

Are Our Nonprofit Boards Strong Enough?

FINANCIAL LITERACY NEEDS IMPROVEMENT

It is no secret that the for-profit world has some work to do when it comes to improving its financial reporting standards. High standards of reporting and transparency have made Boards of Directors and executive staff more accountable than ever for the financial well-being of their organizations.

As these changes take place, it is an interesting time to look at the financial stability of our nonprofit organizations. A financial debacle could permanently damage a nonprofit's reputation, resulting in minimized donations ultimately leading to its demise. Yet nonprofit Board members are shockingly inept at analyzing critical financial data to assess their organization's well-being.

According to *The Nonprofit Times*, "Despite extensive coverage in philanthropy media and the volumes written about governance, financial management, transparency and accountability, many nonprofit leaders still aren't getting the message. Nonprofit board members, managers and staff who do not quickly educate themselves and fully comply do so at a great personal risk to their wallets and their reputations, and put their organizations in jeopardy."

Locally, nonprofits are standing up and taking notice, looking at ways to run their organizations more like a business to earn the trust and respect of funders as well as the communities they serve. An important first step is training and educating nonprofit Boards to become more financially literate.

"Making sure that you're within your budget and that your fundraising efforts are on track is not enough," said Melanie Schmidt, president of Timpano Group, a consulting firm that works with nonprofits to elevate their effectiveness. "Unfortunately, a great percentage of nonprofit Board members aren't able to read deeper than that."

Timpano Group co-hosted a seminar for nonprofit executive directors and Board members seeking to ensure the financial stability of their organizations. "How to Read a Nonprofit Financial Statement" was one step in providing local nonprofit leaders the critical information they need to analyze and report numbers to the public.

Led by Scott Haumersen of Wegner, CPAs and Consultants, the seminar guided attendees through the objectives of nonprofit financial reporting and generally accepted accounting principles for nonprofits. Specifically, Haumersen walked



participants through reporting and analyzing four basic nonprofit financial statements: The Statement of Financial Position, The Statement of Activities, The Statement of Cash Flows and Notes to Financial Statements.

Of particular interest to participants were the requirements for reporting of donations and pledges and the differences between unrestricted and restricted assets.

"The fact that so many nonprofit leaders were interested and engaged in learning this type of information reflects the value and the need," said Schmidt. "What's even better is that most of them left wanting to learn even more."

There is much work to be done. *The Nonprofit Times* reports that many in the sector believe that nonprofits should voluntarily adopt both the spirit of Sarbanes-Oxley and specific provisions. Among the recommendations are increasing Board oversight and responsibility for financial matters, establishing an independent audit committee, having CEOs/CFOs certify financial statements or annual reports, and ensuring adequate financial literacy among Board members.

"Many nonprofits have a long way to go in meeting such standards," says Schmidt. "But doing so will increase their effectiveness, their credibility and their ability to continue providing our community with much-needed services and resources."