

# **Association Financial Responsibility**

Nashville

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# Ten Basic Responsibilities of Nonprofit Boards

**Determine mission and purpose.** It is the board's responsibility to create and review a statement of mission and purpose that articulates the organization's goals, means, and primary constituents served.

**Select the chief executive.** Boards must reach consensus on the chief executive's responsibilities and undertake a careful search to find the most qualified individual for the position.

**Support and evaluate the chief executive.** The board should ensure that the chief executive has the moral and professional support he or she needs to further the goals of the organization.

**Ensure effective planning.** Boards must actively participate in an overall planning process and assist in implementing and monitoring the plan's goals.

**Monitor and strengthen programs and services.** The board's responsibility is to determine which programs are consistent with the organization's mission and monitor their effectiveness.

Source: BoardSource ([www.boardsource.org](http://www.boardsource.org))

# Ten Basic Responsibilities of Nonprofit Boards

**Ensure adequate financial resources.** One of the board's foremost responsibilities is to secure adequate resources for the organization to fulfill its mission.

**Protect assets and provide proper financial oversight.** The board must assist in developing the annual budget and ensuring that proper financial controls are in place.

**Build a competent board.** All boards have a responsibility to articulate prerequisites for candidates, orient new members, and periodically and comprehensively evaluate their own performance.

**Ensure legal and ethical integrity.** The board is ultimately responsible for adherence to legal standards and ethical norms.

**Enhance the organization's public standing.** The board should clearly articulate the organization's mission, accomplishments, and goals to the public and garner support from the community.

Source: BoardSource ([www.boardsource.org](http://www.boardsource.org))

# **Board Financial Responsibilities**

- One of the main responsibilities of board members is to maintain financial accountability of their organization.**
- Board members act as trustees of the organization's assets and must exercise due diligence to oversee that the organization is well-managed and that its financial situation remains sound.**

# **Fiduciary Duty of the Board**

- Fiduciary duty requires board members to stay objective, unselfish, responsible, honest, trustworthy, and efficient.**
- Board members, as stewards of public trust, must always act for the good of the organization, rather than for the benefit of themselves.**
- They need to exercise reasonable care in all decision making, without placing the organization under unnecessary risk.**

# **Key Legal Obligations**

- The board verifies that all filing requirements and tax obligations are completed.**
- The organization must fill out Form 990 completely and file it on time.**
- The organization must regularly withhold and pay employment taxes.**
- To avoid intermediate sanctions, the board must document and justify its executive compensation and any financial transactions.**

# **Specific Financial Activities**

- **Board reviews and “accepts” financial reports**
- **Board approves budget**
- **Board reviews audit report and year-end financial statements prepared by outside auditor**
- **Board views Form 990 IRS submission annually**

# Do You Speak Accounting?

Although an organization may have thousands of different accounts in its accounting system, they all fall into one of five categories:

- **Assets**—everything the business owns: cash, receivables, inventory, property buildings, equipment, and investments.
- **Liabilities**—the debts and financial obligations.
- **Equity**—what the shareholders paid for stock and the reinvested profits (i.e., retained earnings).
- **Revenues**—what the organization earned from selling its products or services. There may also be revenues from investments or the sale of assets.
- **Expenses**—costs incurred in running the business.



# **Key Financial Documents**

- **Balance Sheet, or Statement of Financial Position**
- **Income Statement, or Profit & Loss (P&L), or Statement of Financial Activity**
- **Statement of Cash Flows**
- **Budget**

# Balance Sheet

- **The Balance Sheet is a snapshot at a point in time of what a company owns, or assets, and what it owes, or liabilities. The difference is the company's net worth, or shareholder's equity.**
- **Assets can include buildings, equipment, furniture, software, intellectual property, cash, and money others owe you.**
- **Liabilities can include loans, accounts payable, and payroll and debts you owe to others.**

