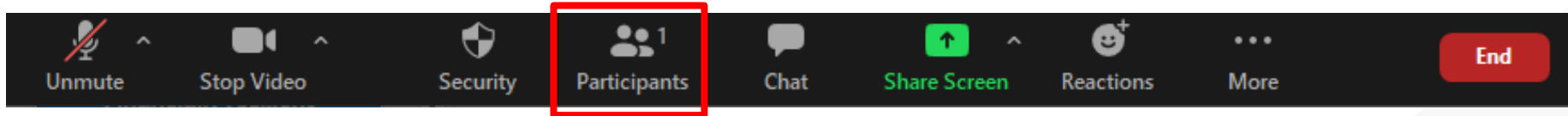


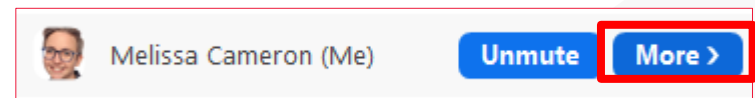
# Welcome!

As you log in, please update your Zoom screen name with your first name, organization name, and your pronouns

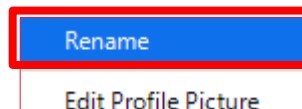
- Select Participants from the menu at the bottom of your screen



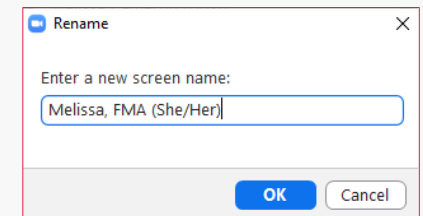
- Hover over your name and select “more”



- Select “Rename”



- Update with your first name, organization, and pronouns, then select “okay”



# UNDERSTANDING THE BOARD'S ROLE IN FINANCIAL RESILIENCE

9/27/2022

## REDF

An investment that **works.**

BDO USA, LLP, a Delaware limited liability partnership, is the U.S. member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.



BDO FMA

# Today's Session

## The Board's Role in Financial Resilience

- ▶ Financial resilience
- ▶ The Board's responsibilities
- ▶ Role in planning
- ▶ Breakout activity
- ▶ Role in operations and performance management
- ▶ (If we have time) Developing an operating reserves policy
- ▶ Resources & wrap up



Use the chat to share:

**Board Members:**  
How long have you  
served on your  
current board?  
Why did you  
decide to become  
a member?

**All:**  
What do you hope  
to take away from  
this session?

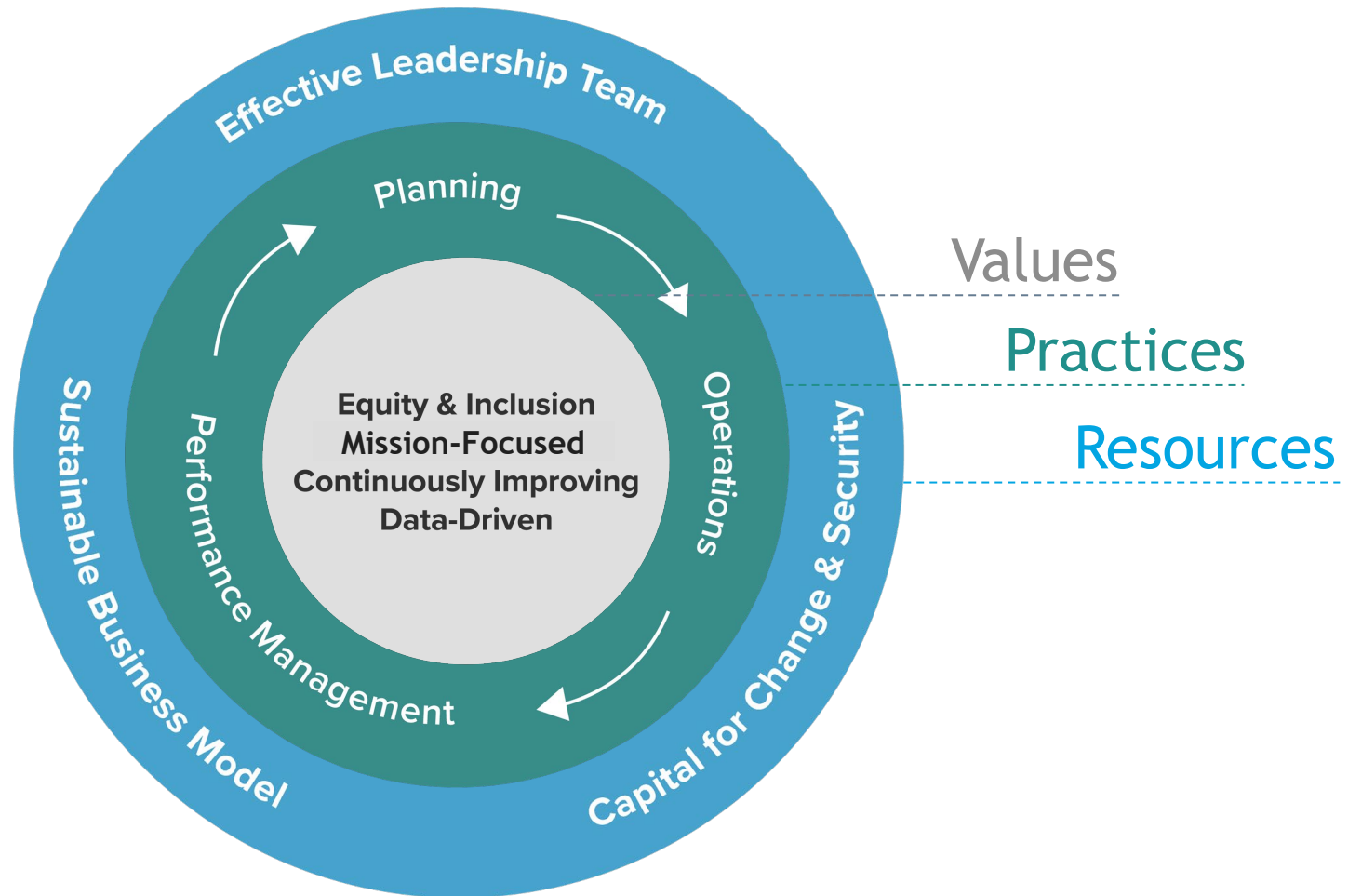
# Money Stories

Take a moment to reflect on the following questions:

