



Formerly the National Center for Nonprofit Boards

# *Starting a Nonprofit Organization*

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# Introduction

One day the phone rings and an old college friend on the other end says to you, “I’m concerned. Lately we’ve been getting job applicants at my factory who don’t know how to read. I think something needs to be done in our community to make sure that we have a literate workforce. I’m interested in starting a nonprofit literacy organization. Would you like to help me and serve on the board?”

Helping people to read sounds like a worthy cause, and you like the idea of doing something good for the community, so you say yes and show up at the first planning meeting.

At the meeting, you discover that your friend has assembled a small group of associates, friends, and family members to help start the nonprofit organization. But while some of the board members have had experience volunteering for or being employed by other nonprofits, none knows the first thing about starting a nonprofit from the ground up.

Every nonprofit organization must have a carefully developed structure and operating procedures in order to be effective in fulfilling its purpose. Good governance starts with helping the organization begin on a sound legal and financial footing in compliance with the numerous federal, state, and local requirements affecting nonprofits. The BoardSource Information Center daily receives calls with questions about how to start a nonprofit organization.

This booklet is designed to provide founding board members with answers to some important questions they should ask during the beginning phases in the life of an organization. Starting a nonprofit is a detailed operation, and there are many things to take into account. This booklet does not attempt to fully address every detail; rather, it offers some practical references and guidance to help in making important decisions. There are many resources that provide additional detailed information on many of these subjects. See the “Suggested Resources” section at the back of this booklet.

# Questions Founding Boards Should Ask

## **SHOULD WE START A NONPROFIT?**

Most nonprofit organizations begin with an idea and a desire to make the world a better place. Before launching into this process, ask yourselves why you want to start your own nonprofit. Is somebody else already providing this service? You may not want to duplicate what already exists. Don't underestimate the time, energy, and effort required to start a new organization. Are the desire and dedication of the founding board strong enough to sustain the existence of this organization, or would working for or volunteering your services to a similar nonprofit offer you the same opportunities to effect a change in the community? Good intentions alone are not always enough to make a nonprofit venture successful.

## **WHAT ARE THE REASONS AND INCENTIVES FOR STARTING A NONPROFIT?**

Everyone has his or her own personal reasons for wanting to start a nonprofit organization: to make a contribution to society, fulfill a personal goal or desire, or fill a need in the community. The government provides several incentives to organizations that perform important services to society. Nonprofits are exempt from federal income taxes and charities, and some civic groups are exempt from state and local taxes. Many nonprofits can also take advantage of lower postage rates on bulk mailings, and the government offers a tax deduction to individuals who make donations to charities and foundations.

## **WHAT DOES "TAX-EXEMPT" MEAN?**

Many nonprofits perform a service that otherwise would come from the government, or offer a service, such as religion or art, that society considers important to support without government intervention. Through tax exemption, the government provides an indirect subsidy to nonprofits and receives a direct benefit in return. Most nonprofits fall under section 501(c) of the Internal Revenue Service (IRS) tax code. Although charitable organizations are exempt from paying federal, state, and local taxes, this doesn't excuse them from filing employment withholding taxes or paying taxes on unrelated business income. New nonprofits should check with the IRS to find out what state and local taxes they must pay.

## **IS IT NECESSARY TO INCORPORATE, AND WHAT ARE THE ADVANTAGES OF INCORPORATION?**

Not all nonprofits are incorporated. For those that do wish to incorporate, the requirements for forming and operating a nonprofit corporation are governed by state law. Check with your secretary of state or state attorney general's office for information.

The primary incentive for incorporating is the protection of limited liability. Incorporation

protects both board and staff from legal liabilities incurred by the organization — the corporation holds the debts and liabilities, not the individuals and officers who work for the organization. However, nonprofits choosing to remain unincorporated may still file for tax-exempt status.

## **HOW MUCH MONEY DO WE NEED TO GET STARTED?**

There are no laws requiring nonprofits to have a specific amount of money to begin operations. However, if you are starting an organization without any financial backing, raising the start-up funds may prove to be a challenge. Start-up funds can be raised through grants and donations, but until you receive your official tax-exempt status, donations are not tax-deductible. It is worth noting that while your application for 501(c)(3) status is under review, the IRS will allow your organization to receive tax-deductible donations on the assumption that tax-exempt status will be approved.

Founding board members may need to be inventive by seeking gifts in kind or sharing office space, or they may need to rely on their own money. If an existing organization is being incorporated, money from available revenues may be used as start-up funds. Budgeting for operational expenses depends upon your staffing and facility needs. Anticipate start-up costs for personnel, training, equipment, public education, and office space.

## **DO WE HAVE TO HAVE A BOARD OF DIRECTORS?**

Yes. Most nonprofits are corporations, which means they are legal entities distinct from the individuals who founded them. Like their for-profit counterparts, nonprofit corporations are governed by boards of directors with legal and ethical responsibilities that cannot be delegated. Even organizations operating with few or no staff are required to have a board of directors in place.

## **WHAT IS THE ROLE OF THE BOARD?**

The board is responsible for the ultimate governance of the organization and has legal, fiduciary, and ethical responsibilities: developing and maintaining the organization's mission and annual plans; raising money; managing the organization's resources; providing oversight, determining policy, and evaluating the chief executive; and acting as ambassadors in the community. Although the day-to-day management responsibilities lie with the volunteer staff or chief executive, and later, perhaps, with paid staff, the board holds the ultimate decision-making powers for the organization. But it is important to distinguish between the role of the board and that of individual board members. While the board has the collective responsibility for organizational oversight and establishing policy, individual board members take on roles in performing committee work, public outreach, and fund-raising. Individual board members do not possess the power to make decisions on behalf of the board; only the board as a whole can make decisions on behalf of the organization. See "Ten Basic Responsibilities of Nonprofit Boards" on page 21.

Although boards have specific legal responsibilities, there is also room for each board to define its role and area of focus based on where the organization is in its life cycle. In his book *Board*

*Passages: Three Key Stages in a Nonprofit Board's Life Cycle*, author Karl Mathiasen points out that organizing boards tend to take on one of two forms: a *following board* or a *leading or controlling board*. The *following board* is a supportive group of people selected by a leader who is deeply committed to starting an organization and achieving a specific purpose. In a following board, members are less likely to take on administrative tasks, but rather adopt more of a cheerleading role to a more active and dynamic leader. A *leading or controlling board* is formed by a group of like-minded volunteers gathered together to begin work on a mutually agreed-upon project. Unlike the following board, the leading board tends to be task-oriented and often has a strong sense of ownership of the organization.

The answers to the next few questions are “It depends.” The board’s composition, role, and frequency of meetings all depend on what the board needs to do — for *this* organization at *this* point in time.

## **WHO SHOULD BE ON THE BOARD?**

The board should be composed of a diverse group of individuals who are interested in working toward the organization’s mission and have the particular skills that will help to contribute to a well-run organization. For instance, you may want to seek out people with financial, marketing, or legal backgrounds. You may want to consider bringing on someone with an entrepreneurial background, or someone who is proficient with emerging technologies. You may also want to recruit members who have influence in the community, work at similar types of organizations, or are representative of the community you are serving. Having this collective knowledge from the beginning will help you make informed decisions. You will also find that as your organization matures, your board composition needs may be very different from those of your founding board. The role of the board tends to change over time as the organization develops and matures. Early in an organization’s life, the primary need for the board may be individuals who are prepared to give a great deal of time and energy. Later, you may find that as paid staff are brought on, the board focuses primarily on the governance functions of the organization and is less involved with the smaller details of bringing the organization up to speed.

## **HOW BIG SHOULD THE BOARD BE?**

Boards can vary in size from three to more than 50 members. A 1996 BoardSource survey reported that the size of nonprofit boards averaged 19 members. Each state has regulations that determine the minimum size of the board, but the optimum number of people who sit on the board should be determined by the needs of the organization. Assess the list of tasks that the board needs to accomplish and plan your board around the jobs that need to be done. There should be enough meaningful tasks for the board to accomplish without leaving board members feeling overburdened or uninvolved.

