



Resource Development: Financial Responsibilities of Nonprofits

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Legal Fiduciary Responsibilities

To be a fiduciary is to be a good steward

- Duty of Care
- Duty of Loyalty
- Duty of Obedience

Fiduciary-related Policies

- Conflict of Interest
- Confidentiality
- Anti-Trust

Financial Responsibilities of the Nonprofit Board

Individual Responsibility

Voting for financial policies and the budget

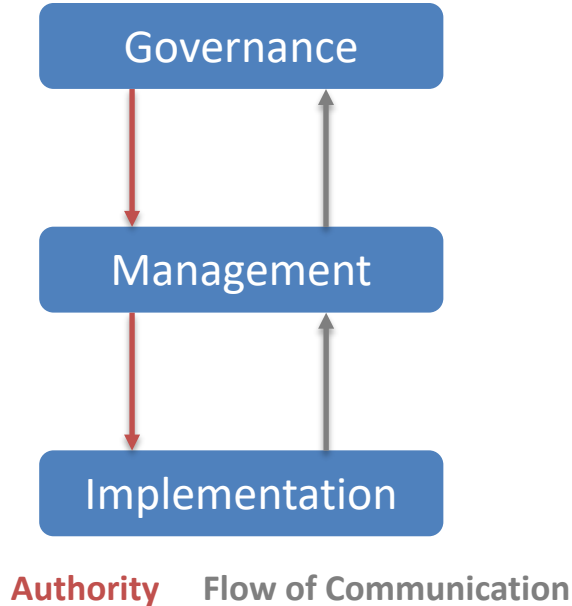
Collective Responsibility

Fiduciary responsibility to serve as a steward of public and charitable funds



The board may delegate authority for some financial management duties to senior staff, the finance committee, or a treasurer

Board Financial Tasks



Strategic

- Approving and monitoring policy
- Setting goals/ strategic direction
- Committee leadership
- Analysis and reporting of financial status
- Overseeing financial operations

Operational

- Developing and monitoring budgets/financial plans
- Managing cash flow
- Monitoring controls/ overseeing transactions
- Managing grants and contracts
- Bookkeeping/ supervising booking

Transactional

- Clerical tasks that support the accounting function, such as copying, filing, and making bank deposits

Financial Oversight

- Establish budget guidelines
- **Oversee financial management**
 - Ensure the necessary financial policies are in place
 - On a regular basis, review financial statements, understand what they say, and ask questions to ensure accurate understanding
 - Review audit report and take action as needed

Financial Responsibilities

- Each Board member is responsible for reviewing all financial reports and tax returns
- The Finance Committee, with staff assistance, will present all financial reports to the Board
- The Finance Committee will review the draft annual budget prepared by the staff prior to presentation to the Board

Financial Statements

- Integral part of any business or organization
- Helps the Board understand the present financial state of the organizations
- Necessary to achieve and evaluate progress toward the organization's mission-related goals and objectives
- Useful for decision making

Financial Statements

Interim Statements

Internally prepared
Prepared monthly



Audited Statements

Prepared annually
Include Auditor's Report and Footnotes

Tax Statements

Form 990

Form 990	Return of Organization Exempt From Income Tax	OMB No. 1545-0047
Department of the Treasury Internal Revenue Service	Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations) ▶ Do not enter social security numbers on this form as it may be made public. ▶ Go to www.irs.gov/Form990 for instructions and the latest information.	2021 Open to Public Inspection

Interim Statements

- What you will see & things to keep in mind
 - The current year budget – this is essentially a prediction of what kind of money was expected to come in and go out
 - Actual income and expenses – this is the money that was actually received or spent
 - Prior year – this is a comparison number
 - Variance – the difference between what you thought and what actually happened; can be expressed as a \$ amount or %
 - Explanation – this is text that helps put what you see into perspective

Asking Good Financial Questions

Have we run a gain or loss?

Are our key sources of income rising or falling?

Are our key expenses, especially salary and benefits, under control?

Do we have sufficient reserves?

Is our cash flow projected to be adequate?

Where are we compared to our budget?

Is our financial plan consistent with our strategic plan?

Are we filing all needed reporting documents on a timely basis?

Are we fulfilling our financial legal obligations?

Sound Financial Management – Summed Up

Manage “How”

- Income is generated (contributions or earnings)
- Money is spent
- Assets and net assets are protected/ invested
- Finances are presented and accounted for

Activities Related to Financial Management:

- Budgeting
- Accounting and financial statements
- Reporting and analysis
- Developing and monitoring financial policy
- Managing cash flow
- Transactions and internal controls
- Managing grants and contracts
- Risk management
- Annual reporting, income tax filing and statutory remittances

Internal Controls – What comes to mind?

