


**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

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Duty of Care

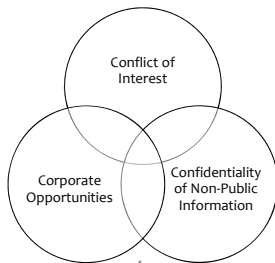


"Everyone here? Good. Meeting topic: Setting world record for shortest meeting. All in favor say aye. Ayes have it. Meeting over."

- * 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

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Duty of Loyalty



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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.

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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

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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.

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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.

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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.

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Financial and Non-Financial Systems of Controls



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- * 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.

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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).

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Financial and Non-Financial Systems of Controls



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- * 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

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Financial Health



- ❖ Board members should understand the financial health of the organization

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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.

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

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.

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Sample Statement of Activities

| | Operating Fund Statement of Activities | | | | | | | |
|------------------------------|---|-------------------|-------------------|------------|-------------------|--------------------|-------------|-------------------|
| | Nov YTD | | Actual | | Budget | | Prior Yr | |
| | 2014 | 2013 | Variance \$ | Variance % | Variance \$ | Variance % | 2013 | Actuals |
| REVENUE | | | | | | | | |
| 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 |
| TOTAL REVENUE | \$ 596,000 | \$ 455,000 | \$ 141,000 | 24% | \$ 579,000 | \$ (17,000) | 103% | \$ 473,500 |
| 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% | 5,500 |
| Professional Services | 90,000 | 35,000 | 55,000 | 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 |

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.

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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?

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Financial Reporting

Look for major changes:

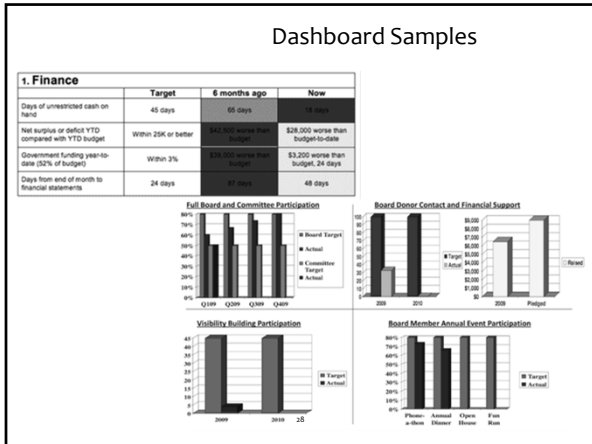
| | |
|---|---|
| What is the growth or decline over last year in revenue and expenses? | How did the organization do compared to budget? Are revenues and expenses being managed to maintain the budgeted bottom line? |
| Are investment gains or losses in line with the benchmark? | What are the future and current trends? |

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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

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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.

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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.

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



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