

Functions of the AED Board of Directors and Board Committees

Functions of the AED Board of Directors

Activities and Responsibilities

This memorandum sets forth in summary the responsibilities and activities of the Academy's Board of Directors and its related committees.

Pursuant to the original constitution and by-laws of the Academy, prepared in 1961, the Academy's Board of Directors has overall responsibility for the guidance and support of the Academy's mission to assist and support the improvement of all aspects of educational institutions and related educational activities in the United States and around the world.

The size of the Board may vary based on appointments year to year and has normally ranged from 18 to 25 members. There is a required annual meeting of the full Board and, by practice, the Academy holds two additional meetings (reflecting the updated recommendations for nonprofits of the Better Business Bureau), plus two Executive Committee meetings.

The growth in numbers and complexity of nonprofit organizations over the past decade or more has led Congress, the Better Business Bureau and the public to expect greater accountability for the operations of nonprofit organizations. The Academy, in receiving support from a wide range of foundations, government agencies, corporations, and individuals, is highly supportive of the need for continuing review and improvement of the governance of the organization. This includes the important role an independent, voluntary Board of Directors must play in the oversight of the organization.

The functions and responsibilities of the Academy's Board include:

1. Continuing oversight through regular reviews of the Academy's programs, activities and projects in relation to the organization's mission.
2. Oversight and fiduciary responsibility for the accurate and legal treatment and accounting for all funds received, expended, and invested.
3. Review of the financial and general management conduct of the officers of the Academy and their leadership and work, in relationship to standards in the nonprofit sector, public expectations, and in accordance with regulations from the Internal Revenue Service for such 501(c)3 organizations.
4. Conduct of the Board's work is through full Board and committee meetings, (including the Executive, Nomination, Audit and Private Resource Development Committees) and such other committees or task forces which the Board may establish from time to time.

5. At least annual review and approval of the operating budget of the organization, including detailed review and approval of the senior officers' compensation, including base salary and benefits in accordance with IRS guidance.
6. Appointment, review and acceptance of an independent, outside auditor and its report on the financial condition and operations of the Academy as reported through more intensive review from the Audit Committee.
7. Provide guidance, leadership and participation in support of the fundraising and grants funding development for the Academy's income.
8. Annual performance review and election of officers of the Academy's management, including its President and Chief Executive Officer. In line with this responsibility is the need for continuous succession planning for replacement of key officers of the organization.

In general, the responsibilities of the Board and its long-term contributions to the Academy have been to provide substantive guidance, ideas, recommendations and review of the program methods, accomplishments and needs in a continually changing world, concerning the social development and education activities of the organization.

This intellectual guidance includes interaction by the Board among its members, with individual staff and officers, and by Board outreach on behalf of the Academy in their daily professional lives to other organizations, businesses and communities in which they work and live.

Board members have also regularly participated in long-range strategic planning by the organization through retreats and participation in strategic planning meetings. The Academy is currently working under its *Strategic Plan 2000 – 2007*. Over the past two years, with able leadership from the Board as a whole and the Executive and Audit Committees, the Academy has also reviewed its operations in relationship to the Sarbanes/Oxley Act applied to commercial corporations to include governance and accountability. The Academy has implemented a series of additional steps and controls to ensure financial accountability, increase the opportunities to identify problems in programs, and to give greater emphasis to the ethical standards established by the organization. This anticipates that legislation which affects nonprofit organizations may well be enacted which parallels the Sarbanes/Oxley Act. The Academy is well-served to have had the Board's oversight and support for the implementation of additional procedures for the Academy's management.

The important principle followed by the Academy's operation of its Board of Directors in the past (and is recommended for operation in the future) is that the Board of Directors takes responsibility for and serves the critical needs of the Academy's governance as a whole Board. This is in contrast to some boards which leave the majority of responsibilities to a small number of people serving on the Executive Committee. In some cases, organizations find that utilizing

this approach has led to an inadequately informed board, and does not take full advantage of the strengths, capacities and breadth of the full board's competence.

