

Financial Clarity for Nonprofit Boards



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Who We Are



Nonprofits Assistance Fund invests capital and expertise in nonprofits.



Let us help you strengthen capacity to address unexpected events, finance new opportunities, and realize strategic goals.

Financial Accountability of the Board

- Accountable to the public as a tax-exempt organization
- Evaluate and monitor effective use of financial resources
 - Use resources to fulfill mission
 - Use resources as directed by donors
 - Use resources in a way that is consistent with values
- Ensure future financial health and viability

Financial Roles

Board

- Adopt strategic plans and goals
- Create and maintain an appropriate governance structure
- Adopt policies for financial practices and activities
- Ensure adequate staffing
- Approve the annual budget, understanding assumptions, priorities, and risks

Staff

- Prepare and plan
- Comply with board direction and decisions
- Follow adopted policies
- Develop and use procedures and practices
- Provide accurate and adequate information
- Monitor progress and make decisions within framework

How Boards Use Financial Information

Compliance	Evaluation
Planning	Action

In which way does your board best engage in financial management?

Financial Reports Should Be...

- Accurate and consistent
- Available soon enough to be of use in monitoring and planning
- Understood in context of the organization's history and external environment
- Understood in relationship to program activities



The quality of financial decisions is directly related to the quality of financial information.

Key Financial Reports

Organizational budget

- Approved by the board before the fiscal year begins

Monthly or quarterly financial reports

- Income Statement and comparison of actual income and expenses to budget
- Balance Sheet

Cash flow projection

- Predict incoming and outgoing cash

Audit report

- Required in Minnesota if revenues exceed \$750,000
- Auditor is hired by the board

Verification of required reports

- IRS Form 990
- Other required forms and registrations

Compliance



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How much? Review historical financial information.

Income Statement

Income

Expense

Change in Net Assets

Family Advocacy Network	
Income Statement	
For the Twelve Months Ending December 31, 2009	
INCOME	Actual
Support	
1 Individual Contributions	\$21,130
2 Corporate/Foundation Grants	40,000
3 Government Grants	10,000
4 <u>United Way</u>	<u>21,000</u>
5 Total Support	92,130
Revenue	
6 Client Fees	7,850
7 Contract Income	5,500
8 Interest Income	165
9 Total Revenue	<u>13,515</u>
10 Total Support & Revenues	\$105,645
EXPENSE	
11 Personnel / Salaries	\$59,000
12 Benefits, Taxes & Insurance	13,750
13 Contract and Professional Fees	5,500
14 Program Related Materials	3,300
15 Office Exp (phone, supplies)	4,977
16 Postage and Shipping	970
17 Internet and Website	2,700
18 Occupancy	4,500
19 Insurance	1,850
20 Printing and Publications	2,543
21 Staff Development	2,785
22 Interest Expense	183
23 Depreciation	1,000
24 <u>Other Misc Expenses</u>	<u>1,215</u>
25 Total Expenses	<u>\$104,273</u>
26 Surplus/(Deficit)	<u>\$1,372</u>

Contribution Categories

Unrestricted

- Funds available for general use.

Temporarily Restricted

- Restrictions expire over a defined period of time or by performing defined activities.
- Often in the form of a program grant.

Permanently Restricted

- Principal remains intact, but investment income can be used.
- Often in the form of an endowment or scholarship fund.

Not all contributed income is the same. Contributions may have restrictions based on **donor intent and direction.**

Balance Sheet

Assets



Liabilities



Net Assets

**Family Advocacy Network
Balance Sheet**
December 31, 2009

Assets

Current Assets

1	Cash & Investments	\$ 9,558
2	Accounts Receivable	675
3	Gov't Grants & Contracts Receivable	850
4	Grants Receivable	5,000
5	Pledges Receivable	<u>1,200</u>
6	Total Current Assets	17,283

Long-Term Assets

7	Prepaid Expenses	300
8	Long-Term Pledges Receivable	1,000
9	Building Improvements (5 year lease)	8,000
10	Equipment and Furniture	14,000
11	Accumulated Depreciation	<u>(12,500)</u>
12	Total Long-Term Assets	10,800

