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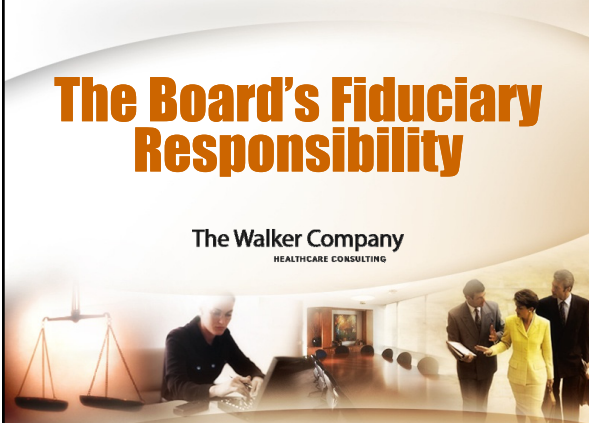


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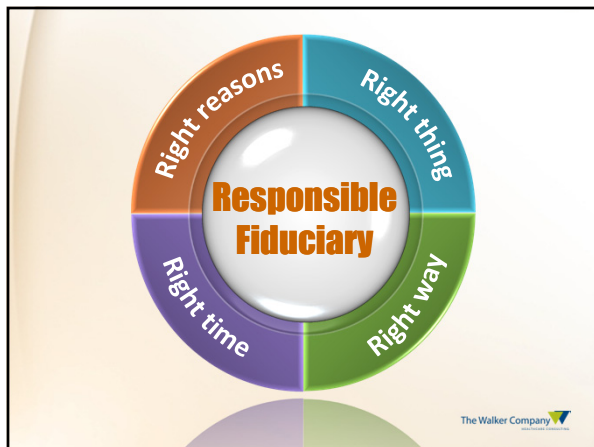
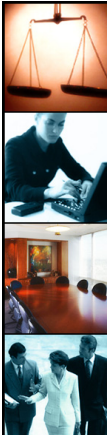
The Board's Fiduciary Responsibility

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Knowledge Points

- Fiduciary fundamentals
- Carrying out the board's fiduciary duties
- Discussion questions: How's your board's fiduciary fitness?

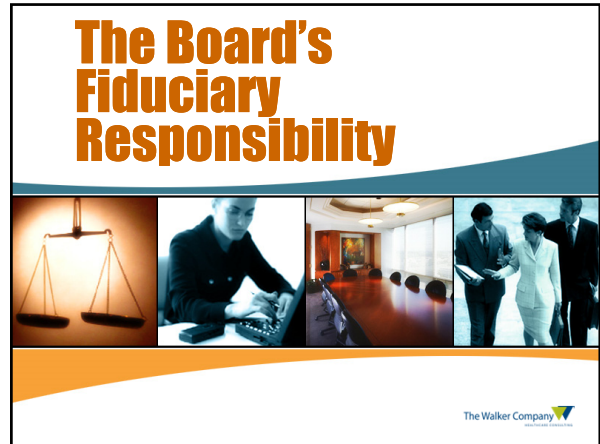


It's All About Accountability

- Understand responsibility
- Responsible and answerable for its behavior
- Views accountability as a collective responsibility
- Linkage between roles and duties, expectations and promises



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“Governing boards should be composed of persons who are informed and active in overseeing operations and finances. If the governing board tolerates a climate of secrecy or neglect, charitable assets are more likely to be used to advance an impermissible private interest. Successful governing boards include individuals not only knowledgeable and passionate about the organization's programs, but also those with expertise in critical areas involving accounting, finance, compensation and ethics.”

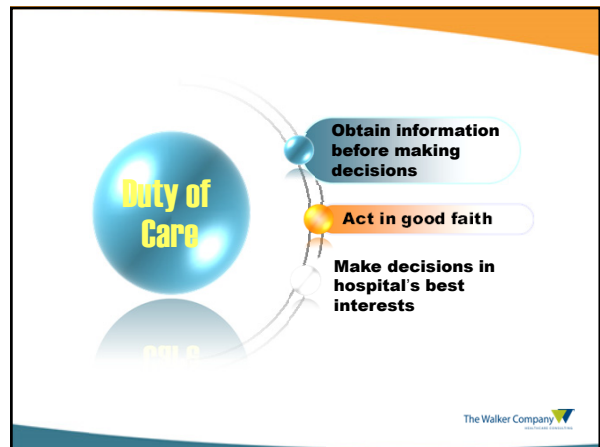
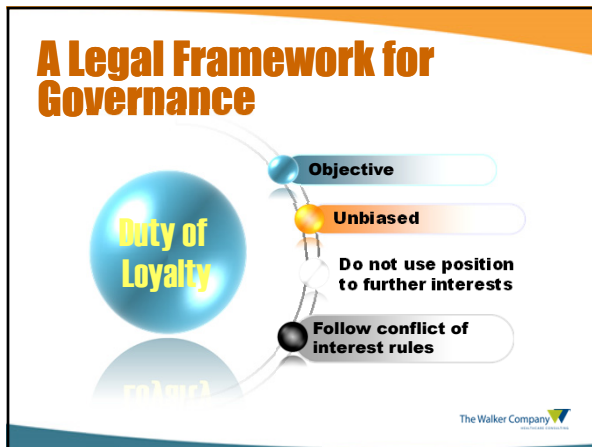
-Internal Revenue Service

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“...an organization that adopts some or all of these practices is more likely to be successful in pursuing its exempt purposes and earning public support.”

