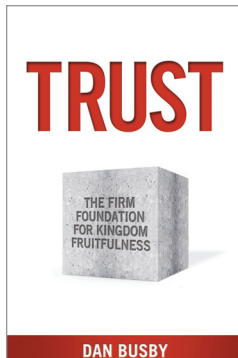
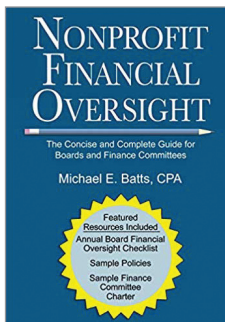


## TOOL #6: The Board's Annual Financial Management Audit

Use this TRUE OR FALSE audit annually as a first step in assessing your ministry's financial health and integrity.



“In the worst case scenario, clarity of ministry finances is a key to avoiding a financial shipwreck. In the best case, clarity prevents a ministry from becoming an embarrassment to Christ.”<sup>1</sup>



“The vast majority of nonprofit organizations have a strong desire to do the right things for the right reasons, while working to improve the lives of people.”<sup>2</sup>

## Trusted Ministries Manage Resources with Integrity

### The 3 Foundations of Trusted Resource Management

Trusted ministries manage resources with integrity. Christ will only be honored if revenues and expenses are adequately managed, if adequate reserves are developed and maintained, and if obligations are properly fulfilled.

The Foundations of Trusted Resource Management are:

- ❑ **1. Understanding Finances:** Trusted ministries acknowledge the challenges of understanding nonprofit finances. It is certainly not a one-to-one correlation with the finances of a for-profit organization.
- ❑ **2. Achieving Appropriate Transparency:** Facing an insatiable desire for transparency, trusted ministries must find the balance between being appropriately transparent while recognizing privacy concerns and administrative burdens.
- ❑ **3. Minimizing Fraud:** Trusted ministries are keenly aware of their susceptibility to fraud. They establish and continually test internal controls to minimize significant fraud.<sup>3</sup>



<sup>1</sup> Dan Busby, *TRUST: The Firm Foundation for Kingdom Fruitfulness* (Winchester, VA: ECFAPress, 2015), 177.

<sup>2</sup> Michael E. Batts, *Nonprofit Financial Oversight: The Concise and Complete Guide for Boards and Finance Committees* (Orlando, FL: Accountability Press, 2017), 5.

<sup>3</sup> Busby, *TRUST*, 175–76. Inspire your board's finance committee to read the three short chapters in Part 4: “Understanding Finances,” “Achieving Appropriate Transparency,” and “Minimizing Fraud.” See pages 175–98.

## The Board's Annual Financial Management Audit



### 20 Statements the Board Must Address Annually

Your board should expect clarity and honesty from the CEO, the CFO, staff, and the board's finance committee. To provide clarity—so board members understand financial reports and financial trends—the information should be presented with a variety of approaches (for the diverse learning styles of your board members) and can include verbal and written reports, dashboards, and graphs. But there's another important step—an annual checklist.

**TRUE OR FALSE?** Here are 20 statements that can be adapted for your ministry. Ask your CFO to provide the answers for the question, “How does the board know?” Ultimately, of course, for the board to have faith and trust in the accuracy and veracity of the answers to these statements—the board will be dependent on the honesty and integrity of the CEO and the staff.

Adapt these statements for your ministry—and review the answers at least annually.

See pages 4–5 for a sample completed financial management audit.

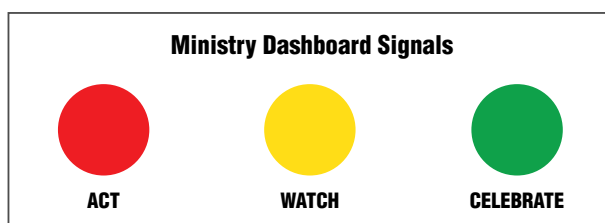
The Board's Annual Financial Management Audit	True/False	How does the board know?
1. Our board receives timely, relevant, and accurate financial information that is readily understood by the board.		
2. Our board has assessed the ministry's financial health within the last year and appropriately addressed any concerns.		
3. We orient new board members on how to interpret the ministry's periodic financial statements and board-approved benchmarks.		
4. Cash reserves compare favorably with the ministry's goal for: <ul style="list-style-type: none"> <li>a. Operations</li> <li>b. Donor-restricted net assets</li> <li>c. Mortgage covenants</li> <li>d. Capital needs</li> <li>e. Other ministry expansion opportunities</li> </ul>		
5. Our significant revenue elements are increasing.		
6. The average size of our contributions is increasing across all gift size ranges.		
7. The number of regular contributors is increasing.		

