

Nonprofit Boards: New Challenges and Responsibilities



Reforms can mean greater accountability

Adopting voluntary measures similar to those of public companies can give nonprofits greater transparency and promote compliance with IRS regulations. Practices to consider include:

- *An independent audit committee, separate from the finance committee*
- *Certified financial statements signed by both the CEO and CFO*
- *Procedures to combat potential conflicts of interest in fundraising and use of funds*
- *Policies governing use and disclosure of internal financial information*

The days are long gone when nonprofit boards were made up of large donors who expected that little more would be asked of them beyond socializing at the occasional fundraiser. Being a board member can be as demanding and rewarding as any full-time work.

Nonprofit board members are being required to do strategic planning for both long- and short-term goals. They must produce demonstrable results that are measured against specific benchmarks. And they are finding that they must stretch already tight budgets further than ever. In turn, stakeholders within and outside nonprofit organizations increasingly are holding board members to a higher standard of accountability for making sure the organization not only delivers on its mission but does so in the most effective way.

Learning how to do more with less

Of all the challenges facing nonprofits, financial issues can be especially complex. In the last decade, many nonprofits have experienced funding cutbacks. Even those whose funding has remained stable are finding that money has to go further to meet increased client loads and demands on programs and services.

In some cases, the issues can be so complex that boards are going outside the organization's ranks to hire consultants with specific expertise in certain areas. People who stay on top of the latest developments in such fields as tax law, charitable giving regulations, and best practices in accounting can be particularly effective in helping an organization fulfill its purpose without having to add staff.

Understanding your role and responsibilities as a board member, as well as the challenges facing nonprofits today, can not only improve your board's decision-making process, but also can help you have maximum impact. A nonprofit board member has a dual role: support of the organization's purpose, and governance over how it attempts to further that mission. You and your fellow board members

doubtless want to use your collective time efficiently. When thinking about how to focus your efforts, consider whether your organization needs help with any of the following issues.

Ensuring accountability

Limited budgets and greater demand mean that hard choices will need to be made; in many cases, it's the board's responsibility to make them. To make wise decisions, it's important to understand the organization's financial assets, liabilities, and cash flow situation. If you've had corporate experience, you may be able to help your fellow board members review the balance sheet; if not, it's worth your time to become familiar with it yourself. For example, knowing whether your organization qualifies for state sales and/or use tax exemption could have a meaningful impact on finances. Little is more disturbing to potential donors than the feeling that their money may not be used effectively.

Also, the IRS is beginning to require more detailed information about nonprofit finances and governance. For example, Form 990, which all nonprofits with gross receipts over \$25,000 must file with the IRS, has been revised as of the 2008 tax year.

Program funders also have increased reporting requirements. When deciding which grants to make, foundations are asking for more information, greater documentation, and increased evaluation of results. Gathering and analyzing accurate, timely, comprehensive data and being able to document a program's effectiveness and impact is increasingly critical. Understanding the organization's finances doesn't just improve the board's oversight capabilities; it also can make you a more effective fundraiser.

Higher standards of accountability mean that boards also should ensure that liability insurance is in place for both directors and officers. This is especially true if the organization provides services to the public, such as medical care.



Adopting enhanced governance standards

The Sarbanes-Oxley Act, passed in the wake of corporate governance scandals and nicknamed SOX, also affects nonprofits. Though the law applies almost exclusively to publicly traded companies, some nonprofits are using SOX provisions as a model for developing formal policies on financial reporting, potential conflicts of interest, and internal controls.

Two provisions of SOX also apply to nonprofits. First, organizations must have a written policy on retention of important documents, particularly those involved in any litigation. Second, they need a process for handling internal complaints while also protecting whistleblowers. Individual states have expressed interest in extending other SOX requirements to the nonprofit world, particularly larger organizations. Many nonprofit organizations hope that voluntary compliance efforts will eliminate calls for increased official regulation of such issues as board member compensation and conflicts of interest.

Ensuring effective fundraising and money management

Nonprofits have not been spared the increases in for-profit health care costs and worker's compensation insurance that have hit corporations and small businesses. Yet fundraising for such mundane areas as day-to-day operations, staff salaries, and building and equipment maintenance has traditionally been one of the biggest challenges for nonprofits.

The twin effects of inflation and increased client loads have underscored the importance of having an adequate operating reserve. Also, corporate sponsorships can be vulnerable to the mergers and acquisitions that occur frequently in the corporate world. It makes sense to ensure a diversity of donors rather than relying on a few traditional sources.

Bringing in money is only half the battle; the day-to-day issues are equally important. Board members may be unfamiliar with operational challenges that businesses don't generally face, such as fundraising, or recruiting and managing volunteers. However, in some cases you might be able to suggest ways to adapt businesslike methods for nonprofit use.

For example, appropriately investing short-term working capital can preserve financial flexibility while maximizing resources. If your group has an infusion of cash that won't be spent immediately, such as a contribution for a capital spending project, consider alternatives for putting at least some of it to work rather than letting it sit idle.

Planning strategically

Having a strategic plan can lead to better evaluation of funding needs and targeted fundraising efforts; it also can help ensure that board members and staff are on the same page. Make sure your plan provides guidance, yet allows staff members to do their jobs without constant board supervision.

A board of directors also must assure that the organization can attract and retain leadership. Many nonprofits today are led by executives who came of age during the 1960s. As those baby boomers march toward retirement, some experts worry that attracting and retaining executive directors and staff will become increasingly challenging, especially when budgets are shrinking. A succession plan for key personnel might be wise.

Using your time wisely

Nonprofit board membership can be both demanding and rewarding. Understanding your group's finances can increase your effectiveness in furthering your organization's goals.

Does your board have:

- An independent audit committee and/or audit capability to help the board review financial statements?
- A strategic plan that includes any major capital spending?
- Clear fundraising strategies and goals?
- Familiarity with management and operational issues specific to nonprofits?
- Benchmarks for measuring results and the impact of your programs?
- Personal liability insurance for directors and officers?

DISCLOSURE UNDER UNITED STATES TREASURY RULES - If this communication contains any tax advice, such advice is not intended or written by the practitioner to be used, and can not be used by the taxpayer, for the purpose of avoiding penalties that may be imposed on the taxpayer.