A photograph of a diverse group of people in a professional meeting. A man in a grey suit is speaking and gesturing with his hands. A woman with glasses and curly hair is smiling and looking at him. Other people are visible in the background, some looking at a laptop on the table. The image is partially covered by a large green circle that contains the title text.

A SIMPLE GUIDE TO NONPROFIT GOVERNANCE FOR BOARD MEMBERS

Whether you have served on a Board many times or are serving for your first time, join us as we discuss what it's all about!

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GOVERNANCE

Governance is what a Board does. It sounds great to be honored with a request to serve as a member of a nonprofit's Board of Directors. But don't take the request lightly, as it comes with great responsibility and commitment. Governance can become easily complicated as one starts reviewing all the literature and guidance related to a nonprofit Board of Directors. We hope to bring structure and focus to all that you may have read or been told.

The Board's governance role ensures the nonprofit achieves its mission and that the organization is viable. Both relate to the ethical responsibility that a Board has in the exercise of its authority over the actions taken by the nonprofit. Public trust and accountability are an essential aspect of organizational viability, so that the nonprofit achieves the mission in a way that is respected by those whom the organization serves and the community in which it offers services.





The Board is a governing body – its role is to exercise control over the affairs of the nonprofit organization.

Your role as an individual Board member is to act as a leader, exercising influence over the governing activities of the Board.

MISSION ACCOMPLISHMENT

The Board is responsible for mission accomplishment. The Board is responsible to establish the mission, vision, and values of the organization. The Board is responsible to keep these updated over time, so they remain responsive to the internal characteristics of the organization and the external environment in which it operates. In addition, the Board is responsible to ensure the organization accomplishes its mission. This responsibility can be divided into three basic categories of responsibility:

- **Set direction** – ensure compliance with mission, vision, values, conduct strategic planning, establish policy, delegate authority
- **Provide oversight** – to include setting goals and expectations of the Executive Director, providing financial oversight, evaluating the effectiveness of programs, and monitoring progress toward strategic goals
- **Ensure resources** – strategic partnerships, human resources, financial resources



Did you know...Nonprofit Board members are responsible for ensuring that the nonprofit has the financial resources needed to accomplish its mission...yes, this means Board members are responsible for fundraising!



ETHICAL GOVERNANCE

A Board must govern ethically. The Board has a fiduciary duty to act in the best interest of the public. The Board is responsible for ensuring ethical nonprofit operations, and it must comply with ethical standards in governing the organization.

Individual Board members have duties that are defined by best practice and often by law. When you agree to serve as a Board member, you are agreeing to accept responsibility for the duties of the position. The duties of a Board member are:

- **Duty of Care** - actively participate, pay full attention to one's duties as a Board member, and take the care that an ordinarily prudent person would exercise in a like position and under similar circumstances.
- **Duty of Loyalty** - make decisions based on the best interest of the organization, setting aside one's own interest or the interest of others.
- **Duty of Obedience** - remain true to the mission and adhere to all federal, state, and local laws.

**As a Board member, you are a
steward of the public's trust.**





**Duty is a moral commitment,
and in many cases,
a legal obligation.**

**Board members are individually
responsible for the duties of
care, loyalty, and obedience.**

GUIDING DOCUMENTS FOR THE BOARD

A nonprofit is a business entity that is organized to benefit the public. What most people think of when they think of a nonprofit is the public charity or private foundation, which are recognized by the IRS as tax-exempt under Section 501(c)(3) of the Internal Revenue Service (IRS) code, although there are other types of nonprofits that are organized under other sections of the code. One trait in common to all tax-exempt organizations is that no part of the organization's net earnings can inure to the benefit of any private shareholder or individual.

To ensure the nonprofit maintains its status as a tax-exempt organization, there are many documents that guide its operation. These documents are necessary to ensure the viability of the nonprofit. The Articles of Incorporation and Bylaws are organizing documents that describe the type of business entity and how it will be governed. Many other documents are important to the Board, some of which guide the Board in fulfilling its role, and others that guide the day-to-day operations. Contracts, leases, and MOUs (memorandum of understanding) describe how the organization will do business with other business entities.



