



RESPONSIBLE GOVERNANCE & MANAGEMENT

CAPACITY BUILDING WORKSHOP FOR CIVIL SOCIETY ORGANIZATIONS

FINANCE MANAGEMENT

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THE GAME PLAN

PART 1: BUDGET & ACCOUNTING

- **Financing CSO Operations**
- **Characteristics of financially healthy CSOs**
- **The Budgeting process**
- **The Accounting System**

PART 2: FINANCIAL STATEMENTS & AUDITING

- **Financial Statements**
- **The Audit**
- **Financial Procedures Manual**
- **Roles of Organizational Leadership in
Financial Management**

FINANCING CSO OPERATIONS

- All CSOs require adequate financial revenues to sustain their operation. Additional finances can provide organizational stability
- CSO leaders must recognize that they need to operate the organization like a business in order to be financially successful
- CSOs/NGOs are NOT prohibited from making a profit!...it is just called “excess revenue over expenditures!”
- Restricted from excessive compensations or payments to anyone

7 CHARACTERISTICS OF FINANCIALLY HEALTHY CSO

■ Financially healthy nonprofits....

1. Have sufficient resources to ensure stable programming
2. Have a ready source of internal cash – or access to cash – in times of shortfalls
3. Are committed to income-based spending
4. Retain a positive cash fund balance at the end of each fiscal year

7 CHARACTERISTICS OF FINANCIALLY HEALTHY NONPROFITS

■ Financially healthy nonprofits....

5. Accumulate annual surpluses to use as safety net in years when an unseen deficit occurs

6. Have established – or plan to establish – an operating reserve to finance program growth

7. Have a board and management that hold themselves responsible for the organization's financial stability

(+1) 8. Receive “clean” annual audits

Source: Stevens, S. (2002)

SOME SIGNS OF FINANCIAL TROUBLES FOR A CSO

- The organization consistently spends more money than it receives in revenue
- Payables mount-up and go unpaid and the organization doesn't know how much it owes
- More than 50% of receivables are 120 days or older
- It regularly dips into restricted or deferred funds for day-to-day expenses
- Lack of finances becomes the central focus and dominant point at board meetings

Source: Stevens, S. (2002)

THE BUDGET

- The budget of a CSO is its plan for receiving and spending financial revenues to reach specific goals by certain time
- The budget provides financial and operational guidance needed to implement programs and services
- It guides the CSO's acquisition & use of financial resources
- It charts the direction of allocating and maximizing resources
- It is the tool for controlling spending and avoiding deficits

THE BUDGET

- Thoughtful and deliberate plan for spending money to reach specific goals by a certain time
- Is only as good as the time, effort, and information people put into it
- No budget is perfect
- Must be monitored and changed as time goes on in order to reach goals
- Good budget guides a CSO to reach its program/project goals in a given fiscal year

BUDGETING PROCESS

- A good budgeting process is...
- Thoughtful and deliberate
- Inclusive
- Flexible
- And an ongoing process

TYPES OF BUDGETS

1. Operating budget

- Organization-wide
- Good for nonprofits with multiple programs or units
- Identify all income and expenses needed (planned) for the whole organization for the coming year

2. Program

- Individual budget for each major program/project or unit of the organization

3. Cash Flow

- Identify and describe schedule, nature, and amount of revenues and expenses

4. Capital

- Plan and manage capital projects
- Relatively large one-time expenditures like a new building

THE ACCOUNTING SYSTEM

■ Goal

- Ensure that financial data and economic transactions are properly entered into the accounting records
- Ensure that financial reports are prepared accurately and in a timely fashion

■ Choosing the appropriate and easy-to-understand accounting system software

■ Growing trend to outsource bookkeeping and financial management

CHART OF ACCOUNTS

- List of each account that the accounting system tracks. Acts as table of contents to the general ledger., which organizes all financial information by individual accounts
- Captures the financial information needed to make good decisions
- Information in the chart of accounts are used to generate financial records and reports
- 5 categories
 - Assets
 - Liabilities
 - Net assets/fund balances
 - Revenues
 - Expenses

GENERAL LEDGER

- Organizes all financial information by account
- Shows all transactions included in the balance of each account
- For Example:
 - Acct. Number: 1234 Name: Office Supplies
 - Beginning Balance, January 1, 2016: Rs. 75000
 - Ck. No. 789 Sri Ram Office Supplies 4/15/2018: Rs.22000
 - Ck. No 793 Quality Paper Store 4/23/2018: Rs. 13275
 - Closing Balance 1/30/2016: Rs. 39,725

CASH VS. ACCRUAL BASIS ACCOUNTING

1) Cash basis accounting

- Revenue is recorded when it is received/deposited
- Expenses are recorded when bills are paid/withdrawn

2) Accrual basis accounting

- Revenue is recorded when it is earned/promised, regardless of when it is actually received
- Expenses are recorded when they are owed instead of when they are paid

FINANCIAL STATEMENTS

1) Statement of Financial Position

2) Statement of Activities

3) Statement of Cash Flow

STATEMENT OF FINANCIAL POSITION

- AKA...Balance Sheet, depicts the overall \$\$\$ value of the organization at a given time (usually the end of the FY)
- Total assets – total liabilities = total net assets (cumulative net worth of the organization)
 - Assets include cash, accounts receivables, investments, movable & immovable properties, etc.
 - Liabilities include accounts payable, accrued salaries and benefits, mortgages, loans, etc.

STATEMENT OF ACTIVITIES

- AKA...Income Statement, which depicts changes in assets from one FY to the next FY
- Can determine if the nonprofit is operating at a surplus or deficit
- Gives rate of spending and revenues and signals area(s) of concern
- Shows capability to carry out the mission

STATEMENT OF CASH FLOW

- Reconciles cash flows from operating, investing, and financing activities
- Changes in cash during the FY
 - Net increases/decreases in cash
 - Cash at the beginning and end of the period/FY
- Required statement for audit

THE AUDIT

- Process for testing the accuracy and completeness of information in an organization's financial statements
- Independent CPA issues an “opinion” on
 - How fairly the statements represent their financial position
 - Whether they comply with generally acceptable accounting principles (GAAP)
- Must be done by an outsider to the organization
- Assures that the financial statements are accurate and complete

THE AUDIT

- Audit report includes opinion (auditor's cover letter) and financial statement
- Section on comparative financial information between FYs
- Might include...
 - a depreciation schedule
 - lists of contributions and volunteer services
- Audit report includes 'management letter' that addresses the Board
- Management letter identifies weak areas of accounting system

FINANCIAL PROCEDURES MANUAL

- Describes finance related administrative tasks...and responsible individuals
- Descriptions include functions such as:
 - paying bills
 - depositing cash
 - transferring funds
 - chart of accounts
 - payroll policy
 - etc., etc.

FINANCIAL LEADERSHIP

- **Roles of the Board:**
- Creating a statement of program priorities to guide the budgeting process
- Establishing general budget policies including: requirements for a balanced budget, policies on cash reserves, decisions on salary increases and new programs
- Formally reviewing and approving the budget
- Periodic review of the financial reports (board meetings)
- Authorizing audit and reviewing & approving audit report

FINANCIAL LEADERSHIP

- **Roles of executive leadership:**
- Preparing options to guide budget development
- Presenting recommended budget to the Board, explaining provisions and consequences
- After budget is passed, delegating financial responsibilities to managers and unit leaders and supervise the process
- Providing regular reports to the Board and its finance committee on financial matters
- Making sure all financial statements and reports are prepared accurately for various fiscal purposes, including audit