Slide 1

Hello and welcome to this e-learning session on Financial Best Practices, brought to you by Columbia Basin Trust, and presented by Vantage Point.

Slide 2

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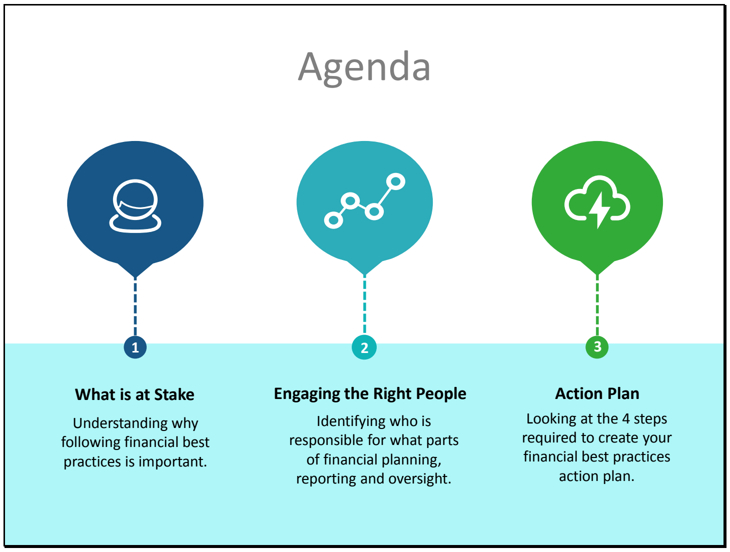
Slide 3

My name is Carol Neuman and I'm the Director of Learning at Vantage Point. Vantage Point is a not-for-profit organization that supports other not-for-profits by providing foundational, advanced, and online learning opportunities. We work with more than 500 organizations and nearly 3000 not-for-profit leaders across BC.

Today, I'll be your e-learning facilitator.

Slide 4



In this eLearning, we will explore the fundamentals of financial best practices.

We will start by talking about what is at stake with financial best practices. Then, we'll discuss how to engage the right people in the right roles. And we'll close by looking at how to create your financial best practices action plan.

Let's get started!

Slide 5

We have to ask ourselves, why are financial best practices important – why should we spend time and energy on financial best practices when we could be spending time on our programs?

Ultimately, the answer is that financial mismanagement is one of the largest risks to both the organization's reputation and the reputations of its board members. But, the good news is that by focusing on strong financial oversight, you can create some great benefits for your organization.

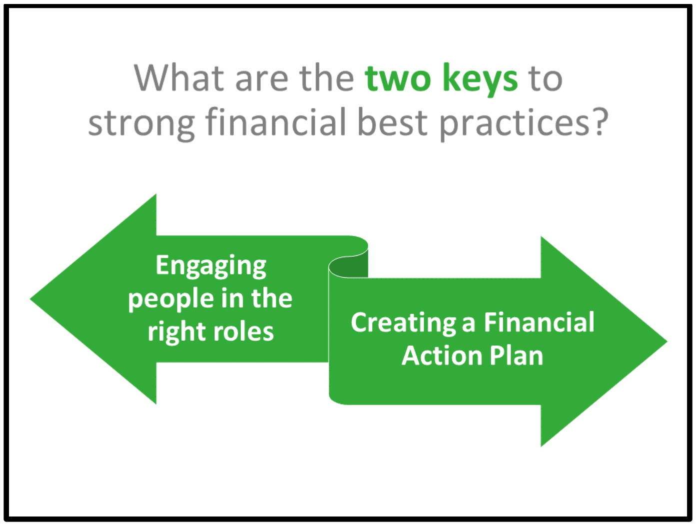
First, it means that your organization will be able to create a positive reputation in the community.

This has an impact on those who financially contribute to your organization. Donors and funders want to know that any funds they contribute will be well managed and used for the intended purpose. With strong financial best practices, they can have the confidence that their donations will be used effectively.

At the same time, strong financial oversight and governance means you can attract the right people to your organization as staff members and board members.

