

How Mission Planning & Outcomes Are Related



Where Mission, Planning & Outcomes Overlap





Board Alive! Best Practices for Nonprofit Governance Workshop



Sponsored by the Department of Hawaiian Home Lands

Hawai`i Alliance of Nonprofit Organizations



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For more than a century, the Hawai`i Alliance for Nonprofit Organizations, formerly the Hawaii Community Services Council, has worked to improve our Community, leading systemic change and helping nonprofits become more efficient and effective.

What We Do

HANO is a new statewide alliance that will advance the common interests of Hawai`i nonprofits through advocacy, training, professional development, propagating successful practices, and by speaking with a strong, single voice on behalf of its members and their communities.

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Help Us Get To Know You

Please introduce yourself:

- Your Name
- Your Organization
- Your Experience with Nonprofit Boards, if any
- What your Expectations for Today are

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Our Expectations for Today

- That you **become familiar** with some of **the best practices** in nonprofit board governance.
- That you **leave here with some tools** to help you be a **more effective board member** or **more effectively work with your board**.
- Additionally, we expect that **you will be courteous to others** during the workshop and **put your cell phones on silent mode**. If you need to **answer a call**, please go **outside the training room** to do so.

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The Materials

- There's a lot of great information on board governance and best practices out there, so we didn't try to reinvent the wheel.
- We've pulled together material we thought best spoke to the topic and put it into a framework that we think makes sense and is digestible.
- We've cited our sources so that you can look further into any of the material that interests you.

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What Does it Mean to Be a Nonprofit?

QUIZ

1. How many nonprofit organizations are there in the U.S.?

Over 1 million.

2. How many nonprofits in the State of Hawaii?

Approximately 5,200 registered with the IRS (2,000 filed a form 990).

3. Are contributions to all nonprofits tax deductible?

No. Only contributions to nonprofits with a 501(c)3 designation are deductible.



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What Does it Mean to Be a Nonprofit?

4. Are all nonprofits exempt from all taxes?

No. 501(c)3 nonprofits are generally exempt from federal and state income taxes but are required to pay employment related taxes and taxes on income from activities that are unrelated to their missions (GE, UBIT).

5. What are three reasons that contributions to 501(c)3's are tax deductible?

1. *To encourage philanthropic giving.*
2. *Provide services that the government might otherwise be required to provide.*
3. *Provide services at a lower cost.*

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What Does it Mean to Be a Nonprofit?

6. Are board members personally liable for the actions of the organization?

Yes.

Why?

- 501(c)3's act to **benefit the public**.
- The **board** is the **LEGAL ENTITY** of the nonprofit organization and is ultimately responsible for ensuring the organization's adherence to legal and ethical standards.
- In this capacity, your job as board members is to:
 - ✓ **Be responsible for properly managing the corporation**
 - ✓ **Ensure it is operating in accordance with its mission and the purpose for which it was granted tax-exemption**
- **Hawaii Nonprofit Corporations Act** spells out a board member's fiduciary responsibility in relationship to a nonprofit.

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Core Documents

(Section 1, p. 12 in manual)

What are the 2 governing documents your organization must have?

- Articles of Incorporation
- Bylaws



You should review these two documents annually

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Life Stages of a Nonprofit Organization

(Section 2, p. 15 in manual)

- Imagine & Inspire
- Found & Frame
- Ground & Grow
- Produce & Sustain
- Review & Renew



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Types of Boards

(Section 2, p. 16 in manual)

- Advisory Board
- Administrative or “Working” Board
- Policy-Making Board

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Types of Policy: Board Involvement in Each

(Section 2, p. 17 in manual)

The # 1 policy is your Mission Statement

- Governing Policy
- Executive or Administrative Policy
- Operating Policy



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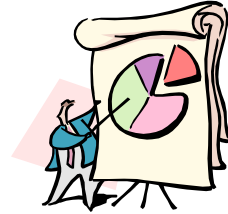


Policy Areas

(Section 2, p. 18 in manual)

Core = Vision, Mission & Values

- Governance/Operations
- Human Resources
- Finance & Facilities Stewardship
- Planning and Evaluation
- Community Relations



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Essential Functions of the Board

(Section 2, pp. 19-21 in manual)

1. Administration of the Corporation
2. Program Planning and Budgeting
3. Evaluating Organizational Effectiveness
4. Retaining and Evaluating Top Management
5. Financial Stewardship
6. Constituting the Community Connection

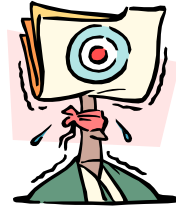


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Legal Responsibilities of Board Members

- This often feels like the “scary” part of the presentation!
- The goal is to not to intimidate you so much that you don’t want to serve on any boards
- It is to help you understand your responsibilities and rights as a board member better so that you can serve your organization more effectively



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Legal Responsibilities of Board Members

(Section 3, p. 26 in manual)

Standards of Conduct for Nonprofit Board Members:

- **Duty of Care**
- **Duty of Obedience**
- **Duty of Loyalty**

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What is Conflict of Interest?

(Section 3, pp. 27-28 in manual)

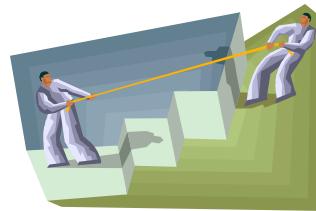


- Duty of Loyalty

- Actual conflict of interest

- The appearance of conflict of interest

- Examples



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How to Avoid Conflict of Interest

- Disclosure
- Abstention from Discussion and Voting
- Conflict of Interest Policy
- Other Safeguards



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Managing Risk

(Section 3, p. 29 in manual)

#1 way to manage risk is through PREVENTION

- Sound Policies and Procedures
- Prudent Board Members
- Manage Money
- Follow the Law



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Risk Management: Best Practices Resources to Help You Keep on Top of Things

(Section 3, p. 30 in manual)

- Websites
- Print resources
- Example



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Managing Risk – Proper Coverage

- Even with good prevention practices, you might still be sued
- **Without insurance the organization is placing** the personal assets of board members at much greater risk
- **Unless** the organization is covered, the individual must rely solely on their own insurance policies, which may or may not cover their activities as a board member

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Managing Risk – Proper Coverage

(Section 3, p. 31 in manual)

Most Common Legal Challenges

Brought Against Board Members:

- **90 % of claims** against boards involve some type of **employment dispute**
- **“Breach of fiduciary responsibility”** lawsuits



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Managing Risk – Insurance

(Section 3, p. 32 in manual)

Types of Legal Protection for Board Members:

- General Liability Insurance
- Directors' and Officers' (D&O) Insurance
- Limitations of Protection



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Dynamic Teamwork: The Board/Staff Relationship

(Section 4, p. 37 in manual)

Managing the relationship between the Board and the Executive Director is one of the biggest challenges facing nonprofits.

- Boards primarily **GOVERN**
- Staff primarily **MANAGES**

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Executive Director's Roles and Responsibilities

(Section 4, p. 38 in manual)

- Staff Board of Directors
- Personnel
- Planning
- Finance



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Mutual Expectations: The Board and Executive Director

(Section 4, pp. 39-40 in manual)

- The **Board** has expectations of the **Executive Director**
 - Be an advisor to the board
 - Inform the board fully and accurately
 - Implement policies determined by the board
- The **Executive Director** has expectations of the **Board**
 - Counsel and advise the Executive Director
 - Refrain from involvement in the day-to-day operations
 - Support the development and maintenance of adequate resources for continuation of the mission

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Board and Staff Responsibilities: Whose Job Is This Anyway?

- Influenced by organizational life stage
- Opportunity for role clarification

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Building a Strong Board

(Section 5, p. 49 in manual)

- What makes effective Board organization?
- How long should Board members serve?
- Tools for Board Development:
 - Board Representation Matrix
 - Board Roster

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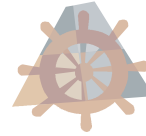


Officers' Responsibilities

(Section 5, pp. 52-53 in manual)

Board President

- Provide leadership to the Board
- Board development
- Provide leadership and oversight to the Executive Director
- External communications



Board Vice-President



Board Secretary



Board Treasurer



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Board Committees

(Section 5, pp. 54-57 in manual)

- Why have committees?
- Committees are formed for specific purposes
- Two types of committees:
 - Standing (permanent)
 - Ad Hoc (temporary)
- Who may serve on committees?

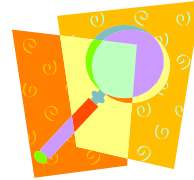


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Creating Organizational Quality

(Section 6, p. 61-67 in manual)



- Board Self-Assessment and Evaluation
- Organizational Evaluation – Strategic Planning
- Seeking Organizational Alignment

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Want to Know More?

(Section 7 in manual)

Resources



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Identified Opportunities for Improvement

- Do you see any opportunities for improvement based on the training today?
- Take a minute to jot a few down.

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Closing

- Please complete the evaluation form (both sides)
- Thank you for joining us today!

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Board Alive! Workshop

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AGENDA

- I. Introductions and Expectations
- II. Review Agenda & Materials
- III. Getting Acquainted with the Nonprofit Sector
- IV. Essential Board Functions
- V. Respecting the Commitment to Serve on a
Nonprofit Board
- BREAK (15 min)
- VI. Dynamic Teamwork: The Board/Staff
Relationship
- VII. Building a Strong Board
- VIII. Creating Organizational Quality
- IX. Evaluation

New IRS Form 990 – Governance Issues

Practical Matters

- Year of formation
- State of domicile
- Number of voting board members
- Number of independent board members
- Number of volunteers
- Board interrelationships
- Fraud disclosure
- Documentation of meetings

Written Policies and Procedures

- Conflict of interest policy
- Whistleblower policy
- Compensation and review policies
- Reimbursement policies
- Document retention policy
- Audit process and review
- Gift acceptance policies

Review of 990 by Board

- Timeline for compliance:

<i>May file 990-Ez for:</i>	<i>If gross receipts are:</i>	<i>If assets are:</i>
2008 tax year (filed in 2009)	> \$25,000 and < \$1 million	< \$2.5 million
2009 tax year (filed in 2010)	> \$25,000 and < \$500,000	< \$1.25 million
2010 and later tax years	> \$50,000 and < \$200,000	< \$500,000

Case Studies

Case Study Two State Mental Health Advocacy Organization

The State Mental Health Advocacy (SMHA) organization is 40 years old. It was established in the 1950's during the deinstitutionalization movement to advocate for humane care of the mentally ill and for development of community-based care.

In its heyday, SMHA had 6,000 members and was strongly funded by United Way. Support has gradually eroded. Membership is down to 3,500. The United Way allocation has declined, and United Way has recently announced that it will conduct a study to determine if SMHA is still relevant and needed.

The last Executive was fired, and the Board Chair, Karen, ran the organization for six months while the search for a replacement was being conducted. The new Executive, Dan, has been on the job for three months. The only staff in addition to Dan is a secretary/bookkeeper, Sally. The Treasurer, Carol, and Sally prepare the financial statements together. Sally is also responsible for an annual renewal membership drive. There has been no organized effort to recruit new members for over three years.

Karen handles the United Way allocation request herself. No other significant organized fund raising is being done.

The Board consists of 13 members in addition to Karen and Carol. Olivia (an academic), Peggy, Quentin, and Roger (all mental health professionals), and Theresa (an attorney) bring their expertise to Board service, but limit their participation role to that of technical advisors. Karen consults with them fairly regularly to discuss ideas. They rarely involve themselves directly in SMHA's program delivery and attend only one or two board meetings a year.

Allen, Barbara, and Calvin were originally invited onto the Board because of their relatively substantial contributions to the organization and their connections in the community. They attend most of the quarterly board meetings, but have little familiarity with SMHA's programs and tend to follow Karen's lead.

The other directors are interested members of the community who have been recruited largely by acquaintances who have been, or are now, on the Board. They are currently implementing the legislative advocacy program and community education programs directed by Karen.

The Board meets four times yearly. A skeleton agenda and minutes from the prior meeting are generally distributed at the start of the meeting. Occasionally, other materials such as financial reports, program reports, or other items of interest are also circulated at the meetings.

Board meetings generally consist of Karen, Dan, Carol, and Sally reporting to bring the rest of the Board up-to-date. From time to time, some matter is brought to a vote. Most often, the others who come to the meetings defer to Karen and Dan, who are considered to be the experts on the programs, and to Karen and Carol on fiscal matters.

Karen approached the Board at a regularly scheduled meeting with a proposal to initiate a new program within the organization. She wants to start a combined early childhood education and parenting class program.

Karen wants a quick decision as she has learned of a call for proposals to compete for grant funds to support such a program. She believes that SMHA could get a grant, particularly in cooperation with Olivia who wants to make this a collaborative project with the local university department of developmental psychology. Olivia is a faculty member there.

Quentin opposes the proposal, saying that there are other organizations more qualified to design and implement this sort of program. In fact, he is on the board of one of them, and is currently engaged in helping that organization put together a proposal for the same grant program.

Except for Quentin, the Board members present are inclined to encourage Karen to proceed with the grant proposal.

