MGT 816 · The Private Firm CFO

Session 10 — Boards, Board Packages & Audit Readiness

Constructing a board · reporting to a board · getting value from a board · getting ready to be audited

Wed Oct 7, 2026 · Prof. John Barrios · Yale SOM

Today: three jobs

1. **The board** — who sits, who controls, how it evolves (≈35 min)
2. The package & the meeting — what the CFO builds and how the meeting runs, incl. the critique exercise (≈30 min + 15 min exercise)
3. Audit readiness — why, when, and the PBC list (≈10 min)

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Third course artifact today: your board-package critique.

PS2 due Mon 10/12, 1:00 pm — solutions debrief in S12.

Poll: whose board is this?

#1 CEO — insider (name withheld)

#2 President — insider (name withheld)

#3 Sam Nunn — former U.S. Senator

#4 George Shultz — former Secretary of State

#5 Bill Perry — former Secretary of Defense

#6 Gary Roughead — former Admiral, U.S. Navy

#7 Henry Kissinger — former Secretary of State

#8 Dick Kovacevich — former CEO, Wells Fargo

#9 Bill Foege — former Director, CDC

#10 Riley Bechtel — Bechtel Inc.

#11 James Mattis — former Marine Corps General

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Eleven directors. Nine famous names, two anonymous insiders. Which company's board?

A) Lockheed Martin B) Boeing C) Halliburton D) Someone else

Reveal: Theranos

#1 **Elizabeth Holmes, CEO**

#2 **Sunny Balwani, President**

#3 Sam Nunn — former U.S. Senator

#4 George Shultz — former Secretary of State

#5 Bill Perry — former Secretary of Defense

#6 Gary Roughead — former Admiral, U.S. Navy

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Theranos

- Med-device company once valued > $9 billion
- Miniaturized labs to bring blood testing to the masses
- Founded by Holmes at age 20
- In “stealth mode” for 10 years

What happened to Theranos?

What was wrong with this board?

Business expertise

- No accounting / finance / audit / legal member
- Only one licensed medical expert
- Multiple political appointees

Skin in the game

- No investor-directors
- No one with true capital at risk

Currency

- Mostly retired; no sitting operators
- Average board age 70+ (that average even includes Holmes, then 30)

What it DID have

- Regulatory and government connections

A board optimized for signaling, not oversight.

Why companies have boards at all

Investor perspective

- Fixes asymmetric information — founders know more than investors
- Experience — VCs/PEs sit on many boards
- Fiduciary duty to their LPs

Founder perspective

- Legal requirement
- A sounding board to help grow the venture
- Network — partners, customers, executives

What boards actually do

Appoint / evaluate / replace the CEO · approve the budget (the S06 AOP) · approve option grants & senior comp · set strategy guardrails.

Directors' three duties ★

Duty of care

Make decisions with informed, careful deliberation.

Duty of candor

Inform shareholders of all information material to evaluating the company.

Duty of loyalty

Act in the corporation's interest — the best interest of ALL shareholders.

Every director represents ALL shareholders — even if appointed by one class of stock. VC and PE directors struggle with this.

The board can fire you: Cisco & Digg

Cisco (1990)

- Co-founder Sandy Lerner fired by the board (Don Valentine / Sequoia).
- Husband and co-founder Len Bosack left in support.
- They sold their stake for $170M.

"I did not realize he had decoupled the success of the company from that of the founders."