- ▶ What messages did you get from your family and/or community about money?
- ▶ How were you expected to use your own money when you had it?
- ▶ What beliefs do you have about spending and saving money?
- ▶ **How might these histories show up in your role?**



# Financial Resilience



# Is My Organization Financially Resilient?

- ▶ Our Board/Staff partnership is highly effective
- ▶ Our business model is sustainable
- ▶ We generate and maintain operating reserves

What should I do as a Board Member?



# Board Fiduciary Responsibilities

There are typically three board duties required by law, though some states require additional duties:



## DUTY OF CARE

Participate in board meetings, make informed decisions; oversee the executive director



## DUTY OF LOYALTY

Act in the best interest of the organization; monitor conflicts of interest and resolve if required; self-dealing is a breach



## DUTY OF OBEDIENCE

Comply with donor restrictions/funder requirements, monitor mission alignment of activities



# Delineated Finance Responsibilities



## BOARD OF DIRECTORS

- ▶ Setting the strategic financial direction
- ▶ Providing on-going financial monitoring and fiscal accountability
- ▶ Ensuring compliance with applicable laws and regulations



## MANAGEMENT

- ▶ Executing the organization's financial strategy
- ▶ Providing complete and timely financial information to the board
- ▶ Completing externally required forms and reports

# Board Committees (Rules Differ by State)

## Common Committees



Finance



Audit/Compliance



Executive

## Other Committees often include:



Development



Board Development/  
Governance



Risk



Special Campaign/  
Initiative

## PLANNING

# Board Role in Planning

- ▶ Set long-term **strategic** and **financial** goals with staff
- ▶ Understand the organization's business model
- ▶ Approve annual operating budgets
- ▶ Support scenario planning



# Strategic & Financial Planning



# Financial Goals: Operating Reserves

Reserves indicate long term financial health & flexibility - a safety net and resources to invest in change & growth

## WHAT ARE THEY?

- ▶ Reserves are like savings
  - ▶ Liquid
  - ▶ Unrestricted
  - ▶ Net of debt

## WHY ARE THEY NEEDED?

- ▶ Serve the mission during downturn
- ▶ Take risks, innovate and grow
- ▶ Cover frontloaded expenses

## HOW ARE THEY BUILT?

- ▶ Annual surpluses
- ▶ Fundraising campaign or investment
- ▶ Strategic budgeting

# Operating Results

What Was  
Contributed or  
Earned

Revenue\*

What We Spent

Expenses

Our Operating  
Results

Surplus  
(Deficit)

