



Presents

# BOARD ALIVE!

Best Practices for Nonprofit Board  
Governance



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SECTION

1

# SETTING THE CONTEXT FOR NONPROFIT BOARD GOVERNANCE





# WHAT IS THE NONPROFIT SECTOR?\*

\*Excerpted from "What is the Nonprofit Sector?," BoardSource Knowledge Center, [www.boardsource.org](http://www.boardsource.org).



The nonprofit sector is the collective name used to describe institutions and organizations in American society that are neither government nor business. Other names often used include the not-for-profit sector, the third sector, the independent sector, the philanthropic sector, the voluntary sector, or the social sector. Outside the United States, nonprofits are often called nongovernmental organizations (NGOs) or civil society organizations.

These other names emphasize the characteristics that distinguish nonprofits — voluntary sector to acknowledge the importance of volunteers and voluntary action, independent sector to distinguish nonprofits from business and government, and social sector to underscore how the activities of nonprofits enhance the social fabric of our country.

The sector may be called nonprofit, but that doesn't mean that the organizations within it cannot or should not charge fees or generate revenue that exceeds expenses (in other words, make a profit). Instead, it means that nonprofits, unlike businesses, do not exist to make money for owners or investors.

Instead, these groups are dedicated to a specific mission. The nonprofit sector in the United States is vast and diverse and touches all our lives. It includes more than 1.6 million organizations. About one million of them are public charities that employ over seven percent of the country's work force, close to 10 million paid workers. Within the nonprofit sector there are many types of organizations. Section 501(c) of the tax code, which outlines the types of organizations eligible for tax exemption, lists more than 25 classifications of nonprofits.

Major subcategories of nonprofit organizations include:

**CHARITIES:** Nonprofits that are exempt under Section **501(c)(3)** are often called charities, but these organizations do far more than provide free care and services to the needy. Hospitals, museums and orchestras, private schools, public television and radio stations, and many other organizations are 501(c)(3) nonprofits. The majority of nonprofits operating in the United States are classified as public charities.

## RETURN ON INVESTMENT\*

Recent reports by the [Philanthropic Collaborative](#) and the [Johns Hopkins Institute for Civil Society Studies](#) have begun to shine a light on the economic value contributed by the nonprofit sector.

### **\$300 Billion in Annual Donations**

**70% of American households donate to nonprofits**, and value the uniquely American ability to deduct those contributions on their annual tax return.

### **80 Million Volunteers Annually**

In addition to contributions, nonprofits channel the equally valuable commodity of TIME. 90% of incoming college freshmen have performed community service. As the 80 million "baby boomers" grow older, utilizing their valuable life skills will fall to the nonprofit sector.

### **\$3 Trillion in Assets**

Nonprofit organizations hold assets that when combined make them **one the top 10 economies on the planet**.

### **14 Million Employees**

**The nonprofit sector employs 7% of the American workforce**, making it a major economic stimulator in every community. The nonprofit sector is one of the top 3 employers in many states, and it contributes billions in employment taxes annually.

\*From V3, [www.V3campaign.org](http://www.V3campaign.org)

To be considered a public charity, the organization must be able to show broad public support, rather than funding from an individual source. **Individuals and corporations that give money to these organizations can deduct the value of gifts from their taxable income, provided they file itemized tax returns.**

**FOUNDATIONS:** Many individuals, families, businesses, and communities establish foundations as a way to support causes and programs that benefit society. Foundations, which are also **501(c)(3)** nonprofits, are one of the most complex components of the nonprofit sector. As a result of federal legislation passed in 1969, private foundations are subject to more stringent regulation and reporting requirements than other types of nonprofits. They are required to make grants equal to at least 5 percent of their investment assets each year, and generally pay a 2 percent excise tax on net investment earnings.

Some nonprofits, such as hospitals and public colleges, create related or supporting 501(c)(3) organizations that may be called foundations; these groups are fund-raising (rather than grantmaking) organizations, and typically raise money from a broad range of donors and then distribute the proceeds to the parent organization. In addition, some other charities include the word foundation in their names even though they are not considered foundations according to legal definitions.