-Internal Revenue Service

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Duty of Obedience

- Comply with laws and regulations
- Abide by mission and purposes to protect operations and community trust

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The Duty of Loyalty

Avoiding Conflicts of Interest

- Avoidance of opportunities for personal gain
- Avoid conflicts of interest that are detrimental
- Evaluate policy:
 - ✓ Solely in the interests of the hospital
 - ✓ Written procedures
 - ✓ Action when a conflict occurs

Source: Good Governance Practices for 501(c)(3) Organizations. Internal Revenue Service. www.irs.gov.

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The Duty of Loyalty

Avoiding Conflicts of Interest

- Annual written disclosure of conflicts
- Recognition and disclosure of conflicts of interest
- Personal trustee responsibility

Source: Good Governance Practices for 501(c)(3) Organizations. Internal Revenue Service. www.irs.gov.

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The Duty of Care

- Exercise "due diligence"
- Act in good faith, with the care of an ordinarily prudent person in similar circumstances

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The Duty of Care

- Ensure policies and procedures are in place
- Connect everything to the mission and vision
- Knowledge of financial status to make timely and well-informed decisions

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The Duty of Obedience

Protecting Limited Resources

- Ensure optimum services for community
- Consider cost-effective utilization of resources
- Regularly review financial reports to ensure adequate capital for strategies
- Active participation in philanthropic projects

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The Duty of Obedience

Protecting Limited Resources



- Establish financial goals in key areas, and monitor progress
- Pricing strategies
- Contractual agreements
- Financial policies in a variety of areas

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The Duty of Obedience

- Compliance with all regulatory and reporting requirements
- Prepare for financial challenges
- Ensure an ethical business climate
- Conduct internal procedures and processes in an ethical manner

Ensuring Legal Compliance





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Carrying Out Your Board's Fiduciary Duties





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Ensuring the Board Passes the Fiduciary Test

-  **Understand applicable laws and regulations**
-  **Understand legal requirements (articles of incorporation, bylaws, etc.)**
-  **Ensure up-to-date trustee job descriptions**
-  **Diligently prepare for governance meetings →**

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Ensuring the Board Passes the Fiduciary Test

-  **Openly admit when issues are not understood or there is disagreement**
-  **Ensure a meaningful long-term strategic plan with regular updates**
-  **Avoid potential or real conflicts**
-  **Comprehensive insurance policy**


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The Duty of Loyalty is Carried Out By...

-  **Disclosure of conflicts of interest**
-  **Compliance with conflict of interest policy**
-  **Avoidance of decisions for personal gain**
-  **Maintaining confidentiality**

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The Duty of Care is Carried Out By...



- Consistent attendance
- Preparation for meetings
- Seeking relevant information before voting

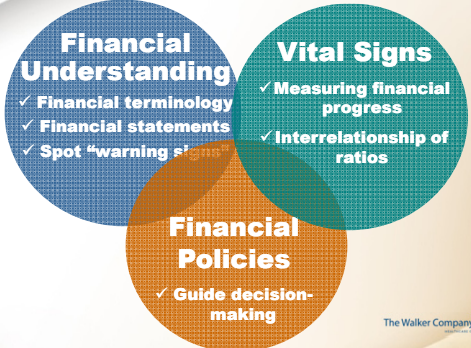
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The Duty of Care is Carried Out By...

- Strong and independent judgment
- Periodic examination of governing leadership performance
- Meaningful, regular review of finances and policies
- 100% legal compliance

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Financial Responsibility is a Primary Component of the Duty of Care



- Financial Understanding**
 - ✓ Financial terminology
 - ✓ Financial statements
 - ✓ Spot "warning signs"
- Vital Signs**
 - ✓ Measuring financial progress
 - ✓ Interrelationship of ratios
- Financial Policies**
 - ✓ Guide decision-making

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IRS Recommendations for Carrying out the Duty of Care

- Annual board-approved budget
- Ensure financial resources are used to further the charitable purpose
- Review financial statements

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IRS Recommendations for Carrying out the Duty of Care

- Independent auditor conducts an annual audit
- Fiduciary duty to ask questions when a financial issue, statistic or implication is unclear

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The Duty of Obedience is Carried Out By...

- Compliance with all regulatory and reporting requirements
- Understanding all legal requirements
- Ensuring that decisions further the mission and vision

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IRS Guidelines for Carrying out the Duty of Obedience

- Setting ethical standards
- Code of ethics
- Handling employee complaints and whistleblower policies
- Fundraising

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IRS Guidelines for Carrying out the Duty of Obedience

- Board compensation
- Rebuttable presumption
- Document retention policies
- IRS Publication 4221: Compliance Guidelines for 501(c)(3) Tax-Exempt Organizations

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Discussion Points

- Do you have policies and procedures that meet the IRS' "good governance" requirements? Are all board members familiar with them?
- Are fiduciary accountabilities included as a part of your annual governance performance self-assessment?
- How consistently well does your board carry out the three duties of loyalty, care and obedience? Where do you need to do a better job?

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