What nonprofit board members need to know about fiduciary duties

It takes more than dedication and enthusiasm for your not-for-profit's cause and programs to make a good board member. The most critical duty for all board members is being a fiduciary. This means, among other things, that they can be trusted to always act in their nonprofit's best interests, avoid unnecessary risk, make decisions thoughtfully and execute them efficiently.

Core duties

Not all board members are aware of their duties — and it's up to your organization to ensure they understand them. In general, a fiduciary has three primary duties:

1. **Care.** Board members must exercise reasonable care in overseeing the organization's financial and operational activities. Although disengaged from day-to-day affairs, they should understand the nonprofit's mission, programs and structure, make informed decisions, and consult others — including outside experts — when appropriate.
2. **Loyalty.** Board members must act solely in the best interests of the organization and its constituents, and not for personal gain.
3. **Obedience.** Board members must act in accordance with the organization's mission, charter and bylaws, and any applicable state or federal laws.

If your board members violate these duties, they may be held personally liable for any financial harm your organization suffers as a result.

Improper transactions

One of the most challenging — but critical — components of fiduciary duty is the obligation to avoid conflicts of interest. In general, a conflict of interest exists when a nonprofit organization does business with:

- A board member,
- An entity in which a board member has a financial interest, or
- Another company or organization for which a board member serves as a director or trustee.

To avoid even the *appearance* of impropriety, your nonprofit should also treat a transaction as a conflict of interest if it involves a board member's spouse or other family member, or an entity in which a spouse or family member has a financial interest.

The key to dealing with conflicts of interest, whether real or perceived, is disclosure. The board member involved should disclose the relevant facts to the board and abstain from any discussion or vote on the issue — unless the board determines that he or she may participate.

Educating your board

To help your board carry out its duties, provide new members with an orientation that educates them in the basics of nonprofit finance and accounting. Also regularly provide an updated list of responsibilities that covers financial documents, compliance requirements and risk management. Contact us. We can help inform your board and ensure it meets its fiduciary duties.