\*Revenue excludes portions restricted for future use

# Liquid Unrestricted Net Assets (LUNA)

## Our Unrestricted Net Worth

## Unavailable Net Worth

## Operating Reserves

Unrestricted Net Assets

Illiquid Net Assets

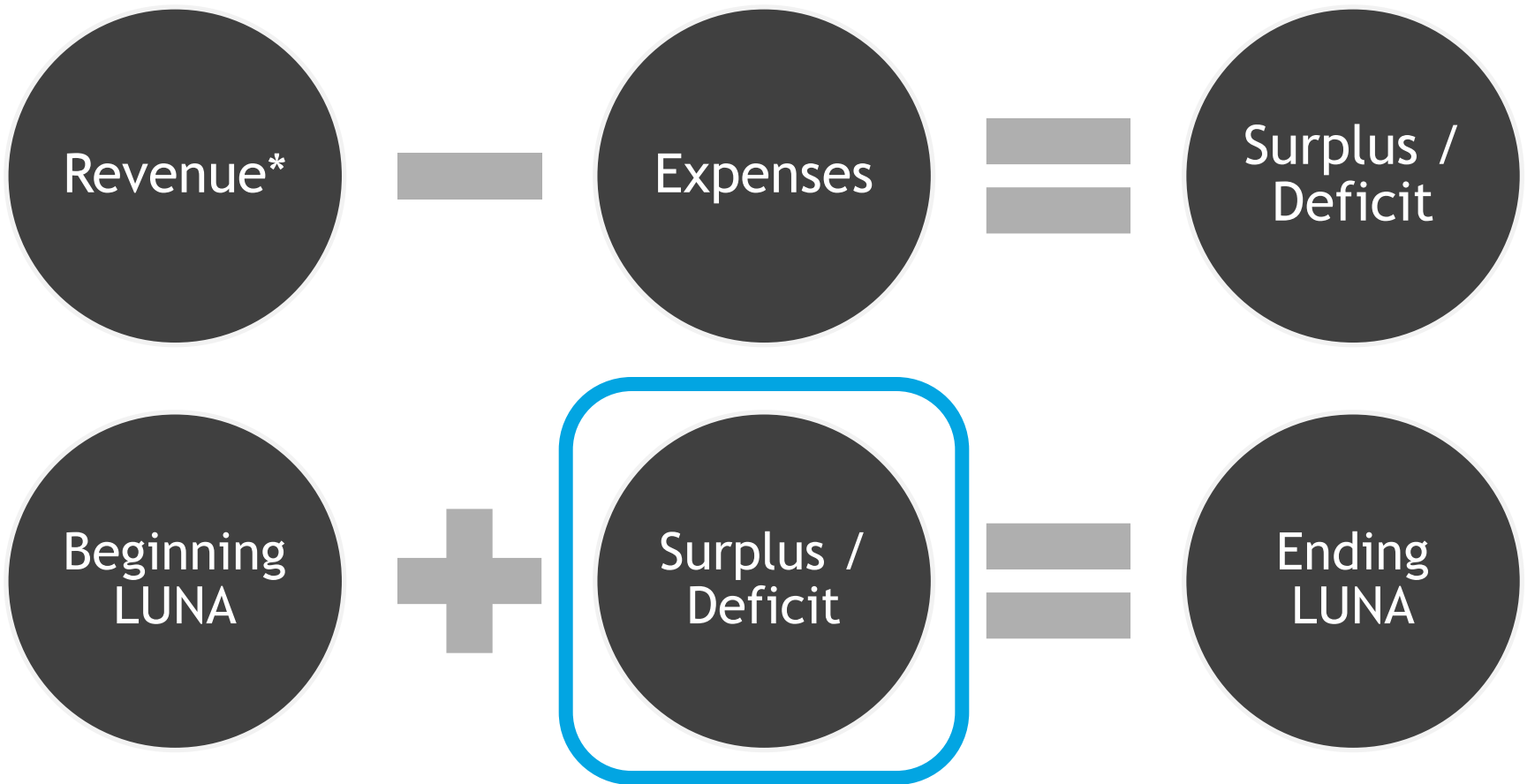
Liquid Unrestricted Net Assets

**Differs from cash**  
“unrestricted”: excludes resources that are restricted  
“net”: subtracts what we owe

Manual calculation to exclude resources that are relatively *illiquid*

Our available, flexible resources

# LUNA is built by surplus, depleted by deficit



\*Revenue excludes portions restricted for future use



# Surplus Is Achieved By Unrestricted Revenue

- ▶ Revenue sources like project funding and government grants/contracts require spending of every dollar provided - they do not drive surpluses
- ▶ Surpluses are achieved when revenue exceeds expenses because of unrestricted revenue. Examples of unrestricted revenue include:
  - ▶ Foundation/corporate grants for “general operating support”
  - ▶ Individual donations
  - ▶ Earned revenue
- ▶ Strategies for building LUNA must include sufficient unrestricted revenue generation to drive surpluses, including capacity for generating and managing those types of funds
- ▶ **Equity consideration:** BIPOC-led, small city and rural organizations are often most concentrated with project funding and government grants/contracts, and with the least access to unrestricted revenue to build LUNA

