



A Guide to Non-Profit Boards of Directors

City of Hamilton

Children's and Community Services

Table of Contents

General Information about Non-profit Organizations..... 3

Types of Boards 4

 Governing/Policy Board 4

 Operating Board..... 4

 Managing Board..... 4

 City of Hamilton Requirements..... 4

Board Roles and Responsibilities..... 5

 City of Hamilton Requirements..... 5

Board Composition..... 6

 City of Hamilton Requirements..... 6

Board Meetings 6

 Annual General Meetings 7

 City of Hamilton Requirements..... 7

Board Financial Accountability 8

 City of Hamilton Requirements..... 8

Board Policies 9

 City of Hamilton Requirements..... 9

Risk Management..... 10

 City of Hamilton Requirements..... 10

Board Orientation and Development..... 10

 City of Hamilton Requirements..... 11

Board Evaluation 11

 City of Hamilton Requirements..... 11

General Information about Non-profit Organizations

A non-profit organization is governed by a Board of Directors (Board). The Board of Directors of a non-profit child care centre is legally responsible for the centre. Ensuring the Board is aware of its roles and responsibilities is paramount to reducing risk in the organization.

Non-profit organization will have either a Letters Patent or Articles of Incorporation. A non-profit also must have a set of by-laws that govern the actions and activities of the organization. The by-laws set out the rules and procedures for how an organization manages its day-to-day activities, such as board meetings and elections. All of these documents comprise an organization's Constitution, and provide information about the governance practices of the organization.

At its core, there are ten key things Boards must do.

1. Determine Mission and Purpose

Create and review a statement of mission and purpose that articulates the organization's goals, means, and primary constituencies served.

2. Select the Executive Director

Recruiting and orienting the most senior staff person in the organization.

3. Support the Executive Director and Review Performance

The Board must ensure that the Executive Director has the support needed to further the organization's goals. This includes conducting an annual performance appraisal of the Executive Director.

4. Ensure Effective Organizational Planning

Boards must actively participate in an overall planning process, and assist in implementing and monitoring the plan.

5. Ensure Adequate Financial Resources

Providing adequate resources for the organization to execute its mission.

6. Manage Resources Effectively and Provide Proper Financial Oversight

Financial planning, reviewing the annual independent audit, and establishing accounting policies and procedures.

7. Monitor and Strengthen Programs and Services

Must determine organizational programs that are consistent with the mission, and monitor their effectiveness.

8. Build a Competent Board

Articulate competencies for candidates, orient new members, and periodically and comprehensively evaluate their own performance.

9. Ensure Legal and Ethical Integrity

Adherence to legal standards and ethical norms.

10. Enhance the Organization's Public Standing

Clearly articulate the organization's mission, accomplishments, and goals to the public and the media, as well as gather support from important members of the community.

Types of Boards

The Board of Directors represents the membership of the organization. The Board sets in place policies, procedures, values, and long-term planning to meet the mission of the organization. The Board does this through a governance structure or model.

Governance models of non-profit organizations vary according to how a Board is structured, how responsibilities are divided between the Board, management and staff, and in the processes used for Board development, management and decision-making.

Governing/Policy Board

Governing Boards hire an Executive Director to manage the work of the organization. The Executive Director works in partnership with the board, reporting to the board and is accountable to the board. The Board defines the level of authority of the Executive Director through an “Executive Limitations” policy. Paid staff and/or non-Board volunteers do the work of the organization. These staff/volunteers are accountable to the Executive Director. The Board governs through policies that establish the organizational aims, governance approach, management limitations, and define the Board/ Executive Director Relationship.

The job of the board is to establish the following:

- Guiding principles/ policies;
- Delegate responsibility for enacting the principles and policies;
- Monitor compliance with principles/policies; Ensure that staff, and Board alike are held accountable.

