

# Best Practices for a Nonprofit Finance Committee



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Recent economic volatility, financial reporting changes, and increased competition for donations has placed greater emphasis on managing resources and strategic decision making. Not-for-profit organizations that have active, qualified finance committees will have a competitive advantage in these uncertain times.

In this article we will explore the purpose and responsibilities of a finance committee, composition and structure of the committee and nonprofit finance committee best practices.

## Nonprofit Finance Committee Purpose and Responsibilities

The main responsibility of the finance committee is to ensure that the institution is operating in a financially sustainable manner by balancing short-term and long-term obligations and goals. In order to fulfill this purpose, board members have certain roles and responsibilities:

- Carry out the governing board's fiduciary responsibility to ensure the organization's mission and purpose are fulfilled by:
  - Gaining an understanding of how the organization is financially supported/capitalized
  - Assessing risks, internal and external, that may have a financial impact on the organization
  - Monitoring the organization's financial efficiency
- Provide financial guidance to the board of trustees through:
  - Assessing how to protect the organization's resources
  - Overseeing the budgeting process to ensure that they are based on reasonable assumptions, aligned with organizational goals and that they are properly monitored
- Determine what is possible given the available resources of the organization
  - Stay involved with other committees regarding new projects and expenditures
- Assist management in executing the strategic goals of the organization by:
  - Establishing guardrails for management regarding their financial decision making authority
  - Ensuring management has the resources and skills required to facilitate proper internal controls
- Timely communication of all pertinent issues to the board of directors

Financial reports and budgets are two significant tools at the committee's disposal to effectively and efficiently perform their vital governance role. Financial statements have a retrospective focus in that financial statements, for the most part, report what has already happened while budgets have more of a forward looking focus, projecting what will happen in the future.

Ratio analysis (using common ratios to determine metrics such as asset turnover, profitability, leverage, and program expenses) can be utilized to help an organization identify negative trends before they become problems. Budgets should be reviewed by questioning the underlying financial assumptions of the budget and comparing them to historical data for reasonableness. Reconciliation between the financial statements and the budgets can also be an effective tool for the committee.

During this reconciliation, the committee works with management to explain significant variances. This process not only helps to understand past performance but is also useful in the development of the next period's budget.

# Nonprofit Finance Committee Composition and Structure

Since the finance committee plays such a vital role in the board's governance of the organization, it is important to determine who should serve on the committee. The committee should comprise a chair and a vice chair for direction and focus. It should also include members of other key committees such as the student affairs committee, academic affairs committee, and other committees that oversee vital functions of the institutions. This will improve communication and cooperation between the finance committee and other committees.

Members should serve for terms of at least four to five years and the terms should be staggered to promote continuity. Oftentimes, the chief financial officer, budget officer, and chief accounting officer will serve as staff of the committee, and the president of the organization will attend committee meetings. Once again, this serves to aid communication and cooperation between management and the finance committee which is integral to effective governance.

In general, the finance committee should have the skills necessary to fulfill its responsibilities and be structured in a way that fosters communication and cooperation between other committees, the board, and management.

## Nonprofit Finance Committee Best Practices

Below are a list of best practices for finance committees:

- Chair of finance committee and board chair should define the scope and responsibilities of the finance committee
- In spring or early summer, the finance committee chair and CFO should meet to coordinate the committee's annual work and identify/discuss any key issues facing the organization
- Chair should communicate the work plan to the rest of the committee and the board
- At each board meeting, the finance committee chair should deliver a status update including information on budget to actual results, emerging trends, and expenditure recommendations

### A typical work plan might include the following:

- Late spring – Committee chair, CFO, and president meet to develop work plan and discuss key issues, internal and external, facing the organization
- Early summer – Adopt annual budgets, both operational and capital
- Fall – Review financial results for prior year and use to evaluate the reasonableness of the current budgets; discuss significant changes in key financial metrics
- Winter – Re-examine revenue projections and discuss and agree on a set of budgetary assumptions for the following year
- Spring – Study changes in revenue estimates and make recommendations for updates

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### Citations

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