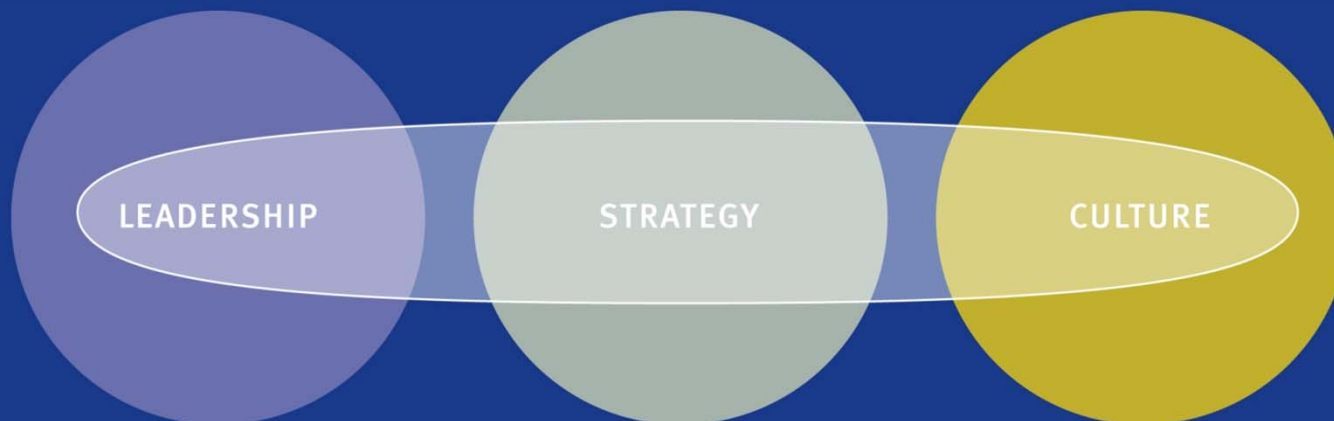


Money Matters

Enhancing the Financial Stewardship of the Board

March 29, 2011

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Audience Poll

- Who's in the audience? (Check all that apply)
 - Board member
 - Treasurer
 - Finance Committee Member
 - Staff
 - Executive Director

Agenda

- Financial Stewardship and the Board's Broader Purpose
- Board and Staff Roles in Financial Stewardship
- Improving Financial Governance

Goals

- Review the roles and responsibilities of board, staff and committees as they relate to financial governance
- Learn practical tips on how to better improve financial governance at the board level, including areas such as:
 - Financial literacy
 - Long-term planning
 - Budgeting
 - Monitoring

