

## All Dressed Up



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Invitations to office parties, family get-togethers and school events seem to fill mail boxes and e-mail inboxes this time of year. Although a growing number of nonprofits are experimenting with events for which one is expected to purchase a ticket but “stay home,” invitations to make an appearance continue to be sent and gratefully received.

With the first crop of seasonal invitations in hand, I’ve been wondering about the evolving notion of being *dressed for the occasion*. At the last two weddings I attended I was a bit shocked to see that plunging necklines and semi-transparent fabric are now apparently acceptable features of wedding guest attire.

Like party guests, nonprofits also get “dressed up.” As the calendar year draws to a close, it’s time to look back on the accomplishments of 2010 while looking ahead to the promise of a new year, a new budget cycle, and new opportunities to advance the missions of the organizations we serve. For many nonprofit organizations, publishing an Annual Report is part of the process of looking back. In the weeks to come communications professionals across the nonprofit sector will begin to compile the stories about change and success that are often the focus of such reports.

The typical nonprofit Annual Report is “dressed” for the occasion, with glowing stories of recent progress. But an Annual Report is more than a reflection of recent activity, it’s an opportunity to evoke confidence in the nonprofit’s path forward. For many organizations, however, the past two years have been marked by unprecedented fiscal and organizational challenges. Is it possible to be dressed up and transparent at the same time?

During our December webinar on “[What Do the Numbers Say About Your Nonprofit](#),” we explored the idea that providing ready access to financial results is just a starting point for fiscal transparency. While a growing number of nonprofits offer Web pages with links to downloadable copies of the organization’s IRS Form 990 and audited financial statements, a much smaller number of organizations have taken the call for transparency further. Examples of taking it one step further include:

- Providing a thoughtful, narrative explanation of financial results.
- Providing information on financial trends, such as the growth or decline of revenues in various income categories.
- Offering information about how your nonprofit has leveraged investments, grants, donations to generate

additional resources to support your mission.

- Explaining how the economic downturn has affected your nonprofit, including its fiscal health.
- Providing a downloadable copy of any state filings required under state charitable solicitation statutes.

## Managing the Risk of Misinterpretation

Taking steps to offer additional information about your circumstances through a thoughtful, interpretive narrative is one way to manage the risk that some stakeholders may *misinterpret* or simply *misunderstand* what they read on your Form 990 or audited statements. Areas ripe for misunderstanding include:

- The size of your endowment or reserves (“This nonprofit doesn’t need my help!”)
- Significant fluctuations in revenue due to periodic, large receipts (“Wow – they had a terrible year this year compared to last year!”)
- The appropriateness of CEO or senior staff compensation (“I didn’t know nonprofit people earned this much!”)
- An operating loss (“This nonprofit appears to be on a downward slide.”)

Stakeholders prone to misinterpreting your financial statements include insurers, lenders, donors (current and prospective), landlords, vendors and others. Some of these stakeholders may fall victim to the “trap of extrapolation” described by Randy Park in his book [The Prediction Trap](#). According to Park, research shows that human beings often imagine that the future will be a straight line continuation of the past, which we also imagine as a straight line. According to Park, individual and organizational histories generally follow a winding path, and few of us successfully avoid the twists and turns in life. The trap of extrapolation may lead a lender or donor to assume that next year’s financial results will mimic your shortfall in 2009.

During the December webinar we asked participants: “What is the most important thing that stakeholders expect when it comes to how your nonprofit reports financial information?” Responses included “honesty, clarity and responsible handling of funds,” “timeliness and understandability” as well as “assurance that funds are spent wisely” and that the organization has “sufficient reserves to operate.”

As you look back on 2010 and begin to draft the story that you will soon share with stakeholders, consider ways to deliver on your commitment to transparency. Inspire confidence in your nonprofit’s future by inviting stakeholders to examine the trends that represent your reality. Identify any results that are leading contenders for misinterpretation and offer a pre-emptive explanation in jargon-free terms your readers will understand. Acknowledge less than hoped for results and sincerely ask supporters to rally to support your mission and vital services.

Getting dressed up for a special event or photo opportunity can be fun. But the true test of leadership is how comfortable you are wearing a garment of candor. And the truth is that your most important stakeholders are eager to look beyond the dressed up version of your nonprofit and join you in tackling the challenges on the road ahead.

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