

Bravo for board members who ask questions about financial reports!

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By: Wavel Joseph, CPA, CGMA, CFO, [Tate and Tryon](#) [1]

In this guest post by a CPA who works for charitable nonprofits, we learn about end-of-the-month financial reports and some questions board members might want to ask.

Your nonprofit's monthly financial reports most likely include a Statement of Financial Position (sometimes called the "Balance Sheet") and a Statement of Activities (often referred to as the "Income Statement"). Just looking at those two reports may not tell you enough information for sound decision-making. What questions can board members ask to help them understand what's going on?

First question to ask: "Are the reports timely?" If the reports were completed some time ago, you should question whether the information is still useful or relevant for making decisions. Second question to ask: "What do you think these reports are telling us?" As the reader of the financial information, have you ever asked the staff member who prepared the financial reports to explain what story s/he thinks the reports are telling? The resulting dialogue may help uncover whether the reports convey a helpful narrative, or instead are ambiguous or confusing to some board members. Too often board members simply accept reports that are prepared, without asking any questions. If no questions are asked, the staff has no way of knowing whether the reports are actually helping the board understand the nonprofit's financial position.

Should the financial reports include "variances"?

Comparing where the nonprofit is at the end of a month with where it was in a prior month or comparing year-to-year results can be useful – but not always. Can the preparer explain the variances so that the reader clearly understands the reasons behind the variance? Some variances are generated by activities (or lack thereof) and others could be due to timing issues. For example, a year-over-year comparison may not be relevant if an organization has reorganized its programs or changed its fee structure.

Once the reader understands what's behind the variances, then a discussion about financial health can follow. The point is that the reader of the reports and the preparer should regularly question why certain reports exist at all. In some cases knowing the variance from a prior time period just isn't relevant to the progress the nonprofit is monitoring. While we should all strive to be transparent and give board members helpful information, sometimes too much information is not helpful at all!

What story do the financial reports tell?

One element of the month-end financial report not to leave out is the executive summary. This is where the preparer can share the story the financials are telling for that particular month. The summary should highlight what the organization has achieved relating to its financial health in the past month (or year-to-date), draw attention to anything of concern, and set the tone for the actual financial statements that follow. The executive summary is also where the preparer can set the stage for the relevancy of any variances reported on the financial reports, and help the reader gain a better understanding of the month's financials in the context of the entire fiscal year.

“A picture is worth a thousand words”

Dashboards have become very popular over the past few years, and like Infographics should be created with a sensitivity to the type of information being presented, as well as the intended audience. Colors used in dashboards can play an important role in communicating meaning: action and urgency, in particular. Dashboards can also effectively display chronological comparisons over months or years. Including dashboards in the end-of-month financial reporting package can help the board make better decisions by illustrating what's coming down the road or what progress has been made. (Resources and tools for making your own [dashboard](#). [2])

Ideally, the preparer and board members are partners in the financial reporting process, continually challenging the relevancy of what is reported so that the most timely information is considered and the most helpful trends are evaluated. There is no “one size fits all” solution. Your nonprofit is unique, and each group of board members is unique, so ensure that the financial reports reflect that uniqueness by continually questioning what to include in the end-of-month financial reporting package.

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[1] <http://www.tatetryon.com/AboutUs/>

[2] <http://www.councilofnonprofits.org/resources/resources-topic/administration-and-management/sustainable-and-sound-management-practices-1>

[3] <https://www.councilofnonprofits.org/blog-categories/financial-management>