

# FINANCIAL RESPONSIBILITIES FOR NONPROFIT BOARDS

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**Make Dollars Make Sense**

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# FINANCIAL RESPONSIBILITIES OF NONPROFIT BOARDS

## Who is Responsible?

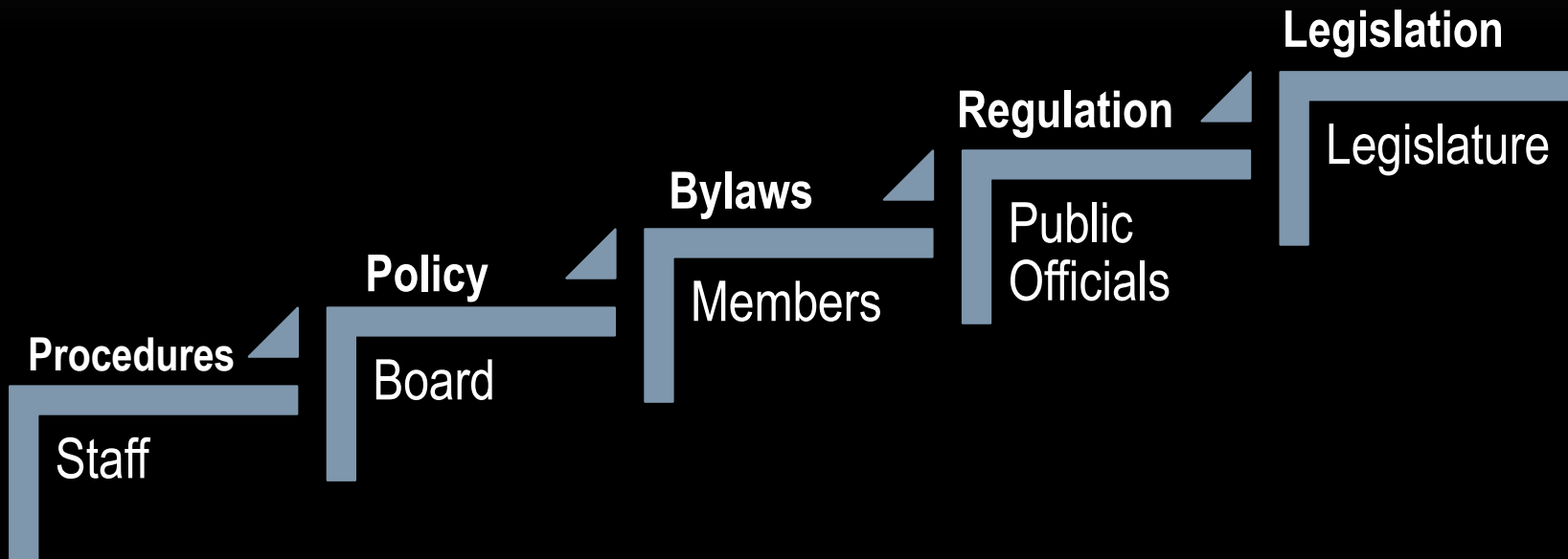
- The Board of Directors
- Individual – voting for financial policies and the budget
- Collectively – fiduciary responsibility
- The board may delegate authority for some financial management duties to senior staff, finance committee or a treasurer

## What is Required?

- What is stated in corporate legislation and other legislation and regulation
- What is stated in your bylaws

*Everything else is optional...*

# LADDER OF AUTHORITY



# WHAT IS A TREASURER?

- ❖ 1 of 4 traditional officer roles
- ❖ “Officer” is a old staple of corporate law
- ❖ Nonprofit context: Oversee financial management and report to the board and members financial status of organization.

# FINANCIAL MANAGEMENT

**Financial Management = *managing how*:**

1. Income is generated (contributions or earnings)
2. Money is spent
3. Assets and net assets are protected/ invested
4. Finances are presented and accounted for

**Activities Related to Financial Management:**

- Budgeting
- Accounting and financial statements
- Reporting and analysis
- Developing and monitoring financial policy
- Managing cash flow
- Transactions and internal controls
- Managing grants and contracts
- Risk management
- Annual reporting, income tax filing and statutory remittances

# FINANCE FUNCTIONS IN ORGANIZATIONS

## Transactional

- clerical tasks that support the accounting function, such as copying, filing, and making bank deposits
- attention to detail , exposure to basic accounting principles.

