ATTACHMENT – 10

EXECUTIVE COMPENSATION POLICY

Felicia's Promise, Inc.

EXECUTIVE COMPENSATION POLICY

BACKGROUND

The Executive Director of Felicia's Promise, Inc. (hereinafter "Corporation) is the principal representative of the organization, and the person responsible for the efficient operations, growth, and sustainability of the Corporation. It is the responsibility of the Board of Directors to ensure that the Executive Director is compensated at a marketable rate and/or reimbursed for expenses incurred by the Executive Director in furtherance of the Corporation, and such compensations and reimbursements are in compliance with the IRS Code 4958 and all regulations thereunder, and the Nonprofit Revitalization Act (NPRA). If the Executive Director's compensation and other reimbursements exceed $50,000, the total amount must be disclosed on the IRS Form 990 and it must comply with all legal requirements.

According to IRS Section 4958, organizations are not allowed to pay executives of 501(c)(3) organizations more compensation than is "reasonable" Also, insider relationships need to be disclosed (among officers, directors, founders, their families, etc.), and the IRS considers any form of compensation (salaries, pensions, and unpaid deferred compensation). In addition, payments for personal expenses, rents, personal use of the organization's property or facilities, or loans or other payments must also be reported.

Reasonable Compensation is the amount that would ordinarily be paid for like services by like enterprises, whether taxable or tax-exempt, under like circumstances.

1. Similar Services – a job match with substantially similar duties and responsibilities, including such factors as the number of employees managed; the size of the budget or assets managed; hours worked; and scope (national or local).

2. Similar Enterprises – Organizations used for comparison must be similar in size, usually measured by budget, assets, the number of employees or the number of persons served. Equally important, the organizations must provide similar services, usually classified using the National Taxonomy of Exempt Entities (NTEE). While some for-profit comparables can be used to determine reasonable compensation, the IRS says that exclusive reliance on them will "draw increased scrutiny and may lead to the tax-exempt organization not being able to rely on the rebuttable presumption of reasonableness." If the tax-exempt organization can show that tax-exempt and for-profit entities compete for the same pool of specialized talent, then the for-profit data can be used.

3. Similar Circumstances – All forms of compensation must be included in the comparison. For example, are there expense allowances or housing paid for some jobs and not for others? All financial benefits need to be included in the analysis. The geographic area should also be reviewed. If sufficient comparable data are not available for the geographic area, then a larger geographic might be necessary, in addition to potential cost-of-living adjustments.

Authority

1) The board shall have the authority to hire, employ, and reasonably compensate and/or reimburse the Executive Director of the Corporation, and ensure that the approval is without any conflict of interest. The board members do not have a conflict of interest if they:

    a) Are not benefitting from or participating in the compensation arrangement;

b) Are not in an employment relationship subject to the direction or control of any person benefiting from or participating in the compensation arrangement;

c) Do not receive compensation or other payments subject to the approval of any person benefiting from or participating in the compensation arrangement;

d) Have no material financial interest affected by the compensation arrangement; and

e) Do not approve a transaction providing economic benefits to any person participating in the compensation arrangement, who in turn has or will approve a transaction providing economic benefits to the member.

2) The Board of Directors will take all reasonable and prudent steps to comply with tax-exempt status to ensure that no part of The Corporation's net earnings inures to the private benefit of any individual or group of individuals.

3) The board establishes and periodically reviews The Corporation's executive compensation philosophy to ensure that the policy appropriately supports the organization's purpose and mission, attracts and retains key executives at a reasonable cost, and enhances the mission and purpose of The Corporation.

4) In reviewing and approving compensation, the Board of Directors shall rely upon comparability data to affirmatively determine that the compensation of the Executive Director is "reasonable" to the organization based upon information sufficient to determine whether the value of services is the amount that would ordinarily be paid for like services by like enterprises, whether taxable or tax-exempt, under like circumstances. Per IRS guidelines, relevant information includes, but is not limited to, compensation levels paid by similarly situated organizations, both taxable and tax-exempt, for functionally comparable positions; the availability of similar services in the geographic area of the organization; current compensation surveys compiled by independent firms, and actual written offers from similar organizations competing for the services of the Executive Director.

