Review the organization’s documents
  * Articles of incorporation
  * Bylaws
  * Mission statement
  * Website

Key Role of the Board
  * Establish policy
  * Oversee management and hold accountable
  * Oversee finances and audit
Core Fiduciary Obligations

- Duty of Care
- Duty of Loyalty
- Duty of Commitment to Purpose
A director or committee member should exercise ordinary and reasonable care in performing their duties.

- How do you do that?
  - In good faith
  - With the care an ordinarily prudent person in a similar position would exercise under similar circumstances
  - Rely on management
  - Use committees
Duty of Care

- Conduct board meetings and committee meetings
- Be informed and exercise independent judgment
- Promote open debate and record dissent
- Create minutes to record reason for decisions
Duty of Loyalty

- Conflict of Interest
- Corporate Opportunities
- Confidentiality of Non-Public Information
Duty of Loyalty

* The board must put the organization’s best interest ahead of any other interest.
* Each board member must serve the best interests of the organization and should not narrow their board role to serving the interest of a particular member, or narrow segment or constituency within the community of the organization.
* Each board member must refrain from taking an opportunity that rightfully belongs to the organization.
Duty of Commitment to Purpose

Board members are obligated to:

- Further the mission of the organization
- Be faithful to its purposes and goals
- Act in conformity with all laws
Fraud and Internal Controls

- Occupational fraud is a significant threat to not-for-profit organizations. This is especially true in smaller organizations.

- Smaller organizations suffered greater losses than larger organizations due to fewer internal controls.
The Board and management are responsible for preventing fraud.

Since fraud risk, like other risks, cannot be eliminated altogether, Board members should ensure effective risk management over the organization’s assets.
Implementation of internal controls has a measurable impact on an organization’s exposure to loss due to fraud.

It is estimated that the typical organization loses 5% of its revenue to some type of fraud each year.

Perpetrators often display behavioral traits that serve as indicators of risk.

89% of occupational fraud involves asset misappropriation.

Most common methods for detecting fraud are: tips, customers, and internal controls.
Financial and Non-Financial Systems of Controls

- Open and review bank statements
- Timely reconciliation of bank accounts
- Review bank reconciliations – independent of the process
- Verify wire transfers
Financial Controls

- Verify that cash receipts log matches the cash receipts entry in the actual bank deposit.
- Involve a second person in cash receipt processing, if possible.
- Make bank deposits daily.
- Learn how to spot “lapping receivables”. This is a process where an incoming payment from a third party is misappropriated and a later payment is credited to the earlier invoice.
If you are using an association management firm, request to review all adjustments made to your financial books (e.g., manual entries).

Review your vendor list in the accounting system periodically to guard against vendor fraud.

Contact the bank regarding anti-fraud tools (e.g., Positive Pay).

Perform ratio analysis (e.g., compare number of donors with contributions; compare number of members with dues revenue).
Financial and Non-Financial Systems of Controls

- Pre-screen potential employees
- Communicate often with current employees so you will know when they are feeling pressured
Non- Financial Controls

* Develop policies and procedures
* Set a good example by following the policies
* Train everyone on the procedures
* Communicate the consequences of committing fraud
Board members should understand the financial health of the organization
Financial reporting allows Board members to understand how funds are being spent and allocated.

It is important that Board members ensure there is enough money coming into the organization to sustain its mission.
Three Rules for Reporting

1. It should show data in context

2. It should provide accurate and complete information

3. It should be presented in a form that is useful to the audience
There are two main financial reports prepared by nonprofit organizations:

1. Statement of Financial Position
   (In the for-profit world it is called a Balance Sheet.)

2. Statement of Activities
   (In the for-profit world it is called an Income Statement.)
### Condensed Statement of Financial Position