# NGEDA Balance Sheet

<b>ASSETS</b>	
<b>Current Assets</b>	
Checking/Savings	
Chase	113,336.14
<b>Total Checking/Savings</b>	<u>113,336.14</u>
<b>Other Current Assets</b>	
Prepaid Expense	514.40
<b>Total Other Current Assets</b>	<u>514.40</u>
<b>Total Current Assets</b>	<u>113,850.54</u>
<b>TOTAL ASSETS</b>	<u><u>113,850.54</u></u>
<b>LIABILITIES &amp; EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
<b>Other Current Liabilities</b>	
Future Dues	800.00
Annual Conference	2,427.00
<b>Total Other Current Liabilities</b>	<u>3,227.00</u>
<b>Total Current Liabilities</b>	<u>3,227.00</u>
<b>Total Liabilities</b>	3,227.00
<b>Equity</b>	
Reserve	100,000.00
Retained Earnings	6,965.29
Net Income	3,658.25
<b>Total Equity</b>	<u>110,623.54</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u><u>113,850.54</u></u>

# **Income Statement**

**The Income Statement shows how your company generates revenue, what the expenses are, and the bottom line, or net income.**

**It can be generated daily, weekly, but it is usually developed monthly.**

**A well-structured P&L can highlight your profit-generating products or services and underscore your biggest expenses.**

# Income Statement

	<u>Nov '13 - Oct 14</u>
Ordinary Income/Expense	
Income	
Annual Conference Income	77,360.00
Corporate Membership	4,000.00
Directory	7,990.00
Dues	10,660.00
Miscellaneous Income	500.00
CC Redemption Credits	364.18
Total Income	<u>100,874.18</u>
Gross Profit	100,874.18
Expense	
Accounting	1,448.16
Annual Conference Expense	68,045.83
Association Management	8,890.15
Awards	309.20
Conference Planning	2,099.44
Directory Expense	2,557.46
Equipment	436.99
Office Administration	12,243.36
PDCB Expenses	1,304.40
Total Expense	<u>97,334.99</u>
Net Ordinary Income	3,539.19
Other Income/Expense	
Other Income	
Interest Income	119.06
Total Other Income	<u>119.06</u>
Net Other Income	<u>119.06</u>
Net Income	<u><u>3,658.25</u></u>

# Cash Flow

**According to Dun & Bradstreet Small Business, 90% of small businesses fail due to poor cash flow. In other words, there is too much cash going out and not enough cash coming in.**

**Cash flow is a fundamental financial indicator because cash is king. While you may be showing profits on your P&L, if you have no cash flow your business will wither. On the other hand, you may be generating cash but not making profits.**

# Statement of Cash Flows

	<u>Dec 14</u>
<b>OPERATING ACTIVITIES</b>	
Net Income	5,207.67
Adjustments to reconcile Net Income to net cash provided by operations:	
Accounts Payable - General:NGAT	-2.68
NGEDA Credit Card	3.00
Annual Conference:Conference tours & events:Grand Ole Opry Show	1,980.00
Annual Conference:Conference tours & events:Spouse Tour of Nashville	120.00
Annual Conference:Conference tours & events:Tour of Jack Daniels Distillery	360.00
Annual Conference:Registration	13,500.00
Annual Conference:Sponsorships:Snack pack co-sponsor	1,000.00
Annual Conference:Sponsorships:Meal Sponsorship	3,350.00
Annual Conference:Sponsorships:Break Sponsorship	<u>500.00</u>
Net cash provided by Operating Activities	<u>26,017.99</u>
 Net cash increase for period	 26,017.99
 Cash at beginning of period	 <u>118,912.08</u>
Cash at end of period	<u><u>144,930.07</u></u>

# Becoming a Financial Inquisitor

Specific questions board members should ask:

- Is our financial plan consistent with our strategic plan?
- Is our cash flow projected to be adequate?
- Do we have sufficient reserves?
- Are any specific expense areas rising faster than their sources of income?
- Are we regularly comparing our financial activity with what we have budgeted?
- Are our expenses appropriate?
- Do we have the appropriate checks and balances to prevent errors, fraud, and abuse?
- Are we meeting guidelines and requirements set by our funders?