Functions of the Committees of the AED Board of Directors

Executive Committee

The Executive Committee of the Board shall be composed of senior members of the Board, representing a cross-section of interests and competencies of members of the Board. The committee's number may vary from year to year and will normally be four to six members. The purposes of the Executive Committee shall be as follows:

1. Provide regular and thorough review of Academy plans, programs, finance and other appropriate matters for Board level review. The Executive Committee shall normally meet for such reviews between the principal meetings of the Board.
2. The Executive Committee shall have the same executive powers as the whole Board for conducting work at the Academy, and on behalf of the Board major issues enacted by the Executive Committee shall be reported fully to the Board at the next full Board meeting.
3. The Executive Committee shall advise the senior executive officer and other officers of the Management Committee of the Academy about the operation of the Academy based on presentations from the senior management and from periodic reporting by the President and other officers of the Academy to the Executive Committee.
4. The Executive Committee shall make preliminary reviews and recommendations to the Academy's management and to the Board regarding the annual budget, regular financial operations, program direction and, from time to time, special issues of management which need the Board's consideration.
5. Executive Committee members shall participate in representation of the Academy at appropriate meetings, functions or public affairs arranged by the Academy's management or on behalf of the Board as a whole.
6. Members of the Executive Committee shall also be members of the Compensation Committee who will be joined by the Chair of the Audit Committee for annual Compensation Committee reviews of compensation of Academy officers.
7. The Executive Committee will have the responsibility to recommend candidates to the Board for the position of President and Chief Executive Officer of the Academy in the event the position is vacant, or for a new appointment at the time of annual election. Committee members will also participate in succession planning before the presidential vacancy occurs.

8. The Executive Committee will serve as an intermediate body for review and discussion with the CEO as needed between Board meetings, or on behalf of the Board.

Audit Committee

(as stated in the Charter of the Audit Committee (approved November 5, 2003))

Purpose and Scope of Authority

The primary function of the Audit Committee is to assist the Board of Directors of the Academy for Educational Development [the Academy] in fulfilling its financial oversight responsibilities, primarily through:

- Overseeing management's conduct of the Academy's financial reporting process and systems of internal controls regarding finance and accounting;
- Monitoring the independence and performance of the Academy's independent auditors; and
- Providing an avenue of communication among the independent auditors, management and the Board.

Except as provided below, the Audit Committee's authority and actions are subject to the ratification by the Board of Directors, but only as:

- (a) A majority of the Board of Directors is independent as defined below, and
- (b) The Chair of the Board of Directors is not the Academy's Chief Executive Officer.

Composition

The Committee will have three or more members, as determined by the Board of Directors, each of whom must be an independent director. A member of the Committee will be considered independent if the Board, in its sole discretion, determines that he or she has no relationship that may interfere with the exercise of his or her independent judgment. Applicable laws and regulations will be followed in evaluating a member's independence.

No member of the Committee may accept any consulting, advisory or other compensation from the Academy.

All members of the Committee will have a practical knowledge of finance and accounting and be able to read and understand fundamental financial statements or be able to do so within a reasonable period of time after appointment to the Committee. At least one member of the Committee will have accounting or related financial management expertise, as the Board interprets such qualifications in its business judgment.

Audit Committee members will be appointed by the Board. Each member will serve until he or she is replaced by the Board, resigns from the Committee, or resigns from the Board. The Board will also appoint the Committee Chair.

Meetings

The Committee will meet at least twice annually in person or by telephone conference. The Committee will meet at least once a year in separate executive sessions with the independent auditors and with management of the Academy.

The Committee Chair will prepare and/or approve an agenda in advance of each meeting. The Committee will maintain minutes or other records of meetings and activities of the Committee.

The Committee will report regularly to the Board of Directors with respect to its activities and it will make recommendations to the Board as appropriate.

Responsibilities and Duties

The Committee's principal responsibility is one of financial and accounting oversight. In carrying out these oversight responsibilities, the Committee is not providing any expert or special assurance as to the Academy's financial statements or any professional certification as to the independent auditors' work. The Academy's management is responsible for preparing the Academy's financial statements and the independent auditors are responsible for auditing those financial statements.

The Audit Committee has the power to conduct or authorize investigations into matters within the Committee's scope of responsibility. The Audit Committee is authorized to retain, at the Academy's expense, special legal, accounting or other consultants or experts as needed to assist in an investigation.

The Committee has unrestricted access to members of management and other employees of the Academy, as well as to all information relevant to carrying out its responsibilities.