**SOCIAL WELFARE ORGANIZATIONS:** Nonprofits such as the National Association for the Advancement of Colored People, the National Rifle Association, and the National Organization for Women are exempt under Section **501(c)(4)** of the tax code. These nonprofits are often called social welfare or advocacy organizations. **Contributions to 501(c)(4) organizations are not tax-deductible, and 501(c)(4) nonprofits have greater latitude to participate in legislative advocacy, lobbying, and political campaign activities.**

**PROFESSIONAL AND TRADE ASSOCIATIONS:** Chambers of commerce, business leagues, and other organizations that promote the business or professional interests of a community, an industry, or a profession generally qualify for tax-exemption under Section **501(c)(6)** of the tax code. **Although contributions to these organizations are not tax-deductible, membership dues may be deductible as business expenses.**

Many people believe that nonprofits receive most of their funds from private contributions. In reality, many nonprofits (hospitals and universities are good examples) generate revenue by charging fees for the services they provide, earning interest on investments, or producing and selling goods. Many organizations also receive funding from government, either in the form of outright subsidies or for providing services on a contract basis.

The idea of the nonprofit sector may be abstract and poorly understood, but the sector's role in our society is tangible and easily recognized. Freed from the profit motive that dominates business and from the constraints of government, the nonprofit sector serves as a forum for the creation and dissemination of new ideas, an efficient vehicle for delivering social services, and a guardian of our environment, values, and heritage.

# 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](http://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 how a corporation and its board will function**. Bylaws typically contain rules and procedures for holding meetings, voting on issues and electing directors and officers (number of members of the board, length and number of terms of board members, 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?
<b>Governance</b>	Not yet a concern	Formal governance structure created: homogenous, small, passionate board of directors; <b>WORKING or ADMINISTRATIVE BOARD</b>	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; <b>POLICY-MAKING BOARD</b>	Turnover of board membership and leadership, development of formal linkages with other organizations, clarification of board roles and responsibilities
<b>Staffing</b>	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
<b>Staff Leadership</b>	Entrepreneurial, visionary, voluntary only	Single-minded, 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	Well-rounded 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
<b>Financing</b>	Not yet a concern	Start-up 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:

