

Board Members

What are My Responsibilities?

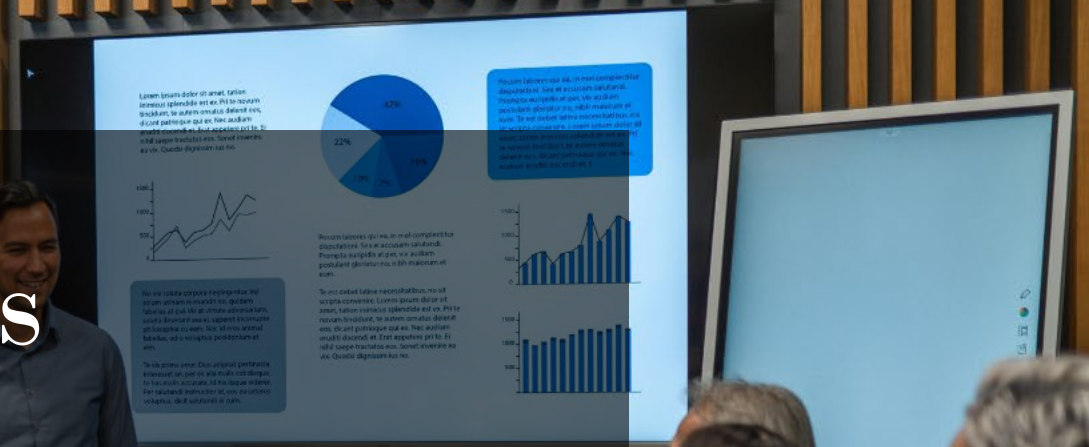
DISCLAIMER:

This presentation was modified in June 2024. Attendees are cautioned that this presentation is not intended to provide tax, legal, or accounting advice. If such services are required, attendees are advised to seek the aid of competent professionals. No assurance is given by Ketel Thorstenson, LLP or the presentation speakers that subject matter discussed during the seminar is complete, authoritative, or all-inclusive.



Board Responsibilities

- Board Composition
- Legal
- Operations
- Policies
- Financial



Board Composition



Volunteers

- Intention is to have a diverse board with expertise in different areas and representative of the community it serves.
- Recommend at least 2/3 of the members are independent.




Number of Volunteers



- The number of board members shall not be less than three.
- Recommendation is a minimum of five members with the average being 15.
 - Having too many board members may make it difficult to schedule meetings, make concise decisions, and engage all members.
 - The size of the board will vary depending on the type and complexity of the organization.

Terms

- 
- A background image showing a group of people in business attire sitting around a table, reviewing documents and using a laptop. The scene is brightly lit, suggesting a professional meeting or collaborative work environment.
- No requirements to have set terms. May be established in organizational articles of incorporation or bylaws.
 - Considerations when setting terms:
 - Historical knowledge
 - Networking relationships
 - New ideas additional members can bring
 - Time required for board position to minimize burnout
 - Typically, one-to-three-year terms.

Orientation/Education

- Set expectations early when recruiting, preferably in writing to include:
 - Number of meetings annually
 - Personal financial contribution requirements
 - Number of committees and special events to participate
 - Process for nomination and selection
- Topics to include during orientation/upfront during recruitment might be:
 - Mission and vision
 - Founder's story/vision
 - Business plan
 - Overview of major programs and operations
 - Board responsibilities
 - Organizational policies and procedures
 - Financials & 990s

Orientation/Education (cont.)

- Recommend formal training on organizational policies (i.e., ethics, gift acceptance, conflict of interest).
 - Not enough to distribute policies and ask board members to sign a statement saying they have reviewed and understood them.
- Consider assigning each new board member with a veteran board member to serve as a mentor.



Effective Meetings

- Industry practice is to hold quarterly meetings at a minimum. The number of meetings needed will be dictated by the complexity of operations.
- Recommend in person meetings.
 - Zoom/Teams meetings when necessary.
- Send out meeting agenda and supporting documents in advance of the board meeting to give members time to prepare.
- All board decisions must be documented in meeting minutes as required by state law.

Committees

- Created to handle work too detailed for the entire board but does not alleviate the full board from accountability.
- Your organization's complexity will dictate what type of committees you need. Common examples include:
 - Executive – Acts on behalf of the board when it's not necessary or possible to have a full board meeting.
 - Finance – Helps prepare annual budget, monitors cash needs, and creates financial statements.
 - Audit – Monitors internal controls over financial reporting and compliance with laws and regulations. Approves auditors and annual audit reports.
 - Investment – Monitors investments, investment return, and compliance with investment policies.
 - Compensation – Oversees highly compensated individuals to ensure the compensation is competitive with other NPO's.



Legal

Duty of Care

- Requires the board to conduct the affairs of the non-profit in a way that a prudent person would.
- Board members are expected to make reasonable and sound judgments when acting on behalf of the non-profit.
- Active preparation for, and participation in, board meetings where important decisions are to be made is an integral element of the duty of care.