## **HOW OFTEN SHOULD THE BOARD MEET?**

Nearly half of the boards surveyed by BoardSource reported having meetings between nine and 12 times each year. As with the size of your board, the number of board meetings each

year should be determined by the work that needs to be accomplished. For logistical and practical reasons, larger boards often meet less frequently, leaving much of the work to the board's committees.

Regular attendance at board meetings is one of the individual responsibilities of board members. Your organization's bylaws should include an attendance policy that clearly states the number of meetings that can be missed by an individual board member before he or she is asked to leave the board. Develop an annual schedule of meetings determined a year in advance. Circulate clear and thorough information materials, including an agenda, to all members two to three weeks before each meeting. Maintain complete and accurate minutes of all meetings, and keep meetings brief and well focused. An organization's bylaws should also state the number of board members required to constitute a quorum. Without a quorum, the board is unable to conduct its official business.

### **WHAT KIND OF TERM LIMITS SHOULD BOARD MEMBERS SERVE?**

There are no hard-and-fast rules for determining board members' tenure. Many organizations do, however, limit members to two consecutive terms and require a hiatus of one year before a board member may be reappointed. Many organizations also stagger terms of service so that one-half or one-third of board members are elected every one or two years for terms of two to six years. Such policies encourage institutional renewal because a board can profit from the experience of veteran board members while welcoming the fresh perspective that new members offer. Board members on hiatus can remain active in committee service or serve in an advisory capacity. Term limits are a painless mechanism for rotating inactive or ineffective members off the board. These policies should be written into the organization's bylaws.

### **WHAT SHOULD THE ROLE OF THE ORGANIZATION'S FOUNDER BE?**

Many nonprofits are created by the vision of one or more individuals. These founders are committed and energetic leaders who devote their time, energy, and money to making their vision and dreams realized. They often have a clear picture of the future of their organization. Once the organization is created, the founder usually assumes the position of chief executive or board chair. As chief executive, the founder can create a board of like-minded friends who share that vision for the organization. As board chair, the founder can make sure that the chief executive has similar aspirations and can effectively run the organization's business. Later on in the organization's development, the founder's solid organizational memory can provide insights that shape the path for the organization.

But in some cases, as original board members rotate off the board and members with new ideas join, internal differences of opinion may start to surface, and the founder may come up against the need to defend or preserve the original vision and mission of the organization. While both internal and external changes may require the organization to change or suffer from stagnation, founders may often be resistant to change. These new ideas and directions may collide with the founder's original vision for the organization, but change might be necessary to move the organization forward.

**CASE STUDY**

## *America Sings!*

In 1988, when America Sings! was founded, it was thought to be a one-time event bringing together youth choirs from all over the United States for a noncompetitive musical festival at the Washington Monument grounds in Washington, DC. The event attracted 15,000 participants from 403 choirs from 40 states, including Alaska and Hawaii, as well as participants from Canada and Mexico. America Sings! founder John Jacobson realized that there would be a substantial surplus of money from the event and decided to donate the surplus to the Children's Defense Fund.

After the success of the April 1989 Washington, DC, event, Jacobson decided to redesign the organization and make America Sings! a nonprofit that combined youth performance choirs with philanthropy and community service projects. This decision concerned some of the original volunteers, who believed that the new nonprofit would take the organization away from its original purpose — a single-day event. According to Judy Wellert, America Sings! executive director and one of the founding board members, some board members wanted to close it down.

With the change in focus, new board members were brought on and others left. The board redesigned its mission from promoting a one-time musical event to creating an organization with specific goals, which included educating young people about philanthropy, providing choral performance opportunities, donating to established children's charities, and promoting a positive image of American youth involved in public service.

While the America Sings! board meets only a few times a year, it plays an extremely hands-on role in the organization's events. In fact, the board is now composed of members who were active volunteers before they became board members. "Most volunteer work at these festivals is grunt work," Wellert explains. Whether it's emptying trash cans, showing 2,000 children how to make peanut butter and jelly sandwiches for local soup kitchens, selling souvenirs, or emceeding choir concerts, board activity for America Sings! is very hands-on.



Compromise between the founder and the board may have to become the operative word. However, if the board is unable to move forward because of the founder's inability to make necessary changes, it may need to decide whether or not to break with the founder's vision and methods for the good of the organization. If it comes to the point where the founder finds it too difficult to work within the new framework, then, as hard as it may be, it may be time for the founder to step aside. Presuming that the relationship between the board and founder remains intact upon his or her departure, the founder may want to assume some level of an advisory role to the board.

## **WHAT COMMITTEES SHOULD OUR BOARD HAVE?**

Much board work is accomplished through smaller working groups, task forces, or committees. With the exception of the executive committee, which in some instances may be able to act on the board's behalf, these groups generally recommend items to the full board for discussion and action. Committee structure sometimes parallels the programmatic or administrative structure of the organization or may mirror a set of important strategic issues or long-term goals. Although the specific authorities of committees may vary, standing committees may be established in the bylaws and often include the following:

**Executive Committee:** Recommends actions for approval of the full board and sometimes acts for the board, within carefully defined boundaries, between meetings.

**Nominating Committee:** Identifies, cultivates, and nominates potential board members.

**Finance Committee:** Recommends financial policies, reviews the annual budget and recommends it to the full board for approval, and monitors financial reports prepared by the staff.

**Audit Committee:** Provides board oversight of the organization's annual financial audit.

**Development Committee:** Provides leadership for involving the board in fund-raising and resource development activities, working with staff to develop a fund-raising plan.

**Strategic Planning Committee:** Coordinates the board's role in the long-range planning process.

**Buildings and Grounds Committee (Facilities Committee):** Represents the board in matters related to physical plant management.

**Personnel or Human Resources Committee:** Advises the chief executive on personnel policy issues.

Depending on the nature and mission of the organization, committees might also include marketing, program, public affairs, or education. The formulation of ad hoc committees is often helpful in addressing short-term concerns or projects that do not easily fall under another committee's jurisdiction.

## HOW SHOULD COMMITTEE MEMBERS BE CHOSEN?

It is often recommended that each board member serve on at least one but preferably no more than two committees. Members are appointed by the chair in consultation with the nominating committee. Committee size depends on the needs of the board and the organization and a common sense assessment of how many people are needed to carry out the committee's work.

Committee assignments should be based on the experience, skills, interests, and available time of board members. Each member must make a serious commitment to participate actively in the work of the committee. If a committee is too large, a small group of members may have a disproportionate amount of responsibility. If a committee is too small, there may not be enough people to get the job done. Board committees may also include people who are not board members, including staff and prospective board members. Committee service can be an ideal venue for "auditioning" prospective board members.

## WHAT ARE THE LEGAL RESPONSIBILITIES OF THE BOARD?

Under well-established principles of nonprofit corporation law, a board member must meet certain standards of conduct and attention in carrying out his or her responsibilities to the organization. Several states have statutes concerning some variation of these duties, which can be used in court to determine whether a board member acted improperly. These standards are usually described as the duty of care, the duty of loyalty, and the duty of obedience.

*Duty of care* describes the level of competence that is expected of a board member, and is commonly expressed as the duty of "care that an ordinarily prudent person would exercise in a like position and under similar circumstances." This means that a board member has the duty to exercise reasonable care when he or she makes a decision as a steward of the organization.

*Duty of loyalty* is a standard of faithfulness; a board member must give undivided allegiance when making decisions affecting the organization. This means that a board member can never use information obtained as a member for personal gain, but must act in the best interests of the organization.

*Duty of obedience* requires board members to be faithful to the organization's mission. They are not permitted to act in a way that is inconsistent with the central goals of the organization or the laws that govern nonprofit activities. A basis for this rule lies in the public's trust that the organization will manage donated funds to fulfill the organization's mission.

