

FINANCE 101 FOR BOARDS



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What will we discuss?

-What does it mean to be a nonprofit

-Dos

-Don'ts

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-General Board Responsibilities

-Fiduciary Responsibility

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-Basic Financial Concepts

-Controls

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Being a Nonprofit



What does it mean to be a nonprofit?

- Being a nonprofit and recognized as a 501(c)3 charitable organization simply means the organization is exempt from income taxes.
- Nonprofits are mission-driven with a specific focus to help a community.
- Nonprofits can't or shouldn't make money, right? **WRONG!!!** There is no mission without money.
- Nonprofit is simply a tax status, not a financial situation.
- Nonprofits have a responsibility to be successful and ensure longevity through prudent fiscal management.

DO...

- Answer requests for information promptly
 - Public disclosure of Form 990 (Current + 2 years back)
 - Application for exemption and IRS determination letter
- File your Form 990 by 15th of fifth month after year end
- Ensure audits or financial reviews are performed every year
- Remember that, unlike schools, you are not subject to public documents requests (unless you are associated with state government)

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Don't...

- Provide any type of private benefit to anyone
- Provide excessive benefits to Officers, Directors, or Key Employees
- Legislative activities and lobbying may be allowable but can be limited
- Don't engage in any political campaign activities

DON'T.....

Share or distribute profits to members

- **Can generate services or discounts**

- **Can create designated accounts**

Basic Finance Information



Types of Statements



Statement of Financial Position (Balance Sheet)



Statement of Activities (Income Statement, Profit & Loss Statement)



Investment statements

Balance Sheet Terms



Assets: resources or things of value that are owned by an organization

- Cash and investments
- Accounts receivable
- Fixed assets



Liabilities: obligations of the organization

- Accounts payable
- Deferred revenue



Net Assets: net worth of an organization (Reserves)

Types of Net Assets

- * Unrestricted

- Undesignated (general reserves) – accumulated reserves over the years
- Board Designated – voted on by board for specific purpose

- * Temporarily Restricted

- Time or purpose restrictions
- Restriction determined by the donor

- * Permanently Restricted

- Funds must be used for a specific purpose forever
- Restriction determined by the donor/grant
- Sometimes used to create an endowment

Cash Basis vs. Accrual Basis

CASH BASIS

-In the cash method of accounting, financial information is presented based on incoming and outgoing cash.

-Both income and expenses are recognized when they occur. Income is recognized when it's received as opposed to when it's earned. Expenses are recorded when the payment is disbursed, not when it's incurred.

-Advantages: easy, quick, shows exact cash on hand.

-Disadvantages: requires a disclaimer on annual reports, does not meet Generally Accepted Accounting Principles (GAAP) requiring cash to accrual conversion for end of year reporting requirements

ACCRUAL BASIS

-The accrual method of accounting (also called Generally Accepted Accounting Principles (GAAP)) is based on the period in which revenue and expenses occur.

-Revenue is recognized in the period in which it is earned, not when it's received.

-Expenses are reported in the period in which they are incurred, not when the bill is settled.

-Advantages: more complete financial picture, more accurate reports

-Disadvantages: more complex, takes more time

Budgets

- Budget should reflect your Strategic Plan
 - It should be the financial explanation of what you want to accomplish as an organization
- Review prior financial details from past 1-3 years
 - Review for trends and opportunities for savings, compare to current budget
- Net positive vs. zero based budget
- Board must formally approve budget annually

Some controls to pay attention to...

Separation of duties

Different individuals should be responsible for:

- Cutting/approving checks
- Receiving checks/recording receipts/depositing checks

Require approvals proactively

Perform reviews retroactively

- All payments require appropriate reviews before being cut and/or sent
- All journal entries require approval before posting and/or review after posting

Fiduciary Responsibility

- Questions to ask
- Board responsibilities
- Finance Committee

Fiduciary Responsibility

As a Board member you have personal liability for the custody of the nonprofit's assets.

- Ask questions, don't simply accept "things are fine"
- Do not approve a negative budget unless it is an extreme situation with a plan to move back to a positive status
- Be sure your association has up to date D&O insurance
- Educate yourself, don't just rubber stamp things

Board responsibilities

- Understand basic financial terms and any terminology/acronyms that are specific to the association
- Understand the financial statements enough to judge if they are reasonable and recognize if any warning signs are present
- Approve the annual budget.
- Understand how cash flow works for the association.
- Know the terms of any loans or lines of credit. Understand the investment accounts.
- Read and approve annual audit and Form 990. Remember that the 990 is a public document that anyone can access.

Ask questions



Do we have enough cash coming in to cover operations, or are we living off reserves?



Do we have enough cash on hand to cover at least three months of operating expenses? (nine to twelve months is preferable)



What portion of our funds are we spending on program activities?



How much are we spending on administrative expenses?

More questions to ask

Is the organization running at a gain or loss?

Are the individual sports running at a gain or loss? How are they trending?

How does this year compare to last year?

How do actuals compare to the budgeted numbers? What are the reasons for major budget variances?

Does the association have sufficient reserves? How long would they allow you to operate in an emergency situation?

Is the financial plan consistent with the strategic plan? How does it move the plan forward?

Is the organization spending any restricted dollars according to the guidelines set by the funders?

Documents to review

- Any Governance documents (handbooks, process documents, regulations)
- Salaries/Contracts for key Executives
- Conflict of Interest policy and action plan (should be completed annually)
- Whistleblower policy
- Document retention/destruction policy

Investments

What is our investment objective, asset allocation, and spending policy?

What is the policy for how often to meet with investment managers/advisors?

How and when are investment reports shared with the full Board?

How is our portfolio doing compared to benchmarks?

How/when are we evaluating our investment manager/advisor?

Pay attention to....

Budgeting

Program Costs

**Infrastructure
Expenses**

Cash Flow

**Operating
Reserves**

**Diverse Funding
Sources
Sources**

Long Range Strategic Plan for Financial Health



Board Expectations

**Financial
Literacy**

**Financial
Responsibility**

**Accountability
and
Transparency**

**Financial
Integrity**

**Responding to
Financial
Problems**

Interdependence

Questions?