(Questions adapted from *The Financial Responsibilities of Nonprofit Boards* by Andrew Lang.)



# Budget

A budget is  
an *estimate*  
of *income and expenditure*  
for a *set period of time*.

# NGEDA Budget

## Ordinary Income/Expense

### Income

Annual Conference Income	58,000.00
Corporate Membership	4,000.00
Directory	7,800.00
Dues	10,800.00

**Total Income** 80,600.00

**Gross Profit** 80,600.00

### Expense

Accounting	1,750.00
Annual Breakfast Mtg - NGAUS	3,050.00
Annual Conference Expense	47,925.00
Association Management	9,525.00
Awards	200.00
Directory Expense	2,500.00
Office Administration	12,550.00
PDCB Expenses	2,650.00

**Total Expense** 80,150.00

**Net Ordinary Income** 450.00

## Other Income/Expense

### Other Income

Interest Income 144.00

**Total Other Income** 144.00

**Net Other Income** 144.00

**Net Income** 594.00

# **Insurance Coverage**

- **General Liability Coverage**
- **Director & Officer Liability**
- **Employee Dishonesty – Fidelity Bond**
- **Liquor Liability**
- **Meeting Cancellation Coverage**

# **General Liability Coverage**

**This is typically the “core” coverage for a nonprofit. The most common occurrence covered by the policy is “slip and fall.”**

**Depending on the extent of the general liability coverage purchased, commercial general liability insurance may provide coverage for a wide range of negligent acts, which result in bodily injury, personal injury, advertising injury or property damage to a third party. It does not cover damage to property under your control.**

# **D & O Liability**

**Directors and officers liability is intended to cover wrongful acts that are “intentional” as opposed to “negligent.” This is because directors and officers insurance is designed to cover actions and decisions of the board of directors. These actions may be in error and wrong, but they are, nonetheless, “intentional” acts. Most other types of insurance do not cover “intentional” acts. Among the items a good directors and officers policy should include is broad coverage for all types of employment related actions, including wrongful termination, harassment, discrimination, failure to hire, etc. It should also pay defense costs as they are incurred, not on a reimbursement basis.**

# **Employee Dishonesty – Fidelity Bond**

**This covers loss resulting directly from one or more fraudulent or dishonest acts committed by an employee whether acting alone or in collusion with others. Losses due to employee dishonesty are different from other losses making it difficult to determine the amount of insurance to carry. Loss of unrecorded assets could result from the following activities: theft from a cash register; pocketing money for which a receipt has not been given; padding of expense accounts; overcharging of fees for services; and walking off with assets.**

# Liquor Liability Coverage

Depending on the extent of the liquor liability coverage form, this insurance may apply to claims resulting from selling, serving, or furnishing alcoholic beverages. “Host liquor liability” coverage is provided in most commercial general liability coverage forms, and some nonprofits buy stand alone liquor liability coverage when the argument can be made that they are in the business of selling, serving, or furnishing alcoholic beverages. The need for liquor liability coverage is frequently misunderstood, and an insurance broker can be of assistance to determine if the coverage is needed or not.

# **Meeting Cancellation Coverage**

**Covers the loss of revenue or expenses due to a cancellation, curtailment, postponement or abandonment of an event due to civil disturbance, strike, weather or fire, for example. It may cover moving to an alternative premises, postponing or abandoning an event. Policy may cover the extra expense of the normal costs to conduct the event in order to continue the normal operations of the show or meeting.**



# Unrelated Business Income Tax

Instituted to minimize unfair competition between taxable and tax exempt businesses.