## DOES "NONPROFIT" MEAN WE CAN'T MAKE A PROFIT?

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. Usually referred to as a surplus or net revenue, profit is acceptable — even desirable — for nonprofits. While businesses can distribute their profits among shareholders and employees,

## CASE STUDY

## *Hands On San Francisco*

The members of the founding board of Hands On San Francisco (HOSF) didn't even realize they were a board when they began the nonprofit in 1994. Originally, they considered themselves just a group of friends who would meet to plan activities in which they and other young people like them could provide community service. It wasn't until they decided to apply for official nonprofit status and realized they would need a board of directors that they began officially calling themselves a board.

HOSF is an organization that creates, manages, and oversees volunteer projects in the San Francisco area; it is modeled after the City Cares of America organization, which has chapters in New York; Atlanta; Los Angeles; and Washington, DC. The volunteer projects are aimed at addressing community issues such as education, AIDS, the environment, and homelessness.

One of the earliest challenges the board faced was that of the inexperience of its members — mostly young professionals with no previous nonprofit board experience. The board members knew what they wanted to accomplish but were not sure of what their next step was going to be for getting there. "It's really important for a board, when it hits a sticking point, to get some outside perspective," said Bill Tucker, one of the original eight board members. After getting some outside advice from a professor at the University of California at Berkeley, the board decided to have its first board retreat.

At the retreat, the board members worked on their principles and mission statement, and made decisions on some major issues facing the board. The board has continued to have an annual spring retreat — one of the key commitments a board member must make before joining.

HOSF grew quickly from a small group of friends with some volunteer support for about 12 projects a month to an organization performing more than 20 projects a month with opportunities to undertake more. Soon it became clear that it was necessary to bring on paid staff to handle the organization's growth. HOSF has since brought on an executive director and additional paid staff.

Of the original group of eight friends that formed the first HOSF board, only one board member remains. With such a young, upwardly and geographically mobile board, members tend to serve only about one-and-a-half to two years. For some boards, such high turnover can be a problem. But by drawing upon the interests and experience of its volunteer base, HOSF has a wide pool of candidates to choose from and has not had problems recruiting new board members.

nonprofits use available reserves to further their mission and help to insulate them from the inevitable ups and downs that they often face.

But before your nonprofit decides to enter into a money-making venture, first consider how this endeavor relates to your mission and how it may affect your nonprofit status. A nonprofit organization must pay Unrelated Business Income Tax (UBIT) if the money-making activity is substantially unrelated to the organization's tax-exempt purposes. For example, an organization with a publishing function writes and sells books on topics related to its mission. It also sells coffee mugs and calendars, but those products may be considered unrelated to its mission and thus may be subject to tax.

A tax-exempt organization can engage in a substantial amount of unrelated business activity so long as the UBIT is accounted for. However, if an organization's profit-making activities consume too much of its resources, or if annual income from unrelated business activities exceeds 20 or 25 percent of total revenue, the IRS may declare that the organization has deserted its tax-exempt purposes and revoke its exemption.

### **WILL WE NEED A LAWYER?**

It is not necessary to have a lawyer draft your papers. However, if your case is complicated, it is wise to seek counsel. Unless your board already includes a member with a legal background, you may want to appoint legal counsel with experience in nonprofit law to advise you about the process of completing and filing the necessary paperwork for incorporation and tax-exempt status, and to provide future legal counsel. The IRS posts a web site with the most common reasons for delays in processing tax-exempt applications. Visit [http://www.irs.treas.gov/prod/bus\\_info/eo/topten.html](http://www.irs.treas.gov/prod/bus_info/eo/topten.html). While getting legal advice can sometimes be cost-prohibitive, some attorneys will provide pro bono services to nonprofits or work at reduced rates.

### **HOW CAN WE INSURE THE BOARD AGAINST FURTHER LIABILITY?**

Rarely do individual board members get sued for the malfunctions of an organization, yet it is important that every board member understand his or her responsibilities and that adequate precautions be taken. In addition to general liability policies, it is commonly recommended to purchase a Directors' and Officers' (D&O) insurance policy. D&O insurance provides coverage for employment-related claims and reimburses the organization for any indemnification expenses it may suffer. Without this protection, the organization may not be able to afford to defend itself and its board members.

### **CAN OUR ORGANIZATION LOBBY AND STILL MAINTAIN TAX-EXEMPT STATUS?**

Many nonprofit organizations are affected by changes in public policy. By educating citizens, public officials, and other policy makers and guiding them in making informed decisions, nonprofits help to advance the public good. It is perfectly legal, and often desirable, for nonprofits to lobby at the local, state, and federal levels. Social welfare advocacy groups —

501(c)(4)s — and trade associations — 501(c)(6)s — have some flexibility when it comes to lobbying, but 501(c)(3)s can lobby only as long as lobbying is not a substantial part of their operations. 501(c)(3)s are strictly forbidden from participating in or attempting to influence political campaigns and, if caught, may risk losing their tax-exempt status.

### **WHAT KIND OF INFORMATION ARE WE REQUIRED TO DISCLOSE TO THE PUBLIC?**

The IRS requires all 501(c) organizations with annual revenues exceeding \$25,000 to file Form 990 or Form 990EZ. The information on the 990 must be made open to public inspection and includes the names and address of the organization's officers, directors, or trustees; the names and salaries of the five employees paid more than \$50,000 annually; gross income for the year; dues received from members; expenses; the organization's balance sheet; and total contributions, including gifts, grants, and government contracts. However, for reasons of privacy, charities are not required to publicly disclose the attachment to the 990 that includes an itemized list of all contributions of over \$5,000.

# Steps for Getting Started

There are several steps to beginning your nonprofit organization. Creating proper procedures for the board to follow early on in the process helps to build a strong foundation for future decision making. This includes clarifying roles, drafting bylaws, creating job descriptions, and providing proper orientation for new members as they come onto the board.

## 1. IDENTIFY THE MISSION

Every organization should have a written mission statement that expresses its reason for being. The mission statement doesn't have to be elaborate. It can be stated in one succinct sentence — for instance, “Our mission is to improve the lives of adults in our community with low or no literacy skills.” You may also want to write a vision statement of how you see the community benefiting from the organization's programs and services. The vision statement expresses the organization's big dream and may say something like, “Our vision is for every adult in our community to be able to read and be fully employable.”

## 2. RESEARCH COMMUNITY NEEDS

Look at the community and research your market. Are there other organizations meeting this same need? If so, would your organization provide something different from or duplicate their programs and services? You may want to look into the option of merging with a competing organization or developing a program that works in cooperation with or as part of an existing organization. Check with your local United Way, university, volunteer center, or state association of nonprofits to find out about other similar organizations in similar service areas.

## 3. REQUEST MATERIALS FROM YOUR SECRETARY OF STATE OR STATE ATTORNEY GENERAL

Obtain the necessary nonprofit incorporation materials by contacting either your secretary of state or state attorney general's office. The incorporation package will vary from state to state, but should include some of the following information: a nonprofit Articles of Incorporation form, corporation statutes specifying technical requirements for operating the nonprofit, a list of filing and processing fees, and instructions for registering your corporate name.

## 4. FORM A BOARD OF DIRECTORS

The founding board will help translate the ideas behind the organization into reality through planning and fund-raising. As the organization matures, the nature and composition of the board will also change. Early in the process, elect a board chair and board officers — vice chair, treasurer, and secretary. If possible, identify the organization's chief executive — the person who will run the day-to-day operations. Create job descriptions for all members to help in clarifying their roles. Determine your committee structure and appoint committee chairs. See the appendix for sample board officer job descriptions.

## **5. CHOOSE A NAME FOR THE ORGANIZATION**

Be thoughtful about selecting a name for your organization. The name you choose identifies who you are and what you do. Check with your secretary of state to determine whether the names you are considering have already been registered in your state. Once you have decided on a corporate name, reserve that name while you proceed with the rest of your paperwork. Once the Articles of Incorporation have been completed, further name protection can be obtained by contacting your secretary of state and the U.S. Patent and Trademark Office.

