BOARD GOVERNANCE

The following guidelines on Board Governance came from the NeighborWorks America Training Institute's Board Governance Training held in Kansas City May 2015.

Roles and Responsibilities of a Board of Directors – Non-Profit Sector:

1. **Legal Duties of Board Members:** According to nonprofit corporation law, a board member must meet certain standards of conduct and attention to his or her responsibilities to the organization. These are referred to as the Duty of Obedience, and Duty of Care, and the Duty of Loyalty.

   a) **Duty of Obedience** - be true to the organization's mission. A donor has the right to expect that funds given will be used for the stated purpose. It is also important that the board ensure that the organization is following all laws and regulations that may apply to nonprofits, such as payment of any taxes and public disclosure of information.

   b) **Duty of Care** - use your best judgement. You don't have to be perfect and you can make a mistake; just be sure that you have exercised reasonable caution in making decisions.

   c) **Duty of Loyalty** means putting your personal and professional interests aside for the good of the organization. Having a conflict of interest policy in place would be one way to exercise duty of loyalty.

2. **Board Roles**

a) **Establish Strategic Direction**

- Develop and maintain focus on mission
- Establish a vision of what the organization intends to be like at some point in the future (3-5 years)
- Approve strategic goals
- Articulate the values or principles by which the organization will operate

b) **Ensure Resources**

- On an ongoing basis, identify the resources needed
  - Financial resources
  - Chief staff officer/executive director
  - Information and knowledge
  - An effective board
  - Visibility, support, and credibility in the community
- Establish policies for how these resources will be acquired
- Determine how board members will participate in resource development, especially in fundraising

c) **Provide Oversight/Accountability**

- Program

    - Monitoring (Are we doing what we planned to do in a timely manner?)
    - Evaluating (Are our programs effective in serving the mission?)
- Finances
    - Establish budget guidelines
    - Oversee financial management (Ensure that the necessary financial policies are in place; on a regular basis review financial statements, understand what they say and ask questions when things are not clear; arrange for audit and review audit report)
- Legal and Ethical Operations
    - Ensure compliance with legal requirements. Including with the organization's bylaws
    - Safeguard the organization's values / philosophy

Ten Basic Board Responsibilities:

1. **Determine mission and purpose.** It is the board's responsibility to create and review a statement of mission and purpose that articulates the organizations goals, means, and primary constituents served.

2. **Select the chief staff officer or executive director.** Boards must reach consensus on the chief staff officer's/executive director's responsibilities and undertake a careful search to find the most qualified individual for the position.

3. **Support and evaluate the chief staff officer / executive director.** The board should ensure that the chief staff officer/executive director has the moral and professional support he or she needs to further the goals of the organization.

4. **Ensure effective planning.** Boards must actively participate in an overall planning process and assist in implementing and monitoring the plans goals.

5. **Monitor and strengthen programs and services.** The board's responsibility is to determine which programs are consistent with the organization's mission and monitor their effectiveness.

6. **Ensure adequate financial resources.** One of the board's foremost responsibilities is to secure adequate resources for the organization to fulfill its mission.

7. **Protect assets and provide proper financial oversight.** The board must assist in developing the annual budget and ensuring that proper financial controls are in place.

8. **Build a competent board.** All boards have a responsibility to articulate prerequisites for candidates, orient new members and periodically and comprehensively evaluate their own performance.

9. **Ensure legal and ethical integrity.** The board is ultimately responsible for adherence to legal standards and ethical norms.

10. **Enhance the organization's public standing.** The board should clearly articulate the organization's mission, accomplishments and goals to the public and garner support from the community.

Fiduciary Responsibilities Of Board Members:

What Does Fiduciary Mean?

Fiduciary duty requires board members to stay objective, unselfish, responsible, honest, trustworthy and efficient. Board members, as stewards of public trust, must always act for the good of the organization, rather than for the benefit of themselves. They need to exercise reasonable care in all decision-making without placing the organization under unnecessary risk.