## Common Activities:

- Advertising sales and income
- Rental property and management
- Income from controlled organizations (i.e. insurance company)

## Tests to determine if you must pay the tax:

- Income must be from *trade or business* (any activity carried on from selling goods or performing services)
- Regularly carried on
- Not substantially related to tax exempt purpose

# **Feeding and Care of the IRS**

**The Internal Revenue Service believes that a well-governed charity is more likely to obey the tax laws, safeguard charitable assets, and serve charitable interests than one with poor or lax governance.**

**A charity that has clearly articulated purposes that describe its mission, a knowledgeable and committed governing body and management team, and sound management practices is more likely to operate effectively and consistent with tax law requirements.**

# Mission

- **The Internal Revenue Service encourages charities to establish and review regularly the organization's mission.**
- **A clearly articulated mission, adopted by the board of directors, serves to explain and popularize the charity's purpose and guide its work. It also addresses why the charity exists, what it hopes to accomplish, and what activities it will undertake, where, and for whom.**
- **Organizations required to file Form 990 may describe their mission in Part I, Line 1 and are required to describe their mission in Part III, Line 1.**

# **Organizational Documents**

- An organization must have organizational documents that provide the framework for its governance and management. State law often prescribes the type of organizational document and its content.**
- The organizational document of a corporation is its articles of incorporation.**
- State law may also require corporations to adopt bylaws.**
- Organizations required to file Form 990 will find that Part VI, Section A, Line 4 requires organizations to report significant changes to their organizational documents since the prior Form 990 was filed.**

# Governing Body

- **The IRS encourages an active and engaged board believing that it is important to the success of a charity and to its compliance with applicable tax law requirements.**
- **Governing boards should be composed of persons who are informed and active in overseeing a charity's operations and finances.**
- **Successful governing boards include individuals who not only are knowledgeable and engaged, but selected with the organization's needs in mind (e.g. accounting, finance, compensation, and ethics).**
- **Attention should also be paid to the size of the board ensuring that it is the appropriate size to effectively make sure that the organization obeys tax laws, safeguards its charitable assets, and furthers its charitable purposes. Very small or very large governing boards may not adequately serve the needs of the organization.**
- **Organizations that file Form 990 will find that Part VI, Section A, Lines 1, 2 ,3, and 7 ask questions about the governing body.**

# **Governance and Management Policies**

**Although the Internal Revenue Code does not require charities to have governance and management policies, the Internal Revenue Service will review an organization's application for exemption and annual information returns to determine whether the organization has implemented policies relating to:**

- executive compensation**
- conflicts of interest**
- investments**
- fundraising**
- documenting governance decisions**
- document retention and destruction**
- whistleblower claims**

# **Financial Statements and Form 990**

**Directors are stewards of a charity's financial and other resources. The IRS encourages the board, either directly or through a board-authorized committee, to ensure that financial resources are used to further charitable purposes and that the organization's funds are appropriately accounted for by regularly receiving and reviewing up-to-date financial statements and any auditor's letters or finance and audit committee reports.**

# Financial Statements and Form 990

**Financial Statements** - Organizations that file Form 990, will find that Part XI, Line 2, asks whether the organization's financial statements were compiled or reviewed by an independent accountant, audited by an independent accountant, and subject to oversight by a committee within the organization.

**Audit** - Part XI, Line 3 asks whether, as a result of a federal award, the organization was required to undergo an audit.

**Form 990** - Although not required to do so by the Internal Revenue Code, some organizations provide copies of the IRS Form 990 to its governing body and other internal governance or management officials, either prior to or after it is filed with the IRS. Organizations that file Form 990 will find that Part VI, Section A, Line 10 asks whether the organization provides a copy of Form 990 to its governing body, and requires the organization to explain any process of review by its directors or management.



# **Transparency and Accountability**

**By making full and accurate information about its mission, activities, finance, and governance publicly available, a charity encourages transparency and accountability to its constituents.**

**The Internal Revenue Code requires a charity to make its Form 1023 exemption application, Form 990, and Form 990-T, available for public inspection.**

**The Internal Revenue Service encourages every charity to adopt and monitor procedures to ensure that its Form 1023, Form 990, Form 990-T, annual reports, and financial statements, are complete and accurate, are posted on its public website, and are made available to the public upon request.**

**Organizations that file Form 990 will find that Part VI, Section C, Lines 18 and 19, ask whether and how an organization makes its Form 1023, Form 990 and Form 990-T, governing documents, conflict of interest policy, and financial statements available to the public.**

**Did you know what you  
signed up for?**