

# 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

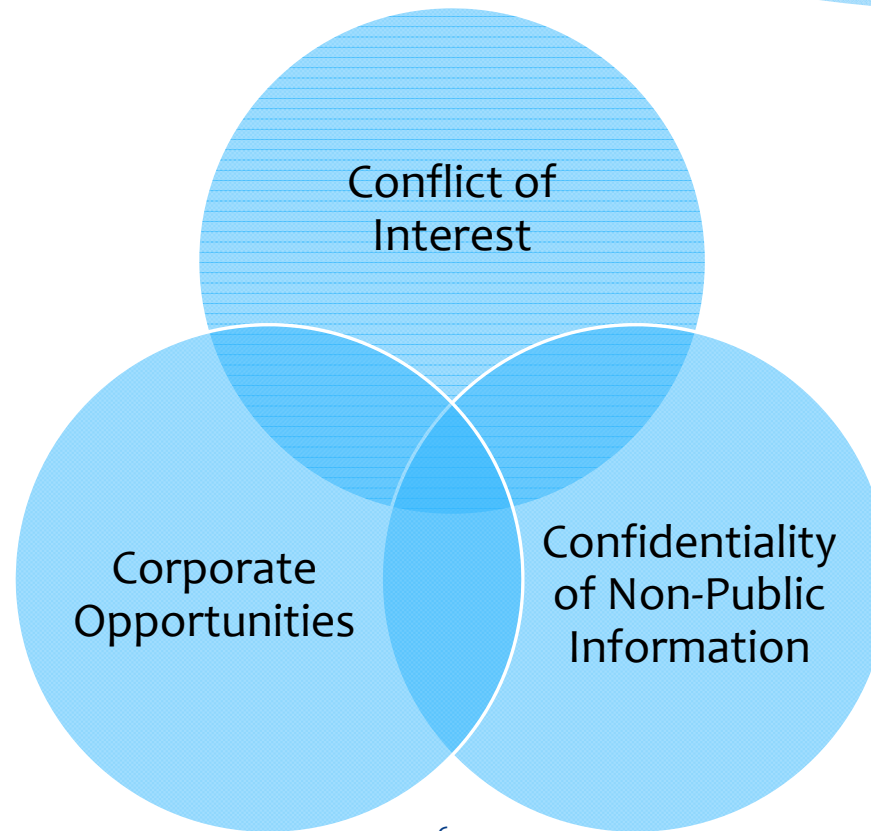
# Duty of Care



**"Everyone here? Good. Meeting topic: Setting world record for shortest meeting. All in favor say aye. Ayes have it. Meeting over."**

- \* 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



# 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.

89% 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 you 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

## CONDENSED STATEMENT OF FINANCIAL POSITION

	2011 (000's)		2010 (000's)	
<b>ASSETS</b>				
Current assets	\$	195,520	\$	233,197
Long-term restricted cash and investments		12,746		30,462
Capital assets		804,179		724,033
	\$	<b>1,012,445</b>	\$	<b>987,692</b>
<b>LIABILITIES, DEFERRED CONTRIBUTIONS AND NET ASSETS</b>				
Current liabilities	\$	170,697	\$	253,884
Long-term liabilities and deferred contributions		644,983		583,207
Net assets		196,765		150,601
	\$	<b>1,012,445</b>	\$	<b>987,692</b>

# 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

## Operating Fund Statement of Activities

	Nov YTD	Nov YTD	Actual		Budget	Variance \$	Variance %	Prior Yr
	2014	2013	Variance \$	Variance %				Actuals
								2013
<b>REVENUE</b>								
Member Dues	321,000	245,000	76,000	24%	300,000	(21,000)	107%	260,000
Convention	215,000	157,000	58,000	27%	220,000	5,000	98%	160,000
Contributions/ Sponsorships	50,000	45,000	5,000	10%	50,000	-	100%	45,000
Other Revenue	10,000	8,000	2,000	20%	9,000	(1,000)	111%	8,500
<b>TOTAL REVENUE</b>	<b>\$ 596,000</b>	<b>\$ 455,000</b>	<b>\$ 141,000</b>	<b>24%</b>	<b>\$ 579,000</b>	<b>\$ (17,000)</b>	<b>103%</b>	<b>\$ 473,500</b>
<b>EXPENSES</b>								
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
<b>TOTAL PERSONNEL</b>	<b>\$ 91,000</b>	<b>\$ 43,500</b>	<b>\$ 47,500</b>	<b>52%</b>	<b>\$ 92,000</b>	<b>\$ 1,000</b>	<b>99%</b>	<b>\$ 86,000</b>
<b>DIRECT EXPENSES</b>								
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%	5,500
Professional Services	90,000	55,000	35,000	39%	100,000	10,000	90%	30,000
<b>TOTAL DIRECT EXPENSES</b>	<b>\$ 215,000</b>	<b>\$ 208,000</b>	<b>\$ 7,000</b>	<b>3%</b>	<b>\$ 263,000</b>	<b>\$ 48,000</b>	<b>82%</b>	<b>\$ 195,500</b>
<b>TOTAL EXPENSES</b>	<b>\$ 306,000</b>	<b>\$ 251,500</b>	<b>\$ 54,500</b>	<b>18%</b>	<b>\$ 355,000</b>	<b>\$ 49,000</b>	<b>86%</b>	<b>\$ 281,500</b>
<b>NET ASSETS</b>	<b>\$ 290,000</b>	<b>\$ 203,500</b>	<b>\$ 86,500</b>	<b>30%</b>	<b>\$ 224,000</b>	<b>\$ (66,000)</b>	<b>129%</b>	<b>\$ 192,000</b>