One of the main responsibilities of board members is to maintain financial accountability of their organization. Board members acts as trustees of the organization's assets and must exercise due diligence to ensure that the organization is well-managed and that its financial situation remains sound. The following topics outline how board members can fulfill their role as fiduciaries.

Understanding Financial Basics

Not every board member can be a financial wizard. However, every board member needs to be a financial inquisitor. It is essential to understand basic terminology, be able to read financial statements and judge their soundness, and have the capacity to recognize warning signs that might indicate a change in the overall health of the organization. If a board member does not understand something, he or she must be willing to find out the answer.

Specific questions board members should ask:

- Is our financial plan consistent with our strategic plan?
- Is out cash flow projected to be adequate?
- Do we have sufficient reserves?
- Are any specific expense areas rising faster than their sources of income?
- Are we regularly comparing our financial activity with what we have budgeted?
- Are our expenses appropriate?
- De we have appropriate checks and balances to prevent errors, fraud and abuse?
- Are we meeting guidelines and requirements set by funders?

Setting up and monitoring Key Financial Indicators

Having the proper tools to monitor and evaluate financial performance strengthens the board's capacity to judge the health of the organization. Board members need to agree on general guidelines and standards to measure the effectiveness of the organizational accomplishments. Appropriate policies must be in place to guide management and board decision-making.

Ensuring Adequate Control Mechanisms

Control mechanisms are not intended to detect fraud, but rather to prevent it. Ensuring clarity in job descriptions and responsibilities, defining financial and accounting procedures (signing checks, handling of cash, approving expenses, and outlining parameters for credit card usage); managing potential conflicts of interest with a clear policy; and requesting regular external audits are all manifestations of fiduciary responsibility.

Approving the Budget

The budget creates the framework for program management and overall administrative decisions. The annual budget approval process helps curb any tendency for the board to micromanage. Securing necessary funding is part of a viable budget. Examining financial statements regularly, comparing actual figures to the projected ones, allows the board to verify that the general guidelines stay on track. The board should question any major variances.

Overseeing the Organization's Legal Obligations

The board verifies that all filing requirements and tax obligations are completed. The organization must fill out Form 990 completely and file it on time. It must regularly withhold and pay employment taxes. To avoid intermediate sanctions, the new IRS regulations on nonprofits' financial transactions require the board to document and justify its executive compensation.

Checklist: Key Financial Questions Board Members Should Ask:

1. Have we run a gain or a loss?
2. Are our key sources of income rising or falling?
3. Do we have a diversity of funding sources? Is it a healthy mix of public and private support?
4. Are our key expenses, especially salaries and benefits, under control?
5. Do we have sufficient reserves? Are they wisely invested?
6. Is our cash flow projected to be adequate?
7. Where are we compared to our budget?
8. Is our financial plan consistent with our strategic plan?
9. Are we filing all needed reporting documents on a timely basis?
10. Are we fulfilling all of our legal obligations?

A Ten-Step Strategic Planning Process:

Who are we?

1. Create or affirm an organizational vision or mission.

Where are we now?

2. Assess constraints, opportunities, resources and the environment factors that will affect the organization and influence planning.

3. Analyze the current plan (if one exists) and the program, financial and administrative performance of the organization.

4. Assess and document the community needs to which the organization is responding.

Where do we want to go?

5. Prepare preliminary goals and objectives, based on the information gathered and assessed in steps 1 – 4. If necessary, revisit and reaffirm the vision and mission in light of new information.

6. Review and validate the goals and objectives.

How will we get there?

7. Develop a financial plan and budget to support the validated goals and objectives.

8. Develop and action plan for each objective.

9. Prepare a comprehensive plan for review, approval and implementation.

How are we doing?

10. Evaluate progress and update the plan on a regular basis.

The Mission Statement:

What is a mission statement?

- Every organization needs to define its fundamental purpose, philosophy and values. The mission statement clarifies the essence of organizational existence. It describes the needs the organization was created to fill and answers the basic question of why the organization exists.

Why have one?

