Financial Fitness 101

Building a Financially Healthy Not-for-Profit Organization

Presented by

Vancity

citizensbank of canada

Human Resources and Social Development Canada

Ressources humaines et Développement social Canada

Content provided by:

Robert Marus
Manager, Community Business Banking
Vancity
robert_marus@vancity.com

Additional content provided by:

Catherine Ludgate
Manager, Community Business Programs
Vancity
catherine_ludgate@vancity.com

Scott Hughes
Director, Community Business Banking
Vancity
scott_hughes@vancity.com

Handbook edited and prepared by:

DonnaLynne Barker
Principal
Barker Communications
donna@donnabarker.com

Lead Author, Robert Marus

With 20 years of experience in banking of which the past 6 years has been devoted to serving the non-profit market in British Columbia, Robert Marus is recognized as thought-leader in community banking arena. Robert is responsible for the development, implementation and on-going support/advocacy of Vancity's service delivery model to not-for-profit organizations. He is also responsible for the development of unique credit and underwriting policies and processes for not-for-profit lending.

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Introduction to the Financial Fitness Series

Vancity is very pleased to be able to participate in the development of these Financial Fitness materials for not-for-profit organizations. In our extensive work in the social and voluntary sector, it is a commonly expressed need for organizations to move themselves further along the curve of understanding what it takes to be a healthy, financially strong and stable organization.

Vancity, which is incorporated under the Credit Union Incorporation Act, has been helping British Columbia's organizations make the most of their assets and resources for many years. Vancity is Canada's largest credit union, with $12 billion in assets, more than 340,000 members, and 51 branches throughout Greater Vancouver, the Fraser Valley and Victoria.

Citizens Bank of Canada is an online bank and a wholly owned subsidiary of Vancity, serving members across the country via the internet, 24-hour Service Centre and ATM network. The Vancity Group of Companies is guided by a commitment to corporate social responsibility, and to helping members and communities thrive and prosper.

At Vancity, we use our unique skills and expertise as a financial institution to create solutions to social, environmental and economic issues. Through innovative loan programs and deposit products, Vancity and its members are working to make a difference in communities here and around the world.

While there are a wide variety of support services available to assist entrepreneurs in developing healthy for-profit ventures, there appears to be a distinct lack of broad based informational supports for the not-for-profit sector. In 2006, Human Resources and Skills Development Canada (HRSDC) held a series of policy dialogues across Canada on social enterprises and the social economy. In many of the discussions practitioners talked about the challenges of effectively managing their organizations and enterprises. In response to the dialogues HRSDC has partnered with Vancity to develop the Financial Fitness Series. Vancity is grateful to, and acknowledges the foresight of HRSDC for their support in making the preparation of these handbook, and delivery of accompanying workshops possible.

In putting together the content for the three handbooks of the Financial Fitness series, Vancity has been able to leverage work already being done in the sector to provide education and training to enhance not-for-profit organization sustainability. It is Vancity's core belief that an organization's ability to make effective and enduring use of funding, whether in the form of grants, fee-for-service revenues, or bank loans, comes from a strong ability to organize, plan, manage and track the use of funding against pre-determined objectives.

In order to provide the most useful and streamlined information, we have brought together the resources of experts in the areas of legal matters pertaining to not-for-profit organizations, accounting issues which are most germane to the sector, and financial considerations to build healthy organizations. While there are considerable overlaps across these three areas, each has its own unique aspects which are deserving of more focused attention. We have constructed the handbook series in such a way as to provide an effective stand-alone presentation on each subject area, while maintaining a cohesive and uniform presentation style to facilitate a more robust educational experience that incorporates all three subjects.

The information and materials contained within this handbook are designed to assist individuals in the key management and Board roles within most not-for-profit organizations. The handbooks will be providing a crucial support piece to the delivery of a related workshop for each of the subject areas. However, acknowledging the widespread need for this information to be disseminated across the country, the workbook design will allow a user to understand the desired learning outcomes, gauge their own and organizational readiness in the subject area, and work through the core content and case material in a way which will not be entirely dependent on workshop attendance in order to receive significant value.

It is Vancity's hope to assist organizations in Canada by providing a more robust toolkit of skills and resources, and to assist with identifying areas for further development. We honour your work and your desire for self and organizational development and look forward to making this journey together.

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Financial Fitness self-assessment

The following is pre-test about financing for not-for-profit organizations. It is designed to help you assess your base knowledge of this topic. The answers to these questions can be found throughout the text of the handbook and on page 45.

1. Select the most important considerations when assessing the financial health of your organization:

   a) Sufficient money for stable programming
   b) Diversified funding
   c) The number of approved contracts
   d) Your organization has never had to borrow money before
   e) Ready course of cash or access to cash in times of shortfall
   f) The tenure of your Executive Director
   g) Positive cash balance at end of year
   h) Accumulated annual surpluses for safety net
   i) There is an accountant on your Board
   j) Has in place, or has plans to establish, an operating reserve
   k) Board and management understand, and are accountable for, financial sustainability

2. The following is a list of information a financially healthy organization will have easy access to. Pick out the essential items your organization should have available and up-to-date:

   a) Comprehensive operating budget which includes costs for all programs, management and fundraising and all sources of funding
   b) Cash flow projections, monthly
   c) Phone number for your accountant
   d) A written fiscal policies and procedures manual
   e) Suitable insurance coverage
   f) Annual, independent audit of financial statements, prepared by a chartered accountant

3. True or False: A “statement of operations” is the same as an “income statement.”

4. True or False: A “statement of financial position” is the same as “a balance sheet.”

5. True or False: All organizations, regardless of size, must produce the same kinds and same amount of detail in their financial reports.

6. There are five basic tools used by organizations that are managing their finances well. Match each of these tools with the reason that tool is important to have in place:

Basic Tool	**Value it provides the organization:**
Board of directors	The internal road map to the organization’s cash flow
Cash flow	Long term plans outlining the financial resources required to meet the organization’s mission
Financial controls	Protects and enhances the organization’s capacity to serve the community
Financial reporting	Ensures reliability of financial information produced by the organization
Strategic financial planning	Identifies whether a shortage of revenues or an excess of expenses is a short-term challenge or a long-term problem

7. Choose the main qualifications to look for when seeking a Board Treasurer:

    a) Ability to analyse and interpret financial statements, budgets, and budget projections
    b) Knowledge of fund accounting systems and internal control requirements
    c) Amount of time available to volunteer
    d) Ability to work in a team and delegate responsibility
    e) Ability to volunteer on the Board as well as act as an employee on an as needed basis
    f) Ability to make recommendations to maintaining positive cash flow
    g) Knowledge of and commitment to the purpose and programs of the organization

8. Check three most important tools to have in place to increase your organization’s financial stability:

    a) Cost management tools
    b) bookkeeper
    c) a bank account for each program or service
    d) borrowing
    e) volunteers
    f) investing

9. When writing policies and procedures for your organization’s financial controls, what are four policy/procedure areas that should not be omitted?

    a) Line of authority – a system that clearly outlines who has the authority and responsibility for the financial assets of the organization
    b) Hiring practices
    c) Financial reporting – a process for assessing the financial implications of program and operating plans and activities
    d) Indemnity policy – an organizational mandate to act in a timely and responsible manner on financial information
    e) Board election controls
    f) Financial controls and operating procedures – roles and responsibilities of the Finance Director, Executive Director, Budget and Finance Committee, and Board of Directors with respect to the organization’s operating procedures

10. When choosing a financial partner, it’s important to consider how well they can meet your needs in the following areas:

    a) Business banking
    b) Level of sponsorship
    c) Investment management
    d) Borrowing
    e) Amount of monthly service charges

Introduction

Finance is a broad topic area with subjects from banking to organizational governance. The sections which follow endeavour to take you through an introduction to some of the key considerations which apply to effectively run organizations. Whether your need is to build a more financially healthy organization in order to create stronger plans to deliver on your core mission, or to access credit facilities to level out irregular revenue flows, a broader understanding of financial matters can assist.

Some of the basic tools of financial management will be covered. Clarity on matters of establishing appropriate banking accounts, whether simple in nature or to support multiple purposes or currencies will also be addressed. The section on budgeting will provide some approaches and support for maximizing effectiveness in using this important planning tool.

A discussion on various forms of organization and how they differ in terms of revenue generation is designed to provoke thinking about ways to structure sustainable organizations. Finally, a section on financial tools available to create greater levels of independence and sustainability is provided.

Armed with a more complete understanding of the benefits of a financially healthy organization, and clarity on what creates financial health, you will be able to better tackle this aspect of organizational management. The tools, organizational structures and financial services discussed here are provided as an overview and cover the most common examples of each. Specific applicability to your organization will be the basis for further discussion amongst Board members and staff.

The world of finance can often seem a decidedly confusing or alienating arena for those who have not had any associated background, experience or training. Rather than resorting to avoidance or dealing with financial matters as a matter of last resort, it is hoped that when armed with some familiarity with key aspects of the financial world and tools with which to effectively leverage the mechanisms and services available, finance can become just one more of the strengths of the organization.

1. Qualities of a Financially Healthy Organization

Every day across Canada, not-for-profit organizations (NPO) are making an important contribution to the social, educational, environmental, religious and artistic well-being of their communities.

Without not-for-profits, society would lack a mechanism to serve those people who fall between the cracks of corporate and government sector services.

Yet, despite the wealth of volunteer labour and goods so generously donated to the not-for-profit sector, it still takes money – *real* money – to deliver social programs and services with both the quality and consistency required by today's society.

Money in the not-for-profit sector has always been in short supply. As society's original entrepreneurs, not-for-profits have typically faced more demand for their services than they could ever hope to provide. With that in mind, this handbook, and the accompanying workshop and CDRom, were developed. The goal of these tools is to help staff and volunteers discover the various characteristics and strategies necessary to build and sustain a financially healthy not-for-profit organization.