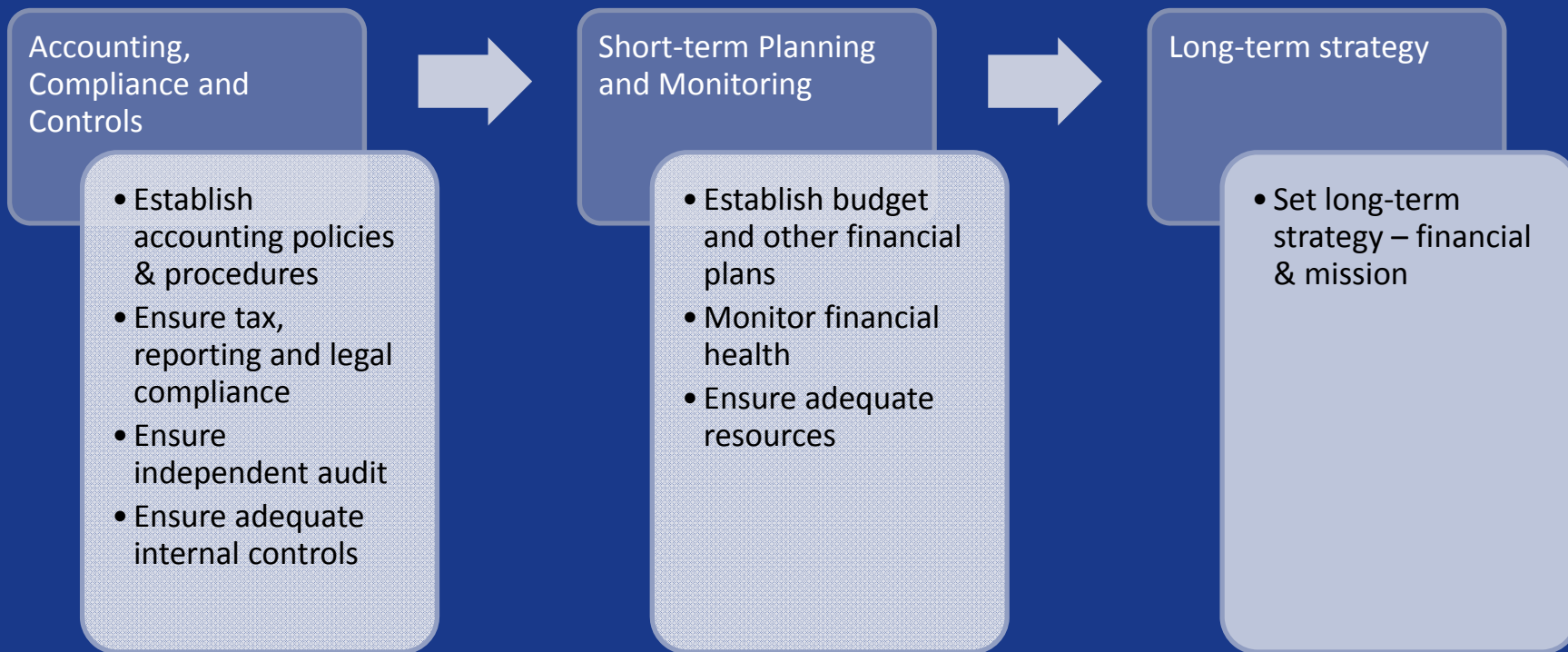
Part I

What Role Does Financial Stewardship Play in the Board's Broader Purpose?

Board Responsibilities relating to Financial Governance

- The board's purpose is to direct the organization towards accomplishing its mission
- As it relates to finance, the board must determine how the organization can best obtain and employ resources for the fulfillment of its mission
- The board has fiduciary responsibility for the organization's financial resources
 - Duty of loyalty: Make decisions in the best interest of the organization
 - Duty of care: Exercise reasonable care and due diligence

How Does Financial Stewardship Fit into the Board's Purpose?



And What About Fundraising...?

- Board responsibility: “Ensure adequate financial resources”¹
- Differences of opinion exist about what that specific responsibility looks like
- General consensus:
 - The board as a whole needs to be actively engaged in securing resources for the organization
 - Individual level of involvement may differ depending on resources, connections and skills
 - Each board member should contribute financially to the organization, at a personally meaningful level, as a demonstration of commitment and support

¹ Board Source: Basic Responsibilities for Nonprofit Boards (<http://www.boardsource.org/Knowledge.asp?ID=3.368>)

Part 2

What Are the Board and Staff Roles in Financial Governance?

