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CPAs Serving on Nonprofit Boards

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Agenda

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- Why am I being recruited?
- Role of a Board Member in Financial Oversight
- Internal Controls for Small Organizations
- Differences in For Profit and Nonprofit organizations
- Understanding the Form 990 and other filing requirements
- Key Financial & Governance Policies
- Things to consider

Initial Questions

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- **Why am I being recruited?**
  - Profession – Can I bring expertise that is missing?
  - Contacts – Organization may need directors that represent a particular group (of stakeholders)
  - Bank Account – Can I be a donor or do I know other potential donors?
  - Age – Is the organization looking for young people with fresh experience or more seasoned people with experience?
  - Reputation – Do I have a unique history, achievement or ability?
  - Know someone on the board – Do my friends, colleagues or neighbors already serve on the board?

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Role of a Board Member in Financial Oversight

Functions of Nonprofit Board

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- **Knowing the nonprofit's purposes**
  - What does the nonprofit do and for whom?
- **Board's authority over nonprofit (Role of a Board Member slide)**
- **Rights to information**
  - Generally, nonprofit board members have a right to inspect, for reasonable purposes and at reasonable intervals, the corporation's books and records

Functions of Nonprofit Board

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- **Board committees – Boards frequently do their work in committees formed by the board**
  - Special Committees - can be advisory or created with limited powers for a specific purpose.
  - Standing Committees - committees that the board uses to allocate and discharge its functions
    - Executive, Finance, Investment, Membership etc.

Functions of Nonprofit Board

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- **Financial Oversight**
  - Although standing committees may have specific responsibilities relating to the nonprofit's finances, every board member should be familiar with the financial health of the organization.
- **Setting Executive Compensation**
  - One of the most important – and sensitive – functions of the board is setting compensation for the nonprofit's top executive. Finding the right balance between fairly compensating the executive for his or her services and being a steward of the nonprofit's finances is not easy

Functions of Nonprofit Board

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- **Publicity**
  - Public statements – such as annual reports, brochures, and press releases – are an important way for the nonprofit to maintain a public presence.
- **Fundraising**
  - Raising money is one of the primary tasks of a nonprofit board of directors.
  - Board members should be actively involved in the fundraising process, working in collaboration with staff.
  - All board members should make a financial contribution, however small, to the nonprofit.
- **No one board member model**
  - There is no one size fits all for board members

Role of a Board Member

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- ***Board*** **exercises corporate powers, including appointing the CEO, ED and other officers**
- ***Board*** **delegates powers to officers, administrators, executives and staff who act for the corporation in the day to day operations**
- ***Board members*** **generally have no power to act for the corporation, except by participating and acting as a member of the board**

Role of a Board Member: Fiduciary Duty

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- **Approve the budget**
- **Monitor the Financial Statements**
  - Receive timely, accurate and comprehensible financial statements
- **Install/Monitor adequate internal controls**
  - Ensure appropriate and adequate internal controls are in place (ask questions)
- **Ensure legal obligations are met**
  - Ensure appropriate policies and procedures are in place
  - Make sure all necessary federal/state filings take place
  - Annually review the performance of the ED/Chief Executive
  - Oversee program outcomes and monitor progress

Role of a Board Member in Financial Oversight

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- **Regularly prepare for and attend board meetings**
- **Read all the information provided to you**
- **Actively participate in board discussions, exercising independent judgment in decision making**
- **Ask questions so that you have a complete understanding of the organization's financial picture**
- **Review your organization's Form 990 prior to filing**

Role of a Board Member in Financial Oversight

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- **Consider going beyond public disclosure requirements to increase transparency**
- **Adopt and implement appropriate financial governance policies to protect your organization**
- **Understand the impact of various revenue and fund development approaches on your organization's financial health**
- **Understand the roles of the board treasurer and the financial and audit committees, and actively participate in identifying and recruiting qualified board members to fill those roles**