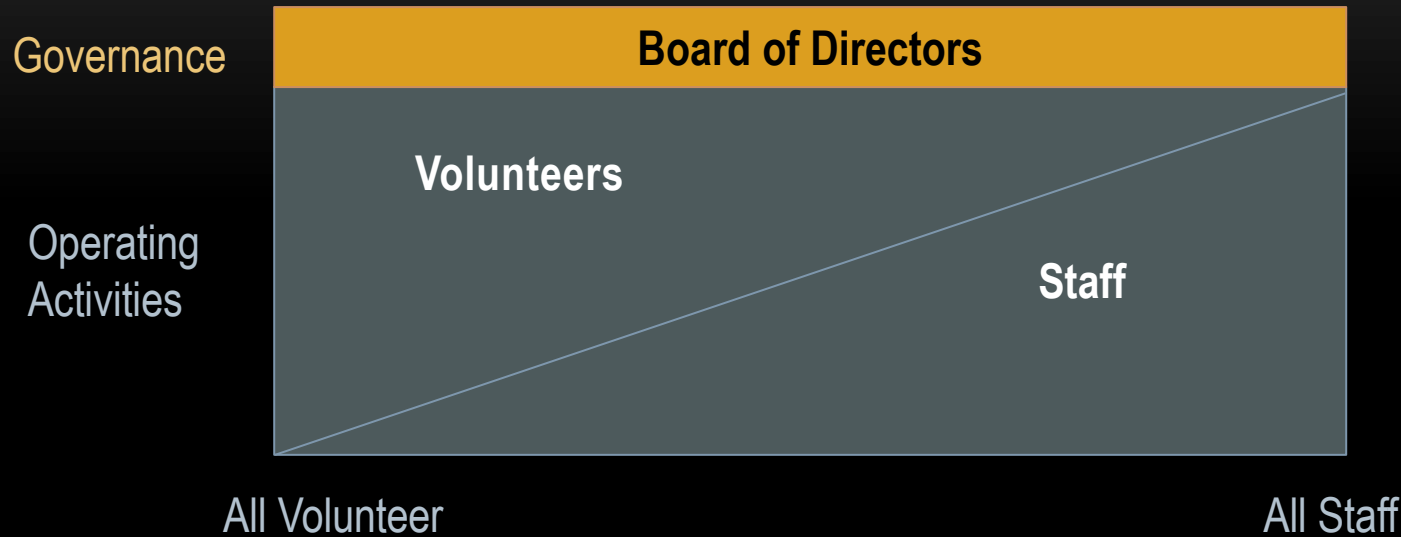
## Operational

- range of accounting functions, such as paying bills and producing monthly financial statements
- nonprofit accounting knowledge, including managing grants and contracts.

## Strategic

- systems development, financial analysis, planning, and communication about the organization's financial position
- Chief Financial Officer (CFO) level knowledge and skills

# WHAT TYPE OF BOARD ARE YOU?



Board must determine policies and implement policies (has no senior staff)

Have senior management staff to implement policies determined by the Board

Hugh Lindsay, *20 Questions Directors of Not-for-profit Organizations Should Ask About Governance* (Canadian Institute of Chartered Accountants, 2006): 6. Accessed April 3, 2014, <http://www.cica.ca/publications/list-of-publications/item60498.aspx>