Board Role Life Cycle

Active
operational
engagement

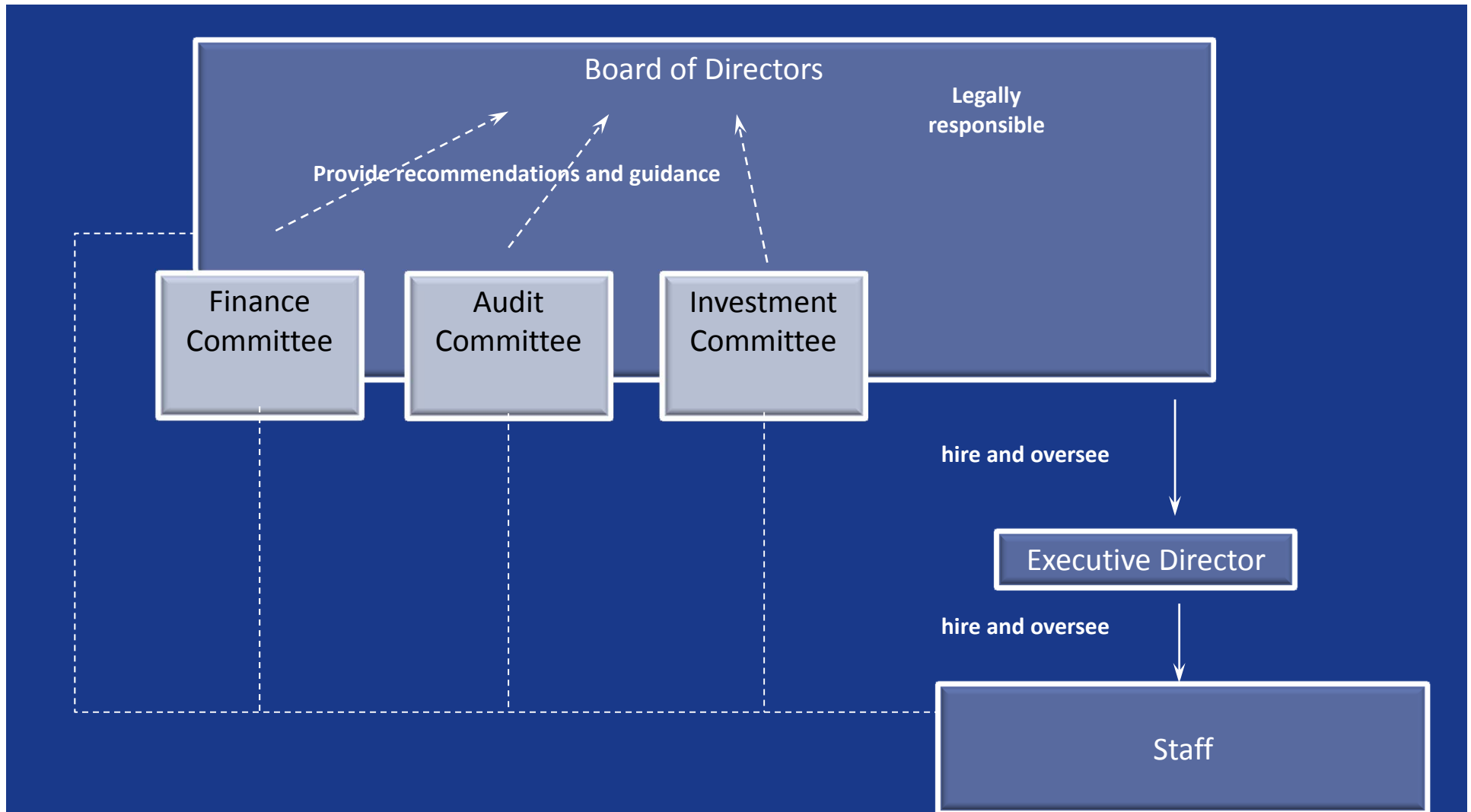
The diagram illustrates the Board Role Life Cycle as a progression from active operational engagement to policy-based strategic partnership. This is represented by a large, light blue arrow pointing from left to right, with two rounded rectangular boxes containing the respective stages. The background is a solid dark blue.

Policy-based
strategic
partnership

Roles and Responsibilities

- Guidelines and commonly-used and/or best practices
- No legal requirements for breakdown of tasks, but the board has the ultimate responsibility
- Best practices may not be applicable to every situation
- Determine what works for your organization given your situation

Nonprofit Organizational Chart



Finance Committee

- **Key Role: Improving the board's ability to make informed financial decisions**

Reporting

- Working with the staff to ensure accurate and reliable financial reports (advisory role only)
- Regular review of financial controls and accounting practices
- Developing better report formats

Advice to the Board

- Perform analysis of different program, growth and revenue options.
- Explain benefits and costs of different decisions
- Listening to ED/staff concerns about financial opportunities and risks and communicating them to the full board

Education

- Ensure that the board can sufficiently understand finance to make well-informed decisions
- Provide explanations and contexts of financial reports

Other Related Committees

Audit

- Lead selection process for an independent auditor
- Manage the auditor relationship
- Audit and finance committees should ideally be separate (Not always realistic)

Investment

- Only necessary if there are sizable investment assets
- Advise on overall investment policy (e.g. risk level, general asset mix etc...)
- Lead selection process for a professional investment manager

! Both committees are advisory
! Responsibility still resides at the board level

Staff Responsibilities

Controls, Compliance & Accounting

- Comply with policies established by the board
- Maintain proper financial controls and records
- Prepare financial statements on a regular basis (monthly or quarterly) for the board

Financial Planning

- Prepare budgets and other planning documents subject to guidelines established by the board
- Operate programs within budget guidelines

Communication

- Immediately notify the board about critical financial developments
- Involve board in all major financial decisions

Part 3

How Can We Improve Financial Governance?