The Committee has the following specific responsibilities:

1. In its sole discretion, select, retain and, when appropriate, terminate the Academy's independent auditors.
2. In its sole discretion, set the independent auditors' compensation and pre-approve all audit and non-audit services to be provided by the independent auditors.
3. On an annual basis, consider the independence of the independent auditors, including whether the provision of any non-audit services is compatible with independence. Obtain and review a report from the independent auditors describing all relationships between the auditors and the Academy.
4. Annually review the overall audit plan with the independent auditors and with management.

5. Shortly after the annual audit is completed and before the annual report is published, review with the independent auditors and management:
 - (a) The Academy's annual financial statements and related footnotes;
 - (b) The independent auditors' audit of and report on the financial statements;
 - (c) The auditors' qualitative judgments about the appropriateness of accounting principles and financial disclosures and how aggressive or conservative the accounting principles and underlying estimates are;
 - (d) Any difficulties or disputes with management encountered during the course of the audit and management's response;
 - (e) Changes in accounting and auditing principles and procedures;
 - (f) Anything else about the audit procedures and findings that Generally Accepted Auditing Standards require the auditors to discuss with the Committee;
 - (g) The adequacy of the Academy's internal controls; and
 - (h) Any significant findings or recommendations made by the independent auditors, together with management's responses.
6. Review with the Academy's counsel any legal matters that may have a material impact on the Academy's financial statements.
7. Annually review policies and procedures regarding directors' and officers' expense accounts and perquisites, including their use of corporate assets. Annually review a summary of directors' and officers' related party transactions and potential conflicts of interest.
8. Review the Committee's charter annually and revise as necessary.
9. Perform any other activities consistent with this charter, the Academy's bylaws and charter, and governing laws, as the Committee or the Board deems necessary or appropriate.
10. Establish procedures for receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including anonymous submissions by employees.

Compensation Committee

The purpose of the Compensation Committee is to provide a Board-level review of officer compensation on an annual basis and to insure that compensation policies and procedures are consistent with the mission of AED. The activities of this committee shall include the following:

1. Review of the performance and related recommended compensation as salary and benefits and additional compensation for each of the official officers of the Academy's management. Comparisons shall include the following: review of

benchmark data from general salary surveys provided by the AED Human Resources office, drawn from private surveys, either commissioned or purchased.

2. Review salary and compensation comparisons drawn from other nonprofit organization tax forms and any related available data in journals such as the *Chronicle of Higher Education*.
3. Periodically review the trends in compensation and benefits based on data drawn from the PVO Financial Managers Association and other data in the private and nonprofit commercial areas for the relevant areas of Academy functions in Washington, DC, New York and other cities around the world.
4. Establish appropriate guidelines for the Academy's compensation policies, relative to reasonableness in the marketplace, appropriateness for nonprofit organizations, and comparison with other similar organizations.
5. Provide recommendations to the full Board of Directors for the compensation of senior officers and the President.

The Compensation Committee shall be made up of the Executive Committee of the Board plus the chairperson of the Audit Committee of the Board and such other members of the Board as shall be appointed by the Chairman of the Board. The Compensation Committee shall meet at least annually, prior to the Fall Board meeting, to review compensation and make recommendations to the Board. AED's President is expected to make available to Committee members a sufficient number of compensation surveys, related benchmark data from other organizations and material from associations relevant to the Academy's compensation.

From time to time, the management of the Academy, in cooperation with the Board, is expected to engage independent compensation counsel to review the material made available to the Board and the compensation patterns of the Academy to determine the continuing reasonableness of compensation in the marketplace for a nonprofit organization of the size, nature and mission of the Academy.

Nomination Committee

The Nomination Committee has the responsibility of identifying candidates for Board membership. Board membership is normally comprised of 18 – 25 people. Appointments to the Board are based on annual elections in accordance with the By-Laws of the Academy. Members serve for one-year terms and may be re-elected indefinitely. At the same time, it is the intention of the Board to have a revolving and evolving membership to allow for new participation in the Board. Board members are nominated by individual Board members and by the members of the Committee. In addition to the responsibility to identify and nominate potential members of the Board, Committee responsibilities include:

1. Review lists of prospective Board members and, as needed, to review the composition of the Board membership as currently constituted to ensure that the

capacities and strengths of the Board fully represent the missions and needs of the Academy.

