

Volume 6, Issue 9

Originally Published
May 5, 2011

Nonprofit Strategies



SAN LUIS OBISPO COUNTY COMMUNITY FOUNDATION

Boards must understand the financials

By Barry VanderKelen

Members of a nonprofit's board of directors are entrusted with the money donated to the organization. It is the board's duty to make sure the money is being used wisely. A best practice for boards is to review financial statements at every meeting.

Financial Accounting Standard 117, "Financial Statements for Not-for-Profit Organizations," requires nonprofits to produce four statements: a statement of financial position (formerly known as balance sheet), a statement of activities (formerly known as an income statement), a statement of cash flows if accrual method of accounting is used, and a statement of functional expenses. Each one serves an important purpose.

It is important to know what each statement says about the financial position of the organization. By recapping assets and liabilities, the statement of financial position shows the resources available to accomplish the organization's mission. The statement of activities reports changes in revenue, expenses and net assets for a period of time, usually monthly. The statement of cash flows reports sources and uses of cash, which helps determine the viability of the organization; most organizations ask an auditor to prepare this statement. Finally, the statement of functional expenses reports expenses in at least three categories: programs and services, management and general, and fundraising; this statement is typically prepared annually. The management and general num-

ber is the "overhead" costs of an organization.

Each board member must understand the financial statements enough to have confidence to ask questions. Unfortunately, not enough board members speak up during the treasurer's portion of a meeting. Often the treasurer is a financial professional, and other board members defer to that person's expertise. Trust may permit a small error to compound over time and weaken the organization.

A good primer on nonprofit finances is available from the Alliance for Nonprofit Management, www.allianceonline.org. Click on "FAQs" in the upper right corner.

Barry VanderKelen is Executive Director of the San Luis Obispo County Community Foundation.

Resource Use

- Support nonprofit leadership
- Board development/training
- Strategic planning

Nonprofit Business Column of *The Tribune*

Barry VanderKelen, Executive Director of the San Luis Obispo County Community Foundation writes a bi-weekly column to help strengthen nonprofit organizations in the community.

The Tribune publishes the column every other week in the Business section.

Each column is reprinted as a one-page handout for use by local organizations. Barry can be reached at 543-2323 or by e-mail at barry@slocf.org.