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Good Governance Policies for Nonprofits

It is hard to know what “good governance” is. You recognize it when everything goes smoothly, and you feel the lack of it when times are rocky. While there is no cookie-cutter approach to good governance, there are lots of recipes for disaster. So, how can a board of directors be sure that the charitable nonprofit they oversee is governed well today, and also ready to handle challenges ahead?

Good Governance is Like a Recipe

Good governance requires the right ingredients (the right mix of board members), a chef to provide leadership and accountability, and careful mixing and stirring of candid discussions, transparent practices, and thoughtful governance policies. Your board can master the recipe with the right resources. Your [state association of nonprofits](#) can provide many of the resources you need by identifying [principles and practices](#) and standards for excellence for nonprofits in your state. State associations also frequently offer educational programs on governance practices.

Here is a very basic recipe for good governance. While the practices listed below are those that the IRS highlights on the Form 990, even smaller nonprofits that file the 990-N should be aware of and adopt these basic governance practices.

Five Basic Good Governance Practices

- **Maintain [corporate minutes](#)** of all board meetings, and for committee meetings of any committees that are authorized to act on behalf of the board, such as an executive committee. (See IRS Form 990, Part VI, Section A, line 8)
- **Annually review** a written policy and complete a questionnaire about [conflicts of interest](#) (see [IRS Form 990](#), Part VI, Section B, Line 12). **Document** in minutes of board meetings when the policy is invoked.
- **[Approve the executive director/CEO's compensation](#)** and benefits, and document how the board determined that the compensation is appropriate and not excessive. (See IRS Form 990, Part VI, Section B, line 15)
- **[Require the board to review a copy of the IRS Form 990](#)** before it is filed (see IRS Form 990, Part VI, Section B, line 11). For smaller nonprofits that only file the Form 990-N, make sure the board knows about the annual filing requirement.
- **[Disclose to the public](#)** the nonprofit's three most recently filed annual returns with the IRS, as well as its application for tax-exemption and related correspondence and attachments.

Five Policies to Adopt

There are five governance policies that the IRS Form 990 asks whether a charitable nonprofit has adopted:

- [Written conflict of interest policy](#) (Part VI, Section B, Line 12).
- [Written whistleblower protection policy](#) (Part VI, Section B, line 13)
- [Written document retention/destruction policy](#) (Part VI, Section B, line 14)
- [Written gift acceptance policy](#) to govern the receipt of "non-cash" gifts, such as gifts-in-kind, and unusual gifts (land, vehicles, artwork etc.)
- **Joint ventures:** If the organization has participated in a joint venture, the IRS Form 990 asks whether the nonprofit took steps to avoid prohibited private benefit. (Part VI, Section B, line 16)
 - [Sample Joint Venture policy](#) (University of Notre Dame)

For more information on what the IRS requests, take a good look at [IRS Form 990](#), Part VI (Governance, Management, and Disclosure), Schedules M and O, and the [instructions to the Form 990](#).

Practice Pointers

- The [self-assessment process](#) is a way for a nonprofit board to compare its practices to benchmarks, and then prioritize its own development.
- [A focus on inclusion](#) and sensitivity to cultural differences (i.e., diversity of staff and [boards](#)) can help ensure that decisions your nonprofit staff and board make are based on a full spectrum of perspectives.
- [Orientations](#) can help onboard new board members so that they are aware of good governance practices from the start.
- Being aware of the [conflict of interest policy](#) is one thing; recognizing when a conflict of interest exists is another! Circulate the policy regularly and talk with the entire board (and staff) about the types of situations where a conflict can arise. Role play what would happen if one of the board members disclosed that they had a conflict of interest.
- Board members need an awareness of trends and the external environment that affects the organization in order to make good decisions. Encourage them to subscribe to their nonprofit state association's newsletters as well as the National Council of Nonprofits' [free e-newsletters](#).
- Help raise the board's awareness that good governance means being an advocate for your nonprofit with resources from the [Stand for Your Mission](#) project (BoardSource)
- As you are planning agendas for board meetings throughout the year, keep in mind that there are some issues that need regular attention. Here's our [annual board tune-up checklist](#). Nonprofit Law Blog's [calendar of agenda items for board meetings](#) is another useful tool.

More About Governance

- [Board roles and responsibilities](#)
- [Ethical and accountable practices](#)
- State-specific [Principles and Practices, and Standards for Excellence®](#) for charitable nonprofits in over 20 states

Additional Resources

- [BoardSource](#) offers publications, educational programs, and assessment tools. (Check with your state association of nonprofits for certain discounts.)
- [Top 15 Non-Profit Board Governance Mistakes](#) (Charity Lawyer Blog)
- [Governance check sheet](#) (IRS) (Used by the IRS when examining charitable nonprofits during an audit; Nonprofit boards can use this tool to benchmark their own organization's governance practices.)
- What should be included in [minutes of board meetings?](#) (Nonprofit Law Blog)

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