<table>
<thead>
<tr>
<th></th>
<th>2011 (000’s)</th>
<th>2010 (000’s)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets</td>
<td>$195,520</td>
<td>$233,197</td>
</tr>
<tr>
<td>Long-term restricted cash and investments</td>
<td>$12,746</td>
<td>$30,462</td>
</tr>
<tr>
<td>Capital assets</td>
<td>$804,179</td>
<td>$724,033</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$1,012,445</td>
<td>$987,692</td>
</tr>
<tr>
<td><strong>LIABILITIES, DEFERRED CONTRIBUTIONS AND NET ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities</td>
<td>$170,697</td>
<td>$253,884</td>
</tr>
<tr>
<td>Long-term liabilities and deferred contributions</td>
<td>$644,983</td>
<td>$583,207</td>
</tr>
<tr>
<td>Net assets</td>
<td>$196,765</td>
<td>$150,601</td>
</tr>
<tr>
<td><strong>Total Liabilities, Deferred Contributions, and Net Assets</strong></td>
<td>$1,012,445</td>
<td>$987,692</td>
</tr>
</tbody>
</table>
This statement presents the total assets and liabilities of the organization.

Assets represent what the organization owns:
- Current assets are the sum of all assets (e.g., cash and cash equivalents or accounts receivables) that could be converted to cash in less than one year.
- Long-term assets are the sum of all other assets (e.g., property or furniture).

Liabilities represent what the organization owes:
- Current liabilities are the sum of all money due (including debt) within one year.
- Long-term liabilities are the sum of all other liabilities.
## Sample Statement of Activities

### Operating Fund
#### Statement of Activities

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>Variance $</th>
<th>Variance %</th>
<th>Budget</th>
<th>Variance $</th>
<th>Variance %</th>
<th>Prior Yr Actuals</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Member Dues</td>
<td>321,000</td>
<td>245,000</td>
<td>76,000</td>
<td>24%</td>
<td>300,000</td>
<td>(21,000)</td>
<td>107%</td>
<td>260,000</td>
</tr>
<tr>
<td>Convention</td>
<td>215,000</td>
<td>157,000</td>
<td>58,000</td>
<td>27%</td>
<td>220,000</td>
<td>5,000</td>
<td>98%</td>
<td>160,000</td>
</tr>
<tr>
<td>Contributions/ Sponsorships</td>
<td>50,000</td>
<td>45,000</td>
<td>5,000</td>
<td>10%</td>
<td>50,000</td>
<td>-</td>
<td>100%</td>
<td>45,000</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>10,000</td>
<td>8,000</td>
<td>2,000</td>
<td>20%</td>
<td>9,000</td>
<td>(1,000)</td>
<td>111%</td>
<td>8,500</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td>$ 596,000</td>
<td>$ 455,000</td>
<td>$ 141,000</td>
<td>24%</td>
<td>$ 579,000</td>
<td>(17,000)</td>
<td>103%</td>
<td>$ 473,500</td>
</tr>
</tbody>
</table>

| **EXPENSES**         |        |        |            |            |         |            |            |                  |
| Salaries/Staff       | 75,000 | 35,000 | 40,000     | 53%        | 75,000  | -          | 100%       | 70,000          |
| Temporary            | 1,000  | 1,500  | (500)      | -50%       | 2,000   | 1,000      | 50%        | 2,000           |
| Benefits             | 15,000 | 7,000  | 8,000      | 53%        | 15,000  | -          | 100%       | 14,000          |
| **TOTAL PERSONNEL**  | $ 91,000 | $ 43,500 | $ 47,500 | 52% | $ 92,000 | $ 1,000 | 99% | $ 86,000 |

| **DIRECT EXPENSES**  |        |        |            |            |         |            |            |                  |
| Convention           | 110,000| 140,000| (30,000)   | -27%       | 150,000 | 40,000     | 73%        | 150,000        |
| Supplies             | 10,000 | 8,000  | 2,000      | 20%        | 9,000   | (1,000)    | 111%       | 10,000          |
| Travel               | 5,000  | 5,000  | -          | 0%         | 4,000   | (1,000)    | 125%       | 5,000           |
| Professional Services| 90,000 | 55,000 | 35,000     | 39%        | 100,000 | 10,000     | 90%        | 30,000          |
| **TOTAL DIRECT EXPENSES** | $ 215,000 | $ 208,000 | $ 7,000 | 3% | $ 263,000 | $ 48,000 | 82% | $ 195,500 |

| **TOTAL EXPENSES**   | $ 306,000 | $ 251,500 | $ 54,500 | 18% | $ 355,000 | $ 49,000 | 86% | $ 281,500 |
| **NET ASSETS**       | $ 290,000 | $ 203,500 | $ 86,500 | 30% | $ 224,000 | (66,000) | 129% | $ 192,000 |
Revenue is generated by membership dues, program fees, and investment income.

