FINANCIAL TECHNOLOGIES & MANAGEMENT

Accounting Solutions for your Nonprofit

Boards can provide effective financial governance for your nonprofit

By Jim Simpson, CPA and director, Financial Technologies & Management

In the nonprofit community, board members don't always provide effective financial governance. One key difference in the nonprofit sector is that the board focuses on the nonprofit's mission and not the finances or profits. But all are necessary.

Nonprofits would have more public trust if all board members performed their financial governance at a high level and challenged one another and executive management for excellent financial performance.

There may, however, be some roadblocks. As a board member, are you unsure or scared of your financial governance role with the nonprofits you serve?

If the desire is to have a more effective board, there are some essential financial governance responsibilities that a board should be performing for a nonprofit. The following essential training is provided to help you engage in this role and reduce fears.

1. **Financial tracking by funds and program.** It is not good enough just to know if your organization has a surplus or a deficit for the organization. You should know if your individual funds and programs are generating a surplus or deficit. It is impossible to be a financial steward if you don't know which funds or programs are overspent or underspent.
2. **Financial reports need to be produced monthly.** It is imperative that board members receive financial reports at least monthly. A board member can only perform his or her financial governance role if he or she can help the organization to anticipate and plan for changes based on financial results. It is important that these financial reports are timely and accurate to avoid making the wrong financial decisions. The financial reports should be goal oriented to allow the financial governance to focus on its accomplishments. Best practices financial reporting would include both budget and historical variance financial analysis. A goal oriented report would focus on the budget priorities and key financial areas of the nonprofit.
3. **Financial health is priority.** Poor financial health usually results when no one knows the financial condition and when one person controls all financial information. Significant comments from the annual audit and staff turnover are also indicators of poor financial health. It is important that the board pays attention when these conditions exist and work towards increasing financial expertise and capacity. Financially healthy organizations hold themselves accountable, understand roles, and maintain compliance with adequate and qualified staff. Effective board and management practices are essential for segregation of duties and internal controls. These board financial practices

should promote communication, expectations, and operating efficiencies so the organization can be monitored efficiently and effectively.

4. **Proper accounting software.** Many nonprofits use manual or commercial applications to perform nonprofit accounting. It is important that you provide the finance staff with the right tools and accounting software to do the job properly.

   It is important that board members ask questions regarding how the organization tracks financial information. One financial question to ask might be: Does the organization track financial information by funding source, by program and by accounts?

   An annual review of accounting software and tools can uncover what additional software modules are needed including whether you have outgrown your current software.

   It is important that organizations review software that is designed for nonprofit organizations. Nonprofit accounting software typically allows integration of third party systems like fundraising and payroll to increase efficiencies of various systems.

5. **Financial stewardship**. All board members need to act as financial stewards not just the treasurer for the nonprofit's that they govern. Unfortunately, board members don't take this role seriously enough and thus organization's fail financially which significantly reduces public trust.

   Board members must understand financial stewardship and make it a priority for the organization that they govern. Board financial practices should include financial policies and procedures that promote stewardship and accountability.

6. **Budget management.** Board members need to work to enable management to know when to modify programs and operations. It is important the budgets be realistic and revenue based to anticipate any shortfalls. Budget management should include budget projections and cash flow management to insure stable nonprofit operations and programming.
7. **Financial reserves.** Board member financial stewardship roles should include establishing financial reserves for the organization. Financial supporters would rather support well established and financial stable organizations. It is important board and management are committed to generating an operating surplus and positive cash balances. It takes a lot of financial discipline to establish financial reserves.

   A nonprofit is typically financially stable once it can generate financial reserves of several months of operating reserves. The financial reserves are essential to shield the organization from reductions or delays in funding.

8. **Financial plans.** Board members need to have financial plans for the organization. Just as an individual has a financial plan that changes as the individuals needs changes, the nonprofit needs financial plans that are reviewed and modified as needed. Financial goals and strategies should change and anticipate the future.

As a board member, I challenge you to review these financial governance areas of your organization to see how you are performing your financial governance role. It is important that you help the organization perform its financial role and not just rely on the treasurer or executive director to perform this role. It is important that you don't just assume financial governance is occurring, but verify that it is actually taking place.

Board members need to be equipped board members with the tools and abilities to perform the financial governance roles. Board members need to verify that management and staff has the proper capacity and expertise to perform the finance function for the organization. If the organization does not have the proper internal resources, then they may need to look for outside expertise.

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Contact Financial Technologies & Management to see how we can help your nonprofit with accounting solutions. You can schedule an appointment directly from the website at WWW.FTMLLC.COM, email info@ftmllc.com or phone at 317-819-0780.