Audience Poll

- What are your board's current strengths relating to financial governance?
(Check all that apply)

Financial literacy

Reviewing and monitoring financials

Communication

Long-term financial strategy

Other (Please enter into chat box)

Audience Poll

- Where does your board need the most guidance? (Check all that apply)

Financial literacy

Reviewing and monitoring financials

Communication

Long-term financial strategy

Other (Please enter into chat box)

Getting Started

Board and Staff Relations

- Ongoing process
- Create a collaborative framework for working together
- Discuss roles and formalize responsibilities and tasks
- Conduct a board and/or organizational self-assessment and identify areas of improvement
- Determine information needs of the board and set guidelines for communication
- Explore appropriate training as needed for staff and board

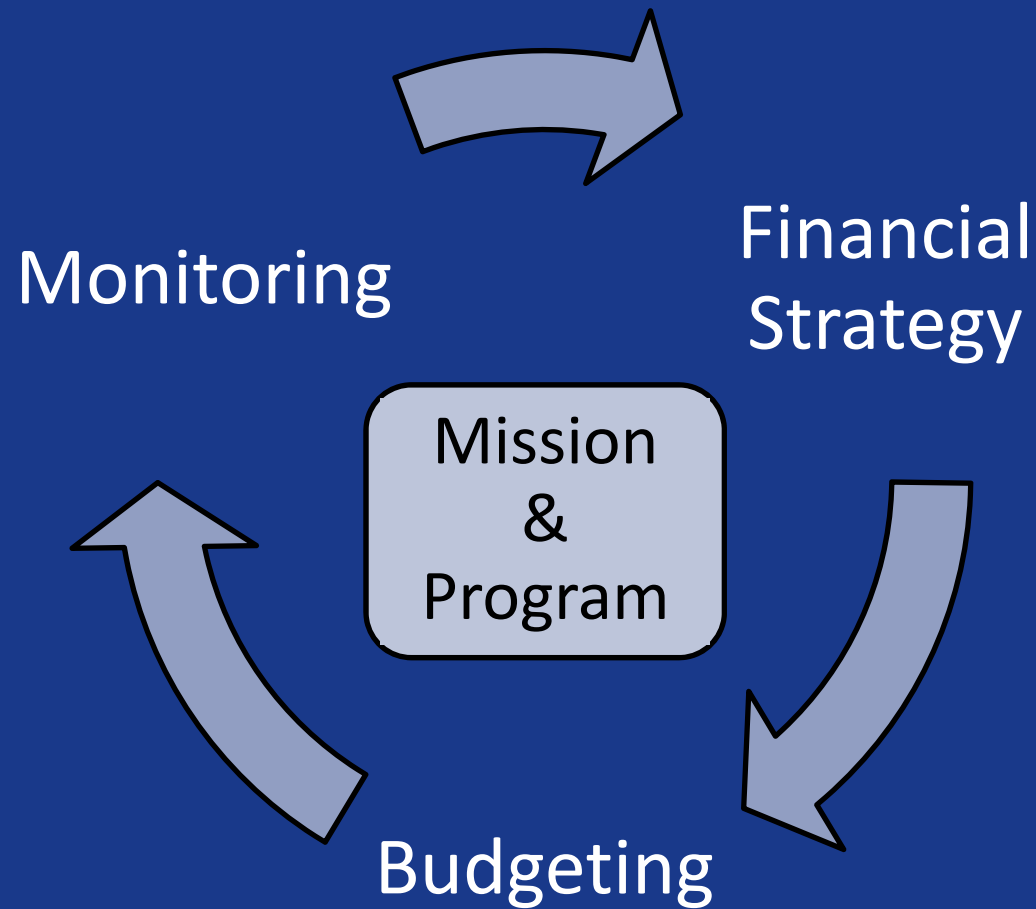
Financial Literacy

- Ideally, every board member should:
 - Understand the organization’s budget, financial statements and projections, and how these align with development and program goals
 - Understand the numbers well enough to ask intelligent questions and make well-informed decisions
- Realistically:
 - The board needs to have enough financial literacy to effectively exercise its fiduciary duty as a body
 - The board should avoid having too few people understand finance—a majority should have solid financial literacy

Financial Literacy How?