## **6. DRAFT BYLAWS**

Bylaws — the significant written rules by which an organization is governed — should be drafted and approved by the board early in the organization's development. Bylaws should contain policies for term limits, committee structure, conflict of interest, resignation and removal of officers and directors, meeting attendance and notification, duties of officers, indemnification of officers, and the board's procedures for conducting its order of business. Consult an attorney experienced in nonprofit law as you finalize your bylaws.

## **7. PREPARE AND FILE ARTICLES OF INCORPORATION**

Pay close attention to the filing requirements in your state for your Articles of Incorporation. Improperly filed paperwork can result in the rejection of your Articles. The Articles of Incorporation include the name of your organization, the name and address of the corporation's registered agent (generally the board chair or chief executive), your statement of purpose, the names and addresses of the incorporators (or board members), the duration of the corporation, membership provisions, and any additional provisions. Leave some room for flexibility. Changing your Articles of Incorporation — unlike amending your bylaws — can be cumbersome.

## **8. DEVELOP A PLAN**

To better serve the mission of the organization and be successful in fund-raising and recruiting board and staff, nonprofit organizations need to develop a solid, strategic institutional plan. Strategic plans convey the vision, mission, and program goals of the organization; they can be one to three years in scope and should be reviewed on an annual basis. The organization's financial plan comes from the organization's strategic plan. Board involvement in the strategic planning process helps renew commitment and enables board members to understand the staffing, fund-raising, and program needs for the organization.

## **9. DEVELOP A BUDGET AND FINANCIAL PLAN**

Financial oversight and resource development are critical board responsibilities. The budget and financial plan comes out of the strategic planning process and should support the program needs and objectives of the organization. The financial plan includes goals for fund-raising, earned income, and membership.

## CASE STUDY

## *Christmas in April*

In 1994, the Greater Las Vegas chapter of Christmas in April, a national home repair and rehabilitation nonprofit, opened its doors. The chapter was launched with help from an executive at Southwest Gas, an active corporate supporter of the national nonprofit, and began by recruiting Beth Gaylor as executive director.

“I didn’t realize what I was offering to do,” said Gaylor when she began to volunteer as executive director, “but within two or three months, I quickly figured out that I had signed up for a full-time job.”

Christmas in April is a national organization dedicated to the repair and rehabilitation of the homes of elderly, disabled, and low-income homeowners unable to do the work themselves. Volunteers of all age groups and social circles participate in the yearly event.

With the support of a major corporation behind the chapter, the chapter invited local groups and organizations to a launching breakfast to introduce the program, garner support, and attract board members. Gaylor said that the launching breakfast was really the most effective tool in developing a board.

Once the board was established, the first major obstacle it encountered was a lack of leadership and experience. “The first mistake I think we made,” Gaylor said, “is that we started out with too large a board. We quickly moved up to 20 people who had not clearly identified what they were committing to.” Because of the lack of experience among the board members, few had clear ideas of what it meant to be a board member and what each person’s role would be on the board.

“We also followed a model — which I learned later on was not a good model — by forming too many committees. We ended up with 20 committees and 20 board members,” said Gaylor. After a few years, the board downsized to a dozen committees, and today it has four standing committees and adds others as needed. Board members also recruit committee members from outside the board. “You need to be building the organization by reaching beyond yourself,” Gaylor said. “Our committees needed to be bigger than just board members. They needed to reach further into the community, and that turned out to be a great tool for finding prospective board members.”

Another problem that the board faced was not knowing how to fine-tune itself. Instead, it remained focused on its mission of home rehabilitation. “It would have been less painful for us if we had slowed down and realized that we needed more of a focus on developing the organization,” commented Gaylor. Today the board is composed of about a third of the original members that it had when the organization started five years ago.



## **10. ESTABLISH A RECORD-KEEPING SYSTEM FOR THE ORGANIZATION'S OFFICIAL RECORDS**

Create a file to preserve your important corporate documents, including board meeting minutes, bylaws, Articles of Incorporation, financial reports, and other official records. Contact your appropriate state agency for more information on what records you are required to keep in the official files.

## **11. ESTABLISH AN ACCOUNTING SYSTEM**

It is exceedingly important for board members to put in place a system of controls when establishing the organization's accounting practices. Nonprofits are accountable to the public, its funders, and, in some instances, government granting bodies. Responsible stewardship of the organization's finances requires the establishment of an accounting system that meets both current and anticipated needs. The organization needs to open a bank account and ascertain whether to use the accrual or cash method of accounting. The size of your organization will likely determine which method to choose, however, it is recommended in *Generally Accepted Accounting Principles* that for financial reporting, the accrual system should be used. If your board does not include someone with a financial or accounting background, consult with a certified public accountant experienced in nonprofit accounting.

## **12. FILE FOR AN INTERNAL REVENUE SERVICE DETERMINATION OF FEDERAL TAX-EXEMPT STATUS**

Nonprofit corporations with charitable, educational, scientific, religious, or cultural purposes may receive tax-exempt status under section 501(c)(3) — or sometimes section 501(c)(4) (social welfare organizations) — of the Internal Revenue Code. If you are establishing a chapter of a federated organization or are a subordinate controlled by a central organization, check for whether the parent organization has applied for group exemption. To apply for recognition of tax-exempt, public charity status, obtain Form 1023 (application) and Publication 557 (detailed instructions) from the local IRS office. The filing fee depends upon the size of the organization's budget. The application is an important legal document, so it is advisable to seek the assistance of an experienced attorney when preparing it. You can download copies of both of these documents from the IRS web site at [http://www.irs.gov/bus\\_info/eo/](http://www.irs.gov/bus_info/eo/). It is important to file your 1023 within 15 months of the date when your organization was established, or when your Articles of Incorporation were filed. Although the IRS automatically provides a 12-month extension, missing the deadline may result in your organization's receiving recognition as a private foundation. Private foundations are subject to regulations different from those for public charities. If you reapply for public charity status, the IRS will require proof of public support — for example, while private foundations have no restrictions on the number of their funding sources, public charities are required to demonstrate that support comes from a diversified base of funders.

### **13. APPLY FOR THE FEDERAL EMPLOYEE IDENTIFICATION NUMBER**

Regardless of whether or not you have employees, nonprofits are required to obtain a federal Employee Identification Number (EIN) — also referred to as the federal ID number. Available from the IRS, this number is used to identify the organization when tax documents are filed and is used not unlike an individual's Social Security number. If you received your number prior to incorporation, you will need to apply for a new number under the corporate name. Ask for Form SS-4 when applying for your EIN.

### **14. FILE FOR STATE AND LOCAL TAX EXEMPTIONS**

In accordance with state, county, and municipal law, apply for exemption from income, sales, and property taxes. For more information, check with your state, county, or municipal department of revenue.

### **15. MEET THE REQUIREMENTS OF STATE, COUNTY, AND MUNICIPAL CHARITABLE SOLICITATION LAWS**

If your organization's plans include fund-raising, be aware that many states and few local jurisdictions regulate organizations that solicit funds within that state, county, or city. Usually compliance involves obtaining a permit or license and then filing an annual report and financial statement. For more information, check with your state attorney general's office, secretary of state, state or local department of revenue, or county or municipal clerk's office.

### **16. APPLY FOR A NONPROFIT MAILING PERMIT**

The federal government provides further subsidies for nonprofits with reduced postage rates on bulk mailings. While first-class postage rates for nonprofits remain the same as those for the for-profit sector, second- and third-class rates are substantially less when nonprofits mail to a large number of members or constituencies. The U.S. Postal Service lists eight categories of nonprofits as eligible for standard nonprofit mail rates. Those are agricultural, educational, fraternal, labor, philanthropic, religious, scientific, and veterans organizations. For more information on eligibility, contact the U.S. Postal Service and ask for Publication 417, *Nonprofit Standard Mail Eligibility*.

