



Helping Nonprofits Thrive

Characteristics of Financially Healthy Nonprofits

A resource article by Minnesota Nonprofits Assistance Fund

Every director and board member of a nonprofit would like to have a large endowment, reserve cash in the bank, and a surplus at the end of every year. Unfortunately, most of us know that this might be a dream instead of reality. Without these tangible signs of financial strength, how can you know if your organization is financially healthy?

Financial health is about more than just reserves and endowment balances. Having a large budget or complex accounting system doesn't always result in good management and long term success. Just as our personal health depends on our behavior, so the financial health of a nonprofit depends on management behavior - policies and practices. Even though there may be occasional deficits, or periods of tight cash flow, the following characteristics are good signs that your organization will be financially healthy over the long term.

1. Board of directors and management hold themselves responsible for long term stability in both programs and financial performance.
2. Each board member understands their roles and responsibilities in financial matters.
3. A realistic and well-considered budget is prepared and approved by the board.

4. Budgets are prepared in tandem with planning for programs and operating needs.
5. Management and board are committed to manage with the goal of an operating surplus each year.
6. Consistent, accurate and timely financial reports are prepared and analyzed by qualified individuals.
7. Management and the board monitors financial results as compared to the budget and modify programs and activities in response to variances.
8. Management realistically plans and monitors cash flow so as to be able to meet obligations.
9. Financial policies are in place that establish, or have specific plans to establish, an operating reserve to finance cash shortfalls and program growth.
10. Policies are established for major financial decisions and adequate and appropriate internal controls.
11. Management is committed to compliance with all required legal and funder reporting.
12. The board and management regularly review short-term and long-term plans and develop goals and strategies for the future.

Authored by Kate Barr, Executive Director of Nonprofits Assistance Fund. The Minnesota Nonprofits Assistance Fund (MNAF) program provides flexible loans and practical financial management training and advice to nonprofits. Other resources and articles on nonprofit financial management topics can be found on their web site at www.nonprofitsassistancefund.org. You can contact Kate Barr at 612/278-7180.