Sufficient money for stable programming

The majority of any NPOs programs and services should be self-sustaining. However, it is recognized that for a number of reasons, an organization will sometimes take on a "money-losing" contract to fulfill their mandate or to meet a need in the community. "Money-losing" contracts can be an excellent way to strengthen an organization's presence in the marketplace and can serve to diversify revenues, *but* should only be considered if other programs are stable and are able to contribute resources to the "money-losing" project. It is important to avoid the house of cards that so often can occur when management does not keep a balanced approach between organizational sustainability and service delivery.

Sufficient money comes from the ability to match budgets to actual costs.

The better the organization is at knowing what the true costs of their program delivery are, the better prepared they are to submit a realistic grant proposal. Realistic grant proposals – with realistic budgets – are a key factor in assuring an organization's stability. Even if an NPO is forced to submit a budget that management knows does not meet the true costs of the project, having that knowledge means going into the contract with eyes wide open.

Monetary surprises are best left for winning the 6/49.

Diversified funding

An organization's ability to diversify its funding will be influenced by the community the NPO serves, geographic location, the type of community being served and the skill set of the people employed and volunteering with the organization.

Diversified funding will differ from organization to organization. For some organizations, diversification will be seen in the split of revenues between donations, fees for service and interest revenue. For other organizations, diversification will be seen in the funding and contract splits between local, provincial, federal and international government lines.

The goal for any not-for-profit should be to have a funding base that is diversified between foundation, corporate, government and individual sources within donated revenue. It is essential that an NPO be prepared for the loss of a key funder with a strategy that will prevent that loss from crippling or killing the organization. Diversified funding is a strategy that can help manage these situations.

Some financial experts advise that it is ideal to have an organization's revenue evenly distributed between multiple funding sources. This is called diversified funding.

Every not-for-profit organization needs to strive for diversification.

Access to cash in times of shortfall

In the context of building a financially healthy not-for-profit organization, the word "cash" is being used loosely. What is of utmost importance is ensuring that an NPO has the ability to draw upon accessible assets in the event of a cash shortfall.

Assets are resources owned by a society that can be used to benefit future operations. Assets may diminish in value; this is called depreciation.

Assets are also known as "capital," which are the items on an organization's balance sheet.

On the balance sheet assets appear as:

- cash
- investments
- buildings
- equipment
- accounts receivable
- reserves

Off the balance sheet assets appear as:

- building equity (market vs. book value)
- staff
- volunteers
- reputation
- long history of delivering service

An NPOs assets include:

- **Financial**: cash, stocks
- **Built**: buildings
- **Human**: skilled staff, volunteers
- **Natural**: property
- **Social**: reputation, goodwill
- **Intellectual**: publications

Think abundantly – avoid the poverty mentality

Thinking abundantly means thinking about how to be prepared for growth. Thinking abundantly facilitates the building of a fundamentally solid base within an organization, and that enables an organization to act quickly when an opportunity to move to a new level arises.

In order to establish financial sustainability NPOs must avoid the poverty mentality that says, "We have no stability."

When NPOs begin to think abundantly and with the big picture in mind, Board and management are more inclined to anticipate opportunities in the market and economy, such as major gifts, bequeaths and the amount of wealth about to change hands broadly across society.

An example of thinking abundantly

A local neighborhood house organization's Board considered itself successful because they had healthy surpluses accumulated over a history of 25 years. They served eight local neighborhood houses which were semi-independent.

However, the past five years had seen a number of ED's come and go, on-going disruptive Board meetings and no set future plans. In addition, the need for establishing more neighborhood houses locally and throughout the province was evident, as was an acknowledgment that as a group they could probably do better by acting more collaboratively.

Why could this organization not think in broader terms? It was an operational Board. The make-up and modus operandi had not changed since its inception and so its output had not kept pace with the growth of the NPO.

So over the past five years, the Board added new people, hired an ED that could think beyond the borders and now the organization has revamped its operations to provide administration to its existing clients as well offer their services both locally and beyond. The organization is developing a partnership model and is seeing its future rise.

Positive cash balance

The context here is that "a positive cash balance" means improving the management of the cash to help avoid budget deficits.

Many NPOs find themselves confronted by budget deficits because of declining dues, donations, grants, etc. Improving your cash management may help you get a better handle on things. The sooner your organization can accumulate cash, the better off your cash flow and financial position will be. You can take some proactive measures to expedite cash receipts. First, move your fund-raising calendar ahead. By sending an appeal in July rather than November, for example, a nonprofit may receive significant cash in late summer. Second, mail or e-mail reminders in November to those who haven't yet given. By doing this, you're more likely to see contributions in December as well. Finally, try collecting installment donations earlier. Instead of waiting for each payment of a quarterly gift, contact those donors who are clearly pre-disposed to giving. Asking for the remaining donation in advance may well speed up the process.

The goal of a positive cash balance is to make the NPO financially strong enough to leverage additional resources for future needs.

In order to maintain a positive cash balance on an ongoing basis, it is very important to pay close attention to where the major expenditures are being incurred and consider alternatives that allow the organization to be effective but more cost-efficient. If your staff is swamped, you may want to consider outsourcing functions related to payroll, accounting, event planning, and publications. On the other hand, you can bring previously outsourced tasks back in-house if you have qualified employees who have the time to perform them.

Annual surpluses

It goes without saying that a not-for-profit organization is required to operate on a basis from year-to-year where there is no profit built up, or no accumulation of annual surpluses, and in fact, many funders will penalize a recipient organization if there is any surplus remaining at the end of the funding period. While it is important to acknowledge this factor in the operation of a not-for-profit organization, it is also of significant benefit to work towards the accumulation of some financial cushion which will allow, for example, the development of new programs where the exact costing is initially uncertain.

Strategies for dealing with surpluses are discussed in Accounting Athletics 101.

Strategic use of reserve funds, both internally and externally restricted, as well as a thorough understanding of the requirements of your primary funding agencies will permit forward planning and the build up of a small but important contingency surplus over several years. This can be a source of comfort for the staff and board members, as well as to send a positive signal to financial partners and potential lenders to the organization.

Establish an operating reserve

Establishing a sustainable operating reserve will increase the financial sustainability of a not-for-profit organization. Operating reserves allow organization's to create a contingency fund to meet short-term financial challenges, such as:

- Cash flow
- Unpredictability of service demands
- Unexpected emergencies
- Unexpected opportunities

Many NPOs face regular challenges in meeting their day-to-day operating expenses when expected grants or other receivables are delayed. Having an operating reserve in place can mitigate the stress that comes with wondering if there will be cash in the bank to meet payroll while the awaited payable is "in the mail."

Another situation in which an operating reserve can be a critical tool for an organization's stability and sustainability reflects events over which the organization has no control but that will increase demand on services in a short period of time. For example, these past few years we have witnessed unprecedented world disasters such as the Tsunami in Indonesia and the flooding in New Orleans. In Canada, almost every winter at least one of our provinces has an unusual cold spell that puts people who live on the streets at a high risk of freezing to death. Local not-for-profits are forced to respond by increasing their services to help their constituents. In all of these cases, the ability of not-for-profit organizations and government to meet the demand for help was severely limited by the supply of support services available. These are extreme examples, but for many organizations that serve people-at-risk, unexpected situations that create a high demand for services can be expected.

Unexpected emergencies are not just externally-driven. Many not-for-profit staff have had the misfortune of arriving at the office to find that their computers have been stolen – with all of their donor data. And on the other side of the coin, unexpected opportunities, such as the chance to buy a building that your organization has been leasing for ten years, can be more easily addressed when an operating reserve has been put in place.

How much your NPO holds in reserve is dependent upon a number of items, including anticipated funding or contract cutbacks, payroll increases or your organization's credit worthiness. Some NPOs employ a general rule of holding three- to six-months worth of payroll in reserve.

An operating reserve does not *necessarily* mean *cash*. A reserve is defined as the capability to plan with the capacity to act. A reserve can therefore mean cash (in the bank or an investment), but it can also mean a line of credit, access to a bank of volunteers, or access to professional advice.

It is up to the Board and the senior management to determine the possible scenarios and plan accordingly.

This symbol indicates a live weblink that can be found on the CDRom version of this handbook.

It’s very common to find that internal differences arise between program managers and the Finance Committee, since each group is influenced by different accountabilities. A common and simple tool for transparency is to create a Board-designated fund. Accountants call these “internally-restricted” funds.

For more information about cash reserves, go to the Alliance for Nonprofit Management website article, “How much cash should we hold in reserve”

Board and management understand, and are accountable for, financial sustainability

Does the term “the buck stops here” mean anything? This term is not grey; and these days, following the Enron and Worldcom scandals, the meaning is even more black and white. It is the Board that has overall responsibility for the health of the organization. The Board must inform its employees, the Executive Director and the management team of the organization’s finances. Recent legislation in a number of areas has made Boards more accountable today then in the past. This underlines the importance of having a diversified Board that represents the market being served by the organization.

Job descriptions for key staff and Board volunteers who would typically have financial responsibilities can be found in the Resource section.

For some organizations the Board also acts to fill gaps in certain skill sets such as fund development, long-term planning, human resource issues, services or industry expertise. When thinking of building financial sustainability it is important to consider the strengths and skills of the organization: reviewing where skills overlaps and gaps exist between the management team and the Board and then hiring or recruiting to fill in the gaps.

Working with funders

Working with funding agencies can be both sometimes trying and incredibly satisfying for a not-for-profit organization. Funders are helpful allies. Never be obsequious and always treat your funders like partners in your work.

It is important to always remember that funders are investing in your organization, to help them meet their missions and because they believe in yours.

From time to time, something will go off the rails in a project for which you have funding. Maybe the original timeframe can’t be met, maybe something has changed in the policy landscape that might change the scope of the original project, maybe a subcontract has gone badly and the work is behind. Just as honesty is the best policy, it is honesty with funders that will serve everyone best in all these situations. The funders are as interested as you are in the best possible outcomes of the project, and if you signal to them early on that something is awry, you can count on that funder helping you figure out solutions to the pending problems. It is in their interests to have projects succeed.