Digg

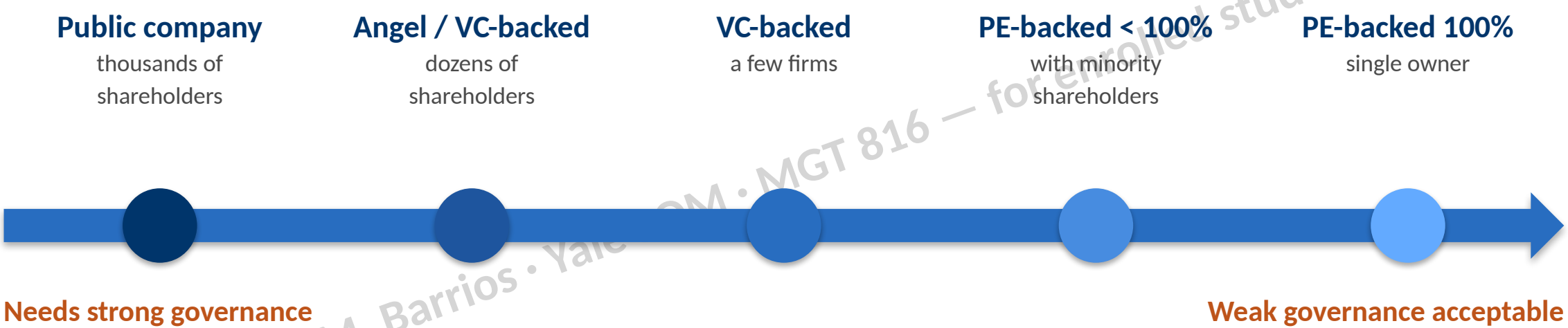
- Board blocked a ~$80M sale ($60M + earn-out) founder Kevin Rose wanted to take.
- Digg later sold in three parts for < $20M.

Boards can be wrong in both directions — the power is the point.

Part 1 · Composition & control

The board you build is the boss you get.

How much governance do you need?



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Governance need falls as ownership concentrates.

PE-100% ≈ near-perfect alignment of ownership and control.

Board structure by capital source ★

Bootstrapped	VC-backed (growth stage)	PE-backed (100%)
Founders' carte blanche — build the board however they want	CEO seat	CEO seat
	1–2 common seats	2–4 sponsor seats
	1–2 independent seats	Sometimes 1–3 outside directors (not necessarily independent)
	2–3 investor seats	

The pattern: governance intensity tracks the gap between who owns and who controls.

Many boards later add a Chairman or Lead Director; a few add an Executive Chairman.

The board grows up: formation → pre-IPO ★

Stage	Size	Composition
No institutional $	0–2	Co-founders only; no formal board; start cultivating advisor relationships
Seed	3	2 co-founders + 1 investor (strategic angel or VC)
Series A	3–5 (best 3)	CEO seat + common seat + investor seat; board can be re-set; observer seats appear
Series B	4–7	CEO, common, 2 investors, 1 independent; 1–2 observers
Series C / D+	5–7 (cap at 7)	Earlier VCs cycle off as later VCs join
Pre-IPO	5–9	Add IPO / public-board experience; late VCs often stay 12+ months past IPO

Each round adds the seat the new money demands; the count stays odd and caps at 7.

VC board dynamics: leads, observers, independents

- The round's lead partner typically takes the seat (the individual, not just the firm)
- By Series C+, a board can carry 3–4 VCs out of 5–7 — not all with relevant experience
- Most VC-backed boards recruit 1–2 independents — start cultivating early
- Is a seat owed to a new lead? Usually yes; hot companies can push to observer-only or nothing
- You often can't choose your VC — the highest bidder isn't always the best board member (inefficient market)

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PE-backed boards: control changes everything

100% owned

- Sponsor dictates the slate (deal partner + deal team)
- Often no independents until IPO prep
- Real decisions on weekly CEO–deal-partner calls, “papered” later
- Formal comp & audit committees still typical
- Outside directors appear when the CEO needs help — or replacement (interim-CEO pipeline)

>50% but <100%

- Sponsor takes a majority (3 of 5, 4 of 7)
- Minority / rolled-over holders (family, VC) keep seats
- Multiple sponsors -> each gets representation
- Independents recruited to bridge misaligned incentives with rollover equity

Committees arrive with scale

Audit

Oversees Finance / CFO; annual audit & taxes -> more in the audit block later today.

closer to audited financials

Compensation

C-level comp, option grants, benchmarking; often first, can be contentious -> external comp consultants.

established early

Governance

Director recruiting/exits, meeting schedule, self-governance.

later-stage companies

Recruiting directors: fill the gaps, use a matrix

Advisory board first — similar expertise, lower equity, no liability; recruit against the company's missing skills, which change as you scale.