### **17. ON AN ONGOING BASIS, RE-EVALUATE THE BOARD'S COMPOSITION AND ROLE**

As your organization grows and matures, so will the needs of its board. After the first year, take a look at the board's composition and examine whether the addition of new talent could make a difference. Do you have someone who is tapped into the fund-raising community and can help bring in necessary funds? Would the addition of someone from a large corporation bring in a different perspective when you are deciding how to proceed with a for-profit venture? At the same time, take a look at the role of the board and its relationship to the

organization. Have paid staff taken on some of the responsibilities that previously belonged to the board? How has the role of the board changed since its inception?

Approximately every three years, it is important that the board conduct a more thorough evaluation of itself. BoardSource's *Self-Assessment for Nonprofit Governing Boards* is an evaluation tool specifically designed to help boards determine how well they are carrying out their responsibilities and where they need to make improvements. You may want to plan a self-assessment as part of an annual board retreat or bring in a consultant to provide an objective evaluation of the board's performance.

Ongoing board development and training can also be critical to the board's overall performance. An annual board retreat is an ideal time to focus on board development issues. A variety of board development resources (books, videos, workshops, and customized training) are available to help board members better understand their roles and provide basic skills-building opportunities. Check with your local nonprofit management association or nonprofit support center for workshops and board consulting services that they provide.

## CASE STUDY

## *The New America Foundation*

When Ted Halstead, at the age of 25, founded his first nonprofit organization — a nonprofit economic and environmental policy think tank called Redefining Progress — he lacked experience, funding, and contacts. Five years later, as the founding president and CEO of the New America Foundation, Halstead is launching another nonprofit from a more seasoned perspective.

The New America Foundation (NAF) is an independent, nonpartisan, nonprofit public policy institute whose mission is to train and support the next generation of public intellectuals and build a new set of political ideas based on innovative and pragmatic solutions to the nation's most pressing problems. Already, NAF has raised a half a million dollars and established an impressive board of directors which includes founding chair James Fallows, Halstead, George Stephanopoulos, and Laura D'Andrea Tyson.

By carefully defining its board's role and responsibilities, the NAF has been able to attract a high-profile board from the outset. "We designed a rather unique job description for our board, which is limited in terms of time commitment and which has a very clear function," said Halstead. "Our board's primary role is not to fund-raise; it is to help guide the mission and intellectual agenda of the organization."

NAF board members' main responsibility is selecting NAF's senior fellows. Each fellow will receive an award ranging from \$10,000 to \$50,000. The awards are intended to help launch the careers of political thinkers and writers.

Despite the outward appearance that NAF is already a successful venture, Halstead cautions that it has still been a difficult process. "No organization takes off easily," he says. "Every step of the way was make or break for us, and we were constantly questioning whether or not we could get funding or a good board chair. I think it's a real credit to us all that we stuck it out and stuck together."

"Another purpose for a board," Halstead explained, "is creating an external political identity for the organization so that when the media start writing stories about you, there's a clear sense of where this group comes from."

# Appendix

## *Ten Basic Responsibilities of Nonprofit Boards*

### **1. DETERMINE THE ORGANIZATION'S MISSION AND PURPOSE**

A statement of mission and purpose should articulate the organization's goals, means, and primary constituents served. It is the board's responsibility to create the mission statement and review it periodically for accuracy and validity. Each individual board member should fully understand and support it.

### **2. SELECT THE CHIEF EXECUTIVE**

Boards must reach consensus on the chief executive's job description and undertake a careful search process to find the most qualified individual for the position.

### **3. SUPPORT THE CHIEF EXECUTIVE AND REVIEW HIS OR HER PERFORMANCE**

The board should ensure that the chief executive has the moral and professional support he or she needs to further the goals of the organization. The chief executive, in partnership with the entire board, should decide upon a periodic evaluation of his or her performance.

### **4. ENSURE EFFECTIVE ORGANIZATIONAL PLANNING**

As stewards of an organization, boards must actively participate with the staff in an overall planning process and assist in implementing the plan's goals.

### **5. ENSURE ADEQUATE RESOURCES**

One of the board's foremost responsibilities is to provide adequate resources for the organization to fulfill its mission. The board should work in partnership with the chief executive and development staff, if any, to raise funds from the community.

### **6. MANAGE RESOURCES EFFECTIVELY**

The board, in order to remain accountable to its donors, the public, and to safeguard its tax-exempt status, must assist in developing the annual budget and ensuring that proper financial controls are in place.

### **7. DETERMINE, MONITOR, AND STRENGTHEN THE ORGANIZATION'S PROGRAMS AND SERVICES**

The board's role in this area is to determine which programs are the most consistent with an organization's mission and to monitor their effectiveness.

**8. ENHANCE THE ORGANIZATION'S PUBLIC STANDING**

An organization's primary link to the community, including constituents, the public, and the media, is the board. Clearly articulating the organization's mission, accomplishments, and goals to the public, and garnering support from important members of the community, are important elements of a comprehensive public relations strategy.

**9. ENSURE LEGAL AND ETHICAL INTEGRITY AND MAINTAIN ACCOUNTABILITY**

The board is ultimately responsible for ensuring adherence to legal standards and ethical norms. Solid personnel policies, grievance procedures, and a clear delegation to the chief executive of hiring and managing employees will help ensure proper decorum in this area. The board must establish pertinent policies, and adhere to provisions of the organization's bylaws and articles of incorporation.

**10. RECRUIT AND ORIENT NEW BOARD MEMBERS AND ASSESS BOARD PERFORMANCE**

All boards have a responsibility to articulate and make known their needs in terms of member experience, skills, and many other considerations that define a "balanced" board composition. Boards must also orient new board members to their responsibilities and the organization's history, needs, and challenges. By evaluating its performance in fulfilling its responsibilities, the board can recognize its achievements and reach consensus on which areas need to be improved.

## INDIVIDUAL BOARD MEMBER RESPONSIBILITIES

- Attend all board and committee meetings and functions, such as special events
- Be informed about the organization's mission, services, policies, and programs
- Review agenda and supporting materials prior to board and committee meetings
- Serve on committees and offer to take on special assignments
- Make a personal financial contribution to the organization
- Inform others about the organization
- Suggest possible nominees to the board who can make significant contributions to the work of the board and the organization
- Keep up-to-date on developments in the organization's field
- Follow conflict-of-interest and confidentiality policies
- Refrain from making special requests of the staff
- Assist the board in carrying out its fiduciary responsibilities, such as reviewing the organization's annual financial statements

## PERSONAL CHARACTERISTICS TO CONSIDER

### ABILITY TO:

- listen, analyze, think clearly and creatively, work well with individual people and groups

### WILLINGNESS TO:

- prepare for and attend board and committee meetings, ask questions, take responsibility and follow through on a given assignment, contribute personal and financial resources in a generous way according to personal circumstances, open doors in the community, evaluate oneself

### WILLINGNESS TO DEVELOP CERTAIN SKILLS IF YOU DO NOT ALREADY POSSESS THEM, SUCH AS TO:

- cultivate and solicit funds, cultivate and recruit board members and other volunteers, read and understand financial statements, learn more about the substantive program area of the organization

### POSSESS:

- honesty; sensitivity to and tolerance of differing views; a friendly, responsive, and patient approach; community-building skills; personal integrity; a developed sense of values; concern for your nonprofit's development; a sense of humor

Board responsibilities taken from *Ten Basic Responsibilities of Nonprofit Boards*. Board member responsibilities taken from *Six Keys to Recruiting, Orienting, and Involving Nonprofit Board Members*.

