

## 4.8 SAMPLE CFO REPORT TO THE BOARD

The following is a template for the Report of the Chief Financial Officer to the Board. It summarizes the Company's current financial position and financing plans.

[Company]

**CFO Update**

Month, year

### Financial Results Compared to Budget for Month and Year to Date

#### Summary Income Statement

	Month			Year to Date		
	Actual	Budget	Variance \$	Actual	Budget	Variance \$
<b>Revenue</b>						
Product 1						
Product 2						
<b>Total Revenue</b>						
<b>Expenses</b>						
<b>R&amp;D</b>						
Payroll						
Materials						
Misc. exp.						
<b>Total R&amp;D</b>						
<b>Sales &amp; Marketing</b>						
Payroll						
Travel						
Collateral						
Trade Shows						
Website						
Misc. exp.						
<b>Total Sales &amp; Marketing</b>						
<b>G&amp;A</b>						
Payroll						
Rent						
Office Expenses						
<b>Total G&amp;A</b>						
<b>Total Expenses</b>						
<b>Net Income</b>						

Note that some company's also like to see a quarter to date variance report which provides more granularity.

## Summary Balance Sheet

Month, Year

	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>
Cash			
Accounts Receivable			
Other current assets			
<b>Total Current Assets</b>			
Capital Equipment			
Other Assets			
<b>Total Assets</b>			
Bank Line			
Account Payable			
Other current liabilities			
<b>Total Current Liabilities</b>			
Long-term debt			
Capital Stock			
Retained Earnings/(Deficit)			
<b>Total Sh. Equity</b>			
<b>Total Liab &amp; Sh.Eq</b>			

### Summary Cash Flow

	Month			Year to Date		
	Actual	Budget	Variance \$	Actual	Budget	Variance \$
<b>Net Income</b>						
Non-cash Items						
<b>Cash Flow from Operations</b>						
<b>Capital Purchases</b>						
<b>Financing Activities</b>						
<b>Increase in cash flow</b>						
Beginning cash						
Ending cash						

### Analysis of variance

The CFO should include a paragraph or two highlighting the reasons for the variances to budget, and management’s response. The analysis should inform the directors for the underlying business reasons for the variances, rather than drily reciting the numbers in the tables. For example, “Revenues exceeded budget because of the trend towards xxx which has increased the demand for the company’s products. Cash reserves are \$xx below target because accounts receivables have increased to xx days. Several customers are now exceeding 60 days. The CFO and VP Sales have expedited payment with senior management.”

### Runway (Cash Position)

The Company's current working capital position is \$\*, including accounts receivable of \$\* (also expressed in days) and payables of \$\* (and days). The Company's cash position at month end was \$\*. The Company's current burn rate is \$\*. Assuming we hit our targets the Company has sufficient cash to fund operations until \*[date] which is a runway of \_days.

### Forecast Financial Results

It is a basic requirement for companies to produce variance reports against budget for the year to date. However, it is even more useful to directors to have a picture of how the balance of the year and the next 4 quarters will unfold both for the financial statements (profit and loss, and balance sheet) and cashflow. Arguably, the accurate prediction of the cash balance into the future is the single most important job of the finance team and CFO. It is critical in planning all company operations, future financings, etc. However, it is a difficult task, fraught with error. It requires the merging of the current financial performance with a predictive model which is challenging. Typically, standard accounting packages for small companies do not have this capability. The CFO must resort to an Excel model which provides the flexibility required, but which can imbed significant model errors which can escape discovery.

Software companies which earn licence, professional services and maintenance revenue have even a more complex task to predict cashflow. They may be paid in installments, but recognize revenue as work is completed. Maintenance contracts are paid annually in advance which gives

rise to deferred revenues and an amortization schedule. Factoring all these parameters into a comprehensive projection model is a tall order which few companies attempt. Most rely on the summary runway calculation presented above.

Companies with the experience and cycles to develop a cashflow projection can prepare a report with the following headings, and the financial statement entries shown above. “act+proj” is short for “actual plus projected” which is the actual results year to date combined with the forecast for the balance of the year, or the next 4 quarters.

Month: Jun-10			Year to date: 2010			Forecast year end 2010			Forecast 4 qtr: Q2'10 - Q1'11		
actual	budget	variance	actual	budget	variance	act+proj	budget	variance	act+proj	budget	variance

### Financing

Discuss the status of your financing plans. Also advise if the Company has been approached by any financiers.

### Capital Structure

If there have been any changes to the share capitalization (other than regular vesting of employee and director shares or options), present an updated share cap table, as follows.

Shareholder	Number of shares	% of Issued Shares	% of Fully Diluted Equity
<b>Class A Preference Shares</b>			
Shareholder 1	1,000,000	25.0%	21.9%
Shareholder 2	1,500,000	37.5%	32.8%
<b>Total Class A Preference Shares</b>	<b>2,500,000</b>	<b>62.5%</b>	<b>54.6%</b>
<b>Common Shares</b>			
Shareholder 3	500,000	12.5%	10.9%
Shareholder 4	200,000	5.0%	4.4%
Shareholder 5	100,000	2.5%	2.2%
Employee Trust	400,000	10.0%	8.7%
Directors Trust	300,000	7.5%	6.6%
<b>Total Common Shares</b>	<b>1,500,000</b>	<b>37.5%</b>	<b>32.8%</b>
<b>Total Issued Shares</b>	<b>4,000,000</b>	<b>100.0%</b>	<b>87.4%</b>
<b>Warrants</b>			
Shareholder 1	200,000		4.4%
Shareholder 2	300,000		6.6%
<b>Total Warrants</b>	<b>500,000</b>		<b>10.9%</b>
<b>Options</b>			
Optionee 1	50,000		1.1%
Optionee 2	25,000		0.5%
<b>Total Options</b>	<b>75,000</b>		<b>1.6%</b>
<b>Total Warrants and Options</b>	<b>575,000</b>		<b>12.6%</b>
<b>Total Fully Diluted</b>	<b>4,575,000</b>		<b>100.0%</b>

If management is proposing to award shares or options to employees, directors, or consultants, then provide a table showing the optionee, the number of options/shares, vesting details and a summary of the total share/options pools.

### Directors' Liability

Directors and Officers are personally liable for all unpaid wages, source deductions and most company taxes. Companies typically request the CFO to present a signed certificate at each Board meeting attesting that all required government remittances, including payroll deductions, GST, PST in all provinces and State Taxes in all States are current as of the date of the report.