Skills (enterprise-software example): start-up experience · hyper-growth · general management · finance · biz-dev/sales · industry · exit (M&A / IPO).

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Skill	Dir A	Dir B	Dir C	Dir D
Start-up experience	✓	✓		
Hyper-growth	✓		✓	
General management	✓		✓	✓
Finance				
Biz-dev / sales			✓	
Industry	✓	✓		✓
Exit (M&A / IPO)				

Gaps in orange: Finance and Exit/M&A.

The matrix template is posted with today's materials.

Paying directors; chair vs. lead director

Compensation

- Founders / CEO: nothing extra for board service
- VCs: nothing (fund fiduciaries); rare equity goes to the fund
- Independents: NQSOs ≈ 0.50–1.0% by stage; 2-yr vesting, forward-vests on sale
- Often invited to invest in the company

Chair / lead director

- Usually appointed post-Series B/C
- Executive chairman = operating founder elevated out of the CEO role
- Public-company norm: separate the chair from the CEO

Part 2 · The board package

The CFO's most-read publication.

Before the meeting: no surprises

- Board materials are a “show and tell” of what you already run internally
- Two weeks of special production means your internal reporting is broken (S06/S07)
- Mock agenda 10–14 days out; circulate for input; pre-calls on big topics
- **Votes are pre-wired — board votes are almost always unanimous**
- Standing check-ins with lead investors (≈2×/month, 30 min)

Frequency: monthly -> quarterly; most common every other month; drifts to quarterly once VCs join

Special calls: fundraising, budget approval

Length: 3–4 hours

Attendees: CEO + CFO minimum; C-suite presents their area and is evaluated in passing

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Anatomy of the meeting: five blocks



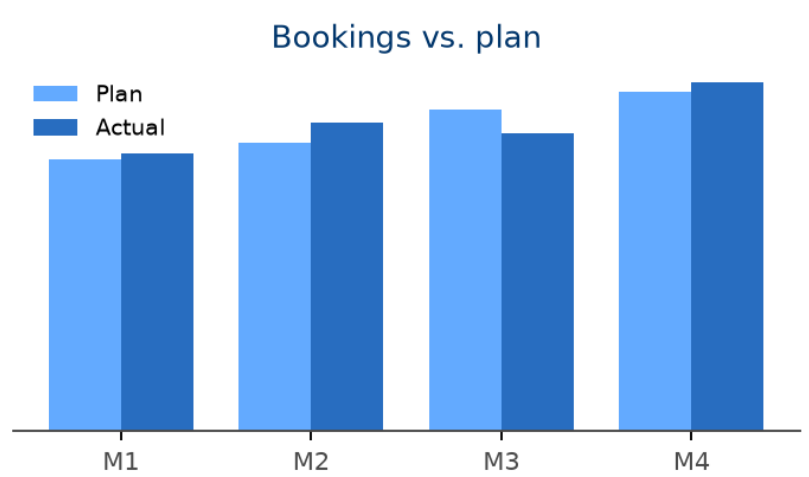
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Blocks 1–3 report the past. The deep dive is where the board earns its fee. The executive session runs without you.

CEO and functional updates: calibrate, don't drown

CEO update: high-level accomplishments / challenges / needs since last meeting; a sneak preview of the deep-dive topics; NOT granular.

Functional updates: each area brings a one-page KPI dashboard with goals and performance-vs-plan (S06 callback); a picture beats prose; rarely time for all areas — but expect the request to see every function at the first post-Series-A meeting.



Illustrative form only.