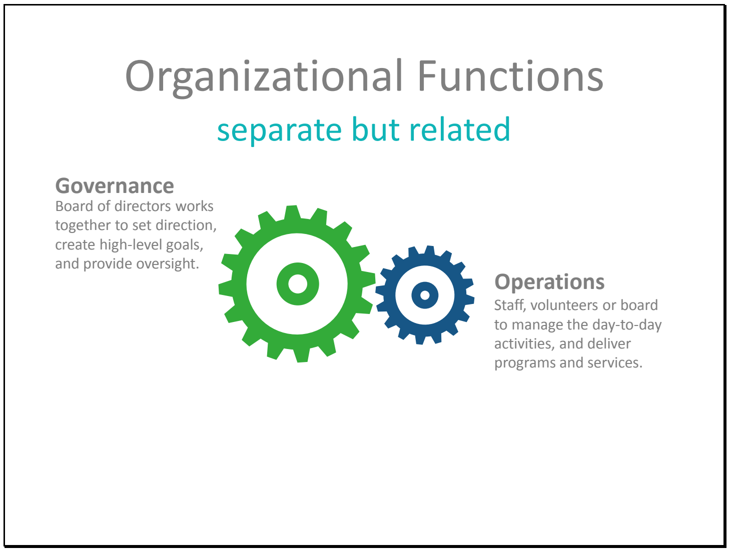
With strong financial best practices, you can have confidence that your organization can achieve your mission and goals. You'll be able to avoid serious situations like bankruptcy or a lawsuit. And, you'll have the confidence that you are using your financial resources well.

Slide 6



So how can you create strong financial best practices? Through the two keys to financial best practices: engaging people in the right roles, and developing a financial action plan.

Slide 7



Let’s start by exploring how to engage the right people in the right roles. It all begins with understanding the difference between the two major roles in any organization – governance and operations.

Governance is about the board working together to set direction, create high-level goals, and provide oversight.

Operations is the day-to-day implementation of the organization’s program and services. Operations creates activities to carry out the goals set by the board and reports back to the board on progress towards those goals.

Regardless of the board model an organization works with – even in working boards – the governance function is the responsibility of the board. In organizations that have no staff, the board also takes on the role of operations. If this is the case at your organization, there are two things to keep in mind:

- The board has to pay attention so that the governance pieces are not forgotten. This might involve setting aside specific time during board meetings to discuss governance topics.
- The board needs to keep operational duties and governance duties separate. This might mean bringing on skilled volunteers to complete operational tasks like bookkeeping.

Slide 8

So how does this relate to your organization's finances?

Well, financial best practices, or oversight, is ultimately the responsibility of the board:

- The board creates policies and procedures that govern the operations of both management and the board;
- It also approves the yearly budget and financial goals;
- Throughout the year, it monitors financial results;
- In its governance role, the board of directors also appoints a Treasurer and, if your organization has one, a Finance or Audit Committee.
- The board should take any training needed to help them understand their duties and to be able to read and understand financial reports.

One thing I'll also add: When thinking about succession planning for your board, you should consider recruiting board members with some financial experience and training.

Slide 9

Staff, if you have them, are responsible for operations and executing financial plans.

Your leadership staff person will:

- Receive priorities from the board
- Work with program staff or the bookkeeper to create the first draft of the annual budget
- Work with the Treasurer (or Finance Committee) to match budget with strategic priorities
- Provide regular draft reporting to Board through the Treasurer (or Finance Committee, if you have one)

If you have a bookkeeper, they are responsible for:

- Inputting data and keeping records
- Preparing financial reports for the leadership staff to share with the board

In organizations that do not have a bookkeeper, these duties might be fulfilled by a skilled volunteer or another staff person. It is a good idea to try to involve an accountant in your operations. Ideally, find a professional accountant who is willing to volunteer as Treasurer. If that is not possible, consider hiring a part-time accountant to assist with budgeting and financial reporting and with reviewing the work of the bookkeeper for accuracy and completeness.

