here are some questions that will help you understand what to expect and help you make a choice that works for you and for the nonprofit where you choose to volunteer.

## Questions to Ask Yourself

Where do I want to get involved?

- What causes do I care about most?
- What do I want to achieve from being on a nonprofit board?
- What type of organization and board will best match my personal interests and working style?
- What practical requirements are important to consider? (Location of meetings, amount of time, “give or get” contribution requirements, etc.)
- To what extent is giving something back to the community where I live or work important to me?

What do I have to offer a nonprofit as a board member?

- How much time do I have available for a nonprofit whose work is important to me?
- How much of an annual contribution could I make to this nonprofit?
- What doors to potential funding sources could I open?
- What experience and skills do I bring to a nonprofit?

Am I a good listener, a good catalyst? Will I be able to place an organization’s purposes and interests above my own when making decisions as a board member?

## Questions to Ask the Nonprofit That Interests You

As you consider serving as a board member, you will want to gather information from many sources, including key organizational publications and documents; conversations with the executive director, the board chair, or another member of the board; as well as discussions with others who may be familiar with the organization or its programs.

There is no single step-by-step method to go about gathering this information. How you do so will depend on the organization’s nominating process, the availability of some individuals, and the amount of time you have available to conduct “due diligence” about the organization.

Excellent organizations may have imperfect answers to some of these questions. Imperfect organizations may have excellent answers. Just as in any other decision, you must use your best judgment and trust your instincts.

Recognizing the need for flexibility, here are some suggestions on materials to review and questions to ask the people you meet.

## Questions

- What is the organization’s mission? What are its programs/business activities?
- What are the organization’s plans over the next three years?
- What are the key issues affecting the nonprofit’s work now? What issues are anticipated in the next two to three years?

- Does the organization carry directors' and officers' liability insurance? (You should expect the organization to provide insurance coverage.)
- How stable is the organization financially? Does the board anticipate issues that might have a significant impact on revenue or expenses?
- How stable is the organization from a management perspective? Is the board satisfied with management? What is the relationship between the board and the executive director?
- What takes place at a typical board meeting? What is the style of board interaction? Does the agenda suggest that the board is actively engaged? Does the board's style of functioning fit yours? Are there reasons to believe that board activity will change in the foreseeable future?
- How often does the board meet? What does the nonprofit expect/require from its board members in terms of time? What does the board expect in terms of committee participation? Under what circumstances are you expected to become a candidate for board leadership?
- What does the nonprofit expect/require from its board members in terms of personal contributions and fundraising solicitations?
- What is the recruitment process for new board members?
- What is the term of board membership for regular board members, for officers?
- What are the strengths and challenges of the board as a group?

## Materials to Review

The organization's executive director will probably be in the best position to provide this information. If you have scheduled a meeting with the executive director or the board chairperson, you should feel comfortable asking for an "information packet" ahead of time. While the specific contents of this packet should be left up to the nonprofit organization, helpful items include:

1. **Annual Report:** This document summarizes annual programmatic activity and accomplishments, along with financial information. Some organizations do not publish annual reports, so don't be surprised if one is not available.
2. **Financial Statements (Audited and/or Interim):** Read the notes to the financials. They will give you useful details about the business, such as the type of nonprofit tax status, methods of accounting for contributions, and any pending lawsuits that might have a material financial impact.

Remember, this is a nonprofit. You can expect different reporting and performance standards than you see in business. If you are not familiar with nonprofit balance sheets, you may be surprised by the scarcity of financial resources. If you are concerned, ask if the organization has functioned with its current level of assets for a long time. Ask how cash flow issues are managed.

Interim losses or negative variances from budget are most likely signs of trouble, but they may be cyclical and therefore anticipated in the annual plan. If they are unexpected, what course of action does the nonprofit plan to correct the problem? How would you feel about that course of action if you had financial responsibility for the organization?

## Other Documents

- Newsletters or other publications
- Minutes from recent board meetings
- Corporate bylaws

## Board Recruitment and Orientation Process

Below, the steps you can expect to take place as you identify board service opportunities of interest and are invited to join a board. Again, each nonprofit goes about on-boarding new members differently; the steps below are rather a summary of what generally occurs.

### Initial Contact

- Identify nonprofits of interest through our matching website and board fair.
- If mutual interest is established, then you should agree on which next steps will occur (Site visit? Interview with the board?).

### First Meeting

- Meet with representatives from your nonprofit of interest, either through a BoardServeNYC live event, or through a site visit of your own.
- An interview with a Governance Committee member – or another sitting board member – may take place at this time.

### Additional Site Visits/Volunteering

- A number of the BoardServeNYC nonprofits choose to engage prospective board candidates as volunteers before bringing them onto the board. Doing so will give you a strong sense of the nonprofit in action.

### Election to the Board

- After a suitable amount of time has passed (generally a few months), the board will meet and will vote on whether or not to invite you to join the board.

### Appointment

- Upon board approval, you will generally be asked to serve for one year on a committee.
- Meeting with board chair to decide on committee and/or affiliate board assignment.

### Board Orientation

- A “board buddy” may be assigned to each new member to guide the new member through the formal and informal workings of the board.
- Meeting with senior staff to review programs.
- Field visit with one member and/or the executive director to see major programs.
- Meeting with board leaders and executive director to review board manual.
- After six months, new board member meets with one member of the board development committee to discuss problems, issues, etc.