CASE STUDY DEBRIEF

DUTY	CASE STUDY
<p>DUTY OF CARE:</p> <p>When managing the affairs of the organization, act with the care that an ordinary prudent person would exercise in a like position and under similar circumstances.</p>	<ul style="list-style-type: none"> • Many board members not attending meetings regularly. • Board members not carefully examining proposals before voting; not asking prudent questions. • Board members not showing independent judgment when voting (defer to Karen and Dan or Carol). • It is concerning that Carol and Sally are the only 2 people handling the financials – there seems to be insufficient oversight in this area.
<p>DUTY OF LOYALTY:</p> <p>When making decisions affecting the organization, put the interests of the organization first (do not allow personal interests to prevail over the interests of the organization)</p>	<ul style="list-style-type: none"> • Both Olivia and Quentin have possible conflicts of interest with this proposed project. • While Quentin does disclose his potential conflict and tries to point out <i>mission drift</i>, he's in an awkward position. Though probably not a conflict of interest in the legal sense, his involvement with other np agency that is trying for same grant causes his loyalty to be divided between two competing interests. Because of this, he should probably abstain from the vote on whether to proceed with the proposal. • Olivia doesn't seem to realize she has a conflict, but it's possible she might stand to gain in her professional work at the university if SMHA gets the grant (this is not clear from scenario). Again, while not technically conflict of interest in the legal sense, it might be an instance of the appearance of conflict of interest. She should abstain as well.
<p>DUTY OF OBEDIENCE:</p> <p>Ensure the organization remains obedient to its central purposes (the mission, charter, articles of incorporation and bylaws) and applicable state and federal laws.</p>	<ul style="list-style-type: none"> • Proposed project is not consistent with mission – early childhood vs mentally ill (could be mission drift); looks like chasing the money because other funds not appropriately developed. • If, in fact, the mission of SMHA has changed or is changing, this would be an opportune time to do some strategic planning around the change in mission and inform the public about any decisions regarding the change. All of this should occur BEFORE grant funding is sought for programs outside the current mission.



Conflict of Interest Policy

Hawai'i Community Services Council maintains the highest standards of business ethics and avoids conflicts of interest or the appearance of conflicts of interest between the Council and its directors, officers, employees, consultants and agents, except to the extent that they are disclosed and approved.

All potential conflicts of interest, or arrangements which might give rise to the appearance of a conflict of interest, must be reported to the Chair of the HCSC Board of Directors or his/her designee in writing, using the form on the reverse side of this sheet.

Potential conflicts of interest or arrangements, which might give rise to the appearance of conflicts of interest, include, but are not limited to:

1. Holding any ownership in a business or profession providing goods or services to HCSC;
2. Having direct or indirect financial interest in the Council's assets, leases and other transactions;
3. Acting in multiple capacities in a matter relating to the Council;
4. Associating with any person or company that may compromise one's loyalty to the Council or otherwise give rise to the appearance of a conflict of interest;
5. Providing preferential treatment to its directors, officers, employees, consultants, and agents in the application for or receipt of HCSC services;
6. Exerting inappropriate influence generated from relationships between personnel and directors;
7. Making or accepting payment for referrals.

Please complete the disclosure form on the reverse side annually or whenever a conflict or potential conflict occurs.

01/26/05

Conflict of Interest Disclosure Statement

As a member of the HCSC Board of Directors, by my signature below, I hereby indicate my agreement with the following statements regarding any conflict of interest that may arise while serving HCSC:

1. I will disclose my involvement with other organizations, vendors or any other associations that currently do business or may do business with HCSC annually or when a conflict occurs.
2. I agree that information exclusive to HCSC shall not be used by me for personal gain or the gain of a family member or associate.
3. I will not use my position to obtain employment at HCSC for myself, family members, or close associates. If I should desire employment, I will first resign from the Board.
4. I shall disclose any direct or indirect financial interest in an issue before the Board and shall refrain from participating in any decision related to a disclosed interest unless authorized to do so by the Board. I will avoid conflicts of interest with respect to my responsibilities.

I agree to disclose to the Board any and all impending conflict of interest. I do not have any personal or business relationship, or circumstance I believe could contribute to a conflict of interest as defined in HCSC's Conflict of Interest Policy except the following, which might be questionable:

Signature

Date:

Print Name:

01/26/05

The Top 5 Reasons Associations Get Sued

by Sandra K. Pfau

#5 Release of Records

State laws generally require that nonprofit corporations keep and make available for inspection by any member certain corporate records, such as minutes of membership, board and committee meetings, and the names and addresses of all voting members. Failure to make these records available upon request may result in legal action against the association.

#4 Torts/Negligence

Associations may be held liable for injuries to individuals using the association's facilities and/or attending the organization's meetings. For example, an individual could sue if he/she trips and falls over signage at an association's meeting. Associations also have been found liable for providing inadequate security at meetings which result in injuries or theft. To limit or avoid such claims, associations should carefully review liability and indemnification clauses in meeting contracts, and also should have appropriate insurance coverage to cover claims that do occur.

#3 Discrimination claims

Associations may be liable for a wide variety of discrimination claims related to employment, volunteers and programs. To prevent such claims, associations should have and follow standardized procedures for recruiting, hiring and terminating employees and volunteers. In addition, the more an association treats all individuals alike, the less likely a discrimination claim will arise.

#2 Contract claims

Unfortunately, the first time many contracts are carefully scrutinized is when someone threatens a lawsuit. Key provisions in most contractual agreements include the term or length of the agreement, when and how the agreement may be earlier terminated, the precise specifications for the work to be performed, payment terms, including penalties for delays and bonuses for early completion. Before executing an agreement, you should read and understand all of its provisions. Surprising to some is the extent to which even "form" contracts may be negotiated.

#1 Employment claims

Employment-related claims constitute by far the greatest number of lawsuits against associations. These claims include discriminatory hiring, wrongful termination, breach of contract, and employee benefits claims. To avoid employment-related lawsuits, associations should, among other precautions, have in place and carefully follow set procedures for hiring and firing staff, train staff who interview applicants, have its job descriptions and employment applications reviewed periodically by legal counsel, carefully draft, review and abide by all employment contracts, and know and understand the provisions of its benefits programs.

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The Newsletter Exclusively for Members of Nonprofit Boards of Directors

Short enough to read over a cup of coffee, the Board Café™ offers a menu of ideas, opinion, news, and resources to help board members give and get the most out of board service. From CompassPoint Nonprofit Services, January 2006.

WHAT INFORMATION SHOULD BOARD MEMBERS HAVE?

As board members, we often have a vague feeling that we should know more about the organizations we're serving, but we don't really know what to ask for. For one thing, we don't want to be deluged with tons of material that we know we won't be able to digest. Staff, too, are often dissatisfied with what information they give to us. A common complaint: "The board says they want to know more, but when we send them information they don't even read it!"

Here's a suggestion for what written documents the board should have. Some of this same information should be presented and discussed at board meetings.

Compliance, financial & legal oversight

- ☐ Form 990 annually—review by the board president before submission, distribution to full board. Federal Form 990 is required for nonprofits with revenue of \$25,000 or more per year. Board members should know that the form has been filed, and what it says to the public about the organization.
- ☐ Audit, if the organization has one: Copy of full audit to board president, treasurer, and Finance Committee. Board members are aware they can ask for full copy.
- ☐ Monthly or quarterly financial statements, showing year-to-date income and expenses compared to budget, to the Finance Committee and the full board. Organizations will choose their own appropriate set.
- ☐ Salaries, benefits and perks for the top staff (such as the top five paid staff or the director-level staff), and a salary rate chart showing the range of salaries for each category of employee—annually.
- ☐ Directors & Officers Liability Insurance, if the organization purchases it. Proof of purchase to whole board annually.
- ☐ In executive session, documents related to legal actions, lawsuits, or settlements.

Strategic information

- ☐ Occasional articles about the "industry"—whether childcare, wetlands management or civil rights—articles that talk about trends in funding streams, changes in approach that are moving into the field, including articles that praise competitors/colleagues in the field.
- ☐ Articles (from journals or written internally) about the funding and political environment in which the organization works.
- ☐ Periodic reports on program work, statistics, and impact.
- ☐ Annual updates on clients/patrons/members: who used our services or facilities? To what degree did we reach our intended audiences?

Information that supports board cohesion and leadership

- ☐ Brief bios about board members, and updates on their professional accomplishments, personal news, and other volunteer activities.
- ☐ When reporting on an item, show specific ways that board members can help (if the item is a city council hearing, asking board members to attend and speak; if the item is a large donation, asking board members who know the donor to make a thank-you phone call).
- ☐ Appreciation for individual board members.
- ☐ Appreciation for the board as a whole in its governance work (such as evaluation of the executive director).



Presents

BOARD ALIVE!

BEST PRACTICES FOR NONPROFIT BOARD GOVERNANCE



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PRESENTERS

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Lily Bloom Domingo is chief operating officer and program director for *Training and Consulting Services* at the Hawai'i Alliance of Nonprofit Organizations (formerly Hawai'i Community Services Council). Lily has worked in the nonprofit sector for over 20 years and at HANO since 2000. She specializes in nonprofit leadership and management, particularly strategic planning, board governance, and outcomes design and implementation, and in dialogue facilitation. She has provided consulting services to a wide range of nonprofit, government, and for-profit organizations. In 2008 Lily received Envision Hawaii's Award for Excellence in Mentorship, recognizing her supportive, informal mentoring style that has touched the lives of many nonprofit professionals and social entrepreneurs.

Previously, Lily worked at Aloha United Way in Honolulu, Hawai'i and the United Way of the Central Coast in San Luis Obispo, California where she developed training materials and provided training and technical assistance to numerous organizations. She also developed and taught a course in *Community Needs and Resources* at the University of Hawai'i's College of Tropical Agriculture and Human Resources.

Lily has a M.S. in Community Development from the University of California at Davis. She received her B.S. in Human Development from the University of Hawai'i at Mānoa. In addition, she has specialized training in Collaborative Leadership, Facilitating Strategic Thinking and Planning, Appreciative Inquiry, Outcomes Training, and Qualitative Research Methods. A resident of Hawai'i for over 35 years, she currently serves as president of the board of the Susannah Wesley Community Center.

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JENNIFER CORNISH CREED

Jennifer Cornish Creed has been a training specialist with the *Training and Consulting Services* program of Hawai'i Alliance of Nonprofit Organizations (formerly Hawai'i Community Services Council) since 2000 and in that capacity has helped design and deliver training, consulting and technical assistance in strategic planning, board governance, outcomes design and implementation, and other nonprofit leadership and management topics to nonprofits statewide.

Jennifer has worked in the nonprofit community for 17 years. She has an extensive background in workshop development and the design of related training materials (print and audio/visual). In her work at HANO, she has primarily been involved in planning, implementing and evaluating training services. She has also spearheaded the planning and delivery of HANO's conferences, and is actively engaged in HANO's communications services. Jennifer is a trained facilitator and has led numerous planning and meeting facilitations on behalf of HANO.

Prior to joining the HANO, Jennifer worked with the Hawai'i Community Loan Fund and the Hawai'i Institute for Continuing Legal Education. Jennifer grew up on the Windward side of O'ahu. She received her bachelor's degree in Art History from the University of Hawai'i at Manoa. She did graduate work at Tufts University in Museum Studies. Jennifer enjoys doing art with kids and has developed curricula for and taught several children's art classes. She looks forward to opportunities to engage further in art endeavors that give voice to community perspectives.

SECTION

1

SETTING THE CONTEXT FOR NONPROFIT BOARD GOVERNANCE



OUR PURPOSE FOR BEING: NONPROFIT BOARDS OF DIRECTORS*

*Adapted from *Executive Directors Guide: The Guide for Successful Nonprofit Management*, by Deborah Linnell, Zora Radosevich and Jonathan Spack (Third Sector New England), *What Every Board Member Should Know about America's Nonprofit Sector*, (Board Member: News and Information for Nonprofit Leaders, Vol. 3, Number 5, September/October 1994), *How to Get and Keep Your Nonprofit Tax Exempt Status* by David J. Guy, Esq., and the *Free Complete Toolkit for Boards*, by Carter McNamara, MBA, PhD (Management Assistance Program for Nonprofits, 1999 www.mapnp.org/library/boards/boards.htm#anchor133574)

NONPROFITS ARE ORGANIZED FOR CHARITABLE PURPOSES:

- ▶ They are **FORMALLY CONSTITUTED**.
- ▶ They are **PRIVATE**, as opposed to governmental (although many perform services under government contracts).
- ▶ They **DO NOT DISTRIBUTE PROFITS** (any surplus is funneled back into programs or endowment to sustain the organization in the future, and no stock in the organization can be held or purchased).
- ▶ They are **SELF-GOVERNING**.
- ▶ They make **USE** of the energies of **VOLUNTEERS** (a volunteer governing board, and often operational volunteers as well).
- ▶ Their **ACTIVITIES BENEFIT THE PUBLIC**.
- ▶ Because their activities benefit the public, the **INTERNAL REVENUE SERVICE (IRS) GRANTS SIGNIFICANT TAX BENEFITS** to charitable organizations under the tax code, section 501(c)(3).