Different funders, different objectives

It can be trying, however, dealing with what may seem like whimsy on the part of funders. It is important to remember that there are different kinds of funders out there: from granting departments in the provincial and federal government that see granting as a way to augment public services, to public foundations that are legislated to support certain community benefit activities, to private foundations that are under the direction of their board of directors (which may often be family groups), to disbursement of gaming and lottery funds, done through lottery systems, to corporate philanthropic departments of large companies, who are looking for cause-related marketing opportunities, and finally, to working with individual donors who are investing their savings, based on their hearts.

Funder requests for reports

Each of these types of funders will expect an amount of accountability and transparency in how you use their funds, but the exact nature of what those reports look like will differ widely. It would be folly to imagine that the financial and evaluation report that was agreeable for a private foundation will meet the same requirements of a federal government department, for example.

Before you accept a grant or contribution from a funder, carefully review the reporting requirements around finances and evaluation to make sure you can comply with the requirements.

- A funder may require a spot audit at the completion of your project:
    - Can you afford to pay your auditor to conduct a spot audit?
    - Did you build it into the costs of the project?
    - Does your accountant have time to be responsive to the needs of another auditor, outside the regular audit cycle?
- A funder may require you to have a separate bank account, and cheques, for the disbursement of their funds.
    - Have you built in the extra service charges for this extra account?
    - Can you set up another bank account without a special resolution of your board?
    - Will you need to add a separate general ledger into your accounting records?
- A funder may require you to find matching funds, before the first funder releases their commitment of dollars.
    - Can you afford to wait to start the project until all the funds are in hand?
    - Will other funders be happy with being part of a matching program?

- A funder may require you to provide payroll stubs for all staff who worked on a project, instead of one pooled salary figure.
    - Who will prepare this report for the funder?
    - Are you comfortable with the project manager knowing the actual salaries of other staff who may work on the project, including you and/or the ED?

Overhead rates and rules

One of the biggest pitfalls in working with funders – notably government funders – is understanding the overhead rates and rules.

As discussed elsewhere under hourly versus billable rates, there are different ways to budget to pay for staff time and your organization's expenses. But, it doesn't ultimately matter if you prefer to work on a billable rate model if the federal government department you are seeking funding from only works on actual hourly rates, plus an overhead rate. Don't assume you can apply your preferred method of calculating expenses: ask the funder, and ask *before* you commit to taking their funding and doing the work.

It is particularly painful – and adds insult to injury – to discover that you will be held to an hourly rate and 10% overhead on a project when that doesn't actually cover the real costs of doing the work of the project. As noted elsewhere in this handbook, it appears that government projects in particular are under-funded to about 15% of the actual costs of carrying out the work.

When you are dealing with the federal government in particular, in the environment of hyper-sensitivity on the heels of various investigations by the Auditor General, remember that your funding partner/project officer has to abide by extremely strict (and sometimes apparently bizarre) reporting requirements. Seek to understand why the funder is asking for a specific level of detail, and if you are having trouble complying with their request, ask them for assistance. They can provide independent financial and accounting advice to help you meet their reporting requirements.

Working with Treasury Board

If you have a federal project or contract or "contribution agreement," you will be required to spend and report according to Treasury Board Guidelines (TBG).

Treasury Board Guidelines cover everything from travel to meals, from gift policies to per diems. The Guidelines are updated once or twice a year, to reflect changes in cost of living.

If your own organization pays, for example, $25 for dinner when working out of town, and Treasury Board pays $34.75, you can follow one of two routes: either claim the actual expense of the meal, with supporting receipt; or claim the full amount claimable under TBG, without receipt. You cannot claim the $25 your organization allows per its own policy, without receipt. Note that the Guidelines take into account regional differences in some expenses, so the same dinner claim of $34.75 in southern Canada becomes $45.65 in the Yukon, $52.30 in the Northwest Territories, and $56.40 in Nunavut.

You are required to keep proof of travel, to successfully claim travel expenses, for projects governed by the Treasury Board of Canada (TBG) and administered by any department of the federal government. This means, practically, that you must hang onto your air travel ticket stub to claim refund of an airfare: the electronic receipt is not proof you actually traveled, only proof that you purchased a ticket (and the argument is that you might have returned the ticket for cash and the feds would not know….)

When budgeting for work with the federal government, it is worth reading through the Guidelines closely before you submit your funding application. It is almost impossible to change the terms of the financial requirements once a grant or contribution agreement has been awarded.

Working with project funds

Slightly less onerous than reporting on government funds are dealing with project funds from other funders, like the Ontario Trillium Foundation or the United Way. Read the fine print closely, when you are applying and when you are when you are accepting the award. Attached to project funds may be conditions on the segregation of those funds, perhaps even conditions on bank charges and interest, and knowing what lies ahead is the best way to prepare for your final report out to the funder.

With a good calendar or bring forward system, and some skill in excel or other spreadsheet program, you can develop simple mechanisms for managing project funds and meeting reporting deadlines. If you have a project that has multiple funding partners, try setting each funder up on a separate sheet in an excel file, and have each sheet link back to the master budget and actuals in on consolidating sheet.

Dealing with holdbacks

One potential headache of project or program funding is the holdback period. It is in your interest to complete all the requirements of the holdback as quickly and fully as possible, so that you aren't waiting for those final funds to come be released to you.

Holdbacks can become a headache when an organization has paid out funds – in payroll, to subcontractors, for conference facility rental and catering, all for example – and then has to wait to recover

A holdback typically means that a funder keeps a certain percentage of the total dollars allocated for a project until after project completion and delivery of a satisfactory report on use of funds and an evaluation of the project outcomes.

those hard-costs from a funder that has imposed a holdback. The headaches can be of two kinds:

- A small nagging headache that presents as a cashflow problem. If a funder holds back funds for 30 days or longer, an organization can run into trouble in covering those costs it has incurred.

- A doozy of a migraine that presents as differing interpretations of what project completion and satisfactory evaluation means. If, after the project is finished, an organization discovers it hasn't met the funder's objectives, this can result in the funds held back never being released, and the organization has a real financial shortfall.

In the first case, managing the cashflow rests on your relationship with your financial institution and your ability to present a cashflow projection that shows the held back funds coming in, eventually. Your financial institution may be quite willing to extend or increase your line of credit in this example, guaranteed by your signed contract with the funder.

In the second case, it's really too late to do anything but learn for next time. It is your organization's best interests to fully and completely understand your funder's expectations, well before the project is begun and actually before the contract is signed for funds. It would be better to walk away from a project with deliverables you may not be able to meet than to incur expenses (both financial and reputational) of a project that doesn't satisfy the funder.

2. Basic Tools of Financial Management

There are five (5) basic tools of financial management:

1. Board of Directors
2. Financial Reports
3. Financial Controls
4. Cashflow Planning
5. Strategic and Financial Planning

It's important to make the point that knowledge of your organization's operations and history must be shared with all staff, including future hires. All too often when a key staff person leaves an organization not only does that NPO face finding a replacement, but figuring out how to capture all of the history and wealth of knowledge that that staff person holds before he or she walks out the door.

This chapter looks at the fundamental principles which effect the everyday financial management of not-for-profit organizations. These principles of management are not unique to the NPO sector; however the level of transparency is typically higher in NPOs than in private corporations. Having a thorough understanding of the inter-connectedness of daily transactions, not-for-profit organizations can begin to develop rules and regulations, policies and procedures, that help them become more productive, more accountable and more transparent.

A fundamental understanding of the five basic tools of financial management is required so that every-day banking can proceed efficiently and ensure the financial needs of the organization are being met.

Tool #1: Board of Directors

It all starts and stops with the Board of Directors. The following list outlines generally accepted responsibilities of the Board:

- Determine the mission and purpose of the organization
- Select the Executive Director(s)
- Support and evaluate the Executive Director
- Spearhead strategic and financial planning
- Ensure adequate resources are in place and understand the financial picture of the organization
- Strengthen programs and services
- Enhance the organization's public standing
- Maintain accountability, as well as legal and ethical integrity
- Evaluate Board performance

The Board of Directors is a fundamental tool of financial management.

From the above responsibilities, four are directly related to the *financial* side of operations.

1. Spearhead strategic and financial planning
2. Ensure adequate resources are in place and understand the financial picture of the organization
3. Maintain accountability, as well as legal and ethical integrity
4. Evaluate Board performance

The Board is ultimately responsible for the financial health of the organization. Recent legislation changes and ongoing tax law changes indicate the need to have a diversified Board that represents the market you serve.

Discussing these four points in the context of Board Liability will help clarify and lead to a greater understanding of the underlying reasons for developing good financial management.

The Board of Directors of a not-for-profit organization is responsible for the management of the organization. In general terms, this means that the Board is responsible for supervising senior staff, providing strategic planning to the organization and developing and implementing organizational policy.

Board members must be (or must become) knowledgeable about the business and financial affairs of the organization. Where the corporation is a charity, the Board has a heightened duty of care with respect to the protection of its charitable property.

In discharging its mandate to manage the organization's affairs, the Board must comply with the objectives of the organization as stated in the letters patent or articles of incorporation and with the bylaws of the organization. The Board must also comply with the relevant provisions of the organization's statute under which the organization is incorporated and the rules established under the common law (the law established by courts) governing directors' duties.

Directors are required to exercise their power with competence (or skill) and diligence in the best interests of the organization. They owe what is called a "fiduciary duty" to the organization. A fiduciary duty is an obligation to act in the best interests of the organization.

At its core, fiduciary duty is an obligation of loyalty, honesty and good faith.

Modern corporation statutes governing business corporations provide a concise formulation of the fiduciary obligation owed by directors. However, most of the corporation statutes governing not-for-profit organizations do not. The formulation of the fiduciary duty of Directors has been developed at common law by Canadian and English courts or set out in the *Civil Code*.

More information about the duties of Directors can be found in the Legal Limberness 101

Board obligations and the duty of care

Directors have an obligation to be diligent in their management of the affairs of the organization they serve. To the greatest possible extent, directors need to attend meetings regularly and ensure they develop a sound knowledge of all aspects of the organization. There is, however, no requirement for directors to be at a particular skill level. They are only required to act within their particular knowledge and skill level, and with the same care of that of any reasonable person.

