

Nonprofit Notes

What Do the Most Fiscally Responsible Not-for-Profit Organizations Have in Common?

By Mark J. Piszko, CPA, CGMA, Partner

In a profit-motivated world, not-for-profit organizations (NFPs) are often regarded as not having or needing business savvy because, after all, they are *not-for-profit*. While it's true that they are generally mission-driven rather than profit-focused, the best NFPs are those managed as successful business entities. They have management teams and boards who understand the importance of fiscal responsibility, strong controls and long-term sustainability.

Like for-profit business entities, NFPs come in many different sizes. They also have myriad mission purposes and are managed with diverse levels of operational sophistication. There is, however, some degree of commonality among the best-run and most fiscally responsible NFPs that contribute to their success.

Below is a list of 20 indicators and practices that not-for-profit leadership should consider in order to maximize fiscal security and performance:

1. Accounting systems and processes are right-sized and scalable, avoiding inefficient workflows and unnecessary lag times.
2. Internal controls are designed by considering the size of the finance team to ensure proper segregation of duties and oversight.
3. Compliance with contract and grant regulations is consistently followed and fully documented.
4. Annual audits run smoothly and in a timely manner with no surprises and few, if any, adjusting entries.
5. The board is fully engaged and has a good understanding of the finances of the organization and a strong grasp of the financial statements.
6. The finance team can properly forecast and manage financial outcomes.
7. Management's forecasting includes worst-case and best-case scenario planning.
8. Internal financial reporting is clear, easily understood and predictive of positive and negative outcomes or results.
9. Budgeted amounts are accurate and predictable and can be relied upon for decision-making.
10. Budgets are prepared on a rolling basis and adjusted for current information rather than being based on static, annually prepared amounts.
11. Management reviews budgeted expenses for current relativity to ensure that they are not just based on legacy outlays.

12. Expenses are allocated between program and administrative categories using verifiable, consistent bases.
13. Management can determine and convey the actual cost of running programs whenever asked, rather than just relying upon budgeted amounts.
14. Management can determine which programs are sustainable to avoid continuing programs that cause financial harm.
15. Revenue is received from various, diversified sources providing a balanced stream of funding.
16. Most of the revenue received is unrestricted, providing for flexible spending.
17. The organization has a large pool of regular, recurring donors and is less reliant on reactive fundraising.
18. The annual operating results are consistently surpluses, rather than breakeven or losses.
19. Cash reserves exceed six months and provide clear future predictability for liquidity.
20. Management can forecast cash on a rolling annual basis without the need for borrowing.

In Short

The best of the fiscally performing not-for-profit organizations are forward thinking. Static reporting at a year-end serves the purpose of revealing annual outcomes and balances, but accurate forecasting allows organizations to make intentional, planned decisions rather than just reactive ones.

An accurate, flexible budgeting process also separates top performing organizations from others. Management teams at these organizations understand the actual cost of operations using real time data, not fixed budget amounts. And, of course, the best run organizations have leadership, including board members, who are financially astute and understand the finances of the organization.

Contact Us

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[Mark J. Piszko](#), CPA, CGMA
Partner, Not-for-Profit Services
mpiszko@pkfod.com | 646.449.6316

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