

From the National Council of Nonprofits

Nonprofit Knowledge Matters | Having Fun With Nonprofit Financial Literacy

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How much is that doggy in the window?

By Jennifer Chandler

April is financial literacy month, so in the nonprofit community it's the right time of year to ask this question: "We've got some board members who don't want to serve on the finance committee and claim not to understand financial reports. How can we help them become more comfortable with our nonprofit's finances?" Hmm. Without meaning to be flippant, I submit that helping board members with this is as simple as showing them a cute puppy and asking them how much it costs. They might not be familiar with cost allocations for programs, or restricted funds, but they can understand that the cost of the puppy is not just the initial cost, but also the direct costs of food, treats, vet bills, plus the real, yet indirect costs of washing towels (muddy paws!), and just in case – "Oops – the puppy just swallowed its leash!" (this actually happened to a neighbor of mine) – funds set aside for emergencies.

So the puppy provides us with some important but pretty basic concepts in nonprofit finance: *calculating full costs*, *annual budgeting*, and *reserves*. Another very important concept for board members to understand, that I confess I couldn't figure out how to fit into the cute puppy analogy, is *donor restricted funding*. Why not take ten-minutes at the next board meeting to make sure everyone is on the same page with these basic concepts?

If you're still asking: "What's with the puppy?" I admit that nonprofit accounting is not THAT simple, but how about opening your next board meeting with some cute puppy pictures and then introducing your board to one of these options?

- (1) Take a "video coffee break" – [Balance Sheet Basics – What we have, what we owe, and what we're worth](#) (Nonprofits Assistance Fund);
- (2) Energize the board with a group project: The authors of [Nonprofit Sustainability](#) designed a way for board and staff members to analyze, visualize, and recognize the relative costs and return on investments for a nonprofit's various activities using their "[matrix map](#);"
- (3) For those who like checklists: Ask your board to complete a short [Financial Management Self-Assessment Tool](#) developed by the [Nonprofit Association of Oregon](#) that will give you a starting point for what to focus on first when building up your board's financial literacy.
- (4) For readers: Share these how-to publications: [Understanding Nonprofit Financial Statements, Third Edition](#) (BoardSource) which can help your board members understand underlying financial concepts so that they are equipped to perform their fiduciary responsibilities, set realistic financial goals, evaluate your organization's performance, and make informed decisions, or the [Budgeting guidebook for small nonprofits](#) (a free resource provided by the Virginia Society of CPAs);

(5) For board members who take the DIY route: Affordable software tool for building a budget with proper cost allocations and managing cash flow: [Cash Flow and Budget Toolkit](#) (New York Council of Nonprofits); and finally,

(6) The OD approach: Share and discuss: [How to talk about finances so nonfinancial folks will listen](#) (Bridgespan).

Happy Financial Literacy Month from [all of us](#) at the National Council of Nonprofits.

Soon, what you don't know can cost you

Speaking of financial literacy, quick – tell me – what's your nonprofit's indirect cost rate? Need a hint? Sometimes it's referred to as your "overhead" or "administrative" cost rates (although technically there is a difference). Still not sure? Most nonprofit executives don't know either, probably because no one has asked before.

But what if there were a financial incentive for knowing your indirect costs, so that you would be paid more if you could accurately calculate those costs? Would an extra 10%, 15%, or even 26% inspire you to understand the full costs of delivering your nonprofit's programs?! If so, then read on, because it's possible!

The National Council of Nonprofits has been focusing on a financial literacy challenge that will benefit the entire nonprofit sector and those we serve. The issue involves the source of a third of the nonprofit sector's revenue every year: no, it is not foundation grants (which amounts to only 2% of the total revenue to the nonprofit sector) or individual giving (9%), but government contracts/grants that provide 32% of the sector's revenue.

In the past, governments – federal, state, and local – have often (around 4 out of every 5 times, according to a recent survey by the [Nonprofit Finance Fund](#)) refused to pay nonprofits the full cost of program delivery. How? Among other ways, by setting artificially low limits on how much nonprofit contractors and grantees can receive for the indirect costs (sometimes called overhead or administrative costs). Fortunately, that will change in late 2014 when [new federal guidelines](#) go into effect; whenever federal agencies or "pass-through" entities (like state and local governments) use federal funds to pay nonprofits for services provided under a contract or grant, they will have to reimburse the nonprofit for the indirect costs it incurred. How much? Whatever rate the nonprofit has negotiated with the federal government for an indirect cost rate. What if the nonprofit hasn't already negotiated a rate? Then the nonprofit will have a right to ask either to negotiate a rate or get paid a default minimum rate of 10 percent. So now there is a financial incentive for nonprofits to understand, manage, and recover their full costs. [Stay connected](#) with the National Council of Nonprofits and your [state association of nonprofits](#) to learn more as the procedures are finalized and more information becomes available later this year.

Fresh Air for Annual Reports

When was the last time your nonprofit invested long hours and significant dollars in drafting, designing, editing, proofing, printing, and mailing a hard copy annual report? If you are scratching your head or thinking, 'Never!' you are not alone. With the ease of handheld video cameras, sending an e-blast, and posting a pdf, technology is morphing the traditional annual report into something else. But as these exciting alternative opportunities develop, let's make sure we continue to honor the purpose: to let in the fresh air of transparency so our nation's charitable organizations continue to earn the trust of the donating public.

