

Fiscal Responsibility of Board Members

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Fiscal Responsibility

- Trust held for the greater community
- What does it mean to be a non-profit/not-for-profit?
- What is our mission and strategic plan?
- Who is involved with the organizations finances?
- What is the internal control structure?
- What are our policies and procedures?
- What are the external reporting requirements?
- What are the internal reporting tools?



What does it mean to be a non-profit?

- Non-profit and not-for-profit interchangeable
- Designation comes from IRS - through a tax determination letter, typically 501(c)(3)
- Purpose is to fulfill a community need (charitable mission)
- No “owner”
- Funding can be contributed, earned, outsourced
- Can have a surplus, use to establish reserves or endowments
- Can have paid staff and contractors, also volunteers



What is our mission?

- Must understand the mission and strategic plan to determine if financial resources are appropriately allocated
- Strategic plan should include financial projections or budgets, 3-5 years out
- Compare mission and money

Who is involved with the organization's finances?

- Full board or any board committees (finance, audit, investment)
- Treasurer
- Outside audit or accounting firms
- Executive Director/CEO
- Finance/Accounting staff – CFO, accountant, bookkeeper
- What is their background, education, experience

What is the internal control structure?

- Purpose of internal controls is to provide reasonable assurance that transactions are properly authorized, assets are safeguarded against unauthorized or improper use, and transactions are properly recorded to permit the preparation of financial statements
- Help to prevent or detect fraud, misappropriation, corruption or errors
- Checks and balances
- Weigh costs vs. reduction of risk – BOARD decision
- Often ignored in nonprofits due to atmosphere of trust, lack of experience or financial constraints



Internal control structure, con't

- Don't underestimate the importance of codes of conduct, ethics policies, training and reporting
- Tone at the top
- Focus on segregation of duties
- Attempt to separate the preparation, approval and review of transactions

What are our policies and procedures?

- The why and how you do things
- Best practice to have a manual in writing
- Helpful to maintain consistency among practices and with turnover
- Management and board to be involved in preparing and approving
- Internal controls should be incorporated



Policies and procedures, con't

- Accounting manual
 - Accounting method
 - Chart of accounts
 - Accounting policies
 - Records access, retention and destruction
 - Cash disbursements (checks, credit cards, efts, payroll)
 - Cash receipts (cash/check, credit cards, eft, online)
 - Bank statements/reconciliations
 - Financial statement and budget preparation and distribution
 - Journal entries

What are the external reporting requirements?

- Audit
- Form 990
- Funding sources
- Understand purpose
- Understand accounting methods used
- Maintain consistent message

What are internal reporting requirements?

- Management reports
- Finance committee reports
- Board reports
- Level of detail may vary depending on user
- Understand accounting method
- Budget
 - Should be reviewed, questioned and approved by board in advance
 - Consistent with mission and strategic plan



Internal reporting, con't

- Board reports (monthly or quarterly)
 - Balance sheet
 - Income statement with budget to actual comparison
 - Functional income statement
 - Cash flow reports
 - Statistics
 - Narrative



Internal reporting, con't

- Balance Sheet (Statement of Financial Position)
 - Snapshot at particular point in time
 - What you own vs. what you owe



Internal reporting, con't

- Income Statement (Statement of Activities)
 - Specific period of time
 - Shows all revenue and expenses
 - At least year to date info, consider current month, last year or last year to date, preferably compared to budget
 - Can variances (or lack thereof) to budget be explained, and is it short term or long term issue?

Resources

- Julia Kyser, CPA
 - jkysercpa@fuse.net
 - 513-884-0886
- AICPA Nonprofit accounting and audit guide www.cpa2biz.org
- Financial Responsibilities of Nonprofit Boards www.boardsource.org
- Form 990 requirements www.irs.gov
- Internal control structures www.coso.org
- Governance policies -The Nonprofit Policy Sampler www.boardsource.org
- Accounting policies – Accounting and Finance Policies and Procedures www.wiley.com
- Principles for Good Governance and Ethical Practice – A Guide for Charities and Foundations – Panel on the Nonprofit Sector (convened by Independent Sector) www.nonprofitpanel.org, www.independentsector.org