BOARD MEMBER'S FIDUCIARY RESPONSIBILITY FOR ASSOCIATION FINANCES

By: Steven John Fellman

As a member of the Board of Directors of a non-profit organization, you have assumed a fiduciary responsibility to that organization. In terms of today's corporate governance requirements, your fiduciary responsibility includes your taking more than a "passive" interest in the organization's financial conditions. Every board member should receive detailed financial reports from the organization at least quarterly and preferably on a monthly basis. As a board member, it is not sufficient that you take a quick look at the financial reports. You need to look closely at the reports and understand the financial position of the association. You need to be familiar with how the organization gets its income; how it spends it income; and what type of strategic financial planning is being done to ensure the organization's financial sustainability.

As an example, most non-profit organizations rely on dues, donations, publications sales, advertising, and meeting revenue for the bulk of their income. As a board member, you should not only know how these income segments are performing currently for your organization, but you also should be aware of what type of future projections are being made. Many non-profit organizations have seen substantial reductions in publication sales, advertising income and meeting revenue due to the combination of technology changes and the soft economy. Increased use of digital technology and online websites have sharply curtailed hardcopy publication sales and advertising income associated with such publications. If your organization relies on hardcopy publication sales and advertising income in the past, how is the organization planning to replace that income in the future?

Similarly, if your organization obtained a major share of its income from meeting revenue, what can you expect in the future when a large percentage of non-profit organizations are reporting that members want fewer and shorter meetings with less frills and as a result lower costs? These are just two examples of issues that a Board member needs to address to meet his or her fiduciary responsibility. There are other areas of concern that present similar problems. As an example, each year your organization is presented with an annual audit by your certified public accountant. As a Board member, you are asked to review the audit and vote to "accept" the audit. At one time, such a review was a perfunctory matter and few Boards gave the audit detailed consideration. Today, your fiduciary responsibilities require you as a board member to study the audit and make sure that you understand exactly what the auditors are reporting. You need to review the management letter and any recommendations being made. You need to listen to the staff's response to the auditor's recommendations and determine whether or not the staff is giving full consideration to the issues presented by the auditors. You have a fiduciary responsibility to the organization to maintain the financial integrity of your organization.

One more example. Your association may have a substantial reserve fund. The association should have either appointed an investment committee or assigned the Executive Committee to act as an investment committee to recommend how the reserve fund is being managed. You as a board member have a fiduciary responsibility of knowing what the association investment policies are designed to do and whether those policies are actually working. You need to have a full understanding of how the association invests its money and what risks are being assumed. You need to know what is happening to that reserve fund. You cannot just "rubber stamp" the recommendation of the investment committee.

Although many states have laws which encourage individuals to join the boards of non-profit organizations by limiting board member liability, these laws are not designed to eliminate the fiduciary responsibility that a board member has to his/her organization. If you are serving on the board of a non-profit organization and you are not sure of the financial position of that organization or how that organization functions as an operating entity, you are not meeting your fiduciary responsibility. Association executives should make sure that every member of their board fully understands his/her fiduciary responsibility and is provided with the basic financial information necessary to meet those responsibilities.

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