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

# 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 levels of 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

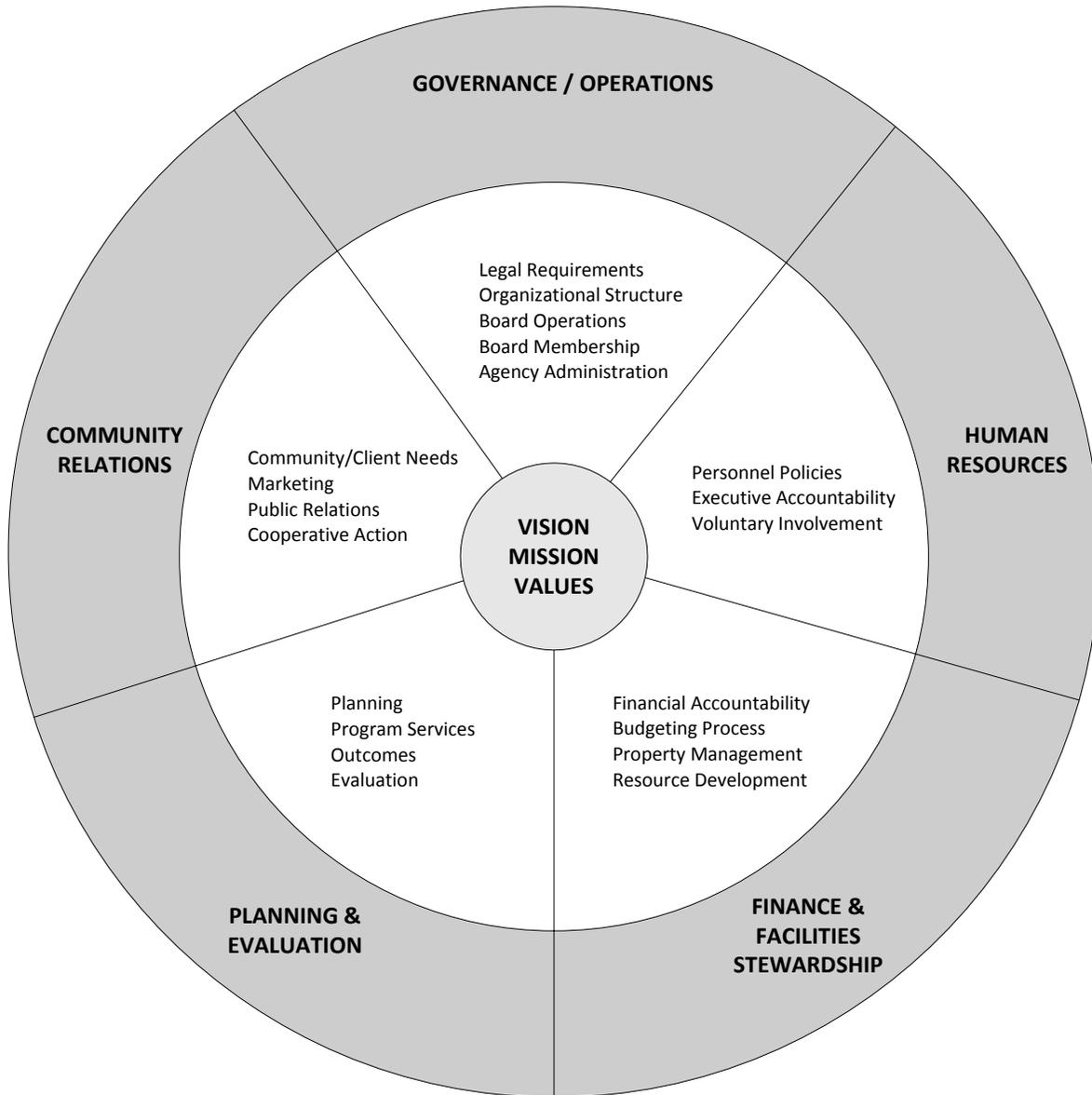
These are policies that impact areas such as fiscal concerns, facilities, and personnel, and should be consistent with the governing policy developed by the board and/or administration, with final approval by the board.

## 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

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.

- 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**.

### 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](http://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<sup>†</sup>, 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 IT MEANS/WHAT BOARD MEMBERS SHOULD DO
<p><b>DUTY OF CARE:</b></p> <p>Describes the level of competence that is expected of a board member. With regard to the nonprofit organization, a board member should exercise “care that an ordinary prudent person would exercise in a like position and under similar circumstances.”</p>	<ul style="list-style-type: none"> <li>• Board members should exercise reasonable care when making a decision as a steward of the organization.</li> <li>• Attend board meetings regularly, carefully examine proposals before voting, obtaining input from appropriate sources as needed, show independent judgment when voting.</li> <li>• Check the references of executive director applicants, lawyers, auditors and others who serve the board.</li> </ul>
<p><b>DUTY OF OBEDIENCE:</b></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. This reassures donors that their money is being used for the purpose(s) they intended.</p>	<ul style="list-style-type: none"> <li>• Determine whether proposed actions are consistent with the organization’s mission, articles of incorporation, and bylaws.</li> <li>• Insist that forms be filed and taxes paid on time.</li> </ul>
<p><b>DUTY OF LOYALTY:</b></p> <p>Be faithful to the organization. When making decisions affecting the organization, a board member should 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"> <li>• 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.</li> <li>• Avoid prohibited transactions with the organization.</li> </ul>

\*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.)

<sup>†</sup>Go to [http://www.capitol.hawaii.gov/hrscurrent/Vol08\\_Ch0401-0429/HRS0414D/HRS\\_0414D-0001.htm](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](http://www.boardsource.org)

## WHAT IS CONFLICT OF INTEREST?

Key to the tax-exempt status given to nonprofits is that **an individual** board (or staff) member may not personally benefit from a nonprofit organization to the disadvantage of the organization.



- **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 unfair 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?