Duty of Loyalty

- Requires the board to be loyal in its dealings with the non-profit and to put the organization's needs above its own.
- A board member should never use information obtained as a member for personal gain.
- A robust conflict of interest policy covering both financial and nonfinancial conflicts is fundamental to fulfilling the duty of loyalty.

Duty of Obedience

- Requires the board to be faithful to the mission of the organization.
- Board members should not take action that is inconsistent with the non-profit's mission.
- The board's responsibility to ensure compliance with laws and regulations falls within this responsibility.



Operations





Purpose of the Mission

- Addresses why the Organization exists.
 - What it hopes to accomplish?
 - What activities it will undertake?
- Explains and popularizes the Organization's purpose.
- Helps guide the Organization's work and keeps everyone on the same page.

Setting & Communicating the Mission Statement

- The mission should be clear and concise.
- Think long-term and get feedback!
 - Does it provide continuity for future boards?
- Communicate the mission statement early and often.



Mission Statement Examples:

#1. At Quantum Synergies, our unwavering commitment is to the dynamic synthesis of transformative paradigms and innovative synergies, driving exponential growth through strategic leveraging of disruptive technologies and holistic integration of sustainable methodologies. By fostering an ecosystem of proactive collaboration and agile adaptation, we seek to catalyze a resonant convergence of stakeholder value and global impact, perpetually elevating the threshold of excellence and transcending traditional boundaries to cultivate a future-oriented vision of unparalleled distinction and omnipresent relevance.

#2. "Empowering communities through education, advocacy, and sustainable development to create a world where everyone has the opportunity to thrive."

Carrying out the Mission

- The board is charged with helping the Organization achieve its mission.
- The board sets and oversees the implementation of strategic objectives to fulfill the mission. These objectives should be:
 - Measurable
 - Specific
 - Realistic
- The board should set a strategic plan to assist in achieving desired outcomes.
 - Strategic planning is conducted on a regular basis separate from regular meetings.

Hiring & Evaluating the CEO

Hiring

- Make a comprehensive list of qualities the role requires.
- Finalize a job description.
- Set an appropriate compensation package based on salary surveys and comparability studies.

Evaluating

- Establish performance standards.
- Conduct informal and formal evaluations.
- Provide support and guidance.

A photograph of a wooden desk with various office supplies. In the foreground, a grey folder with a white label that says "Policies" is the central focus. To the left is a white calculator. To the right is an open notebook with a yellow cover. In the background, there are three small potted succulents and a grey folder.

Policies

- Questions concerning written policies can be found in Section B Part VI of the 990.
- Policies are not required by the Internal Revenue Code, although the IRS has made it clear they expect organizations to have written policies.
- In the eyes of the IRS, not complying with a written policy is more harmful than not having a policy at all.



Conflict-of-Interest Policy

- Avoid the appearance that actions as a board member are putting personal interests above the interest of the nonprofit.
- A conflict of interest arises when a person in a position of authority over an organization, such as a trustee, director, officer, manager, or key employee (TDOKE) can benefit financially from a decision that could be made in that capacity.
 - This includes benefits to family members and businesses with which the person is associated.
- A person's competing respective duties to the organization and another organization (serving on the board of two different organizations) does not create a conflict, as long as the dual service does not involve a material financial interest or benefit to them.
 - Dual service might create fiduciary complications and should be disclosed as a best practice.

Conflict-of-Interest Policy cont.

- Conflict-of-interest policy does not have to prohibit the nonprofit from transacting with a board member or a board member's business but should ensure that transactions are at an “arm's length.”
- Should annually disclose any potential conflicts of interest.
 - Examples: Profits or ownership interests in a business, family, or business relationships with any trustees, directors, officers, or key employees of the organization.
- If a conflict-of-interest policy is not in place at the end of the fiscal year, you can still disclose in Schedule O on the 990 the procedures followed when a conflict arises.

Conflict-of-Interest Policy cont.

A conflict-of-interest policy should take into account applicable state law. The policy should also:

- Apply to the type of nonprofit entity
- Define what creates a conflict of interest
- Identify the classes of individuals covered (TDOKEs)
- Include a questionnaire to facilitate identifying conflicts of interest
- Specify procedures to be followed if a conflict is identified
- Describe any restrictions imposed on persons with a conflict
 - Such as prohibiting them from participating in the decisions made that impact the organization and the party identified in the conflict

Whistleblower Policy



- A whistleblower policy encourages staff and volunteers to come forward with credible information on illegal practices or violations of adopted policies of the organization.
- Policy should specify the whistleblower will be protected from retaliation.
- Identify the staff, board members, or outside parties with whom information can be reported.

- Identifies record retention responsibilities of staff, volunteers, board members, etc.
- Provides guidance on the length of time for retention of both electronic and hard copy information
- Identifies IT back-up procedures
- Documents network maintenance practices



For both Whistleblower & Document Retention Policies:

Federal law imposes criminal liability on retaliation against whistleblowers that report federal offenses and for destruction of records with the intent to obstruct federal investigations.