# Nonprofit Leaders Must Strike a Critical Balance

## FINANCIAL HEALTH

**SUSTAINABLE BUSINESS  
MODEL (SURPLUSES)**

**FLEXIBLE CAPITAL (LUNA)**

## ORGANIZATIONAL STRENGTH

### INVESTMENT IN...

Thriving wages

Excellent benefits

Specialized skills

Wellness programs

Professional Development

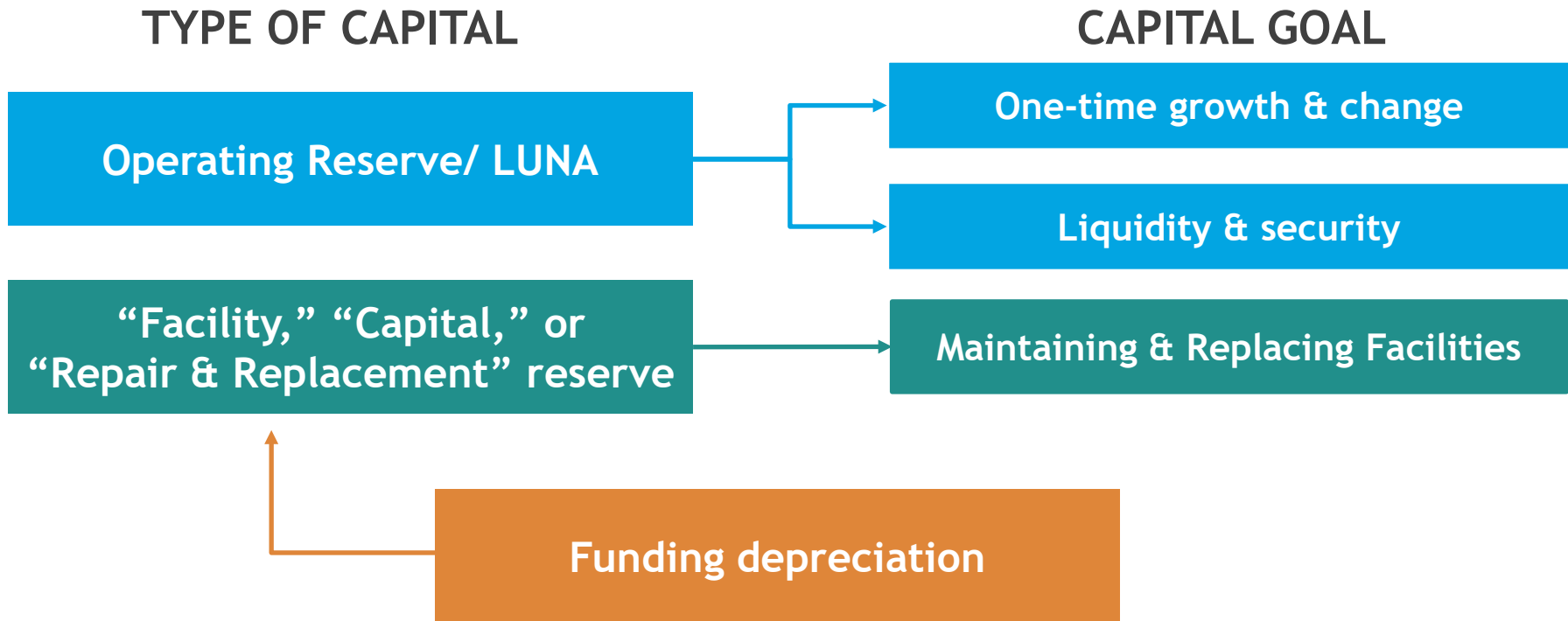
Cyber security

Facilities & Equipment

Technology

## PLANNING

# Financial Goal: Capital



# Thoughts & Questions



## PLANNING

# Annual Operating Budgets

What to look for when reviewing annual operating budgets for approval



Organizational  
Values



Surplus or  
Deficit



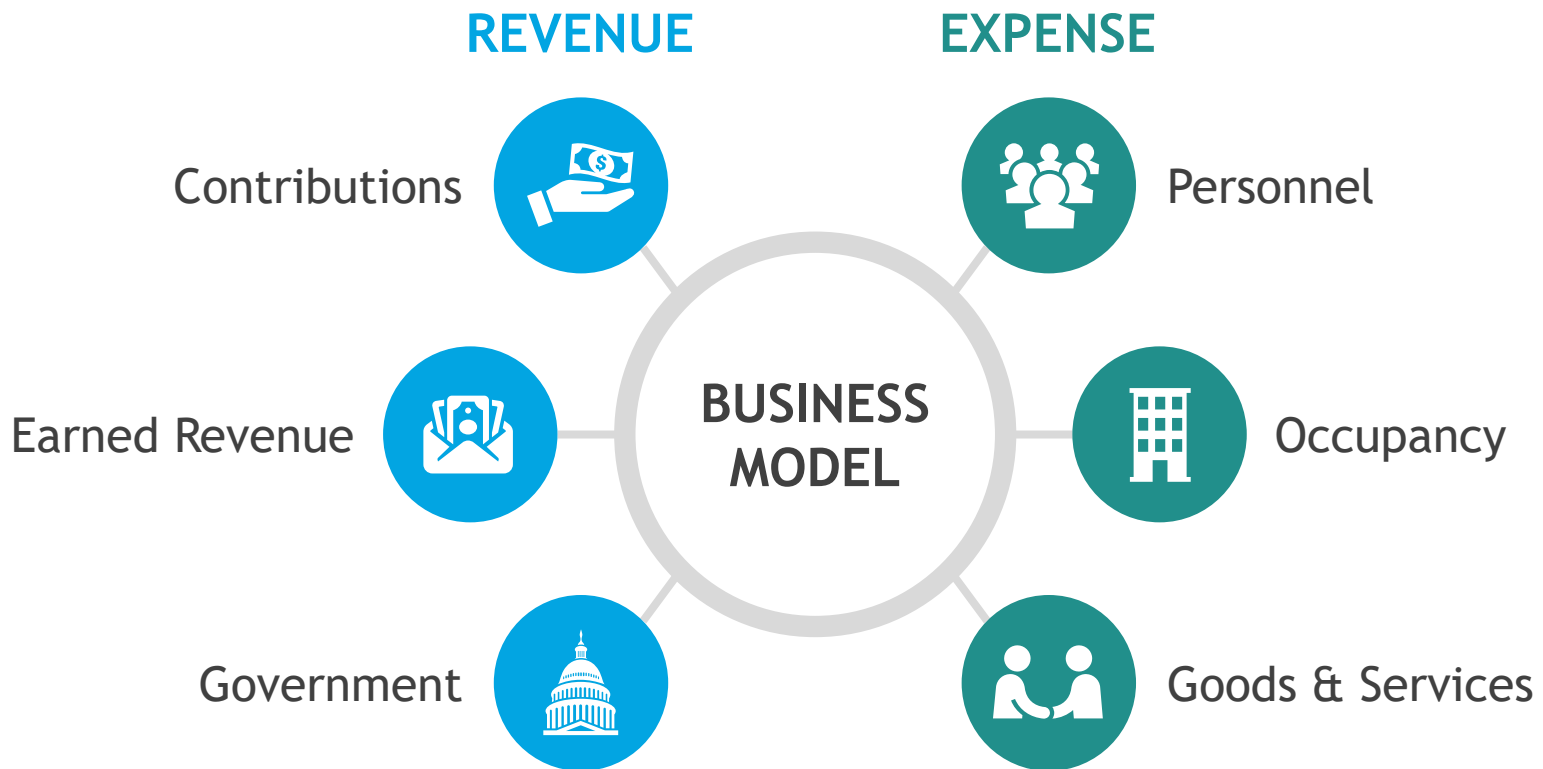
Business Model  
Alignment



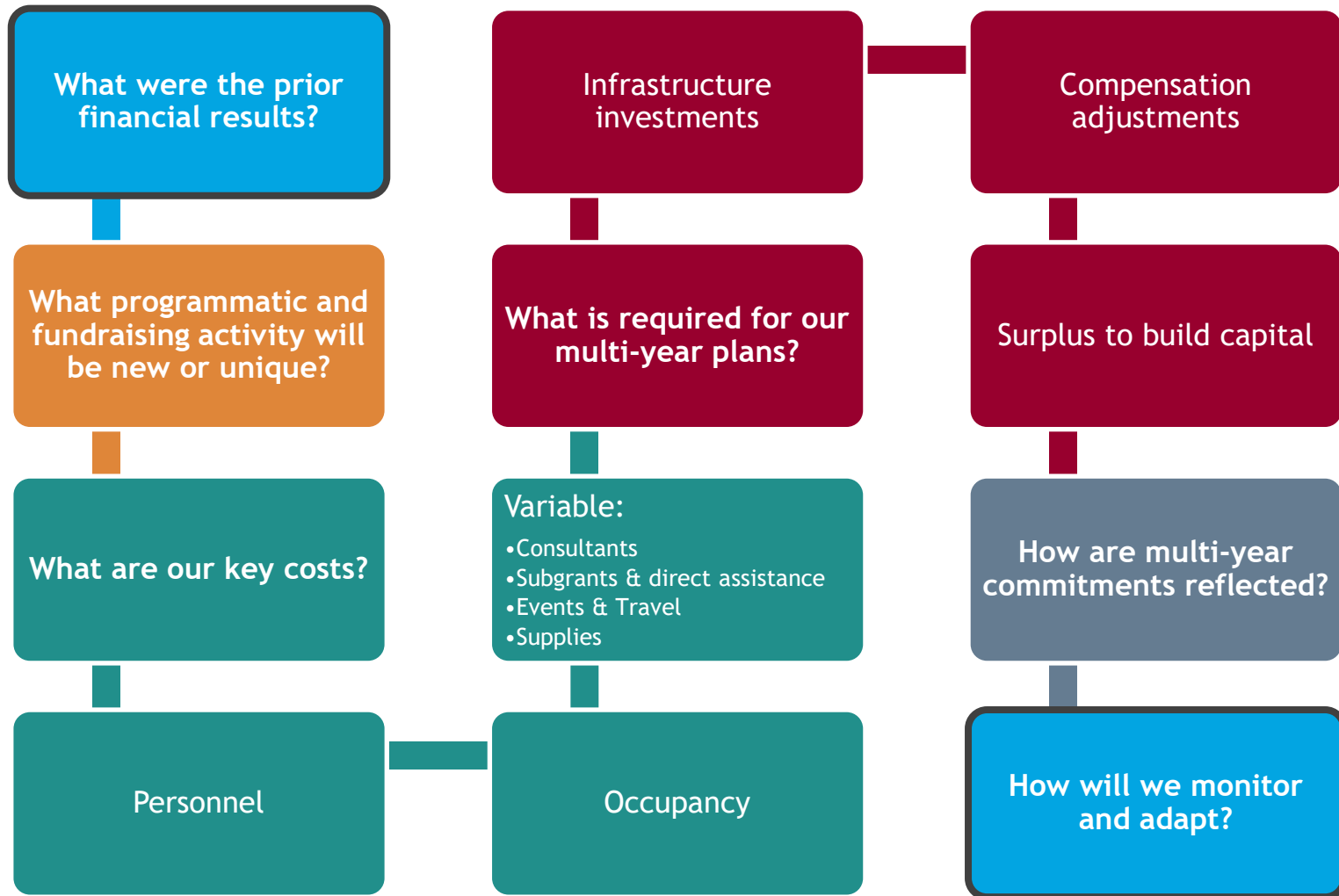
True Cost of  
Programs &  
Adequate  
Resources for  
Overhead

## Business Model

The rationale of how an organization creates, delivers, and funds its impact.



# Key Financial Planning Questions: Expenses



# Revenue Planning

| Funder        | Prospect Amount  | Likelihood | Budget           |
|---------------|------------------|------------|------------------|
| Foundation A  | \$100,000        | Committed  | \$100,000        |
| Corporation B | \$100,000        | High       | \$100,000        |
| Foundation C  | \$100,000        | Medium     |                  |
| Government D  | \$100,000        | Low        |                  |
| <b>TOTALS</b> | <b>\$400,000</b> |            | <b>\$200,000</b> |



# Revenue Planning

| Funder        | Prospect Amount  | Likelihood | %    | Budget           |
|---------------|------------------|------------|------|------------------|
| Foundation A  | \$100,000        | Committed  | 100% | \$100,000        |
| Corporation B | \$100,000        | High       | 85%  | \$85,000         |
| Foundation C  | \$100,000        | Medium     | 50%  | \$50,000         |
| Government D  | \$100,000        | Low        | 10%  | \$10,000         |
| <b>TOTALS</b> | <b>\$400,000</b> |            |      | <b>\$245,000</b> |

# Scenario Planning



## Revenue Analysis Worksheet

|   |                                  |  |                              | Best              | Moderate         | Worst             |
|---|----------------------------------|--|------------------------------|-------------------|------------------|-------------------|