Smaller organizations may find it easier to attract recently graduated professional accountants, while larger organizations may find it easier to attract accountants with more experience. But no matter your size, this is likely the single best way to protect the assets and reputations of your organization and your directors.

Slide 10

Oversight & Bookkeeping

separate but important roles

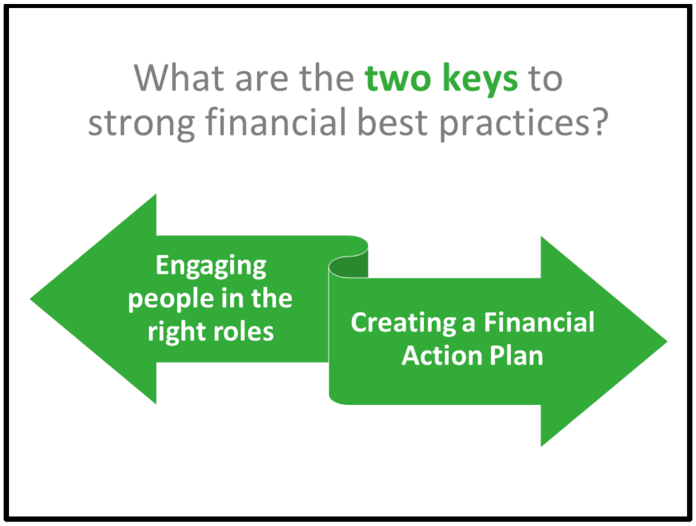
If the same person **reviews** your financial records *and* **prepares** your financial records, not only do you risk having incomplete or incorrect records: you also risk **fraud or theft**.

One way to ensure solid financial best practices is to keep financial oversight separate from bookkeeping. If the same person is reviewing financial records – say your bookkeeper or treasurer – *and* preparing your financial records, you are at risk of having records that are incomplete, incorrect or worse; you are at risk of fraud or theft.

This is one of the main reasons why solid financial oversight is so critical. It is also one of the main reasons you should always involve at least two people in managing your finances. This means your Treasurer should not perform bookkeeping duties unless you have someone else reviewing the work of the bookkeeper, like a part-time controller or accountant.

You also need to ensure that the person doing the review has the right financial skills to act as an effective check and balance and provide a sufficient level of oversight.

Slide 11



Now, let's look at the second key – creating your financial best practices action plan.

Slide 12

An action plan is like a roadmap. Without a roadmap, keeping track of your financial results and goals becomes pretty tricky. How will you know which steps to take or in which direction to go if you don't know where you are right now or where you want to end up? Your action plan will help you get clear on that.

The great news is that creating a strong action plan is pretty straightforward. The four core areas are:

- Understanding the big picture
- Setting yearly goals
- Monitoring your results
- Making adjustments based on your results

We will look at each of these one by one and focus on the types of conversations you'll want to have and actions you'll want to take at each step.

Slide 13

Step 1: Understand the big picture

- What do we exist to do?
- What do we want to achieve in the next 3 to 5 years?
- What are our top 3 priority areas or programs?

Creating a solid financial action plan starts by getting a clear understanding of the big picture.

As a board, you should take some time to reflect on:

- What do we exist to do? What specific programs do we offer, for whom, and towards what benefit to the community? This information can be found in your organizational mission and vision.
- What are your priorities as an organization? If you have a strategic plan, this is where you can find key information about what success will look like for your agency or organization.
- As a board member, you should be clear on the top 3 goals that your organization wants to accomplish in the next few years.

Knowing this will help you make sure you stay on track with providing the right resources to the projects and programs that matter most. Again, this is a critical board role. Getting clear on the big picture will give you solid grounding to move on to the next step.

Slide 14

Step 2: Create your annual plan

- Think about the story the budget tells about your organization
- Discuss the draft budget and provide feedback
- Approve the finalized budget
- Set annual goals and targets

Now let's look at step 2. This is the point where the board will create annual plans and goals for the organization.

