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Nonprofit Financials: Governing the Complexities

By Jeffrey R. Wilcox, CFRE

If you serve on a board or committee for a nonprofit organization, there's one topic that's more likely to stymie you than most others and that's the financials. Unless you have a CPA after your name, finance is typically the least understood aspect of nonprofit governance. And yet, the fiduciary responsibility of a board is among its most important legal obligations.

While BoardSource, the nation's repository for all things about nonprofit board leadership, reports that boards generally give themselves high marks for their financial oversight abilities, the number of board members who admit to actually understanding the finances is one in five. For many boards, the financial report is a spectator sport for some and the singular focus for others.

Nonprofit financials can be complex. Exempt organizations, as nonprofits are known as in the accounting world, generally have more restrictions placed on their revenues. More and more contributors want their donated dollars to be used only in certain ways. Other funding sources may limit amounts that can be applied to their own unique definitions of overhead. Government agencies may require their own audits in addition to an annual organizational audit. The truth is that most nonprofit organizations have a financial reality that would make most small businesses of similar size cringe.

A new study released by Abila, Inc. in Austin, Texas underscores the challenges. Of the more than 400 nonprofits organizations who participated in their "2016 Nonprofit Finance Study," almost a third report that managing the complexities of multiple revenue sources tops their list. Nearly two-thirds of nonprofit finance professionals think compliance has become more burdensome and costlier during the last three years. One in three are dreading their capabilities to face new rules and regulations.

A major challenge that doesn't show up in the financials themselves is the organization's ability to weather finance staff turnover. Forty-six percent of the respondents say their organizations are unprepared if a key finance person were to leave suddenly.

Fully a third are concerned about current activities that could put the organizations at risk of potential fraud. These risks include such things as not having or following policies and procedures that separate important duties, respect conflict of interest, perform due diligence in sub-contracting, consistent reporting of overhead, and protocols for handling charitable contributions by staff and volunteers.

While it would be easy to recommend more training for board members; the truth is that evolving a group of concerned and intelligent citizens into a financially savvy body requires an ongoing and deliberate pursuit.

It begins by not segregating financial people and financial committees from the masses. In order for learning to occur and finance-speak to develop a wider understanding, the fundamental committee structures of board governance should be populated by both financial and non-financial volunteers.

Financial experts should sit on other committees of the board to be involved in discussions about their cost-effectiveness and the financial considerations associated with their respective planning and programs.

It's especially important that some financial experts not sit on the financial committees so that these individuals offer a "check and balance" system in the board room. These volunteers will ask the questions that the rest of us won't think to ask when the financials are presented.

Equally important is that every financial statement presented to the board and senior management is accompanied by a cover memorandum that clearly states a fair interpretation of its content and is stated in plain language. This means that a financial report must be viewed as a learning opportunity as well as a reporting obligation.

Mixing up the players and asking for some extra steps is guaranteed to create some push-back. For some board members, their financial expertise is a significant, if not secure, position in the board's power structure and a major contributor to their own self-identity regarding board service. For others, they chose to volunteer on the board for reasons unrelated to the fiduciary obligation of governance.

Governing the complexities of a sustainable tax-exempt organization well is the name of the game for nonprofit boards as we head into a new federal administration and a deeply divided nation. Resting on the idea of "business as usual" when it comes to the finances could be a costly mistake.

(Jeffrey R. Wilcox, CFRE, is president and chief executive officer of The Third Sector Company, Inc. Join in on the conversation about this article at the Long Beach Business Journal website www.lbbj.com)

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