



### **Training Nonprofit Board Members to Read and Understand Financial Reports**

One of the items board members are responsible for is to monitor the financial situation of the organization. As such, board members should be familiar with the types of financial reports the organization uses to demonstrate its financial standing. Some common financial reports include:

1. Profit and loss statement - this financial statement includes all of your revenue and expenses for a specific time period. The revenue section is generally first with the expense section following. You then subtract your total expenses from your total income and this yields a net profit or loss. Generally, losses are highlighted with a minus sign (-) before the actual figure. The purpose of this report is to reflect the organization's financial status during the indicated time period. Board members usually review a profit and loss statement on annual basis, often **at** their annual meeting.
2. Balance sheet - this sheet itemizes the organization's assets and liabilities and provides a snapshot of the organization's financial condition at a specific point in time, not time period. Board members should review the organization's balance sheet at least once a year.
3. Cash flow statement - this statement reflects the flow of cash and cash equivalents coming in and going out of the organization. These statements are useful in determining the short-term viability of an organization, specifically its ability to pay its bills. Examining the organization's cash flow is important at any time, but conducting a cash flow analysis for startup organizations or those that have experienced recent financial hardships is always a good idea.
4. Monthly financial report - this report indicates the organization's monthly income (what it brought in) versus expenditures (what it spent), in relation to its projections. For example, if an organization budgets \$3000 a year for office supplies, and it has already spent the entire budget halfway through the year, the board should question why this happened (e.g., weren't sufficient funds initially allocated for this line item, wasn't the organization monitoring expenditures in relation to this line item, did the organization incur an unexpected expenditure, etc.). If the board meets monthly, they should review the previous month's financial report. If the board meets every other month or on a quarterly basis, they should review any financial reports since their last meeting.

Regardless of which financial reports your organization uses, board members should be trained to know how to read and understand them. Some board members may have prior knowledge of financial reports but most do not know how to read or interpret financial information. Training in this area should be a part of new board member orientation and incorporated into ongoing training. Training could be

conducted by an experienced executive director or board member, or you could ask your bookkeeper or accountant to provide training to potential and current board members. Whichever method you use, make sure that your board members are equipped with the knowledge to read, understand, and monitor financial reports.

With today's technology, you can Google terms such as profit and loss statements, balance sheets, cash flow statements, etc. and uncover a wealth of information that can help you and your board members to become proficient in reading and understanding financial reports. There are also a number of nonprofit associations (e.g., National Council of Nonprofits, Alliance of Arizona Nonprofits) that provide information and articles (and forms, in some cases) designed to help nonprofits develop and monitor financial reports.

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If you want to make positive changes in your personal and/or professional life, and create the life you desire and deserve, then working with Executive & Life Coach, Sharon L. Mikrut, is the solution. Although her specialty is in partnering with nonprofit executive directors and managers to maximize their resources in a competitive environment, she is passionate about working with all individuals committed to personal and/or professional growth. Visit her website at <http://www.createitcoaching.org> or Nonprofit Professionals blog at <http://www.createitcoaching.com> and sign up for her free monthly messages, which are designed to help you run your organization in a more effective and efficient manner.