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INNOVATE

JMT Consulting

WELCOME TO

*Stronger Together: The Power
of an Engaged Board*

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CONSULTING

THE EXPERTS IN
MISSION-DRIVEN
NONPROFIT FINANCE

About Han Group:

Han Group is a public accounting firm dedicated exclusively to nonprofits. Its empathetic, people-first approach translates complex financial concepts into clear, actionable insights, ensuring that behind every number, the human story is understood. By fostering trust and creating positive, collaborative experiences, Han Group delivers the financial clarity nonprofits need today and prepares them for meaningful impact tomorrow.

Learning Objectives

- 01** | Distinguish between the Board's and management's roles
- 02** | Evaluate key financial reports and metrics to present to Boards
- 03** | Calculate and interpret essential financial health indicators
- 04** | Recognize financial, operational, and governance red flags
- 05** | Apply best practices to strengthen board engagement

The Role of a Board Member

Fiduciary Duties

Board members serve as stewards of the organization's assets and mission. They hold three core legal responsibilities:

- **Duty of Care:** Make informed decisions by reviewing materials and asking questions
- **Duty of Loyalty:** Act in the organization's best interest, avoiding conflicts of interest
- **Duty of Obedience:** Ensure compliance with laws and adherence to mission

Financial Oversight

Board members don't need accounting degrees, but they should:

- Review and approve annual budgets
- Monitor financial reports quarterly
- Understand key financial metrics
- Ensure adequate internal controls exist
- Approve significant financial decisions

Their role is strategic oversight, not day-to-day management.

Clear Lines: Board vs. Management Responsibilities

Board of Directors

Strategic Oversight

- Set financial policies and approve budgets
- Monitor organizational financial health
- Ensure proper controls and compliance
- Hire and evaluate the Executive Director
- Make decisions on major expenditures or investments

Management/Accountants

Day-to-Day Operations

- Execute the approved budget
- Maintain accurate financial records
- Process transactions and manage cash flow
- Prepare financial reports for the board
- Implement financial policies and procedures

Think of it this way: The board sets the destination and checks the map, while management drives the car. When these boundaries blur, organizations risk micromanagement or lack of accountability. Clear role definition enables both groups to excel at what they do best.

Managing Board Involvement



When Boards are Too Hands-On

Signs of micromanagement:

- Board members approve routine expenses
- Questions about day-to-day vendor choices
- Requests to review all invoices or receipts
- Bypassing management to direct staff

How to address it: Reinforce the governance model through policy. Work with the ED to present a clear delegation of authority matrix. Provide more frequent updates on operational matters so board members feel informed without needing to dig into details.



When Boards are Too Hands-Off

Signs of disengagement:

- Financial reports approved without questions
- Poor meeting attendance
- No follow-up on action items
- Rubber stamping all recommendations

How to address it: Make their role more concrete. Assign specific tasks like "Review the audit findings and come prepared with questions." Celebrate when board input leads to better decisions. Consider whether you're providing too much detail or not enough context.

Expectations for Essential Financial Information

Best Practices: Board Package Components

Provide your board with a consistent financial package at meetings. This builds literacy over time and enables meaningful oversight. Include these elements:

01

Financial Statements

Statement of Financial Position (balance sheet), Statement of Activities (income statement), and Statement of Cash Flows

02

Budget vs. Actual Comparison

Show year-to-date performance against budget with variance explanations for items over 10%

03

Cash Flow Projection

Forward-looking view of cash needs for the next 3-6 months

04

Key Metrics Dashboard

Days cash on hand, program expense ratio, fundraising efficiency, and other relevant KPIs

05

Narrative Summary

One-page executive summary highlighting trends, concerns, and wins in plain language

Crucial Financial Health Metrics for Board Review

Beyond traditional financial statements, these critical metrics provide the board with a deeper understanding of the organization's financial sustainability and operational health, guiding strategic oversight.



Operating Reserve Ratio

Indicates how many months of operating expenses the organization can cover with its available unrestricted net assets. A healthy reserve ensures stability during unexpected challenges.



Current Ratio (Liquidity)

Measures the organization's ability to meet its short-term obligations by comparing current assets to current liabilities. A ratio of 1.5-2.0 is often considered healthy.



Revenue Diversification

Assesses the reliance on any single funding source. A diversified revenue stream reduces financial risk and enhances long-term stability for the nonprofit.



Cash Flow from Operations

Reveals the actual cash generated by the organization's primary activities. Positive cash flow signifies that the core mission is self-sustaining and efficient.

