



Chazin & Company

NONPROFIT ACCOUNTING AND FINANCE SOLUTIONS

An Executive Director's Guide: **Building Board Confidence and** **Mastering Nonprofit Financials**

Justifying the mission's budget was a formidable challenge for leaders operating nonprofits before the COVID-19 pandemic happened. Now, it's an absolute necessity. With many nonprofit organizations on the chopping blocks of their most valuable investors, successful NPOs will have to justify every penny spent.

Charity Navigator, a resource dedicated to helping guide intelligent giving, explains that donors need to do their own due diligence concerning the charities seeking their support since budgets are tight for individuals and companies alike. According to their guide on how to evaluate charities, there are two crucial dimensions that donors must consider, financial health and accountability & transparency. "Our ratings show donors how efficiently a charity will use their support, how well it has sustained its programs and services over time, and their level of commitment to accountability and transparency."

With every dollar on the line, organizations must be able to demonstrate their effectiveness in handling revenue and expenses. This is where poor financial reporting may be hurting many nonprofits the most. According to a recent survey of nearly 1,800 nonprofits that was conducted last summer, over half (54%) of respondents reported a decline in the number of new donors, 75% reported budget cuts, 24% had permanently laid off staff, and 33% reported a decline in revenue.

The numbers are startling, and in these unprecedented times, the last thing your organization needs is to face another threat to funding, program delivery, or the relationship you have with your board. Ask yourself the following questions: do you have a clear understanding of your organization's financial position, and do you have the data you need to justify your budget to your board and funders?



Critical Questions Every NPO Executive Should be Asking

At one point or another, every nonprofit leader is going to feel the pressure of the board's expectations weighing on their shoulders. And when that happens, the last thing you want is to get put on the spot by a stakeholder with a question that you simply don't know the answer to.

Your confidence in your organization's financials and performance can make or break the relationship you have with your board. Because it is your board's fiduciary responsibility to oversee the financial viability of your NFP, it's important to be able to answer each question below without hesitation prior to each financial discussion you have with a board member or committee.

- **Are you confident in the integrity of your numbers, and does your confidence put the board at ease?** Most people can tell when something is amiss, and board members are no different. If you're confident in your numbers, then it's sure to show and will give the board the assurance they need to continue to trust your leadership.
- **Do you have a thorough understanding of your organization's financials?** This means more than rattling off a few revenue and expense data points. You need to be able to go into meetings with a solid grip on your statement of financial position, cash flow projection, and other important metrics relevant to your organization's operations.
- **Do board members leave meetings informed or confused?** Board members should leave each meeting with confidence that the organization is in good hands and able to respond to questions in a clear and digestible manner — as opposed to confusing them with data points that provide little clarity.

Walking into a board meeting unprepared because you do not have a solid understanding of your organization's financial status is an uncomfortable position to be in. So, if any of the above questions gave you pause, then maybe it is time to rethink the way you approach your nonprofit's accounting and finance strategy.

And by the way, this is also true for funders. Funders also want to be confident that your financial data is accurate and that you have a firm grasp of your organization's financial status.



Raising the Financial Bar for Your Nonprofit

Fortunately, there are actionable steps you can take to give stakeholders the assurance they need to continue to support your mission — and it starts with impeccable financials.

We get it; nonprofits have always been challenged to keep administrative costs down while keeping operations running as smoothly and efficiently as possible. The problem is that nonprofits also face more regulations and restrictions and often have limited resources. However, the organization's accounting and finance function is the one area you can't afford to cut back on or settle for good enough. The opportunity cost of poor financial acuity is too high for both the NFP leader and the organization.

Successful nonprofits all have one thing in common: financial stability. Having proper financial oversight from the start is key to achieving growth and long-term success. But how does one develop a streamlined, fully transparent financial plan — especially during a time when the organization's focus must be on the mission? A good place to start is by ensuring that your accounting and finance teams are staying on top of the financials and have all the tools they need to deliver high-integrity financials.