Directors are also expected to meet a high level of loyalty, which involves good faith, trust and special confidence. Directors have to educate themselves and remain informed and attentive to reports and information about the organization. They must complete thorough inquiry and follow-up of the organization's affairs and exercise independent judgment in their actions.

Directors have an obligation to act with pure intentions and with a view to serving the best interests of the not-for-profit.

Obligation of obedience is the duty to act within the scope of the governing bylaws and policies of the organizations and within the scope of other laws, rules and regulations that apply to the NPO. In other words, the obligation of obedience requires that Board members be faithful to the organization's mission.

High standards of honesty and good faith in the exercise of a Director's powers and discretions are required as well. This means that a Director must always place the good of the organization first, avoid conflicts of interest or the pursuit (or appearance) of self-interest, or use their position to further private interest.

In using his or her powers, a Director must always disclose the entire truth in his or her dealings. If a Director has acted in bad faith, he or she will not be to discharge his or her obligations in meeting the duty of care. Intentional dishonesty, incomplete or misleading representations and acting from an improper motive can all be characterized as bad faith. The 'good faith' requirement is the core of the fiduciary relationship between the Board of Directors and the not-for-profit organization.

For more information you can purchase a copy of Duties and responsibilities of directors of not-for-profit organizations from the Canadian Society of Association Executives by calling 1-800-461-3608 or emailing csae@csae.com.

As a general rule, directors are not personally liable for the contracts or the actions of the organization they serve because an organization is considered to be a separate legal entity.

Limiting Liability

A not-for-profit organization can limit liability by incorporating. However, incorporation limits liability only if decisions are made in good faith. Liability can arise from a number of actions such as comingling of donor-restricted funds, Directors receiving remuneration or acting without proper authority.

Directors Liability Insurance will limit indemnification to the Directors. Indemnification provisions in the articles of incorporation or bylaws should also contemplate protection against actions arising from the Finance Committee work.

A Finance Committee will allow a Board to create a pool of expertise. Depending on how extensive the operations are, the mandate of the committee may be limited to the annual financial review or it may extend to closer supervision, development of accounting practices or investment policies.

Forming a Finance Committee is an essential tool for the effective and efficient functioning of a not-for-profit organization's Board of Directors.

In some cases, the role of the Finance Committee will be filled by senior management, a Board member (Treasurer) and the accounting clerk. Where the organization chooses to have a Finance Committee, it normally deals with such matters as budgets and regular reporting of financial results to the Board. It may also address such issues as procurement, cost controls, and asset management.

While the Finance Committee is concerned with the mechanics of the organization's financial operations, the Audit Committee is a governance body concerned with the integrity of the organization's financial procedures. Often these two committees have parallel memberships, but their functions are quite different.

Tool #2: Financial Reports

Financial reports are your organization's internal road maps.

Like any successful trip, knowing where you are going, what you may encounter along the way and what alternative routes are available to you are essential.

There will be different reports for different organizations and it will largely depend on:

- The extent to which the organization is financially stable

  An organization which is going through difficult times will need to micro-manage every line item on a budget. They will closely monitor every cheque that is made and every receivable that is outstanding. An organization which is cash rich, building annual surpluses, and running multiple fund development programs with a large staffing complement will not have the same need to micro-manage line items.

- Degree or extent to which the financial picture changes during the fiscal year

  An organization that runs a one-time summer arts festival will require different financial reports to an organization that has a federal employment contract with equal monthly receivables.

- The capacity of the organization to have sufficient cash flow at all times to meet their on-going obligations

  An organization that has administration costs loaded to the *back-end* of the contract must manage its financials differently than an organization that receives the bulk of the funding *prior* to delivery of services.

- The ability to produce the information needed to support decision-making

  An organization that has developed a long-term plan but does not have the detailed information necessary to track the success of the plan will need to implement financial reports that will support an accurate analysis of the potential success of the plan.

Once the financial statements have been produced, it's essential to have people who can read, understand and communicate the results of the reports to staff and Board.

This seems fairly obvious but in realty this is one of the most challenging aspects of building a financially healthy not-for-profit organization. Certainly, not everyone needs to understand the reports, but it is essential that a few key people can decipher and articulate to the rest of the management, staff and Board what the information is telling them.

Financial reports do vary in quality and, for most organizations, interim statements are produced in-house. These kinds of statements, if produced accurately and in a timely way, are adequate tools for on-going monitoring of operations. Timing of financial reports is critical to the sustainability of NPOs. It's common for an organization to have the right report designed and the right people in place to read and interpret the report, but for the report to be produced so far after month-end that the information is too old to be meaningful.

One of the most common mistakes that smaller NPOs make in

Common Financial Reports

These reports can be year-to-date, "interim," or they can be annual statements and can be prepared internally or externally.

1. Statement of Operations or Income Statement
2. Statement of Financial Position or Balance Sheet
3. Aged Listing of Accounts Receivable
4. Aged Listing of Accounts Payable
5. Year-to-Date Actual versus Budget
6. Cash Flow projections
7. Statement of Cash Flow
8. Statement of Changes in Net Assets

Financial reports are needed at different times during the course of the year. All of the daily reports should refer back to an organization's global budget.

preparing their financials is to have a Board member who is a chartered accountant (CA) or chartered general accountant (CGA), review the internal statements and provide an opinion as to their correctness. Unfortunately, this act puts the Board member into a conflict of interest. It would be wise to include the Board member on the initial preparation of the reports and also provide some oversight as to how they are prepared, however that is where their role should end.

Financial statements that have not been verified by an external third party are usually not “bankable.”

External audiences, such as donors, Canada Revenue Agency (CRA), lenders, and funders require a high degree of accountability in the financial reports they review. NPOs that do not rely on various levels of government funding typically produce financial statements that have not been reviewed by an independent party. In these cases, the use of internal statements plus the charitable tax return or other CRA statements represent sufficient information to manage the organization.

For those organizations that do receive government funding or need to borrow funds, the issue of transparency and accountability increases dramatically. To mitigate these concerns, the value of using an arm’s length CA and CGA is apparent.

Different organizations will require reports that reflect their operational uniqueness. In fact, within each organization, different parties will want reports to address their specific needs. For instance, a program manager will typically want monthly reports to monitor their project’s actual costs to budget for the program. The bookkeeper will be concerned with what payables are due and what monies are still to be received. The Executive Director will be looking at the overall operational budget to oversee all of the programs. The Board will most likely want a year-to-date Statement of Operations and Statement of Financial Position as well as a statement of the current investments and their yields.

More information about financial statements can be found in the Accounting Athletics 101 handbook.

Tool #3: Financial Controls

Each organization has need for a variety of reports to meet all of the requirements of its stakeholders. While the Board does not need to be made up of entirely CAs, it does need to have a clear understanding of what is going on to provide the oversight required to meet all the obligations of the organization. One very useful tool is the creation of a Finance Committee.

Internal financial controls are used to promote and protect sound financial management.

A Finance Committee can be established no matter what the size of the NPO. The essential ingredients will be the same; a Board member, the Executive Director and the internal accountant/bookkeeper. At least one of these members should be highly conversant in finances. If this is not the case be sure the external accountant is a member of the Finance Committee even if it means having to pay them to sit as an advisor.

The role of the Finance Committee has four key responsibilities:

- to ensure financial controls are in place;
- to review the cash management guidelines and practices;
- to aid other directors to understand the statements; and
- to review and monitor investments.

These four essential responsibilities should be developed, documented and understood by every NPO no matter what the size. Simply put, controls are the checks and balances that are followed by all staff. This includes the segregation of duties principle. For example, an organization may set policies around cash handling and may segregate duties: one person receives contributions and issues receipts while another deposits the money and keeps the records. A further control might be to have two people open the mail to ensure that, unless there was collusion between the two employees, all cash received is deposited and recorded properly.

The main objectives of internal financial controls in any organization include safeguarding assets, promoting efficiency in operations, enhancing the reliability and completeness of financial reporting and minimizing the risk of misuse or abuse of the organization's resources. The more checks and balances an organization has the fewer the opportunities for fraud to occur.

The reasons why financial controls are so important is that fraud may occur more easily in not-for-profits because there is an overall atmosphere of trust and that tends to be more family-like than most corporations. Additionally, there are opportunities for the organization to receive cash donations which are very difficult to control. Finally, the underlying fact the most NPOs are limited in their capacity means that financial restraints can result in limited availability of qualified staffing resources. Most NPOs have volunteer Boards of Directors and staffing is often a mixture of volunteers and employees who lack business/financial experience.

All the financial controls in the world won't prevent errors, omissions or fraud, so be aware of certain limitations, including:

- Reliance on the judgment of management and employees
- The possibility that management may override otherwise effective controls
- The possibility of collusion between employees to circumvent the internal control system

Internal financial controls ensure the reliability of financial information produced and mitigate (as much as possible) the chance for the organization's assets and records from being stolen or misused.

They also ensure that policies are followed and that government regulations are met.

While it is not a pleasant subject, the risk of fraud is quite high in NPOs. This is due to most organizations' non-existent or ineffective internal controls.

Example of Fraud: *The Phantom Supplier Fraud*

Many organizations have been victimized by the Phantom Supplier Fraud. One not-for-profit was defrauded by its own accounts payable/ purchasing manager in a scam involving the supposed purchase of stationery supplies. In this particular case, other employees became suspicious about the stationery supplier. The employees recognized several oddities about this particular supplier including:

- Never having seen a salesperson, catalogue or price list
- Invoices that lacked a full address, except for a post office box
- All invoices were for amounts under $500, which under the not-for-profit's policy ruled out the need for additional quotations
- No cheque issued to this supplier ever exceeded $1,000. This cap meant that the cheques could be processed through a cheque-signing machine under the accounts payable/purchasing manager's direct control rather than requiring two Board members to sign the cheques.
- The cheques were never mailed to this supplier but were always hand-delivered by the manager.

The employees reported their concerns to the accounts payable/ purchasing manager, but no action was taken. They eventually reported their suspicions to the Treasurer who launched an investigation. The investigation revealed that no stationery had ever been provided by this supplier, and that it was merely a vehicle set up by the accounts payable/ purchasing manager to defraud their employer.