2. Consider nominations for Board membership without discrimination and deliberately seek a diverse membership for the Board, to include participation by women, people of color, non-US citizens, and to ensure a breadth of generational representation and a full diversity of backgrounds and capabilities.
3. The Committee will meet at least annually and as needed when Board vacancies occur to review the projected needs of Board membership.
4. The Nomination Committee will be made up of at least three members of the Board of Directors and will work collaboratively with the Chairman of the Board, the Executive Committee, and the President of AED in conducting its work.

Private Resource Development Committee

The functions and responsibilities of the Private Resource Development Committee are as follows:

1. To advise and participate with the senior management of the Academy in building relationships with private sector resources for programmatic support of AED's mission and the strategies of centers and groups as coordinated with management.
2. To reach out to private businesses, corporations and individuals who are in a position to consider supporting Academy activities and its mission with true financial support or other partnerships and "in kind" giving or donations.
3. Advise senior management on approaches and key points of contact for its fundraising activities and private support development.
4. Participate in specific meetings or opportunities to represent the Academy to potential funding sources, in the private sector particularly.
5. Help the Academy's officers and other Board members to build relationships with private sector resource organizations and corporations and identify individuals for recommendation to the Nomination Committee who may participate in the Academy's Board of Directors or serve as advisors to the Academy's Board and its management for private sector resource development and planning.

The Private Sector Resources Development Committee shall meet at least annually or periodically as needed. Members of this Committee will interact and communicate primarily with the President and/or with the Senior Vice President for Global Resource Development and Cause Marketing.

Committee members will be expected to review information gathered by the President and the Senior Vice President for Global Resource Development and Cause Marketing regarding prospective donors and information about strategies for fundraising and to advise the Board on priorities for resource allocation for this purpose.

Program Review

In addition to the above standing committees of the Board – Executive Committee, Audit Committee, Compensation Committee, Nomination Committee, and Private Resource Development Committee – the Board may, from time to time, establish other standing committees and/or task forces which shall have a limited duration of existence in order to accomplish a particular task, rather than on-going review and functions as defined above. Such task forces may be drawn from members and non-members of the Board as the Board may determine based on recommendations from the senior management in order to effectively conduct the work of the Board. Such standing task forces may need to engage consultants or other specialized expertise in order to accomplish their work for a particular objective in line with approved scopes and budget outlined by the Board for such purposes.

The purpose of committees and/or standing committees of the Board is to ensure that the functions of the Academy achieve adequate review, in more specialized forums, made up of Board members who will meet together with members of the Academy's senior management and the CEO on subjects which need additional time beyond that afforded in regular Board meetings. Normally, such meetings will be scheduled to coincide with the time made available for regular Board meetings. Additional times may be scheduled based on the availability of committee members.

Participation in committees will be determined by annual appointment or election at the time of the Annual Meeting of the Academy's Board in June. Vacancies may be filled as they arise based on the Chairman's decision in collaboration with the President.

Committee members will serve for an appointment of one year. They may be re-elected to serve for additional periods of one year, with an indefinite number of re-elections. It is the Board's intent to periodically rotate membership in the standing committees to ensure that Board members can participate in the different functions of the Academy and to ensure that new ideas and perspectives are brought forth within the standing committees on each subject. Normally, participation in committees will be for periods of three to five years.

Program review of Academy activities has been normally carried out through the regular meetings of the Board as a whole and in meetings of the Executive Committee of the Board. Thus, four times a year a current status and presentation of programmatic accomplishment and programs undertaken and completed have been conducted in written format presented to the Executive Committee and/or the Board as a whole.

Beginning in 2006, it is expected that the three meetings of the full Board will be held on the first Wednesday of March, June, and November of each year.

In addition to advance mailings sent prior to Board meetings, each Board meeting includes a 3-ring notebook which contains detailed material concerning programs, finances, activities, operations, resolutions and other matters including compensation which need to be brought to the attention of the Board in accordance with the by-laws and charter of the organization. These materials are maintained on file by the Executive Assistant to the President as a regular historical record and are available for review by Board members and senior officers at any time. Board members are expected to sign each year a disclosure statement on conflict of interest.