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News for Nonprofits

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Board matters

Creating a governance policy

As wise nonprofit leaders know, many tough situations can be avoided by having policies in place that cover various issues. Board governance is a case in point. Do you have a *board governance policy* that spells out the role and duties of board members, and gives an overview of how the board will operate?

A board governance policy protects your nonprofit's board of directors as it guides the organization. It's a framework for making ethical decisions, taking appropriate actions and handling real or potential conflicts.

STATING THE POLICY'S PURPOSE

The beginning of your board governance policy should explain its purpose. For example, the Montana Nonprofit Association's (MNA's) policy describes its purpose, in part, as helping "assure that the decisions and conduct of the directors and officers of the board … are at all times consistent with their duties and obligations and with the [organization's] charitable mission."

Another purpose of a governance policy is to make board members aware of their fiduciary duties under state law and obligations related to the nonprofit's federal tax exemption. And your mission statement, a common thread that weaves through board members' obligations, also should be included in your policy.

EXPLAINING BOARD MEMBER DUTIES

The next section in your policy should describe board member responsibilities and obligations, and emphasize that the board has the authority to oversee all organizational operations. This is a fitting place to differentiate between board member and staff responsibilities.

For instance, the MNA's policy states, "The directors do not manage the day-to-day affairs of [the organization], but delegate that function to others. Directors must, however, exercise reasonable and prudent oversight with respect to corporate officers, agents and employees to whom such affairs are delegated."

The governance policy also should advise board members that they may rely on information and reports from officers or employees of the organization they believe to be reliable and competent in particular areas. The same holds true for board members' reliance on professional advisors, such as attorneys and CPAs.

DISCUSSING CORE DUTIES

The heart of your governance policy should explain board members' core fiduciary duties:

Duty of care. Board members must exercise reasonable care in all decision making, and not

place the organization under unnecessary risk. They should act in good faith when performing their duties and do so in a manner they believe to be in the organization's best interests.

Duty of care implies *reasonable inquiry*. The board must ask questions and demand information that allows them to make informed decisions. For example, not every board member must be a financial expert. But every board member *should* make it a point to understand basic financial terminology, be able to read financial statements and judge their soundness, and have the capacity to recognize red flags that signal a possible change in the nonprofit's overall financial health.

Duty of loyalty. Board members, as stewards of public trust, always must act for the good of the organization. As the MNA describes in its governance policy, each board member must "exercise an undivided and unselfish loyalty" to the organization and "exercise his or her obligations and powers in the best interest of [the organization] and its charitable mission, not in his or her own interests or in the interests of another person or entity. …"

The duty-of-loyalty section of your policy also should state that board members must fully comply with the organization's code of ethics and conflict-of-interest policy. And it should require that board members refrain from taking advantage of business or personal opportunities that become known because of their position as directors.

Don't go without other governance-related policies

A nonprofit should have in place, follow and regularly review policies that relate to board oversight, in addition to a board governance policy (see main article). It's advisable to have the following policies, including those mentioned on IRS Form 990:

- Meeting minutes,
- Conflict of interest,
- Document retention and destruction,
- Whistleblowers,
- Review of executive compensation,
- Gift acceptance,
- Chapters, branches and affiliates, if applicable,
- Joint venture arrangements, if applicable, and
- Review of Form 990 prior to filing.

Your CPA can assist you in developing policies. And if you have an annual audit, your auditors might suggest ways to improve your existing policies and procedures. For more advice about board governance topics, go to Independent Sector.org and click on the "Governance Resources" tab. Other nonprofit management websites, such as BoardSource.org, also have a stash of information on governance subjects.

COVERING THE BASICS

Some nonprofits have a governance committee that oversees organizational policy and helps ensure that the organization operates in compliance with its governing documents. A governance committee can operate effectively without a formal policy as long as it is able to coordinate the board's manner of governing.

A board handbook is another useful tool. It details the board's size, term limits, and required committee structure (although some of these responsibilities may be found in your bylaws) and includes other policies that relate to the board and its oversight of your organization. (See "Don't go without other governance-related policies" above.)

REVISITING THE POLICY

To be effective, a board governance policy must be referred to often. And requiring an annual review and update of the policy may provide insight into needed policy changes. ❋

Stack up with benchmarking

Ratios can provide crucial insights

ABC Charity was applying for the first time to a national retailer for grant funding. As Roberta, the executive director, read through the application, she stumbled: The company wanted to know her organization's "fundraising efficiency ratio."

This was a problem. Roberta could write at length about the organization's fundraising efforts and successes, as well as supply facts and figures from the previous year. But she had no ratio at her fingertips to paint a picture of the nonprofit's fundraising efficiency in the scant space provided on the application. At her organization, "benchmarking" might as well have been something athletes do at a gym.

Like ABC Charity, nonprofits that don't benchmark their data against themselves and other organizations are at a disadvantage. They miss out on the financial insights that benchmarking can bring. What about you?

WHAT CAN BENCHMARKING ACCOMPLISH?