Good financial controls include:

- Authorization for transactions
- Completeness and accuracy of financial information
- Physical safeguarding of assets
- Segregation of duties

Segregate the duties

The above-mentioned fraud happened because of a breakdown in the fundamental internal control related to segregation of duties. The lesson learned is that all organizations should segregate the purchasing function from the payables function. This of course can be particularly difficult in small organizations where limited staff numbers may mean that one person performs two or more incompatible functions. This situation however does provide an ideal opportunity for this one person to defraud. It is also important to remember that fraud often occurs at levels just below an employee's transaction authority level. In the *Phantom Supplier Fraud* case, the dishonest employee was careful to keep the individual invoices under $500 and the cheques under $1,000 to avoid scrutiny.

All organizations should segregate the purchasing function from the payables function.

Lack of segregation of duties is also often a problem on the cash-handling side. Consider the case of a not-for-profit that had a volunteer organize fundraising events in conjunction with an association that sponsored such events. At the end of each fundraiser, the volunteer and an association representative agreed on the revenues earned during the event and signed a report that indicated this amount. The volunteer then deposited the funds raised into the not-for-profit's bank account and submitted a copy of the event report to the accounting office. The volunteer, however, was

All organizations should ensure that all cash transactions are properly authorized and recorded.

not depositing all of the funds raised. Rather, he provided a 'doctored' version of the event report to his accounting staff that exactly matched the money that he deposited into the not-for-profit's bank account.

Eventually, the not-for-profit's accounting personnel became suspicious when they learned through conversations with other not-for-profits that the amount of money raised through similar fundraisers was greater than in their events. When they asked to see the event reports filed with the fundraising association and matched them against the reports provided by their own volunteer, they discovered the fraud.

Arrange for independent records

Internal controls are vital in protecting a not-for-profit's assets, reputation and integrity.

The above-mentioned fraud case also occurred through a simple breakdown in fundamental internal controls, again involving segregation of duties. The required control in this instance is the separation of the receipt and deposit function from the record-keeping. The not-for-profit in this fraud case now ensures that it receives an event report directly from the fundraising association that has been jointly agreed to by the association and the not-for profit's volunteer. They now have an independent record that they check against the funds actually being deposited into their bank account.

These case examples illustrate why fraud occurs and why it is difficult to detect in many NPOs. A lack of resources to segregate duties and ensure that transactions are properly authorized and recorded, combined with placing trust in dishonest employees can facilitate fraud. As in any other organization, employees in a not-for-profit who may face a variety of personal financial problems may commit fraud when an opportunity presents itself through an inadequate internal control system.

Be on alert when cash is involved

Although limited budgets may make the implementation of controls difficult, they should not be overlooked. Especially where cash is concerned, all efforts should be made to segregate the handling and recording functions.

Clearly, the cost of any internal control system must be weighed against the benefit of minimizing the exposure to the risk of fraud. Not all controls have to be prohibitively expensive or time-consuming. Sometimes the addition of a simple procedure can make

all the difference. As an example, timely preparation of transaction records that are subject to review by other members of the organization, including the Board of directors, can help enhance the control environment.

In addition to the internal controls, an annual review by an external auditor will uncover any weaknesses and be documented in the Auditor’s Letter to Management.

To re-cap, the internal financial controls are used to promote and protect sound financial management. They ensure the reliability of financial information produced and mitigate (as much as possible) the chance for the organization’s assets and records from being stolen or misused. Internal financial controls also see that policies are followed and that government regulations are met.

Controls in a small organization

Smaller organizations can involve their Treasurer or other Board member in more day-to-day transactions, or recruit volunteers to assist with some of these transactions. In the case above, where a volunteer was reporting out earnings from a fundraising event, instead of having that volunteer meet with the third party organization that managed the event, the volunteer and the Treasurer, or a staff person, should have met together to count and verify revenue from the fundraising event, immediately after the event. Just as is the practice in counting cash at charity bingos, two individuals – both of whom are responsible to the organization that is the beneficiary of the funds – should together count the proceeds.

It can be particularly challenging in small organizations to devise the appropriate segregation of duties, or checks and balances.

In other cases, it might be prudent to involve the auditing firm throughout the year, to help with checks and balances. The senior partner from the firm isn’t required, but having a student or junior from your auditing firm reconcile your bank statements monthly would be a good check on your book-keeping.

Some time away is good medicine

One of the warning signs that someone may be skimming funds or otherwise cheating an organization of resources is if that individual never allows anyone to share his or her work, and is reluctant to take time off for holidays or sick days.

Making sure everyone in an organization takes holidays, and that someone else “covers” or does the absent employee’s work is one of the easiest ways to discover any irregularities.

Additionally, cross-training staff to fill in for each other will guard against one person holding too much information, or hoarding secrets. Be cautious, however, that in cross-training any checks or balances that are in place are not compromised by one person having access to all the passwords or ability to complete a transaction that normally would require two people.

Tool #4: Cash Flow Planning

Knowing what an organization's cash flow situation is at any particular moment is the key to good financial management. Knowing cash position allows an NPO to project, monitor and control its revenue and expenses. It allows management to intelligently anticipate and develop strategies for both short-term operations as well as long-term planning. When staff and Board are aware of their cash position the organization is better able to prepare for the possibility of funding shortfalls. And on the positive side, having the right information to effectively invest surpluses.

Cash flow is the issue of timing versus a shortage of revenues or excess expenses.

To be very clear, an organization with a balanced budget can still have a cash flow shortage. In fact, a cash flow statement is different from an annualized month-to-month statement of income and expenses. Cash flow is the *actual* cash on hand in the bank coupled with the actual cash *outflow* and the actual cash *inflow*. There are any number of things that can affect the changes in cash flow to differ from the annual operational income and expenses statements.

Cash must be flowing *in* at the right times so it is available to flow *out* as needed.

As mentioned earlier, it is not uncommon for NPOs to run into cash flow challenges. The most common strategy to bridge the cash flow gap is to borrow money. Typically this is done by accessing the organization's line of credit but interested stakeholders may need to be called upon to assist the organization in times of trouble.

The best time to get a line of credit is when you don't need one or when you are in a healthy financial position.

Problems arise when an organization doesn't don't have a line of credit established and is approaching a lender at a time when they are most vulnerable. Typically, the need for cash is immediate and getting a line of credit in place in a hurry can be difficult and time-consuming.

Accounts receivable

Another strategy commonly undertaken when an NPO runs out of cash is to speed up the collection of accounts receivable: call on funders or clients to process invoices or contracts more quickly than they normally would or is required by your contract terms.

Change the date of a fundraising event

Another option, albeit not an easy option, is to move up the date of a fundraising event. While this can be onerous, proper cash flow timing may alert you in time to consider this an option to meet payables.

Finance large capital or equipment purchases instead of using cash

Again, with proper planning an organization *can* anticipate when cash shortfalls will occur and then make appropriate plans. In this particular option, an NPO may decide to finance the purchase of computers, a delivery vehicle or even consider leasing. These are two options that would leave more cash in the bank.

Liquidate investments

While liquidating investments is a simple act, the implications of such an act could have a serious impact on other strategies currently in play within an investment plan. Taking funds out could upset your overall return on the portfolio and cause a re-alignment of investments so this option should be very carefully reviewed before implemented to meet a short-term cash shortfall.

Delay Accounts Payable

Now this may sound drastic but delaying accounts payable is often done in the private sector. But many NPOs are in a very good position to delay payments with regular suppliers. Why? Typically, NPOs have a very good payment record; they consistently pay their bills on time. Many suppliers are happy to provide terms on their receivables (which are the NPOs payables). This tactic would involve contacting the closest and longest running suppliers (such as the landlord, for example) and requesting a few extra days before payment is made. Replicate this tactic over a number of payables, getting terms when and where possible, and this will lead to keeping more cash in the bank account. The key to the success of this tactic is to ensure that those suppliers who extend credit are actually paid according to the new terms as promised.

Tool #5: Strategic and financial planning

How do you put it all together? All of the direction to explore these issues, develop policies and procedures, should come from a strategic and financial plan. This over-arching plan should be conducted regularly with your Board/Finance Committee. In addition, the plan should have stated goals, objectives as well as the resources required to achieve them. Planning takes place day-to-day, annually and long-term. Strategically, you need to keep all in mind when you plan

For more information see the articles in the Resource section, *Sticky Money: Your strategic financial plan* and *Strategic Positioning: Decide where, plan what.*

3. Increasing Financial Sustainability

In terms of financial health and continued sustainability, there are a number of tactics that can be added to any organization's existing resources and tools.

As discussed earlier, a sustainable reserve can be built and maintained, and cautious thinkers can start thinking long-term.

Management that is thinking long-term will be thinking about and developing high-level plans to react to opportunities such as a major donation, bequest or a windfall. This type of planning is not far-fetched given the pending transition of wealth that is starting to occur and will increase over the next ten years. The dollars being moved are in the trillions. Markets are already preparing for the influx of wealth into the hands of the "more enlightened" generation. This is evidenced by the development of Socially Responsible Investments, Named Funds and the creation of small foundations. As a major contributor to the health of your community, it is extremely important that established not-for-profits not be left out of the transition.

Having a solid financial foundation in place, NPOs are better prepared to deal with opportunities and to blossom when the growth comes. Nimbleness, quick reactions, infrastructure and policies – these are the characteristics that the Board and senior management need to embrace and develop in order to leverage existing resources and ensure the stability and sustainability of the organization.

Stability and sustainability are not just about trying to find new sources of income, rather they come from learning to focus on the resources an organization already has and making better use of those resources. The following tools should be considered in relation to the revenues that an NPO currently have and how to maximize that revenue.