13	Total Assets	\$ <u><u>28,083</u></u>
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Liabilities and Net Assets

Current Liabilities

14	Accounts Payable	\$ 3,375
15	Payroll, Vacation & Taxes Payable	1,108
16	Deferred Revenue	1,100
17	Notes (Loans) Payable	3,750
18	Current Portion Long-Term Debt	<u>1,800</u>
19	Total Current Liabilities	11,133

Long-Term Liabilities

20	Equipment loan	4,800
21	Total Long-Term Liabilities	<u>4,800</u>

22	Total Liabilities	15,933
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Net Assets

23	Beginning of Year	10,778
24	Change in Net Assets	<u>1,372</u>
25	Total Net Assets	12,150

26	Total Liabilities and Net Assets	\$ <u><u>28,083</u></u>
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Evaluation



How well? Ask questions and make comparisons.

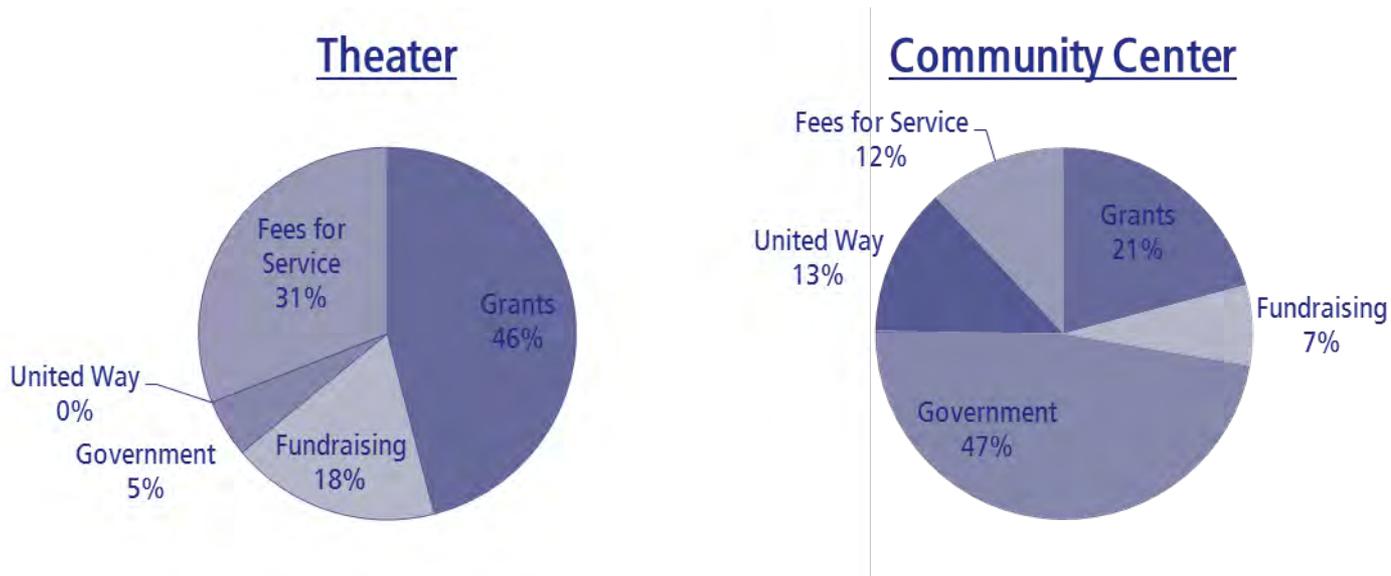
Evaluation

- Do we have an unrestricted surplus or deficit?
- Are contributed funds restricted for a specific purpose?

22	Start Development	2,185		\$2,185
23	Interest Expense	183		\$183
24	Depreciation	1,000		\$1,000
25	Other Misc Expenses	1,215		\$1,215
26	Total Expenses	\$104,273	\$0	\$104,273
27	Surplus/(Deficit)	\$1,372	\$25,000	\$26,372

Evaluation

- What is our largest source of income?
- Most stable source of income?