Benchmarking is an ongoing process of measuring an organization against expectations, past experience or industry norms for productivity and profitability. The organization then can make adjustments to improve performance in relation to those metrics.

Ideally, nonprofits develop and use both internal and external benchmarks. The first help you monitor and detect trends, based on your organization's historical results and statistics, as well as expectations. And external benchmarks let you ascertain where your nonprofit is thriving and where it lags behind, based on data from peers. In addition, benchmarking:

- Arms you with essential information for effectively developing and implementing strategic plans, and
- Helps your organization keep a watchful eye on its financial health and determine where costs can be cut and revenues increased.

Benchmarking also gives you a way to demonstrate your nonprofit's efficiency to stakeholders, including donors and grantors.

WHAT SHOULD YOU MEASURE?

The first step is to define what your nonprofit needs to measure. Focus on the metrics that are most critical to the success of your mission and the key indicators of the organization's financial health and operational effectiveness. There are many useful benchmarks that can help your organization keep its eye on the prize.

The *program efficiency (program service expenses / total expenses)* ratio identifies the amount you spend on your primary mission, as opposed to administrative and fundraising costs. It's widely used and of utmost importance to stakeholders.

Internal benchmarks help you monitor and detect trends, based on your organization's historical results and statistics. External benchmarks let you ascertain where your nonprofit is thriving and where it lags behind, based on data from peers.

How many dollars you collect for every dollar you spend on fundraising is calculated in the *fundraising efficiency (unrestricted contributions / unrestricted fundraising expenses)* ratio, the metric mentioned in the example above. The higher this ratio, the more efficient your fundraising. What qualifies as a good ratio depends on the organization's size, its types of fundraising activities, and so on.

The *operating reliance (unrestricted program service revenue / total expenses)* ratio is another valuable metric. It indicates whether your nonprofit could pay all of its expenses solely from program revenues.

If you want to know how liquid your organization is, calculate its *organizational liquidity (expendable net assets / total expenses)* ratio. It tells you how much of the organization's total assets is considered expendable equity vs. reserves, or what portion of your annual expenses are covered by assets that can be spent. The higher the ratio, the better the liquidity.

Also consider benchmarks such as average donor contributions, expenses per member and other ratios that measure trends for revenue, operating yield, borrowing, return on assets and similar metrics. No matter which yardsticks you choose, though, you'll need reliable processes for collecting and reporting the data.

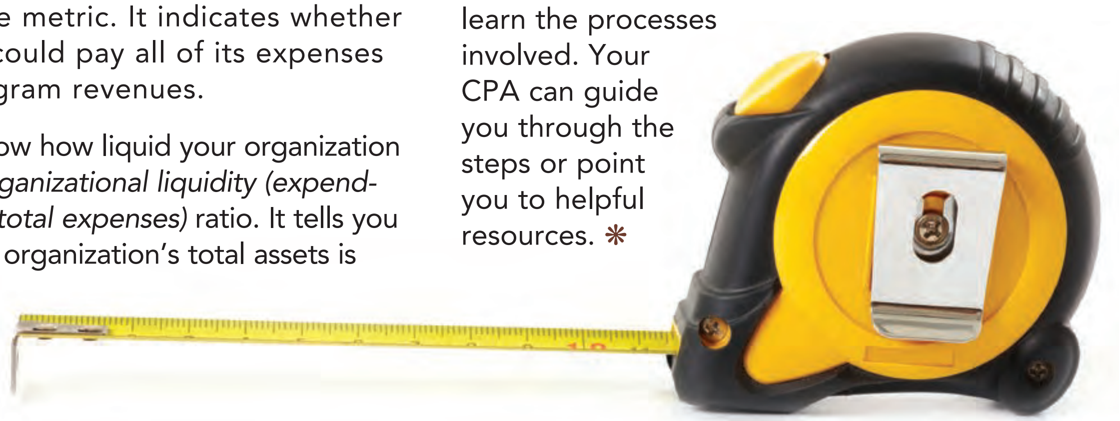
HOW CAN YOU USE THE INFORMATION?

Comparing the nonprofit's performance to benchmarks allows you to zero in on areas with the greatest potential for improvement. Armed with this information, you may be able to beef up performance without making significant changes in your operations. Further, when comparing against external benchmarks, you might improve performance by simply adopting best practices used by your peers.

You can obtain information on other nonprofits' metrics from websites such as GuideStar and Charity Navigator or from commercial software. Information also may be available from state government databases and trade associations. Take steps, though, to ensure you're comparing apples to apples — that the organizations you're stacking up against yours are truly comparable.

GETTING STARTED

Benchmarking is an insightful analytical tool that can help you evaluate your organization's effectiveness in meeting its mission. If you're not benchmarking already, take time out from daily operations to learn the processes involved. Your CPA can guide you through the steps or point you to helpful resources. ❋



Good as gold

4 tips for retaining volunteers

Any nonprofit that has long-term volunteers realizes their value. They save your nonprofit the time and money you would spend training new volunteers. They also become ambassadors and recruiters for your organization. And through their knowledge and experience, long-term, or "repeat," volunteers add value to your programs.