Regular monitoring of these metrics allows the board to identify potential issues early, make informed decisions, and ensure the nonprofit's long-term financial viability.

Key Performance Indicators (KPIs) for Board Oversight

Beyond standard financial statements, specific KPIs offer a quick, actionable snapshot of your nonprofit's health and impact. These metrics help board members understand operational effectiveness, financial sustainability, and mission achievement at a glance.



Days Cash on Hand

Indicates how many days an organization can operate using only its current cash reserves, without new revenue. Crucial for assessing short-term liquidity.



Program Expense Ratio

Measures the percentage of total expenses spent directly on programs and services. A higher ratio generally signifies efficient use of funds towards mission impact.



Fundraising Efficiency

Calculates the cost to raise one dollar (e.g., total fundraising expenses divided by total funds raised). Helps evaluate the effectiveness of development efforts.



Donor Retention Rate

The percentage of donors who give again in the following year. A high retention rate indicates strong donor relationships and sustainable funding.

Presenting these KPIs regularly, along with trends and explanations for significant changes, empowers board members to ask informed questions and make strategic decisions.

Calculating Key Performance Indicators (KPIs)

Understanding how KPIs are derived demystifies financial oversight for board members. Here are common formulas and practical examples to illustrate how these crucial metrics are calculated for your nonprofit.

Days Cash on Hand

$(\text{Unrestricted Cash} + \text{Cash Equivalents}) / ((\text{Total Expenses} - \text{Depreciation}) / 365)$

Example:

- Unrestricted Cash: \$100,000
- Total Expenses (excl. Depreciation): \$365,000
- Calculation: $\$100,000 / (\$365,000 / 365) = 100 \text{ Days}$

The organization can operate for 100 days without new revenue.

Fundraising Efficiency (Cost to raise \$1)

$\text{Total Fundraising Costs} / \text{Total Contributions Received}$

Example:

- Total Fundraising Costs: \$50,000
- Total Contributions: \$500,000
- Calculation: $\$50,000 / \$500,000 = \$0.10 \text{ per dollar}$

It costs \$0.10 to raise each dollar for the organization.

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Program Expense Ratio

$\text{Program Service Expenses} / \text{Total Expenses}$

Example:

- Program Service Expenses: \$700,000
- Total Expenses: \$1,000,000
- Calculation: $\$700,000 / \$1,000,000 = 70\%$

70% of total expenses are dedicated directly to program delivery.

Donor Retention Rate

$(\text{Number of Retained Donors} / \text{Number of Donors from Previous Year}) \times 100$

Example:

- Donors (Previous Year): 500
- Retained Donors (gave again): 350
- Calculation: $(350 / 500) \times 100 = 70\%$

70% of last year's donors contributed again this year.



Measuring What Matters: Mission Impact Indicators

Financial health is critical, but true success for nonprofits lies in achieving their mission. These indicators help boards measure the direct impact your organization has on the community it serves, providing a holistic view beyond just the numbers.



Reach & Engagement

Tracks the number of individuals, families, or communities directly impacted by your programs. Essential for understanding the scale of your operations.



Program Effectiveness

Measures the percentage of program participants who achieve a specific, predefined positive outcome. Directly reflects the success of your interventions.



Community Involvement

Quantifies the dedicated time contributed by volunteers, indicating community support and often extending program capacity without direct financial cost.



Stakeholder Satisfaction

Assesses how satisfied beneficiaries are with the services received, providing qualitative insight into program quality and participant experience.

Regularly reviewing these mission-focused indicators, alongside financial metrics, provides a comprehensive view of the nonprofit's overall performance and mission fulfillment.

Decoding Form 990: A Board Member's Guide

The Form 990 is more than a tax document; it's a window into the nonprofit's operations, governance, and financial health. Board members must actively review key sections to ensure transparency, accountability, and compliance with IRS regulations.

→ Program Service Accomplishments (Part III)

Verify that the organization's mission-related achievements and significant activities are accurately represented, highlighting the impact on beneficiaries and community. This section should clearly articulate what was done and its results.

→ Governance, Management, & Disclosure (Part VI)

Review policies regarding conflicts of interest, whistleblower protection, and board independence. This section confirms the integrity of leadership and adherence to best governance practices.

→ Revenue and Expenses (Parts VIII & IX)

Examine income sources and how funds were allocated across program services, management, and fundraising. Look for unusual trends, significant shifts, or discrepancies that may warrant further inquiry.

→ Compensation (Part VII)

Assess the compensation of officers, directors, trustees, and key employees. Ensure these figures are reasonable, aligned with industry benchmarks, and reflect responsible stewardship of resources.