Your organization's budget tells a story about who the organization is, what is most important to the organization, and how it will deliver results in the community. As a board member, you need to be familiar with that story and make sure that the financial resources of the organization line up with the big picture goals of the organization.

If your organization has leadership staff, usually they will come up with a draft budget first. It is the board's responsibility to then discuss the draft budget, checking to make sure it is realistic in respect to the organization's resources. Resources should be given to projects and programs according to your organization's priorities – the most important projects should be given the most resources, and the least important should be given the least resources.

Then, the board may want to provide feedback and receive an updated draft of the budget. Before approving the final budget, the entire board should be able to confidently know where most of the organization's funds come from, and how they are spent.

If you are a larger organization, you may also have an annual operating plan. This plan should also come to the board for approval.

Finally, the board should also consider creating annual goals and targets related to the budget or operating plan. What two or three key results would the board like to see over the next year?

These might be a goal to save a certain amount of money, or fundraise for a specific project, or balance the budget. Again, think about how this relates to the big picture goals of the organization we talked about in Step 1.

Slide 15

Step 3: Monitor results

- Review reports on a regular basis, not just at the end of the year
- Compare actual results with targets in the budget or operating plan
- Get clear explanations of any major differences

After the board has reviewed the big picture goals for the organization, approved the annual budget and the organization begins to execute the annual plans, it's time for Step 3: monitoring results.

It's important that financial results are reviewed on a regular basis – this might be monthly or quarterly. In some organizations, there might be a tendency to only review financial reports at the end of the year but this can lead to some unpleasant surprises.

Instead, it is better to prepare financial reports for the board that show the organization's financial results and how well the organization is doing every month or quarter.

It's also important that the board review these reports on a regular basis as part of the board meeting and that the board focus on the budget items that are most important to the organization's goals. For example, you would not want to have the board spend 30 minutes debating whether to spend $400 on a new printer for the office and spend only 5 minutes approving a $50,000 budget deficit. Sadly, this happens more than you would think.

This monitoring generally involves comparing the actual revenues and expenses for the period with what was planned for in the budget or operating plan for the same period. If there are major differences between actual results and what was expected, you should ask those people who manage your operations – whether that is staff, volunteers, a committee or specific board members – to explain why as part of their reports to the board.

Slide 16

Step 4: Make adjustments to your goals and plans

- If required, update and approve a revised budget
- Work with the staff to get their perspective on any changes
- Update annual targets and goals

When the board receives clear financial reports on a regular basis and reviews these according to annual targets and goals, then the board is ready for Step 4: making adjustments to goals and plans.

The board needs regular, clear, accurate reporting often enough and early enough to make the changes required to meet the goals in its annual operating plans and budget. Because the board is responsible for the financial well-being of the organization, it is up to the board to make decisions - based on recommendations by staff, if you have them, or a committee - about whether any changes to financial goals and plans are necessary.

Here's an example: Let's say your organization has set a very ambitious target to raise money for a new program by hosting a major fundraising event that is taking place next month. While logistical planning for the event is going well, ticket sales and donations to the silent auction are not on track with where they need to be. Unless things improve, the event will lose money and there will not be enough funds to go ahead with the new program. As a board member, it's important you are presented with this information at a board meeting before the event takes place. This will give you and the rest of the board time to discuss what is happening and decide what to do. In this example, from a planning perspective, the board has a few options: to revise the organization's budget to be in line with the lower revenues, or to recommend that the event be postponed or cancelled. Either way, the board would want to discuss these options with the staff to get their input before making a decision.

In the end, it is the board's responsibility to make sure that the organization meets its annual and long-term targets and goals. Getting the right information at the right time will help the board achieve this.

Slide 17

Strong financial best practices are about people as well as planning. Every board – no matter if the organization has staff or is volunteer-led – needs to make sure it is clear on big picture priorities, understands the organization's budget, and has trained, knowledgeable people providing ongoing review and reporting.

Slide 18

Thank you for joining us for this e-learning session. We hope you join us again for Part 2 of Financial Best Practices.