Operating Board

An Operating Board does the work of the organization as well as governs it. This is the typical Board you would find in the “founding” stage and organizations that have no staff. They rely on Board members and volunteers to achieve their aims and have non-paid staff.

Managing Board

A Managing Board has paid employees and/or non-Board volunteers do the work. The Board performs the role of Executive Director (manages operations, including finances, personnel, and service delivery). The Board takes on governance, management, and operational tasks. Select Board members based on knowledge/experience in a specific field. This type of Board is less suited to organizations that already have professional management and full-time employees. The Board makes most of the decisions and there is a high degree of involvement in the operational and administrative activities of the organization by the Board.

City of Hamilton Requirements

- There is no single “right” structure for all non-profit organizations, and it may be necessary to change the “type”/model of the Board over time.

Board Roles and Responsibilities

The Board of Directors of a non-profit organization is legally responsible for the actions of the organization, including those of its employees and volunteers. Clearly written job descriptions help Board members understand and agree to the role they are expected to play in the organization. The Board must demonstrate due diligence in four areas of responsibility:

1. **Fiscal responsibility:** Developing a budget and monitoring financial performance relative to that budget, avoiding a deficit, ensuring the collection and remittance of required payroll deductions (income tax, EI, CPP), ensuring that none of the resources of the organization are used for the personal gain of officers and directors, and maintaining financial records.
2. **Statutory responsibility:** Obeying all laws relating to individuals and employers.
3. **Contracts:** Understanding of the organization’s main contractual obligations, and monitoring compliance to them.
4. **Standard of care:** Ensuring that practices are in place to reduce the risk of harm to its employees, volunteers, and clients.

City of Hamilton Requirements

- There is one job description for general Board members and then specific job descriptions for each executive officer (for example: Chair, Vice-Chair, Treasurer, and Secretary).
- The most senior staff person in the organization reports to the Board and has a written job description or terms of reference.
- The total compensation package of the most senior staff person is approved by the Board or a Board committee and expenses are reviewed at least annually by a member(s) of the Board.
- The organization has a process to identify its major strategic and operational risks and a plan to minimize and mitigate these risks. The plan is reviewed annually by the Board.
- The organization has a process to review its insurance coverages. A summary report is reviewed annually by the Board.
- The Board or a Board committee oversees the organization’s compliance with its own governing documents (for example: letters patent, by-laws) and all applicable federal, provincial, and municipal laws and regulations.

Board Composition

The number of Board members required to be in place on a non-profit organization's board is specified in the organization's Constitution and by-laws. The organization can choose whether to have a fixed number of directors or a minimum and maximum number of directors. It is recommended to have an odd number of members so that ties, when voting, can always be broken.

This number can be changed with the approval of the Board and the membership at an Annual General Meeting. The by-laws may also outline the length of term for members of the board.

Depending on the governance structure of the non-profit organization, the executive officers of the Board will vary (for example: Chair or President, Vice-Chair or Vice-President, Secretary, Treasurer).

City of Hamilton Requirements

- The number of Board members is a minimum of five Board members, and ideally no more than 11.
- No board members are employees or relatives of employees of the corporation.
- There is different/overlapping length of terms for Board members, so that not all Board members leave the Board at the same time.
- There is representation of diverse skill sets and experience on the Board.
- By-laws clearly define when and how the election, appointment and removal of members will occur.
- By-laws clearly define criteria for members' qualification.
- There are written policies and procedures confirming board members serve without remuneration.

Board Meetings

Incorporated organizations are required under *Ontario's Not-for-Profit Corporations Act* to hold members' meetings. This often is seen as an Annual General Meeting (AGM) of the full membership of the organization, and regular, more frequent meetings of the Board of Directors.

The number of meetings a Board holds in a year is outlined in its by-laws. Board members attend and vote at Board meetings. Other members of the organization or

guests are sometimes invited to Board meetings. They are usually invited as visitors with no vote. The Executive Director or most senior staff person in the organization also attends the Board meetings as a non-voting member of the Board.

