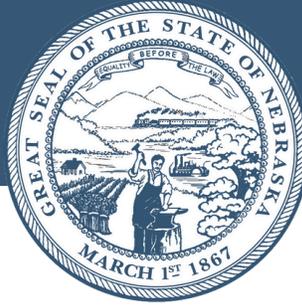




# Best Practices for a Nonprofit Organization





# The Nebraska Attorney General's Office

## Consumer Protection Division

The Nebraska Department of Justice publishes the following best practices to help nonprofit directors and officers serve their organizations in compliance with Nebraska law. We hope you find this information useful. For more information, visit our website at:

[ProtectTheGoodLife.Nebraska.gov](http://ProtectTheGoodLife.Nebraska.gov).

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## Board Size & Diversity

The number of board members a nonprofit corporation has should be dictated by the size and complexity of the organization. Generally, a smaller board is preferred because it requires board members to be more active and attentive to the operations of the organization. However, small boards may lack the expertise or critical mass necessary for healthy debate. Large boards are appealing for their varied expertise and fundraising potential. Yet, large boards may encourage absenteeism, strain support-staff services, and ultimately become unproductive or overly deferential to those board members (or executive leadership) that are more invested in the day-to-day operations of the organization.

When considering the size of a board, organizations should remember it is most important to have a board with members who attend meetings, take their responsibilities seriously, are willing to disagree with one another at times, and come to cooperative resolutions when necessary. An organization should make clear to prospective board members that membership on the board will require attendance at meetings and diligence to the organization's operations.

### **Organizations should be especially cautious in the following situations:**

- Board members know the executive director or CEO socially and then are expected to evaluate his or her performance objectively;
- A number of board members share personal relationships; or
- Too many board members fit into the same demographic group or share the same life experiences.



## Board Size & Diversity

*(Continued)*

Organizations should assemble a board comprised of a diverse set of members, helping to ensure a robust discussion of issues and prevent blind spots. It is common for a board, particularly of a large nonprofit, to become comprised of high net-worth individuals that organizations value for their professional skills and ability to contribute and solicit donations. It is important to be aware, however, that a board comprised almost solely of that type of member may have blind spots regarding the differences between a nonprofit and a for-profit organization, the importance of the nonprofit's charitable purpose, the efficacy of the organization in achieving its goals, and the significance of vigorously safeguarding charitable assets.

Nonprofit organizations should also consider board members with the array of skills, knowledge, and credentials necessary for the board to operate effectively (e.g., lawyer, accountant, fundraiser, etc.). At a minimum, board members need to be engaged and independent – not employed by the nonprofit nor family members of employees or other board members.



## Board Orientation & Training

Prior to joining a board, prospective board members should be knowledgeable about the mission, goals, and structure of the organization. An onboarding process should provide each board member with a comprehensive overview of (a) his or her anticipated responsibilities; (b) how the nonprofit operates; and (c) the latest financial statements and Form 990 filings. Once installed, board members should be provided with routine updates on operations and how the organization's programs meet the goals set by executive leadership. Moreover, board members must be familiar with the organization's revenue, operating expenses, compensation structure and figures, and the percentage of the organization's revenue being spent on its mission. This is best accomplished by providing board members regular financial statements for the organization and seeking their approval for the organization's annual budget.

Board members should also monitor the organization's overall operations and community impact, ensuring the organization is fulfilling its charitable purpose and donor money is being spent in a manner consistent with that purpose. Annual training surrounding a board member's legal responsibilities, especially as outlined in [\*Neb. Rev. Stat. § 21-1986\*](#), provides valuable education to board members and counsel for the organization.