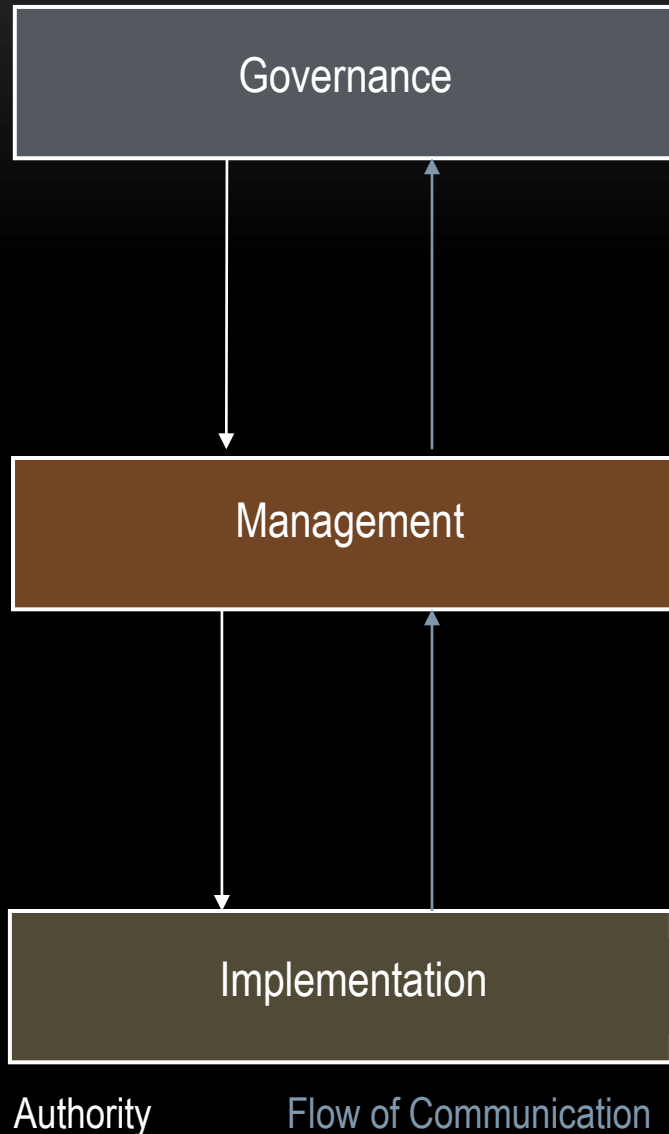
# SAMPLE JOB DESCRIPTION – BOARD TREASURER

- Attend all board meetings
- Maintain knowledge of the organization and personal commitment to its goals and objectives
- Understand financial accounting for nonprofit organizations
- Serve as the chair of the finance committee
- Manage, with the finance committee, the board's review of and action related to the board's financial responsibilities
- Work with the chief executive and the chief financial officer to ensure that appropriate financial reports are made available to the board on a timely basis
- Present the annual budget to the board for approval
- Review the annual audit and answer board members' questions about the audit

*Roles and Responsibilities (BoardSource 2008).*



# LEVELS OF AUTHORITY



## Strategic

- Approving and monitoring policy
- Setting goals/ strategic direction
- Committee leadership
- Analysis and reporting of financial status
- Overseeing financial operations

## Operational

- Developing and monitoring budgets/ financial plans
- Managing cash flow
- Monitoring controls/ overseeing transactions
- Managing grants and contracts
- Bookkeeping/ supervising booking

## Transactional

- Clerical tasks that support the accounting function, such as copying, filing, and making bank deposits

# SUPPORTING GOOD GOVERNANCE

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# PRINCIPLES OF GOOD GOVERNANCE

An effective board will provide good governance and leadership by:

1. Understanding their role
2. Ensuring delivery of organizational purpose
3. Working effectively both as individuals and as a team
4. Exercising effective control
5. Behaving with integrity
6. Being open and accountable

# IMAGINE CANADA STANDARDS PROGRAM

## FINANCIAL ACCOUNTABILITY

### ❖ FINANCIAL STATEMENTS:

- Annual, acceptable CICA format
- Income over \$1 mil must audit , others review engagement (unless required by legislation to have an audit)
- Financial statements received , approved by board , released within 6 months of FYE

### ❖ TAX RETURN:

- Process to ensure accurate income tax return (T2 or T3010)

### ❖ BUDGET

- Board approves annual budget
- Has process to monitor organization's performance in relation to budget.
- Board or committee reviews actual revenues and expenses versus budget at least twice a year.