# *Sample Job Descriptions for Board Officers*

## **PRESIDENT/CHAIR OF THE BOARD**

- Oversee board and executive committee meetings
- Serve as ex officio member of all committees
- Work in partnership with the chief executive to make sure board resolutions are carried out
- Call special meetings if necessary
- Appoint all committee chairs and with the chief executive, recommend who will serve on committees
- Assist the chief executive in preparing the agenda for board meetings
- Assist the chief executive in conducting new board member orientation
- Oversee searches for a new chief executive
- Coordinate the chief executive's annual performance evaluation
- Work with the nominating committee to recruit new board members
- Coordinate periodic board assessment with the chief executive
- Periodically consult with board members on their roles and help them assess their performance

## **VICE PRESIDENT OF THE BOARD**

- 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 president and be able to perform these duties in the president's absence
- Participate as a vital part of the board leadership



## **SECRETARY OF THE BOARD**

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

## **TREASURER OF THE BOARD**

- Maintain knowledge of the organization and personal commitment to its goals and objectives
- Understand financial accounting for nonprofit organizations
- Serve as financial officer of the organization and as chair 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 chief executive and the chief financial officer to ensure that appropriate financial reports are made available to the board on a timely basis, and assist the chief executive or the chief financial officer in preparing the annual budget and presenting the budget to the board for approval
- Review the annual audit and answer board members' questions about the audit

# Major IRS Classifications

## 501(c)(3)

- Broadly classified by the IRS as “*public charities*,” 501(c)(3) organizations promote religious, educational, scientific, and literary education, and more traditional charitable activities such as feeding the poor, housing the homeless, and preventing cruelty to children and animals. Examples include Reading Is Fundamental, So Others May Eat, and the Humane Society of the United States.
- *Private foundations* are also classified under 501(c)(3). These organizations fund charitable activities through grants to other nonprofit organizations. Most do not operate or administer programs directly. 501(c)(3) organizations are classified as “private foundations” unless they meet one of several tests for “public support.”
- *Private operating foundations* are also classified as 501(c)(3)s. A private operating foundation offers programs and services, but it is technically a private foundation because it receives funding from a single source such as an endowment and therefore cannot pass the “public support” test.

## 501(c)(4)

- *Social welfare organizations* have the latitude to participate in legislative advocacy, lobbying, and political campaign activities. The National Association for the Advancement of Colored People, the National Rifle Association, and the National Organization for Women are examples.
- 501(c)(4)s may lobby as a primary activity without jeopardizing their exempt status. (501(c)(3) organizations may also lobby but are subject to tighter limits on the amount of time and money devoted to lobbying activities.)
- 501(c)(4)s may be required to either provide notice to members regarding the percentage of dues paid that are applicable to lobbying activities or pay a proxy tax. Donations made to 501(c)(4)s are not tax-deductible.

## 501(c)(6)

- *Professional societies and trade associations* are classified by the IRS as 501(c)(6). These organizations must be devoted to the improvement of business conditions of one or more lines of business. Examples include the American Dental Association and the American Snack Food Association. For more information about professional societies, contact the American Society of Association Executives (the trade association for association professionals).
- Contributions to these organizations are not tax-deductible as charitable contributions but may be deductible as a business expense.

- Additionally, 501(c)(6)s may lobby as a primary activity without jeopardizing their exempt status. However, they may be required to either provide notice to members regarding the percentage of dues paid that are applicable to lobbying activities or pay a proxy tax.

The IRS lists 24 total 501(c) designations.

## **IRS 501(C) ORGANIZATIONS AND DESCRIPTIONS**

- 501(c)(1) Federal Corporations
- 501(c)(2) Corporations Holding Title to Property for Exempt Organizations
- 501(c)(3) Religious, Educational, Charitable, Scientific, Literary Organizations, Testing for Public Safety, Fostering National or International Amateur Sports Competitions, or Promoting the Prevention of Cruelty to Children or Animals
- 501(c)(4) Civil Leagues, Social Welfare Organizations, Local Employee Associations
- 501(c)(5) Labor, Agricultural, or Horticultural Organizations
- 501(c)(6) Business Leagues, Chambers of Commerce, etc.
- 501(c)(7) Social and Recreational Clubs
- 501(c)(8) Fraternal Beneficiary Societies
- 501(c)(9) Volunteer Employees Beneficiary Associations
- 501(c)(10) Domestic Fraternal Societies
- 501(c)(11) Local Teacher Retirement Fund Associations
- 501(c)(12) Benevolent Life Insurance Associations, Mutual Water and Telephone Companies, etc.
- 501(c)(13) Cemetery Companies
- 501(c)(14) Credit Unions
- 501(c)(15) Mutual Insurance Companies
- 501(c)(16) Farmers Cooperatives
- 501(c)(17) Supplemental Unemployment Benefit Trusts
- 501(c)(18) Employee-Funded Pension Trusts
- 501(c)(19) War Veterans Organizations
- 501(c)(20) Group Legal Service Organizations
- 501(c)(21) Black Lung Benefit Trusts
- 501(c)(22) Withdrawal Liability Payment Funds
- 501(c)(23) Veterans Organizations (created before 1880)
- 501(c)(25) Title-Holding Companies
- 501(c)(26) State-Sponsored Organization Providing Healthcare Coverage for High-Risk Individuals
- 501(c)(27) State-sponsored Worker's Compensation Reinsurance Organization

# Suggested Resources

## GOVERNANCE

Andringa, Robert C. and Engstrom, Ted W. *Nonprofit Board Answer Book: Practical Guidelines for Board Members and Chief Executives*. Washington, DC: BoardSource, 1998, 208 pages. This book goes beyond theory, using real-life experiences to answer many questions concerning nonprofit board governance. Written for seasoned as well as new nonprofit leaders, this book covers nuts-and-bolts information on recruiting committed and active board members, assessing board performance, ensuring board diversity, and knowing when and how to ask inactive members to step down. Each chapter includes a set of suggested action steps.

Carver, John. *Boards That Make a Difference: A New Design for Leadership in Nonprofit and Public Organizations*. San Francisco, CA: Jossey-Bass Publishers, 1990, 266 pages. Carver's original theory on revitalizing the role of governance stresses the structural approach of defining the limits for board actions as there is a shift away from reactive roles to full participation when shaping the organization and focusing on its purpose. Coverage includes evaluation of the executive staff, delegation of authority to management, decision making as an entity, and establishment of bylaws for the board's self-governance.

Chait, Richard. *How to Help Your Board Govern More and Manage Less*. Washington, DC: BoardSource, 1993, 16 pages. This booklet helps to clarify the board's role in the organization and shows how boards work best when they focus on setting direction, policy, and strategy, and leave the administrative questions to be handled by the staff. The chief executive, board members, and executive staff can follow specific procedures that help the board's capacity to govern.

Holland, Thomas P. *How to Build a More Effective Board*. Washington, DC: BoardSource, 1996, 24 pages. This booklet analyzes the characteristics of effective boards and suggests ways for boards to improve their performance. Based on extensive research conducted by Thomas Holland, Richard Chait, and Barbara Taylor, the booklet outlines six qualities of effective boards and defines the specific behaviors that these boards display. It teaches methods of examining and improving board performance, including planning board retreats, incorporating board education into regular board business, and building group cohesion and teamwork.

Houle, Cyril O. *Governing Boards: Their Nature and Nature*. San Francisco, CA: Jossey-Bass Publishers, 1989, 225 pages. This comprehensive text provides practical advice, principles, and procedures on more than 40 major topics affecting boards. These topics include criteria for board membership, chief executive-board relations, and the structure of boards and committees. This is the handbook on nonprofit governance for new and more seasoned board members, chairs and other officers, chief executives and senior administrators, and all others concerned with the effectiveness of nonprofit (and public sector) organizations.

## **BOARD ORIENTATION**

Ingram, Richard T. *Ten Basic Responsibilities of Nonprofit Boards*. Washington, DC: BoardSource, 1996, 24 pages. This Governance Series booklet describes the fundamental responsibilities of boards, focusing primarily on the board as an entity. (An Appendix adapts these responsibilities for individual members associated with any nonprofit organization, regardless of its mission or size). This booklet is also available in Spanish and Portuguese, and on audiotape in English.