NONPROFITS HAVE BOARDS:

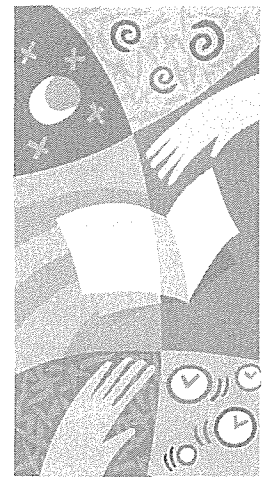
- ▶ Because it's **REQUIRED BY LAW** (state and federal). The state gives boards the **LEGAL AUTHORITY** to establish policies and **GOVERN** the organization and holds them accountable for the outcomes of those decisions.
- ▶ To **HELP ENSURE** they **UPHOLD THE "PUBLIC TRUST"** in their charitable purpose **AND REMAIN WORTHY OF THE TAX BENEFITS** (By its tax-exempt status, the nonprofit board has *stewardship* over a particular public trust.)

NONPROFITS BOARDS ARE REQUIRED TO GOVERN BY:

- ▶ **ACTING ON BEHALF OF THE GENERAL PUBLIC**
- ▶ **NOT GAINING FINANCIALLY** from the charitable activities of the organization
- ▶ **PROVIDING PRUDENT OVERSIGHT** of the **OVERALL OPERATIONS AND DIRECTION OF THE ORGANIZATION** to ensure the organization's charitable purpose is being served and that **ETHICAL STANDARDS ARE BEING UPHELD**

THE GUIDING DOCUMENTS FOR THE BOARD OF DIRECTORS ARE:

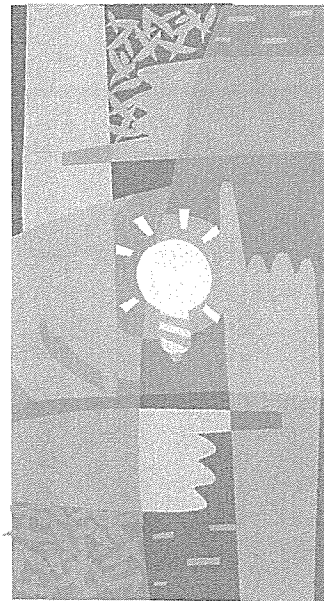
- ▶ **ARTICLES OF INCORPORATION** - The articles of incorporation **begin a nonprofit's legal existence**. They are established when the organization files for incorporation with the appropriate state agency. **The board of directors gets its authority from the articles**. This governing document specifies, for example, the nonprofit's name, the purpose or mission of the organization, its place of business, the primary officers, etc.
- ▶ **BYLAWS** - Bylaws **specify the board's rules of internal operation**. Bylaws contain rules and procedures for holding meetings, voting on issues and electing directors and officers (number of members of the board, length of the terms of membership, etc.). Typically, the bylaws are adopted by the organization's directors at their first board meeting.



SECTION

2

ESSENTIAL BOARD FUNCTIONS



LIFE STAGES OF A NONPROFIT ORGANIZATION*

*Modified from *5 Life Stages of Nonprofit Organizations* by Judith Sharken Simon (Wilder Foundation, 2001)

	IMAGINE & INSPIRE	FOUND & FRAME	GROUND & GROW	PRODUCE & SUSTAIN	REVIEW & RENEW
PRIMARY QUESTION	Can this dream be realized?	How are we going to pull this off?	How can we build this to be viable?	How can we sustain the momentum?	What do we need to redesign?
GOVERNANCE	Not yet a concern	Formal governance structure created: homogenous, small, passionate board of directors; WORKING or ADMINISTRATIVE BOARD	Expansion of the board size, first "outsider" on board, reactive rather than strategic	The governing role is in its prime, few founding board members remain, board discussions broadly focused, well-developed committees, board staff roles clearly defined; POLICY-MAKING BOARD	Turnover of board membership and leadership, development of formal linkages with other organizations, clarification of board roles and responsibilities
STAFFING	Not yet a concern	Dedicated group of volunteers, no paid staff	Paid staff hired, volunteers still critical part of staffing strategy, lack of job descriptions	Organization size is at its peak, program managers hired, increased diversity of staff, first staff firing may occur	Many changes in program staff, push for internal and external collaboration, new staff hired, existing staff reassigned
STAFF LEADERSHIP	Entrepreneurial, visionary, voluntary only	Singleminded, driven, sole decision maker, visionary, entrepreneurial, charismatic, volunteers only	First paid staff, often executive director, who is directive, unavailable, high-energy, needed both internally and externally	Wellrounded staff, executive director needs good delegation skills, other staff in place who are good program managers, "founder's syndrome" may be present	Founder likely to leave; change agent needed; an decisive highly motivated individual whose strength is integrating diverse perspectives; experience and knowledge of finances required
FINANCING	Not yet a concern	Startup funding granted, limited funds, no accounting systems, in-kind donations of expertise	Greater need for financial resources, a few funder relationships established, proficient use of in-kind donations, discussion of revenue-generating schemes	Stable funding, development of an operating reserve, need for exploration of new and expanded funding sources	Critical examination of funding sources, strategies, and systems; new funding sources located

TYPES OF BOARDS

There are three general types of boards:

		GOVERNANCE BOARDS	
	1. ADVISORY BOARD	2. ADMINISTRATIVE OR "WORKING" BOARD	3. POLICY-MAKING BOARD
WHAT KIND OF ORGANIZATIONS HAVE THIS TYPE OF BOARD?	<ul style="list-style-type: none"> Organizations that require expertise from community-based experts or topic area experts, with limitations on power to enact policy 	<ul style="list-style-type: none"> Organizations in their early stages Organizations without staff or with very limited staff (volunteers run the organization) 	<ul style="list-style-type: none"> Organizations with an executive director and other staff who handle the day-to-day administration of the organization
MAIN RESPONSIBILITIES OF BOARDS	<ul style="list-style-type: none"> Provide advice and recommendations to the executive director and/or policymaking board members 	<ul style="list-style-type: none"> Make decisions regarding policy and program, and act as a plural Chief Executive of the agency 	<ul style="list-style-type: none"> Administer the corporation <ul style="list-style-type: none"> Establish and/or approve policy Ensure that policies are being implemented in a satisfactory manner Review the policies periodically Develop and adopt a realistic budget to implement the plan Evaluate organizational effectiveness Retain and evaluate top management of the organization Act as financial stewards of the organization Constitute the community connection
WHO MAKES THE DECISIONS?	<ul style="list-style-type: none"> The executive director is not appointed or selected by the advisory board and the executive director is not responsible to them The executive director does not have to follow the board's advice or recommendations 	<ul style="list-style-type: none"> Members carry out their own policies and decisions through administrative and management actions 	<ul style="list-style-type: none"> The board makes policy decisions and is responsible for carrying out the articles of incorporation and the bylaws Staff members carry out the function of management and implement programs and services in accordance with the policies

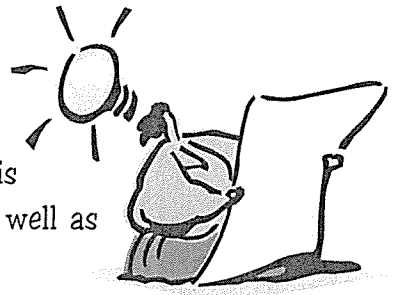
WHAT IS POLICY?

The central policy of a nonprofit organization is the ***MISSION STATEMENT***. The mission is the responsibility of the board. The mission is defined further through statements of philosophy and goals and objectives established through the cooperative effort of the administration, staff and the governing board, and ultimately approved by the board.

Distinction needs to be made between various policies:

► **GOVERNING POLICY**

The mission, philosophy, goals and objectives represent governing policy. The board is most directly involved in this area of policy and should be involved in its formulation, as well as making final approval of the policy.



► **EXECUTIVE OR ADMINISTRATIVE POLICY**

These are policies that impact areas such as fiscal concerns, facilities, and personnel, and should be consistent with the governing policy developed by the board and/or administration, with final approval by the board.

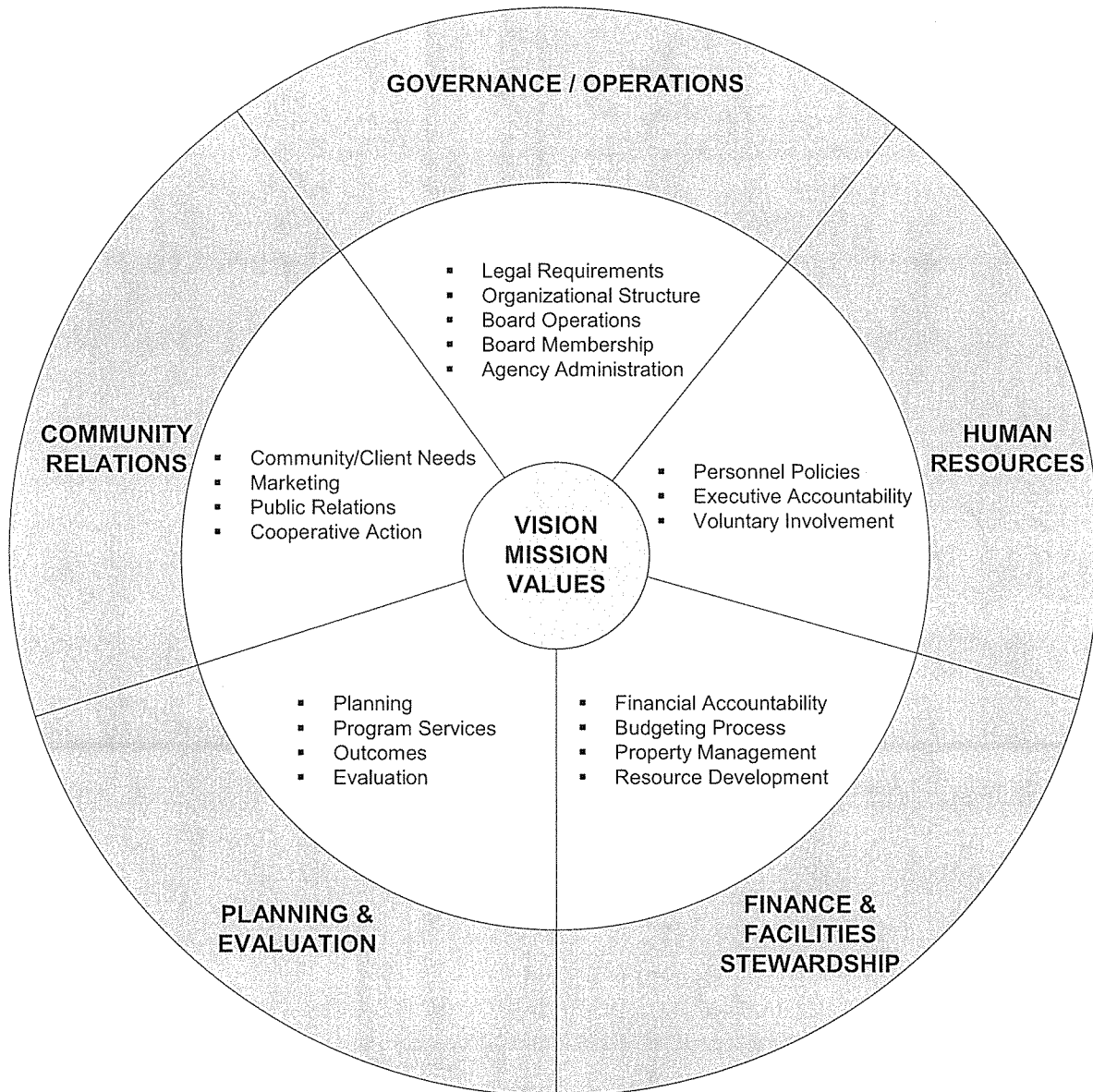
► **OPERATING POLICY**

These are policies that deal with the operating procedures and practices of the working environment of the organization. Expectations for operating procedures and practices are set by administration, department heads and others at the agency. The board is not involved in establishing these procedures but is aware of them, assuring themselves that these practices conform to legal requirements and with the governing and administrative policies.

WHAT IS POLICY?

(CONTINUED)

POLICY AREAS: The Big Picture



The function of a nonprofit board of directors is to develop policy in five key areas: human resources; finance; community relations; planning; and organizational development. Policy development implies a responsibility to monitor and evaluate policy implementation. The policy-making board has the power to delegate administrative tasks to paid or volunteer staff; however, the board cannot ever delegate its overall legal responsibility for agency operations.

Adapted from United Way of America Materials

ESSENTIAL FUNCTIONS OF A NONPROFIT BOARD

Excerpted from *The Business of Boards is Serious Business* by G. Neil Karn*, Voluntary Action Leadership (see *Section 7: Resources* of this manual for the entire article)

Board functions can be organized essentially into six broad categories:

1. **ADMINISTRATION OF THE CORPORATION**
2. **PROGRAM PLANNING AND BUDGETING**
3. **EVALUATING ORGANIZATIONAL EFFECTIVENESS**
4. **RETAINING AND EVALUATING TOP MANAGEMENT**
5. **FINANCIAL STEWARDSHIP**
6. **CONSTITUTING THE COMMUNITY CONNECTION**

The history, purpose and organization of policy-making boards certainly will differ, but these six functions apply uniformly.

► **ADMINISTRATION OF THE CORPORATION**

By law, a nonprofit corporation must have a board of directors responsible for the management of its affairs, which involve the maintenance and legal direction of the corporation:

- The board **CONSTITUTES AND CONTINUES THE LEGAL ENTITY** by attending to legal requirements for the conducting of agency business
- The board **DEFINES THE ORGANIZATION'S PURPOSE** by establishing a clear statement of mission - its reason for being.
- The board of directors **DETERMINES POLICY** for the organization. Policy statements establish governing principles, address procedural matters and provide an operational framework.

