

# Engaging and Educating Your Board Members

Michelle Hatch, CPA

781-610-1231

[mhatch@blumshapiro.com](mailto:mhatch@blumshapiro.com)

Beth Muse, Senior Consultant

781-610-2080

[bmuse@blumshapiro.com](mailto:bmuse@blumshapiro.com)

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# Poll Question

What is your current position:

- Current or prospective board member
- Executive director
- Financial staff
- Program staff
- Development staff

If your position is not listed, type your response in the chat box.

# Agenda

- Onboarding new board members
- Engaging existing board members
- Finance 101 for non-financial staff and board members

# Onboarding New Members

## Providing Background

- Providing background on the organization
  - History
  - Mission statement and core values
  - By-laws and article of organization
  - Governance materials
    - Conflict of interest policy
    - Executive compensation
    - Whistleblower policy
    - Document retention
  - Financial statements, including the 990 and MA Form PC
  - A board manual containing (or online access to) governing documents, recent audits and budgets, D&O policy, etc.

# Onboarding New Members

## Setting Expectations

- Responsibilities of the board
- Responsibilities of individual board members
  - Meeting attendance
  - Event attendance
  - Financial commitment
  - Participation in subcommittees
  - Individual contribution

# Responsibilities of the Board

- Strategic planning
- Budget approval
- Approval of executive compensation
- Oversight of the Chief Executive Officer
- Capital campaigns
- Fundraising events
- Informed decision-making
- Support of the organization
- Board recruitment
  - Diversity
  - Succession planning
  - Screen in advance to ensure commitment to the mission

# Responsibilities of Individual Board Members

- Understand your fiduciary responsibilities
- Educate yourself on the organization
- Join a committee(s)—get involved!!

# Understanding your Fiduciary Responsibilities

- What is a fiduciary? What are their duties?
  - A fiduciary is a person who has the power and an obligation to act on behalf of another under circumstances that require total trust, good faith and honesty.
    - Duty of care—to act with such care as an ordinary, prudent person would employ in your position.
    - Duty of loyalty—to act in good faith and in a manner you reasonably believe is in the best interest of the organization.
    - Duty of obedience—to be faithful to the organization's mission. You are not permitted to act in a way that is inconsistent with the central goals of the organization. A basis for this rule lies in the public's trust that the organization will manage donated funds to fulfill the organization's mission.



# Educating Yourself

- Review the organization's website
- Google the organization
- Talk to others involved
- Review financial information

# Educating Yourself: What Financial Information To Ask For as a New Board Member

- Current year financial statements—year-to-date balance sheet and income statement
- Audited financial statements of prior year
- Current year budget
- Long-range plan, if available
- Form 990
- Once on the board, request information (from management and board chairs) and review this information in advance so that meetings can be productive, and members are prepared to make informed decisions and votes.

# Educating Yourself: Other Resources

- MA Attorney General's website—Guide for Board Members of Charitable Organizations
- Financial information
  - Guidestar
  - MA Attorney General's website
  - Operational Services Division (OSD) Uniform Financial Report (UFR)
  - Charity navigator
  - Organization's website

# Joining a Committee: Typical Board Committees

- Executive
- Governance
- Investment
- Finance
- Audit
- Personnel
- Development
- Facilities
- Other ad hoc

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# Engaging Board Members

- Developing the relationship between board members and senior staff
- Engaging the board in the mission
- This is an ongoing process – some ideas:
  - Senior staff present current updates at meeting (different staff at each meeting)
  - Engaging the board in program events and activities
  - Provide board members with opportunities to meet those served by the organization

# Poll Question

Do you provide the following to your board members (check all that apply):

- Board manual containing important organization information
- Online portal for board members to access information
- Monthly or quarterly financial statements
- None of the above

# Finance 101

- Understanding how to read the basic financial statements for the organization in which you just got involved
- First, note that:
  - All accounts used to capture financial transactions are collectively referred to as the *Chart of Accounts*.
  - A trial balance is a report that lists all of the accounts in the chart of accounts with a balance. In total, this report nets to zero, which is consistent with the “double entry” concept of accounting—that each debit is offset by a corresponding credit.
  - Each account is considered either a balance sheet or an income statement account.

# Financial Statements

- Basic financial statements of a non-profit
  - *Statement of financial position*—equivalent of a balance sheet
  - *Statement of changes in net assets*—equivalent of income statement
  - *Statement of functional expense*—detailed expenses of the organization by nature and type of expense (program, administrative, fundraising)—not required for all organizations
  - *Statement of cash flows*—a report that reconciles the beginning with the ending cash balance over a period of time, identifying the sources and uses of cash



# Differences from For-Profit Entities

- Excess earnings are not distributed to shareholders, but are instead retained to further the mission of the organization and support those they serve.
- In addition to fees for services, organizations receive contributions from donors.
- Donors can choose to place restrictions—in terms of time or purpose—on their contributions.
- These restrictions may be released in future years as the organization meets the criteria imposed by the donor (time or purpose).

# Differences From For Profit Entities (cont.)

- Rather than contributed capital and retained earnings, the “equity” section of the balance sheet is referred to as the net asset section (assets less liabilities).
- Operating results and net assets based on three net asset categories:
  - Unrestricted—no donor restrictions
  - Temporarily restricted—restricted by a donor for a specific purpose or period of time
  - Permanently restricted—restricted by the donor so the organization can only use the earnings on these contributions for stated purposes, but not the original gift. (The original gift—or corpus—is to be invested for the long term.)

# Understanding How Statements are Interrelated

- Impacts on cash
  - Recognition and collection of receivables
  - Recognition and payment of accounts payable (cash management)
  - Purchases of property and equipment
  - Payments of debt
  - Accruals
- Impact on operating results—non-cash items
  - Depreciation of property and equipment—non-cash
  - Unrealized gains and losses on investments

# Poll Question

What financial information do you provide to your board members (check all that apply):

- Statement of activities
- Statement of financial position
- Cash flow projections
- Budget to actual results
- Strategic plan (3-5 years)

# Understanding the Financial Health of Your Organization

- Key measures to gauge the financial health of your organization:
  - Liquidity
  - Operating reserves
  - Operating results

# Key Information: Balance Sheet

- Liquidity
  - Current assets less current liabilities; however, not all non-profit statements of financial position are classified
  - Liquid net assets:
    - Unrestricted net assets
    - less property and equipment
    - + add long-term debt
    - = Unrestricted net assets available to cover current obligations

# Key Information: Balance Sheet (cont.)

- Operating reserves
  - How many months of operating expense are on hand?
  - How to calculate:
    - Total unrestricted cash divided by monthly expense

# Key Information: Operating Results

- Focus on unrestricted operations
- Understand revenue and support components
  - Programs
    - Federal or state funding?
    - Changes to programs—any new or discontinued programs?
  - Contributions
    - Reliance on key contributors?
    - Consistency of contributions year over year?
  - Spending policy—does your organization have one?
  - Other?



# Key Information: Operating Results (cont.)

- Understand significant expenses
  - Salaries and benefits
  - Facilities and occupancy
  - Depreciation–non-cash
  - Other
- Any significant commitments that could increase expenses:
  - Leases
  - Environmental
  - Legal

# Key Information: Cash Flow

- Cash flows – look at cash from operations
- Understand financing commitments and future cash flows:
  - Debt
    - Tax-exempt bonds
    - Private placements of bonds
    - Term loans with banks
    - Line of credits
  - Property and equipment purchases
    - Any significant deferred maintenance?

# Questions



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