

The Board's Fiscal Responsibilities

by Dan Busby, ECFA President

What is the typical board room drill? When the audited financial statements (audit) are presented, there are the tell-tale signs of boredom. Financial reports are generally dry. It's not what most board members really want to discuss.

There is some drumming of fingers on the table and rubbing of eyes. There is even a risk of some board members nodding off if the lights are dimmed for a PowerPoint presentation of ministry finances.

Fiscal oversight may not be the driving force that inspired someone to join your ministry board, but it is among the most important aspects of board governance.

Board members act as trustees of the ministry's assets and must exercise due diligence to make sure that the ministry is well-managed and financially sound. It's not just their job. It's their legal obligation.

What are a ministry board's fiscal responsibilities? In the mind of many ministry board members, they are approving the budget and reviewing the audit. But the audit and budget are only two components of a board's fiscal responsibilities.

A board's fiscal responsibilities involve the macro fiscal aspects of a ministry. It may include:

- **Setting funding targets.** Approving the budget for the next year is important but it is just a part of this process. Boards often set funding targets and

fiscal goals that go beyond the next year. To bring desired fiscal change to a ministry may involve a long-range view; e.g., increasing the cash contribution component on the revenue side or decreasing the overhead percentage in relation to total expenses.

- **Setting reserve goals.** What are the ministry's financial sustainability goals? Yes, ministries are nonprofit but this doesn't mean ministries should not have adequate financial reserves for sustainability. If revenues always equal expenses, appropriate reserves cannot be accumulated.

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Ironically, most nonprofit rating organizations actually consider financial reserves a negative factor—the more reserves a ministry has, the more the ministry is penalized in the rating! Can a ministry have too much financial reserves? It's rare, but it can happen. This is why financial sustainability goals are so vital to monitor, including whether the ministry has done better than or fallen short of the goals.

How does a board begin to look at financial sustainability goals? Decide whether reserve goals will be expressed in ratios or absolute dollars. For a large ministry, the focus may be on setting goals for permanently restricted net assets. For others,

it may be analyzing unrestricted net assets, after excluding property and equipment-related data, and setting goals based on ministry revenue growth.

- **Adopting a stewardship and fundraising philosophy.** This process may start by approving the Biblical Principles for Stewardship and Fundraising recommended by the boards of ECFA and Christian Leadership Alliance (CLA), available on the ECFA member website (www.ecfa.org).

In addition to adopting the broad Biblical Principles document, what is a well-grounded philosophy that provides unequivocal guidance for effective, God-honoring resource development for your particular ministry? Many ECFA members have used the sample fund-raising philosophy materials on the ECFA member website as a starting point.

- **Setting a transparency standard.** The board should insist on an atmosphere of transparency concerning ministry fiscal data. When donors find that a ministry keeps financial information close to the vest, they often wonder what is being hidden. Providing copies of the ministry's audit, Form 990 and reports on projects for which funds have been solicited is just the beginning.


This week, a donor called and said he asked a ministry for a copy of their budget. They responded, “Our budget is personal and confidential!” True, there is no requirement to disclose budgetary information under the Federal public disclosure rules or ECFA Standards. But what is gained by withholding budget data? What is endangered is donor goodwill! Why not prepare a version of the budget without any confidential data and share it with all interested persons?

• **Adopting a general approach to related-party transactions.** How close to the edge does your ministry want to live? Following ECFA's Standard 6 will keep related-party transactions from becoming conflicts of interest.

Even if your ministry fully complies with Standard 6, you can enter the "perception becomes reality world" if you have too many related-party transactions. If every person around the board table benefits financially from the sale of products or services to the ministry, what donor will believe that there are no conflicts of interest?

In so many instances, it is better to take the high road and avoid most, if not all, related-party transactions. Whatever your position on this issue, the board should go on record as to their philosophy for the ministry. **How does a ministry help its board members carry out strategic fiscal governance?** It starts with a quality board orientation process.

New board members should spend a couple of hours with the ministry's chief financial officer (in small organizations, it may be the chief executive officer [CEO] or the executive director) to provide the new members with an overview of the critical elements of the ministry's finances.

New board members should also spend an hour or so with the CEO to discuss his or her view of the ministry's finances. 

Key Questions to Be Asked by Board Members

Even the most engaged board member may not know the right financial questions to ask. The following questions are often appropriate:

- **Is our financial activity consistent with our mission?**
- **Are our expenses—program v. overhead—appropriate?**
- **Does our ministry have adequate checks and balances in place to protect against malfeasance?**
- **Are our financial reserves in line with our financial sustainability goals?**
- **Has our ministry borrowed any donor-restricted money for operational purposes?**