



LYONS, BENENSON & COMPANY INC.
MANAGEMENT CONSULTANTS

LB&Co. Critical Checklist For Boards Of Trustees And Compensation Committees Of Non-Profit Organizations

COMPENSATION PHILOSOPHY

- What should drive compensation in our organization?
- How do we define our competition for executive talent?
- How should our compensation program and levels be positioned relative to comparable organizations (both taxable and tax-exempt)?
- What is the desired relationship between pay and performance?
- What mix of compensation elements is optimal for our organization?
- Do we compensate staff members who work in the “for-profit” departments (*e.g.*, gift shop, asset management, publishing, etc.) of our organization differently than other staff members?
- Is our compensation philosophy and program having an affect on our stakeholders’ view and support of our organization?
- Are we at all vulnerable as a result of our approach to compensation?
- What are the key performance drivers and the leading indicators for our organization?
- Do the performance measures and goals used in our compensation plans align properly with our strategic, operating and financial plans?

INDEPENDENCE ISSUES

- Does the organization have a Compensation Committee?
- Would the members of the Committee meet the independence requirements common among public companies?
- Does the Committee have a charter?
- Is the Committee empowered to:
 - Set its own rules, policies, procedures and agendas?
 - Engage its own independent consultants and advisers?

LEGAL AND REGULATORY ISSUES

- Are our compensation programs in compliance with all applicable laws and regulations regarding non-profit organizations?
- Have we followed a process to create a rebuttable presumption of the reasonableness of compensation arrangements under Internal Revenue Code Section 4958?
 - An independent Committee approved executive pay plans in advance of implementation.
 - Before making its decisions, the Committee relied upon appropriate, independent data.
 - The Committee adequately documented the deliberations and decisions made regarding the pay plan.

COMPENSATION FUNDAMENTALS AND STRUCTURE

Base Salary

- Is there a systematic approach to position evaluation that underlies the salary structure?
- Are we satisfied that the position evaluation plan is yielding results that are internally equitable and fair?
- Are our salaries competitive in the market place?
- Do we have a formal approach to annual performance appraisal for executives?
- What role should annual performance appraisal play in setting executive salaries?

COMPENSATION FUNDAMENTALS AND STRUCTURE (cont'd)

Incentive Compensation

- Are incentives or bonuses appropriate for our organization given our not-for-profit status, our objectives and goals and our role in the community?
- Which positions, if any, should be eligible for incentive compensation?
- To the extent we have used incentives, are they based on an objective, formula-driven approach?
- What performance measures should be used for incentive compensation?
- Are all such plans administered by the Compensation Committee, another committee of the Board or the full Board of Trustees (or Directors) itself?

Benefits

- What is included in the organization's program of employee benefits?
- How do we assess the competitiveness and adequacy of each program element?
- Do we offer any benefit programs that are not available to all employees, such as deferred compensation?

Perquisites

- Is there a sound institutional reason for providing any perquisites?
 - If so, what perquisites should be provided and to whom?
- Are we accounting for, and reporting on, perquisites properly?

BOARD COMPENSATION

- Do we reimburse Board members for expenses incurred in connection with Board service?
- Do the primary businesses of any Board members receive compensation for services rendered on behalf of the organization?
- Have all such arrangements been accomplished through competitive bidding and are they transparent to all Board members?

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