New Board Members

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- **New board members should receive a binder with copies of the following:**
  - basic corporate documents (articles of incorporation, bylaws and mission statement)
  - minutes of the board for the prior year
  - an explanation or summary of the nonprofit's "directors and officers" liability insurance policy (if there is none, an explanation of why)
  - financial reports for the prior year (including Form 990)
  - a list of current board members and key executives (including contact and biographical information);
  - a list of committees and committee members
  - information about the corporation's outside accountants and lawyers
- **Annual orientations for incoming board members are highly recommended. At a minimum, the new board member should have a conversation with the nonprofit's board chair and its chief executive about current issues and plans, as well as long-range objectives.**

Board Member Tips

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- **As a board member, you should have a folder or binder that contains your nonprofit's important documents (which you should keep in an accessible location so you can refer to them easily):**
  - a calendar of nonprofit meetings and events • the articles of incorporation and bylaws
  - the nonprofit's mission statement
  - a list of board members (including board committees and chairs) and staff liaisons – with addresses, phone numbers, and e-mails
  - the nonprofit's most recent financial statements.
- **Before your term of office begins, you should read the mission statement and the articles and bylaws. You should know the corporation's purposes, the mechanics of board meetings and voting, and the various functions of the officers. You should also determine whether the nonprofit has members and, if the members have voting rights, what matters they can vote on.**

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Internal Controls for Small Organizations

Internal Controls for Small Organizations

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- **Proper internal controls are essential for all organizations**
- **Can be difficult for small nonprofits due to staff size/number of volunteers**
  - Segregation of Duties
    - Employees
    - Volunteers

Separation of Duties
Two Person Office

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Business Manager	ED or Owner/Manager
• Record accounts receivable entries • Mail checks • Write checks • Record general ledger entries • Reconcile bank statements • Record credits/debits in accounting records • Approve payroll • Receive cash • Disburse petty cash • Authorize purchase orders • Authorize check requests • Authorize invoices for payment	• Approve and sign checks • Sign employee contracts • Complete deposit slips • Perform interbank transfers • Distribute payroll • Reconcile petty cash • Approve employee timesheets • Process vendor invoices • Review bank reconciliations and contents of bank statements

Separation of Duties
Three Person Office

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Bookkeeper	Office Manager	ED or Owner/Manager
• Record accounts receivable entries • Reconcile petty cash • Write checks • Record general ledger entries • Reconcile bank statements • Record credits/debits in accounting records	• Process vendor invoices • Receive cash • Mail checks • Approve invoices for payment • Distribute payroll • Authorize purchase orders • Authorize employee timesheets • Approve payroll • Disburse petty cash	• Sign checks • Sign employee contracts • Complete deposit slips • Perform interbank transfers • Review bank reconciliations and content of bank statements

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Differences in For Profit and Nonprofit Accounting & Tax

Overall Differences

- **For Profit**
  - Shareholders and investors
- **Nonprofit**
  - Board of Directors or other governing authority

Financial Statement Differences

For Profit	Nonprofit
Balance Sheet	Statement of Financial Position
Income Statement	Statement of Activities
Cash Flow Statement	Cash Flow Statement

Balance Sheet vs. Statement of Financial Position

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Balance Sheet	Statement of Financial Position
Snapshot of company's assets and liabilities and owners equity	Snapshot of organization's assets and liabilities and net assets
Owner's equity represents the company's net worth -Important to shareholders, current investors and potential investors	Net assets represents the organization's net worth and are divided into categories -With donor restriction -Without donor restriction