| Variable Revenue Assumption:                      |                                  |  |                              | 100%              | 80%              | 60%               |
| Program/<br>Department/ Function                  | Funding Source                   | Total Possible<br>Revenues<br>(Current Year<br>Portion <i>only</i> ) | Likelihood of<br>Receipt (%) | Revenue Scenarios |                  |                   |
|   |                                  |  |                              | Best Case         | Moderate Case    | Worst Case        |
| <b>Pre-Kindergarten<br/>Program</b>               | Government Contract A            | \$ 275,000   | 100%                         | 275,000           | 275,000          | 275,000           |
|   | Government Contract B            | \$ 75,000  | 75%                          | 75,000            | 75,000           |                   |
|   | Grant from Foundation A          | \$ 40,000  | 50%                          | 40,000            |                  |                   |
|   |                                  |  |                              |                   |                  |                   |
|   | VARIABLE: Earned program revenue | \$ 75,000  | n/a                          | 75,000            | 60,000           | 45,000            |
|   | VARIABLE:                        |  |                              | -                 | -                | -                 |
| FY Expense Budget for<br>Pre-Kindergarten Program | <b>\$ 400,000</b>                |  |                              |                   |                  |                   |
|   |                                  |  | <b>Revenue Subtotal</b>      | <b>\$465,000</b>  | <b>\$410,000</b> | <b>\$320,000</b>  |
|   |                                  |  | <b>Expense Budget</b>        | <b>\$400,000</b>  | <b>\$400,000</b> | <b>\$400,000</b>  |
|   |                                  |  | <b>Surplus /Deficit</b>      | <b>\$65,000</b>   | <b>\$10,000</b>  | <b>(\$80,000)</b> |

# Thoughts & Questions





# Break

# Business Model Example: Youth Arts Organization

## Revenue

- Class fees; ticketed performances; special events
- Pricing tied to true costs with subsidies
- Noncommitted revenue sources, but unrestricted

## Expense

- Personnel - employed or contracted
- Occupancy and production expenses
- Marketing and communications

