EXEMPT
THE FINANCIAL MAGAZINE FOR NONPROFIT EXECUTIVES
www.exemptmagazine.com
Summer 2015

When Do You CFO?

Evolving from doing everything has its challenges

BY THOMAS A. MCLAUGHLIN

Many challenges come with growing a nonprofit. One of the trickiest is deciding what type of financial help one needs, when it's needed, and what level of professional can best supply it at a given point in time.

Many non-financial executives seem to think of the financial system as a type of spreadsheet that keeps adding new tabs -- if you run out of capacity, just add more tabs. The problem with this interpretation is that it is a step-by-step model when the financial system is more like an organism that grows and evolves.

It doesn't help that there tends to be confusion about the focus, size, and depth of financial management jobs because financial titles are often opaque to non-financial types.

You can sort out these financial tribal norms by using common titles that correspond to one or more stages of organizational growth. Note that these correspondences are not stipulated by any accounting or financial authority. Instead, as a growing nonprofit adds revenue and creates fiscal complexity its needs change and so do the kinds of financial managers it employs. There is no generally accepted connection between revenue stages and positions, but there do tend to be patterns based on complexities and outsider demands. For example, the IRS requires a simple version of its Form 990 from nonprofits with revenues less than $50,000 per year, with the more complex versions of the 990 kicking in after that level has been exceeded. The purpose of the correlations we'll describe below is not precision but rather a kind of impressionist painting for financial staffing as driven by growth.

Finally, note that these position titles all represent fixed costs. This means that, once a position is added, the dollars supporting it will continue to be spent on that position or another one very much like it. Once created, the position's cost will remain even as the employees move on to other positions. The difficulty for managers in this situation is that fixed costs tend to lead to fixed employees, yet financial services need to evolve and reorganize as the whole organization's needs change.

DO IT YOURSELF (DIY)

You're the founder and you've already talked a local foundation into making the kind of startup grant that they don't usually do. And, you have to find a way to keep the records straight.

Take two sheets of lined paper. On the first one write down every expenditure you make including the amount and the purpose. On the second sheet of paper draw a line down the center. Put the amount of the grant on the left side and call it "Cash." On the other side, make two areas. One should be titled "Owed" and the second one should be titled "Net Assets." For now, the amount of cash not spent goes into the latter category.

On second thought, buy a white board.

DIY WITH A BOOKKEEPER

This self-accounting thing is getting old fast. Find a real bookkeeper who will set up a real accounting system for you. Learn it and then use it. The trouble is, a real bookkeeper might be hard to find. You'll only need a part of a bookkeeper -- so far, a very small part -- so perhaps a bookkeeper would be able to slip in on Friday afternoons to keep your books straight. Hire the person as a contractor so you don't have to set up a personnel management system . . . yet.

THE FINANCIAL TASKS MULTIPLY

It's been a year -- wait, closer to sixteen months -- since you started this thing and it has been highly fulfilling and personally enlightening. You've managed to get the kind of people you need at the times you needed them, such as the bookkeeper with the steel trap mind who has already kept you from making three stupid mistakes with your funders.

Now you have to file the IRS 990 N because the organization has revenue just under $50,000, and it's time to figure out if you can hire your first real employee. That means you'll have to have the rudiments of a personnel plan in place soon, which in turn means you're going to have to brush up on subtleties such as the forms you have to file with the Internal Revenue Service (IRS) for employees. (It's called a W4, which employees have to use to tell you and your bookkeeper how to calculate the amount you deduct from their pay.)

It's all worth it because that community donor that you've been working on just came through with a five-figure donation, well above the $75 threshold the IRS sets. What's the form you use to document a donor's contribution. She'll want it so who should do that?

It is now safe to give away the whiteboard, or to start using it for program planning.

YOUR FIRST ACCOUNTANT

This is way, way beyond where you expected you'd be at this point. You and your seven other employees knew at least two years ago that this time was coming and now it's here.

Your first accountant has joined the team. She's very young and she's only signed up for a few hours each month, but her advice has been invaluable. And, she's nothing like the accountant stereotype. She works well with the two part-time financial folks you brought on, and she has a natural ability to look deeply into the future and to be able to estimate what you'll need from her to get there.

AUDITOR

You've had an auditor for several years now, but this new one is clearly a step up. First of all it's a firm, not an individual, and they specialize in nonprofits. They stay on top of state government's changes and they're always up to speed with federal requirements.

Moreover, they knew your many different funders' requirements before you hired them, and they've already corrected a couple of long time practices that were needlessly costing you time and money. Their quarterly breakfasts for nonprofits always feature useful material, and at the last one you got a chance to renew ties with two of your very first funders.

CHIEF ACCOUNTANT

It's kind of an awkward title, but the combination of a chief accountant, their staff, and your auditing team has again brought your financial systems to a new level of effectiveness. You were ready to call this position a chief financial officer, but the chief accountant said a CFO is a little beyond where you are now so you relented.

No matter, though. This team has come though on virtually everything that you have asked of them. The continued fast growth shouldn't bother them at all. They're a tight group, and they know when it's time to bring on more staff.

CHIEF FINANCIAL OFFICER

Finally, you selected a chief financial officer. She's a bit younger than you might have expected, but she is strongly committed to the organization and her skill level is very high. More important, she knows how to communicate financial data a wide variety of audiences as though it were the easiest task imaginable.

The great thing about this new position is that all financial matters will revolve around the CFO, who will then be able to discuss the financial implications of major decisions with the CEO, the COO, and the board of directors. A pleasant note . . . remember when she started as your very first part time accountant?

SENIOR VICE PRESIDENT OF FINANCE

Decades ago no one would have thought that this little nonprofit would turn into a giant in its field. In place of young, untested hires there is a solid and highly respected team of accomplished executives, many of whom started with the organization. This latest reorganization might sound like overkill, but you've found that the complexities of your mission and your funders' requirements mean that you have to have a range of executive positions such as senior vice president of finance and vice president for operations.

Unfortunately, the more common terms (head bookkeeper, chief accountant, etc.) no longer mean much. If you used the term CFO with your peer organizations it would sound like a step backward from the kind of corporate infrastructure in which they're accustomed to working.

Growth defines the financial tasks and the kinds of personnel that must be in place to have the right kind of financial system at all times. It turns out that growth and staffing and financial titles emerge from an organic, surprisingly predictable set of stages that organizations go through. No additional Excel tabs are needed. **E**

Thomas A. McLaughlin is the founder of the nonprofit-oriented consulting firm McLaughlin & Associates and is the author of Streetsmart Financial Basics for Nonprofit Managers published by Wiley. His email address is tamclaughlin@comcast.net