► **PROGRAM PLANNING AND BUDGETING**

This area involves translating the organization's mission into a specific program plan, then budgeting the corporation's financial assets accordingly:

- The board of directors **DEFINES SPECIFIC NEEDS TO BE ADDRESSED AND TARGET POPULATIONS TO BE SERVED.**
- The board of directors **ESTABLISHES GOALS AND OBJECTIVES IN ORDER OF PRIORITY** consistent with the organization's purpose and which address the identified needs.

ESSENTIAL FUNCTIONS OF A NONPROFIT BOARD (CONTINUED)

- Concurrent with the development of the program plan, the board of directors **DEVELOPS A REALISTIC BUDGET** which assigns financial resources to support the program plan.
- The board **ADOPTS THE PROGRAM PLAN AND BUDGET ANNUALLY** or on some other regular schedule.

► **EVALUATION OF ORGANIZATIONAL EFFECTIVENESS**

Having established policies and program goals, the third primary functional area for boards is ascertaining the organization's effectiveness in achieving its mission:

- The board of directors regularly **EVALUATES THE ACCOMPLISHMENT OF THE ADOPTED PROGRAM PLAN**.
- On a similarly regular schedule, although not necessarily as frequent, the board of directors must also **STEP BACK AND EVALUATE THE BIGGER PICTURE**. It must ask itself if the organization is truly achieving its purpose.
- The board must also **EVALUATE RESPONSIVENESS TO NEW SITUATIONS** (new opportunities and unanticipated needs).
- Finally, the board of directors must **EVALUATE THE DEGREE AND EFFECTIVENESS OF VOLUNTEER LEADERSHIP** in the organization.

► **RETENTION AND EVALUATION OF TOP MANAGEMENT**

A fourth function of a board of directors is the selection and employment of the executive director and subsequent evaluation of this top manager.

- The board of directors must **HIRE THE RIGHT EXECUTIVE IN THE FIRST PLACE**.
- The board of directors **ESTABLISHES THE COMPENSATION AND CONDITIONS OF EMPLOYMENT FOR THE EXECUTIVE DIRECTOR**.
- The board of directors must not hesitate to **EVALUATE THE EXECUTIVE'S PERFORMANCE REGULARLY**.

ESSENTIAL FUNCTIONS OF A NONPROFIT BOARD (CONTINUED)

► FINANCIAL STEWARDSHIP

The board is responsible for the financial integrity and solvency of the corporation:

- The board of directors must take a lead in the **DEVELOPMENT OF FINANCIAL RESOURCES**.
- The board must **SET CONDITIONS AND STANDARDS FOR ALL FUNDS SOLICITED IN THE ORGANIZATION'S NAME**.
- The board of directors must **EXERCISE FIDUCIARY CARE** of the funds entrusted to the organization's use.
- The board of directors must **ENGAGE IN SOUND LONG-RANGE FINANCIAL PLANNING**.

► CONSTITUTING THE COMMUNITY CONNECTION

The sixth function of boards involves serving as a link between the community and organization.

- The board of directors **REPRESENTS THE PUBLIC INTEREST**. The board has a moral responsibility to the community at large to ensure both program and fiscal accountability.
- The board of directors **REPRESENTS THE INTERESTS OF PARTICULAR PUBLICS**. They must ensure that the full range of community views and values are incorporated into organizational decision-making.
- The board of directors **REPRESENTS THE ORGANIZATION TO THE COMMUNITY**. The board has a responsibility to interpret the agency and its programs to the community. This connection is crucial to image building and the development of community support.
- The board of directors **AFFORDS COMMUNITY SANCTION** to an organization and its programs. This "legitimizing" role is crucial for gaining access to both the clientele the agency intends to serve and the resource holders it needs to tap.

SECTION

3

RESPECTING THE COMMITMENT TO SERVE ON A NONPROFIT BOARD



GOOD BOARD MEMBERS...

*Modified from material in the *Board Essentials* section of the BoardSource website, www.boardsource.org and from *Executive Directors Guide: The Guide for Successful Nonprofit Management*, by Deborah Linnell, Zora Radosevich and Jonathan Spack (Third Sector New England)

- **LISTEN CAREFULLY** and **ANALYZE INFORMATION**
- Are willing to **PREPARE FOR AND ATTEND** board and committee meetings
- Are willing to **ASK QUESTIONS**



- **THINK STRATEGICALLY AND CREATIVELY** and have an ability to **SEE THE BIG PICTURE**

- **UNDERSTAND** the **LEADERSHIP REQUIREMENTS** of **EACH LIFE CYCLE** of the organization

- Have **CONCERN FOR THEIR NONPROFIT'S DEVELOPMENT**

- **WORK WELL WITH OTHERS**

- Have a **SENSE OF HUMOR**



- Have a **SENSE OF VALUES, ARE HONEST**, and have **PERSONAL INTEGRITY**

- Have sensitivity to and **TOLERANCE OF DIFFERING VIEWS**

- Have **STRONG COMMUNICATION SKILLS**

- Have a **FRIENDLY, RESPONSIVE, AND PATIENT APPROACH**

- Are willing to **TAKE RESPONSIBILITY** for work and **FOLLOW THROUGH** on a given assignment

- Are willing to **DEVELOP SKILLS** if they do not already possess them, such as:



- ✓ opening doors to the community
- ✓ cultivating and soliciting funds
- ✓ recruiting board members and other volunteers
- ✓ reading and understanding financial statements
- ✓ learning more about the organization's programs

- **UNDERSTAND** the **DIFFERENT ROLES** and **RESPONSIBILITIES** of **BOARD AND STAFF** and work to **SUPPORT THEM APPROPRIATELY**

- Make a **PERSONAL FINANCIAL CONTRIBUTION** to the organization

LEGAL RESPONSIBILITIES OF BOARD MEMBERS*

Board service in the nonprofit sector carries with it important ethical obligations. Nonprofits serve the broad public good. The board of directors is the entity **LEGALLY RESPONSIBLE** for administering a nonprofit's affairs honestly and prudently. Under established principles of nonprofit corporation law[†], board members must meet certain standards of conduct in carrying out their duties to an organization. They are described as:

- Duty of Care
- Duty of Obedience
- Duty of Loyalty

DUTY	WHAT BOARD MEMBERS SHOULD DO
DUTY OF CARE: When managing the affairs of the organization, act with the care that an ordinary prudent person would exercise in a like position and under similar circumstances.	<ul style="list-style-type: none"> • Attend board meetings regularly, carefully examine proposals before voting, obtaining input from appropriate sources as needed, show independent judgment when voting. • Check the references of executive director applicants, lawyers, auditors and others who serve the board.
DUTY OF OBEDIENCE: Ensure the organization remains obedient to its central purposes (the mission, charter, articles of incorporation and bylaws) and applicable state and federal laws. This reassures donors that their money is being used for the purpose(s) they intended.	<ul style="list-style-type: none"> • Determine whether proposed actions are consistent with the organization's mission, articles of incorporation, and bylaws. • Insist that forms be filed and taxes paid on time.
DUTY OF LOYALTY: Be faithful to the organization. When making decisions affecting the organization, put the interests of the organization first (do not allow personal interests to prevail over the interests of the organization).	<ul style="list-style-type: none"> • Disclose conflicting interests, refrain from voting on issues that present a conflict and follow additional rules in state law and the organization's bylaws for conflicts of interest. • Avoid prohibited transactions with the organization.

*Adapted from *No Surprises Controlling Risks in Volunteer Programs* by Charles Tremper & Gwynne Kostin (Nonprofit Risk Management Center 1993) and *The Legal Obligations of Nonprofit Boards: A Guidebook for Board Members* by Jacqueline C. Leifer and Michael B. Glomb (National Center for Nonprofit Boards, 1997) and using information from *CompassPoint* (Copyright (c) 1994-97 CompassPoint, 706 Mission Street, 5th Floor, San Francisco, CA, USA 4103-3113. (415) 541-9000. All Rights Reserved. Reprinted with permission from The Nonprofits' Insurance Alliance of California (NIAC), a charitable nonprofit insurance pool owned and operated by 501(c)(3) nonprofits in California. More information about the property and liability coverages and other services available through NIAC is available on their website at <http://www.niac.org> or by contacting them at P.O. Box 8507, Santa Cruz, CA 95061 or by phone at (800) 359-6422.)

[†]Go to http://www.capitol.hawaii.gov/hrscurrent/Vol08_Ch0401-0429/HRS0414D/HRS_0414D-0001.htm to find HRS Chapter 414D, the Hawaii Nonprofit Corporations Act.

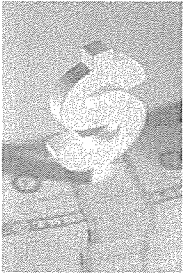
LEGAL RESPONSIBILITIES:

DUTY OF LOYALTY*

*With information excerpted from the BoardSource website, www.boardsource.org

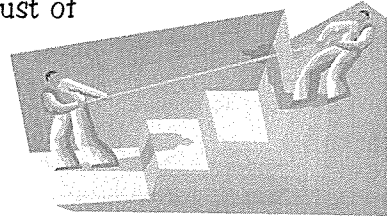
WHAT IS CONFLICT OF INTEREST?

Key to the tax-exempt status given to nonprofits is that **an individual** may not take advantage of tax-exempt benefits.



- ▶ **CONFLICT OF INTEREST** occurs when, in conducting the business of the nonprofit organization, the personal or professional interests of board members prevail over the best interests of the nonprofit. In order to meet the standards of the **Duty of Loyalty**, board members should not gain financial benefit or have access to services based on their relationships within the nonprofit organization.

- ▶ **THE APPEARANCE OF CONFLICT OF INTEREST.** Some conflicts may not be conflicts of interest in the legal sense, but board members should consider how their community perceives the issue of conflict of interest and try to avoid the *appearance* of impropriety. Nonprofit organizations depend on the trust of donors, volunteers, and other supporters, so even the appearance or suggestion of conflict can damage an organization's reputation and ability to carry out its mission.



EXAMPLES OF POSSIBLE CONFLICT OF INTEREST (LEGAL OR APPEARANCE OF):

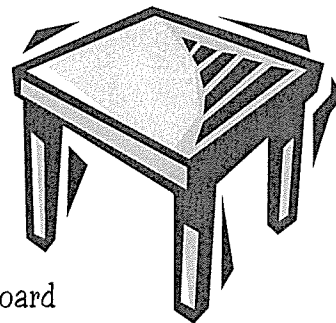
- ▶ Organization policy requires competitive bidding on purchases of more than \$1,000, but a printing firm owned by a board member's spouse receives the \$25,000 contract for the annual report and no other bids are solicited.
- ▶ A board member serves on two boards in the community and finds himself in the position of approaching the same donors on behalf of both organizations.
- ▶ A board member performs professional services for an organization.
- ▶ A board member proposes that a relative or friend be considered for a staff position.
- ▶ A board member uses nonprofit resources - including personnel, equipment and supplies - for other than nonprofit-sponsored activities, programs and purposes.

LEGAL RESPONSIBILITIES: DUTY OF LOYALTY (CONTINUED)

HOW DO YOU AVOID CONFLICT OF INTEREST OR THE APPEARANCE OF CONFLICT OF INTEREST?

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. A possible conflict *does not* preclude the nonprofit from doing business with a related party. **Such transactions are perfectly acceptable if they benefit the organization and if the board makes the decisions in an objective and informed manner.** However, boards should take steps to ensure that there is a system of checks and balances in place to circumvent actual or potential conflict of interest:

- ▶ **CONFLICT OF INTEREST POLICY** - An organization's bylaws should include a Conflict of Interest policy that prohibits or limits business transactions with board members. It is recommended that all board members sign a Conflict of Interest document and fill out a disclosure form annually or as outlined in their bylaws.
- ▶ **DISCLOSURE** - At a minimum, the affected board member should disclose the potential conflict so that board members who are voting on a decision are aware that another member's interests are being affected.
- ▶ **ABSTENTION FROM DISCUSSION AND VOTING** - The affected board member should not participate in any discussion about or vote on any decisions made about such transactions. It is advisable for the affected board member to leave the room while any discussion occurs so that there is no perception that he or she has influenced the decision (positively or negatively).
- ▶ **OTHER SAFEGUARDS** - Procedures, such as competitive bids, that insure the organization is receiving fair value in the transaction, should also be established.

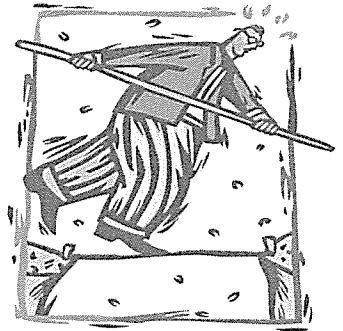


RISK MANAGEMENT: PREVENTION*

*Modified from *No Surprises Controlling Risks in Volunteer Programs* by Charles Tremper & Gwynne Kostin (Nonprofit Risk Management Center 1993)

WHAT DOES RISK MANAGEMENT INVOLVE?