- Income mix reflects field of service

Evaluation

Family Advocacy Network
Actual Compared to Budget Income Statement
 For the Twelve Months Ending December 31, 2009

INCOME	Actual	Budget	Variance
Support			
1 Individual Contributions	\$21,130	\$25,800	(\$4,670)
2 Corporate/Foundation Grants	40,000	44,000	(\$4,000)
3 Government Grants	10,000	10,000	\$0
4 <u>United Way</u>	<u>21,000</u>	<u>21,000</u>	<u>\$0</u>
5 Total Support	92,130	100,800	(\$8,670)
Revenue			
6 Client Fees	7,850	7,200	\$650
7 Contract Income	5,500	5,000	\$500
8 Interest Income	165	220	(\$55)
9 Total Revenue	<u>13,515</u>	<u>12,420</u>	<u>\$1,095</u>
10 Total Support & Revenue	\$105,645	\$113,220	(\$7,575)
EXPENSE			
11 Personnel / Salaries	\$59,000	\$59,000	\$0
12 Benefits, Taxes & Insurance	13,750	13,690	\$60
13 Contract and Professional Fees	5,500	5,500	\$0
14 Program Related Materials	3,300	2,400	\$900
15 Office Exp (phone, supplies)	4,977	5,100	(\$123)
16 Postage and Shipping	970	1,560	(\$590)
17 Internet and Website	2,700	2,400	\$300
18 Occupancy	4,500	4,500	\$0
19 Insurance	1,850	2,400	(\$550)
20 Printing and Publications	2,543	3,900	(\$1,357)
21 Staff Development	2,785	4,860	(\$2,075)
22 Interest Expense	183	375	(\$192)
23 Depreciation	1,000	1,000	\$0
24 <u>Other Misc Expenses</u>	<u>1,215</u>	<u>1,890</u>	<u>(\$675)</u>
25 Total Expenses	<u>\$104,273</u>	<u>\$108,575</u>	<u>(\$4,302)</u>
26 Surplus/(Deficit)	<u>\$1,372</u>	<u>\$4,645</u>	<u>(\$3,273)</u>

- How do actual income and expenses compare to budget?
- Compare to previous years? Peers?

Evaluation

Family Advocacy Network				
Balance Sheet				
December 31, 2009				
			Temporarily	
Assets	Unrestricted	Restricted		Total
Current Assets				
1	Cash & Investments	\$ 9,558	40,000	49,558
2	Accounts Receivable	675		675
3	Gov't Grants & Contracts Receivable	850		850
4	Grants Receivable	5,000	5,000	10,000
5	Pledges Receivable	1,200		1,200
6	Total Current Assets	17,283	45,000	62,283
Long-Term Assets				
7	Prepaid Expenses	300		300
8	Long-Term Pledges Receivable	1,000		1,000
9	Building Improvements (5 year lease)	8,000		8,000
10	Equipment and Furniture	14,000		14,000
11	Accumulated Depreciation	(12,500)		(12,500)
12	Total Long-Term Assets	10,800	—	10,800
13	Total Assets	\$ 28,083	45,000	73,083
Liabilities and Net Assets				
Current Liabilities				
14	Accounts Payable	\$ 3,375		3,375
15	Payroll, Vacation & Taxes Payable	1,108		1,108
16	Deferred Revenue	1,100		1,100
17	Notes (Loans) Payable	3,750		3,750
18	Current Portion Long-Term Debt	1,800		1,800
19	Total Current Liabilities	11,133	—	11,133
Long-Term Liabilities				
20	Equipment Loan	4,800		4,800
21	Total Long-Term Liabilities	4,800	—	4,800
22	Total Liabilities	15,933	—	15,933
Net Assets				
23	Beginning of Year	10,778	20,000	30,778
24	Change in Net Assets	1,372	25,000	26,372
25	Total Net Assets	12,150	45,000	57,150
26	Total Liabilities and Net Assets	\$ 28,083	45,000	73,083

- How much cash is available? Unrestricted Net Assets?
- Do we have Temporarily Restricted assets intended for future use?

