Helping Boards Be
Responsible Fiscal Stewards

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Originally appeared in Philanthropy Journal June 10, 2010
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A major responsibility of nonprofit boards is fiscal oversight. Why, then, are so many boards surprised by bad financial news? How can they be better prepared? The issue is twofold. First, board members need to acknowledge and accept this responsibility. Second, they need the right kind of information to carry out the responsibility effectively.

A few guiding principles may help set the stage to address this question:

- Nonprofits need to make an operating profit to be sustainable
- Sustainability means bringing in more operating (unrestricted) revenue each year than is spent
- Long-term sustainability requires recurring, reliable revenue, not emergency funding or special gifts
- Major growth generally cannot be financed by operating surpluses and requires equity-like capital which, in turn, must not be confused with operating revenue
- Very few funders make equity-like grants
- Because nonprofit accounting is different from for-profit accounting, board members need to have a basic understanding of the rules governing revenue restrictions
- Nonprofit audits and standard accounting reports are notoriously obscure and difficult for outsiders (including nonprofit executives!) to interpret
- Boards should never be surprised - year-to-date reports are not as helpful as re-forecasting year-end results

The key to knowledgeable financial oversight is timely reports that the board can understand. The purpose of the reports is to give a clear picture of what is happening to the organization financially and to provide information to guide decision making. From a board member's perspective, that means "are we staying afloat or sinking?" and "what happens if...?"

It is important to avoid accounting terminology such as "net assets released from restrictions", i.e., accountese. Rather, use language that relates to whether we are living within our means and what our prospects are.

The financial awareness of board members can be improved by information such as the following:

- What's happening to the balance sheet, e.g., whether reserves or endowments are being used to cover operating costs
- A clear picture of reliable, recurring revenue and what it can pay for
- Which revenue can be used this year, as opposed to being restricted to future years
- Windfalls or exceptional gifts recognized as nonrecurring, non-operating revenue
- Sources of revenue and the degree to which grants actually cover the cost of the services you agree to provide in exchange
- The revenue and expense of individual programs and what would happen if they were increased, reduced or eliminated
- The basis for projecting contributed revenue (history, verbal commitments, speculation)
- Which revenue is covering budgeted costs and which, if any, is connected to new, unbudgeted expense

Financial information should be delivered to the board by the chair of the finance committee. For this to happen, the chair needs to be intimately familiar with all of the above issues, along with others that will be particular to the organization's circumstances. While the numbers can be complicated and difficult to analyze, the story they tell needs to be simple. And while it's important to have a good idea of where you are at the moment, it's where you are going that really matters. Many "unexpected" financial crises are the result of an unidentified structural deficit that can only be corrected once it is recognized. Reports that transform sterile and obscure accounting reports into narratives that reflect the flesh and blood reality of your organization's day-to day life are the first step in keeping your board as financially aware as it should be.

(See end notes on page 19)