Risk management is about protecting and conserving your organization's resources and providing goods and services sensibly. Accidents, injuries, legal violations, financial losses and lawsuits can keep you from achieving your mission. Risk management provides tools to protect staff and volunteers and gives them the confidence to perform their assignments. (For an example of a *Risk Management Process Checklist*, see *Resources* section of this manual).



PREVENTION - the best way to avoid being sued or needing insurance is to prevent harm in the first place. Employ the following prevention methods:

- ▶ **SOUND POLICIES AND PROCEDURES**
Develop and communicate them to everyone in the organization
- ▶ **PRUDENT BOARD MEMBERS**
Make sure board members know their responsibilities and engage in best practices of board members; have a sound Conflict of Interest Policy in place
- ▶ **SELECT WELL-QUALIFIED VOLUNTEERS AND EMPLOYEES**
Have position descriptions; screen properly
- ▶ **FOSTER COMPETENCE AND CONFIDENCE**
Have an effective orientation process, sufficient training, adequate supervision, and appropriate termination policies
- ▶ **PROMOTE SAFETY**
- ▶ **MANAGE MONEY**
Protect against sloppy accounting, theft, and fraud by dividing responsibilities for financial matters, spending and accounting for money properly, and having a systematic way of recording, filing, and retaining financial material
- ▶ **SECURE RECORDS AND HANDLE SENSITIVE AND CONFIDENTIAL INFORMATION PROPERLY**
- ▶ **PUT AGREEMENTS IN WRITING**
- ▶ **INSULATE YOUR ORGANIZATION AGAINST LAWSUITS**
Create liability shields (waivers, informed consent and participation forms, certificates of insurance from collaborating organizations, etc.)
- ▶ **HEED THE LAW**
Comply with tax laws, lobbying laws, fundraising laws, Americans with Disabilities laws, employment laws, laws relating to members of your organization, copyright and publishing laws, etc.

RISK MANAGEMENT: BEST PRACTICES

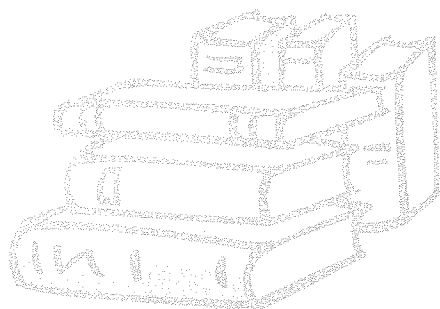
RESOURCES TO HELP YOU KEEP ON TOP OF THINGS

WEB SITES:

Alliance for Nonprofit Management	www.allianceonline.org
Board Café (FREE electronic newsletter from CompassPoint)	www.boardcafe.org
Board Source	www.boardsource.org
Center for Excellence in Nonprofits	www.cen.org
CompassPoint Nonprofit Services	www.compasspoint.org
GuideStar - The National Database of Nonprofit Organizations	www.guidestar.org
National Council of Nonprofit Associations	www.ncna.org
Nonprofit Quarterly (FREE electronic newsletter)	www.nonprofitquarterly.org www.nonprofitquarterly.org/scripts/enews/subscribe/
The Foundation Center	www.fdncenter.org
The Management Assistance Program for Nonprofits	http://mapnp.nonprofitoffice.com/
Third Sector New England	www.tsne.org

PRINT RESOURCES:

IT'S THE LAW: WHAT NONPROFITS NEED TO KNOW, 4TH EDITION, Hawaii State Bar Association, 2005.



RISK MANAGEMENT: INSURANCE

PROPER COVERAGE

HAVING PROPER INSURANCE COVERAGE

The most proactive Risk Management policies and procedures still cannot guarantee that you will not be sued (even if you've done nothing wrong). Insurance serves an invaluable risk management function: it provides a source of payment for legal and settlement costs:

- ▶ **WITHOUT INSURANCE**, an **ORGANIZATION PLACES** the **PERSONAL ASSETS OF** its **VOLUNTEERS, EMPLOYEES, AND BOARD MEMBERS AT MUCH GREATER RISK** (because of the legal standards of conduct set for *board members*, they are the volunteers in a nonprofit organization that *face the greatest exposure to lawsuits*).
- ▶ Injured **PARTIES HAVE MUCH LESS INCENTIVE TO SUE INDIVIDUALS** if the organization is insured.
- ▶ **UNLESS** the **ORGANIZATION IS COVERED**, the **INDIVIDUAL MUST RELY SOLELY ON THEIR OWN INSURANCE POLICIES**, which may or may not cover their activities as an employee, volunteer or board member.

MOST COMMON LEGAL CHALLENGES BROUGHT AGAINST BOARD MEMBERS:



- ▶ **NINETY-PERCENT OF CLAIMS AGAINST BOARDS INVOLVE SOME TYPE OF EMPLOYMENT DISPUTE.** Often the parties at odds in termination lawsuits are the executive director and the board of directors.
- ▶ A **"BREACH OF FIDUCIARY RESPONSIBILITY"** lawsuit can be brought by a donor, a concerned citizen, or the Attorney General. It alleges the Board is not appropriately using and protecting the assets and resources of the organization.

RISK MANAGEMENT: INSURANCE

PROPER COVERAGE (CONTINUED)

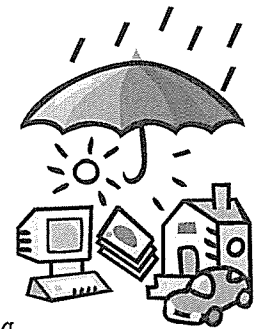
TYPES OF LEGAL PROTECTION FOR BOARD MEMBERS:

- ▶ **GENERAL LIABILITY INSURANCE** COVERS "NEGLIGENT" ACTS resulting in bodily injury, personal injury or property damage.

- ▶ **DIRECTORS' AND OFFICERS' (D&O) INSURANCE** is a specific insurance policy that protects board members as well as the organization for issues not covered by a General Liability policy. It **PROVIDES COVERAGE FOR "INTENTIONAL" ACTIONS** taken by a board that someone else thinks is wrong.

Example: personnel policies. Since each insurance company offers a different D&O policy form with distinctions that can dramatically alter coverage, it is important to check the specific language on your policy. In order to make sure your D&O coverage is sufficient, check to make sure it includes the following things:

- A broad definition of who is insured (including individual directors and officers, volunteers - past, present and future).
- Broad coverage for employee-related claims (if your nonprofit has employees) that does not have an "insured vs. insured" exclusion (which prevents you from using the insurance to protect against law suits brought by employees).
- Advanced defense costs, not reimbursement.



It's important to understand that insurance provides defense against allegations of illegal acts, **IT IS NOT POSSIBLE TO SECURE INSURANCE FOR ILLEGAL ACTS**. If found guilty, the insurer will not pay and may seek reimbursement of defense costs.

LIMITATIONS OF PROTECTION:

- ▶ **THE PROMISE OF INDEMNIFICATION IS ONLY AS GOOD AS THE AMOUNT OF UNRESTRICTED AND AVAILABLE RESOURCES OF THE NONPROFIT.** Indemnification is an agreement to defend board members and possibly pay damages. Two shortcomings of indemnification:

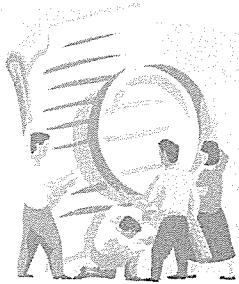
- You cannot indemnify board members against certain actions, such as self-dealing, and you may actually be prohibited from using the organization's resources in such a case, whether or not the accusations are justified.
- Few nonprofit organizations have sufficient unrestricted resources to defend in a lawsuit.

- ▶ **HOMEOWNER POLICIES TYPICALLY COVER "NEGLIGENT" ACTS NOT "INTENTIONAL" ONES.** Even if covered, it will not cover the nonprofit organization.

Your board should seek qualified expertise for guidance about Risk Management practices and insurance coverage specific to your organizational needs.

RIGHTS OF BOARD MEMBERS

BE FULLY INFORMED about the responsibilities and expectations, time commitment, organizational structure, financial status, and so forth, **BEFORE ACCEPTING THE POSITION** of board member



- Be **KEPT FULLY INFORMED ABOUT THE OPERATION OF THE ORGANIZATION** through thorough and accurate financial reports, management reports, regular board meetings, and regular briefings by staff so that the board member can meet his/her duties of Care, Obedience and Loyalty

- **BE TRUSTED WITH CONFIDENTIAL INFORMATION** that will help the board member carry out assignments and responsibilities
- Be **PROVIDED THE OPPORTUNITY FOR ORIENTATION AND CONTINUING BOARD TRAINING** that assist the board member in fulfilling his/her responsibilities effectively
- Expect that **BOARD MEMBERS' VOLUNTEER TIME WILL NOT BE WASTED** by lack of planning, coordination and cooperation within the organization or within the board
- **BE ASSIGNED JOBS THAT ARE WORTHWHILE AND CHALLENGING** with freedom to use existing skills and to develop new ones
- Be able to **DECLINE AN ASSIGNMENT** if it is felt that the match of skills and interests is not appropriate
- **KNOW** whether the volunteer **WORK IS EFFECTIVE** and **WHAT RESULTS HAVE BEEN OBTAINED**; access to an evaluation process that measures performance based on measurable, impartial standards
- **HAVE SUCCESSFUL JOB EXPERIENCES** that provide **OPPORTUNITIES FOR PERSONAL GROWTH**
- **BE RECOGNIZED AT APPROPRIATE TIMES** for one's work and involvement as a board member



SECTION

4

DYNAMIC TEAMWORK: THE BOARD/STAFF RELATIONSHIP



RELATIONSHIP BETWEEN THE BOARD AND THE EXECUTIVE DIRECTOR

*Excerpted from the Free Management Library at <http://www.mapnp.org/library/boards/boards.htm>

Managing the relationship between the Board and the Executive Director is one of the biggest challenges facing nonprofit boards.

GENERAL GUIDELINES

1. BOARDS PRIMARILY *GOVERN*, STAFF PRIMARILY *MANAGES*:

- In order for this to work effectively, both board and staff need to understand their own responsibilities and those that fall in the other's purview

2. THE BOARD:

- Provides counsel to management
- Does not get involved in the day-to-day affairs

3. THE EXECUTIVE DIRECTOR:

- Helps determine which issues the board addresses
- Assembles the information that shapes the discussion
- Guides the board in its governance role

EXCEPTIONS TO THE GENERAL GUIDELINES*

In smaller, younger nonprofit organizations that have limited staff positions or experience, or in grassroots organizations, board duties may include tasks typically associated with management.

*See *Life Stages of a Nonprofit Organization* (Section 1 of this Manual)

EXECUTIVE DIRECTOR'S ROLES AND RESPONSIBILITIES

The executive director is responsible for planning and administering programs providing services to clients in accordance with the agency's stated purpose and in relation to available resources. Primary areas of responsibility include:



Staff Board of Directors

- Develop and recommend plans for the development of programs and services
- Maintain appropriate relations with the board and board committees and keep them informed
- Interpret trends in the field
- Develop strong board, volunteer and member relations
- Provide orientation and training for the board

Personnel

- Supervise and direct key staff
- Evaluate the performance of key staff
- Provide overall control and direction for the personnel function of the agency
- Provide overall control and direction for volunteer staff

Planning

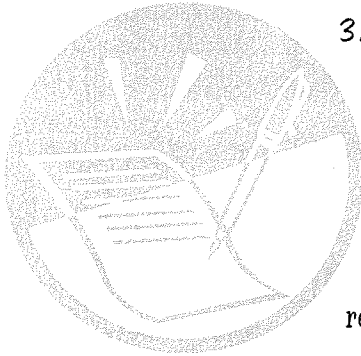
- Short and long-term planning
- Evaluate programs and services in relation to agency goals and standards
- Recommend modifications as necessary
- Recommend new programs and services
- Maintain professional involvement in the field

Finance

- Prepare agency budgets
- Accountable for control of resources
- Direct all financial operations
- Participate in fundraising
- Communicate the agency to the public

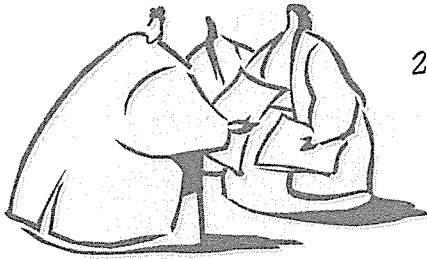
BOARD EXPECTATIONS OF THE EXECUTIVE DIRECTOR

1. Serve as the **CHIEF OF OPERATIONS** for the organization
2. Be an **ADVISOR** to the board
3. **RECOMMEND** appropriate **POLICIES** for board consideration
4. **IMPLEMENT** effectively all **POLICIES** adopted by the board
5. **INFORM THE BOARD FULLY AND ACCURATELY** regarding operations and programs
6. **INTERPRET THE NEEDS** of the program and **PRESENT PROFESSIONAL RECOMMENDATIONS** on all problems and issues considered by the board
7. **DEVELOP A BUDGET**, in conjunction with the finance committee, and **KEEP THE BOARD UP-TO-DATE** on budget problems
8. **RECRUIT** the best personnel, **DEVELOP** and **SUPERVISE** a competent **STAFF**
9. Assist the board in **BUILDING CONNECTIONS** in the community
10. **COMPLETE ASSIGNMENTS** as directed by the board



EXECUTIVE DIRECTOR EXPECTATIONS OF THE BOARD

1. **COUNSEL AND ADVISE** - give the benefit of board member judgment, expertise and knowledge



2. **CONSULT** with the executive director on all matters the Board is considering

3. **DELEGATE RESPONSIBILITY** for all executive functions

4. **REFRAIN FROM HANDLING ADMINISTRATIVE DETAILS**

5. **ASSIGN STAFF MANAGEMENT** to the executive director

6. **SHARE ALL COMMUNICATIONS** with the executive director

7. **PROVIDE SUPPORT** to the executive director and staff in carrying out their professional duties*

8. **SUPPORT** the executive director in all **DECISIONS AND ACTIONS CONSISTENT WITH POLICIES** of the board and the standards of the organization

9. **HOLD THE EXECUTIVE DIRECTOR ACCOUNTABLE** for the supervision of the organization

10. **EVALUATE** the work of the executive director

11. **ASSIST IN FUNDRAISING** for the support of the agency and programs



* See *Help Wanted: Turnover and Vacancy in Nonprofits* by Jeanne Peters, M.N.A., Anushka Fernandopulle, M.B.A., Jan Masuoka, Cristina Chan, M.P.P. and Tim Wolfred, Psy.D. (Compass Point, January 2002) and *Daring to Lead: Nonprofit Executive Directors and Their Work Experience* by Jeanne Peters, M.N.A. and Timothy Wolfred, Psy.D. (CompassPoint, 2001) www.compasspoint.org

BOARD AND STAFF RESPONSIBILITIES QUIZ

Indicate whose responsibility each activity is.