A thorough review of these sections enables the board to fulfill its oversight responsibilities, identify potential issues, and reassure stakeholders of the nonprofit's commitment to its mission and ethical operations.

Red Flags Every Board Member Should Recognize

Cash Flow Warning Signs

- Declining cash reserves
- Consistently late vendor payments
- Borrowing to meet payroll
- Using restricted funds for operations

Operational Red Flags

- Budget variances without explanation
- Missing or delayed financial reports
- Lack of internal controls
- High staff turnover in finance

Governance Concerns

- Board members unclear on financial position
- No audit committee or financial oversight
- Audit findings not addressed
- Conflicts of interest not disclosed

📌 **Accountant's Tip:** Don't wait for board members to spot these issues. If you identify red flags, bring them to leadership promptly with proposed solutions. Your proactive communication builds trust and demonstrates your value as a strategic partner.

Compliance Benchmarks for Nonprofit Boards

Beyond financial health, nonprofit boards must also ensure adherence to regulatory and legal obligations. These compliance benchmarks help safeguard the organization's integrity and tax-exempt status.

Form 990 Accuracy & Timeliness

Verify that the annual Form 990 (or equivalent tax filing) is submitted accurately and on time to the IRS, and is publicly accessible. This form ensures transparency and compliance with tax-exempt status requirements.

State Charitable Registration

Confirm the organization is registered and compliant with all state solicitation laws in jurisdictions where it operates or raises funds. Failure to do so can result in fines and loss of fundraising ability.

Restricted Fund Compliance

Ensure strict adherence to donor-imposed restrictions on funds. Regular internal audits and reporting processes should verify that restricted donations are used solely for their intended purpose.

Regular oversight of these benchmarks by the board is crucial not only for legal protection but also for maintaining public trust and donor confidence in the nonprofit's operations.

Essential Policies for Board Members

Beyond financial oversight, a robust understanding of key organizational policies is vital for nonprofit board members to ensure ethical governance and operational integrity.



Conflict of Interest

Ensures board decisions are free from personal gain. Members must disclose potential conflicts to maintain impartiality and public trust.



Whistleblower Protection

Safeguards individuals who report suspected unethical or illegal activities, fostering a culture of transparency and accountability.



Document Retention

Outlines how long organizational records should be kept. This ensures compliance with legal requirements and proper record-keeping practices.



Gift Acceptance

Defines the criteria for accepting donations, preventing conflicts of interest, reputational damage, and ensuring alignment with the mission.

Adhering to these foundational policies strengthens the nonprofit's reputation, protects its assets, and maintains its tax-exempt status.

The Power of Board Giving: Why It Matters

Board giving is more than just a financial contribution; it's a powerful statement of commitment that underpins a nonprofit's credibility and fundraising success.



Demonstrates Commitment

Board members' financial contributions signal a deep personal belief in the mission, inspiring confidence in staff, volunteers, and external stakeholders.



Enhances Credibility

When board members donate, it sends a clear message to potential donors and funders that the organization is worthy of investment, boosting fundraising effectiveness.



Strengthens Financial Health

Direct financial support from the board strengthens the organization's balance sheet, providing essential unrestricted resources for programs and operations.



Deepens Mission Alignment

Giving personally transforms board members into donors, fostering greater engagement, informed strategic oversight, and a shared sense of ownership.

A 100% board giving rate, regardless of individual gift size, is a powerful indicator of a strong, unified leadership team fully invested in the nonprofit's vision.

Engaging Your Board in Fundraising Success

Many nonprofit accountants struggle to get board members involved in fundraising. Financial staff play a unique role in this effort by connecting fundraising to financial sustainability and demonstrating impact.



Show the Fundraising Gap

Present clear data: "Our programs cost \$500K annually. Earned revenue covers \$300K. We need to raise \$200K, which means each board member finding \$10K in support." Make the need tangible and the goal achievable.



Connect Fundraising to Financial Health

Help board members understand that their fundraising directly enables the mission they care about. Share stories: "Last quarter's donations allowed us to hire a program coordinator, increasing our capacity by 30%."



Track and Report Fundraising Metrics

Include donor retention rates, fundraising efficiency ratios, and giving trends in board reports. When board members see their efforts reflected in improved metrics, engagement increases.



Celebrate Fundraising Wins

Recognize board members who secure gifts. Include a "Fundraising Report" that celebrates both individual and collective success. Positive reinforcement builds momentum and models the behavior you want to see.

Questions?

Thank You!



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