

**Board Members Ensure There Is  
Adequate Financing To Achieve Goals  
And That Money Is Responsibly Spent**

**What's the board's proper role in finance?**

A board has three major responsibilities when it comes to finance:

**(1) A board should set financial policies.** This means you're responsible for defining your organization's mission, establishing goals, and approving a budget that will enable the goals to be achieved.

Many boards fail to give their president the right kind of "direction" when it comes to finance.

The most important direction you can give your administrator is to let him or her know where you want your organization to go. What are your goals? What kinds of things would you like your budget to achieve?

The problem is, many board members prefer to give their administrators a different kind of direction – telling them what to buy, how much to spend on certain purchases, etc.

Boards set broad financial policies – like identifying where they want to go with their budgets. Administrators are responsible for spending the money to get them there.

**(2) The board should delegate implementation of the financial policies to the president.** As a board member, you should find a purpose for your organization, define it on paper, share it with your president, fund it – and then let your president make things happen!

Frequently, staff get the undeserved title of "big spender." Some board members will even comment, "Staff spends money like no one else I know!"

For the record, it's the staff's job to suggest spending to the board. The staff spending recommendations are important information you need to formulate your annual budget – and not the sign of a power-hungry or money-wasting staff.

It's also the staff's job to spend the budgeted money to operate the programs and services the board approves. Boards must hire staff they trust – and then let them make spending decisions within the budget limits.

**(3) The board should monitor financial outcomes.** The third financial responsibility of a board member is to measure results of the staff's spending.

Board members have always been haunted by financial worries: Is spending being done wisely? Are there any financial problems we don't know about? Will we have enough money to pay bills?

Some board members are tempted to roll up their sleeves and dig into financial records – just to answer their concerns. But that's not the board's role. Remember, the board monitors financial outcomes.

As your president for “bottom-line” explanations of the basic financial questions:

Are we on target with our planned expenses and revenues?  
Are we financially solvent (money in the bank to pay expenses)?  
Will we have income to meet future expenses?

The answers your president provides will help you assess how the money you budgeted is being spent and how the programs you authorized are being carried out.

There are various types of financial reporting formats, but there's only one type that's the best for you – the type your board can easily digest and understand.

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**If it's budgeted, let staff spend it.**

Board-imposed spending limits on the president are becoming a thing of the past. Today, boards pay more attention to where the organization is going, not how it gets there. That's the president's job.

**How do you view your budget?**

Board members frequently feel overwhelmed with their responsibility for governing an organization with a large budget. As a result, their personal financial views usually dictate the way they vote on budget matters.

One of the biggest problems for a board member is to know how to prudently oversee your organization's money. Should you guard the budget as if it were your own money? Or should you take a business approach that realizes cash flow has its ups and downs – and short-term borrowing is OK?

Let's examine the common financial personalities among board members and see how they influence decision-making...

**1) The keeper of the purse that takes a no-growth stand on everything and treats your organization's dollars as though they came out of his/her own coat pocket.** “I wouldn't spend my own money like that, so I won't vote for this expenditure.”

Point: Spending for your organization is not the same as spending family income. The function of the board/administrator team is to spend the money necessary to pay for programs the board has decided to provide.

**2) The nest-egg builder believes the organization must always operate with a surplus.** Red ink is an unpardonable sin. “Cut programs, reduce staff or do whatever we must do to balance the budget!”

Point: A balanced budget is great, but not always possible. You must realize that your organization is a “business.” Like any other business, your cash flow may not always cover expenses. Like any other business, you may need to finance an expansion of your services. Few businesses have ever become successful without borrowing money. Your organization is no different.

3) **The optimist has faith that the money will come from somewhere.** Usually, the optimist has the most faith in the "super powers" of the executive director who will magically cover whatever level of spending the board sets.

Point: The board is ultimately responsible for financing the programs it approves. Board members should ask two questions: 1. What is the cost of the programs we will provide? 2. Where will we get the money we plan to spend?

4) **The investor measures each expenditure as a wise investment in the people the organization serves.** He or she understands the purpose of the board/administrator team: to decide which programs you will provide, find the money to fund the programs, and then spend the money.

Point: You need lots of investors on your board. They typically view your organization as having unlimited growth potential. Caution: Yes, there are good and bad investments. Always look at the risk and return on your investments before making a decision.

#### **Don't get too hung up on the bottom line.**

You can spend a lot of time on matters that seem urgent, but when you look back on it several months later, you can see the "urgent matters" didn't move you very far forward.

The trouble with many boards is that they display passion toward the wrong things. Money, for example, is a common passion of board members. It stirs more heated discussions than any other topic and dominates many board meetings.

Yet money is a means of getting your organization somewhere. All too often, a board's focus is on money as an end in itself.

How often has your board had lively discussions on where you want to take your organization in the future – what things should be like in the years ahead for the people you serve? My guess is, most of the passion is reserved for your budget.

A lot of board members care about helping the organization work better for the people they serve. It's important they translate that feeling into board actions.