- Improved reporting and communication
 - Clear names for line items in financial statements
 - Comparison to prior year
 - Appropriate level of detail
 - Narrative context and highlights
 - Explanation of reports at board meetings
 - Dashboard to highlight key financial and programmatic figures
- Basic Training
 - Workshops
 - Time dedicated at board meetings for financial training
 - Treasurer and/or Finance Committee should work to develop the board's financial literacy

Financial Sustainability

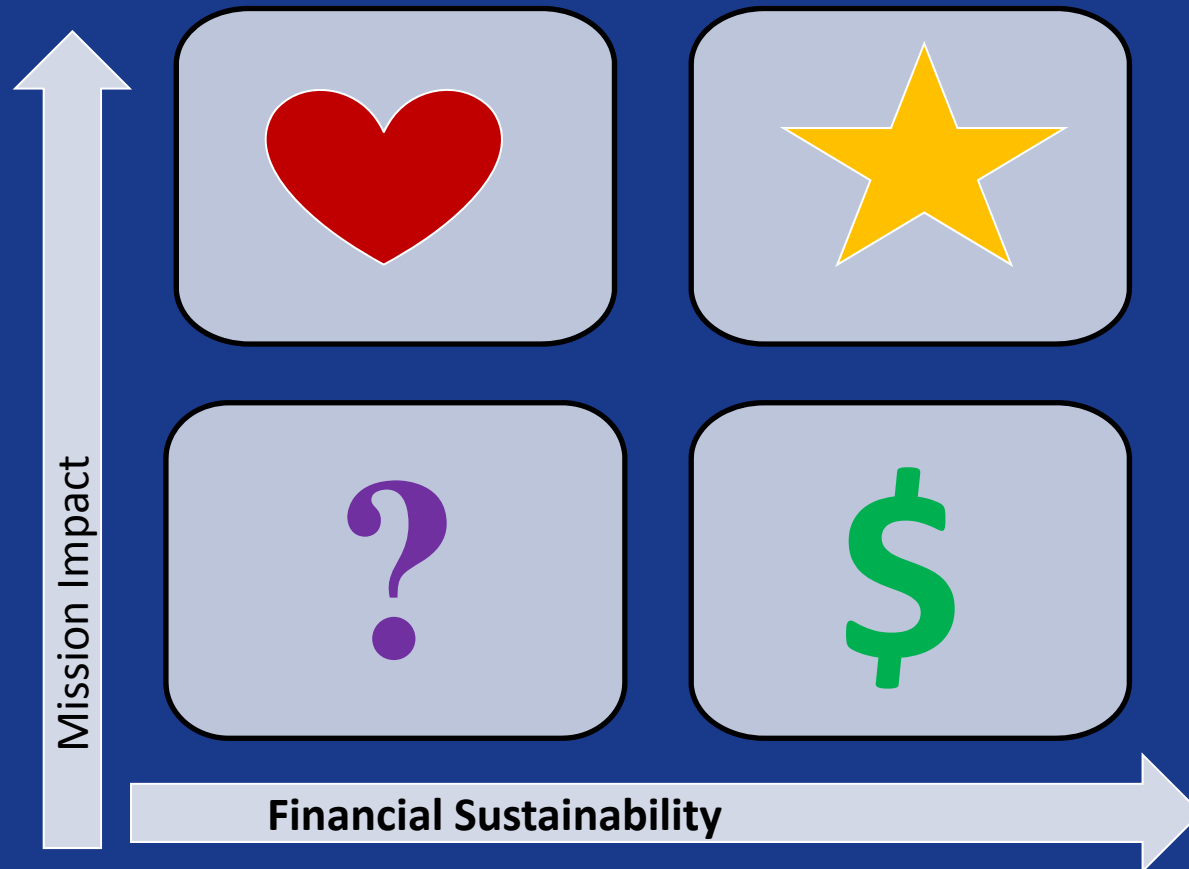


Financial Strategy

Key Questions: How do we obtain and employ resources to best fulfill our mission? How can our organization stay financially sustainable?