Classifying Net Assets

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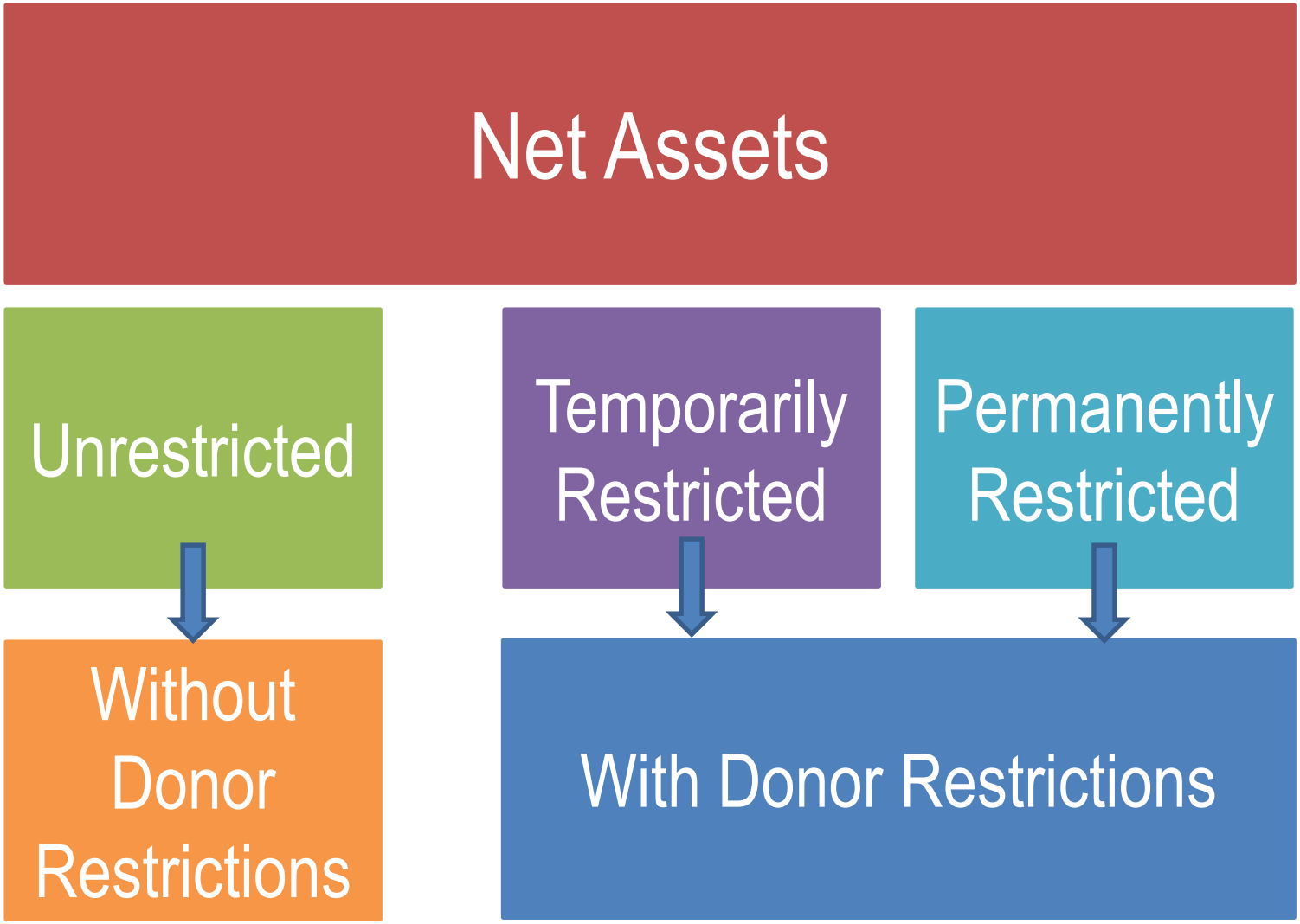

Income Statement vs. Statement of Activities

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Income Statement	Statement of Activities
Reports the revenue the company earned over a specific period of time (month, quarter, year)	Reports revenue earned (program or exchange transaction) or support revenue received (contributions, grants, etc.)
Costs and expenses associated with revenue	Costs and expenses associated with service or mission
Similar expense line items	
Net income or loss to measure profitability	Reports changes in net assets by class (with donor restriction or without donor restriction)
Driven by bottom line	Not driven by bottom line

