



Reporting Financial Information to the Board



Are your reports too long, too short, or just right?

By Kate Barr

Reviewing the financial reports you provide to board members is a little like "Goldilocks and the Three Bears." One financial report is "too big"—too much information, overly detailed, and too many pages. Another is "too small"—either no report at all, or so little information that the board can't possibly understand the financial picture. How can you create a financial report that's "just right" for your organization?

Consider how the board's financial role differs from that of management. Board members have legal responsibility for the organization's financial health, but they're not the organization's accountants. They're responsible for strategic planning, and they must ensure that systems are in place for using resources effectively and guarding against misuse.

Too many nonprofits inundate the board with pages of detailed accounting records—even the checkbook register—and then wonder why the board can't see the "big

picture." Boards need analysis and interpretation by the staff as much as they need the numbers.

There's no one-size-fits-all financial report. Reports must be designed to communicate information specific to the organization's size, complexity, and program structure in a format that matches board members' knowledge level.

Basic Requirements for All Financial Reports

Everyone must be able to rely on financial information that is:

Accurate: To assure accuracy, be sure you have adequate accounting software and an appropriate level of financial expertise (either in-house or outsourced). Resolve any question about record keeping or accounting quality before developing new reports.

Timely: Boards can't make decisions on information that's more than a month or two old. If financial reports are frequently late or delayed, you need to assess staff capacity and skills.

In Context: Numbers on a page aren't meaningful until they're reviewed in the proper context. Report information in relationship to the organization's history, budget, goals, and programs.

Available: Financial reports should be on the agenda of every board meeting, even if there is an active finance committee.

Consider how the board's role in financial oversight differs from management.

sight responsibility, every board needs to review a monthly or quarterly financial report, including income statement, balance sheet, and comparison to the budget. Annually, the board needs to receive the audited financial report (or an internally prepared final financial report) and a copy of the IRS 990.

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Where many of us go wrong is by stopping there: Board members may have received the reports, but they didn't get the information they need to plan, monitor, and assure good stewardship. They need the right amount of details, presented in the right context, with analysis and interpretation to support decisions. In addition, every board member needs training on reading financial reports.

Purpose Determines Form

The format and content of reports should be determined by their intended purpose. Boards use financial information for four distinct reasons:

- 1. Complying with financial standards:** The most common way boards use reports is to verify how resources are used, ensure operational efficiency, and account

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for the use of funds. The income statement, comparison to budget, and balance sheet are the routine financial reports that should be included in every board meeting. Using summary categories for income and expenses lets the board review key numbers rather than micro-managing day-to-day bills. In addition, it's helpful to provide a narrative (no more than two pages long) highlighting significant activities and explaining major variances.

2. Evaluating effectiveness: To measure progress toward goals and effectiveness of activities, board members need to compare financial information to budgets, goals, or other benchmarks. This type of information can be incorporated into routine financial reports. Many boards prefer a dashboard-style report—a user-friendly, graphic display that shows key data in a real-time, integrated way, much like a car's dashboard.

3. Planning: When the board is engaged in planning to project future needs or develop budget guidelines, they need a different kind of

information. Prepare a trend analysis of income and expense categories for three years, summary projections for at least two years, and multiple budget scenarios based on different options. This type of information is usually presented in a high-level summary format to support big-picture discussions.

4. Taking Action: Sometimes the board needs to make an urgent financial decision in response to a change from previous plans such as a sudden reduction of funding, an unexpected program opportunity, or a serious cash flow problem. To make a wise but timely decision, the board may need more detail than their standard reports. Ideally, the information will explain the situation and suggest one or two possible actions.

The Key Question to Ask

Before developing financial reports for the board, ask what type of decisions the board needs to make with the information. Then create a report that matches the purpose, the organization, and the board. Goldilocks wants her financial information to be "just right"—accurate, consistent, and customized enough to support the board's need to plan, monitor, and verify, with the right amount of information and analysis in a format that fits the purpose. ■

Resources

Barr, Kate, "Make Good Use of the Treasurer & Finance Committee," *Nonprofit World*, Vol. 27, No. 2.

Harrison, Bill, "How to Present Information to Your Board," *Nonprofit World*, Vol. 21, No. 1.

Howe, Fisher, "The Board Member's First Duty: Accountability," *Nonprofit World*, Vol. 18, No. 6.

Lauer, Larry, "How to Talk to Your Board," *Nonprofit World*, Vol. 23, No. 1.

Ruiz, Rosemarie, "Are You Fulfilling Your Financial Trust?", *Nonprofit World*, Vol. 17, No. 1.

These resources are available at www.supo.org/members. Also see Learning Institute programs on-line: Board Governance (www.supo.org/lino).

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