

# PRESENTING: NONPROFIT FINANCIALS

## *An Overview of Board Fiduciary Responsibility*

User's Guide includes instructions for presenters, guidelines for financial training sessions, and an overview of financial documents board members should receive

CD includes slide show, sample documents, and generic text files

by Thomas A. McLaughlin



Formerly the National Center for Nonprofit Boards

## *Presentation Overview*

Of all the responsibilities of a nonprofit board member, providing the proper fiduciary oversight of the organization is one of the most important. Board members must keep a close watch on the organization's finances for a few key reasons:

- The board is responsible for looking out for the best interests of the organization. This includes ensuring that the organization is handling its finances in a responsible manner so it can fund operations that fulfill the mission of the organization and manage its money appropriately so it will have a longer life span.
- The board is accountable to charity regulators that monitor the financial well-being of nonprofit organizations. If charity regulators find that the organization is not managing its finances in the best interest of the organization, they can report their findings to the public, the media, and, in some cases, the state attorney general's office or the IRS.
- In some circumstances, board members may be held personally liable for the conduct of the organization. Providing the proper oversight of the organization's finances is a good way to help prevent the board from facing any legal trouble.

To help protect the organization from financial hardships and enhance the nonprofit's ability to fulfill its mission, board members must be aware of the issues important to the financial integrity of nonprofits, the safeguards organizations can take to protect their financial well-being, and the warning signs of financial problems.

The purpose of this presentation is to familiarize board members — experienced and novice — with the financial information they need. Included in this presentation are definitions, job descriptions, and sample financial documents that will give board members an overview of the lines of responsibility within the organization and an understanding of how to assess a nonprofit's financial health.

### **WHO SHOULD DELIVER THE PRESENTATION?**

Although a speaker with no financial expertise could present these slides by reading the talking points provided, it may be best for a member of the finance committee or a member of the financial staff to deliver this presentation to the board. A presenter

with knowledge of the organization's finances can provide examples from within the nonprofit to illustrate points in the presentation and will be better equipped to answer questions. Sections 3 and 4 of this presentation discuss the annual audit and how to review an audit. For these sections, a member of the audit committee or task force, if your board has one, could also be a good presenter.

## **WHO SHOULD VIEW THE PRESENTATION?**

Much of this presentation covers the basics of financial management, so it would be helpful for new board members or new members of the finance committee to view it. However, the entire board could benefit from seeing this presentation occasionally as a refresher on the responsibilities and terminology of financial oversight. Sections 3 and 4, which describe the annual audit, could be beneficial to the whole board as well as the audit task force or committee. The whole board may not be directly involved in the audit process, but board members should have a good understanding of the audit process as part of their fiduciary responsibility.

## **20 QUESTIONS BOARD MEMBERS SHOULD ASK TO ASSESS FINANCIAL HEALTH**

Board members can't provide financial oversight if they don't know what to look for. The following questions address some of the most important issues board members should raise when reviewing the organization's finances.

### **FINANCIAL PLANNING**

1. Is our financial plan consistent with our strategic plan?

### **SUFFICIENT AVAILABLE CASH**

2. Is our cash flow projected to be adequate?
3. Are our cash-flow projections reasonable, objective, and not overly optimistic?

### **SATISFACTORY RESERVES**

4. Do we have sufficient reserves?
5. Has the board adopted a formal policy for the establishment of reserves?

### **MEETING THE BUDGET**

6. Are we regularly comparing our financial activity with what we have budgeted?
7. What procedures do we use to make sure that the differences between what was budgeted and what actually happened are being appropriately addressed?

### **PROPRIETY OF EXPENDITURES**

8. Does the board provide oversight of contractual agreements to ensure that the organization's exempt status will not be questioned or impaired?
9. Does the board provide for internal controls over expenditures?
10. Are we fulfilling our tax-exempt purpose as granted by the IRS?

### **INTERNAL CONTROLS**

11. Do we have the appropriate checks and balances necessary to prevent errors, fraud, and abuse?
12. Are we alert to the possibility of fraud within our organization and are we taking safeguards to try to prevent fraudulent activities?

### **EXTERNAL AUDITS**

13. Do we have an external audit?
14. Does our annual audit have an unqualified ("clean") opinion? If not, why not, and what is being done about it?

### **FINANCIAL DOCUMENTS**

15. Is our financial staff providing us with accurate and timely financial statements that allow us to understand the financial state of the organization?
16. Do we regularly review the IRS Form 990? Does it accurately represent our organization?

### **SIGNS OF FINANCIAL DISTRESS**

17. Are our key sources of income rising or falling? If they are falling, what are we doing about it?
18. Are our key expenses, especially salaries and benefits, under control?

### **MAKING INVESTMENTS**

19. When was the last time our investment policy was reviewed?
20. Are we satisfied with the performance of our investments, given the level of risk appropriate for these funds?