There are three main tools that not-for-profits have at their disposal to build financial sustainability:

1. Utilizing effective cash management tools in everyday banking
2. Borrowing
3. Investing surpluses

Counting people's time

One of the challenges that not-for-profits face is figuring out what it costs them to do their work. In a traditional charitable model, funds are raised for the costs of operating and staff work as hard as they can do meet the mission with the available funds. With a move from a reliance on one or two funders in a traditional charitable model (where an organization receives core or program funds to conduct its work) to project funds or even into social enterprise, it becomes critical that an organization understand the cost of delivery service.

One of the first steps in becoming a financially healthy, and financially sustainable, organization is figuring out what it costs an organization to exist and to deliver its services.

One of the astounding conclusions of some research work done by Lynn Eakin & Associates over the past few years, as social service agencies were shocked by cuts to their core funding by government, was the cost of doing "business" with government. In a series of interviews with agencies, Lynn discovered that not-for-profits may be underwriting the work by do with government by up to 15%; that is, government-funded projects typically cost 15% more to deliver than government pays for. This begs the question: from where comes that extra 15%? Not-for-profits are either using funds raised from other donors to complete under-funded government projects, or they are over-delivering their human resources by working staff at excess of 100% capacity. Neither is sustainable, and neither is ethical.

The Task Force on Community Investment has done some interesting and important research on the document Achieving Coherence in Government of Canada Funding Practice in Communities

Hourly rates versus billable rates

An hourly rate of pay is simply that: what an employee of an organization earns in salary or payroll. When budgeting based on hourly pay, it is important to include the other costs of employment (vacation entitlement, employer's contribution to CPP and EIC, workplace injury insurance, etc).

As any freelance consultant knows, there is a difference between an hourly rate of pay and a billable rate.

Typically, an organization can count on 10.5% on top of salary or hourly pay to cover the basic employer costs of two weeks annual vacation, plus CPP and EIC. For every additional week of holiday entitlement for an employee, add 2%. If the organization pays for base and/or extended medical, add an additional 2 to 5% (depending on the cost of the extended care). So, if an organization is trying to determine the hourly rate of an employee that earns $40,000 a year, and is entitled to three weeks holiday, plus receives base and extended medical, the figures look like this:

$40,000	Base salary
4,200	10.5% for base costs (including two weeks holiday)
800	2% for the third week of holiday
2,000	5% for base and extended medical
$47,000	**Employer costs**

$47,000/52 weeks/35 hours = $25.82. This is quite different than the figure of $21.98 one might have determined, if the base salary was simply calculated. It might not seem like a lot on one hour – less than $4 – but if an organization was budgeting for a large government project that only paid hourly rates (not billable rates, discussed below) – that organization would get into financial trouble pretty quickly.

If an organization is constructing budgets – and planning – based on hourly rates, it is important that all other costs of running the organization be also factored into the budget.

Those other costs of running an organization include obvious amounts like rent and phone, but should also governance, accounting, legal, and the time that any other support staff might spend working on the project. If an organization is faced with constructing a budget for a funder that insists only providing hourly rates plus 12% to 15% overhead (which is typical of many federal projects), that organization would be wise to develop a budget based on its actual costs to determine if it can afford to work for 12% to 15% overhead: it might simply not be enough to cover the costs of delivering the service.

The *Accord Between the Government of Canada and the Voluntary Sector* is "a framework that represents a public commitment by the Government of Canada and the voluntary sector to more open, transparent, consistent and collaborative ways for the two sectors to work together. It has as its base the values aspired to by Canadians.

Organizations are encouraged to review the Accord Between the Government of Canada and the Voluntary Sector.

These include active citizenship, democracy, equality, diversity, inclusion and social justice. The Accord establishes the following commitments to action for the Government of Canada and the voluntary sector:

- The Government will consider the implications of legislation, policies and programs on the sector and engage the sector in open, informed and sustained dialogue, and
- The voluntary sector will identify important or emerging issues and trends and bring them to the Government of Canada's attention and call upon the full depth and diversity of voluntary organizations when at the table."

In addition to the Accord, the *Code of Good Practice on Funding* was developed as a "resource of tangible, concrete ideas about how to take the spirit and guidelines of the Accord and put them into action in both government and voluntary sector organizations."

The Code of Good Practice on Funding identifies good practices in funding when working with government.

Billable rates

Another way to calculate what it costs an organization to conduct its work is to establish billable rates for each of its staff members. Although most government "contribution agreements" will only work with hourly rates, the billable rate calculation is emerging as the preferred way for many not-for-profits and certainly for most social enterprises to calculate the cost of doing business.

Just as lawyers and accountants establish hourly rates that represent the full cost of engaging them (and their firms), so too can not-for-profits. And, using a billable rate has the added benefit of really valuing the time of not-for-profits: the next time an organization is called to sit on a policy advisory board or attend a consultation with government and the private sector, imagine how that organization will feel about its participation if it establishes a billable rate that allows it to compare itself to other participants at the table.

How can an organization figure out what is its billable rate?

First, identify everyone in the staff team who can carry a billable load. That is, who among the staff are identifiable as contributors to the work that would make sense to someone from outside your agency? While it is true that everyone on staff contributes, it will not be obvious to someone outside your agency what specific contribution the volunteer coordinator or the fund development officer make to the work an agency might be doing for a foundation or the government. So, pick the performers who are identifiable by outsiders as directly contributing to the work of the organization: this will likely be the Executive Director, the program managers and officers, and any specialized staff that conduct research or campaigning. It will probably *not* be the tech support person, the volunteer coordinator, the fundraising team, the accountant or the other support staff.

The billable rate differs from the hourly rate in that the billable rate considers all costs of doing business in one amount. That is, both the direct salary and employment costs, plus all the other costs identified above – rent, phone, governance, accounting, legal and other staff time (to be discussed further below) – are included in the one billable rate.

Next, count up the billable performers. In an organization with a staff of twenty, probably half of them can be counted as billable performers. In simplest terms, divide the total annual budget (including any contribution to be made to reserve or contingency funds) by the total billable performers. If you have a $1 million annual budget, and ten billable performers, the gross calculation is that each billable performer needs to bill $100,000 per year in work. However, there should be some distinction between billable rates for different performers, depending on their own compensation and place in an organization’s hierarchy.

The Executive Director may be able to command a higher billable rate, but perhaps the organization doesn’t want the ED to carry as many billable hours as the program managers and officers, who might bill more hours but at a lesser rate. Each organization needs to make its own decisions about what counts as billable, based on what can actually be billed and who will pay.

Many organizations over-estimate the total number of available billable hours in a given year when they first start using the billable hour model. It is critically important that non-billable hours be truthfully counted, and this discounted from available work time. Of the 52 weeks in a year, there are certainly not 52 weeks worth of available work time, as the example on the following page shows:

52 weeks	Available in year
4 weeks	Annual holiday entitlement
2 weeks	Statutory holidays
2 weeks	Sick days/care days
1 week	Professional development
1 week	Annual retreat and strategic planning
42 weeks	**Actual weeks available for work**

Then, thinking about a work week (whether you work a 35-hour week, or a 37.5 hour week, or a 40-hour week), remember than not all that work time is available as billable time. An amount of time will be spent on: staff and admin meetings, board and executive meetings (if you are the ED), managing staff, dealing with phone, mail and email, reading about developments in your field, dealing with administrative issues from putting paper in the copier to speaking with the landlord).

Continuing with the example above, for a staff person with 42 weeks available, working 35 hours per week, at 60% billable, that person has only 882 hours of billable time available in the year! If they are expected to carry a billable load of $100,000, the billable rate for that staff person is $113.38.

A truer way of calculating billable rates, rather than the gross division above, is to segregate the salary costs of the billable performers from all other costs. Take the same budget, but remove the employment costs of the billable performers. Divide all the other costs among the performers, and then add the gross amount of each performers cost to their percentage of the overall costs. This will, effectively, skew up the billable rates for staff who are paid more (and may be able to command a higher billable rate, by nature of their position in the organization). That is, if the Executive Director makes significantly more than the program officer, the ED's billable rate should be higher, and that higher rate will likely be tolerated by funding partners.

As a guideline probably between 40% to 60% of a staff person's time can be spent on billable work, depending on the other demands of his or her job. For a high performer who has few other obligations inside the organization, billables can go as high as 70% of time.

Cash management tools

Cash management is banking jargon for products and services that will make an organization's handling of the cash more efficient, effective and timely which ultimately means maximizing the revenues potential of each dollar received. All of these products are available at most banks and credit unions across Canada.

Government Payment & Filing Service

Government payment and filing service saves you time and money by allowing you to pay and file your employment related taxes online. By scheduling your payments, you will receive any refunds due faster and you are more likely to not miss a deadline.

Direct Deposit

Direct Deposit is a way to simplify your payroll by making all of your payments electronically. Automatic payments to your employees and suppliers save you time and reduce overhead.

Merchant Electronic Bill Payments

Merchant Electronic Bill Payments allows you to receive your payments quickly by providing multiple payment options.

Pre-Authorized Payments

Pre-Authorized Payments or PAP's allow you to set-up recurring payments from your clients or memberships. This is most commonly used for those organizations that have a large donor base but small donor amounts. This system will automate all of these cheque which will save you time plus provide a very efficient fund-raising tool for on-going donor maintenance.

Inter-branch banking

Inter-branch banking or "deposit acceleration" allows you to consolidate your funds in your central account overnight, no matter where in Canada your money is deposited - with detailed reporting of every deposit. A great option for those organizations with national exposure (i.e. the Terry Fox Foundation).

Account Reconciliation Service and **Accounts Receivable Reporting**

Account Reconciliation Service and Accounts Receivable Reporting. This combination service allows you to save time by reconciling your cheques electronically, with flexible reporting that can align with your organization's accounting periods.

Centralized Cash Control

Centralized Cash Control is a tool which will improve your cash flow forecasting by consolidating your daily operating account balances. This may allow you to reduce borrowing requirements by being able to offset the needs of one accounts with that of another.

Payroll Services

In Canada, there are two commercial payroll services: ADP and Ceridian. Out-sourcing to these suppliers could eliminate or reduce the need to operate your own payroll department. For small to medium-sized organizations, it may be more cost effective to use a payroll service than to administer this internally. In addition to providing payroll, these services also ensure the correct payroll deductions to the appropriate ceilings, remit the same, and also produce timely and accurate T4 forms at year-end.