National Center for Nonprofit Boards. *Meeting the Challenge: An Orientation to Nonprofit Board Service*. (Video) Washington, DC: BoardSource, 1994, 35 minutes, plus user's guide. This video on board responsibilities features comments from board members on how their boards carry out four core responsibilities: determining mission and program, providing resources, ensuring effective oversight, and participating in community outreach. This is a basic overview of board responsibilities. It is an ideal tool for board orientation and as a starting point for board development and strategic planning. It is equally suitable for board members to view at home as an individual training tool.

## **STRATEGIC PLANNING**

Grace, Kay Sprinkel. *The Nonprofit Board's Role in Strategic Planning*. Washington, DC: BoardSource, 1996, 24 pages. Fundraising, board and staff recruitment, and long-term governance are all made easier when a strategic plan has been properly developed for the organization. This booklet's sample planning process and resulting strategic plan can serve as a guide for the board, and the tips on how to determine whether the process has been successful will help the board stay focused on its aims.

National Center for Nonprofit Boards. **Blueprint for Success: A Guide to Strategic Planning for Nonprofit Board Members.** (Video) Washington, DC: BoardSource, 1997, 25 minutes, plus 20-page user's guide. In this video production, NBC News broadcast journalist Maria Shriver, a board member of Special Olympics International, guides an exploration of how two nonprofit organizations carry out strategic planning. The video is the perfect motivational tool for nonprofit boards considering a strategic plan, for board members who are unfamiliar with strategic planning, or as inspiration for boards about to embark on the process. The free user's guide includes guidelines and discussion questions that allow a board to use the video as a training tool — a starting point for in-depth discussion on strategic planning.

## FUNDRAISING

Howe, Fisher. *Fund-Raising and the Nonprofit Board Member.* Washington, DC: BoardSource, revised 1997, 14 pages. This best-seller from the Governance Series stresses the five key principles that each board member should recognize in order for the full board to carry out its fundraising responsibilities. A useful checklist helps board members, including those reluctant to ask others for money, to do as much as possible to help raise funds. Howe clarifies the essential “how-to’s” and helps motivate board members to fulfill this responsibility.

George, G. Worth. *Fearless Fund-Raising for Nonprofit Boards.* Washington, DC: BoardSource, 1996, 24 pages. Author Worth George has developed a system that will help disinclined board members get started on their fundraising responsibility. By providing specific choices and instructions, this booklet helps to encourage once-reluctant board members to become active fundraisers. The booklet's centerpiece is a worksheet of 40 specific fundraising activities that range from simple to sophisticated, and all play an important part in the overall plan.

National Center for Nonprofit Boards. *Speaking of Money: A Guide to Fundraising for Nonprofit Board Members.* (Video) Washington, DC: BoardSource, 1996, 30 minutes, plus a 20-page user's guide. Fundraising is one of the most challenging and critical areas of board responsibility. In this video, real board members from a variety of organizations discuss fundraising basics, successes, and critical considerations. Issues discussed include fundraising as a basic responsibility, working in partnership with the staff, creating a strong case, stages of the development process, personal contributions, and the skills of asking for a gift. It comes with a user's guide, written by consultant Kay Sprinkel Grace, which provides an excellent reinforcement for discussion.

## COMMITTEES

Andringa, Robert C. *The Executive Committee: Making It Work for Your Organization*. Washington, DC: BoardSource, 1994, 20 pages. An executive committee can be an asset to good governance, or it can detract from the board's effectiveness. This practical booklet includes a checklist for determining whether the board should have an executive committee, how to define the committee's authority level, and what its key responsibilities are.

Hirzy, Ellen Cochran. *Nonprofit Board Committees: How to Make Them Work*. Washington, DC: BoardSource, 1993, 16 pages. This concise guide explains the purpose, functions, and operations of the main board committees. There are answers to questions concerning the frequency of meetings, selection of members, functions of various types of committees, and relationships between board committees and staff. A helpful checklist of tips for successful committees is included.

Hirzy, Ellen Cochran. *The Nominating Committee: Laying a Foundation for Your Organization's Future*. Washington, DC: BoardSource, 1994, 16 pages. This committee is often called the most important of all nonprofit board committees, since the composition of the board and, consequently, the future of the organization are deeply affected by its decisions. The booklet includes a thorough description of the committee's responsibilities, with emphasis on ongoing cultivation and board development activities often neglected, and strategies for evaluating the committee's performance.

Holmgren, Norah. *The Finance Committee: The Fiscal Conscience of the Nonprofit Board*. Washington, DC: BoardSource, 1995, 20 pages. In a time of increased public scrutiny of the financial decisions and activities of nonprofit organizations, the role of the finance committee is more important than ever before. Sound financial decisions and appropriate financial planning are critical to the survival of the nonprofit organization in maintaining the public trust. This guide discusses the key responsibilities of the finance committee.

Johnson, Sandra L. *The Audit Committee: A Key to Financial Accountability in Nonprofit Organizations*. Washington, DC: BoardSource, 1993, 16 pages. As nonprofit organizations face increasing media and government scrutiny and ever-changing accounting requirements, the role of the audit committee in ensuring financial accountability is more critical than ever. In addition to reviewing the basic responsibilities of the audit committee, this booklet advises how the committee might be chartered, who should serve as members, and how often the committee should meet.

O'Connor, Judith. *The Planning Committee: Shaping Your Organization's Future*. Washington, DC: BoardSource, 1997, 20 pages. Planning for the organization's future is an important board function — and the planning committee guides the process. This book defines the committee's responsibilities, outlines how the committee and full board relate to staff and constituents during strategic planning, and provides guidance in conducting the strategic planning process.

Tempel, Eugene R. *The Development Committee: Fund Raising Begins with the Board*. Washington, DC: BoardSource, 1996, 16 pages. The financial survival of the organization is very much dependent on the activities of the development committee. This booklet stresses the relationship between the committee and the staff; emphasizes the importance of involving the committee in planning; guides board members in the identifying, cultivating, and soliciting processes; and discusses the ethical issues related to the work of the development committee. Appendices include a sample job description for the development committee chair, a sample charge, and a worksheet that can be used to evaluate the committee composition.

## STARTING A NONPROFIT

Council on Foundations. *First Steps in Starting a Foundation*, Fourth Edition. Washington, DC: Council on Foundations, 1997, 108 pages. Learn the foundation basics — public versus private, community foundations, the three types of public charities, and the six types of private foundations. Also included is a valuable list of references and sample legal documents.

Hummel, Joan M. *Starting and Running a Nonprofit Organization*. Minneapolis, MN: University of Minnesota Press, 1980, 156 pages. This book provides a helpful checklist of things to be done when starting a nonprofit, along with information on recruiting board members, drafting bylaws, setting strategic goals, getting through legal red tape, raising and managing financial resources, and hiring staff.



Mancuso, Anthony. *How to Form Your Own Nonprofit Corporation*. Berkeley, CA: Nolo Press, 1990, approx. 300 pages. Here are step-by-step instructions for incorporating a nonprofit organization in all of the 50 states. Learn how to apply for IRS nonprofit status under section 501(c)(3); which legal and tax information is required in each state, and how to prepare Articles of Incorporation, bylaws, and minutes of the first board meeting. The author advises the reader to scan the entire book before starting to fill out specific papers to gain a necessary sense of the entire process. The Appendix gives an overview of the material covered and provides a checklist for completing the steps involved in forming a nonprofit organization.

## LEGAL ISSUES

Kurtz, Daniel L. *How to Manage Conflicts of Interest: A Guide for Nonprofit Boards*. Washington, DC: BoardSource, 1995, 16 pages. Attorney Daniel Kurtz helps board members understand exactly what constitutes a conflict of interest. He explains the legal context of the conflict, offers potential examples, and suggests guidelines on how to avoid them. The booklet includes a sample conflict-of-interest policy and statement, a questionnaire for board members to complete periodically, and a checklist of points to consider when establishing a conflict-of-interest policy.

