

Webinar

# Financial Leadership for Boards of Directors




Facilitated by

Michael Kass, Consultant  
Nonprofit Finance Fund

March 30, 2021  
1 pm ET



# Acknowledgment of Indigenous Territories



*“Land acknowledgments are a stepping stone to honouring broken treaty relationships.”*

- We invite you to share in the chat the Indigenous Territory you are joining us from:

<https://native-land.ca/>

# NFF Team for Part 1 – Webinar Series



# Nonprofit Finance Fund: Where money meets mission

**NFF envisions a world where capital and expertise come together to create a more just and vibrant society**

We unlock the potential of mission-driven organizations through

- **Financing**
- **Consulting**
- **Partnership and knowledge-sharing**

Guided by our Core Values →



# Meeting Agreements

## Contribute to a meaningful learning experience

- Every experience is valid; we are here as peers to learn from each other
- Invitation to share freely and candidly, and ask questions
- Take care of your needs first

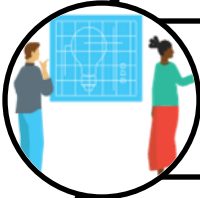
# Learning Goals



**Examine** roles and responsibilities of Board members



**Explore** nonprofit business models and indicators of financial health



**Provide** frameworks and tools to support Board governance and oversight



**Share** our expertise with one another and provide support in a peer-learning environment

# Financial Decisions Follow Mission, Values and Priorities

## **VISION:**

Aspirations and goals for tomorrow

## **MISSION:**

Core purpose

## **VALUES:**

Core beliefs to guide decisions

**PRIORITIES  
& FINANCIAL DECISIONS**

# Financial Responsibilities of Nonprofit Board Members and Trustees

## 1. Duty of Obedience

- Ensure nonprofit obeys applicable laws and acts ethically
- Adheres to the nonprofit's stated corporate purposes
- Activities advance its mission

## 2. Duty of Loyalty

- Make decisions in the best interest of the nonprofit

## 3. Duty Of Due Care

- Prudent use of all assets, including facility, people, and good will
- Oversight for all activities



# Financial Oversight

## 1. Concrete Tasks

Oversee the **annual budgeting** process and monitor progress

Make decisions **grounded in accurate financial data** and in light of **mission goals**

Ensure adequate **oversight of the audit** relationship

# Financial Oversight

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## 2. Process and Support











Ensure **adequate financial resources** for the organization to fulfill its mission

Prepare the organization adequately for **risk**

Take the **long-term** in addition to the **short-term view**

**Protect the assets** of the organization

# Dos and Don'ts of Strong Board Financial Management

Do	Don't
 <p><b>Think Big Picture</b> Tie decisions and actions back to mission and organizational health</p>	 <p><b>Get into the Weeds</b> Avoid focusing on small issues or program-level decisions</p>
 <p><b>Learn the Business</b> Understand the financial condition, context, how the business model works and what's important to monitor</p>	 <p><b>Silo Finances</b> Prevent separating finances from programs, people or impact</p>
 <p><b>Think Full Cost</b> Discuss how to plan for financial needs beyond the budget, such as reserves, working capital or facility</p>	 <p><b>Fear a Surplus</b> Breakeven budgeting is not enough -- nonprofits need surpluses to manage effectively</p>
 <p><b>Monitor</b> Keep an eye on financial health through concise reports that facilitate informed decisions.</p>	 <p><b>Rubber Stamp</b> Refrain from making decisions without knowing how it affects your mission and financial health</p>
 <p><b>Collaborate to Address Issues</b> Engage in productive conversations about financial health, risk and opportunity, giving staff time to prepare and address issues</p>	 <p><b>Surprise &amp; Derail</b> Partner with staff to determine how to pursue important issues before, during and after meetings</p>

# Nonprofit Finance Fund

## A Strengths-Based Approach

**Your Financial Resources**



**Your Data and Know-How**



**Mission Success**

**Your People and Skills**













**Your Networks and Relationships**



# Where is your organization well-resourced? Where is there opportunity for growth?

	Strengths	Needs	Opportunities/Risks
<b>Financial</b>	<i>What complete capital areas are well resourced?</i>		
<b>Networking / Relationships</b>		<i>What complete capital areas do you identify needs or gaps in resources?</i>	
<b>People &amp; Skills</b>			<i>What strengths could be leveraged to fill areas of needs or gaps in resources?</i>
<b>Data &amp; Know-How</b>	<i>What data collected supports the outcomes that you predicted?</i>		

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# Five Steps to Assessing Financial Health & Performance

## Business Model

- **Profitability & Savings:** Were costs covered? Were surpluses sufficient to contribute to the organization's full costs, such as savings for reserves or investments in fixed assets?
- **Revenue Dynamics:** How does the organization make money? Has revenue composition changed over time? Are revenue streams reliable or at risk?
- **Expense Dynamics:** How does the organization spend money? Are expenses predictable? Is management responsive to operating changes and prepared to make difficult decisions?