Gift Acceptance

- “Don’t look a gift horse in the mouth” isn’t always true for nonprofit organizations.
- Non-cash gifts, split-interest gifts, insurance policies, real estate, cryptocurrency etc. can have unwanted or undesirable implications to the organization.
- Gift acceptance policy educates staff and governing board about issues triggered by certain kinds of gifts.
- Gift acceptance policy de-personalizes saying “No” to certain types of gifts.
- Draft the policy, have it reviewed by legal, and have the board adopt the policy.
- Review the policy once per year.

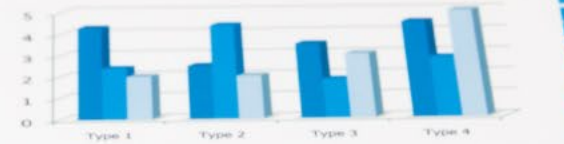
Gift Acceptance cont.

- Make sure acceptable gifts are in-line with the mission of the organization.
- What is the motive of the donor? Is a gift truly going to help the organization or is it a way for the donor to offload undesirable property on the nonprofit.
- Gifts of marketable securities – will these be accepted? And if so:
 - Will the organization maintain the donated security?
 - Will it liquidate and convert to cash?
 - Will it add to the existing investment/endowment portfolio?
 - Will the organization have to manage another brokerage account?
 - *This can be time consuming!*
- Gifts of closely held businesses generally do not have a readily available market and cannot be easily sold.

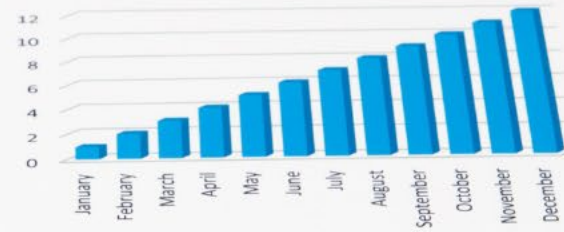
Gift Acceptance cont.

- Gifts of real estate may not be easily sold, and they might not generate cash flows.
 - They generally need appraisal, which can be an unforeseen expense to the nonprofit.
- Gifts of tangible personal property.
 - Is there a market for the item?
 - How long will it take to sell? Associated costs?
- Gifts with restrictions:
 - Does the organization want to accept gifts with donor restrictions?
 - Will the organization obtain variance power?
- Remember, the nonprofit needs to call the shots when accepting gifts.

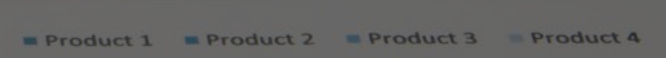
Fund	Unit Price	NAV	Prem/(disc)	Dividend Yield
BKCP	9.90	12.20	81.13%	6.48%
SKWLD	12.20	52.12	55.64%	5.54%
IWLKS	53.45	15.15	45.54%	7.84%
SKWOS	62.15	68.15	78.15%	8.14%
ISKJLS	14.15	20.54	30.48%	1.41%
AKSDK	33.45	40.14	51.14%	4.88%
PKDKJ	85.15	70.44	65.45%	6.44%
KSPKW	77.15	60.45	56.41%	5.55%
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Financial



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Financial Information

- Basic understanding
 - Level of involvement depends on experience of staff and processes in place
- Review monthly financial statements
 - Internal financial statements
 - Statement of financial position (assets, liabilities and net assets)
 - Statement of activities (income statement/revenue and expenses)
 - Resources available
 - Restrictions on resources
 - Bank statements
 - Bank reconciliations

Financial Information (cont.)

- Budget process
 - Annually adopted
 - Reviewed for comparison to actual monthly or quarterly
- Form 990 (annual tax return)
 - Available to the public
 - General financial information
 - Also includes policy and operational information
 - Maintain nonprofit status
 - Board should see before filed with IRS
- External Reporting
 - Compilation, review, or audit
 - Depends on grant, loan, or other regulatory requirements
 - Some by choice to provide donors with assurance or obtain future grant funding
 - State filings for fundraising activities

Financial Information (cont.)

- Benchmarking/Key Ratios
 - Program service expense ratio
 - Liquidity
 - Net assets without donor restrictions
 - Operation performance measures
 - Number of programs
 - Program benefits - # of people served, meals provided, counseling sessions, etc.

Internal Controls & Segregation of Duties

- Goal – separate authorization, recording, and custody
- Proper review and supervision
- Cost/benefit analysis for each organization
- Mitigating controls
 - Board involvement

- Debt covenants
- Grant compliance
- Restricted donations

- General regulations
 - Payroll
 - Sales tax
- Internal Revenue Service
 - Contribution acknowledgement
 - Lobbying and political activity limitations
 - Meeting exempt purpose
 - Unrelated business income

Thank you for joining us today!

Resources:

www.guidestar.org

www.councilofnonprofits.org

www.stayexempt.irs.gov

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