## Capacity

- Potential for mission drift or drain on staff
- Communications and marketing expertise
- Ticketing and donation systems

# Business Model Example: Policy and Advocacy

## Revenue

- Relationship-driven institutional grants
- Varied timing
- Restrictions can provide limited support for overhead, reserves

## Expense

- Staff - lobbying?
- Gatherings & convenings
- Travel

## Capacity

- Grant writing, reporting, and relationships
- Program evaluation data
- Grant restriction releases
- Systems for tracking lobbying time and expenses

# Business Model Example: Supportive Housing

## Revenue

- Large, multi-year, predictable government contracts
- Cost-reimbursement
- Limited support for overhead, reserves

## Expense

- Occupancy and maintenance, including improvements
- 24-hour staff
- Budget modifications for variances

## Capacity

- Monitoring contract spend-down
- Participant data
- Compliance and expense-tracking for invoicing
- Unrestricted revenue generation

# Breakout Activity

- ▶ You will be placed into a random breakout group
- ▶ Introduce yourself, sharing your name, organization and role
- ▶ Discuss the following prompts:
  - What is your organization's business model? What are your key revenue and expense drivers?
  - What are the key capacity considerations?
  - What planning questions is your organization thinking about for future years?
  - For Board members: what experience or perspective can you draw on to help navigate key questions?





# Board Role in Operations

- ▶ Ensure the organization is in compliance and monitor internal controls
- ▶ Partner with staff to manage financial risk



## OPERATIONS

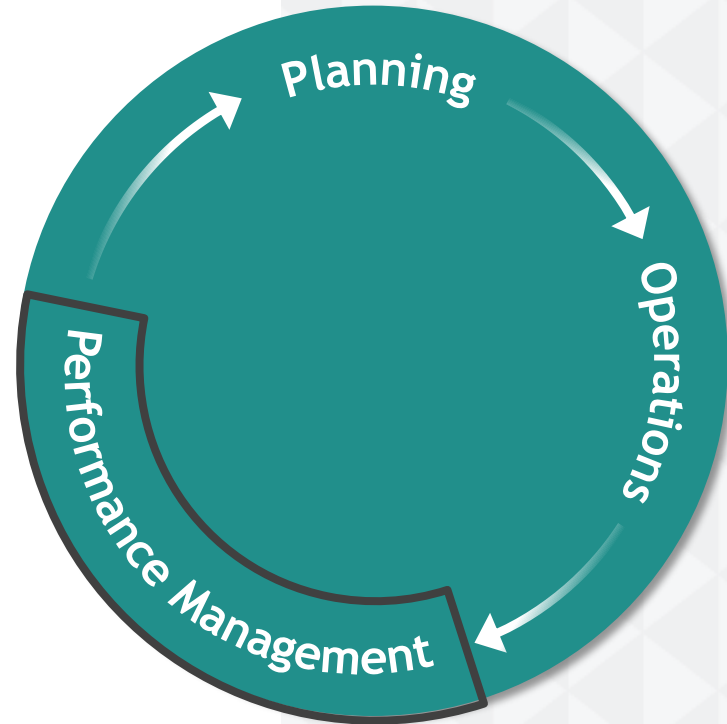
# Compliance and Controls

- ▶ **Ensure compliance** with federal, state and other reporting requirements
  - IRS Form 990 Part VI
- ▶ Hire an independent audit firm and **oversee the audit process**
- ▶ Act as the **steward of internal controls**
  - Regularly review and approve documented fiscal policies and procedures
  - Conflict of interest policy
  - Whistleblower policy
  - Regular process for setting Executive Director compensation



# Board Role in Performance Management

- ▶ Monitor key performance indicators that demonstrate the long-term financial health of the organization
- ▶ Monitor current financial activity to stay on track toward goals



## BOARD ROLE IN PERFORMANCE MANAGEMENT

### Monitoring Current Activity



---

Identify and understand significant  
Budget to Actual variances



---

Understand financial projections

- ▶ Shift from analysis of past events to proactive management of future opportunities and risks

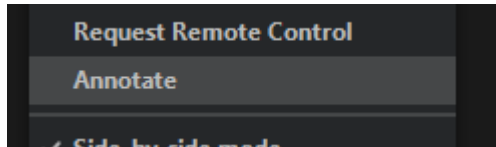
## BOARD ROLE IN PERFORMANCE MANAGEMENT

### Annotation Activity

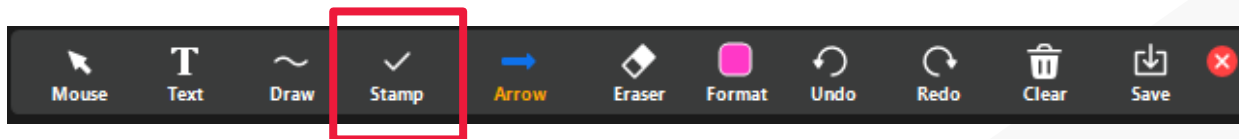
- ▶ At the top of your screen, select “View Options” next to the green bar:



- ▶ Select the “Annotate” option:



- ▶ From the toolbar, select the stamp option:



## BOARD ROLE IN PERFORMANCE MANAGEMENT

# What Financial Reports Does Your Board Regularly See?

MANAGEMENT  
NARRATIVE

PERFORMANCE  
DASHBOARD

BUDGET-TO-ACTUAL

BALANCE SHEET

YEAR-END FORECAST

OTHER

## BOARD ROLE IN PERFORMANCE MANAGEMENT

# Financial Reports: Board

### MONTHLY\*

#### FINANCE COMMITTEE

- ▶ Management Narrative
- ▶ Performance Dashboard
- ▶ Budget-to-Actual Revenue & Expenses for
  - a) each program
  - b) organization-wide
- ▶ Balance Sheet
  - a) Accounts Receivable Aging
  - b) Accounts Payable Aging
  - c) Components of Net Assets with Donor Restriction ★
- ▶ Cash Flow Projection ★
- ▶ Year-end Forecast ★

