Board of Directors
Fiduciary Responsibilities

Council of State Speech-Language-Hearing Association Presidents
Spring Program
May 16, 2014

In Preparation to Serve

- 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
Duty of Care

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.
Fraud and 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.

Fraud and Internal Controls

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.
- 85% of occupational fraud involves asset misappropriation.
- Perpetrators often display behavioral traits that serve as indicators of risk.
- 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.

Financial Controls

- If you are using an association management firm, request to review all adjustments made to your financial books (e.g., manual entries).
- Review 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

Financial Health

❖ Board members should understand the financial health of the organization

Financial Health

* 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

- It should show data in context
- It should provide accurate and complete information
- It should be presented in a form that is useful to the audience

Not-for-Profit Reporting

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.)

Sample Statement of Financial Position

<table>
<thead>
<tr>
<th>CONDENSED STATEMENT OF FINANCIAL POSITION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2011 (000's)</strong></td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
</tr>
<tr>
<td>Current assets</td>
</tr>
<tr>
<td>Long-term restricted cash and investments</td>
</tr>
<tr>
<td>Capital assets</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
</tr>
<tr>
<td><strong>LIABILITIES, DEFERRED CONTRIBUTIONS, AND NET ASSETS</strong></td>
</tr>
<tr>
<td>Current liabilities</td>
</tr>
<tr>
<td>Long-term liabilities and deferred contributions</td>
</tr>
<tr>
<td>Net assets</td>
</tr>
<tr>
<td><strong>Total Liabilities and Net Assets</strong></td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
</tr>
</tbody>
</table>
Statement of Financial Position

- 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

<table>
<thead>
<tr>
<th>Operating Fund</th>
<th>Statement of Activities</th>
<th>2014</th>
<th>2015</th>
<th>Variance</th>
<th>Variance %</th>
<th>Budget</th>
<th>Variance</th>
<th>Variance %</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Member Dues</td>
<td>350,000</td>
<td>140,000</td>
<td>76,000</td>
<td>26%</td>
<td>(100,000)</td>
<td>(25,000)</td>
<td>12%</td>
<td>(100,000)</td>
<td>(25,000)</td>
<td>12%</td>
</tr>
<tr>
<td>Conventions</td>
<td>335,000</td>
<td>137,000</td>
<td>74,000</td>
<td>22%</td>
<td>(260,000)</td>
<td>(59,000)</td>
<td>18%</td>
<td>(260,000)</td>
<td>(59,000)</td>
<td>18%</td>
</tr>
<tr>
<td>Other Operations</td>
<td>20,000</td>
<td>8,000</td>
<td>1,000</td>
<td>2%</td>
<td>(1,500)</td>
<td>(12%)</td>
<td>1%</td>
<td>(1,500)</td>
<td>(12%)</td>
<td>1%</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>100,000</td>
<td>0,000</td>
<td>1,000</td>
<td>0%</td>
<td>(1,000)</td>
<td>(100%)</td>
<td>0%</td>
<td>(1,000)</td>
<td>(100%)</td>
<td>0%</td>
</tr>
<tr>
<td>TOTAL REVENUE</td>
<td>500,000</td>
<td>140,000</td>
<td>81,000</td>
<td>27%</td>
<td>(260,000)</td>
<td>(37%)</td>
<td>8%</td>
<td>(260,000)</td>
<td>(37%)</td>
<td>8%</td>
</tr>
<tr>
<td>Expenses</td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Salaries</td>
<td>100,000</td>
<td>50,000</td>
<td>30,000</td>
<td>30%</td>
<td>(50,000)</td>
<td>(100%)</td>
<td>20%</td>
<td>(50,000)</td>
<td>(100%)</td>
<td>20%</td>
</tr>
<tr>
<td>Supplies</td>
<td>5,000</td>
<td>2,000</td>
<td>3,000</td>
<td>60%</td>
<td>(3,000)</td>
<td>(60%)</td>
<td>60%</td>
<td>(3,000)</td>
<td>(60%)</td>
<td>60%</td>
</tr>
<tr>
<td>Total Expenses</td>
<td>115,000</td>
<td>72,000</td>
<td>43,000</td>
<td>40%</td>
<td>(72,000)</td>
<td>(63%)</td>
<td>40%</td>
<td>(72,000)</td>
<td>(63%)</td>
<td>40%</td>
</tr>
<tr>
<td>NET ASSETS</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>385,000</td>
<td>68,000</td>
<td>30,000</td>
<td>40%</td>
<td>(30,000)</td>
<td>(40%)</td>
<td>40%</td>
<td>(30,000)</td>
<td>(40%)</td>
<td>40%</td>
</tr>
</tbody>
</table>

Statement of Activities

- **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?
- How did the organization do compared to budget? Are revenues and expenses being managed to maintain the budgeted bottom line?
- Are investment gains or losses in line with the benchmark?
- What are the future and current trends?

Financial Reporting

Dashboards and Ratios

- 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

Financial Reporting Ratios

- 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: $79,000
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/

Yvonne Kankam-Boadu
Director of Finance
American Speech-Language-Hearing Association
ykankamboadu@asha.org
301-296-8648