Following are the most basic, everyday of cash management tools that you should be asking your financial institution about:

High Yield Daily Accounts

High yield daily accounts are chequing accounts that earn interest based on the Bank of Canada Prime lending rate calculated daily and based on consolidated balances of all accounts. They look at all of the accounts like an umbrella and calculated on the entire balance. These accounts rely less on monitoring, have high liquidity and are easily accessible.

On the opposite side to daily interest accounts are short-term investments. These are easy to understand and the rate of return is known . They do require monitoring, an investment policy developed prior to the maturity of the term and are subject to interest rate risk. This is the risk of being tied into a lower paying interest rate that the current market is paying.

Short-term Investments

Internet banking has come along way in the past five years since it was firstly widely available. Standard features include the ability to get real-time information, do basic services such as order cheque or to stop payments. Another valuable benefit of internet banking are the user-defined reconciliation of month-end statements.

Internet Banking

These days the systems are much more sophisticated and allow clients to customize their own permissions and access levels for different users to control security, transfer funds, etc. Additionally, these systems have highly sophisticated audit trail managements reports available to allow for dual signature authorization options. This kind of tool can go along way in minimizing internal fraud as well as preparing you for the upcoming movement to a chequeless society (starting in 2007, banks and credit unions will no longer be required to send back cashed cheques).

Many of these services are free or can be cost-recovery.

Electronic Funds Transfer services is an easy alternative to handling individual cheques. This service can be web- or PC-based and can be used for in-house payroll or donation collection. It is typically inexpensive, easy-to-use, efficient and the timing controlled by user

Electronic Funds Transfer Services

Credit card services can be corporate or personal cards. One use of credit cards is to allow the user to delay payments. It is also an extremely easy way for an organization to establish a credit rating. A key discussion point is the potential personal liability that comes from using a personal credit card for business use. Issues arise from the use of bonus benefits, mis-use of funds or delays in payments so policies should be developed to address these and other credit card related issues.

Credit card services

Choosing financial partners

A lot has changed in banking over the past decade, but the basic need of organizations to choose financial partners that understand your needs have not. Technology advances mean more banking is done virtually – eliminating many trips to the financial institution (FI), which may mean you aren't readily recognized at your local FI. Competition among banks and other institutions have also

introduced virtual players like ING Direct, who offer competitive

If your banking partner understands your needs, he or she will be better able to develop solutions for those times when you are short of cash (as when you are waiting for holdback on a federal rates, but no face-to-face contact. And pressures in the credit union system have seen many mergers among institutions and the loss of many small and independent credit unions. It is too easy now to not know your financial institution and to conduct many or almost all of your transactions online, or through the nigh deposit box and the ATM.

contract), or when you need extra funds to capitalize a new initiative, or when you need credit to support an unanticipated expense.

But it is extremely important for an organization to choose a financial institution that understands and responds to its needs and then to get to know the individuals within that institution that manage the organization's account. Organizations are often afraid of their FIs, for no need: they really can be a friend – in good times and tough times, and the best time to establish that friendship is in good times.

Consider the FI a partner (or invisible friend on the Board). Talk to them when you don't need money. Meet them regularly. If they don't take the initiative, you must, or you should change financial institutions. Just like you should talk with your lawyer and accountant when times are good, or before something goes off the rails in your organization, or in your own life as you should see your doctor and dentist for preventative care, your banker is part of the team that is working to ensure your not-for-profit organization remains healthy.

For more information see the article in the Resource section, *Issues to consider when choosing a financial institution.*

Borrowing

Typically, there are six types of loans that, in banking, are sometimes referred to as "extending credit." In addition to this there are a variety of product names used for the same type of loan with "line of credit" and a "mortgage" as the most common terms used.

When used properly, a loan can be a tool for effective management and to help a not-for-profit grow and succeed.

It's important that an NPO not to jump to a product before first identifying what an its exact needs are. The danger being that once a request is made it will slot the NPO into a product or decision process which may not be in the best interest of the organization. The best way to ensure the organization is getting the right kind of loan for its needs is to review the following matrix:

Types of loans

Need / Indicator	Additional requirements	Options/ product names	Attributes
1. The Board is concerned that the organization have sufficient reserves to cover one month's payroll	• Should be low cost • Should always be available	• Overdraft • Line of Credit • Standby Credit	• Considered a short-term loan
2. Government contract stipulates that you must have established credit with your financial institution	• Only required during life of contract • Will never be used	• Line of Credit • Standby credit	• Considered a short-term loan
3. Union contract requires that you post a bond for staff wages	• Must be guaranteed by a financial institution	• Letter of Credit	• Specialty Product
4. Large government contract includes holdback and you need to cover the shortfall on a monthly basis while you await monthly submissions to be reimbursed	• Will be used frequently	• Operating Loan • Line of Credit	• Considered a short-term loan
5. Need to acquire assets to support a short-term contract	• Need to preserve cash flow	• Lease	• Considered a short-term loan
6. Need to acquire assets to hold for general programs (vehicle, leasehold improvements, etc)	• Will become asset of the organization	• Term Loans	• Considered a short-term loan • If loan exceeds 5 years, then it is a long-term loan
7. Need to purchase a building	• Long-term investment • Will become focal point for sustainability	• Term Loan • Mortgage	• Up to 75% of the value of the asset may be financed • Up to 25 year amortization periods available • Has significant finance costs
8. Need to finance a fund-raising campaign	• Should be low cost • Maximum amount required dependant upon outcome of the campaign	• Demand Loan • Term Loan • Line of Credit	• Flexible • Available in drawdowns
9. Need to finance the start-up of a new line of business	• Should not impede general operations of the organization	• Term Loan • Line of Credit	• Flexible

Multiple bank accounts

Most commonly, in not-for-profits that work domestically, a second bank account may be required if gaming funds from the provincial government are received. The province typically requires a separate account used to fund only the specific initiative that the gaming funds have been allocated to support.

Managing finances may be more complex when an organization is required to, or chooses to, have multiple bank accounts.

Rather than creating a separate account altogether, it is worth determining if a separate sub-account on the main bank account would suffice since most bank accounts have service charges. Ask if the financial institution will waive or reduce fees on any secondary or supplementary bank accounts.

Other times, not-for-profits purposefully create multiple bank accounts as a way to manage segregated funds like endowment funds or externally restricted funds (such as gaming funds).

But having multiple bank accounts may add costs (through service fees on each account), and may also reduce an organization's ability to earn the maximum interest available on its funds (typically, a financial institution will pay higher interest on larger amounts on deposit; having multiple bank accounts may mean the available funds sit in a number of small amounts in accounts).

Having more than one bank account adds a layer of discipline to the bookkeeper's or accountant's money management. That enforced discipline may be helpful in keeping reserve funds where they should be: in reserve.

Working in multiple currencies

Many not-for-profits organizations find it valuable to have a US dollar account. It is important that the bookkeeper receives some training in foreign exchange management to ensure your organization is not losing money to exchange rates. The simplest way to make transactions in a foreign currency, like US dollars, is to make the purchase by credit card, rather than by organization cheque. The purchase will be recorded at that day's rate, and translated into Canadian currency, and then can be recorded in the books at actual cost.

Many not-for-profits use foreign exchange accounts, most commonly US dollar accounts.

If an organization has to work in multiple currencies – as many organizations involved in international development or fair trade do – the bookkeeper or accountant will have to plan for losses and gains in foreign exchange. There will be, inevitably, losses due to timing of exchange and fluctuations in the market.

The "Five C's of Credit"

It is important to state that if an organization has been operating with a persistent deficit, a loan is not the appropriate tool to fill the gap and pay ongoing operating expenses. Adding debt on top of accumulating losses is a step towards bankruptcy. If an organziation doesn't have any realistic idea when or how the loan can be repaid, it is time to step back and consider other options.

When approaching a lender, it is best to be prepared to describe what the needs of the NPO, to have the information available for the lender to make an informed decision. Lenders look for an organization that is financially healthy and has a history of stability.

It is important to prepare information that support your organization's ability to make the loan payments. It is also imperative that the support of the Board is in place before approaching a lender. In a general sense, lenders look to the "C's" of credit when making a lending decision.

Five "C's of Credit"

The traditional, time-tested checklist is the five Cs of credit: character, capacity, collateral, conditions and capital.

Understanding what each of these means, and how you rate in the eyes of your financial institution, will help you anticipate what you need to strengthen to make a compelling case for credit (loans).

Investing

A large organization with replacement reserves of $200,000 has the obligation to ensure the safety of the money, as well as to ensure that this investment will retain its purchasing power. An investment strategy is needed to facilitate good decision-making to ensure these needs are met.

On the other hand, even a very small organization that has managed to save $30,000 in a term deposit also should have an investment strategy to mitigate a poorly thought through decision that could wipe out years of saving efforts.

The first step in developing an investment strategy is to review existing investments and match each investment with its objective. It is then important to review the requirements under the province's Trustee Act to ensure that the NPO is onside for each investment. In BC, for instance, not-for-profits are guided by the Prudent Investor Rule which means that NPOs have the responsibility to make investment decisions as any prudent individual would: someone representing the organization must monitor, set objectives and make informed decisions about the investment.

Depending on the needs of the investments, an NPO may manage this responsibility in-house or it may choose to delegate it to a professional firm. The Board should be involved in this decision.

Developing an Investment Strategy is an important tool for every organization no matter what the size.

There are 9 key elements to include in an Investment Policy:

1. Return requirements
2. Risk tolerance
3. Income needs & liquidity requirements
4. Time horizon
5. Ethical preferences (Socially Responsible Investing)
6. Unique requirements
7. Boundaries for asset classes = %
8. Flexibility to move between asset classes
9. Risk characteristics for each asset class

Some advisers, called portfolio managers, are authorized to make discretionary trades on behalf of their clients who give them authority to make investment decisions and to trade on the client's behalf without consulting them on each trade.

Other advisors are not authorized to make discretionary trades and therefore the client must make a decision on a recommendation and approve each and every trade. Generally portfolio managers offer their services for only larger accounts.