### QUARTERLY

#### FULL BOARD OF DIRECTORS

- ▶ Management Narrative
- ▶ Performance Dashboard
- ▶ Budget-to-Actual Revenue & Expenses for
  - a) each program
  - b) organization-wide
- ▶ Balance Sheet
- ▶ Year-end Forecast ★

\*Larger organizations may opt to only provide reports to the Finance Committee on a quarterly basis

★ Tool available on [strongnonprofits.org](https://strongnonprofits.org)

# BOARD ROLE IN PERFORMANCE MANAGEMENT

## Financial Reports: Board

A good starting point

### MONTHLY\*

#### FINANCE COMMITTEE

- ▶ Management Narrative
- ▶ Performance Dashboard
- ▶ Budget-to-Actual Revenue & Expenses for
  - a) each program
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- ▶ Year-end Forecast ★

### QUARTERLY

#### FULL BOARD OF DIRECTORS

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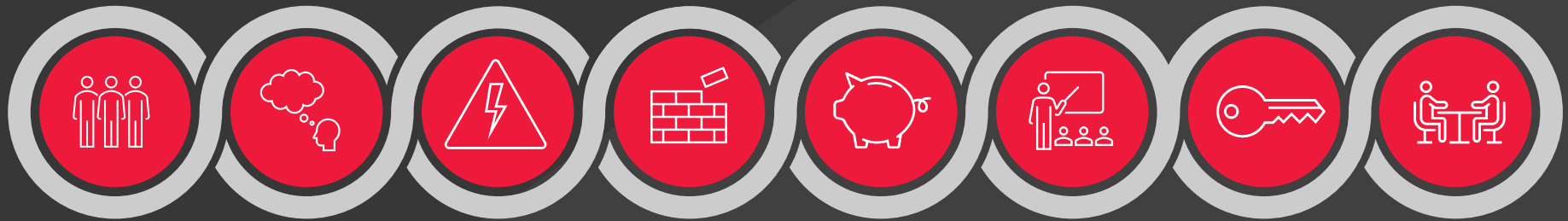
★ Tool available on [strongnonprofits.org](https://strongnonprofits.org)



# Thoughts & Questions



# Developing an Operating Reserves Policy



# What is an operating reserves policy?

- ▶ Documented, board-approved policy outlining how much liquidity to protect, and the process for using, reporting on, and replacing funds
- ▶ Differs from an *investment policy*, which is a complimentary tool for guiding investment of resources beyond what may be protected in an operating reserve (which should be kept in cash)
- ▶ Operating reserves are often defined as some number of months worth of operating expenses. When so, the \$ amount changes year to year



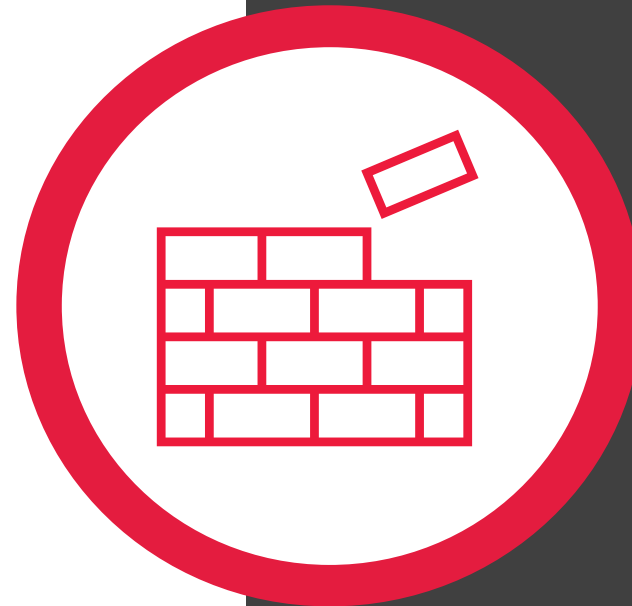
## Evaluate your organization's risk factors

- ▶ If you've identified minimal risk, 3 months worth of operating expenses may be sufficient
- ▶ If you've identified significant revenue or spending risks, consider 3-6 months worth of operating expenses
- ▶ If you've identified significant revenue **and** spending risks, consider 6-12 months worth of operating expenses



## Create a plan to build your organization's fund

- ▶ Does the organization have unrestricted, available resources (LUNA) to set aside today?
- ▶ Does the organization have a funder who is or could be interested in making a special gift to build your reserves?
- ▶ Is the organization likely to achieve recurring surpluses over the coming years?
- ▶ Are there fundraising strategies specific to building the organization's reserves? Anything to learn from past efforts?



Ensure requirements, controls and procedures protect the organization while at the same time ensuring access to reserves

- ▶ Reserves are not a useful tool if they're just off limit bank accounts, so don't make the requirements too onerous