Expenses can be listed using 2 main categories:
1. natural account (e.g., personnel, travel, insurance); and
2. major program categories (e.g., convention, publications, professional development).

Change in net assets (sometimes called net income) reflects the difference between revenue and expenses.
Financial Statements Review Checklist

- Compare the current period’s financial statements to a previous period.
  * Are we growing or contracting? Why?
- Review trends from year-to-year.
  * Historical or comparative information?
- How did the organization do compare to budget?
Financial Reporting

Look for major changes:

What is the growth or decline over last year in revenue and expenses?

Are investment gains or losses in line with the benchmark?

How did the organization do compared to budget? Are revenues and expenses being managed to maintain the budgeted bottom line?

What are the future and current trends?
The function of financial dashboard is to give you a device to view data in a graphical format.

Some examples are:

* **Strategic** - Board or higher management – with a bigger scope – aligns organizational strategic goals
* **Tactical** – managers – with a limited scope – measures progression of projects and departments
* **Operational** – business users – with a very limited scope – monitor and analyze organizational activities
Dashboard Samples

### 1. Finance

<table>
<thead>
<tr>
<th></th>
<th>Target</th>
<th>6 months ago</th>
<th>Now</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days of unrestricted cash on  hand</td>
<td>45 days</td>
<td>65 days</td>
<td>18 days</td>
</tr>
<tr>
<td>Net surplus or deficit YTD compared with YTD budget</td>
<td>Within 25K or better</td>
<td>$42,500 worse than budget</td>
<td>$28,000 worse than budget-to-date</td>
</tr>
<tr>
<td>Government funding year-to-date (52% of budget)</td>
<td>Within 3%</td>
<td>$39,000 worse than budget</td>
<td>$3,200 worse than budget, 24 days</td>
</tr>
<tr>
<td>Days from end of month to financial statements</td>
<td>24 days</td>
<td>87 days</td>
<td>48 days</td>
</tr>
</tbody>
</table>

### Full Board and Committee Participation

- Board Target
- Actual
- Committee Target
- Actual

### Board Donor Contact and Financial Support

- Target
- 50K
- $4,000
- Actual
- $3,000
- $1,000
- Pledged
- Raised

### Visibility Building Participation

- Target
- Actual

### Board Member Annual Event Participation

- Target
- Actual

- Phone-a-thon
- Annual Dinner
- Open House
- Fun Run
Ratios simplify complex numbers to make them manageable.

Types of ratios:

- **Current Ratio** is calculated by looking at current assets and current liabilities. It measures the organization liquidity, and ability to pay short-term debts.
- **Savings Indicator** determines if an organization is adding to or using up its net asset base.
- **Adequacy of Resources Ratio** measures the sum of cash, securities, and receivables over average monthly expenses.
Sample Ratios

Current Ratio
Current Assets: $34,584
Current Liabilities: $35,964
Current Ratio = .96 to 1
Change in the ratio over a period of years can point out problems and successes.

Adequacy of Resources
Cash, Receivables, Investment: $73,900
Avg. Monthly Expenses $4,100
Ratio (months) = 18
This reflects how many months the organization could operate if no additional funds were received.
Sample Conflict of Interest:
http://www.councilofnonprofits.org/conflict-of-interest

Fraud and Misuse of Assets:
http://www.nonprofitrisk.org/

Association Management :
http://www.asaecenter.org/
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Director of Finance
American Speech-Language-Hearing Association
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301-296-8648