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# Board Member Training

## Understanding the Responsibilities of a Not-for- Profit Board Member

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# Introduction



This presentation is designed to help individuals become effective board members for not-for-profit organizations (NFPs). It is based on the expertise of CPA firms, including **Elbert T Chester CPA, PLLC**, that work closely with NFPs, their staff leadership and boards of trustees/directors.

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# Outline



- How Churches Differ from Other Organizations
- Duties of a Board Member
- Financial Literacy
- Management and Measurement Issues
- Sources for More Information

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# How Churches/NFPs Differ



- Dedicated to achieving a mission or a vision
- Gather funding and support from the government, the general public, foundations, exchange transactions, and/or membership fees
- Enjoy tax exempt status, IRS section 501C3
- Carry an obligation to the public and donors to acquire, manage and allocate financial resources to accomplish the mission

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# Keys to Success



- Clear organizational goals
- Defined performance measures
- Capable, dedicated personnel and management
- Accurate accounting & control measures
- Reasonable constraints on activities
- Effective, capable board of directors
- An audit committee or other non-staff directed oversight body that oversees the audit

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# Board Responsibility



A major component of the Board's responsibility is oversight of the financial management, including:

- Financial Planning
- Budgeting
- Accounting
- Payroll Taxes

If there is no Audit or Finance Committee, oversight may also include:

- Payroll
- Taxes
- Annual Government Filings

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# Membership Considerations

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- Duties and Responsibilities
- The Organization
- Provisions
- Liabilities

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# “Duties” of a Board Member



- Care
- Loyalty
- Manage Accounts
- Obedience

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# Duty of Care



The care that “an ordinary prudent person would exercise in a like position and under similar circumstances”

- Attending board meetings regularly
- Showing independent judgment
- Being informed about organizational resources
- Delegating only to responsible individuals
- Following up regularly

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# Duty of Loyalty



- Give undivided allegiance to the organization when making decisions that affect the organization
- Personal, family or business interests cannot be put above the organization's interests
- Avoid conflicts of interest in fact and in appearance

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# Duty to Manage Accounts



- Ensure financial accountability by:
  - Overseeing the organization's executive director
  - Checking that resources are used prudently
  - Implementing procedures to ensure accurate records
  - Ensuring that no one person has sole control over finance
- Accurate decision making documentation using Board Meeting Minutes

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# Duty of Obedience



- Ensure that the organization remains obedient to its central purpose
- Establish a System of Accountabilities. This might include:
  - Policies
  - Programs
  - Performance
  - Process
  - Value
  - Outcomes & Effectiveness
  - Efficiency & Economy
  - Planning, Allocating & Managing

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# Integrity



- Consider establishing a publicly accessible code of conduct
- Ensure that the publicly held values are reflected by the NFP's functions
- Evaluate all major decisions to ensure that they agree with the core values

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# Ask



- Do we have a sound financial plan?
- Do we have enough cash?
- Are our reserves satisfactory?
- Are our major expenses in line?
- Are we meeting our budget?
- Are our expenditures appropriate?
- Are we insured appropriately against risks?
- Are we meeting the guidelines and requirements set by the IRS for NFPs?

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# IRS Regulations



- Be aware of intermediate sanctions
- IRS Regulations provide a “rebuttable presumption of reasonableness”
- Unrelated Business Income Tax

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# Financial Abnormalities



- Consistently late financial statements & bookkeeping
- Overdue/late payroll taxes (i.e. withholding) remittances
- Late payment penalties and larger than typical bank charges
- Bank accounts always in overdraft situation – checks are cut but not mailed immediately
- Bank accounts not reconciled or reconciled timely
- Aged payables and vendors requiring COD

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# Financial Abnormalities



- Listings of receivables & payables are not reconciled to the ledger
- Complex business arrangements
- Large last-minute transactions
- Unusual accounting policies
- Reluctance to make changes in systems
- Decline in key ratios
- Significant variances in budgets
- Multiple bank accounts
- Large fluctuations in investments

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# Risk Management



- Identify financial, operational and external risks
- Assess insurance coverage purchased for various exposures
- Understand and oversee process for internal controls

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# Management Issues

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- Organizational Structure
- Compensation
- Policy Making
- Compliance

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# Measurement Issues



Establish performance measures to gauge achievement of the mission

- Information technology resources should assist/support measurement
- An appropriate cost allocation structure will aid in the analysis

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# Elbert T Chester, CPA Can



- Help the organization stay on track financially
- Proactively facilitate the implementation of ethics programs
- Influence ethical growth of the NFP
- Help eliminate the gap between values & actions
- Create systems & controls for monitoring the internal effectiveness of ethics programs
- Aid with performance measurement
- Orchestrate strategic planning
- Implement risk management tools & assess internal controls

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# Disclaimer



**Elbert T Chester, CPA PLLC** *created this presentation based on materials prepared by PCPS, The AICPA's Alliance for CPA Firms. You should always seek the advice of a competent professional for accurate and complete Information.*

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