Delegation of Authority to the Executive Committee

- The board may authorize the Executive Committee to establish a job evaluation system and compensation policies for the Executive Director.
- The Executive Committee of the board reviews and approves cash and noncash compensation policies and programs applicable to the Executive Director.
- The executive committee obtains appropriate and comparable compensation market data including data from the following:
    - Similarly situated nonprofit organizations for functionally comparable positions
    - The availability of similar specialties in the geographic area
    - Independent compensation surveys by nationally recognized independent firms

- The executive committee documents the basis for the determination of reasonable compensation, including performance evaluations and market data.

- The executive committee shall make recommendations to the full board for approval of any compensation, benefits, and salary increase.

- The Executive Committee shall comply with state and federal legislation and shall establish the goals of internal equity, a reward for meritorious performance, effective recruitment, and retention of the Executive Director.

Procedures

The annual process for determining compensation is as follows:

1) The board of Directors shall annually evaluate the Executive Director on his/her performance, and ask for his/her input on matters of performance and compensation.

2) In addition, the Executive Director will submit a detailed report of reimbursable expenses with backups to the Board of Directors. The reimbursable expenses will be in accordance with the Corporation's fiscal policy. The executive director shall provide:
    a) what was purchased
    b) how much was paid for it, and
    c) who (or what company) it was purchased from.

    The documentation can consist of canceled checks, sales receipts, account statements, credit card sales slips, invoices, or petty cash slips for small cash payments.

3) The Board of Directors or designated executive committee shall execute the policy as follows:

    a) To be eligible for any general or merit increase, the executive director must have at least 12 months in the position

    b) Must have met at least 80% of the performance goals and objectives

    c) Must have adequate funds to support the salary increase in the upcoming fiscal year

    d) Must secure a majority vote by the Board of Directors

    e) Must ensure that any compensation, increase, or merit-based payment is per the Fiscal Policies of The Corporation

4) To approve the compensation for the Executive Director the board must document how it reached its decisions, including the data on which it relied, in minutes of the meeting during which the compensation and/or reimbursement was approved.

5) The Board of Directors must take into account all benefits paid to the Executive Director by the organization including but not limited to base salary, fees, bonuses, severance payments, retirement benefits, fringe benefits, and payments to welfare benefit plans, such as plans providing medical, dental, life insurance, and disability benefits.

6) The Chair of the Board of Directors, who is a volunteer and not compensated by the Nonprofit, will operate independently without undue influence from the Executive Director.

7) No member of the Executive Committee or Board of Directors will be a staff member, the relative of a staff member, or have any relationship with staff that could present a conflict of interest.

8) The Board of Directors shall review reimbursable expenses incurred by the Executive Director every quarter to approve and/or defer reimbursable expenses until the monies are available. All reimbursable expenses must be approved within the fiscal year, provided that:

    a) any expenses being reimbursed are incurred for a nonprofit business purpose, as outlined in The Corporation Fiscal Policy and accordance with the IRS guidelines,

    b) the executive director adequately accounts for the expenses within a reasonable period—no more than 60 days after the expense was incurred, and

    c) The executive director or employee returns any amounts received more than the actual expenses incurred within a reasonable period—no more than 120 days after receipt of the excess money.

9) Any payments The Corporation makes to the Executive Director for business-related expenses that do not comply with the IRS guidelines for the "Accountable Plan" rule are deemed to be made under an unaccountable plan. These payments made under the "unaccountable plan" will be considered to be employee wages, which means all of the following:

    a) the payments must be included on the executive director's IRS Form W-2, *Wage and Tax Statement*

    b) the executive director must report the payments as income on his or her tax return and pay tax on them

    c) the executive director may deduct the expenses—but only as a miscellaneous itemized deduction

    d) The Corporation must withhold the executive director's income taxes and share of Social Security and Medicare taxes from the payments

    e) The Corporation must pay the employer's 7.65% share of the executive director's Social Security and Medicare taxes on the payments

10) The Treasurer of the board of directors shall, in collaboration with the independent outside auditor(s), determine this compensation and reimbursement policy, and present it to the Board of Directors for amendments and approval