Evaluation

- Do we have Permanently Restricted Net Assets, such as an endowment or scholarship fund? How is it invested?
- Have we invested in significant fixed assets?
- Have we designated a cash reserve?

Net Assets		
23	Unrestricted Net Assets	12,150
	Board Designated for Program Seed Fund	5,000
	Undesignated	7,150
24	Temporarily Restricted Net Assets	45,000
25	Total Net Assets	<u>57,150</u>
26	Total Liabilities and Net Assets	<u>\$ 73,083</u>

Evaluation

Think about your income, expenses, assets, and liabilities in relation to your mission and programs.

Significant changes from the previous year should fit with changes in the way your organization works.



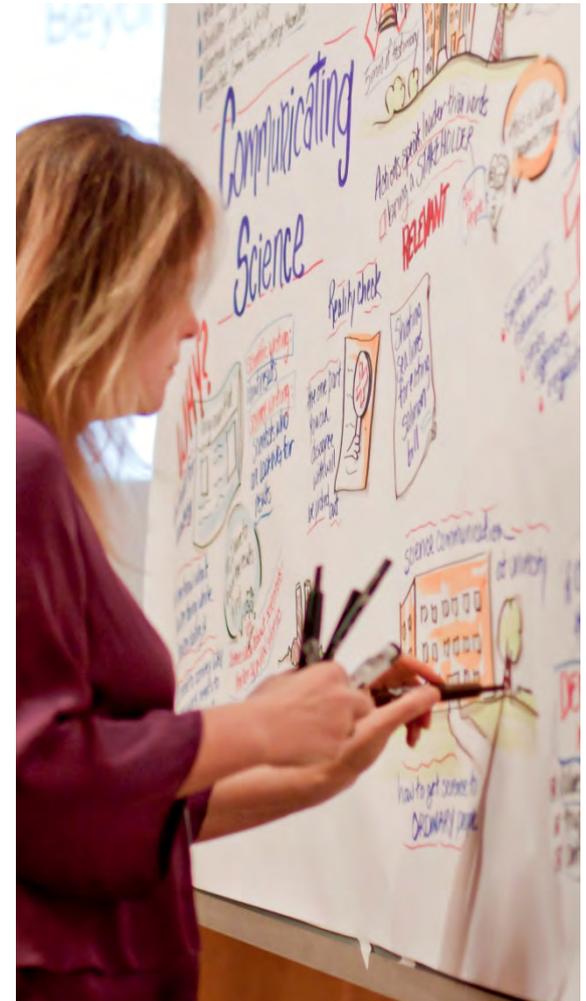
Planning



What next? Develop strategic plans and budgets.

Planning

- Determine and support your organization's mission and strategic plan.
- Set/agree to goals for program and development activities.



Planning

Family Advocacy Network Budget Expense Assumptions for 2010

Staff

	Salary	Taxes, Unemployment, Work Comp Insurance	Medical Ins \$300/month each	Total Personnel
Executive Director	\$34,000	\$3,740	\$3,600	\$41,340
Program Specialist	\$25,000	\$2,750	\$3,600	\$31,350
	\$59,000	\$6,490	\$7,200	\$72,690

Contract and Professional Fees

Accountant assistance for finance and 990 prep \$600
 Payroll service \$400
 Stipends for law students (30 students for \$50 each)
 Legal services (provided pro bono) for legal advocacy service and credit and bankruptcy
 Includes supervision of law students and client service

Program Related Materials

Books and materials average \$5 per client (some are in-kind)
 Goal for year to serve 480 clients

Office Supplies, Telephone, Equipment, Meetings, Postage

Same as last year expense

Website and Internet

Board wants to get a web site, will be donated by a board member's company

Rent and Utilities

Rent 2 offices in another nonprofit's building
 \$350 per month rent plus some utilities

Insurance

Directors and Officers Liability and Commercial Liability to cover volunteers and clients

Marketing, Printing, Travel

Board committee has a marketing plan to reach more clients
 Budget for a brochure and ads in community paper and radio

Memberships and Conferences

Membership in MN Council of Nonprofits
 Executive Director and Program Specialist to attend conference in Chicago

Interest

Borrowed a bridge loan last year, might need again

- Understand budget assumptions
- Make sure budgets relate to program and strategic goals

Planning



- Approve a realistic annual budget before the fiscal year begins



Action: Decision Time!