A novel way to present an annual report that offers transparency as well as connections with stakeholders is to host a national conference call. That's what [GuideStar](#) did earlier this year, experimenting with an innovative approach to annual reports.

“We really want to evolve the definition of transparency. We were interested in sharing timely, substantive information in an interactive and easily digestible way,” explained James Lum, CFO of GuideStar, when we asked him why GuideStar chose to convene an “Impact Call” to present its 2013 accomplishments. “We wanted to model financial transparency and essentially be more forward looking than is possible through a traditional annual report.” GuideStar’s February 24, 2014, [Impact Call](#) (which was convened via Webex so GuideStar could share dashboards of financial information and depict other information visually) was so successful that GuideStar is planning to convene similar Impact Calls after each quarter’s end, with the [next call scheduled on May 12](#).

According to GuideStar, the advantages of moving off paper, and even off its website, into real time, accomplished these goals:

- (1) **Sharing timely information:** Sharing your nonprofit’s IRS Form 990 financial information immediately shifts attention to the past, whereas sharing a snapshot of more recent financial status is more transparent. Typically, by the time a nonprofit’s Form 990 is filed (sometimes on extension) it’s many months, if not a year or more, since what is reflected on the IRS form was the nonprofit’s actual financial situation.
- (2) **Accountable:** In a conference call format members of the community are on the phone as the nonprofit’s leadership explains its financial position, mission accomplishments, and perhaps even its challenges. Those community members can submit their questions and get their answers during the call. A call provides real-time access, modeling accountability in a compelling way for those on the call (and for others who may listen to a recording.)
- (3) **Inclusive and Interactive:** Let’s face it: reading a traditional annual report, even one chock-filled with lovely photos, is still passive. And watching a short video, while more entertaining, asks the viewer to accept a portrayal of the nonprofit that some may worry is overly choreographed. In comparison, simply the act of inviting stakeholders to be at once audience and focus group on an “Impact Call” is an inclusive gesture, signaling to donors and other supporters that the nonprofit has nothing to hide and is listening to community voices. Anyone can join GuideStar’s Impact Call, which means its results are being reported far more widely than to just its funders and board.
- (4) **Comprehensive:** Being freed from the traditional “table of contents” of annual reports allows a nonprofit to include the most relevant and timely information that goes beyond financials and includes programmatic outcomes and a prospective discussion of where the organization is heading.

How could your nonprofit reinvent its annual report? Whether convening a call, creating a video, or sticking with paper or pdf, try to personalize the nonprofit. By including voices (such as the Board Chair, senior staff, and perhaps even a loyal donor) and by creating space for interaction, you can portray the nonprofit less like a monolithic institution, and more like the diverse, empathetic, and human-focused organization it is. Accomplishments can be highlighted through testimonials and stories. And if you go the route of inviting the audience to ask or submit questions, that interactive process can present opportunities for explaining why additional help is needed from the community to advance the mission. Your nonprofit might even use an Impact Call to lay the groundwork for recruiting its future advocates: community ambassadors, donors, and even potential board members!

All this sounds great, but will it take a ton of time? Actually, it may not be as time consuming as you think. Preparing for the call might be similar to preparing for a presentation to your board members, especially if your nonprofit already shares timely financial reports or dashboards with board members. What will it take to set-up a webinar, and share a desktop [Prezi](#) or PowerPoint presentation, compared with sending out a direct mail piece or an e-mail blast? What are the advantages or draw-backs of each?

Whatever method you choose: *How is your nonprofit opening a window to share timely financial and impact information?* It doesn’t do your nonprofit any good to wait a year or more to share financial and programmatic information with potential donors. Over a year ago [we pointed out](#) the many creative and engaging ways nonprofits are using to turn the traditional “annual report” into a testament to their organization’s impact. A

year later, as we open a window to share our updated financial and programmatic information with you via our [Charting Impact report](#), we want to underscore how important it is to provide the donating public with timely and transparent financial and programmatic information. The annual report is dead! Long live the annual report!

For additional resources and educational programs for board and staff on [accountability and transparency](#) and financial management, look to your [state association of nonprofits](#).

Resources for boards on financial literacy

[Financial Management – the basics](#) (National Council of Nonprofits)

[Board’s role in reviewing executive compensation](#) (National Council of Nonprofits)

[The importance of operating reserves](#) – How much is just right? (Gilman, Rosenburg, and Freeman)

Other goodies for board orientations

[Glossary of financial terms](#) (Nonprofit Finance Fund)

[Cheat sheet on balance sheets](#) (Nonprofits Assistance Fund)

[Characteristics of financially healthy nonprofits](#) (Nonprofits Assistance Fund)

How to [manage restricted funds](#) (Nonprofits Assistance Fund)

Kivi Leroux Miller has posted all her blog posts on nonprofit annual reports [here](#).

Worth Reading

[2014 State of the Sector Report](#) (Nonprofit Finance Fund)

[Beyond Financial Oversight: Expanding the Board’s Role in Pursuit of Financial Sustainability](#) (Nonprofit Quarterly)

[*The Power of Habit: Why We Do What We Do in Life and Business*](#)

- See more at: <http://www.councilofnonprofits.org/news/nonprofit-knowledge-matters/nonprofit-knowledge-matters-having-fun-nonprofit-financial-literacy#fin>