- Strategic planning
- Historical assessment
- Peer comparison
- Dual bottom-line matrix

Financial Strategy Dual Bottom-Line Matrix



Note: Dual Bottom-Line Matrix from Jeanne Bell and Elizabeth Schaffer's *Financial Leadership for Nonprofit Executives*

Budgeting Process

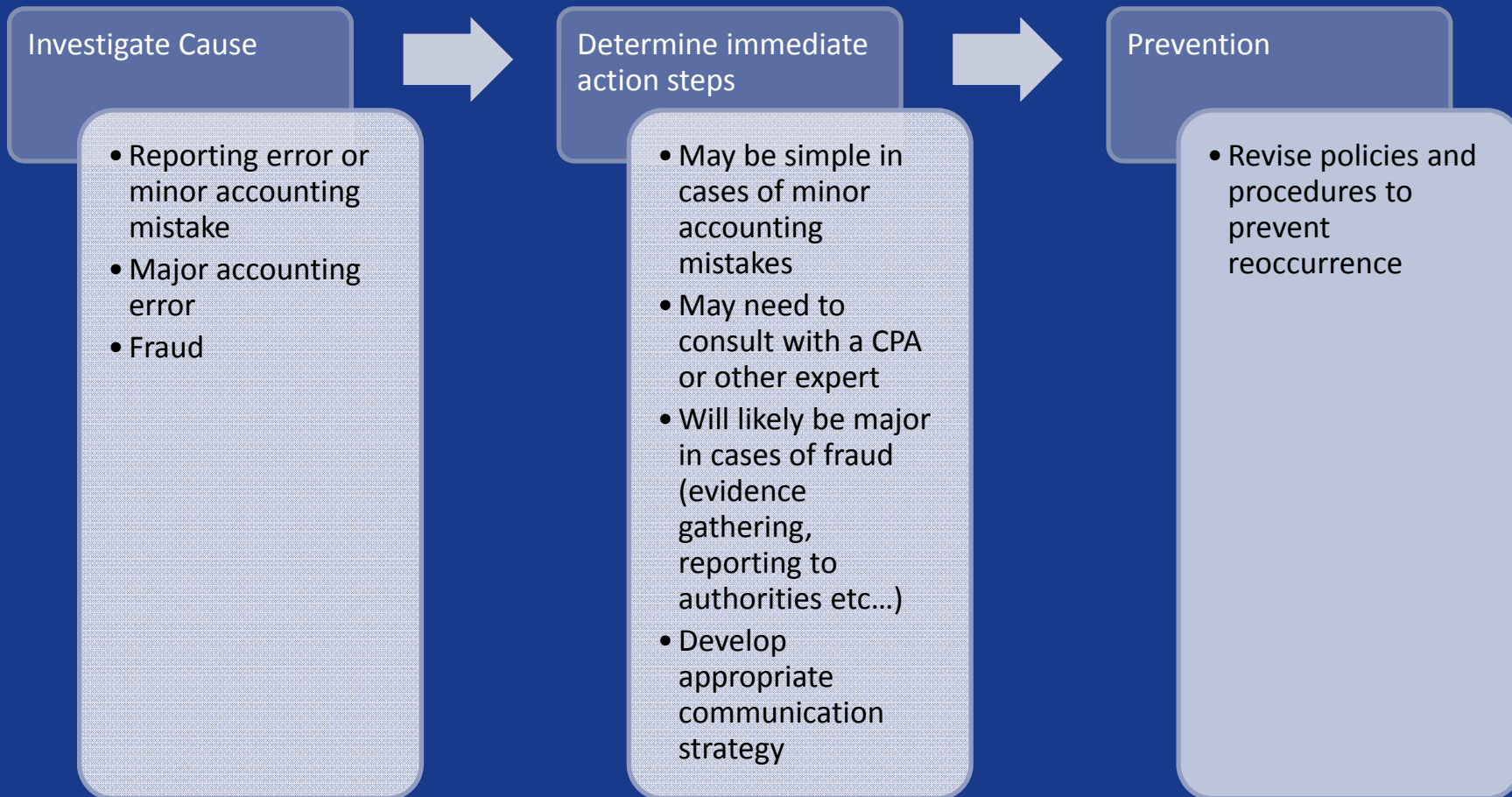
- Budget: Annual roadmap for realizing long-term mission and financial strategy
- Board sets broad budget goals and staff drafts budget according to those guidelines
- Board may determine other planning needs (e.g. capital plan, scenario budget, cashflow projections, fundraising plan)