Pipeline coverage · Bookings vs. plan

example functional dashboard

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The board package: what's in it ★

- ☐ CEO update
- ☐ Functional-area updates
- ☐ **KPIs vs. targets**
- ☐ Org chart (current) + projected hires
- ☐ **Financials with base / best / worst sensitivity**
- ☐ **Cash, burn, runway**
- ☐ **Asks / needs** — intros, key hires
- ☐ Red / Yellow / Green vs. plan (with criteria)
- ☐ Admin — option grants, 409A, cap table, prior minutes, legal

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CFO builds the package; CEO owns the narrative.

The CFO's section: the main dashboard ★

- KPI dashboard — historical + forecast
- Monthly financials + variance analysis
- Re-forecasts: base / best / worst + sensitivity
- Funding prospects & runway — burn-rate report at every meeting while burning (S01 callback)
- “Don't volunteer detail; always be ready to go three layers deep.”

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S06 — KPIs / variance

S11 — funding prospects (Monday)

Walkthrough: critique this board package

You are three weeks into your CFO job at NorthStar Robotics (Series B, warehouse-automation software, ~75 employees). Your predecessor left this one-page board update as the template. The next meeting is in two weeks. We work it together:

(1) find every flaw — missing, misleading, or mis-defined;

(2) decide which single flaw is most dangerous;

(3) name the concrete fix.

Call out flaws as you spot them — the answer slide confirms at the end.

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Mark up your handout as we go — keep it; it's your toolkit artifact.

Use your S06 KPI and S09 revenue toolkits. There are at least six flaws.

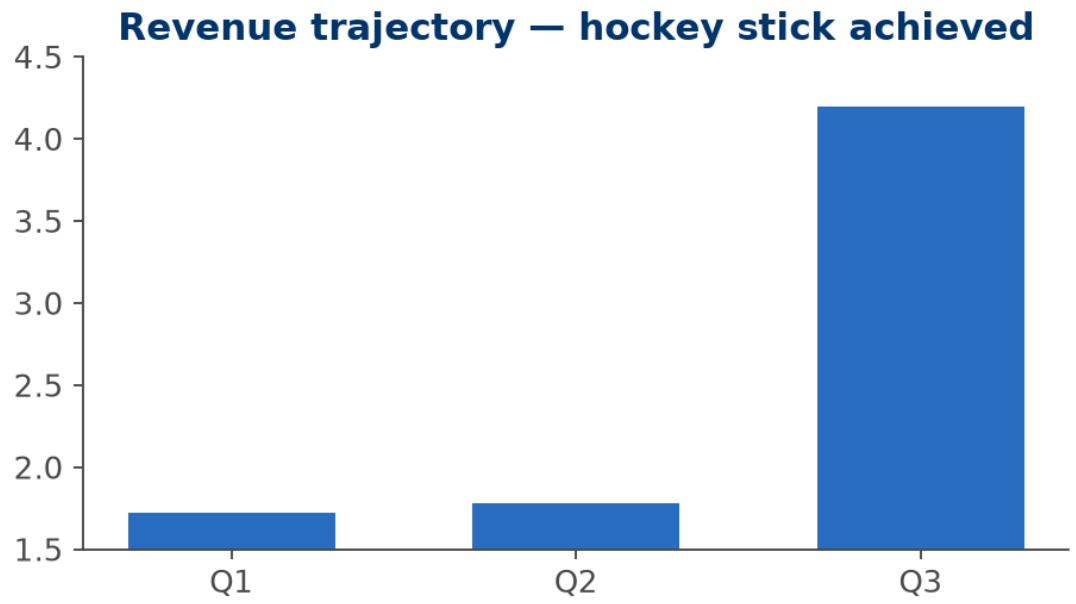
Exhibit: NorthStar Robotics — Q3 board one-pager (flawed)

NorthStar Robotics — Board Update · Q3 FY2026 · "Our best quarter ever! 🚀"

48,200 total registered users (+22% QoQ)

Revenue up 62%! Q3 revenue: $4.2M

Pipeline: $28M



Headcount 74 (+9) · closed Vantage Logistics & Corex · engineering velocity at all-time high.