Reports for Board Action

- More attention than “oversight” role
- Responding to changes from original plans
- Forecasts
- Cash flow projections
- Specialized budgets for capital projects or major new initiatives

Using Different Types of Reports

<p style="text-align: center;">Compliance</p> <ul style="list-style-type: none">• Financial reports, including Income Statement and Balance Sheet• Audit report• IRS 990• Status on any covenants or agreements	<p style="text-align: center;">Evaluation</p> <ul style="list-style-type: none">• Comparison to total budget• Analysis of material variances• Comparison to benchmarks, previous years, etc.• Fundraising progress reports
<p style="text-align: center;">Planning</p> <ul style="list-style-type: none">• Budgets• Cash flow projection summary or detail• Fundraising plans• Programmatic financial plans	<p style="text-align: center;">Action</p> <ul style="list-style-type: none">• Episodic information depends on needs• Committee reports with recommended actions• Specific information to assist with decisions• Information on alternatives, options, and recommendations

Board and Management Must Commit to:

1. Maintaining financial health to support mission-related goals
2. Good planning as the foundation of stability
3. Quality financial information
4. Regular and consistent monitoring of financial status
5. Responding to changes, opportunities, and setbacks with timely action
6. Clear and reasonable roles and responsibilities for financial and other management aspects
7. Transparency and integrity in financial decisions, practices, and information

Thank You!



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Family Advocacy Network
Actual Compared to Budget Income Statement
For the Twelve Months Ending December 31, 2012

INCOME		Actual	Budget
Support			
1	Individual Contributions	\$14,230	\$18,900
2	Corporate/Foundation Grants	40,000	44,000
3	Government Grants	10,000	10,000
4	In-kind Contributions	6,900	6,900
5	United Way	21,000	21,000
6	Total Support	92,130	100,800
Revenue			-
7	Client Fees	7,850	7,200
8	Contract Income	5,500	5,000
9	Interest Income	90	120
10	Miscellaneous Income	75	100
11	Total Revenue	13,515	12,420
12	Total Support and Revenue	\$105,645	\$113,220
EXPENSE			
13	Personnel / Salaries	\$59,000	\$59,000
14	Benefits, Taxes & Insurance	13,750	13,690
15	Contract and Professional Fees	2,500	2,500
16	In-kind Professional Fees	3,000	3,000
17	Program Related Materials	1,800	900
18	In-kind Program Materials	1,500	1,500
19	Bank Charges	360	240
20	Office Supplies	2,600	2,400
21	Telephone	1,765	1,800
22	Internet and Website	300	-
23	In-kind Website Services	2,400	2,400
24	Postage and Shipping	970	1,560
25	Occupancy	4,500	4,500
26	Insurance	1,850	2,400
27	Marketing	650	2,200
28	Equipment	612	900
29	Printing and Publications	1,893	1,700
30	Travel	1,175	1,500
31	Conferences	700	1,800
32	Meeting Expenses	393	450
33	Memberships	360	360
34	Staff Development	550	1,200
35	Interest Expense	183	375
36	Depreciation	1,000	1,000
37	Other Misc Expenses	462	1,200
38	Total Expenses	\$104,273	\$108,575
39	Surplus/(Deficit)	\$1,372	\$4,645