The Board's Annual Financial Management Audit	True/False	How does the board know?
8. Our total unrestricted revenue is increasing.		
9. Our ministry is adequately communicating with our financial institutions regarding loan renewals, international fund transfers, line of credit, and bank accounts.		
10. Accounts payable, payroll taxes, and other current liabilities are being paid on time.		
11. Our net assets without donor restrictions, after deducting net property, plant, and equipment less related debt, shows a positive trend.		
12. Our financial statements do not reflect designated net assets in excess of what is available for designation.		
13. We have an appropriate investment policy and it is followed.		
14. Our bank accounts do not exceed FDIC limits.		
15. We have engaged an independent CPA firm to perform an audit, review, or compilation or applied other appropriate accountability measures.		
16. The staff has provided a written response to the board in relation to any management letter comments from the CPA firm.		
17. We have identified the three greatest financial risks of our ministry and the steps we should take to mitigate those risks.		
18. All significant related-party transactions are reported to the board for their review and action.		
19. The staff has informed the board of the total compensation, including fringe benefits taxable and non-taxable, of any member of the top leader's family who is employed by the organization or any of its subsidiaries or affiliates.		
20. Our board complies with ECFA's Policy for Excellence in Compensation-Setting: <a href="https://www.ECFA.org/Contents/Comment6a">https://www.ECFA.org/Contents/Comment6a</a> .		

**Sample completed Board's Annual Financial Management Audit<sup>4</sup>**

The Board's Annual Financial Management Audit	True/False	How does the board know?
1. Our board receives timely, relevant, and accurate financial information that is readily understood by the board.	T	At the last board meeting, the board confirmed this is a true.
2. Our board has assessed the ministry's financial health within the last year and appropriately addressed any concerns.	T	Our board assesses the organization's financial health at each meeting.
3. We orient new board members on how to interpret the ministry's periodic financial statements and board-approved benchmarks.	T	A thorough board orientation is provided for all new board members.
4. Cash reserves compare favorably with the ministry's goal for: a. Operations b. Donor-restricted net assets c. Mortgage covenants d. Capital needs e. Other ministry expansion opportunities	F	The board does not set cash reserve targets so we don't know if we compare favorably to ministry goals. However, we do know that our cash balances have been decreasing over the last five years.
5. Our significant revenue elements are increasing.	F	Our most significant revenue elements have been flat over the last five years.
6. The average size of our contributions is increasing across all gift size ranges.	F	The average size of our contributions has been decreasing over the last three years.
7. The number of regular contributors is increasing.	F	The number of regular contributors has been flat over the last three years.
8. Our total unrestricted revenue is increasing.	F	Our total unrestricted revenue has been flat over the last five year.
9. Our ministry is adequately communicating with our financial institutions regarding loan renewals, international fund transfers, line of credit, and bank accounts.	T	The CFO verified this is true as of September 30.
10. Accounts payable, payroll taxes, and other current liabilities are being paid on time.	T	The CFO verified this is true as of September 30.
11. Our net assets without donor restrictions, after deducting net property, plant, and equipment less related debt, shows a positive trend.	F	Our net assets without donor restrictions have been decreasing over the last five years.

The Board's Annual Financial Management Audit	True/False	How does the board know?
12. Our financial statements do not reflect designated net assets in excess of what is available for designation.	T	The CFO verified this is true as of September 30.
13. We have an appropriate investment policy and it is followed.	T	The CFO verified this is true as of September 30.
14. Our bank accounts do not exceed FDIC limits.	F	Our bank accounts occasionally exceed FDIC limits by modest amounts.
15. We have engaged an independent CPA firm to perform an audit, review, or compilation or applied other appropriate accountability measures.	T	We have an annual audit by an independent CPA firm.
16. The staff has provided a written response to the board in relation to any management letter comments from the CPA firm.	F	The board receives an annual management letter but staff does not provide a written response to the board in relation to the auditor's recommendations.
17. We have identified the three greatest financial risks of our ministry and the steps we should take to mitigate those risks.	F	The board has not identified the ministry's three greatest financial risks.
18. All significant related-party transactions are reported to the board for their review and action.	T	The board carefully follows its conflicts of interest policy.
19. The staff has informed the board of the total compensation, including fringe benefits taxable and non-taxable, of any member of the top leader's family who is employed by the organization or any of its subsidiaries or affiliates.	F	The board is not informed of compensation paid to members of the top leader's family.
20. Our board complies with ECFA's Policy for Excellence in Compensation-Setting: <a href="https://www.ECFA.org/Contents/Comment6a">https://www.ECFA.org/Contents/Comment6a</a> .	F	Our board has not referenced ECFA's Policy for Excellence in Compensation-Setting



<sup>4</sup> Read more on dashboards in Lesson 5 – “Dashboards Are Not a Secret Sauce for Sound Governance” from *More Lessons From the Nonprofit Boardroom: Effectiveness, Excellence, Elephants!* by Dan Busby and John Pearson (Winchester, VA: ECFAPress, 2019), 28–34.