Choose one:

B = Board, E = Executive, S = Staff

Activity	Responsibility
----------	----------------

PLANNING (Planning, Program Services, Evaluation):

Direct the process of planning	
Determine the organization's long-range goals	
Set organizational objectives (priorities) for the year	
Prepare performance reports on progress towards annual objectives	
Monitor achievement of goals and annual objectives	
Make policy decisions	
Plan methods for program delivery	
Implement Programs	
Oversee evaluation of products, services and programs	
Maintain program records; prepare program reports	

FINANCE:

Prepare preliminary budget	
Finalize and approve budget	
See that expenditures are within budget during the year	
Solicit contributions in fundraising campaigns	
Organize fundraising campaigns	
Approve expenditures outside authorized budget	
Insure annual audit of organization accounts	

COMMUNITY RELATIONS (Community/Client Needs, Marketing, PR):

Assess stakeholder (customers, community) needs	
Interpret organization to community	
Write news stories	
Provide organization linkage with other organizations	

Activity	Responsibility
----------	----------------

HUMAN RESOURCES (Personnel Policies, Executive Accountability, Volunteer Involvement):

Employ Administrator	
Evaluate Administrator	
Direct work of the staff	
Hire and discharge staff members	
Decision to add staff	
Settle discord among staff	
Train volunteer leaders	

ORGANIZATIONAL OPERATIONS (Legal Requirements, Organizational Structure, Board Operations):

Sign legal documents	
Appoint committee members	
Call Committee Chair to urge him/her into action	
Promote attendance at Board/Committee meetings	
Recruit new Board members	
Orient, train and develop Board members	
Plan agenda for Board meetings	
Take minutes at Board meetings	
Plan and propose committee organization	
Prepare exhibits, material and proposals for Board and Committees	
Follow-up to insure implementation of Board and Committee decisions	
Settle clash between Committees	

BOARD AND STAFF RESPONSIBILITIES

QUIZ – ANSWER KEY*

Indicate whose primary responsibility each activity is.
Choose one or any combination of:

B = Board, E = Executive, S = Staff

Activity		Responsibility			
PLANNING (Planning, Program Services, Evaluation):					
	Found & Frame	Ground & Grow	Produce & Sustain	Review & Renew	
1. Direct the process of planning	B	B/E	B/E	B/E	B/E
2. Determine the organization's long-range goals	B	B	B	B	B
3. Set organizational objectives (priorities) for the year	B	E/B	E/S	E/B/S	E/B/S
4. Prepare performance reports on progress towards annual objectives	B	E/S	E/S	E/S	E/S
5. Monitor achievement of goals and annual objectives	B	B/E	B/E/S	B/E/S	B/E/S
6. Make policy decisions	B	B	B	B	B
7. Plan methods for program delivery	B	E/S/B	S/E	E/S/B	E/S/B
8. Implement Programs	B	E/S/B	S/E	S/E	S/E
9. Oversee evaluation of products, services and programs	B	E/B	E/S/B	E/S/B	E/S/B
10. Maintain program records; prepare program reports	B	S/E	S/E	S/E	S/E

Activity	Responsibility
----------	----------------

FINANCE:

	Found & Frame	Ground & Grow	Produce & Sustain	Review & Renew
11. Prepare preliminary budget	B	E/B	E/S	E/S/B
12. Finalize and approve budget	B	B	B	B
13. See that expenditures are within budget during the year	B	E/B/S	E/S/B	E/S/B
14. Solicit contributions in fundraising campaigns	B	B/E	B/E	B/E
15. Organize fundraising campaigns	B	B/E	E/S/B	E/B/S
16. Approve expenditures outside authorized budget	B	B	B	B
17. Insure annual audit of organization's accounts	B, if required	B	B	B

COMMUNITY RELATIONS (Community/Client Needs, Marketing, PR):

	Found & Frame	Ground & Grow	Produce & Sustain	Review & Renew
18. Assess stakeholder (customers, community) needs	B	E/B/S	S/E	S/E/B
19. Interpret organization to community	B	E/B/S	B/E/S	B/E/S
20. Write news stories	B	E/S/B	S/E	E/S/B
21. Provide organization linkage with other organizations	B	E/B	E/S/B	E/S/B

Activity	Responsibility
----------	----------------

HUMAN RESOURCES (Personnel Policies, Executive Accountability, Volunteer Involvement):

	Found & Frame	Ground & Grow	Produce & Sustain	Review & Renew
22. Employ Executive	N/A	B	B	B
23. Evaluate Executive	N/A	B	B	B
24. Direct work of the staff	B	E	E	E
25. Hire and discharge staff members	N/A	E	E	E
26. Decision to add staff	B	E/B	E	E
27. Settle discord among staff	N/A	E	E	E
28. Train volunteer leaders	B	B/E	E/S	E/S

ORGANIZATIONAL OPERATIONS (Legal Requirements, Organizational Structure, Board Operations):

	Found & Frame	Ground & Grow	Produce & Sustain	Review & Renew
29. Sign legal documents	B	B/E	B/E	B/E
30. Appoint committee members	B	B	B	B
31. Call Committee Chair to urge him/her into action	B	B/E	B/E	B/E
32. Promote attendance at Board/Committee meetings	B	B/E	B/E	B/E
33. Recruit new Board members	B	B/E	B/E	B/E
34. Orient, train and develop Board members	B	E/B/S	E/B/S	E/B/S
35. Plan agenda for Board meetings	B	B/E	B/E	B/E

Activity	Responsibility
----------	----------------

ORGANIZATIONAL OPERATIONS (Legal Requirements, Organizational Structure, Board Operations) CONTINUED:

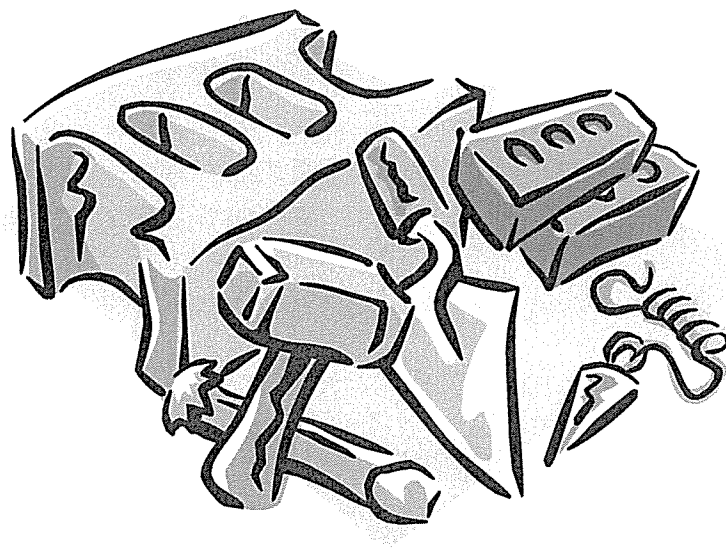
	Found & Frame	Ground & Grow	Produce & Sustain	Review & Renew
36. Take minutes at Board meetings	B	B/S	S/B	S/B
37. Prepare exhibits, material and proposals for Board and Committees	B	E/S	E/S	E/S
38. Follow-up to insure implementation of Board and Committee decisions	B	B/E	B/E	B/E
39. Settle clash between Committees	B	B	B	B

*Modified from material repinted from the **Free Management Library** at www.managementhelp.org/boards/brdvstf.htm; edited by Carter McNamara, PhD (the original author of this document is unknown)

SECTION

5

BUILDING A STRONG BOARD



BOARD STRUCTURE

Every board has a responsibility to self-manage by having structure, policies, and procedures that support good governance. This self-management is called **board organization** and includes routine items such as regularly scheduled board meetings and actions of significant consequence like setting policy or the hiring of the executive director.

WHAT MAKES EFFECTIVE BOARD ORGANIZATION?

- A written position description for individual board members
- An annual schedule of meetings, set for a year ahead
- Advance communications of relevant material prior to the board meeting, such as the agenda and critical action items



- A complete and accurate record of the minutes for all meetings
 - Meetings are kept focused, action-oriented and on time
 - Full participation by board members and senior staff at meetings
- Diverse representation among board members
- Individual board members serve on at least one board committee
- Board, staff and volunteer skills, knowledge, contributions and accomplishments are acknowledged

HOW LONG SHOULD BOARD MEMBERS SERVE ?

- There are no explicit rules, BUT...
- Usually a board member serves no more than two terms of 2-3 years in duration, and may return to the board after a one year break
- Terms should be staggered to minimize the impact of board members' transitions

BOARD REPRESENTATION MATRIX SAMPLE

ABC Community Center
7777 Aloha Street
Honolulu, Hawaii 96819

ANALYSIS OF BOARD OF DIRECTORS

April 16, 2002

(CURRENT)

A. Gender (All)

	<u>Regular</u>	<u>Ex-Officio</u>	<u>Total</u>
Male	8	0	8
Female	11	3	14
	19	3	22

B. Ethnicity (All)

<u>2</u> Filipino	<u>11</u> Japanese
<u>6</u> Caucasian	<u>1</u> Korean
<u>1</u> Hawaiian/Part-Hawaiian	<u>1</u> Chinese

C. Community Involvement

<u>8</u> Live (have lived) or work (have worked) in ABC Community
<u>14</u> Do not live or work in ABC Community

D. ABC Community Church-Related Members

<u>9</u> Related:	Regular <u>6</u>	Ex-Officio <u>3</u>
-------------------	------------------	---------------------

E. Occupation/Skills and Knowledge Area (All)

<u>1</u> Administrative Services
<u>1</u> Architect
<u>2</u> Attorney
<u>4</u> Banker/Corporation
<u>1</u> Clergy
<u>1</u> CPA/Accountant
<u>3</u> Educational Services
<u>1</u> Financial Planning Services
<u>1</u> Human Resources
<u>2</u> Human Services/Technical Assistance
<u>1</u> Legislator
<u>1</u> Public Relations/Marketing
<u>1</u> Researcher/Travel Industry
<u>2</u> Retired

BOARD ROSTER SAMPLE

ABC Community Center
7777 Aloha Street
Honolulu, Hawaii 96819

BOARD OF DIRECTORS 2003 CLASS ROSTER

CLASS OF 2003 (Fiscal Year Ending June 30, 2003)

Name 1	2nd Term
Name 2	2nd Term
Name 3	2nd Term
Name 4	2nd Term
Name 5	2nd Term
Name 6	Unexpired 1st Term
Vacant	Unexpired 1st Term
Vacant	Unexpired 1st Term

CLASS OF 2004 (Fiscal Year Ending June 30, 2004)

Name 7	2nd Term
Name 8	2nd Term
Name 9	2nd Term
Name 10	1st Term
Name 11	1st Term
Name 12	1st Term
Name 13	1st Term
Name 14	1st Term

CLASS OF 2005 (Fiscal Year Ending June 30, 2005)

Name 15	2nd Term
Name 16	1st Term
Name 17	1st Term
Vacant	1st Term
Vacant	1st Term
Vacant	1st Term
Vacant	1st Term
Vacant	1st Term

EX-OFFICIO MEMBERS

.....	Superintendent, Hawaii District, ABC Church
.....	President, Hawaii District, ABC Church Women
.....	Appointed Member, Hawaii District, ABC Church Women

OFFICERS

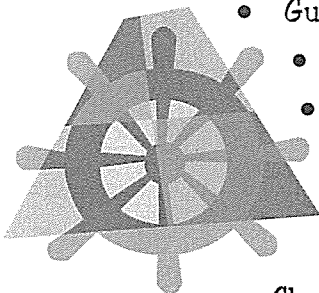
President
Vice President
Treasurer
Secretary

BOARD PRESIDENT'S RESPONSIBILITIES

*Adapted from material in the *Board Essentials* section of the BoardSource website, www.boardsource.org

