

# Monitoring Your Organization's Financial Health: A CEO's Guide



Take these steps to be sure you're on the right financial track.

By Jean Hardy Robinson

**F**inancial processes and reports are key tools for the nonprofit CEO. They let you track functions tied to cash inflows and outflows. They're an excellent way to monitor your organization's financial health and your stewardship of funds. Here are the steps you need to take:

### **Prepare monthly accounting reports.**

All but the smallest nonprofit organizations prepare financial reports and the IRS Form 990 annually. However, more frequent oversight is essential. Monthly accounting reports show changes

in your financial picture. A good reporting package from the Chief Financial Officer (CFO) or accountant will include the following "variance reports":

- current-month revenues and expenses with a comparison to budget, previous-month, and same-month prior-year actuals

- current year-to-date (YTD) revenues and expenses with a comparison to YTD budget and previous-year YTD actuals.

Also, review the following each month:

- total billings for service contracts or services rendered
- total accounts receivable, including a breakdown by relevant categories such as current or over-due accounts
- total payroll disbursements
- total disbursements for trade payables and other expenses
- total payables outstanding (purchases booked but not yet paid).

These reports will help you identify positive or negative indicators of fiscal health.

### Furnish monthly treasury reports.

Treasury reports are distinct from accounting reports in that they track cash in hand rather than transactions posted to the accounting system. For example, new service contracts may show an increase in revenue from an accounting perspective, but you can't spend the money till you've provided the services, billed for them, collected the money, and deposited it in the bank. The following reports will help you assess your finances from the treasury perspective:

### Financial processes and reports are key tools for the nonprofit CEO.

- average ledger and collected balances in all non-interest-bearing bank accounts (provided by banks on request, showing averages by month and year-to-date)
- average investments for the same period and effective annualized rate of return
- average debt for the same period and effective annualized cost of funds.



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### Maintain financial policies.

Be sure you have appropriate financial policies in place. Put them in writing. Hold staff accountable to follow these policies, and review them with staff often. Written policies should guide the following responsibilities:

- investment
- borrowing
- cash handling and deposit
- endowment fund management, including method of calculating earnings and disbursements, and communication to donors of restricted funds
- foreign-exchange management (if applicable).

### Evaluate financial staff.

The CEO needs to evaluate financial staff members at least once a year. Trust develops from a good working relationship based on frequent communication. To make that communication effective, CFOs or accountants who teach the following concepts to the entire management team serve their organizations well:

- strategic budgeting which links programmatic planning to the annual budget cycle
- accrual accounting versus cash flow
- fund accounting.

### Report to your stakeholders.

Once the CEO understands the numbers presented on monthly accounting and treasury reports, it's a small step to design a financial reporting package for board members, donors, and potential donors. Be ready to provide the following:

- most recent audited financial reports
- IRS Form 990 (if any member of the public asks to see it, you must provide this form, except for your contributors' list with amounts donated, which is protected under the Privacy Act)
- most recent annual report
- book and market value of any endowed fund
- annual earnings from endowed funds available for disbursement (including methodology for calculating this amount). ■

### Resources

Sopher, Marti, "Setting Up a Control System," *Nonprofit World*, Vol. 16, No. 3.

"Ten Tips for Better Fund Accounting," *Nonprofit World*, Vol. 13, No. 2.

Thompson, Maris, "How Responsible Is Your Investing?," *Nonprofit World*, Vol. 20, No. 6.

Walsh, Alice Chebba, "How to Conduct a Monthly Internal Financial Review," *Nonprofit World*, Vol. 9, No. 6.

*These resources are available at [www.snpo.org/members](http://www.snpo.org/members).*

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