Financial Literacy for Nonprofit Boards

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Nonprofit boards need up-to-date financial information to make informed decisions. But not every board member arrives with a deep appreciation for, or even a passing familiarity with, financial reports. Help your board increase its financial literacy by reducing the mystery of nonprofit budgets, financial reports, and audits.

PRACTICE POINTERS

- Budgets: Yuk or Yay? Help your board be more comfortable with its role to approve the organization's budget.
- Board members are fiduciaries for the nonprofit's assets and therefore have a responsibility to ensure that assets are not mis-used. A nonprofit board does this by making sure that the nonprofit has adopted and is adhering to internal controls; Explore these suggestions for internal controls appropriate for a very small nonprofit. (Blue Avocado)
- Consider using a financial dashboard to make it easier for the board to track the nonprofit's financial status. (Blue Avocado) More about nonprofit dashboards.
- Sometime during the year include a short presentation during a board meeting by the staff member of the nonprofit who is responsible for tracking and handling finances. This gives the board a face to go with a name, sharpens the staff member's presentation skills, and may lead to unexpected questions posed by the board – exposing what the board understands and what is still murky.
- Do all board members know what happens if someone reports a concerns about the nonprofit's financial management? Adopting a whistleblower policy will require assigning someone (usually a board member or officer, but not the CEO/executive director) as an "ombudsperson" to receive and address concerns about financial impropriety.
- Consider asking a well-respected CFO or bookkeeper from another nonprofit in the community to make a short nonprofit budgeting presentation for your board during a board meeting.
- The Scenario Planning Worksheet developed by the Nonprofits Assistance Fund is a step-by-step guide to contingency planning that can help boards and staff make informed budget and management decisions based on different scenarios.
- It's important for board members who are both soliciting charitable gifts from donors and reviewing financial statements to understand the world of "restricted" funds. Managing Restricted Funds (Nonprofit Assistance Fund) takes the mystery out of "restricted," "unrestricted," and "temporarily restricted" funds, and gives nonprofit leaders guidance on properly recording and managing contributed income and assets.
- Help board members understand the importance of financial transparency by explaining public disclosure requirements. Spend a few minutes at a board meeting looking at your nonprofit's GuideStar pages so that the board is aware of what anyone else can easily discover about the nonprofit.
- Share the past year's IRS Form 990 and help board members understand what it means.
- Goodies for board orientations: Glossary of financial terms (Nonprofit Finance Fund) and a cheat sheet on balance sheets, characteristics of financially healthy nonprofits, how to manage restricted funds. (Nonprofits Assistance Fund)
- Both board and staff can benefit from completing this short Financial Management Self-Assessment Tool developed by the Nonprofit Association of Oregon.
- A cash flow template can be a helpful dashboard at board meetings. (Nonprofits Assistance Fund)
- A common question is, "How much cash should be in reserve?" Help boards with the answer by sharing these resources on operating reserves.

Financial trends

Board Packets that Encourage Financial Literacy

Here are some questions to ask before you finalize the financial materials in the board packet: (Courtesy of Tate & Tryon)

- Is the information communicated as briefly as possible but still comprehensively enough to deliver the necessary message?
- Is the information timely? (not older than a few months?)
- Is the information presented in the best possible manner for the intended audience? Is is easy to read?

From: Mastering Financial Literacy for Nonprofit Boards (Tate & Tryon)

Resources

- Having fun with nonprofit financial literacy (National Council of Nonprofits)
- Build a better budget (National Council of Nonprofits)
- Bravo board members who ask questions about financial reports (National Council of Nonprofits)
- The authors of Nonprofit Sustainability designed a way for board and staff members to analyze, visualize, and recognize the relative costs and return on investments for a nonprofit's various activities using a "matrix map," explained further in the very-readable sequel, Sustainability Mindset: Using the Matrix Map to Make Strategic Decisions (free downloadable templates)
- How to talk about finances so non-financial folks will listen (Bridgespan)
- Nonprofit Audit Guide (National Council of Nonprofits)
- What is the role of the audit committee? (National Council of Nonprofits)
- What makes a great board treasurer? (Nonprofits Assistance Fund)
- Eight key responsibilities of treasurers of **all-volunteer** organizations (Blue Avocado)
- Governance resources for financial management (Wallace Foundation)
- Brush up on 5 financial topics (BoardSource)

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Financial Management
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