Cash Flow Statement

- **Nearly identical – For Profit and Nonprofit**
- **Both types of organizations need cash to stay afloat**
- **Both report cash flows from**
  - Operations
  - Investing activities
  - Financing activities

Income Tax Return vs. 990

Income Tax Return	990
Filed based on type of entity (Corporation, Partnership, Individual)	Filed based on size of organization (Revenue and assets base)
Income tax return – pay taxes based on income	Information return – This form allows the IRS and the general public to evaluate a nonprofit's operations; it includes information on the nonprofit's mission, programs, and finances.

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Understanding the Form 990 and other Filing Requirements

Forms

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- **Forms:**
  - Form 1023: Application for Tax-Exempt Status
  - Form 990-N: <$50,000 revenue
  - Form 990-EZ: Gross receipts between $50,000-$200,000
  - Form 990: Gross receipts >$200,000
  - Form 990-T: >$1,000 revenue unrelated to exempt purpose
- **When is your 990 due?**
  - You <u>must</u> file by the 15th day of the 5th month after your accounting period ends

Understanding Form 990

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- **Snap Shot – Page 1**
  - Summary of selected items contained in the return
- **Accomplishments – Page 2**
- **Checklist of Required Schedules – Page 3**
  - If questions are answered “yes”, a corresponding schedule must be completed
- **Governance, Management & Disclosures – Page 6**

Understanding Form 990

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- **Snap Shot**
  - Summary of selected items contained in the return

Form **990** — **Return of Organization Exempt From Income Tax** — OMB No. 1545-0047 — **2016**

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations)

Department of the Treasury Internal Revenue Service

▶ Do not enter social security numbers on this form as it may be made public.

▶ Information about Form 990 and its instructions is at www.irs.gov/form990.

Open to Public Inspection

A For the 2016 calendar year, or tax year beginning , 2016, and ending , 20

B Check if applicable: ☐ Address change ☐ Name change ☐ Initial return ☐ Final return/terminated ☐ Amended return ☐ Application pending

C Name of organization / Doing business as / Number and street (or P.O. box if mail is not delivered to street address) / Room/suite / City or town, state or province, country, and ZIP or foreign postal code

D Employer identification number

E Telephone number

G Gross receipts $

F Name and address of principal officer:

H(a) Is this a group return for subordinates? ☐ Yes ☐ No

H(b) Are all subordinates included? ☐ Yes ☐ No — If "No," attach a list. (see instructions)

H(c) Group exemption number ▶

I Tax-exempt status: ☐ 501(c)(3) ☐ 501(c) ( ) ◀ (insert no.) ☐ 4947(a)(1) or ☐ 527

J Website: ▶

K Form of organization: ☐ Corporation ☐ Trust ☐ Association ☐ Other ▶

L Year of formation:

M State of legal domicile:

Part I Summary

Activities & Governance

1 Briefly describe the organization's mission or most significant activities:

2 Check this box ▶☐ if the organization discontinued its operations or disposed of more than 25% of its net assets.

3	Number of voting members of the governing body (Part VI, line 1a)	3	
4	Number of independent voting members of the governing body (Part VI, line 1b)	4	
5	Total number of individuals employed in calendar year 2016 (Part V, line 2a)	5	
6	Total number of volunteers (estimate if necessary)	6	
7a	Total unrelated business revenue from Part VIII, column (C), line 12	7a	
b	Net unrelated business taxable income from Form 990-T, line 34	7b	

			Prior Year	Current Year
Revenue	8	Contributions and grants (Part VIII, line 1h)		
	9	Program service revenue (Part VIII, line 2g)		
	10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)		
	11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)		
	12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)		
Expenses	13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)		
	14	Benefits paid to or for members (Part IX, column (A), line 4)		
	15	Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)		
	16a	Professional fundraising fees (Part IX, column (A), line 11e)		
	b	Total fundraising expenses (Part IX, column (D), line 25) ▶		
	17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)		
	18	Total expenses. Add lines 13–17 (must equal Part IX, column (A), line 25)		
	19	Revenue less expenses. Subtract line 18 from line 12		