# 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

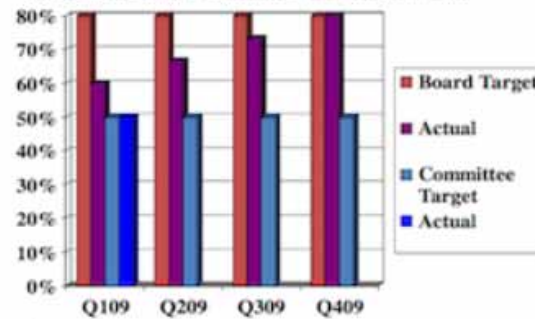
- The function of financial dashboard is to give you a device to view data in a graphical format.
- Some examples are:
  - \* **Strategic** - Board or higher management – with a bigger scope – aligns organizational strategic goals
  - \* **Tactical** – managers – with a limited scope – measures progression of projects and departments
  - \* **Operational** – business users – with a very limited scope – monitor and analyze organizational activities

# Dashboard Samples

## 1. Finance

	Target	6 months ago	Now
Days of unrestricted cash on hand	45 days	65 days	18 days
Net surplus or deficit YTD compared with YTD budget	Within 25K or better	\$42,500 worse than budget	\$26,000 worse than budget-to-date
Government funding year-to-date (52% of budget)	Within 3%	\$39,000 worse than budget	\$3,200 worse than budget, 24 days
Days from end of month to financial statements	24 days	87 days	48 days

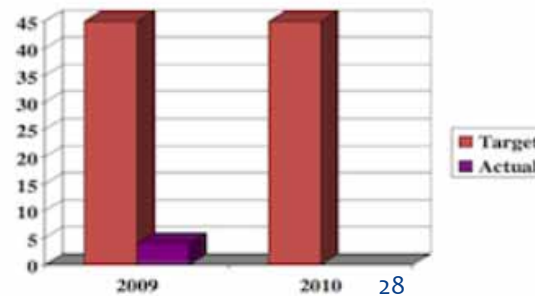
Full Board and Committee Participation



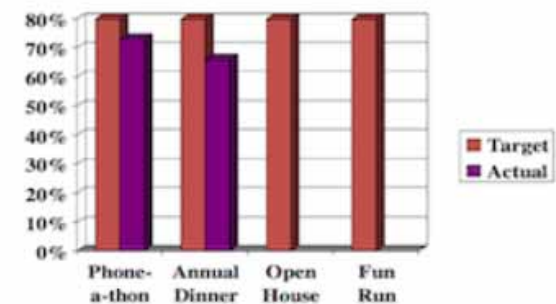
Board Donor Contact and Financial Support



Visibility Building Participation



Board Member Annual Event Participation



# 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.*

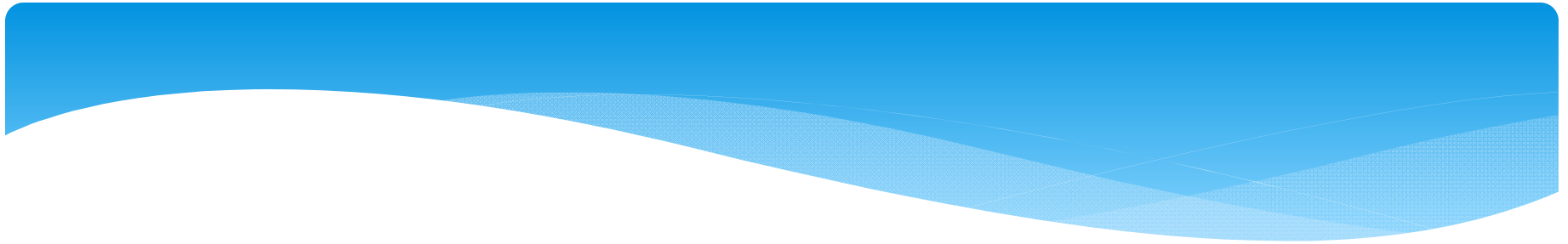
## Adequacy of Resources

Cash, Receivables, Investment: \$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.*



# Resource Document

Sample Conflict of Interest:

<http://www.councilofnonprofits.org/conflict-of-interest>

Fraud and Misuse of Assets:

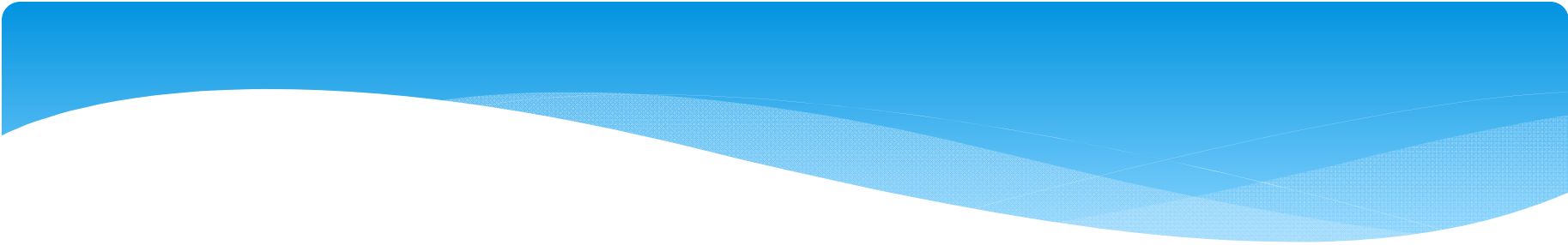
<http://www.thenonproffitimes.com/news-articles/red-flags-beware-the-fraud-triangle/>

<http://www.nonprofitrisk.org/>

Association Management :

<http://www.asaecenter.org/>





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