Family Advocacy Network				
Income Statement				
For the Twelve Months Ending December 31, 2012				
			Temporarily	
		Unrestricted	Restricted	Total
	INCOME			
	Support			
1	Individual Contributions	\$14,230		\$14,230
2	Corporate/Foundation Grants	25,000	40,000	\$65,000
3	Government Grants	10,000		\$10,000
4	In-kind Contributions	6,900		\$6,900
5	United Way	21,000		\$21,000
6	Net Assets Released from Restrictions	15,000	(15,000)	-
7	Total Support	92,130	25,000	117,130
	Revenue			
8	Client Fees	7,850		\$7,850
9	Contract Income	5,500		\$5,500
10	Interest Income	90		\$90
11	Miscellaneous Income	75		\$75
12	Total Revenue	13,515	-	13,515
13	Total Support & Revenue	\$105,645	\$25,000	\$130,645
	EXPENSE			
14	Personnel / Salaries	\$59,000		\$59,000
15	Benefits, Taxes & Insurance	13,750		\$13,750
16	Contract and Professional Fees	2,500		\$2,500
17	In-kind Professional Fees	3,000		\$3,000
18	Program Related Materials	1,800		\$1,800
19	In-kind Program Related Materials	1,500		\$1,500
20	Bank Charges	360		\$360
21	Office Supplies	2,600		\$2,600
22	Telephone	1,765		\$1,765
23	Internet and Website	300		\$300
24	In-kind Website Services	2,400		\$2,400
25	Postage and Shipping	970		\$970
26	Occupancy	4,500		\$4,500
27	Insurance	1,850		\$1,850
28	Marketing	650		\$650
29	Equipment	612		\$612
30	Printing and Publications	1,893		\$1,893
31	Travel	1,175		\$1,175
32	Conferences	700		\$700
33	Meeting Expenses	393		\$393
34	Memberships	360		\$360
35	Staff Development	550		\$550
36	Interest Expense	183		\$183
37	Depreciation	1,000		\$1,000
38	Other Misc Expenses	462		\$462
39	Total Expenses	\$104,273	\$0	\$104,273
40	Surplus/(Deficit)	\$1,372	\$25,000	\$26,372

Family Advocacy Network
Balance Sheet
December 31, 2012

Assets

Current Assets

1	Cash and Investments	\$ 9,558
2	Accounts Receivable	675
3	Gov't Grants and Contracts Receivable	850
4	Grants Receivable	5,000
5	Pledges Receivable	<u>1,200</u>
6	Total Current Assets	17,283

Long-Term Assets

7	Prepaid Expenses	300
8	Long-Term Pledges Receivable	1,000
9	Building Improvements (5 year lease)	8,000
10	Equipment and Furniture	14,000
11	Accumulated Depreciation	<u>(12,500)</u>
12	Total Long-Term Assets	10,800

13	Total Assets	\$ <u><u>28,083</u></u>
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Liabilities and Net Assets

Current Liabilities

14	Accounts Payable	\$ 3,375
15	Payroll, Vacation & Taxes Payable	1,108
16	Deferred Revenue	1,100
17	Notes (Loans) Payable	3,750
18	Current Portion Long-Term Debt	<u>1,800</u>
19	Total Current Liabilities	11,133

Long-Term Liabilities

20	Equipment loan	4,800
21	Total Long-Term Liabilities	<u>4,800</u>

22	Total Liabilities	15,933
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Net Assets

23	Beginning of Year	8,778
24	Board-Designated Reserve	2,000
25	Change in Net Assets	<u>1,372</u>
26	Total Net Assets	12,150