For a Board meeting to be considered legal in terms of its governance and incorporation status there needs to be quorum. Quorum represents the minimum number of voting Board members who need to be present at a meeting for decisions to be made. This number is stated in the organization's by-laws (usually half plus one).

Annual General Meetings

Organizations also hold Annual General Meetings. These meetings include the broader membership of the organization and the Board members. Membership criteria and eligibility are set out in an organization's by-laws. Items usually addressed at Annual General Meetings include:

- Presentation of an annual report of the Board of Directors.
- Nominations and elections of new directors.
- Presentation of the financial statements of the past fiscal year.
- Appointment of the auditor for the next fiscal year.
- Amendments, changes or additions to the organization's by-laws.

City of Hamilton Requirements

- Members are notified of the date, time and location no less than 10 days before the meeting.
- There are clear supporting documents for the Board meetings such as an agenda, minutes, and other reports.
- Each meeting is documented with minutes. At a minimum they need to include: the date and location of the meeting, members who were present for voting, motions put forth with the mover and seconder, amendments to motions, and the outcome of the motion.
- The Board meeting should include an Executive Director/senior staff person written report.
- At a minimum, the Board should hold two meetings per year (in addition to the Annual General Meeting).
- There must be no more than 15 months between Annual General Meetings.

Board Financial Accountability

One of the non-profit organization Board's key roles is in the area of management. The Board takes actions and makes decisions to ensure that there are sufficient and appropriate human and financial resources for the organization to accomplish its work. Financial accountability should be a key area of focus for a Board.

With regards to financial management, Board members should ensure:

- Auditors are appointed annually, and audit reports are reviewed thoroughly.
- Financial reports are provided and reviewed regularly.
- Safeguards are in place for financial resources, including banking and back-ups of financial reporting documents.
- Policies are in place and monitored that are related to investing, use of credit cards, signing authorities, and fundraising.
- They are knowledgeable about revenues and costs of the organization.

City of Hamilton Requirements

- All Board members should be sufficiently financially literate to understand terminology, read financial statements, and ask appropriate questions.
- The organization should have financial management policies that encompass all critical financial areas of the operation. Common components include: accounting procedures, internal controls, budgeting, financial record keeping and reporting, and asset protection.
- A Board should establish finance and/or audit committee to contribute additional financial oversight.
- Organizations must complete annual financial statements in accordance with an acceptable accounting framework as identified by Chartered Professional Accountants (CPA) Canada.
- Organizations with over \$1 million in annual revenue must have their financial statements audited by an independent licensed public accountant.
- The organization has a process to ensure that an accurate return is filed with the Canada Revenue Agency (CRA) within 6 months of year end, as required by law.
- The Board approves the annual budget and has a process to monitor the organization's performance in relation to the annual budget.
- The Board or a Board committee reviews actual revenues and expenses versus budget at least twice a year.
- The Board or a Board committee receives from management, at least twice a year, assurance that all statutory remittances have been made.

Board Policies

The Boards of non-profit organizations normally govern by establishing policies. A policy is any written statement approved by the Board or by the membership that:

1. Articulates and defines important objectives, principles or values ;
2. Limits or prescribes what kind of action will be taken in different situations;
3. Defines roles, responsibilities, and authority.

General policies are established by Boards in addition to the required by-laws for the organization. These general policies may be changed by the Board of Directors at any time. It is in the interest of most non-profit organizations to limit the number of policies designated as formal "by-laws", and focus their attention on creating other key policies. This gives the Board of Directors the flexibility and opportunity to identify the organizational practices that are important to them in such a way that they can be easily modified when the need arises. This is often referred to as "governing by policy".

