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# Accounting for Success

## The Financial Professional's Role on a Nonprofit Board



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**F**inancial acumen is the hot commodity sought after by governing boards of nonprofit organizations (NPO). If you are a financial professional working in Delaware, there is a good chance you have been approached by a leader of a local NPO to volunteer your time for a worthy cause. If you accept that invitation, your transition into the treasurer's role usually begins immediately. All community leaders with a business background have a skill set that positively contributes to governing an NPO. However, the unique environment that NPOs operate in requires a few areas of specialized knowledge. Based on my experience as a board member, and from working directly with NPO boards in a professional capacity, treasurers should strive to become well-versed in the following five areas:

**Managing Liquidity** - A treasurer's role in liquidity management should not focus on the NPOs ability to pay its bills today. Instead, it requires the ability to analyze cause-and-effect scenarios that will impact the organization's future liquidity. Effective liquidity management goes beyond building next year's budget. It includes interpreting how routine decisions made by the board will impact long-term sustainability.

**Complying with Financial Reporting Requirements** - A treasurer's responsibility extends beyond understanding who the third-party users of the NPO's financial statements are and the applicable deadlines. The treasurer should possess a financial literacy sufficient to conceptualize the story that the financial statements tell about the organization and anticipate how it might impact decisions made by third parties. Financial reporting metrics unique to NPOs such as donor-restricted net assets, the functional allocation of costs, and reporting for endowment funds provide useful information about efficiency and impact. A treasurer's role in helping portray the organization's impact through its financial statements will improve the usefulness of the financial statements for purposes such as fundraising and board engagement.

**Complying with Tax Reporting Requirements** - A NPO's tax-exempt status is its greatest asset. Effectively navigating the IRS Form 990 helps to preserve this exemption. A treasurer should anticipate required reporting matters that might grab the attention of the IRS such as transactions with related parties or lobbying expenditures. The ability to influence the IRS' risk assessment of the organization exists through responses to governance and policy questions in Part VI of the form. All

board members should have a general grasp of how the NPO maintains its public charity status through reporting on Schedule A. Maintaining an elevated level of awareness of new revenue streams helps identify potential Unrelated Business Taxable Income and corresponding reporting obligations.

**Managing Risk** - The financial professional's role on a board can be lonely when at times it feels as if you are the only left-brained dominant individual in a right-brained world. When board agenda items celebrate mission critical accomplishments such as new program launches and new funding sources, the treasurer might only "hear" the risks such as unfunded budget expenditures and interest rate exposure. But it is that mindset that leads to the treasurer's key role in risk management. The treasurer often has the unique skill set needed to identify threats to the organization, both external (i.e., cyber; market risks) and internal (i.e., liquidity; management succession; the adequacy of policies and controls). The treasurer is well positioned to formulate and implement plans to mitigate these risks.

**The Board Interpreter** - The most vital role of a treasurer is as an interpreter and effective communicator. The education and experience of a treasurer gives them the ability to comprehend more easily the complex financial and compliance issues unique to NPOs. However, it is important for an entire board to understand the facts and circumstances to make well-informed timely decisions based on consensus. A treasurer's goal must be to elevate the financial literacy of the entire board. The treasurer must be able to present the issues to the board in a concise and unbiased manner to allow a board to operate effectively.

All business and financial expertise is welcome on an NPO board. However, an understanding of the industry specific issues provides a competitive advantage for organizations in carrying out their missions. While the NPO benefits from this expertise on the board, the opportunity is extremely beneficial to the volunteer as well. It is a broadening experience that provides exposure to the leadership styles of other local community members. It expands the volunteer's perspective of unique corporate cultures and business models, contributing to the individual's evolving skill set that can be carried forward to the next volunteer opportunity.