

# Reporting Financial Information to the Board

The board of directors of a nonprofit organization has legal responsibility for the organization's work. The board is responsible for short and long-term planning, and they must ensure that systems are in place for administering and effectively using resources and guarding against misuse.

In order to fulfill their responsibilities, board members must be able to rely on financial information that is:

- **Accurate:** Information must be reliable and accurate. Resolve any question about the quality of recordkeeping or accounting first.
- **Timely:** Information should be available to the board within 2 or 3 months at the latest.
- **In context:** Information should be presented in relationship to the history, goals, and programs of the organization.
- **Appropriate:** No one-size-fits-all financial report exists. Reports must be designed to communicate information specific to the organization's current circumstances in a format that matches the knowledge level and role of board members.

## WHAT EVERY BOARD NEEDS TO KNOW

Financial reports should be on the agenda at every board meeting. The board should regularly review the organization's:

- **Income statement** showing income and expenses for the period compared to budget;
- **Balance sheet** showing assets and liabilities;
- **Budget**, which should be based on programmatic plans and should be approved annually by the board before the start of the fiscal year.

In addition, once a year the board should review:

- Annual financial report and, if required, an audit report;
- IRS 990 information return.

## PURPOSE DETERMINES FORM

The format and content of reports for the board should be determined by their intended purpose. Four types of reporting are needed by the board:

### 1. Compliance and information

The most common purpose of reporting to the board is to:

- Give assurance and verification of how resources are used and ensure operational efficiency and controls;
- Provide accountability to funders, community partners, and the public on the use of funds.

The board should receive:

- Income statement compared to budget;
- Balance sheet;
- Annual review of the audit;
- Verification of timely and accurate filing of IRS 990 and other required reports.

### 2. Evaluation

When the board seeks to:

- Assess effectiveness of activities and use of resources;
- Review administrative systems and controls;

- Measure progress toward goals, including financial, fundraising, and program goals;
- Consider financial information in relation to the mission of organization.

The board should receive:

- Comparisons of actual results to budget and other plans;
- Comparisons to financial and programmatic benchmarks, such as client levels, financial ratios, reserve levels, and costs of services;
- Financial reports in relation to the programmatic activities and needs of the organization.

### 3. Planning

When the board is engaged in planning in order to:

- Project future needs and consider trends, changes, and prospects for the future;
- Develop assumptions for use in future plans.

The board should receive:

- Trend analysis of primary income and expense categories for past 1 – 3 years;
- Information about the external environment and how it is affecting the organization;
- Financial implications of new programs or management decisions;
- Multiple budget scenarios based on different options under consideration.

### 4. Taking Action

When action is required by the board as a result of changes from previous plans and to:

- Respond to changes, both negative and positive;
- React to changes in external environment;
- Address problems with programs, budget or cash flow.

The board should receive:

- Income statement compared to budget and plans;
- Analysis of the causes of the variances;
- Multiple scenarios based on the different options under consideration.

## ADDITIONAL REPORTING

At times it may be appropriate to provide additional information to the board, such as:

- Cash flow projections;
- Forecasts or periodic updates to the budget when significant changes have occurred affecting finances;
- New budgets may need to be approved by the board;
- Specialized budgets for capital projects or major new initiatives to fully inform the board before making significant commitments.

In times of financial difficulty or crisis, you will need to:

- Provide more detailed information;
- Report more frequently;
- Update forecasts and track against plans;
- Manage cash flow vigilantly.

## PRESENTING INFORMATION TO THE BOARD

- Invest some time in creating a report format for the board using either your accounting software or a spreadsheet program.
- Use summary categories for income and expenses to enable the board to focus on the big picture for decision making rather than micro-managing day to day details.
- Provide a brief narrative along with financial reports. The narrative should highlight significant items and explain variances from plans.
- Every board member needs training on reading and using the financial reports. Provide an annual orientation and review of the report format, major categories, and the key financial factors for the organization.