- Without guidance, it is difficult to establish boundaries for appropriate course of action. The mission statement provides the basis for judging the success of the organization and its programs. It helps to verify if the organization is on the right track and making the right decisions. It provides direction when the organization needs to adapt to new demands. Attention to the mission helps the board adhere to its primary purpose and helps during conflicts by serving as a touchstone for every decision. The mission statement can be used as a tool for resource allocation. A powerful mission statement attracts donors, volunteers and community involvement.

How to develop a mission statement?

- An effective mission statement is concise, to the point, realistic, operational, inspirational, motivational, informative and even emotional. It is not too abstract or even too intellectual. The mission clearly states the purpose of the organization. It is forward-thinking, positive and describes success. It is clear and focused so that the reader can identify with the statement. It reflects the values and clearly enumerates the reasons why the organization exists.

Who should create or revise it?

- Creating a mission statement is a group effort. Board members, present and past officers, staff, members, donors and constituents can provide valuable input during the creative process. The final wording should be approved by the entire board.

What do we do with our mission statement?

- The mission statement should be referred to continuously. It should be reassessed on a regular basis and not forgotten in a binder with other board documents. It should be present everywhere: on letterhead, all brochures, all official documents. Before joining a board, all potential board members should review the mission statement to verify whether their understanding of the purpose of the organization is compatible with their own beliefs.
- Some boards have a board member read the mission statement at the start of each board meeting as a way for attendees to leave all “baggage” at the door and come to the meeting prepared to concentrate on the vision and goals of the organization.

Key Questions To Answer:

Mission Statement

- Answers <u>WHY</u> do we exist? WHY are we committed to support that existence?

Vision

- Answers <u>WHERE</u> we want to go/be?
- Shared vision: Each person sees his or her own picture of the organization at its best, as well as shares responsibility for the whole organization; not just for one piece of it.

Goals

- Answers <u>WHAT</u> we need to do to get where we want to go, to close the gap between current reality and our vision?

Core Values

- Answers <u>HOW</u> will we treat each other and our constituents?

Twenty Questions For Strategic Planning:

1. Do we need to exist?
2. If so, why?
3. What is our image?
4. What would we like our image to be?
5. What impact have we had?
6. What impact would we like to have?
7. Whom do we serve?
8. What are the needs of the constituents?
9. What do we do?
10. What programs are going to be obsolete?
11. What programs do we need to add?
12. How well do we discontinue programs?
13. What are our strengths?
14. What are our weaknesses?
15. What are the threats facing us?
16. What are our opportunities?

17. What trends are taking place that will affect us?

18. Who is our competition?

19. What is our strategic advantage?

20. What is the vision for the group?

The Fundraising Cycle: Five Essentials:

1. Analyze the Organization's Fundraising Past

Planning future fundraising activities relies on knowing about the past performance. Pay special attention to reviewing mailing lists and, in particular your current donor base, for relevant information.

- How much was raised?
- From what sources?
- How much did it cost?

2. Build the Organization's Case for Support

Why are we relevant and necessary? More directly, what have we done lately? What will we accomplish with additional funds? The case statement includes:

- Statement of condition you want to effect (need)
- Supportive evidence (date; descriptions of previous activities and completion date)
- Plans to affect/alleviate the condition (objectives and methods)
- Demonstration of impact on the condition (evaluation)

3. Set Goals for the Organization

- What do we want to achieve?
- By when?

4. Develop Implementation Strategies and Activities

Plan on how we will get there, taking into particular consideration the following:

- Establishing a reasonable goal, one that is achievable and which takes I to account past activities and results
- Training requirements
- Establishing a budget for fundraising. It costs money to raise money!
- Creating and using a gift range chart for planning purposes and to analyze your constituency
- Volunteer and staff time commitments and methods to involve new volunteers

5. Monitor Results

- What worked?
- What didn't?
- What will we do differently from now on?

These guidelines were produced by NMHOA Vice President, Carla Burr. If you would like more information about board governance, please contact Carla at: burr_carlajoy@yahoo.com