# Transparency in Operations

Nonprofit organizations should be transparent regarding their operations and the value they add to the community. To that end, nonprofits should do the following:

- Establish, achieve, and regularly measure clearly defined levels of performance in their activities and share those results with the public.
- Be honest in solicitation materials – communicating truthfully and clearly with donors about how their gifts will be or have been used. Failure to do this may result in a violation of [Neb. Rev. Stat. §87-302\(a\)\(21\)](#).
- Adopt an executive compensation policy to ensure that the full board is aware of, and approves, the compensation of the executive director or CEO. Organizations should post compensation information for the executive director/CEO and other executive employees on the organization’s website.
- Adopt an expense reimbursement policy that requires prior approval when possible, allows reimbursement only for expenditures related to furthering the organization’s mission, and limits expenses to what is reasonable
- Adopt a whistleblower policy where employees or members of the public can anonymously report concerns or complaints.
- Adopt an internal policies to ensure those concerns or complaints are investigated appropriately and responded to swiftly. Smaller organizations that lack the resources or personnel to execute this type of compliance program should consider using a third-party service provider or legal counsel to perform these services.
- Make their IRS Form 990s, audited financial statements, annual reports, and governance policies available on their website and to the public upon request.



## Executive Compensation Policy

The board of directors should engage in an annual review of the performance and compensation of the executive director or CEO of the organization.

**That review, and the resulting compensation decisions, should be based on the following:**

- The performance of the executive director or CEO as assessed through the application of defined metrics;
- The performance of the organization in serving its mission and meeting its goals;
- The size of the organization and the complexity of its operations;
- The financial strength of the organization;
- The compensation paid by similar nonprofits, taking into account organizational size, mission, and geographic area; and
- The job market for executives of similar background and experience.

The purpose of a nonprofit organization is fundamentally different from that of a for-profit organization, and executive compensation must generally reflect that. Board members should use caution in using the compensation figures from for-profit organizations as a factor in determining compensation for executives leading a nonprofit organization. While executives of a nonprofit are not expected to take vows of poverty, their compensation is usually significantly lower than their peers at for-profit companies. The review process and compensation decisions should be clearly documented in the minutes from the board of directors' meetings. See also information from the [National Council of Nonprofits](#).



## Conflict of Interest Policy

A conflict-of-interest policy should (a) require those with a conflict (or who think they may have a conflict) to disclose the conflict/potential conflict to the board; and (b) prohibit interested board members from voting on any matter in which there is a conflict. The conflict-of-interest policy should also clearly set forth expectations for how the board and/or management should handle such a transaction. Minutes from board meetings where even a possible conflict of interest arises should clearly document the nature of the conflict and how the member(s) with the conflict and the board handled the situation.

The organization should view transactions that involve a conflict of interest very closely. The goal is to receive the needed product or service at the best price available. Toward that end, the organization should solicit multiple bids or offers and ensure that the organization is getting the best deal possible. Situations where employees are related to one another should be scrutinized closely. This is especially the case when members of senior management hire their own children or close family members, or when family members are placed in a position where one will be supervising another.

### **The organization should do the following when hiring:**

- Advertise open positions;
- Interview qualified candidates;
- Hire the best candidate available; and
- Pay each employee a fair wage for the work performed.

Organizations should also take steps to be proactive regarding possible conflicts of interest. At the beginning of their board service, and at least annually, board members should review and disclose any possible conflicts through a conflict-of-interest statement. Board members should be aware of the organization's conflict-of-interest policy and, depending on the size of the organization, may need to receive specific training on that policy. Board members and management should familiarize themselves with [Neb. Rev. Stat. § 21-1987](#).



## Making a Difference & Measuring Outcomes

Nonprofit organizations should have a written mission statement communicated to those within the organization and the larger community, through the organization's advertising (e.g. website), financial statements, annual reports, meetings, etc.

The directors and executives of a nonprofit, along with the organization's board members, should be able to articulate easily whether the organization is doing the following:

- Serving its nonprofit mission and making a difference in the community; and
- Serving as a good steward of the time, money, and other charitable contributions entrusted to them by donors. [Guidestar](#) offers tools that allow organizations to measure their effectiveness.
- A comprehensive evaluation system can help the organization measure the impact and effectiveness of its programs and services, while providing valuable insight to the board and executive leadership.

**For more information or guidance, these websites offer some valuable insights:**

- [National Council of Nonprofits](#)
- [Innonet](#)
- [Nonprofit Association of the Midlands](#)



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A glass jar filled with coins is shown in the background. A white label is attached to the front of the jar with the word "CHARITY" written on it in black, capital letters.

**CHARITY**