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**Sibi Thomas** • Jul. 21, 2017



Many people consider a position on a nonprofit board a recognition of their financial contributions and other efforts to support the organization. But it goes well beyond that. One of the main fiduciary responsibilities of a board member is helping oversee the financial health and accountability of their organization.

This needs to be done in an objective, responsible, honest and trustworthy way with board members always acting in the best interest of the organization.

**Nonprofits succeed or fail based on how well they manage finances.**

It is imperative that nonprofit organizations have systematic and methodical

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2. **Establish a financial reporting framework** that will produce timely, accurate and easy to understand financial reporting about the organization's operations from management staff to the board. This will help the board be fully engaged in the organization's operations.
3. **Make sure the accounting system supports the reporting framework...** It should be able to generate basic financial statements and information, as listed below in step #4.
4. **Make the financial reporting content relevant** – empowering board members to be inquisitive and able to judge the soundness of the financial statements. The organization's financial reporting should help them recognize warning signs of potential financial problems. Elements should include a statement of financial position (balance sheet); a statement of activities (income statement); and a cash flow statement. Another report should compare budgets vs. actual expenditures on a monthly, quarterly and annual basis.
5. **Ensure reporting accuracy with annual external audits...** Compare/reconcile internal financial reports with year-end audited financial statements certified by an independent CPA.
6. **Seek timely financial reporting** that will deliver essential financial information to the board as quickly as possible, with relevant and complete financial data – delivered for each monthly board meeting.
7. **Create “Profit and Loss by Program” tools** that illustrate income and expenses for each major program.
8. **Offer training to help board members understand financial information...** Not every board member has a financial background, or knowledge of how to digest financial statements. Training will empower board members to ask relevant questions and hold management accountable.
9. **Recruit board members who are financial professionals** to strengthen the board's ability to provide meaningful oversight. These may include accounting or finance professionals – such as certified public accountants (CPA) or certified financial

analysts (CFA).

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- Do we have adequate cash-flow to meet our operating requirements?
- Is our financial reserve sufficient to weather potentially bad economic times in the future?
- Do we have a prudent investment strategy that delivers adequate returns vs. risk exposure?
- Are we monitoring actual vs. planned expenditures?
- Are there checks and balances in place to flag errors, prevent fraud and safeguard our finances against potential abuses?
- Are the receivables fully collectable?

Marks Paneth offers a team of experienced professionals who can help ensure that your nonprofit organization is following accounting/financial reporting best practices. In addition, we offer board-training services. Marks Paneth's Nonprofit, Government & Healthcare Group provides audit, tax and advisory services to more than 150 charities.

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**Sibi Thomas** is a partner at Marks Paneth.

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