

Financial Board Reports

The Executive Director is responsible for keeping the Board up-to-date on the financial state of the organization, preferably at least quarterly. Your Board of Directors are the legal fiduciaries of your organization and therefore it's essential that they understand the financial state of your organization. Considering that board members are volunteers with limited time, and that not every board member has the financial background to analyze complex financial statements, creating a simple yet informative fiscal board report is essential.

A basic financial packet includes three reports: a Financial Narrative, a Budget to Actual Report, and a Statement of Financial Position (Balance Sheet).

Financial Narrative

The most important part of your financial reporting is your narrative. The financial narrative interprets your financial statements into a succinct and easy to follow update for your Board.

As a board member, reading a few paragraphs summarizing the state of income, expenses, and balances is a much easier task than analyzing and comparing financial reports. It allows for each board member to get up to speed regardless of their financial background.

Elements of a Financial Narrative

1. Statements

As you can see on the sample financial narrative below, it opens by referring to the date and the attached financial reports. It's essential to run both the Budget to Actual and the Statement of Financial Position reports for the same date. More on these reports below.

2. Big Picture & Operating Reserve

The beginning of the narrative starts with your reserves and refers to your Statement of Financial Position (Balance Sheet). This report is the best indicator of the overall health of the organization, and it's apt to start here. It places the budget in context. Explain how the reserves are doing compared to your target and the plan for achieving that target.

3. Income and Expenses

Once the financial position is clear, move into talking about how the current year is going. Are you on track with your budget? In this section, refer to the Budget to Actual Report. Start by briefly addressing the overall percentages, then move into the details. Highlight the most significant accounts for the organization since these have the most impact. These are likely the grant income and personnel expense accounts. After that, highlight any significant variances. For example, your expenses for supplies may be over budget to date because you purchased supplies in bulk at the beginning of the year. The board narrative is the appropriate place to explain what is not apparent by the numbers alone.

4. Program Specific

After reviewing both the Statement of Financial Position and the Budget to Actual report, you can discuss any necessary program specific details that should be highlighted for the Board. What's the financial health of each program? Are they on track? Etcetera.

Here is an example of a financial narrative for your board. You can copy and paste the text to use as a template for your organization.

To: _____ Board of Directors
From: _____, Executive Director
Re: June 30 Financial Report

July 15, 2019

Greetings! Thank you for your continued interest in the organization's finances. I'm looking forward to talking with you on the upcoming Board phone conference.

- Statements { I have completed the third quarter financial statements and have attached them for your review. I have included the Statement of Financial Position as of June 30, and the Budget to Actual Report for January through June.
- Big Picture & Operating Reserve { The Statement of Financial Position (Balance Sheet) is a snap-shot of the "worth of the organization" at a particular point in time – in this case, June 30, 2019. As you can see by looking at the "Equity" section at the bottom of the report, our organization has \$_____ in unrestricted reserves and \$_____ in Board-designated reserves. This is a total of \$_____. Our annual expense budget is \$_____ so this reserve represents a little over ____ month of operating monies. Our target is to get to ____ months of operating monies over the next ____ years.
- Income { The attached Budget to Actual Report shows you the 2019 income and expenses to date (January through June). It also lists the annual budget that you approved in our December meeting and lists the percentage of the budget that is raised-to-date. As you'll see, overall, we are ahead on our grant fundraising and are very close to being on track with our membership fundraising, which is at \$_____ as of the second quarter.
- Expenses { The attached Budget to Actual Report also shows you the 2019 expenses to-date, compared to the annual budget. Overall spending is very close to on-track at _____% of the budget through second quarter.
Most of the line items are within budget. Personnel costs are running at ____%. We are running ahead of budget because we hired the Conservation Advocate a month earlier than planned.
- Program Specific { To date, most of the program areas are raising enough money to cover their expenses (or, most program areas' expenses are under their operating budget). XXX program is over budget in expenses due to _____.
The staff is doing an excellent job managing their program cost effectively. Through the second quarter, the A program has spent 55% of their annual budget, the B program 49%, C 43%, and D 47%. We continue to put 2/3 of our resources into the A program.

Please do not hesitate to call or email if you have any questions or comments about the organization's finances.

Sincerely,

NAME
Executive Director

Budget to Actual Report

It's essential to compare your budget to your actual revenue and expenses throughout the year. Doing so provides tremendous insight into the state of your finances and allows for adjustments to be made if necessary.

The budget to actual report consists of three columns: your Statement of Financial Activity YTD (Profit and Loss) in the first column, your budget in the next column, and the percentage of those actuals compared to the budget in the last column.

At the top of the budget to actual report, it's helpful to list the percentage of the year completed. For example, at the end of the second quarter, the year is 50% complete; therefore, the income and expenses should be at 50% of the annual budget. For your board, simple percentages may be easier to review than large numbers. It's quick and easy to identify accounts that are off budget because they are either under or over 50%.

Sample Budget to Actual Report

	Actual	Budgeted	% of Budget
Income			
Foundation Grants	140000	285500	49%
Individual Contributions	8000	22000	36%
Major Donors	0	0	0%
Other Income			0%
4500 Interest Income	0	0	0%
Total Income	148000	307500	48%
Expense			
Personnel Expenses	98000	198000	49%
Payroll			
Payroll Tax & Worker's Comp	6000	12871	47%
Benefits	18000	36002	50%
Personnel Expenses	122000	246873	49%
Project-specific Expenses	750	1000	75%
Conferences			
Travel	650	1325	49%
Contract Help	2000	5500	36%
Communications	1030	2000	52%
Project-specific Expenses Total	3030	7500	40%
Shared Operating Expenses			
Rent	2500	5000	50%
Phone	1200	2500	48%
Travel	4000	7500	53%
Supplies	700	750	93%
Payroll Service	275	550	50%
Shared Operating Expenses	8675	16300	53%
Total Expenses by Function	133705	270673	49%
Net Income	14295	36827	39%

Statement of Financial Position (Balance Sheet)

Your Statement of Financial Position is a simple report produced in your accounting system. Make sure that the dates for your report match the dates on your Budget to Actual Report and the time frame for which you're reporting. On the Statement of Financial Position, make sure that your equity accounts are accurately displaying restricted and unrestricted funds as well as your operating reserve. You may need to adjust your chart of accounts to do this. You want to make sure that the board isn't confusing your bank account balances with the amount of unrestricted dollars the organization has.

Conclusion

Keeping your board informed and making it easier for them to do so is the goal. For consistency, keep using these same three reports each reporting period. Repetition will make it easier for the board to understand them and to see variances over time. With this simple financial board report structure, your legal fiduciaries will be able to stay abreast of the financial state of the organization with ease.