What to Expect from Your Accounting and Financial Team

No one expects you to recite every single line item from your last audit. After all, you're likely in your position because of your passion for the mission — not your uncanny ability to recall troves of financial data. Still, the board does have the right to ask any questions pertinent to the success of the organization, which is why it's vital for you to be able to trust the experts on your team to provide you with the information you need to make data-driven decisions.

If you've never asked yourself what an organization like yours should expect from financial and accounting teams, here's a brief checklist to help ensure you're getting the most from the accounting experts on your team.

- **Timely and accurate financial reports on a regular basis.** This doesn't mean a pile of reports on your desk a couple of days before the next board meeting. Your accounting and finance teams should deliver informative and easily digestible reports for your review on a set date following each monthly close and be ready to respond to any questions you may have.
- **A monthly document review for compliance purposes.** The fact that nonprofits benefit from federal and state tax exemptions puts such organizations under the microscope, which is why following compliance best practices is a must. This means reviewing bank reconciliations, investment reconciliations, adjusting journal entries, etc. on a monthly basis. This is also a requirement of nonprofit auditors.
- **Internal controls for fraud prevention.** Your focus should be on the mission, not worrying about whether a few bad apples are skimming off the top. And, with the right internal fraud prevention and detection controls in place, you can get back to what matters most. Your accounting and finance teams should be performing regular reviews of accounts payable lists, setting spending authorization limits, and scheduling bank statement evaluations to detect unusual activity.
- **Cash flow projections and sensitivity analyses.** Does your current finance and accounting team paint a clear picture of your organization's current cash holdings and whether you've got enough capital to meet your obligations for the next six months to a year? You should have the data required to consider alternate operational scenarios should your organization fail to meet revenue goals in the short- and long-term.
- **Timely audit preparation.** Audit preparation should not feel like a fire drill at the end of each fiscal year. Your accounting and finance teams should be working toward the annual audit throughout the year and during each monthly closing process.

- **Proof of precision.** This can usually be detected by how well organized your financial and accounting team is. Ask yourself if transactions and schedules are being recorded properly; if your team is following a monthly close checklist; if your team is wasting substantial time reclassifying entries that should have been recorded properly the first time; and if your team can provide trustworthy and knowledgeable answers when asked about comparative reporting variances.

If there's a single underlying theme to the above expectations for every nonprofit's financial and accounting teams it's this: Every team should be thorough, organized, precise, detail-oriented, well versed in the unique needs of your nonprofit, and ready to defend the organization's books on a moment's notice.

When in Doubt

Take a step back and assess how your team is performing to find out what's working and what may need to improve. The success of your NFP may depend on it. Your accounting and finance team needs to be an active partner whom you can rely on and trust implicitly to do the job right. They should also help you understand the financial statements so you can communicate these effectively to the board and the organization's funders.

Evaluate your current accounting and finance teams. You may already have someone in-house who manages your accounting and other financial responsibilities, either part-time or full-time. In this case it is worth considering their level of experience with nonprofit accounting. Are they well versed about the ins and outs of nonprofit regulations which can change annually? Could they use access to better tools and resources to ensure they can do their job more accurately and efficiently? Is the quality of their work up to par with your standards? Do they need more training?

Consider if outsourcing may be beneficial to the organization. With many organizations facing a decrease in resources, volunteers, and staff, you may determine that contracting with outside experts would be a viable option for your organization. While an outsourced accounting firm can assume your entire accounting and finance function, it is important to note that outsourcing can also be used to supplement your existing team, so the firm you choose should also be willing to work with your current staff to achieve your goals. An outsourced accounting firm specializing in nonprofits offers a greater breadth of nonprofit accounting knowledge and expertise, as well as additional resources to improve compliance, at a cost that is typically more affordable than hiring an internal team.

Now is the Time

No matter how you decide to manage and staff your accounting and finance functions, now is the time to ensure that this area is providing the accurate and informative data that you need to effectively run your NFP. Careless accounting and poor financial management have resulted in reduced funding for organizations and, in some cases, have cost NFP leaders their jobs. It is better sooner rather than later to assess whether your accounting and finance functions are operating at the high level required to support your mission.



If you'd like to schedule a complimentary consultation to discuss your needs and how we may be able to support your goals please reach out, we would love to help!

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