27	Total Liabilities and Net Assets	\$ <u><u>28,083</u></u>
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Family Advocacy Network				
Balance Sheet				
December 31, 2012				
			Temporarily	
	Assets	Unrestricted	Restricted	Total
	Current Assets			
1	Cash and Investments	\$ 9,558	40,000	49,558
2	Accounts Receivable	675		675
3	Gov't Grants and Contracts Receivable	850		850
4	Grants Receivable	5,000	5,000	10,000
5	Pledges Receivable	1,200		1,200
6	Total Current Assets	17,283	45,000	62,283
	Long-Term Assets			
7	Prepaid Expenses	300		300
8	Long-Term Pledges Receivable	1,000		1,000
9	Building Improvements (5 year lease)	8,000		8,000
10	Equipment and Furniture	14,000		14,000
11	Accumulated Depreciation	(12,500)		(12,500)
12	Total Long-Term Assets	10,800	—	10,800
13	Total Assets	\$ 28,083	45,000	73,083
	Liabilities and Net Assets			
	Current Liabilities			
14	Accounts Payable	\$ 3,375		3,375
15	Payroll, Vacation & Taxes Payable	1,108		1,108
16	Deferred Revenue	1,100		1,100
17	Notes (Loans) Payable	3,750		3,750
18	Current Portion Long-Term Debt	1,800		1,800
19	Total Current Liabilities	11,133	—	11,133
	Long-Term Liabilities			
20	Equipment Loan	4,800		4,800
21	Total Long-Term Liabilities	4,800	—	4,800
22	Total Liabilities	15,933	—	15,933
	Net Assets			
23	Beginning of Year	8,778	20,000	28,778
24	Board-Designated Reserve	2,000		2,000
25	Change in Net Assets	1,372	25,000	26,372
26	Total Net Assets	12,150	45,000	57,150
27	Total Liabilities and Net Assets	\$ 28,083	45,000	73,083

Audit Readiness



- **Michael S. Wilson, CPA.**
- **Risk assessment approach to audit work.**
- **Most audit findings are related to the following:**
 - Corporate governance.
 - Policies and procedures.
 - Internal controls.
 - Financial accounting

Exercise the Proper Duty of Care:



- **1. Active Participation.** A director must actively participate in the management of the organization including attending meetings of the board, evaluating reports, reading minutes, reviewing the performance and compensation of the Executive Director and so on. Persons who do not have the time to participate as required should not agree to be on the board.
- **2. Committees.** Directors may establish committees having the authority of the board and may rely on information, opinions or reports of these committees. Committees operate subject to the direction and control of the board. As a result, directors are still responsible for the committees and should periodically scrutinize their work.
- **3. Board Actions.** A director who is present at a meeting when an action is approved by the entire board is presumed to have agreed to the action unless the director objects to the meeting because it was not lawfully called or convened and doesn't participate in the meeting, or unless the director votes against the action or the director is prohibited from voting on the action because of a conflict of interest.
- **4. Minutes of Meetings.** Written minutes should be taken at every board meeting. The minutes should accurately reflect board discussions as well as actions taken at meetings.
- **5. Books and Records.** A director should have general knowledge of the books and records of the organization as well as its general operation. The organization's articles, bylaws, accounting records, voting agreements and minutes must be made available to members and directors who wish to inspect them for a proper purpose.
- **6. Accurate Record Keeping.** A director should not only be familiar with the content of the books and records, but should also assure that the organization's records and accounts are accurate. This may mean the director must take steps to require regular audits by an independent certified public accountant. At the very least, the director should be aware of what the financial records disclose and take appropriate action to make sure there are proper internal controls.
- **7. Trust Property.** A director has the duty to protect, preserve, invest and manage the corporation's property and to do so consistent with donor restrictions and legal requirements. Instituting proper internal controls will aid in the protection of assets.
- **8. Resources.** A director must assist the organization in obtaining adequate resources to enable it to further its charitable mission.
- **9. Charitable Trusts.** A trustee of a charitable trust has a higher standard of care than a director of a nonprofit corporation. A trustee has the duty to exercise the care an ordinary person would employ in dealing with that person's own property. A trustee with a greater level of skill must use that higher skill in carrying out the trustee's duties.
- **10. Investigations.** A director has a duty to investigate warnings or reports of officer or employee theft or mismanagement. In some situations a director may have to report misconduct to the appropriate authorities, such as the police or the Attorney General. Where appropriate, a director should consult an attorney or other professional for assistance.

