A re you a nonprofit Board Chair who has a board development or management issue, concern or challenge keeping you up at night (and who doesn’t)? Let me know. I’ll try to provide a response that can help you sleep better. So, please, send your questions to: mikeb@bwbsolutions.com. This on-going column is dedicated to questions and answers to simple and complex nonprofit governance challenges.

**Question:** I recognize that my board and I are supposed to know and understand something about our nonprofit’s finances? What and how much should we actually know and understand?

**Answer:** You are definitely starting off on the right abacus to say that you and each and every board member are indeed responsible (not supposed) to know and understand something about your nonprofit’s finances. Why?

Knowing and understanding your organization’s financial condition is part and parcel of your individual and collective fiduciary duty of care. The duty of care requires board members to do what would be expected of any prudent person in the same position. As the nonprofit’s surrogate owners this means that board members should understand the ins and outs of what makes the organization financially tick.

Specific to the organization’s finances, directors are responsible for reading and understanding financial information. They should prepare carefully for board meetings and pay attention to what is going on, asking questions to clarify actions that are being taken. It is vital that board members stay informed and take appropriate action when indicated. As it turns out though, while driven by mission, many if not most board members aren’t always financially literate when it comes to running a nonprofit. Let’s review some of the tools to support a board’s capacity to fulfill its financial aspect of fiduciary duty.

Basic financial oversight is pretty much accomplished through the use of three sets of materials:

- the annual budget
- financial statements (income statement, balance sheet and cash flow statement)
- the audit

In rudimentary terms, the annual budget is a plan that describes what human and non-human resources will be used to implement programs for the year and what sources of money will be raised to pay for these resources. The income (and expense) statement describes at a specific point in time (e.g. month, quarter) how many resources have been raised and from where, as well as how these resources have been used. Often, the income statement includes the budget as a check-point against the annual budget.

A balance sheet describes the financial condition of the nonprofit, particularly the nonprofit’s assets (what it owns and has in the bank) and liabilities (what it owes). Boards tend to prefer that their nonprofit own more than it owes. Of course, a cash flow statement describes how much money is on-hand to pay the bills. The cash statement often includes information about how much money is needed to provide a measure of whether action by the board and management is needed.

Finally, the annual audit is a form of evaluation for the board. Completed most often by professional external accounting firms, audits paint a picture of whether the nonprofit’s financial recording and accounting systems and processes are in compliance with all the rules. They also help a board to know what it might have missed over the past year and can take action to rectify for the next.

It is pretty usual for boards to have finance committees do the deeper dives into all these materials, but only to ensure that each board member is at least conversant with the nonprofit’s financial condition at a given point in time. Specific to audits, the IRS recommends that an independent audit committee be established for providing oversight of and reporting to the board regarding the annual audit.

To be effective, Board members need all of these resources to be accurate, timely and appropriate to better and fully inform planning, policy setting and evaluation. But what about the literacy factor? Clearly, every board meeting should include a review of what exactly each financial statement describes.

Also, financial information does not have to be presented in lines and columns. Graphic presentations for the less numerically focused of us can be a helpful substitute recognizing that the same information should be presented but in a more consumable format.

Financial knowledge and understanding is not for the faint of heart board member but it’s a requirement for fulfilling fiduciary duty.

Sources of information to help bulk-up your board member’s financial literacy can begin with any of these three sources: Nonprofitassistancefund.org, Nonprofitfinancefund.org and the Nonprofit Quarterly (see articles by Jeanne Bell).

Mike Burns is a partner in BWB Solutions. He writes two blogs, and is adept at helping nonprofits develop solutions to internal challenges (especially board/CEO) and assess their readiness for mergers and revenue generating ventures.