			Beginning of Current Year	End of Year
Net Assets or Fund Balances	20	Total assets (Part X, line 16)		
	21	Total liabilities (Part X, line 26)		
	22	Net assets or fund balances. Subtract line 21 from line 20		

Understanding Form 990

- **Accomplishments**

Form 990 (2016) Page 2

Part III **Statement of Program Service Accomplishments**

Check if Schedule O contains a response or note to any line in this Part III . . . . . ☐

1 Briefly describe the organization's mission:

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? . . . . . ☐ Yes ☐ No

If "Yes," describe these new services on Schedule O.

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? . . . . . ☐ Yes ☐ No

If "Yes," describe these changes on Schedule O.

4 Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses. Section 501(c)(3) and 501(c)(4) organizations are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported.

4a (Code: _____) (Expenses $ _____ including grants of $ _____) (Revenue $ _____)

4b (Code: _____) (Expenses $ _____ including grants of $ _____) (Revenue $ _____)

Understanding Form 990

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- **Checklist of Required Schedules**
  - If questions are answered “yes”, a corresponding schedule must be completed

Form 990 (2016) Page 3

Part IV **Checklist of Required Schedules**

			Yes	No
1	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? *If "Yes," complete Schedule A*	1		
2	Is the organization required to complete *Schedule B, Schedule of Contributors* (see instructions)?	2		
3	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? *If "Yes," complete Schedule C, Part I*	3		
4	**Section 501(c)(3) organizations.** Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? *If "Yes," complete Schedule C, Part II*	4		
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? *If "Yes," complete Schedule C, Part III*	5		
6	Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? *If "Yes," complete Schedule D, Part I*	6		
7	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas, or historic structures? *If "Yes," complete Schedule D, Part II*	7		
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? *If "Yes," complete Schedule D, Part III*	8		
9	Did the organization report an amount in Part X, line 21, for escrow or custodial account liability, serve as a custodian for amounts not listed in Part X; or provide credit counseling, debt management, credit repair, or debt negotiation services? *If "Yes," complete Schedule D, Part IV*	9		
10	Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? *If "Yes," complete Schedule D, Part V*	10		
11	If the organization's answer to any of the following questions is "Yes," then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable.			
a	Did the organization report an amount for land, buildings, and equipment in Part X, line 10? *If "Yes," complete Schedule D, Part VI*	11a		
b	Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part VII*	11b		
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part VIII*	11c		

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- **Governance, Management & Disclosures**

Part VI **Governance, Management, and Disclosure** *For each "Yes" response to lines 2 through 7b below, and for a "No" response to line 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.*

Check if Schedule O contains a response or note to any line in this Part VI . . . . . ☐

Section A. Governing Body and Management

			Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year . .	1a		
	If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O.			
b	Enter the number of voting members included in line 1a, above, who are independent .	1b		
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?	2		
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors, or trustees, or key employees to a management company or other person?	3		
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	4		
5	Did the organization become aware during the year of a significant diversion of the organization's assets?	5		
6	Did the organization have members or stockholders?	6		
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?	7a		
b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?	7b		
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following:			
a	The governing body?	8a		
b	Each committee with authority to act on behalf of the governing body?	8b		
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? *If "Yes," provide the names and addresses in Schedule O* .	9		

Section B. Policies *(This Section B requests information about policies not required by the Internal Revenue Code.)*