# Five Steps to Assessing Financial Health & Performance

## Business Model

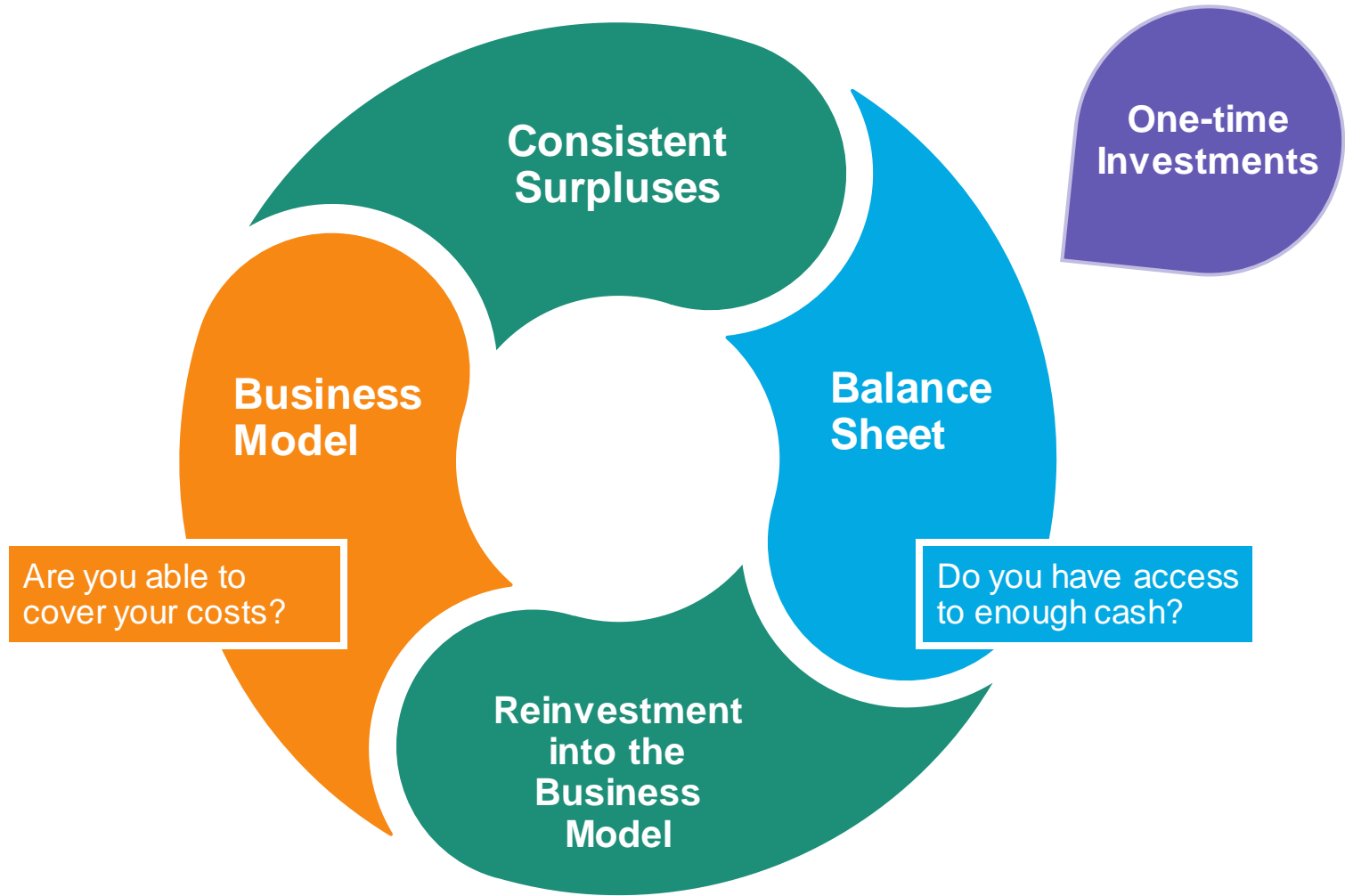
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## Capital Structure