ARR $16.8M

Q3 bookings × 4

Active customers 210

accounts with ≥1 login in trailing 12 months

Churn 2%

Gross margin 71%

excludes hardware install costs

NPS 68

Product: GREEN | **Sales: GREEN** | **Ops: GREEN** | **Finance: GREEN**

Revenue figures reflect total contract value (TCV) signed in period.

Deep dives: the best hour of the quarter

What it is: management + board jointly work ONE strategic problem; where goals for the next 3–6 months get set.

- Pricing power after winning bake-offs
- Competitor acquired — now what
- Sales-productivity diagnosis
- Rising data costs
- Partnership priorities
- Key product initiative

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Pick 1–2 topics max; circulate in the pre-read.

Politics, then the executive session ★

The meeting before the meeting: lobbying outside the room is normal; investor interests diverge sharpest at funding rounds; the CEO counts votes first.

1. Formalities & votes

Option grants, 409A approval, prior minutes. CEO ± CFO present.

2. CFO leaves

CEO reviews management-team performance with the board.

3. CEO leaves

Board evaluates the CEO; lead director runs it and cycles feedback back.

The 409A the board just approved sets Monday's option strike prices — S05 callback.

Why would a private company choose an audit? ★

What an audit is: an independent opinion that the statements are fairly presented, free of material misstatement; internal controls are tested.

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Why voluntarily?

- Signaling — credibility to investors / acquirers
- Agency — majority vs. minority owners; owners vs. creditors & tax authorities
- Cheaper credit — audited firms pay lower rates even when riskier
- Contract terms — lender and VC requirements

When the first audit happens

- Self-funded -> often never (banks frequently lend to private firms without an audit)
- VC-backed -> Series A/B usually not yet audited
- **≈ $10M revenue — the customary tipping point**
- VC term sheets often require an audit within 1–2 years (S11 tie-in — you'll see it Monday)
- Exit prep — acquirers take comfort from audit history; IPO requires audited years

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First audit ≈ $25–35K, but internal prep is the real cost.

Preparing for audit #1

- Keep every scrap of paper — trivial documents evidence legitimate transactions
- Hire an audit firm that knows your industry — risk-assessment quality varies
- Reconcile accounts and self-review before fieldwork — errors auditors find trigger extra testing and fees (“if the numbers don't make sense to you, they won't make sense to auditors”)
- Bonus: your auditor becomes year-round technical-accounting counsel (ASC 606 judgment calls — S09)

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The PBC list: what the auditors will ask you for ★

Document	What it tests
Trial balance	Do debits equal credits?
General ledger & subledgers	Do they tie to each other?
Bank statements & reconciliations	Does cash corroborate?
AR / AP aging	Collection & payment discipline
PP&E / depreciation schedule	Existence & useful lives
Revenue support: contracts & invoices	The S09 five steps, on real deals
Equity ledger & option grants	409A support — S05 callback
Accounting-policy & controls doc	Consistent, GAAP-aligned?

Auditors also confirm externally — with your customers, vendors, and bank.

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The PBC list is the CFO's checklist for being auditable — build these artifacts monthly from day one (S01 close discipline).

Takeaways ★

1. Governance intensity tracks the ownership–control gap: bootstrapped ≈ none -> VC ≈ structured -> PE-100% ≈ informal but absolute. ★

2. Boards evolve on a schedule: 2 founders -> 3 @seed -> 5 @A/B (CEO / common / investor / independent) -> ≤7 pre-IPO. ★

3. Every director owes care, candor, and loyalty to ALL shareholders — and the board can fire the founder. ★

4. The package is the CFO's product: KPIs vs. plan, base/best/worst, cash-burn-runway, asks, admin — no surprises, ever. ★

5. A board package without cash & variance-to-plan isn't a package; bookings are not revenue. ★

6. First audit ≈ $10M revenue or the term sheet demands it; the PBC list is your readiness checklist. ★

Mon 10/12: Fundraising (PS2 due 1:00 pm) · Wed 10/14: Exits + course wrap.

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