**Ten Tips for Good Financial Oversight for 501(c)6 Associations – August 2022**

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As most REALTOR® Association board directors are aware, they have a fiduciary duty of oversight and among many others a critical component is financial oversight.

**Here are ten suggested best practices for directors to follow to ensure good oversight:**

1. **Review the most current Financial Statement at Board meetings** at least quarterly, or more often, at your Board’s option. The financial statement includes a Balance Sheet (noting the association’s short and long term assets and liabilities, as well as a Statement of Activities (in a for-profit organization, known as a Profit and Loss statement). For purposes of your minutes, unaudited financial statements should be “received” or “placed on file” (not approved). Ask questions of your CEO or Treasurer prior to the meeting when the report is on the agenda. If you don’t quite understand it, *ask*. It’s not something to be ashamed of as many don’t have that type of business acumen but those charged with preparing those statements do. Ask.
2. **The Treasurer should be prepared with an explanation or summary of key aspects of the financial report.** As an important part of your financial statements, such comments that provide further explanation to the report are really helpful and should be prepared by your CEO and reviewed *and* approved by your Treasurer. Additionally, our best advice is to elect a Treasurer with some experience and acumen in budgeting and accounting. Some Associations use that position as a natural part of the ladder where the Treasurer plans to move up the chairs to President. Do what you can to change this expectation (or sometimes requirement). If you have someone in the Treasurer’s position who is inexperienced about financial processes, this position is not the time to train them.
3. **Look for significant variances from the budgeted amounts**. What are the reasons for them? If there are major differences, what will be done to adjust the budget to compensate? A budget v. actual comparison is important for all programs, events, and activities and should be included in all financial statements. These could be red flags, but more likely they are minor and explainable.
4. **Do the expenses and revenues support the strategic plan**? Ideally, this should be done carefully when the budget is developed to ensure the plan closely aligns to strategic priorities. The plan should always be developed or reviewed PRIOR to the upcoming year’s budgeting process.
5. **If there is a surplus at the end of the fiscal year, what are the plans for it**? Do you have a reserve policy in place? Do you have an annual budgeted amount to place into reserve accounts? If you don’t, do you have a policy to address surpluses? If you do not, get one!
6. **Does the association have an investment policy in place?** Directors have a responsibility to safeguard the monetary assets of the association. Investment policies should be created and followed. We recommend the association work with an investment specialist, who can assist the Association with managing and oversight of a diversified investment portfolio.
7. **Audits and Tax Returns.** Best practices are for every association to have an annual audit or review by an independent, outside CPA firm. This third-party review is a critical additional step in the financial oversight process for directors. Annually, the CPA should attend a Board meeting and present the audit or review report to the directors who should formally “accept” the report. In addition, at the Board’s option, the auditor may attend a board or finance committee meeting to present the Association’s tax return, including its 990 report.
8. **How often should you review the association’s financial policies?** It varies from association to association, however best practices would have your financial policies reviewed by the Finance Committee, Treasurer, CEO and/or assigned staff every two or three years. Many associations also have their auditor review them periodically, to ensure they are aligned with changes to non-profit financial rules and regulations. Regardless, these policies should be kept updated and amended as appropriate. Lastly, does your association have a financial whistleblower policy? If not, develop one. This is now required of non-profit organizations.
9. **If you have planned major expenditures coming up, does your cash on hand reflect the ability to cover them**? An accrual-based accounting format will greatly assist you to monitor this.
10. **Should you expect to see all of the check requests with related receipts and background support**? No. This is something that your CEO *and* Treasurer carefully review on a regular basis before bills are paid and is an important aspect of good financial controls. (Make sure those controls are clearly spelled out in your association’s policy manual.) If major concerns arise based on justified fear of misappropriation of funds or lack of appropriate controls, contact an outside accountant to perform an audit.

There may be other tips from various resources, but these are the most common and easiest to do while still ensuring the financial oversight you need to have as part of your important job as a board director.

As a bonus, here are a couple of myths about not-for-profit organziations found while searching the Internet for related sources.

**Myth 1. Nonprofits cannot make “profits”.**

Common practice for Boards of Directors when they review regular Association financial reports. Contrary to popular misconception – and a literal reading of the name of our sector – there’s no law or standard that bars a “nonprofit” from earning a fiscal surplus (also known as profit). This label is unfortunate for many reasons. The term nonprofit came into being merely to distinguish these organizations from other businesses with regard to their overarching purpose and tax status. It has nothing to do with financing or budgeting constraints. Nonprofits have many financing options, including those available to for-profit businesses, and are similarly free to make or lose money.  Source: National Council of Nonprofits.

Consultants' Note: Some income may be taxable, which is permissible and acceptable.  Usually, taxes are derived from what is commonly known as "Unrelated Business Income (UBI). This is income which comes from an activity other than that for which the association received its tax-exempt status.  Maintaining your tax-exempt status is not a given; if an association strays too far from its Articles of Incorporation it could jeopardize its 501 (c)6 status.  Always consult your tax advisor if you have questions about potential UBI for your association.

**Myth 2. A budget is supposed to have a bottom line of zero.**

This is another widely-held misconception, and a harmful one at that. While a budget can have a zero, negative or positive bottom line, the common practice of matching expenses and revenues is not required, should not be a standard, and can have negative consequences. A budget is simply a plan for the near future, and actual results may vary. One problem with a net-zero budget is that it allows no buffer for variable results and may therefore make a deficit more likely. Your budget should be a reasonable forecast for the coming year. Even if net-zero budgets turn out to be accurate forecasts, the organization’s financial position will slide backward over time for the simple reason that cash reserves will not, in many cases, keep pace with inflation. Source: National Council of Nonprofits.