Fiduciary oversight

Segregation of duties

Fraud prevention

Monitoring controls

Policies and procedures

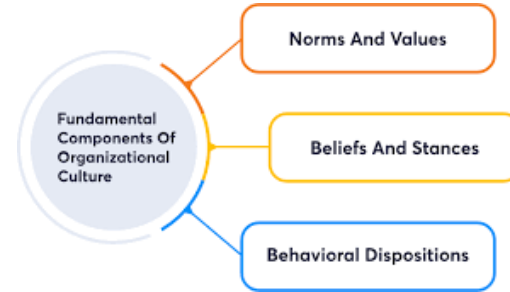
Reconciliation processes

Preventative controls

Internal Controls - Three Key Areas

Organization Culture

- Set the right tone at the top
- Create a culture of financial discipline
- Promote transparency



Polices and Procedures

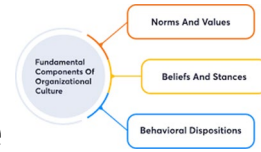
- Develop
- Acknowledge
- Approve



Leveraging Technology

- Software integration
- Business rules
- Restricted access
- Audit trails





What This Looks Like – Organization Culture

	Behaviors	Processes/Transactions
Set the right tone at the top	Leadership leads by example	Leadership submits receipts for approval
Financial discipline	<p>Fiscal policies and procedures are “living” documents</p> <p>Leadership regularly monitors financial results</p>	<p>Staff are regularly trained on new policies</p> <p>Budgets are approved by the board and regularly monitored by the board and executive leadership</p>
Transparency	Leadership promotes and encourages an open and transparent environment	Establish policies that promote transparency (e.g., conflict of interest, whistleblower)



What this Looks Like – Policies & Procedures

	Reduces risk by:	What you can do:
Acknowledge – Revenue & Donors	Providing a check and balance for funds flowing into the organization	Regular reconciliation between finance and development
Approve – Agreements & Credit Cards	Making staff aware of organization-wide purchasing policies and allowing management to review expenses	Purchasing approval thresholds Clarity on appropriate use of credit cards
Segregate – Payroll Responsibilities & Major Purchases	Ensuring no one person has control over payroll and large expenses	Staff additions/changes and payroll processing are performed by different people
Approve – Policies	Promoting transparency	Conflict of interest disclosure from both board and staff Whistleblower hotline
Approve - Procedures	Creating awareness of how to protect against threats to privacy and/or systems	Staff training on what to do when encountered emails or phishing attempts



What This Looks Like – Leveraging Technology

Examples of technology controls:

Software Integration

Business Rules

Restricted Access

Audit Trails

Working with the Bank

Purchasing Cards

Automated Bill Pay

No Blank Checks

Understanding Risk

Risk takes many forms but, essentially, is anything that affects an organization's ability to meet its objectives and preserve its reputation.

- Compliance – violation of laws, policies, regulations
- Financial – fraud, misappropriation of funds
- Governance – ineffective oversight
- Operational – poor service delivery, misuse of human capital
- Information security – exposure of nonpublic information
- Reputation – loss of goodwill or status
- Strategic – failure to keep the organization strong and relevant

Failure to Manage Risk Could Lead to:

- Loss of major funding
- Unsuccessful fundraising projects
- Failure of a project or initiative
- Inadequate response to emergencies
- Programs and services no longer in demand
- Excessive cost of human and other resources
- Loss and theft of information
- Inability to perform functions that depend on technology

Risk Management

- Identifying, assessing, and working to mitigate (lessen the consequences of) risks in your organization's work
- We do this by:
 - Assuring there are processes in place – written guidelines that help you ask the right questions
 - Board and staff identification of risks and consequences
 - Follow tested practices and control measures to manage the risk



Manage Risk

Four ways to manage risk

- Avoid it – could be good or could mean missed opportunities
- Transfer risk (share it) – insurance is one way to share risk
- Mitigate risk (lessen it) – develop procedures with checks and balances to detect and reduce the likelihood of risk (e.g., internal controls, accurate record-keeping)
- Accept risk – if there is unlikely to be harm, perhaps the risk is warranted

Monitor Risk

Monitoring and learning from risk involves questions such as:

What are we doing about the major risks we have identified?

Are we achieving the results we planned?

Are we monitoring and learning from control breakdowns and losses?

Are “near misses” recorded, tracked and used for learning?

Do we have the necessary guidelines or policies and procedures?

How well are we doing in managing risk?

The specific questions will depend on the organization. The answers will come from the processes for measuring, monitoring, and reporting risk.



How can I help?
What questions remain?