Monitoring

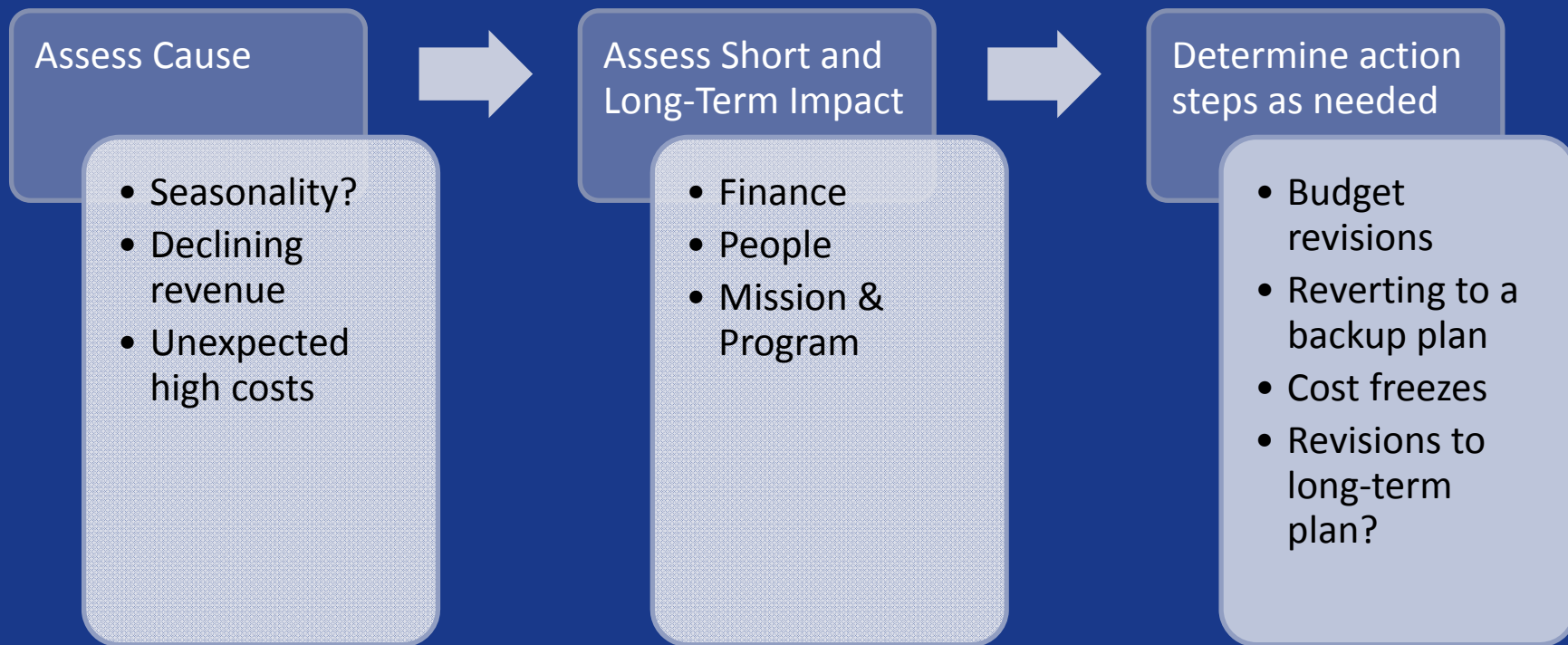
- Ensuring the organization is on track to achieving its financial outcomes
- Monitoring should happen either monthly or quarterly
- Staff should also have good guidelines for when immediate communication to the board is required
- Good monitoring requires:
 - Knowledge of the environment
 - Clear, realistic and mission-aligned budget
 - Reliable financial information
 - Adequate level of financial literacy

Monitoring

What if Something Doesn't Look Right?



Monitoring What If We Aren't Meeting Our Targets?



Other Resources

- Websites
 - Board Source (<http://www.boardsource.org>)
 - Blue Avocado (<http://www.blueavocado.org/>) Board Café Columns
- Books
 - The Best of Board Café (Jan Masaoka)
 - Financial Responsibilities of Nonprofit Boards (Andrew S. Lang)
 - Financial Committees (Thomas McLaughlin)
 - Nonprofit Board Answer Book: Practical Guidelines for Board Members and Chief Executives (Robert Andringa, Theodore Engstrom)

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Praxis Consulting Group assists organizations in developing high performing workplaces by aligning organizational leadership, strategy and culture.

