

## NOW I GET IT! THE NEED FOR FINANCIAL LITERACY FOR NON-PROFIT ORGANIZATIONS

### Financial Literacy for the Board

Would lack of knowledge or experience be an excuse if a driver got into a car accident? The answer is no. Like drivers who should have good knowledge of road signs and indicators, directors and management/staff of non-profit organizations (NPOs) are responsible for capturing, presenting and gaining good understanding of financial information about the NPO's operations and performance. To properly fulfill their roles, leaders should be looking at all relevant information contained in their financial statements and reports. At minimum, the board should expect the presentation of the following:

- Statement of Financial Position
- Statement of Operations
- Annual Budget and Actual Financial Data on Performance

### Why should all board members understand financial statements?

Below, we explain why board members should understand financial statements, by addressing some questions they may be asking.

- **We have an accountant on our board – why should I have to understand and deal with financial statements?**

Having an accountant on the board is a great advantage and boards should use that person's expertise to their benefit. However, each board member has fiduciary responsibilities to take steps to ensure that funds are used according to funders and donors wishes, that statutory obligations are fulfilled, such as payroll tax deductions are being remitted and returns being filed, and that internal controls are in place to ensure objectives are achieved and possibilities of frauds are negated. This responsibility cannot be transferred to another board member.

- **Is not this the job of external auditors or even management?**

Management prepares and presents financial information, and the auditor reviews financial information as contained in the financial statement to provide an independent opinion on whether the organization's financial position and results have been presented fairly and are truly represented. The board, however, oversees management and the process for preparing financial information, and for satisfying itself that the resulting information reasonably reflects the organization's reality.

- **Accounting is too complex a subject matter for me – Are you asking me to become an accounting expert?**

It is true that accounting can get complicated. There are loads of financial accounting concepts, principles and rules to adhere to, depending on the accounting item in question. Nonetheless, while directors do not need to become accounting experts, they should make efforts to acquire a good understanding of financial matters

including ability to read, assess and question financial information. This will also better equip them to make decisions.

- **Shouldn't the board be focusing on the organization's mission, strategies and operational plans?**

Non-profit organization's goal, and by extension, the focus of the board, is the actualization of its mission and program objectives. While the development of strategies and operational plans provide the roadmap for directing the organization's efforts toward achieving its goals, the board also needs to source and manage the funds to do the mission work. For instance, resources and assets must be available and protected to support the plans, pay bills, compensate employees and so on. The effective and efficient performance of these financial activities is critical to achieving the mission and objectives.

- **Is it not possible to effectively discharge my responsibilities without an appreciation of financial information?**

A board is expected to be greater than the sum of its parts. In other words, the composition of the board in terms of collective skills and qualifications of the members, should result in synergy and be sufficient for their (overall) oversight function. Hence, there is no need for all board members to come from finance or accounting background in order to discharge financial oversight responsibilities. However, it is not possible to adequately perform full board responsibilities in small not-for-profit organization without a level of understanding of financial information by each board member. Therefore, where individual members make effort to gain higher level of appreciation of financial information, it is almost an immediate positive payoff to the organization they serve.

## **Financial Literacy Beyond the Board Members**

Beyond board members, the need for financial literacy extends to management, staff and volunteers. Management prepare and presents financial information – both for internal and external users. Because in NPOs, the bulk of management and staff may be volunteers, who do not necessarily have the financial literacy needed to capture, manage and use financial information, it is important to equip them adequately. Addressing whatever gap exists would help management and volunteers, capture and present accurate, objective and representational financial information. The result is enhanced accuracy and usefulness of financial information being used to make decisions, both internally and externally.

## **Introducing the Financial Literacy Desk at Federation of Calgary Communities!!!**

To continue our work in helping board volunteers learn about financial information and how to use it, we have created a Financial Literacy Desk. The Financial Literacy Desk, partners with nonprofit organizations seeking to address gaps in financial competencies and improve their capacity to use financial information in decision making. These are some of the ways we can help you:

- Build understanding of financial reporting and financial statements.
- One-on-one support to address financial accounting/reporting questions.
- Questions on managing risks, establishing internal controls, governance and compliance to laws.
- Work with you implementing auditor's recommendations as found in your management letter.

Please do not hesitate to call us at (403) 244-4111 ext. 228 or e-mail us at [help@calgarycommunities.com](mailto:help@calgarycommunities.com). You should also visit our [FEDU](#) and [members resource library](#) for educational contents; and check our [training schedule](#) for upcoming workshops and trainings.