So how do you keep this precious commodity on board? Here are four ideas for retaining volunteers for the long haul.

1. Give them the right jobs. Match assignments with volunteers' skills, but also be open to letting them choose their jobs. Some volunteers want to be challenged and learn new skill sets. These days, many volunteers are unemployed or underemployed, or may be going back to school to prepare for new careers. In any of these scenarios, *what* they do as a volunteer is important to them. The experience might lead to a degree, employment or a better-paying job, which tops the satisfaction of giving alone.

Be open to letting volunteers choose their jobs. Some want to be challenged and learn new skill sets.

2. Support and connect with them. Good programs don't throw their volunteers into the water without a life preserver. Training is one of your most important methods of support. So is your availability when volunteers contact you with questions, or stop by the office. Use these opportunities — advising them, pointing them to the right resources and so on — to make a strong connection. Also take their feedback seriously. Sometimes volunteers can pinpoint problems at your organization that you may be too close to see.

3. Put them in touch with their peers. Many volunteers join an organization mainly to serve, but it's the friendships they make and the social interactions they have that lock in their decision to stay. Enhance relationships by assigning experienced volunteers to mentor novices. Your organization also can institute virtual communications among volunteers by having a place on the Internet where they can post comments, launch discussions and follow peer conversations. If you have the financial resources, workshops are a good vehicle for building peer (and staff-volunteer) relationships.

4. Appreciate, appreciate, appreciate. Treat your volunteers like VIPs. Acknowledge their contributions and make them feel valued. Tangible signs of appreciation, such as a small gift, go a long way. But so do intangible signs of appreciation: sending a thank-you card, praising them at a community event or promoting them to volunteer leadership positions. Some nonprofits put together "tribute books" online or in print. Remember, there are scores of creative and inexpensive ways to show your volunteers that you hold them in high esteem. ❋

NEWS FOR NONPROFITS

IRS RELEASES INTERACTIVE FORM 1023

The IRS Exempt Organizations (EO) office has released an alternative version of Form 1023, "Application for Recognition of Exemption under Section 501(c)(3) of the Internal Revenue Code." The new application features pop-up information boxes for most lines, and is designed to make the process of applying for tax exemption easier and faster.

The boxes contain explanations and links to related information on IRS.gov and StayExempt.irs.gov, an EO educational website. Applicants will be able to print and mail the form and its attachments, just as with the standard Form 1023. You can find the interactive application at StayExempt.irs.gov. Click on "Starting Out / Interactive Form 1023 Application." ❋

BABY BOOMER REIGN FORECAST FOR CHARITABLE DONATIONS

Baby boomers are replacing older donors as the generation that gives the most to charity, according to Blackbaud's recent *Next Generation of American Giving* study. The study in May looked at the charitable habits and communication channel preferences of Generation Y (born 1981–1995), Generation X (1965–1980), baby boomers (1946–1964) and "matures" (1945 and earlier), and how differences among the generations affect their charitable behavior.

Boomers accounted for 43% of total giving, while the "matures," who've led the pack in their charitable habits, accounted for only 26%. And the foreseeable future belongs to boomers, the study acknowledges. Currently there are 51 million baby boomer donors (34% of the entire donor base) in the nation, compared with 27.1 million "matures," 39.5 million Gen Xers and 32.8 million Gen Yers.

Moreover, 72% of the boomer population contributes to an average of 4.5 charities each. And with the youngest just under 50, they're expected to weigh in strongest among the age groups for the foreseeable future. ❋

RESIDENTIAL PROGRAM ADVISOR LINKED TO BANK FRAUD SCHEME

An advisor in a Philadelphia residential mental health support program was recently indicted in connection with a bank fraud scheme.

A United States Attorney for the District of Maryland, along with four other federal and area law enforcement officials, said the man had sold identity information stolen from at least 40 clients, which was used to open bank accounts. Then, his co-conspirators — who controlled the accounts — allegedly deposited fraudulent checks into them and obtained bank cards. They later used the cards at ATM machines to make cash withdrawals from the accounts and to make purchases at retail stores. The information also was used to file fraudulent tax returns. ❋

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ABOUT SASSETTI LLC

Our firm was originally founded by Frank L. Sassetti in 1921. For more than 90 years, the firm has provided creative and proactive tax, accounting and audit services to its diverse client base.

Today, Sassetti LLC's clients consist of a broad range of family-owned businesses, SEC regulated companies, employee benefit plans and not-for-profit organizations. Our goal is to maximize business effectiveness and cost-efficiency, and to help clients understand the ever-changing complex accounting and tax rules.

Our staff of 25 experienced professionals strive to understand your needs, propose solutions and deliver timely and cost effective products.

EXPERIENCE COUNTS

For more information on how we can help your organization, contact Jeff Schroeder at **(708) 386-1433** or email **Schroeder@sassetti.com**. We look forward to speaking with you!!