There are also reports that are compiled for the Board or for outside entities, including the IRS. Some examples of these important documents include:

- Board job descriptions
- Committee charters
- Policies and procedures
- IRS Form 990
- Audited financial statements
- Accreditations
- Annual reports

Many of these documents will have been put in place by the Board and others require Board review and approval. The Board should be familiar with these documents and have them as for reference when making decisions. Thus, they should be included in the Board Manual that new Board members receive when they are elected to the Board of your nonprofit.

**Documentation
provides direction
and transparency.**



Board Practices to Ensure Nonprofit Viability

Practices of the Board in governing the organization will have a considerable impact on the nonprofit's long-term success. These include:

- Corporate minutes are taken, reviewed, and approved for all Board meetings (including committee meetings for committees that are authorized to act on behalf of the Board, such as an executive committee).
- The Board sets policy that guides the Board in its governing duties and provides direction for nonprofit operations.
- The Board approves the executive director/CEO's compensation and benefits, and documents how the Board determined that the compensation is appropriate and not excessive.
- The Board reviews a copy of the nonprofit's annual IRS Form 990 before it is filed.
- The Board ensures transparency of information and discloses to the public the nonprofit's 990s, organizing documents, and Board meeting minutes, at a minimum.
- The Board approves and uses consistent messaging that is also used by staff, volunteers, and other stakeholders.

**Transparency
inspires trust.**



BOARD MEETING MINUTES ARE CRITICAL

Board meeting minutes are critical to the viability of the nonprofit. So here is where you may be asking, “What do Board minutes have to do with the viability of the nonprofit?” We're glad you are giving all these practices careful consideration. The IRS requires tax-exempt organizations to record minutes of their meetings and to keep them permanently. Meeting minutes, along with the annual tax return filed with the IRS, known as Form 990, are public record. Minutes may also be included in discovery in legal proceedings, so they should be clear and accurate. They should also be written so that content protected under attorney-client privilege can be redacted.

In general practice, minutes can be very useful. The minutes are

a record of all actions taken by the Board, so they are a valuable tool when you need to research dates and details of decisions made in the past. This is beneficial for general recordkeeping, and it can also help with problem-solving. Let us elaborate by giving an example. A small nonprofit, ABC, is growing in terms of fundraising and client impact. It has grown its impact through a partnership with another nonprofit, XYZ, who has a client base that can use the services of ABC. The ABC Board invited the XYZ Executive Director to meet with their Board, and a client referral process was agreed upon. Note that no memorandum of understanding (MOU) was signed between the two nonprofits. The Secretary of ABC documented in the minutes how the client referrals between the two nonprofits would be handled.

Fast forward in time, and now, three years after the decision was made, XYZ has a new Executive Director who is not pleased with the client referral process. In fact, XYZ is claiming ABC is “stealing” its clients. The issue is quickly escalating. The ABC Board Chair reviews the minutes of the Board meeting at which the client referral process was agreed upon and consults with ABC Executive Director to see if the process has changed over the past three years. It had not. ABC Board Chair contacts XYZ Board Chair and goes over all that has transpired. Thankfully the minutes and current process were aligned, and the issue was diffused through considerable communication. The ABC and XYZ Chairs agreed a MOU is much needed to avoid any future disconnects. Without those minutes, ABC could have faced legal action and negative press in the community.



Minutes are required by the IRS and must be made available to the public.



All agreements between agencies should be documented with a MOU.

BOARD POLICIES HELP ENSURE NONPROFIT VIABILITY

Board policies not only ensure viability but also enable and guide nonprofit operations. For example, they enable funding from granting agencies that will require many of these policies to be in place. Must-have policies include:

- Whistleblower protection - to ensure anyone associated with the nonprofit knows they are encouraged to report questionable practices/actions and provides them a process for doing so
- Document retention/destruction - maintains the integrity of the nonprofit's operations and decisions
- Gift acceptance - specifies the gift acceptance criteria, especially of "non-cash" gifts, such as gifts-in-kind, and unusual gifts (land, vehicles, artwork, etc.)
- Donor privacy - assures the donor that their donations are kept private and no information about their donation is released to the public without their permission
- Diversity - the nonprofit's commitment to not discriminate in hiring, serving clients, and seeking out services from the community.
- Client confidentiality - assures individuals the nonprofit serves that their personal information will not be published without their permission
- Financial Policies and Procedures - approved by Board to be followed by all staff and Board members





BOARD ROLES AND RESPONSIBILITIES

Roles and responsibilities of directors and officers are determined by each organization.