PROVIDE LEADERSHIP TO THE BOARD

- Keep a focus on the goals of the organization
- Guide the board in fulfilling its stated roles
- Oversee board and executive committee meetings
- Appoint all committee chairs and with the executive director, recommend who will serve on committees
- Supervise standing committee chairpersons
- Serve as *ex officio* member of all committees
- Chair board meetings effectively, assuring adequate discussion of all issues, but keeping the meeting moving
- Utilize the board's time effectively
- Call special meetings if necessary



BOARD DEVELOPMENT

- Periodically consult with board members on their roles and help them assess their performance
- Work with the nominating committee to recruit new board members
- Assist executive director in conducting new board member orientation
- Develop board members to assume future leadership roles in the organization

PROVIDE LEADERSHIP AND OVERSIGHT TO THE EXECUTIVE DIRECTOR

- Work collaboratively with the executive director
- Assist the executive director in preparing agenda for board meetings
- Coordinate executive director's annual performance evaluation
- Oversee searches for a new executive director

EXTERNAL COMMUNICATIONS

- Represent the organization in important matters that affect it
- Act as an alternate spokesperson for the organization
- Enhance the organization's image in the community
- Be a role model for other volunteers as demonstrated by the way he or she represents the organization



OTHER KEY BOARD MEMBER RESPONSIBILITIES

*From the *Board Essentials* section of the BoardSource website, www.boardsource.org

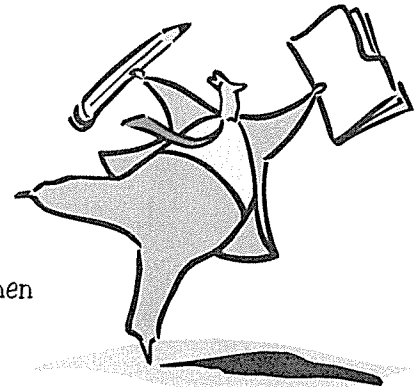
BOARD VICE-PRESIDENT



- Attend all board meetings
- Serve on the executive committee
- Carry out special assignments as requested by the board president
- Understand the responsibilities of the board chair and be able to perform these duties in the chair's absence
- Participate as a vital part of the board leadership

BOARD SECRETARY

- Attend all board meetings
- Serve on the executive committee
- Maintain all board records and ensure their accuracy and safety
- Assume responsibilities of the board president in the absence of the president, president-elect and vice-president
- Provide notice of meetings of the board and/or of a committee when such notice is required



BOARD TREASURER

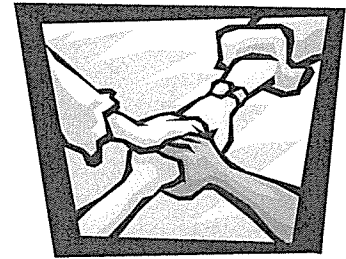


- Maintain knowledge of the organization and make a personal commitment to its goals and objectives
- Understand financial accounting for nonprofit organizations
- Serve as financial officer of the organization and as chairperson of the finance committee
- Manage, with the finance committee, the board's review of and action related to the board's financial responsibilities
- Work with the executive director and the chief financial officer to ensure that appropriate financial reports are made available to the board on a timely basis
- Assist the executive director or the chief financial officer in preparing the annual budget and presenting the budget for board approval
- Review the annual audit and answer board member's questions about the audit

BOARD COMMITTEES

WHY HAVE COMMITTEES?

- Board committees are vital to the proper functioning of the organization. Committees assure that work above and beyond the normal time constraints of the entire board is completed. Committees permit decision-making between meetings of the full board.
- It divides the workload and utilizes the expertise of various members.
- It facilitates learning and satisfaction among members. It is an effective way to expose newer board members to the organization.
- Sometimes work can be delegated to an individual but, in most cases, a committee assures many types of expertise and backgrounds are involved in the work or planning process.
- They can introduce and involve non-board members to the organization. In some cases, committees can serve to identify potential and future board members



COMMITTEES ARE FORMED FOR SPECIFIC PURPOSES:

- Relating to purpose, goals, or action plans of the organization
- Developed around a specific function, issue or area, e.g., personnel
- The board's source of specialized expertise and knowledge in a subject, e.g., the Finance Committee

COMMITTEES MAY BE:

- Standing (permanent)
- Ad Hoc (temporary)

WHO MAY SERVE ON COMMITTEES?

- Board members, other members of the program or organization, staff members, and interested individuals from the community-at-large
- The board chair is an ex-officio member of all committees and is free to attend all committee meetings, but should not feel obligated to do so

POSSIBLE COMMITTEES:

- | | |
|-------------|--------------------|
| ▪ Executive | ▪ Finance |
| ▪ Personnel | ▪ Fund Development |
| ▪ Program | ▪ Facilities |

DEVELOPING COMMITTEES*

*From *Typical Types of Board Committees* by Carter McNamara, PhD. (the Free Management Library at <http://www.mapnp.org/library/boards/brdcmte.htm>, 1999)

1. Ensure the committee has a **SPECIFIC CHARGE OR SET OF TASKS** to address, and ensure board members understand the committee's charge



2. Have **AT LEAST TWO BOARD MEMBERS ON EACH COMMITTEE**, preferably three

3. **DON'T HAVE A MEMBER ON MORE THAN TWO COMMITTEES**

4. In each board meeting, have each **COMMITTEE CHAIR REPORT THE COMMITTEE'S WORK SINCE the LAST BOARD MEETING**

5. **CONSIDER HAVING NON-BOARD VOLUNTEERS AS MEMBERS OF THE COMMITTEE**
(mostly common to nonprofits)

6. **CONSIDER HAVING** a relevant **STAFF MEMBER AS A MEMBER OF THE COMMITTEE** as well

7. Committee chairs are often appointed by the board chair; **CONSIDER ASKING COMMITTEES MEMBERS FOR A VOLUNTEER FOR COMMITTEE CHAIR**

8. If committee work is regularly effective and the executive committee has a strong relationship with the executive director, **CONSIDER HAVING BOARD MEETINGS EVERY OTHER MONTH** and **COMMITTEE MEETINGS BETWEEN THE BOARD MEETINGS**

9. The **EXECUTIVE DIRECTOR SHOULD SERVICE EX OFFICIO TO THE BOARD** and any relevant committees

POTENTIAL STANDING COMMITTEES*

*From *Typical Types of Board Committees* by Carter McNamara, PhD. (the **Free Management Library** at <http://www.mapnp.org/library/boards/brdcmte.htm>, 1999)

The following descriptions are intended to portray various functions often conducted by standing board committees, i.e., committees that exist year round. Note that the following list is not intended to suggest that all of these committees should exist; it's ultimately up to the organization to determine which committees should exist and what they should do.

Potential Standing Committees	Their Typical Roles
BOARD DEVELOPMENT	Take stock of and understand the phases of the organization's life cycle, ensure effective board processes, structures and roles, including retreat planning, committee development, and board evaluation; sometimes includes role of nominating committee, such as keeping list of potential board members, orientation and training
EVALUATION	Ensures sound evaluation of products/services/programs, including, e.g., outcomes, goals, data, analysis and resulting adjustments
EXECUTIVE	Oversee operations of the board; often acts on behalf of the board during on-demand activities that occur between meetings, and these acts are later presented for full board review; comprised of board chair, other officers and/or committee chairs (or sometimes just the officers, although this might be too small); often performs evaluation of executive director
FINANCE	Oversees development of the budget; ensures accurate tracking/monitoring/accountability for funds; ensures adequate financial controls; often led by the board treasurer; reviews major grants and associated terms
FUNDRAISING	Oversees development and implementation of the Fundraising Plan; identifies and solicits funds from external sources of support, working with the Development Officer if available; sometimes called Development Committee
MARKETING	Oversees development and implementation of the Marketing Plan, including identifying potential markets, their needs, how to meet those needs with products/services/programs, and how to promote/sell the programs
PERSONNEL	Guides development, review and authorization of personnel policies and procedures; sometimes leads evaluation of the executive director; sometimes assists executive director with leadership and management matters
PRODUCT / PROGRAM DEVELOPMENT	Guides development of service delivery mechanisms; may include evaluation of the services; link between the board and the staff on program's activities
PROMOTIONS AND SALES	Promotes organization's services to the community, including generating fees for those services
PUBLIC RELATIONS	Represents the organization to the community; enhances the organization's image, including communications with the press

POTENTIAL AD HOC COMMITTEES*

*From *Typical Types of Board Committees* by Carter McNamara, PhD. (the Free Management Library at <http://www.mapnp.org/library/boards/brdcmte.htm>, 1999)

The following descriptions are intended to portray various functions often conducted by ad hoc board committees, i.e., committees that exist to accomplish a goal and then cease to exist. Note that the following list is not intended to suggest that all of these committees should exist; it's ultimately up to the organization to determine which committees should exist and what they should do.

Potential Ad Hoc Committees	Their Typical Roles
AUDIT	Plans and supports audit of a major functions, e.g., finances, programs or organization
CAMPAIGN (NONPROFIT)	Plans and coordinates major fundraising event; sometimes a subcommittee of the Fundraising Committee
ETHICS	Develops and applies guidelines for ensuring ethical behavior and resolving ethical conflicts
EVENTS (OR PROGRAMS)	Plans and coordinates major events, such as fundraising (<i>nonprofits</i>), team-building or planning; sometimes a subcommittee of the Fundraising Committee
NOMINATIONS	Identifies needed board member skills, suggests potential members and orients new members; sometimes a subcommittee of the Board Development Committee
RESEARCH	Conducts specific research and/or data gathering to make decisions about a current major function in the organization

SECTION

6

CREATING ORGANIZATIONAL QUALITY



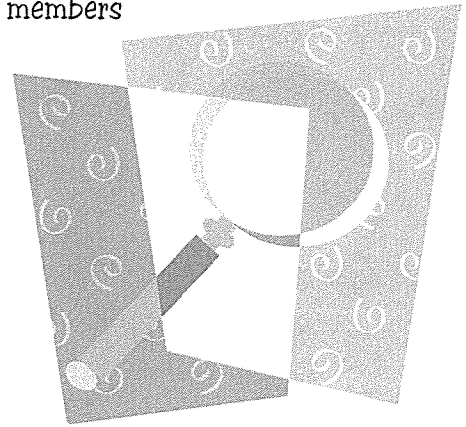
BOARD SELF-ASSESSMENT AND EVALUATION

*Adapted from material on the BoardSource website, www.boardsource.org

WHY SHOULD BOARDS ENGAGE IN SELF-ASSESSMENT?

Self-assessments provide a board with the opportunity to:

- Reflect on individual and corporate responsibilities
- Identify different perceptions and opinions among board members
- Point to questions that need attention
- Use the results as a springboard for improvement
- Increase the level of teamwork
- Clarify mutual board/staff expectations
- Demonstrate their commitment to accountability
- Increase credibility with funders and other community stakeholders
- Reflect internally staff leadership, operations, and programmatic performance



Only about one-third of nonprofits actually conduct some form of self-assessment. Of these, 75% use a written survey and almost all do it annually. If organizational issues warrant it, outside facilitation or technical assistance may be helpful.

TYPICAL EVALUATION TOPICS

- Knowledge of the board's financial, legal and public responsibilities
- Representation to the public by the board
- Understanding and communication of the board's mission
- The organization's compliance with legal regulations, licensing and other standards
- Effectiveness of board practice such as bylaws, committees, and procedures
- Approval of outside counsel (legal, accounting, managerial)
- Relationship with the executive director
- Hiring, evaluating, managing and compensating the executive director
- Policy development and approval
- Oversight of financial structure and activity, including income, expenses, borrowing, insurance coverage, audits, bank relations, fund raising, and other financial procedures
- Board performance: meeting attendance, discussion participation
- Board succession and nomination process

BOARD SELF-ASSESSMENT

Rate your board using the following scale:

- 4 - Yes! We always do this 3 - We do this a lot of the time 2 - We do this, but inconsistently
1 - We rarely do this 0 - No, we never do this

RESPECTING THE COMMITMENT TO SERVE ON A NONPROFIT BOARD	
1. The board is composed of persons vitally interested in the work of the organization.	
2. The board understands and can articulate the mission and purpose of the organization.	
3. There is a statement of agreement outlining the duties and responsibilities of board members that all board members sign.	
4. The organization supplies a board manual to all board members that includes, but is not limited to, descriptions of current programs, a list of board members, budget and funding information, bylaws, and personnel policies so that the board members are knowledgeable about the organization's programs and services.	
5. The organization provides an orientation for new board members.	
6. The organization makes training opportunities available for board members to increase skills related to their board responsibilities.	
7. Individual members of the board accept and carry out assignments within the area(s) of their talents and expertise.	
8. Board members follow through on their commitments in a timely manner.	
9. The board has a simple, concise set of bylaws that describe the duties of board members and officers, as well as the procedures by which the board conducts its business.	
10. The board understands its legal liability and ensures the organization complies with federal, state and local regulations.	
11. The board has an explicit Conflict of Interest policy, signed off on by all board members, in which they agree to disclose any real or potential conflict of interest and place the interests of the organization above their own.	
12. The history and mission of the organization are key points of discussion when the board considers organizational direction.	
13. Board members raise questions and share their thoughts and insights freely in the process of arriving at decisions.	
14. The board consistently acts in ways that exemplify the organization's deepest values.	
15. The board provides financial oversight for the organization, including adopting a fund-raising strategy that ensures adequate resources, a realistic budget that maximizes use of resources, and an annual review of finances by an outside professional.	
16. The board ensures that contractual funding obligations are fulfilled.	
17. Board members make a generous (<i>self-defined</i>) financial commitment to the organization on an annual basis as well as their commitment of time and talent.	
18. Board members act as ambassadors to the community on behalf of the organization and its clients.	
SUB - TOTAL	