Key areas for policy setting include:

- Organizational mission, objectives and values;
- Role and responsibilities of the board;
- Board decision-making and meeting practices (usually covered partially by by-laws);
- Conflict of interest;
- Board member conduct (Code of Conduct);
- Role, responsibilities, and authority of the Executive Director;
- Financial management;
- Personnel, hiring, and other human resource practices;
- Treatment and protection of consumers, customers, clients or users;
- Fundraising (including ethical considerations);
- Advocacy, and public education;
- Accountability to members, stakeholders, and community (may be partially addressed by by-laws in references to Annual General Meeting and annual financial report).

City of Hamilton Requirements

- The organization has conflict of interest policies for Board, staff, and volunteers that provide for disclosure, review and decision on actual or perceived conflicts of interest.
- The organization has policies for Code of Conduct, Privacy, and Complaints.
- All Board members sign a Confidentiality Agreement.
- By-laws clearly define decision making process for member motions and voting power.
- There are written policies and procedures on interactions between management, staff and board of directors.

Risk Management

Board members may be liable for the decisions and actions they take. The basic duties of directors are:

The duty of diligence (fiduciary duty) - To act in good faith and in the best interest of the organization through such actions as:

- Staying informed by reading minutes, agendas, and support material.
- Attending meetings regularly and voting on issues brought before the Board.
- Being knowledgeable about the policies and operations of the organization.

The duty of loyalty - To place the interest of the organization first through such actions as:

- Avoiding and/or declaring conflicts of interest.
- Representing the organization in a positive manner.
- Respecting confidentiality.

The duty of management - To act and make decisions in line with the governing policies and by-laws of the organization through such actions as:

- Understanding the scope of authority for staff and Directors.
- Regularly reviewing by-laws and policies.
- Ensuring legal requirements related to governance, incorporation, etc. are met.
- Ensuring meetings are held and documented with minutes.
- Understanding the requirements of the laws and standards related to the clients the organization serves.

A Board member who does not comply with these duties may be held liable for the outcomes and results that occur. Board members can be held liable if the actions and/or decisions that they make or don't make result in a law being broken, a contract being breached or injuries/ damage.

City of Hamilton Requirements

- Non-profit organizations carry Director's and Officer's Insurance.
- Signing authorities require a minimum of 2 signatures, one of which is a board member.

Board Orientation and Development

Orientation occurs when a new member (Director) joins a Board, and ongoing development occurs throughout the term of the Board. Both are important aspects for ensuring Board members can contribute effectively to an organization.

Orientation should be provided to new Board members in the form of a meeting/workshop (face-to face). The orientation should also include a manual. This manual often includes:

- Articles of Incorporation/Letters Patent
- By-laws
- Annual report and financial statements
- Minutes from recent Board meetings
- Information regarding insurance
- Operating budget
- Promotional material and website information
- Strategic plan
- Board's current year work priorities and plan
- Policies regarding confidentiality, conflict of interest, etc.
- Organizational chart
- Profiles and contact information for senior staff and Board members
- Board and committee mandates
- Director position descriptions

Ongoing training should also be provided to Board members so that they have the skills and expertise required to effectively govern the organization.

City of Hamilton Requirements

- All new Board members receive a face-to-face orientation.
- The responsibility for providing new Board member orientation is clearly assigned.
- The organization has an orientation manual/package for new Board members.
- Boards discuss the need for training/development on an annual basis.

Board Evaluation

A Board should assess and evaluate its work. Research has shown that Boards of Directors of non-profit organizations that take time to regularly assess their performance are more effective than those that don't. The Board's area of evaluation responsibilities include:

- Board management (meetings, roles of individual directors, committees, etc.);
- Board development (recruitment and orientation process, governance structure);
- Board goals, mission, and strategic plan.

When summarized and analyzed, the results from this type of evaluation provide an excellent basis for learning and Board self-development, and help to assess whether or not a Board is being effective as a governing body for the organization.

A self-evaluation questionnaire is an easy way to perform a Board evaluation.

City of Hamilton Requirements

- A Board should review its performance annually, review the results, and make a plan for action based on the results.