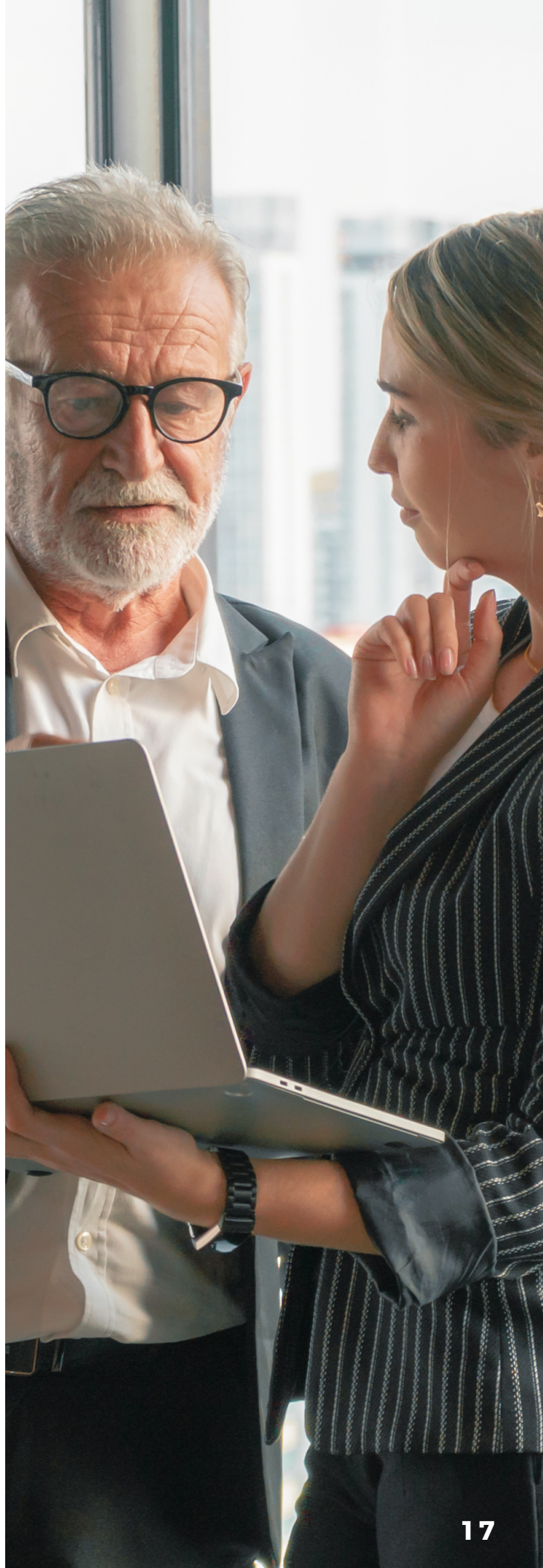
The IRS and state law dictate minimum requirements for governing boards and for individuals who serve as directors and officers of nonprofits. However, each nonprofit has the opportunity to further define the roles and responsibilities of directors and officers. Most often, the duties are covered in the nonprofit by-laws. They may also be further defined in a Board Member Roles and Responsibilities document provided to Board members upon election to the Board. Best practice is to have Board members read and sign this document annually.

The roles and responsibilities often include:

- Making an annual donation to the nonprofit – either personally or through their own business
- Fundraising – raising money for the nonprofit and leveraging their personal network to do so
- Committee membership – this could be Board committees or those established to raise money and/or engage community members in the nonprofit's work, such as a golf tournament committee
- Strategic planning – participating in a Board retreat for strategic, long-range planning

Board members may also volunteer in other ways to support the nonprofit mission, for example, by working with the clients served by the nonprofit or helping with various other operational matters. This type of volunteer work is in addition to their role as a Board member. If you agree to volunteer to perform duties outside your duties as a Board member, it is important not to confuse your role as a Board member with your role as a volunteer when providing another type of volunteer service. This is where job descriptions for Board members and other volunteer positions can help to avoid confusion.

Board members of small nonprofits may wear many hats.





In summary, being a Board member is a weighty responsibility that requires commitment and high ethical standards. But the gratitude and blessings you will receive for sharing your time, treasures, and talents with those in need are well worth it.

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