DYNAMIC TEAMWORK: THE BOARD / STAFF RELATIONSHIP	
19. Board and staff members are clear about their respective duties and responsibilities.	
20. Working relations between the staff and board are characterized by mutual respect and good rapport.	
21. Working relations between the board chair(s) and the executive director are strong and productive.	
22. The board monitors and evaluates the performance of the executive director on a regular basis.	
23. At least once a year the board asks the executive director to articulate his or her vision for the organization's future and strategies to realize that vision.	
24. The board understands the role that volunteers play in the organization and the organization's philosophy of volunteer management.	
SUB - TOTAL	

BUILDING A STRONG BOARD	
25. The board is representative of its constituency with regard to race, class, gender, religious affiliation, sexual orientation, etc.	
26. There is a balance of new and experienced board members to guarantee both continuity and new thinking.	
27. Board members have the combination of knowledge and skills necessary to carry out their work.	
28. There is a limit to the number of consecutive terms a member can serve on the board. (No life terms!)	
29. The organization has a pool of potential board members identified for the future.	
30. New board members are recruited and selected using a thorough review process.	
31. The board has a mechanism (such as an executive committee) for handling matters that must be addressed between meetings.	
32. The board elects a chair (or co-chairs) to provide leadership and coordinate the ongoing work of the board and its committees.	
33. The board has active committees with specific assignments and responsibilities.	
34. Committees complete assigned tasks in a timely manner.	
35. Committee assignments are reviewed and evaluated periodically.	
36. New leadership is emerging consistently from the board and its committees.	
37. The board has a clear policy on the responsibilities of board members in fundraising (all board members are involved in some aspect of fundraising for the organization).	
38. There are regularly scheduled board meetings at least 4 times a year.	
39. Meetings begin and end on time as per agreed-upon schedule.	
40. There is adequate preparation and distribution of material, including agendas, study documents, etc., in advance of board meetings.	
41. Board meetings deal primarily with policy formulation; program, financial and long-range planning; financial review; and evaluating the work of the organization.	
42. Minutes of board and committee meetings are written and circulated to the members.	
SUB - TOTAL	

CREATING ORGANIZATIONAL QUALITY

43. The board discusses events and trends in the larger environment that may present specific opportunities for this organization.	
44. The board reviews the organization's mission at least once every three years.	
45. The board often discusses where the organization should be headed five or more years into the future.	
46. The board has a strategic vision and plan for the organization.	
47. The board sets clear organizational priorities for the year ahead.	
48. The board checks in regularly (at least every 6 months) on the implementation of the strategic plan.	
49. The board has evidence that the organization's services have assisted consumers in creating real change in their lives, consistent with the organization's mission.	
50. The board conducts an annual review of its own work and process.	
SUB - TOTAL	

YOUR TOTAL SCORE: _____

IF YOUR SCORE IS:

180 - 200: You're in fabulous shape! You have a highly functioning board with good working relationships. You should consider sharing some of your secrets with the rest of us!

160 - 179: Your board is in good shape. You have many strengths to build on. With a bit more work, you have real excellence at hand.

130 -159: You're on your way to a strong, effective board; pay attention to your weak spots, and involve the entire board in developing solutions.

100 - 129: You have lots of room for improvement. The board needs to prioritize areas to work on – both in the short and long term – make a plan, and work the plan!

Under 100: You're probably experiencing problems already. Now is the time to devote serious attention to ways to strengthen the structure, composition, and functioning of the board. If not, your programs, and ultimately the entire organization, will suffer.

AREAS OF STRENGTH YOU HAVE IDENTIFIED BY ANSWERING THIS ASSESSMENT:

1. _____
2. _____
3. _____
4. _____
5. _____

AREAS FOR POSSIBLE IMPROVEMENT YOU HAVE IDENTIFIED BY ANSWERING THIS ASSESSMENT:

1. _____
2. _____
3. _____
4. _____
5. _____

IF I COULD SET THE PRIORITIES, I WOULD SUGGEST TAKING ACTION ON *THESE* AREAS NOW:

1. _____
2. _____
3. _____

ORGANIZATION: _____

LENGTH OF SERVICE WITH BOARD/ORGANIZATION: _____

(CHECK ONE) ☐ **STAFF** ☐ **BOARD MEMBER**

AGE: _____

GENDER: ☐ **MALE** ☐ **FEMALE**

EDUCATION (# of years): _____

ETHNICITY: _____

PERSONAL ZIP CODE: _____

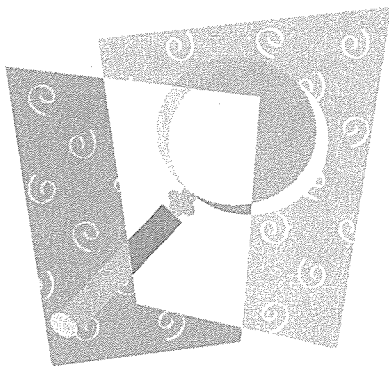
Adapted from *How Does Your Board Measure Up*, by Stephanie Roth (Grassroots Fundraising) and *Strategic Planning for Nonprofit Organizations: A Practical Guide and Workbook*, by Michael Allison and Jude Kaye (The Support Center for Nonprofit Management, 1997) and *Measuring Board Effectiveness: A Tool for Strengthening Your Board*, by Thomas P. Holland and Myra Blackmon (National Center for Nonprofit Boards, 2000)

ORGANIZATIONAL EVALUATION: STRATEGIC PLANNING

WHY SHOULD BOARDS ENGAGE IN STRATEGIC PLANNING?

In addition to evaluating their own effectiveness as a governing body, a board of directors has a responsibility to make sure the **organization's effectiveness in achieving its mission is evaluated** regularly.

One way to do organizational evaluation is through **Strategic Planning**, which helps the board know whether the organization is attending to the following critical things:



- Continuously reviewing its **MISSION** for **RELEVANCE**.
- Assessing the organization's **INTERNAL STRENGTHS AND WEAKNESSES**
- Identifying events and trends in the larger environment that may present specific **OPPORTUNITIES FOR** or pose specific **THREATS TO THE ORGANIZATION**.
- **ENSURING** that the **SERVICES** provided by the organization **HAVE ASSISTED CONSUMERS IN CREATING REAL CHANGE IN THEIR LIVES**, consistent with the organization's mission.

Armed with that information, the board of directors can more effectively:

- ▶ **REPRESENT THE ORGANIZATION** and its **PROGRAMS TO THE COMMUNITY**
- ▶ **RAISE MONEY** on behalf of the organization
- ▶ **PREPARE THE ORGANIZATION** to be **FINANCIAL VIABLE AND SUSTAINABLE IN THE LONG-TERM**
- ▶ **MAKE DIFFICULT CHOICES** about **PROGRAMMATIC PRIORITIES**
- ▶ **EVALUATE COLLABORATIVE RELATIONSHIPS** with other service providers
- ▶ Engage in **SUCCESSION PLANNING** to ensure continuity of leadership (both at the staff and board levels)

SECTION

7

WANT TO KNOW MORE?: RESOURCES!



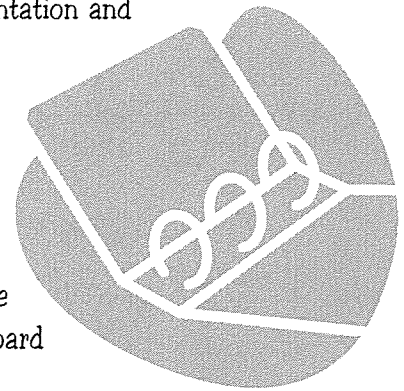
WHAT GOES IN THE BOARD OF DIRECTORS MANUAL?*

*From the BoardSource website, www.boardsource.org

THE BOARD MANUAL: AN ORIENTATION AND RESOURCE TOOL

The foundation of a committed, knowledgeable, and effective board is orientation and education. As an essential companion to orientation and education, every organization should have a thorough, easy-to-use manual that board members can use throughout their terms. *A board manual serves two functions:*

- ▶ For the new board member, it is an **ORIENTATION HANDBOOK** that provides useful information about the organization, board structure and operations, and fellow board members and staff.
- ▶ For the balance of a member's board service, the manual then becomes an indispensable **WORKING TOOL AND A CENTRAL RESOURCE** about the organization and the board.



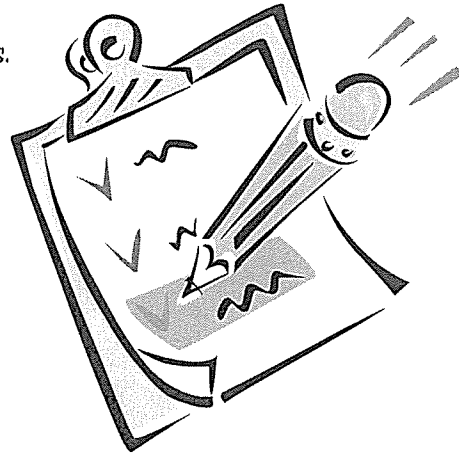
Materials can be added and removed to create an up-to-date reference. The board manual is developed by staff in consultation with the board chairperson and other officers. Present it to board members in a durable, attractive loose-leaf notebook with a table of contents and clearly divided and labeled sections. Date every item and replace material when necessary. Insert stationery, brochures, and similar items in pockets of the notebook.

TO DEVELOP A WORKING MANUAL THAT BOARD MEMBERS USE AND RELY ON:

- ▶ Don't overwhelm new board members with too much information. When several examples are available (e.g., current press clippings), include only one.
- ▶ Keep each item brief. A two-paragraph biography of the executive director is preferable to a four-page resume, for example.
- ▶ Use the handbook as a "textbook" during board orientation.
- ▶ Encourage board members to read and ask questions about the material.
- ▶ Ask board members to evaluate the usefulness of the manual each year.
- ▶ Revise the contents or format based on their comments.

BOARD MANUAL CONTENTS CHECKLIST

A thorough board manual can include the following materials.
(Remember to keep each item as concise as possible.)



1. THE BOARD

- Board members listing and bios
- Board members terms
- Board statement of responsibilities
- Committee and task force job and descriptions

2. HISTORICAL REFERENCES OF THE ORGANIZATION

- Brief written history and/or fact sheet
- Articles of Incorporation
- Bylaws
- IRS determination letter
- Listing of past board members

3. STRATEGIC FRAMEWORK

- Mission and vision statement
- Strategic framework or plan
- Current annual operating plan

4. MINUTES FROM SOME RECENT BOARD MEETINGS

5. POLICIES PERTAINING TO THE BOARD

- Policy on potential conflicts of interest
- Insurance policy coverage
- Legal liability policy
- Travel/meeting expense reimbursements

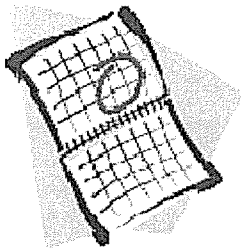
6. FINANCE AND FUNDRAISING

- Prior-year annual report
- Most recent audit report
- Current annual budget
- Form 990
- Banking resolutions
- Investment policy
- Current funder list

7. STAFF

- Staff listing
- Organization/team chart

8. OTHER INFORMATION



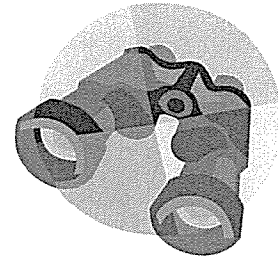
- Annual calendar
- Web site information
- Promotional material (membership brochure, information brochure, advertisements, etc.)

RISK MANAGEMENT PROCESS CHECKLIST*

*Modified from *No Surprises Controlling Risks in Volunteer Programs* by Charles Tremper & Gwynne Kostin
(Nonprofit Risk Management Center 1993)

LOOK FOR RISKS

- ☐ **Acknowledge the reality of risk**
- ☐ **Examine what's at risk:**
 - ☐ People (board members, volunteers, employees, clients, the general public)
 - ☐ Property (buildings, equipment, bank accounts)
 - ☐ Income (sales, grants, contributions);
 - ☐ Goodwill (reputation, stature in the community, ability to raise funds)



EVALUATE YOUR RISKS

- ☐ **Make conscious decisions about which risks the organization can tolerate, which risks require the purchase of insurance, which risks can be reduced or controlled, and which risks are too great to bear**

DECIDE HOW TO CONTROL YOUR RISKS

- ☐ **Avoid** - don't offer services you consider too risky
- ☐ **Modify** - change the activity so chance of harm occurring and impact of potential damage are acceptable
- ☐ **Transfer** - shift at least the financial aspect of the risk through contract or insurance
- ☐ **Retain** - accept the risk and prepare for the consequences

IMPLEMENT YOUR STRATEGY

REVIEW AND REVISE PERIODICALLY AND AS NEEDED