### ❖ REMITTANCES:

- Board or board committee receives from management, at least twice a year, assurance that all statutory remittances have been made

# IMAGINE CANADA STANDARDS PROGRAM

## *FINANCIAL ACCOUNTABILITY continued...*

### ❖ FUNDRAISING COST EFFECTIVENESS:

- Board regularly reviews the cost effectiveness of fundraising activities
- No more spent on admin and fundraising than is required

### ❖ INVESTMENT POLICY:

- Organizations with investable assets over \$100,000 must have investment policy
- Describe asset allocation, procedures for investments, and asset protection issues

### ❖ COLLECTING ONLINE MONEY:

- Online donations or sales consistent with Canadian Code of Practice for Consumer Protection in Electronic Commerce
- (and soon to be anti-spam legislation coming this summer)

# IMAGINE CANADA STANDARDS PROGRAM

## TRANSPARENCY

### ❖ AVAILABILITY OF STATEMENTS

- Level 1 Organizations (5 FTE and up to \$2 million in annual expenses) Publicly Available
- Level 2 and 3 Organization's: last 3 years of annual reports, statements, accountant reports and names of all current board members
- Charities must post registration number (BN) and public portion of most recent T3010

### ❖ COMPENSATION:

- Accessible to its stakeholders to at least the same level as required by CRA in T3010

### ❖ DISCLOSURE:

- Disclose in financial statements details of the purpose / amount of any payment for products or services to board members or companies in which a board member is an owner, partner or senior manager
- Accurate disclosure of all costs associated with fundraising activities

# RESOURCES: TOOLS, TEMPLATES & TIPS

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# TIP: FINANCIAL POLICY ESSENTIALS

- Assignment of authority for necessary and regular financial actions and decisions, which may include delegation of some authority to staff leaders
- Policy statement on conflicts of interest, or insider transactions
- Clear authority to spend funds including approval, cheque signing, and payroll
- Clear assignment of authority to enter into contracts
- Clear responsibility for maintaining accurate financial records

Nonprofits Assistance Fund, *Financial Policy* (2007), accessed April 2, 2014,  
[https://nonprofitsassistancefund.org/sites/default/files/publications/financial\\_policy.pdf](https://nonprofitsassistancefund.org/sites/default/files/publications/financial_policy.pdf)



# TIP: 3 RULES FOR INTERNAL CONTROLS

1. Ensure safe care of your assets
2. Separation of duties/ divide responsibilities
3. Transparency/ full disclosure

# TIP: BUDGET ESSENTIALS

## Two Functions

1. Planning - documents goals and objectives, in monetary terms, for a period of time
2. Monitoring - a guide to track progress on goals

## Types

1. Accrual basis – based on matching income to expenses regardless of actual cash transaction
2. Cash basis – based on when cash transaction occurs
3. Capital budget – purchase or development of fixed assets
4. Flexible budget – if patterns of revenues and expenses are related to volume, e.g. occupancy; forecast for various levels

# TIP: BUDGET ESSENTIALS

## Guiding Questions:

- Does the budget reflect organizational priorities?
- What are the fundamental assumptions upon which the budget has been based?
- Who is responsible for monitoring and controlling the budget expenditures?
- What are the board's budget policies that govern preparation and control of the budget?

## Preparing the Budget:

- List goals and objectives for the year
- Estimate costs
- Forecast income for budget period (usually one year)
- Compare total expected revenue to the expenses
- Present budget to board for discussion and approval

# USEFUL RESOURCES

Fiscal Policies and Procedures Template and Guide (Compass Point, June 2012)

<https://www.compasspoint.org/guide-and-template-fiscal-policies-and-procedures>

Financial Responsibilities for Not-for-Profit Boards (Alberta Government & The Muttart Foundation, 2008),

[http://culture.alberta.ca/bdp/workbooks/Financial\\_Responsibilities09.pdf](http://culture.alberta.ca/bdp/workbooks/Financial_Responsibilities09.pdf)

Standards Program for Canada's Charities and Nonprofits (Imagine Canada, 2012)

<http://www.imaginecanada.ca/node/172>

Financial Management Resources: National Council of Nonprofits

<http://www.councilofnonprofits.org/resources/financial-management>

An Executive Director's Guide to Financial Leadership (Barr and Bell, 2014)

<https://nonprofitquarterly.org/management/19126-an-executive-directors-guide-to-financial-leadership.html>

A Guide to Financial Statements for Not-For-Profit Organizations (CPA Canada, 2013)

<http://www.cica.ca/focus-on-practice-areas/governance-strategy-and-risk/not-for-profit-director-series/npo-briefings/item65428.pdf>