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

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Nonprofit Finance Fund
A Strengths-Based Approach

Mission Success

Your Financial Resources
Your Data and Know-How
Your People and Skills
Your Networks and Relationships
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<th>Strengths</th>
<th>Needs</th>
<th>Opportunities/Risks</th>
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<tr>
<td><strong>Financial</strong></td>
<td>What complete capital areas are well resourced?</td>
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<td>**Networking /</td>
<td>What complete capital areas do you identify needs or gaps in resources?</td>
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<td><strong>Relationships</strong></td>
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<td><strong>People &amp; Skills</strong></td>
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<td>What strengths could be leveraged to fill areas of needs or gaps in resources?</td>
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<td><strong>Data &amp; Know-How</strong></td>
<td>What data collected supports the outcomes that you predicted?</td>
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Five Steps to Assessing Financial Health & Performance

- **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**

- **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?

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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

Consistent Surpluses

One-time Investments

Balance Sheet

Reinvestment into the Business Model

Are you able to cover your costs?

Do you have access to enough cash?

Business Model

 KA: Per our last convo, I swapped out previous version with this updated graphic.
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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'

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<th>Operating, non-operating, and unfunded expenses</th>
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‘Must haves’ for *all* organizations
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<td><strong>Debt Principal Repayment</strong></td>
<td>Mortgage, line of credit, etc.</td>
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<td><strong>Fixed Asset Additions</strong></td>
<td>Money to purchase a new building, or computers</td>
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<td><strong>Change Capital</strong></td>
<td>Resources to adapt, grow, and/or expand</td>
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*‘Must haves’ for all organizations*

*Sometimes needed by some organizations*
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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:

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<th>Key Documents</th>
<th>Other Documents</th>
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<tr>
<td><strong>Narrative</strong> describing the financial status of the organization</td>
<td>A <strong>dashboard</strong> of key performance indicators &amp; program metrics</td>
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<td>Year-to-date actual <strong>revenue and expenses</strong> compared to:</td>
<td><strong>Aging Schedules</strong> for Accounts Receivable or/and Accounts Payables (if applicable)</td>
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<td>▪ Year-to-date budget</td>
<td><strong>Investment summary</strong> (if applicable)</td>
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<td>▪ Full-year budget</td>
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<td>▪ Previous year’s actuals</td>
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<td><strong>Cash Flow Projections</strong></td>
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<td><strong>Current Balance Sheet</strong></td>
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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

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<td><strong>Manage Within Revenue Reality:</strong> How can we live within our means? Are we adjusting expenses in line with revenue?</td>
<td><strong>Cash Flow:</strong> Do we have enough cash to cover day-to-day needs? How could cash flow help us manage cash?</td>
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<td><strong>Business Model Strength:</strong> How can we manage to a surplus and saving enough cash to cover full costs and weather future risk?</td>
<td><strong>Reserves:</strong> 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?</td>
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<td><strong>Business Model Changes:</strong> 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?</td>
<td><strong>Other Balance Sheet Needs:</strong> How are we managing investments, facilities, debt and other balance sheet needs to best support mission delivery?</td>
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@NFFSocialImpact

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