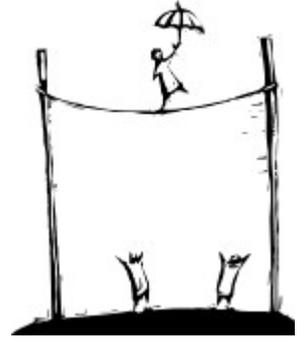
Nonprofit board members are likely to be affiliated with many organizations in their communities, both on a professional and a personal basis, so it is not unusual for actual or potential conflict of interest to arise. A possible conflict *does not* preclude the nonprofit from doing business with a related 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** – Create a carefully written conflict of interest policy, based on the needs and circumstances of an organization, which describes matters that might lead to conflict and how those situations will be handled. It is recommended that all board members sign a **Conflict of Interest and disclosure** document annually, in which they make known their connections with groups doing business with the organization or identify potential conflicts.
- **DISCLOSURE** – At a minimum, the affected board member should disclose or “put on the table” the potential conflict so that board members 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](http://www.allianceonline.org)

Blue Avocado (FREE nonprofit online magazine)

[www.blueavocado.org](http://www.blueavocado.org)

Board Source

[www.boardsource.org](http://www.boardsource.org)

Center for Excellence in Nonprofits

[www.cen.org](http://www.cen.org)

CompassPoint Nonprofit Services

[www.compasspoint.org](http://www.compasspoint.org)

GuideStar – The National Database of Nonprofit Organizations

[www.guidestar.org](http://www.guidestar.org)

National Council of Nonprofits

[www.councilofnonprofits.org](http://www.councilofnonprofits.org)

Nonprofit Quarterly

[www.nonprofitquarterly.org](http://www.nonprofitquarterly.org)

(FREE electronic newsletter)

[www.nonprofitquarterly.org/scripts/enews/subscribe/](http://www.nonprofitquarterly.org/scripts/enews/subscribe/)

The Foundation Center

[www.foundationcenter.org](http://www.foundationcenter.org)

The Management Assistance Program for Nonprofits

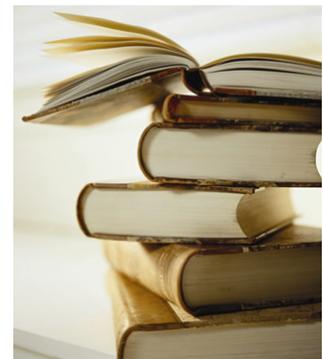
<http://mapnp.nonprofitoffice.com/>

Third Sector New England

[www.tsne.org](http://www.tsne.org)

### PRINT RESOURCES:

**It's the Law: What Nonprofits Need to Know**, Hawaii State Bar Association.



# 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. “Negligence” is doing something a reasonable person would not do under the circumstances or failing to do something a reasonable person would do. *Example: A client trips and breaks a leg because of a faulty stairway at your nonprofit.*

**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: An employee is terminated and alleges age discrimination.* Since each insurance company writes its own specialized D&O policy 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, staff, volunteers – past, present and future, and the nonprofit organization itself).
- **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** (requiring the insurer to advance the costs of defense, not reimburse them).

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 Teamwork





# 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](http://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
2. Determine the organization’s long-range goals	B	B	B	B
3. Set organizational objectives (priorities) for the year	B	E/B	E/S	E/B/S
4. Prepare performance reports on progress towards annual objectives	B	E/S	E/S	E/S
5. Monitor achievement of goals and annual objectives	B	B/E	B/E/S	B/E/S
6. Make policy decisions	B	B	B	B
7. Plan methods for program delivery	B	E/S/B	S/E	E/S/B
8. Implement Programs	B	E/S/B	S/E	S/E
9. Oversee evaluation of products, services and programs	B	E/B	E/S/B	E/S/B
10. Maintain program records; prepare program reports	B	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 reprinted from the **Free Management Library** at [www.managementhelp.org/boards/brdvsstf.htm](http://www.managementhelp.org/boards/brdvsstf.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