- **Health of Balance Sheet:** Do assets, net assets and liabilities support the organization's business and programs over the long term? Is there investment into fixed assets? Is debt being managed appropriately?
- **Liquidity:** Is there enough cash available to cover current obligations? Is cash restricted or spoken for? Does the organization have reserves available to navigate risk or pursue opportunity?













# Surpluses Support Mission Success



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# Understanding Full Cost

**“Nonprofit” is a tax status, NOT a business model**




Nonprofits need to generate profits every year in order to cover **full costs**, which are greater than operating expenses.

## **Full costs include:**

- Total operating expenses
- Investments in fixed assets
- Debt principal payments
- Savings to build working capital and reserves







**Goal: To Generate Surpluses Sufficient to Cover *Full Costs of Achieving Outcomes* Each Year**

# Elements of an Organization's 'Full Cost'











	<p><b>Total Expenses</b> Operating, non-operating, and unfunded expenses</p>
	<p><b>Working Capital</b> Access to cash for day-to-day needs</p>
	<p><b>Reserves</b> Savings, a “rainy day” fund</p>

**‘Must haves’ for  
all organizations**

# Elements of an Organization's 'Full Cost'

	<b>Total Expenses</b> Operating, non-operating, and unfunded expenses	<b>'Must haves' for all organizations</b>
	<b>Working Capital</b> Access to cash for day-to-day needs	
	<b>Reserves</b> Savings, a "rainy day" fund	
	<b>Debt Principal Repayment</b> Mortgage, line of credit, etc.	<b>Sometimes needed by some organizations</b>
	<b>Fixed Asset Additions</b> Money to purchase a new building, or computers	
	<b>Change Capital</b> Resources to adapt, grow, and/or expand	

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# How To Help the Board Be Effective Financial Stewards

**On an annual basis the board is responsible for approving the budget, the 990 and the audit. In addition...**

On regular and consistent intervals (such as, monthly or quarterly basis) the board should receive the following documents:

Key Documents	Other Documents
<p><b>Narrative</b> describing the financial status of the organization</p> <p>Year-to-date actual <b>revenue and expenses</b> compared to:</p> <ul style="list-style-type: none"><li>▪ Year-to-date budget</li><li>▪ Full-year budget</li><li>▪ Previous year's actuals</li></ul> <p><b>Cash Flow Projections</b></p> <p><b>Current Balance Sheet</b></p>	<p>A <b>dashboard</b> of key performance indicators &amp; program metrics</p> <p><b>Aging Schedules</b> for Accounts Receivable or/and Accounts Payables (if applicable)</p> <p><b>Investment summary</b> (if applicable)</p>

# How To Help the Board Be Effective Financial Stewards











**Quality board financial reports enable the Board to focus on and carry out its governance, asking the right questions**

- **Right for the audience:** Making reports digestible, matching level of interest and sophistication, is key to audience engagement.
- **Right level of detail:** Pay attention to the level and type of detail included. The right level of detail can help focus discussion of key issues.
- **Consistency of reports:** Allows audience to track and compare financial information over time.

**Board Reports are unique to the organization's business model and composition of programs**



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# Questions to Help Guide Collaborative Conversations

## Business Model

**Manage Within Revenue Reality:** How can we live within our means? Are we adjusting expenses in line with revenue?

**Business Model Strength:** How can we manage to a surplus and saving enough cash to cover full costs and weather future risk?

**Business Model Changes:** How have our financial results varied from year to year? What's expected for future years? What's changing and what's the risk or opportunity?


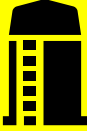

## Capital Structure

**Cash Flow:** Do we have enough cash to cover day-to-day needs? How could cash flow help us manage cash?

**Reserves:** How much of a cushion do we have to manage the ebbs, flows and potential revenue risks? What is our plan to build a cash reserve over time?

**Other Balance Sheet Needs:** How are we managing investments, facilities, debt and other balance sheet needs to best support mission delivery?

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# Thank You!

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