



Financial Reporting

Organizational Leadership Briefs for RDO Executive Directors

This brief is part of the seven-part series *On the Road to Success: Organizational Leadership Briefs for Executive Directors*.

These briefs cover a wide range of issues important to RDO senior leadership, including:

- Creating Relevance in Your Region
- Building and Nurturing Relationships
- Developing Revenue Strategies
- Doing More with Less
- Executive Director Qualifications
- Financial Reporting
- Preparing for Effective Board Meetings

The full set is available online at: www.nado.org/leadershipbriefs

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The success of a regional development organization is largely influenced by its leaderships' ability to manage and report financial performance. High-performing organizations typically have a firm grasp on financial management and reporting, whereas underperforming organizations either don't have a solid grasp on the issues or fail to recognize the high importance of managing and reporting the organization's financial performance.

For those who may be new to financial management or need a refresher on the basics of financial management for your organization, below are a few tips and reminders that can help with your organizational management.

Let's begin by separating the relevant issues. There are things that you need to know and understand as the director and there are things that your board members need to know and understand.

What the Director Needs to Know

- Cash inflows and outflows are different than revenues and expenses. For instance, providing a "financial report" that shows what cash you received during the month is not an accurate representation of your organization's financial position or activity. A statement of cash flow is used differently than an income statement or operating statement. You need to know and understand both and use them for their intended purposes.
- A budget is a planning tool. It is a blueprint, a plan for your future. The budget will change as your plans change – it is okay to make adjustments to your budget.
- When developing your budget conservatively estimate your revenue and aggressively estimate your expenses. This will help you end the year in the black as opposed to the red.

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- Financial statements are historical. They only report what happened in the past. They can show trends for the future and can help project your financial future, but don't just study history. Look ahead and see where you are going, and target where you want to be.

What the Board Needs to Know:

- The board needs to understand the organization's financial condition, financial position, and financial performance.
- The board also needs to understand the source of the organization's funds so they know what they can be used for. There are some unique and seemingly complicated restrictions on how you can use your funds, and your board needs to know this. It is the director's job to communicate this to the board. For example:
 - There are *unrestricted funds* that can be used for any purpose.
 - There are *temporarily restricted funds* which are common with grants that have to be used for the grant purpose during the grant period.
 - There are *permanently restricted funds* that can ONLY and FOREVER be used for their original purpose, such as a Revolving Loan Fund (RLF).

Key Financial Statements

As the director of a regional development organization you need to know and understand your financial position and condition, and you need to be able to communicate this fluently and effectively with your board members.

- A balance sheet is a financial **status** report that shows the organization's financial position at a set point in time. This report is usually generated on the last day of an accounting period.
- An operating or income statement is a financial **performance** report that shows the organization's financial performance for the reporting period.
- A statement of cash flows explains the reason there was a change in the cash

position during the reporting period. It shows the sources of cash inflows and it shows the uses of cash outflows. This report will enable you to anticipate your need for cash. This becomes very helpful as you approach payroll day.

Keys to Financial Management

- Have a financial management procedures manual with a list of responsibilities that will serve as an understanding between you and the staff assigned to handle the finances of the organization.
- Hire trustworthy, competent, experienced staff.
- Oversee the financial staff directly—they should report directly to you!
- Maintain fidelity insurance on all staff and board members that are involved with the financial process.
- Separate duties as much as possible.
- Educate yourself if are not confident in your financial aptitude.
- Have an audit done every year by an independent accounting firm.
Meet with the auditor to get his or her opinion on the financial practices of the organization. Sit in on the exit conference with the auditor and your staff.
- Don't just think of financial management as statements of historic activity. You need to project the financial future of the organization to lead the organization effectively.

Communicating with the Board

When communicating financial information with your board of directors:

- Be transparent at all times.
- Be direct at all times.
- Be truthful and don't use numbers to paint the wrong picture.
- Don't use jargon or technical language the board may not understand.
- Use dashboards, graphs, and summary reports to present the data in a meaningful way.

- Be consistent with financial reporting and use the same (effective) format each meeting to create familiarity.
- Tie the budget and financial activity to program activities that help achieve the organization's purpose and focus.
- Distribute financial reports in advance of the meeting to allow members to review, understand, and ask questions.
- Offer training to your board members to enhance their understanding of the organization's financial structure and performance.

What the Director Needs to Know & Understand

Cash inflows and outflows are different from revenues and expenses.

Budgets are blueprints for the future...plans.

Financial statements are historical; they report what happened in the past.

Financial projections are critical to addressing current and future needs

What the Board Needs to Know & Understand

What resources the organization has.

Sources of fund to acquire resources and provide services (Assets)

How the organization has performed financially

Balance Sheet

Financial status report.

Shows financial position at a position in time.

Usually prepared last date of accounting period.

Income Statement

Financial performance report.

Covers the duration of the reporting period.

Cash Flows

Explains the reason for change in CASH during the accounting period.

What were the sources of cash inflows?

What were the uses of cash outflows?

Can help you anticipate a need for cash