## BoardServeNYC.org

An important first step towards finding personally fulfilling board service is to use our online matching tool. Our online matching tool allows you to post a profile detailing your background, skills and interests and lets you browse the board service postings of our trained participating nonprofits. The guidelines below will facilitate your use of the online matching portal.

### Guidelines to the BoardServeNYC.org Matching Tool

1. **Complete a Profile.** Please fill out the profile thoroughly and completely. Nonprofit organizations will be able to view all information you provide and it will help them understand your background and interest areas.
2. **Search for Board Service Opportunities.** You may also choose to browse postings or refine your search based on program area and location. The system will refer “Recommended Matches” to you based on your skills, experience and interests.
3. **Reach Out!** Nonprofits are aware that prospective board candidates will be reviewing their postings as much as they will be reviewing your credentials. Use the messaging tool to send any nonprofits of interest a message. Follow up with them in a timely fashion.
4. **Check Our Site Frequently.** Nonprofits apply daily and are trained monthly. The pool changes and candidates get placed onto boards on a rolling basis. Thus, it is good to check the site often.
5. **Hide/Unhide Your Profile Accordingly.** If you succeed at finding a board member position and are no longer looking for additional opportunities, please hide your profile.
6. **Share Your Stories With Us!** We like success stories. Please let us know which opportunities you've chosen.

## Board Fairs

Another means to find board service opportunities is by attending a “board fair,” BoardServeNYC’s signature event. Much like a job fair, the board fair gives you a chance to meet our trained, participating nonprofits, talk about your credentials and network with fellow prospective board members.

BoardServeNYC holds three to four board fairs annually. Check our website for exact dates, times and locations. You will also receive invitations to these events via e-mail.

## Preparing for a Board Fair

1. BoardServeNYC will send you an e-mail about an upcoming board fair about 3-4 weeks prior to the event. Please complete the **online RSVP form** for the event as soon as possible after receiving it.
2. About a week before the fair, you will receive a list of nonprofits that are planning to attend. Please review this list, and do some research on nonprofits of interest to you.
  - Be sure to bring copies of your resumes and/or business cards to exchange with nonprofits of interest
3. Think about how you want to verbally present yourself to an organization. Prepare an “elevator pitch” – a short explanation on your skills background and interests.
4. Brainstorm some interview questions to ask the nonprofits. Be prepared to answer nonprofits’ questions about you.
5. Begin searching for prospective board service opportunities using our online tool before the fair. Use our messaging tool and reach out to any that meet your criteria and seem like a possible match. After some correspondence has been exchanged and mutual interest has been established, feel free to plan to speak with them at the fair, or meet at a mutually convenient time.

## Nonprofit Governance Glossary

**Excess Benefit Transaction:** A transaction in which an economic benefit is provided by a nonprofit, directly or indirectly, to a disqualified person, and the value of the economic benefit provided by the organization exceeds the value of the consideration (including the performance of services) received by the organization.

**Executive Committee:** A committee that has specific powers, outlined in the bylaws, which allow it to act on the board's behalf when a full board meeting is not possible or necessary.

**Fiduciary Duty:** A responsibility of board members and the nonprofit board as a whole to ensure that financial resources of an organization are sufficient and handled properly.

**Form 990:** An annual information form submitted to the IRS.

**Governance:** The legal authority of a board to establish policies that will affect the life and work of the organization while holding the board accountable for the outcome of such decisions.

**Governance Committee:** A committee responsible for recruiting, orienting, and training of board members.

**Intermediate Sanctions:** IRS regulations creating penalties for nonprofit board members and staff who receive or authorize an excessive benefit transaction for an insider.

**MSO (Management Support Organization):** A nonprofit organization providing management assistance services for other nonprofits.

**Operational Reserves:** A reasonable buffer against unforeseen, seasonal, irregular, or exceptional cash shortages.

**Private Inurement:** This happens when an insider, an individual who has sizable influence over the organization, enters into an arrangement with the nonprofit and receives benefits greater than she or he provides in return.

**UBIT (Unrelated Business Income Tax):** A tax levied on the unrelated business income of a nonprofit; the tax is equivalent to corporate taxes.

**Sunshine Laws:** Also called open meeting laws, state regulations that require government agencies and some nonprofit organizations that receive public funding to open at least some of their board meetings to the public.

**SWOT Analysis:** A tool for strategic planning; focuses on strengths, weaknesses, opportunities, and threats.

**Third Sector:** A term used to describe the nonprofit sector, as it is separate from government and the for-profit sector.

**Volunteer Protection Act:** A law that protects volunteers from personal financial liability when acting for an organization.

# BoardServeNYC

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## The BoardServeNYC Team

Thank you for completing the BoardServeNYC board member training session!  
The tools, advice and information included should help prepare you for nonprofit board service.

If you come across any questions during your board search, please feel free to get in touch with our team. The general e-mail below is checked on a daily basis and messages are forwarded to one of our team members. They will get back to you as soon as possible.

### The BoardServeNYC Team

E-mail: [BoardServeNYC@uwnyc.org](mailto:BoardServeNYC@uwnyc.org)

Website: [www.boardservenyc.org](http://www.boardservenyc.org)

Telephone: (212) 251-2500

### BoardServeNYC Orientation Facilitator

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