Leifer, Jacqueline Covey and Michael B. Glomb. *The Legal Obligations of Nonprofit Boards: A Guidebook for Board Members*. Washington, DC: BoardSource, revised 1997, 32 pages. This primer, written for readers without a legal background, translates technical law into everyday language to help board members understand their fiduciary responsibilities. Learn what should be included in Articles of Incorporation, bylaws, and other internal documents; how to avoid personal liability; how contracts with outside parties should be structured; D&O insurance tips; and standards of conduct for board members.

National Center for Nonprofit Boards. *Board Members and Risk: A Primer on Protection from Liability. A special edition of Board Member*. Washington, DC: BoardSource, 1992, 16 pages. This special edition answers basic questions on directors' and officers' insurance, limitations of state volunteer protection laws, and concerns on insurance coverage and strategies to reduce liability for individual trustees and organizations. Question-and-answer sections; concise, nontechnical explanations; illustrative examples; and an extensive resource list are also included.

Sparks, John D. *Lobbying, Advocacy, and Nonprofit Boards*. Washington, DC: BoardSource, 1997, 24 pages. This publication provides the basic information necessary to get nonprofit chief executives and board members involved in the legislative process. Lobbying or political advocacy is essential to the construction of good public policy — and participation from nonprofit board members is especially important. This booklet will help your board and staff address the lobbying and advocacy process in a meaningful and effective way.

Zeitlin, Kim Arthur and Susan E. Dorn. *The Nonprofit Board's Guide to Bylaws: Creating a Framework for Effective Governance*. Washington, DC: BoardSource, 1996, 24 pages. The authors explain the importance of bylaws and outline the provisions that most bylaws should include. In simple, nontechnical language, they offer advice on when, how, and why to revise bylaws; the pros and cons of many provisions; and the important role that bylaws play in ensuring effective governance. The booklet also includes a checklist of the elements bylaws should contain, sample provisions, and a list of additional resources. Also available is a diskette, which includes 15 sample bylaws from a variety of nonprofit organizations.

## RECRUITMENT

Albert, Sheila. *Hiring the Chief Executive: A Practical Guide to the Search and Selection Process*. Washington, DC: BoardSource, 1993, 28 pages. Hiring a new chief executive is one of the most important tasks a board must undertake. This guidebook presents a model for the process that can be easily adapted by almost any nonprofit organization. The book stresses the importance of legal advice, identifies the most important characteristics of the next chief executive, and provides valuable questions for the candidate-interviewing process. It also includes a sample job description and a system for rating candidates.

Nelson, Judith Grummon. *Six Keys to Recruiting, Orienting, and Involving Nonprofit Board Members*. Washington, DC: BoardSource, revised 1995, 64 pages. A classic book of tools, this comprehensive handbook offers a step-by-step approach to help organizations build strong boards by attracting qualified and committed new members. Six Keys is packed with detailed suggestions, including model forms, sample letters, and checklists that can be used as is or modified to meet any specific needs. The publication guides boards and nominating committees through the processes of assessing the current board's composition, identifying and cultivating prospects, and recruiting and involving new board members. The 13 tools included in the booklet are available on one diskette in common word processing formats.

## GENERAL NONPROFIT

Mathiasen, Karl. *Board Passages: Three Key Stages in a Nonprofit Board's Life Cycle*. Washington, DC: BoardSource, 1990, 20 pages. This booklet will help with understanding predictable transitions and stages in a board's evolution that result from natural growth and change in the organization. Board members and chief executives will be able to anticipate, recognize, and prepare for change in their own board structure and operations, and realize that a status quo is not a natural option.

Robert, Henry M. and William J. Evans, eds. *The Scott, Foresman Robert's Rules of Order Newly Revised*. Dunmore, PA: HarperCollins Publishers, 1991, 706 pages. This is the classic, indispensable work on parliamentary procedure. Traditional but up-to-date, this manual provides answers to any question concerning parliamentary law and the fair and orderly procedure of meetings. A must for anyone participating in or chairing a meeting of any kind.

Salamon, Lester M. *America's Nonprofit Sector: A Primer*. New York, NY: Foundation Center, 1992, 110 pages. Salamon is concerned about the general lack of understanding of the nonprofit sector's role and impact in our mixed economy. This primer sheds light on America's nonprofit sector — its purposes, character, usefulness, and limitations. Section I of the book provides a broad overview, Section II looks more closely at the role of each of the major sub-fields in which the nonprofit sector operates and compares it with the roles played by government and private for-profit firms, and at the end the author sums up the observations.

## FINANCIAL ISSUES

Larkin, Richard F. *Not-for-Profit GAAP 98: Interpretation and Application of Generally Accepted Accounting Principles for Not-for-Profit Organizations*. New York: John Wiley & Sons, Inc.. 1998, 453 pages. A useful, complete, and practical guide to nonprofit accounting principles and financial reporting. This authoritative reference and practical research tool covers all aspects of every topic and provides practical guidance to financial statement preparers and auditors who need a comprehensive understanding of GAAP for nonprofit organizations.

## ORGANIZATIONS AND WEB SITES

**The American Society for Association Executives (ASAE )**. The world's leading membership organization for the association management profession. ASAE's Web site, <http://www.asaenet.org>, links to the world of more than 138,000 associations and organizations, large and small, that people join to pursue common interests. Write or call ASAE, 1575 Eye Street, NW, Washington, DC 20005-1168; 202-626-2723.

**The Council on Foundations**. A nonprofit membership association of grantmaking foundations and corporations whose mission is to promote responsible and effective philanthropy by assisting existing and future grantmakers. The Web site address is <http://www.cof.org>. Write or call the Council on Foundations, 1828 L Street, NW, Washington, DC 20036; 202-466-6512.

**Exemptlaw.com**. Provides answers to questions about the many legal and tax issues that affect nonprofit organizations in the United States. The web site address is <http://www.exemptlaw.com/>.

**GuideStar**. Published by Philanthropic Research, Inc., has information on the finances of over 600,000 nonprofits. The web site address is <http://www.guidestar.org>. Write or call Guidestar, 1126 Professional Drive, Williamsburg, VA 23185; 757-229-4631.

**Independent Sector**. Located at <http://www.IndependentSector.org/>, Independent Sector is a national leadership forum, working to encourage philanthropy, volunteering, not-for-profit initiatives and citizen action to help better serve people and communities. Write or call Independent Sector, 1200 18th Street, NW, Suite 200, Washington, DC 20036; 202-467-6100.

**The IRS World Wide Web**. To access information from the IRS on tax-exempt organizations, visit its web site at [http://www.irs.gov/bus\\_info/eo](http://www.irs.gov/bus_info/eo). The IRS has set up a toll-free number to answer specific questions about tax-exempt organizations. Call the IRS' Employee Plans and Exempt Organizations help line at 877-829-5500.

**The Internet Nonprofit Center.** Located at <http://www.nonprofits.org/>, this site has materials related to nonprofit accountability, including a library of publications, information, and data about nonprofit organizations and the nonprofit sector; a searchable Nonprofit Locator database with the name, address, assets, and revenues for each charity from the IRS' Business Master File; a chat room; and a gallery that includes brochures, annual reports, and home pages from various nonprofits. Write or call the Internet Nonprofit Center, 409 3rd Street, Brooklyn, NY 11215; 718-832-3114.

**BoardSource.** The publisher of this book, and more than 100 other governance-related resources. Its Web site offers an online bookstore; a list of Frequently Asked Questions; information on the center's governance consulting services and workshops; an online version of Board Member, BoardSource's members-only periodical; and membership information. The Web site address is <http://www.boardsource.org>. Write or call BoardSource, 1828 L Street, NW, Suite 900, Washington, DC 20036-5401; 202-452-6262.

**The National Council for Nonprofit Associations.** An umbrella, state-based network of associations of nonprofits that collectively represents more than 20,000 community nonprofits. The Web site address is <http://www.ncna.org>. Write or call the National Council for Nonprofit Associations, 1900 L Street, NW, Suite 605, Washington, DC 20036; 202-467-6262.

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