

What financial reports do management and the board need?

Because each nonprofit organization faces different financial issues and has different resources to bring to financial functions, each organization will choose a different set of regular financial reports to prepare and analyze. At different times an organization will need different reports to provide information to support its decision-making.

What reports should we prepare and how often?

The answer will depend on several factors, including the extent to which the organization is financially stable, the degree and extent to which the financial picture changes during the period, the availability of cash to meet financial obligations, the availability of staff or other professionals to prepare reports, etc.

A mid-sized human service organization in reasonably good shape financially might consider the following schedule of reports:

Monthly Reports

- Statement of Position (Balance Sheet)
- What is our financial health? Can we pay our bills?
- Statement of Activities (consolidated) showing budget to actual information
- What has been our overall financial performance this month and to date?
- Departmental Income and Expense Statement showing budget to actual information
- How does actual financial experience compare with the budget? Is specific action called for, such as limiting expenses in certain areas? Does experience indicate a change in the budget is appropriate?
- Narrative report including tax and financial highlights, important grants received, recommendations for short term loans, or other means of managing cash flow
- An executive summary of financial highlights, analysis, and concerns.

Quarterly Reports

- Fundraising Reports; actuals vs. projections for donations; status report on all foundation proposals.
- Are fundraising results on track?
- Cash flow projections for the next six months
- Do we anticipate a cash surplus or shortage?
- Payroll tax reports
- Have payroll tax reports been submitted on time and tax deposits been made?

Fee-for-service report showing number of fee-paying clients and revenue against projections? Are we servicing approximately the same number and type of clients as we had anticipated? If not, what action or change is appropriate?

Annual Reports

- Annual Federal forms, including 990 and Schedule A; State Reports
- Has the organization fulfilled its reporting responsibilities to federal and state governments?
- Draft financial statements for year: Statement of Activities; Statement of Position; Income Statement for each program. Aggregated financial statements with narrative showing key trends
- Focus: Internal management decision-making. What was our financial performance over the past year? In what ways and for what reasons was performance different from the budget? What financial implications must be taken into account when planning the upcoming year?
- Audited financial statements for the entire organization, including Statement of Position, Statement of Activities, Statement of Cash Flows, Statement of Functional Expenses
- Focus: External accountability and financial disclosure to funders and the public
- Management letter from the auditor
- What recommendations has the auditor made related to the accounting system, internal controls, and financial planning?

Who Prepares These Reports and Who Should Review Them?

In a small nonprofit the board treasurer or outside accountant/bookkeeper might prepare the financial information for all in-house financial statements, and work with the executive director to prepare the narrative with financial highlights to be presented to the board. A controller or finance director would prepare these reports in a larger organization. The program director, if you have one, would ordinarily prepare the quarterly fee-for-service report. Similarly, the director of development would prepare the quarterly fundraising report.

The executive director reviews all reports prior to presenting them to board members to ensure that the financial information makes sense and can be translated into issues and opportunities facing the organization. In addition, key staff members such as program directors and the director of development should have the opportunity to review income and expense reports for the whole organization.

When the board is large enough to include a finance committee, that committee reviews all financial statements and reports on financial activity to the full board. In a smaller nonprofit, the executive director might report first to the board

treasurer, who can then keep the full board apprised of the organization's financial status.

The finance committee will often review the numbers in greater detail than the full board. The full board may be better able to respond to aggregated information with important financial trends and issues highlighted in an accompanying narrative report. While each board member should have the opportunity to review organization-wide income and expense reports to understand the impact their department's activities have on the whole organization, members who are inexperienced at reading financial statements may get lost in overly detailed statements. To help the board fulfill its oversight function, it is important for the executive director and the finance committee to present the information in as clear and concise a manner as possible.

The audit and management letter are addressed directly to the board of directors because of its oversight function. Typically, the auditor works with the finance staff to prepare federal and state reports and may be included at board meetings during which presentations are given.