

Headline: Characteristics of financially healthy nonprofits

By Jim Simpson, CPA and president of Financial Technologies & Management

Finances are what keep nonprofit leaders up at night. Will they be awarded a grant for the new programming? Will the upcoming fundraising event be successful?

And while most realize that sound financial management is linked to every function of the nonprofit and is essential for organizational success, many leaders have less experience in finance and accounting areas.

Just as personal health depends on our behaviors, so the financial health of a nonprofit depends on board and management behavior and actions.

As public charities, nonprofits have an obligation to act as responsible stewards, ensure fiscal responsibility and build public trust in managing its financial resources.

Nonprofit should adhere to sound accounting principles to produce timely and reliable financial information. By establishing clear financial practices and policies, resources will be used and monitored efficiently and effectively.

The following are signs that your nonprofit will be financially healthy over the long term.

Board and management hold themselves accountable and responsible for the long-term stability of financial and program performance. Leaders need to focus on long-term sustainability of the nonprofit

ROLES

Board and management understand their roles and responsibilities in financial matters, which are not just limited to the treasurer and director. Regular and consistent communication about fiscal matters is critical. Financial literacy helps to encourage board participation and understanding, including asking donors to give to the organization.

PROFESSIONAL DEVELOPMENT

Training and professional development is encouraged to increased knowledge and communication and ensure that fiscal matters remain a priority.

PLANNING

Budgets need to be realistic and well-considered during the preparation and approval process. If last year revenues were down 25 percent, a budget that increases those projected dollars by 10 percent is probably not realistic.

Budgets need to be prepared in tandem with the operating and program needs. Financially healthy nonprofits engage in income- or revenue-based rather than budget-based spending. An income- or revenue-based budget will include realistic income projections and realistic cost projections.

Nonprofits need to review the historical and future trends of ensure budgets are as accurate as possible and anticipate revenue shortfalls before they exist.

REVENUES

Board and management are committed to having a surplus each year. These financial reserves are important to finance program growth, capital replacement and cash shortfalls. If a deficit does occur, a financially healthy organization maintains an operating surplus and positive cash balances. The operating surplus needs to be readily accessible in times of shortfall or deficits. Separating cash, investment accounts or loans can ensure that reserves are easily accessible. However, a reserve policy should specify the approval process and reserve usage.

REPORTS

Board and management must ensure that they have adequate capacity and qualified financial staff.

Consistent, accurate and timely financial reports are prepared and analyzed by qualified individuals. Financial reports need to be accurate and timely. Establish firm financial reporting expectations and deadlines that are met without excuses. This is an indication of lack of organizational capacity or qualifications of finance and accounting staff.

ACTIONS

Board and management monitor financial results compared to budget and continue to modify programs and operations in response to these variances. It is important to know when to modify programs and operations to ensure stable program and operations performance. Nonprofits should review program financial performance quarterly to ensure that financial results are on track.

Board and management monitor cash flow and realistically plan to be able to meet obligations and ensure stable program and operations performance. It is important that organization has the ability and knows when to perform cash flow projections and ratio analysis.

Nonprofits need to develop these financial reporting and analysis tools and anticipate when cash flow may become an issue by reviewing upcoming liabilities and debt payments. Cash flow and budget projects should be ongoing tools to help plan and manage cash flow.

Board and management practices and policies establish adequate and appropriate internal controls and segregation of duties to ensure fiscal stewardship, responsibility and ensure public trust.

These practices and policies should include operating reserve and other major financial decisions. Financial policies and procedures help to define clear expectations, promote operating efficiencies and help with training and professional development. Developing a financial policies and procedures manual software training can ensure ongoing compliance.

Leadership is committed to comply with all required legal and funder reporting. This includes application of prompt payment standards and familiarization and compliance with contract and grant requirements. It is important that contract and grant management are being performed to ensure stable program and operations performance.

Board and staff leadership regularly review plans and develop goals and strategies for the future. Regular communication regarding financial matters should include financial reporting, budgeting, taxes, auditing and financial compliance. It is important that financial reporting and analysis tools are customized to the nonprofit's specific needs and purposes.

Resources used to prepare this article include:

- Nonprofit Assistance Fund (www.nonprofitassistancefund.org). Characteristics of a financially healthy nonprofit.
- Stevens Group at LarsonAllen, St. Paul, MN. Seven characteristics of financially healthy nonprofits.



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Contact Financial Technologies & Management to see how we can help your nonprofit become a financially healthier nonprofit.