Not-for-profit (NFP) financial management personnel often use the phrase “no margin, no mission,” which was actually coined by a nun, Sister Irene Kraus.

Sister Irene entered her order, the Sisters of Charity, in her late teens during World War II. She became a nurse and earned an MBA while tending to the sick. Before long, she was directing six Catholic hospitals, eventually becoming the first president of the Daughters of Charity National Health System, which oversaw more than 80 hospitals and health facilities. Her career spanned more than a half-century, and her numerous accomplishments had a positive effect on many people and institutions. She was the first woman and member of a religious order to chair the American Hospital Association’s Board of Trustees.

Valerie Fritz wrote about Sister Irene’s accomplishments and sentiments on TeleTracking.com. “Sister Irene believed that strong fiscal management, not just charity, is what modern health care organizations need to fulfill their mission,” Fritz wrote. Charity wasn’t enough to sustain mission in the 20th century, according to Sister Irene: “In the United States, in this day and age, the way to do it is to run institutions that are financially solid.” She did that well enough to be inducted into the Health Care Hall of Fame.

This is true for entities beyond faith-based health care organizations, e.g., service agencies, religious organizations, educational institutions and more. Such organizations typically exhibit the three characteristics below.

THREE CHARACTERISTICS OF A FINANCIALLY HEALTHY NFP

1. **Strong Internal Controls**
   Maintaining reliable internal controls is the first attribute of a financially secure organization. An internal control system ensures all financial transactions are properly recorded and that the organization’s assets are safeguarded from loss. An organization’s audit committee can be a good place to start an evaluation. If you have an active, qualified audit committee, your organization is off to a good start in developing a system of internal controls.

2. **Clear, Timely & Accurate Financial Reporting**
   Knowing where an organization stands in achieving strategic objectives is the goal of good financial reporting. Good financial reporting is clear, timely and accurate.
   - **CLEAR** // The report’s clarity can be affected by the content and format. Highly summarized comparisons to the past and other benchmarks, e.g., internal targets and peers, are helpful. Graphics can help in relaying information.
   - **TIMELY** // Information is timely if it’s recent enough to be actionable. To maintain timeliness, consider keeping a schedule of when your organization’s required reports are due. When you combine this with a proactive audit committee—that should maintain accountability for the timely reporting—your organization can be better prepared.
   - **ACCURATE** // Be careful when publishing internal and external financial reports. Even financial reports with small errors may produce a lack of trust in management, undermine confidence in the board or negatively affect public support. Confidence in financial reporting creates a lasting effect on an organization’s reputation. A great reputation can bring fundraising success, which builds margin. To help with accuracy, good controls include steps to ensure reports are read and tied back to supporting documentation before being released.
3. **Sound Policies**

Well-crafted, documented and carefully monitored financial policies are an essential characteristic of a financially healthy organization. These should be specifically addressed in an organization’s governing policies:

- Strategic planning cycle
- Budget cycle
- Reserve requirements
- Revenue mix and recognition
- Cash and investment management
- Debt management
- Gift acceptance
- Financial reporting
- Conflict of interest and related-party transactions
- Leadership evaluation
- Staff evaluations
- Approval levels
- Authority and accountability

And these benefits are indicative of a financially healthy organization that exhibits the three characteristics:

- Surplus budgets
- Increased reserves
- Sufficient working capital (liquidity)
- Goals and objectives framed by defined targets and benchmarks
- Early identification and prompt resolution of accounting and reporting errors
- Preventive maintenance of physical facilities and equipment
- A governance structure that facilitates proactive, informed decision making

Sister Irene would have favored any organization exhibiting the above characteristics and would have been confident that it could accomplish margin and mission.

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