

Financial Management:

What Your Organizational Leaders Need to Know

Everyone in your organization, from the Board of Directors to the front line staff, should be aware of its finances. What they need to know, the level of detail, and how they learn, varies. In order for everyone to pull together and focus on the delivery of the organization's mission, there has to be a common understanding of how the organization is faring and where it's going financially. This article focuses on the key organizational leadership roles of the Board, Treasurer and Executive Director.

Let's start with the Board of Directors. The Board is ultimately responsible for providing resources and being accountable for the use of those resources. Your resources include facilities, materials, programs and services, people, and money. The budget is the first phase of the financial cycle, and it demonstrates what you plan to do with all your resources. It is also the hardest item for the Board to assess. The Executive Director with input from senior staff and the Treasurer typically prepares the budget document. While the Board as a governance entity cannot and should not know all the details, it does need to know the assumptions used in preparing the organization's budget. When the budget goes to the Board for approval does anyone ask questions? Is it probable that a Board might accept the report thinking, "our Treasurer knows what he/she is doing" and/or "the Finance Committee already approved this, what else is there to ask about?" The report may indeed be complete, the Treasurer having stated all the assumptions, anticipating all questions and documenting the answers. It may also be presented in a manner in which everyone on the Board, even those with little finance and accounting experience, can understand. However, that is not the usual situation.

The Board needs to know how optimistic or pessimistic the assumptions, which are the basis of the draft budget document, actually are. What is the probability of each component of revenue? What is the probability of receiving each of those three grants? How are we forecasting client income? What is the basis for the numbers on individual contributions? Why are we adding a special event? And on the expense side of the ledger, what are the assumptions about the reduction in cost with the new technology? The answers may be clear, but the Board won't know unless the questions are asked. Having a well-thought-out

budget is critical; it is the foundation for what comes next. Let's suppose your Board meets quarterly. When it comes time for the Treasurer's report, she distributes and reports on the balance sheet, profit and loss for the quarter, and cash flow. There is also a report of progress against budget with an explanation of significant variances. That tells you where the finances were at the end of the previous month. What other information would be valuable? What about the forecast? Given what we know now, where will we be at the end of the fiscal year? How can the Treasurer know that, especially after just the 1st quarter? Using information gathered during the first three months of the year, we are able to gather valuable information that can guide useful projections—helping the organization to gauge its potential for earnings across the remaining quarters.

Organizations run into trouble when they ignore early warning signs and think that the numbers will be made up at the end of the year. It is ultimately Board members who are responsible for understanding the organization's financial condition and asking the tough questions.

Now let's turn to the Treasurer. How do you select the person for this position? Professional experience working as a CPA, a banker, or a business executive might offer a key skill set to your board. Start by thinking of the tasks, the knowledge, and experience required for that position—which is a role that requires more than presenting reports and preparing forecasts. You should also consider the financial expertise of the audience for the report. In a for-profit there are people at the table with business experience and familiarity with the type of information presented. At a nonprofit, the audience for this information is likely to be different. The Treasurer

has to have the skills to communicate the impact of this information to a Board of Directors composed of people from a variety of, and often, non-business backgrounds. In addition to having general expertise and experience in accounting and/ or finance the Treasurer also should be aware of the peculiarities of nonprofit accounting. This is taught in business and accounting programs, but not everyone takes such a course. A person who has made their career in the for-profit sector probably does not have the knowledge of the specialized financial requirements applicable to nonprofits, such as the specifics of managing endowments and grants. Issues of revenue recognition are different for nonprofits compared to for-profits. Since it is true that the Board depends on the Finance Committee to ensure accuracy in reports and implications, members must have the same knowledge as the Treasurer. If you do not have the requisite skills among Board members, this becomes an opportunity to add a non-Board member to a Committee.

The Executive Director is the third part of the triumvirate. Executive Directors are in a complicated position. They are expected to know the details of their operations as well as be aware of the organization's "big picture". Regarding financial matters, Executive Directors are expected to: prepare and monitor budgets; oversee investments, especially if there is an endowment; prepare for an audit or review; understand the economics of fundraising; and directly or indirectly supervise the accounting system used to record all

financial activities. The Treasurer, Finance Committee and the Board rely on the Executive Director for answers to these hard questions.

Executive Directors are chosen for a variety of reasons. An ideal candidate for Executive Director will possess seasoned fund development skills, expertise in program management, impressive networks, and excellent management skills. Most job postings and job descriptions for an Executive Director also require some expertise in finance, but that is rarely as important as the other criteria. In large organizations there may be a Chief Financial Officer, who has direct responsibility for these matters. Although, even with a CFO on staff, the Executive Director is ultimately responsible for an organization's overall financial management. Ideally, the Executive Director will work with the Treasurer to learn more about finance and the business of the organization. Between the two of them the Board will receive the information it needs to succeed in its role as ultimate fiduciary and decision-maker.

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