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

### D. ABC Community Church-Related Members

9 Related:                      Regular 6                      Ex-Officio 3

### E. Occupation/Skills and Knowledge Area (All)

- 1 Administrative Services
- 1 Architect
- 2 Attorney
- 4 Banker/Corporation
- 1 Clergy
- 1 CPA/Accountant
- 3 Educational Services
- 1 Financial Planning Services
- 1 Human Resources
- 2 Human Services/Technical Assistance
- 1 Legislator
- 1 Public Relations/Marketing
- 1 Researcher/Travel Industry
- 2 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](http://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](http://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
- Personnel
- Program
- Finance
- Fund Development
- 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
<b>BOARD DEVELOPMENT</b>	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
<b>EVALUATION</b>	Ensures sound evaluation of products/services/programs, including, e.g., outcomes, goals, data, analysis and resulting adjustments
<b>EXECUTIVE</b>	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
<b>FINANCE</b>	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
<b>FUNDRAISING</b>	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
<b>MARKETING</b>	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
<b>PERSONNEL</b>	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
<b>PRODUCT / PROGRAM DEVELOPMENT</b>	Guides development of service delivery mechanisms; may include evaluation of the services; link between the board and the staff on program's activities
<b>PROMOTIONS AND SALES</b>	Promotes organization's services to the community, including generating fees for those services
<b>PUBLIC RELATIONS</b>	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/brdcmtte.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
<b>AUDIT</b>	Plans and supports audit of a major functions, e.g., finances, programs or organization
<b>CAMPAIGN</b>	Plans and coordinates major fundraising event; sometimes a subcommittee of the Fundraising Committee
<b>ETHICS</b>	Develops and applies guidelines for ensuring ethical behavior and resolving ethical conflicts
<b>EVENTS (OR PROGRAMS)</b>	Plans and coordinates major events, such as fundraising ( <i>nonprofits</i> ), team-building or planning; sometimes a subcommittee of the Fundraising Committee
<b>NOMINATING</b>	Identifies needed board member skills, suggests potential members and orients new members; sometimes a subcommittee of the Board Development Committee
<b>RESEARCH</b>	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](http://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

<b>RESPECTING THE COMMITMENT TO SERVE ON A NONPROFIT BOARD</b>	
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 their 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.	
<b>SUB – TOTAL</b>	

<b>DYNAMIC TEAMWORK: THE BOARD / STAFF RELATIONSHIP</b>	
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.	
<b>SUB – TOTAL</b>	

<b>BUILDING A STRONG BOARD</b>	
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.	
<b>SUB – TOTAL</b>	

<b>CREATING ORGANIZATIONAL QUALITY</b>	
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.	
<b>SUB – TOTAL</b>	

**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](http://www.boardsource.org) and the National Council of Nonprofits' website, *Board Development Resources* ([www.councilofnonprofits.org/resources](http://www.councilofnonprofits.org/resources))

## 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. HISTORY OF THE ORGANIZATION AND STRATEGIC FRAMEWORK**

- Brief written history and/or fact sheet with mission, vision, tag-line, logo, website
- Current Annual Report
- Listing of past board members
- Strategic plan or framework
- Current annual operating plan

### **2. CORE CORPORATE DOCUMENTS**

- Articles of Incorporation and Bylaws
- IRS determination letter
- State tax exemption documentation

### **3. POLICIES PERTAINING TO THE BOARD**

- Conflict of Interest disclosure statement
- Code of Ethics for Board Members
- Board Member Agreement
- Insurance policy coverage
- Travel/meeting expense reimbursements policies

### **4. DESCRIPTION OF PROGRAMS AND SERVICES**

- Promotional material (membership brochure, information brochure, advertisements, etc.)

### **5. STAFFING PROFILE**

- Staff listing
- Organizational/team chart

## **6. FINANCIAL OVERVIEW**

- Current annual budget and financial statements
- Most recently audited financial statements and audit report
- Most recently file IRS Form 990
- Fund development plan and current funder list
- Revenue and expenses at a glance (pie-chart)
- Banking resolutions
- Investment policy(ies)

## **7. BOARD OPERATIONS**

- Board members listing with terms and bios
- Annual calendar of meetings
- Board of Director's Responsibilities
- Committee and task force job and descriptions
- Critical Corporate Resolutions and governance policies
  - Conflict of Interest policy
  - Executive Compensation policy
  - Full board review of the 990 policy
  - Whistleblower protection policy
  - Document retention policy
- Minutes – Recent board meetings

# 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