Duty of Care Case



- Sample neighborhood recently experienced a large turnover of board members. In addition, they recently hired a staff person. During the transition period, a volunteer neighborhood resident with institutional knowledge is offering to help with the transition. The board has delegated the following responsibilities to the volunteer:
 - Managing the staff person.
 - Billing the city of Minneapolis for cost reimbursements.
 - Recommending plan modifications.
 - Making agreements with other neighborhoods.

The Duty of Loyalty



- **To Exercise the Duty of Loyalty:**
- Traditionally, directors have an absolute duty of complete, undivided loyalty to the organization. This means that directors should avoid using their position or the organization's assets in a way which would result in pecuniary or monetary gain for them or for any member of their family. A director should put the good of the organization first and avoid engaging in transactions with the organization from which the director will benefit.
- **1. Conflicts of Interest.** Under certain circumstances, a contract or transaction between a nonprofit corporation and its director or an organization in which the director has a material financial interest is acceptable. However, if the transaction is challenged, the director will have the burden of establishing that the contract or transaction was fair and reasonable, that there was full disclosure of the conflict and that the contract or transaction was approved by members or other directors in good faith.
- **2. Written Policy.** Boards should establish a written policy on avoiding conflicts of interest.
- **3. Loans.** A nonprofit corporation may not lend money to a director or the director's family members unless the loan or guarantee may reasonably be expected, in the judgment of the entire board, to benefit the corporation.
- **4. Charitable Trust.** In charitable trusts, transactions which otherwise might constitute a conflict of interest are permissible if the conflict was clearly contemplated and allowed by the original settlor of the trust.
- **5. Corporate Opportunity.** Directors of business organizations are under a fiduciary obligation not to divert a corporate business opportunity for their personal gain. A director of a nonprofit corporation is also subject to this duty. This duty means that a director may not engage in or benefit from a business opportunity that is available to and suitable for the corporation unless the corporation decides not to engage in the business opportunity and conflicts of interest procedures are followed.
- **6. Internal Revenue Code.** Other prohibitions relating to the duty of loyalty are specified in the rules of the Internal Revenue Code regarding self-dealing. These rules apply to private foundations.

Duty of Loyalty Case



Sample Neighborhood board members elect to have a local printing company produce the neighborhood newsletter to support local businesses. The local printing company is run by the husband of the Secretary.

Duty of Obedience



- **1. State and Federal Statutes.** Directors should be familiar with state and federal statutes and laws relating to nonprofit corporations, charitable solicitations, sales and use taxes, FICA and income tax withholding, and unemployment and workers' compensation obligations. They should also be familiar with the requirements of the Internal Revenue Service. Directors should see to it that their organization's status with state and federal agencies is protected.
- **2. Filing Requirements.** Directors must comply with deadlines for tax and financial reporting, for registering with the Attorney General, for making social security payments, for income tax withholding, and so on. Additionally, if an organization is incorporated under the Minnesota Nonprofit Corporation Act, its directors have a duty to maintain its corporate status by submitting timely filings to the Secretary of State's Office.
- **3. Governing Documents.** Directors should be familiar with their organization's governing documents and should follow the provisions of those documents. Directors should be sure proper notice is given for meetings, that regular meetings are held, that directors are properly appointed and that the organization's mission is being accomplished.
- **4. Outside Help.** Where appropriate, directors should obtain opinions of legal counsel or accountants.

Duty of Obedience Case



- **Sample neighborhood has run a successful program that is separately funded. Program funding expires so Sample Neighborhood elects to stop paying payroll taxes to extend employment opportunities for staff.**

Internal Controls

Cash Receipts



- **Sample neighborhood offers residents an opportunity to become members for \$10. Members receive the quarterly newsletter and are allowed to vote on board actions.**

Internal Controls Disbursements



- **Sample neighborhood has many residents who participate in community gardening. Many neighbors purchase gardening tools and ask the Treasurer for reimbursement.**

Internal Controls Payroll



- **Sample neighborhood wants to reward staff for good work. They elect to pay a \$2,000 bonus to the staff by writing Christmas checks.**
- **A long term employee leaves and demands the neighborhood pay 500 hours of unpaid time off.**