			Yes	No
10a	Did the organization have local chapters, branches, or affiliates?	10a		
b	If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?	10b		
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	11a		
b	Describe in Schedule O the process, if any, used by the organization to review this Form 990.			
12a	Did the organization have a written conflict of interest policy? *If "No," go to line 13*	12a		
b	Were officers, directors, or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b		
c	Did the organization regularly and consistently monitor and enforce compliance with the policy? *If "Yes," describe in Schedule O how this was done*	12c		
13	Did the organization have a written whistleblower policy?	13		
14	Did the organization have a written document retention and destruction policy?	14		
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?			
a	The organization's CEO, Executive Director, or top management official	15a		
b	Other officers or key employees of the organization	15b		
	If "Yes" to line 15a or 15b, describe the process in Schedule O (see instructions).			
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	16a		
b	If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements?	16b		

Section C. Disclosure

Understanding Form 990

- **Statement of Expenses**

Form 990 (2016) Page 10

Part IX **Statement of Functional Expenses**

Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A).

Check if Schedule O contains a response or note to any line in this Part IX . . . . . ☐

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.	(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1 Grants and other assistance to domestic organizations and domestic governments. See Part IV, line 21				
2 Grants and other assistance to domestic individuals. See Part IV, line 22				
3 Grants and other assistance to foreign organizations, foreign governments, and foreign individuals. See Part IV, lines 15 and 16				
4 Benefits paid to or for members				
5 Compensation of current officers, directors, trustees, and key employees				
6 Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)				
7 Other salaries and wages				
8 Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions)				
9 Other employee benefits				
10 Payroll taxes				
11 Fees for services (non-employees):				
a Management				
b Legal				
c Accounting				
d Lobbying				
e Professional fundraising services. See Part IV, line 17				
f Investment management fees				
g Other. (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O.)				
12 Advertising and promotion				
13 Office expenses				
14 Information technology				
15 Royalties				
16 Occupancy				
17 Travel				

Understanding Form 990

- **Compensation**

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional trustee	Officer	Key employee	Former				
(1)										
(2)										
(3)										
(4)										
(5)										
(6)										
(7)										
(8)										
(9)										
(10)										
(11)										
(12)										
(13)										
(14)										

Form 990 (2010)

State/Local Filing Requirements

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- **Annual Report**
- **State Registration**
- **Sales & Use**
- **Property Tax**

- **All of these vary considerably from state to state**

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Key Financial & Governance Policies

Key Financial & Governance Policies

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- **Conflicts of Interest Policy**
- **Record Retention and Destruction Policy**
- **Whistleblower Policy**
- **Investment and Spending Policies**
- **Executive Compensation Policy**
- **Gift Acceptance Policy**

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Final Thoughts: Things to Consider before Serving

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- **What are the time/travel expectations?**
  - How long am I expected to serve?
  - How long are the terms?
  - How long and how often are the meetings?
- **Am I prepared for additional personal expense and expected annual donation?**
- **Am I comfortable raising funds?**

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- **What are the responsibilities of a Director?**
  - Advisory board, working board, fundraising board, governing board?
- **Have I reviewed the organization's 990 and am I pleased with what I see?**
  - Negative trends?
  - Unusual items on the statement of financial position/activities?
  - Does the organization appear to be able to raise the funds needed to support the mission?
  - Does the organization charge for any services?

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- **Have I reviewed the organizations website?**
- **Is the information on the website consistent with the 990?**
- **Does the organization publicize a consistent image (990, website, other information provided)**
- **Do I see any potential conflicts of interest?**
- **Are you the only CPA or only director with business knowledge?**
  - Will I become the scapegoat if a problem arises?

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- **Understand the time spent on financial reporting to the board.**
  - Don’t let this item be overlooked or rushed through due to a crowded agenda
- **Does the organization receive a financial statement audit?**
- **How large is the annual budget?**
- **Does the salary for the top executive seem reasonable?**

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- **Have those I have met with been willing and able to answer all of my questions?**
- **Is there adequate Directors & Officers (D&O) insurance?**
- **Does the organization have good new member training?**
- **What committee(s) am I being recruited for?**
  - Am I comfortable with those?

Questions?

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Director

Outsourced Accounting Solutions

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