# Thoughts & Questions

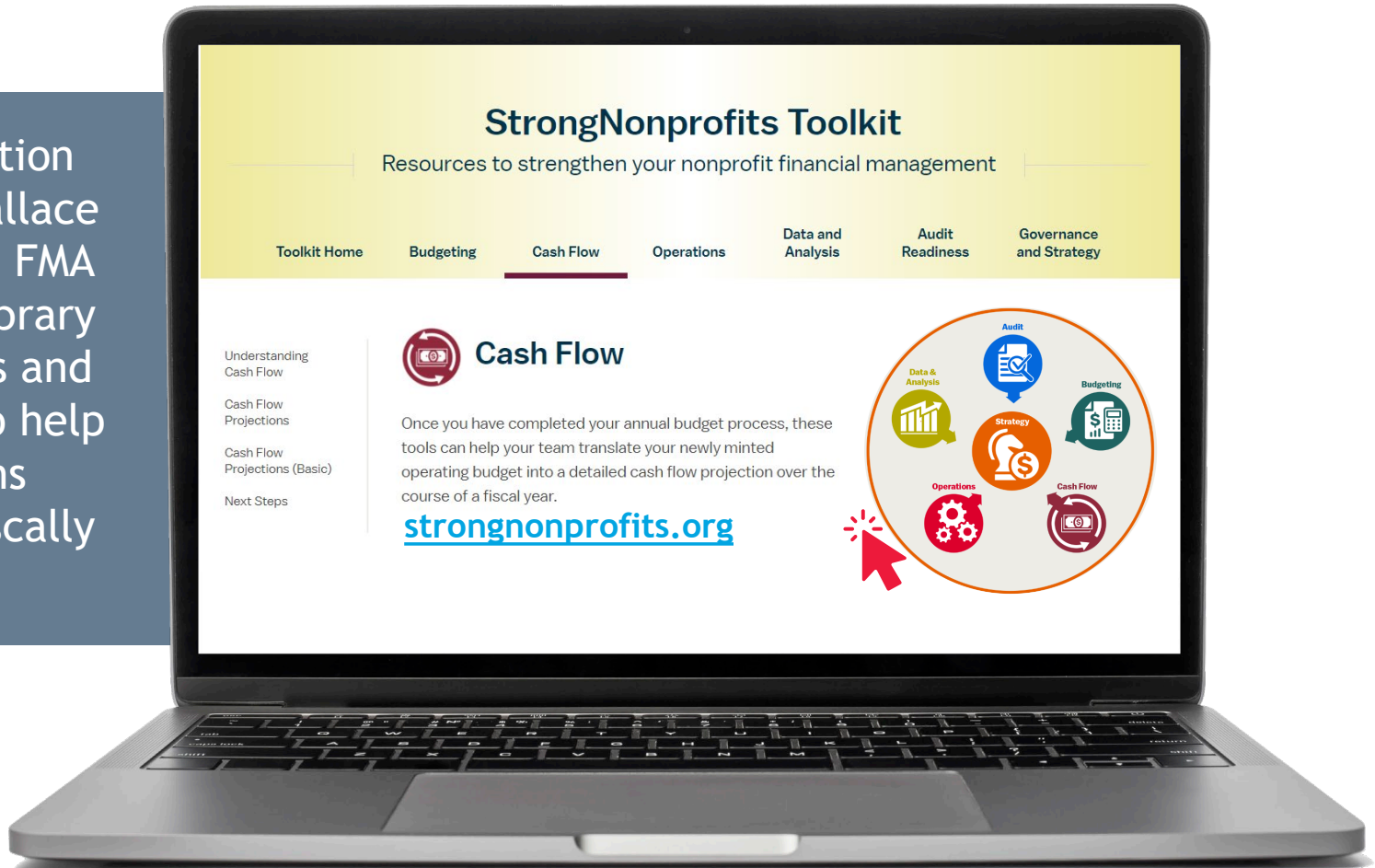


# Resources & Wrap Up



# Financial Management Resources

In collaboration with the Wallace Foundation, FMA created a library of free tools and resources to help organizations become “fiscally fit”.



# Resources

## Reserve Fund Policy Template and Guide

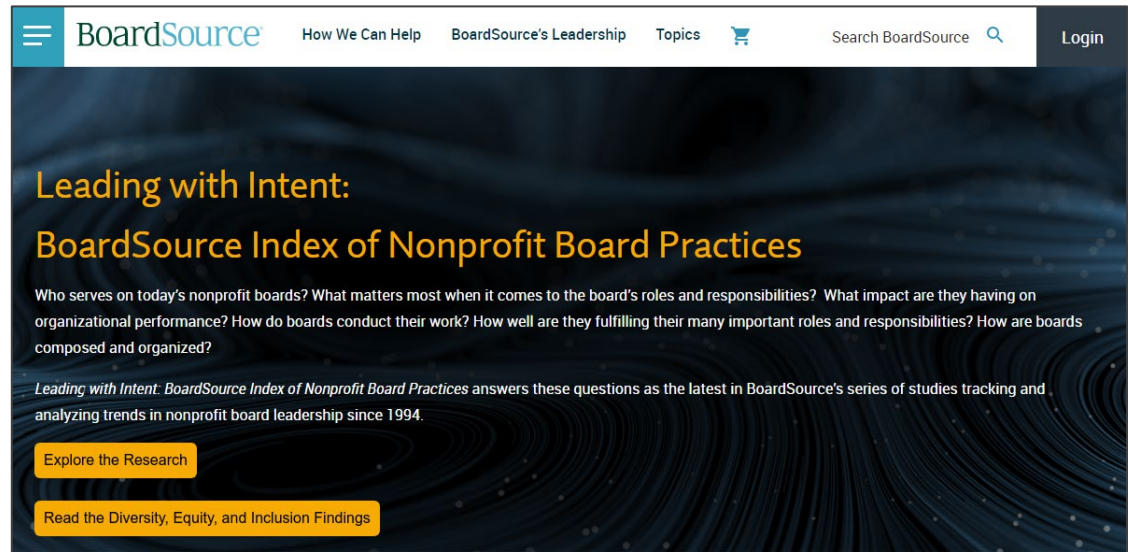


## RESOURCES

# Resources for Nonprofit Boards



An organization that offers a wide range of services to strengthen and support board performance, including assessments, coaching and consulting, educational programs and events and a rich library of resources.



[boardsource.org](https://boardsource.org)

# About BDO FMA

**BDO FMA exists to build a community of individuals with the confidence and skills to lead organizations that change the world.**

- ▶ Established in 1999 to serve not-for-profit organizations around the country – combined with BDO in 2021
- ▶ Provides customized financial management, accounting, software, organizational development, and other consulting services
- ▶ Works directly with organizations or through funder-supported management and technical assistance programs



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