



Management Consulting to Independent  
and International Schools Worldwide

**LITTLEFORD & ASSOCIATES**  
— GLOBAL ISSUES | LOCAL SOLUTIONS —

Board Governance | Head Compensation | Mentoring Heads | Faculty Compensation & Evaluation | Fundraising | Leadership Transitions  
Safe Harbors Compliance | Executive Searches | Financial Management | School Climate & Morale Issues | Marketing | Strategic Planning

# THE SAFE HARBORS ACT: THE NECESSITY OF DEMONSTRATING ANNUAL COMPLIANCE

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Littleford & Associates provides, for US based schools, crucial information to avoid problems emanating from misinterpreting, or inadvertently overlooking "Safe Harbors" limits.

## 1. What Constitutes Compliance?

The "Taxpayers' Rights Act", of which the "Safe Harbors Act" or the "Intermediate Sanctions Act" is a part, provides that every 501 C3 institution in the United States must annually review the CEO's compensation to ensure that it falls within a normal range for similar positions in similar institutions or meet criteria for "replacement costs." The institution must have a written record of compensation decisions, including: the details of the actual decision; the names of those participating in the decision-making process; and the date of ratification. Those participating must have no personal, financial or relational interest in the outcome of the compensation arrangement.

## 1. How Does A School Obtain "Safe Harbors" Documentation and Protection?

With the most complete and accurate "Safe Harbors" documentation available to independent schools, and other educational organizations, Littleford & Associates offers guidance to avoid or limit investigation or litigation. The source of our information is direct dialogues with almost 2,000 heads of school and board chairs, with whom we have established personal relationships based on our respect for confidentiality.

These educational leaders entrust us with information about all components of a head's compensation package, which are usually under-reported, or not reported at all to regional and national associations where it may be possible to trace data to a single source. A unique and current database is a tool to work with boards to accomplish two key objectives: provide an equitable package to retain effective heads; and document fully where the proposed compensation falls relative to similar organizations and the cost of replacement of the current leadership. **It is critical that outside consultants work with boards, not heads, to avoid conflicts of interest in all services in this delicate, and potentially confusing area of head compensation.**



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Schools, colleges and other non profit foundations and educational agencies retain our firm to conduct an onsite, comprehensive, third-party review of the head's/CEO's overall compensation package every two to three years. The compensation review not only looks at absolute numbers but benefits, deferred compensation design, compensation structures, and guidance for the evaluation of heads of schools and other organizations.

In intervening years, we may provide a written, updated analysis for the board chair only. Every nonprofit is subject to potential legal scrutiny and media attention, and the importance of this annual update to insure "Safe Harbors" compliance should be acknowledged.

### 1. The Current Climate

In the past year, several US metropolitan newspapers have published the salary and benefits packages, including the market value of housing arrangements and other benefits, of the heads of area nonprofits. The Safe Harbors Act allows anyone in the US to obtain a 990 form on the CEO's salary and benefits package.

To avoid embarrassment and potential legal action, it is wise to ensure that your school or nonprofit has undertaken the following: practiced due diligence in setting, as well as in designing, the head's salary and total package; has accurate documentation to demonstrate "Safe Harbors" compliance ANNUALLY; and understands the national pattern and practice of reporting on the 990.

With the proper professional guidance, independent schools and other non-profits will find that demonstrating "safe harbors" compliance is neither a complicated nor an onerous process.

John Littleford

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For additional information about this topic, please click here:

- [Why Retain Professional Assistance Regarding Head Compensation?](#)
- [Section 4958 - "Intermediate Sanctions"](#)

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