

More Than Financial Reports: What Nonprofit Boards Must Look At

7 min read



Key Takeaways

- The board's job is to put a good strategic plan in place, approve a budget and make sure there's enough cash to fund that plan. At board meetings, your starting point should be to look at the reports on your budget vs. actual spending.
- For most nonprofits, cash flow is always a challenge. You'll need a cash flow forecast in order to stay on top of inflows and outflows of funds. If cash flow isn't a concern for your organization, then the budget vs. actual is your most valuable report.
- Without proper financial systems or reports to inform sound business decisions, the board is not fully empowered to help the nonprofit succeed. Focusing on how to protect net assets with the right processes and policies will ensure the success and reputation of the nonprofit organization.

In a previous blog, [What Board Members Need to Know About Nonprofit Accounting](#), we discussed liability and resource allocation as it relates to the job of a board member. Now let's look at the reports, traditional financial statements, and management reports board members and Executive Directors (ED) should be using, on a weekly and monthly basis.

The primary job of the board is to ensure the viability of the organization with a clear strategic plan, sound policies and funding. You do that by having, at your fingertips, the information necessary to make sound business decisions - because a nonprofit should be run like a for-profit - the only difference is that you pour the profits back into the program.

What kind of reports should the nonprofit board member be looking at?

- Financial Statements - What they are, and their limitations
- Management Reports - What they do for you

Financial Statements

Most nonprofits look at the financial statements on a monthly, quarterly and annual basis.

<u>Nonprofit</u>	<u>For-Profit</u>
Statement of Financial Position	Balance Sheet
Statement of Activities	Income Statement
Statement of Cash Flows	Statement of Cash Flows

Most nonprofits require an extra report, the **Statement of Functional Expenses** because expenses need to be separated out by function on their tax return. However, the board typically doesn't need to concern themselves too much (that's an accountant's job).

Other than the title being different for Statement of Financial Position vs. Balance Sheet - [What is the difference between a balance sheet of a nonprofit organization and a for-profit business?](#) - The difference is between the total assets and total liabilities.

A nonprofit's statement of financial position refers to this section as [net assets](#), whereas the for-profit business will refer to this section as [owner's equity](#) or stockholders' equity. The reason for this difference is the nonprofit does not have owners.

A nonprofit organization's statement of financial position formula is: **assets - liabilities = net assets.**

Management Reports

Making better decisions with the Right Reports

Financial statements are necessary to understand the organization's overall financial position, however, these are not what the executive director and managers use to run the organization on a weekly and monthly basis. That's where the management reports come in.

Board members want to make sure the organization has a management reporting system that provides **actionable financial intelligence to make informed decisions.** That's how you run the nonprofit with the best practices of a for-profit.

For example, in a well-run nonprofit, there are **management reports that help the development office raise more money** and give the board confidence the organization is executing on its mission. These would include:

- **Budget vs actual spending by program and department** to make sure there's good stewardship of limited resources
- **Unit economics that show the true cost** to provide services. This helps fundraisers build campaigns to get donations to support the mission. It also helps the board understand how much money needs to be earned or donated.

- **Cash flow forecasts** to make sure potential issues are flagged far enough in advance to do fix it without a fire drill.

The level of involvement of the board in management reporting depends on the organization's structure, experience of the staff and focus of its members. At the very least, you should understand what reports management uses to help the organization perform its mission.

The board's job is to put a good strategic plan in place, approve a budget and make sure there's enough cash to fund that plan. At board meetings your starting point should be to look at the reports on your **budget vs. actual** spending. *You should be doing this on a monthly basis and not quarterly.*

Budget vs. Actual Management Report

Every non-profit organization should have an annual budget. The board needs to review the budget vs. actual for the current month as well as year-to-date (YTD).

This can be achieved on one page with QuickBooks as a [Profit & Loss Budget Performance report](#). In QuickBooks departments are called classes and a well run organization will drive the budgets down to each department head so budget vs. actual numbers can be filtered easily by department. Having a budget at the department-level and not just the whole organization is important because it can help inform the decisions a board member has to make.

These decisions are usually around where to invest additional funds, if they're available, or where to cut your losses if funding dries up. **The job of the board is to make these difficult decisions.** To do so, the board must have its fingers on the pulse of where the organization is most effective in its current operations so you can surgically improve the budget.

Ideally, you will use QuickBooks sub-classes to look at the budget vs. actual for each program within a department. Then you can compare the actual expenses of each program

against that plan to understand where variances lie (this typically tells you where problems can occur).

Cash Flow Forecast

For most nonprofits, cash flow is always a challenge. You'll need a **cash flow forecast** in order to stay on top of inflows and outflows of funds. If cash flow isn't a concern for your organization, then the **budget vs. actual** is your most valuable report.

You may not realize a cash flow issue if you don't properly account for **restricted grants**. It's important to know which funds are restricted and separate them in the cash accounts. The organization might have a lot of cash but if 90% is restricted, it can be a cash flow issue.

For GrowthForce nonprofit clients, as we receive restricted funds we earmark and set up "Jobs" in QB (e.g. \$50K for operation, \$50K for project), and create an estimate, or budget, for the job/restricted grant. Then we code all of the transactions related to that grant and create a **Profit and Loss by Job Report** - we can pull that at any time to see where we are against the grant.

If you are a cash-poor organization, you will need to review 90 day cash flow. The **Profit and Loss Budget Performance Report** - on a cash vs. accrual basis - provides the cash prediction for the next 90 days based upon the budget.

NonProfit Summary Dashboards

Most of our clients find value in a **summary dashboard**, especially if there are cash flow issues. A finance dashboard gives visibility into your cash situation.

Once you determine the decisions that need to be made, a dashboard should be able to show you the key performance indicators (KPIs) and trend lines for the key metrics, especially cash on hand, and may include both financial and non-financial metrics. (e.g. # of visitors, revenue per visitor, volunteer hours)

Strategy, Policies, and Funding

In summary, here are three points board members should keep in mind:

- **Strategic Financial Planning:** Ensure that you not only know how to read, but to understand the reports that are being generated. Board decisions will be made based on these reports, so misinterpretation could put the nonprofit at risk.
- **Sound Policies:** Without proper financial systems or reports to inform sound business decisions, the board is not fully empowered to help the nonprofit succeed. Focusing on how to protect net assets with the right processes and policies will ensure the success and reputation of the nonprofit organization. This cannot happen if board members don't have the intelligence to make data driven decisions.
- **Funding:** Cash flow and budget vs. actual reports (or the Profit & Loss Budget Performance report) are the most important reports that the board or Finance Committee needs to review monthly. Based on the needs of your nonprofit, you can decide which report holds more weight over the other.

As a nonprofit board member, are you asking the right questions, do you know what decisions need to be made?

Here's what our clients think...

"Having your books in order at all times is extremely important for grant-based nonprofits because our board of directors and grantors want to know how we spent the money."

Executive Director, Orange Show Center for Visionary Art