

## Roles and Responsibilities of Nonprofit Boards<sup>1</sup>

### Principal Role: Stewardship

1. Ensure that the organization is operated for charitable purposes, not for private benefit.
2. Ensure that the organization's assets/funds are held "in trust" for use in meeting its charitable mission and used effectively.

### Basic Requirements:

1. Active Participation – The board cannot fulfill their legal responsibilities without being active participants in the management of the organization.
2. Informed Participation – The board must ensure that it has enough information about the operations of the organization to determine if it is being operated in ways that fulfill its mission and are fiscally responsible.
3. Loyalty – The board must be focused on promoting the health and well being of the organization, not any private interest. All potential conflicts of interest must be disclosed. Great care must be taken to ensure that any transaction between the nonprofit organization and board members and their families and businesses, are "fair and reasonable," that there is full disclosure, and that the transaction is "clearly in the best interest of the charity." (pg 6)
4. Obedience to the Organization's Governing Documents – The board must adhere to the Articles of Incorporation and the Bylaws, as well as all relevant state and federal laws. The board should also be thoroughly familiar with all other policies established by the board to govern the organization and adhere to those.
5. Due Care – Make decisions and carry out actions for the organization with "the care an ordinary prudent person in a like position would exercise under similar circumstances." (pg 5)

### Other Basic Duties:

1. Ensure that complete and satisfactory records are kept, as required by law. This includes up-to-date Bylaws and Articles of Incorporation (reflecting the current activities and mission of the organization), board meeting minutes and records of all actions taken by board committees.
2. Ensure that financial records and accounting controls are adequate. This includes approving an annual budget, regularly reviewing income and expense statements that include a comparison with the budget, and balance sheets. For large organizations

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<sup>1</sup> The information on basic roles and responsibilities of board members is drawn from *A Guide to Nonprofit Board Service in Oregon*, a publication of the Oregon Attorney General's office. All quotes are from that publication. For more detail on the basic legal requirements, see that publication. Legal requirements in other states may vary some, but are generally very similar, since much of this is based on federal requirements.

and those owning property, the board should have an audit, done by an independent auditor, that meets all audit requirements by agency funders to review annually. The board should have a face-to-face meeting with the auditor as part of this review.

3. Ensure that financial resources are used well to meet the mission and goals of the organization, and invested prudently. This requires creating and regularly reviewing a set of policies to govern spending and investment.
4. Ensure that all funds are spent consistent with any requirements of particular funders.
5. Ensure that fundraising for the organization is done in responsible ways.
6. Hire and set the level of compensation for the chief operating officer (often called an executive director). Periodically (at least annually) do a formal review of the CEO's performance. This review should include a process for getting input from staff. Take disciplinary action up to and including firing the CEO if that is necessary for the health and well being of the organization.

### **Conflicts of Interest**

As noted under "loyalty" above, it is very important that board members act clearly in the best interest of the nonprofit organization and not in ways that instead benefit themselves, their families or their businesses when they transact business for the organization. For that reason:

1. A written policy should be established for dealing with conflicts of interest. Such policies should, at minimum, define conflict of interest in ways consistent with state law, require disclosure of financial interests, and require that board members withdraw from discussion and voting on any issue where there is perceived to be a conflict of interest. The board could also require that any transaction that benefits a director be approved by greater than a majority vote. Some organizations require an annual disclosure by board members of any business involvement with the nonprofit.
2. Loans from the organization to a board member are prohibited except in one very limited instance (see page 7).
3. Directors are restricted from pursuing as individuals (or businesses) a business opportunity that is "available to and suitable for" the nonprofit unless the nonprofit has decided not to pursue the opportunity and conflict of interest procedures are clearly followed (see page 7).

### **Liability of Board Members**

Board members are legally responsible for the nonprofit on whose board they serve. That said, they are provided by law with "qualified immunity" (pg 12) from lawsuits directed at the organization. This protects them from being sued by an outside, third party who claims to have been damaged in some way by their dealings with the organization. They can, however, be sued for "gross negligence, willful or fraudulent acts" (pg 12). For this reason, many nonprofits indemnify their directors in their governing documents and/or purchase directors and operators insurance.

### **What Board Members Should Expect**

Certain kinds of support by staff are required for board members to be able to fulfill their duties. Board members should expect, and insist on, the following:

1. An orientation for new board members to the history, mission, goals, structure and budget of the organization and to the expectations of board members, including copies of all governing documents and board policies;
2. Regular board meetings, scheduled well in advance;
3. Board packets providing the information needed to make well informed decisions as required by the agenda, several days before each board meeting;
4. Regular financial reports which include income and expense statements that include a comparison with the budget and balance sheets at least quarterly, an annual budget presented for approval, an independent audit provided annually (for large organizations and those owning property), and sufficient time in board meetings to answer any questions board members have about finances;
5. Willing engagement by staff in providing information the board needs to make good decisions;
6. Formal, written minutes for board meetings presented to the board for review and official approval at or before the next board meeting;<sup>2</sup> and,
7. An active role in setting policy for the organization. What this will look like will vary from organization to organization, and will change over time inside organizations. At minimum, the board should have a very active role in any changes to the mission, values and primary goals of the organization, and to the bylaws or articles of incorporation, and be part of the strategic planning work for the organization.

Board members should NOT expect, except in the early stages of the formation of a new organization where there is little or no paid staff, to be involved in the daily running of the organization.

### **Other Roles the Board May Play**

Boards play many other roles in nonprofit organizations. What any given nonprofit expects of its board should be clearly spelled out when new board members are recruited, and periodically reviewed to ensure that the formal and informal expectations are consistent. Common activities for board members include:

Giving money to the organization	Public education and advocacy
Fundraising	Board recruitment and mentoring
Event coordination and staffing	Research into new directions the organization could develop
Community outreach	

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<sup>2</sup>These are public records and should be filed in a way that makes them easy to access if questions arise.  
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