Once investment policies are set, the next step is to implement the organization's Investment Strategy. This strategy will also include an outline of the different tactics that can be used for differing investing horizons. For instance:

- Short-term (<2 years) = safe, liquid, low-yield investments
- Medium-term (2-5 years) = term-deposits and/or bonds
- Long-term (>5 years) = diversify portfolio to offset inflation risk

Inflation risk must be considered very carefully on long-tem investments. To under-score the importance of this, consider the following example:

Inflation risk is a real loss of purchasing power to an investor's dollars.

Long-term reserve	$1 million
Spending policy	3.5%
Amount invested, earning	4%
Inflation rate	2%
After 7 years, post-inflation depletion	$100,000 or 10%
Per annum net of spending and inflation	**Lose 1.5%**

Additional Resources

Checklist to Assess Financial Activities in Nonprofit Organizations

Indicator	Meet	Needs Work	N/A
1. The organization has a review process to monitor that they are receiving appropriate and accurate financial information whether from a contracted service or internal processing.			
2. If the organization has billable contracts or other service income, procedures are established for the periodic billing, follow-up and collection of all accounts, and has the documentation that substantiates all billings.			
3. Government contracts, purchase of service agreements and grant agreements are in writing and are reviewed by a staff member of the organization to monitor compliance with all stated conditions.			
4. Payroll is prepared following appropriate Provincial and Federal regulations and organizational policy.			
5. Persons employed on a contract basis meet all Federal requirements for this form of employment			
6. Organizations that purchase and sell merchandise take periodic inventories to monitor the inventory against theft, to reconcile general ledger inventory information and to maintain an adequate inventory level.			
7. The organization has documented a set of internal controls, including the handling of cash and deposits, approval over spending and disbursements.			
8. The organization has a policy identifying authorized check signers and the number of signatures required on checks in excess of specified dollar amounts.			
9. All expenses of the organization are approved by a designated person before payment is made.			
10. The organization has suitable insurance coverage which is periodically reviewed to ensure the appropriate levels and types of coverages are in place.			
11. Employees, Board members and volunteers who handle cash and investments are bonded to help assure the safeguarding of assets.			

Case Study – Workshop Activity

Instructions:

In your groups, read the case study below. Be prepared to discuss the following questions:

- *What observations can you make about this organization and their financial management?*
- *What steps would you recommend this organization take in order to ensure their financial management improves?*

Appoint a spokesperson to report back to the larger group.

Organization:

The XYZ Society has been providing services to their community since the early 1970s.

Background:

- Services delivered
  - career training and employment services
  - counseling services to youth, families, and individuals
  - affordable housing to individuals
  - youth shelter
- 32 FTE non-union staff, including management
- Key management in place for 10+ years
- Not accredited
- Annual revenues of $6.6 million
- Started a business enterprise three years ago to diversify revenue streams (a retail operation selling a specialized product)
- Federal funding cut by 10% three years ago
- Provincial funding cut by 15% in 2002
- Gaming funds have decreased each year prior to 2004 and were lost in 2004 due to a missed deadline
- Consistent losses of approximately $200,000 annually over the past three years
- Retail business venture is operating at a loss, future performance unknown
- Regular cash shortfall in April while waiting for federal and provincial grants

- Owns four buildings with a separate mortgage on each for their administration offices, employment programs, youth shelter, and affordable housing project
- Space for the retail enterprise is rented
- Surplus reserves depleted due to funding cuts, and are presently at $35,000, held in a short-term cashable term deposit
- Last Board strategic planning session was in August 2000
- Organization’s policies and procedures manual last updated in 1993
- Financial reports produced by bookkeeper, approved by Board treasurer, who then reports to the Board
- New Board members perceive that adequate financial accountability is in place
- 25 year relationship with their current banker
- Standard “no-frills” banking services in place

Notes

Self-assessment on Financial Fitness - ANSWERS

1. Select the most important considerations when assessing the financial health of your organization: ➢ **Sufficient money for stable programming** ➢ **Diversified funding** l) The number of approved contracts m) Your organization has never had to borrow money before ➢ **Ready course of cash or access to cash in times of shortfall** n) The tenure of your Executive Director ➢ **Positive cash balance at end of year** ➢ **Accumulated annual surpluses for safety net** o) There is an accountant on your Board ➢ **Has in place, or has plans to establish, an operating reserve** ➢ **Board and management understand, and are accountable for, financial sustainability**	The correct answers are bold.
2. The following is a list of information a financially healthy organization will have easy access to. Pick out the essential items your organization should have available and up-to-date: ➢ **Comprehensive operating budget which includes costs for all programs, management and fundraising and all sources of funding** ➢ **Cash flow projections, monthly** p) Phone number for your accountant ➢ **A written fiscal policies and procedures manual** ➢ **Suitable insurance coverage** ➢ **Annual, independent audit of financial statements, prepared by a chartered accountant**	The correct answers are bold.
3. True or False: A "statement of operations" is the same as an "income statement."	True.
4. True or False: A "statement of financial position" is the same as "a balance sheet."	True.
5. True or False: All organizations, regardless of size, must produce the same kinds and same amount of detail in their financial reports.	False.

6. There are five basic tools used by organizations that are managing their finances well. Match each of these tools with the reason that tool is important to have in place:

Basic Tool	**Value it provides the organization:**
Board of directors	Protects and enhances the organization's capacity to serve the community
Cash flow	Identifies whether a shortage of revenues or an excess of expenses is a short-term challenge or a long-term problem
Financial controls	Ensures reliability of financial information produced by the organization
Financial reporting	The internal road map to the organization's cash flow
Strategic financial planning	Long term plans outlining the financial resources required to meet the organization's mission

The correct matches are indicated in the grid at left.

7. Choose the main qualifications to look for when seeking a Board Treasurer:

- **Ability to analyse and interpret financial statements, budgets, and budget projections**
- **Knowledge of fund accounting systems and internal control requirements**

q) Amount of time available to volunteer
- **Ability to work in a team and delegate responsibility**

r) Ability to volunteer on the Board as well as act as an employee on an as needed basis
- **Ability to make recommendations to maintaining positive cash flow**
- **Knowledge of and commitment to the purpose and programs of the organization**

The correct answers are in bold.

8. Check three most important tools to have in place to increase your organization's financial stability:

- **cost management tools**

s) bookkeeper
t) a bank account for each program or service
- **borrowing**

u) volunteers
- **investing**

The correct answers are in bold.

9. When writing policies and procedures for your organization's financial controls, what are three policy/procedure areas that should not be omitted?

   - **Line of authority – a system that clearly outlines who has the authority and responsibility for the financial assets of the organization**
   - v) Hiring practices
   - **Financial reporting – a process for assessing the financial implications of program and operating plans and activities**
   - **Indemnity policy – an organizational mandate to act in a timely and responsible manner on financial information**
   - w) Board election controls
   - **Financial controls and operating procedures – roles and responsibilities of the Finance Director, Executive Director, Budget and Finance Committee, and Board of Directors with respect to the organization's operating procedures**

The correct answers are in bold.

10. When choosing a financial partner, it's important to consider how well they can meet your needs in the following areas:

   - **Business banking**
   - x) Level of sponsorship
   - **Investment management**
   - **Borrowing**
   - y) Amount of monthly service charges

The correct answers are in bold.

Case Study – Activity Suggested ANSWERS

Observations

(Note that answers will vary from group to group dependent on the expertise within each group, and individual perspectives.)

- Very diverse services delivered
- Longevity of staff can be both good and bad
- Apparent weakness in financial management
    - no evidence of having addressed funding cuts nor operating losses
    - opportunity for gaming funds lost
    - no long term strategic or financial plan in place
    - social enterprise appears to have no formal planning in place
    - apparent lack of oversight by the Board
- Organization has little reserves or cash
- Debt position is unknown
- Not a “financially healthy” organization
- Future sustainability in jeopardy

Steps Toward Financial Sustainability:

- Apply for a capacity building grant for:
    - Board training in financial management
    - a strategic and financial planning session
    - updating the policies and procedures manual.
    - preparing a business plan for their social enterprise.
- Form a Board finance committee to ensure greater financial oversight.
- Update policy and procedures manual.
- Review immediate steps to reduce operating expenses and increase operational efficiencies.
- Review organization’s relationships with other agencies to consider collaboration for efficiency gains.
- Re-organize current debt by leveraging long-term banking relationship:
    - provide bank with a go-forward plan to address the cash flow issues by using existing equity in assets
        - re-finance current mortgage to longer amortization
        - get reprieve on principal payment for short-period
        - set up seasonal line of credit using equity on building(s)
- Explore moving their daily accounts to a high-yield account.
- Develop fundraising plan.

What Really Happened:

This case study is loosely based on an organization in the Lower Mainland and how they worked with Vancity to increase their financial sustainability.

- Organization first met with Vancity
- Applied for capacity-building grant
  - general Board development
  - a Board planning session to develop a three-year strategic plan
- Purchased new building to consolidate their administration offices and employment programs
- Sale of old buildings provided downpayment for new one
- New building also had storefront space for their retail enterprise, which eliminated rental costs and increased potential profitability margins
- Small seasonal operating line of credit put in place

Sample Job Descriptions

JOB TITLE: BOARD OF DIRECTORS

FUNCTION: To protect and enhance the nonprofit organization's capacity to serve the community.

DUTIES AND RESPONSIBILITIES:

- Assist staff in identifying the organization's mission, develop a strategic plan to fulfill the mission, and identify and select programs to achieve strategic goals and objectives. This process should include:
  - Evaluating existing and potential financial resources
  - Examining internal and external forces affecting the organization and its funding
  - Reviewing the costs and effectiveness of existing programs
  - Examining alternatives and their financial implications

- Monitor the availability of cash to ensure continuing operations
- Monitor the financial strength (level of reserves) of the organization
- Periodically review organization's expenses to ensure that they are in line (rising or falling at the same pace as revenues)
- Ensure that expenditures are appropriate by reviewing and comparing operating and fundraising costs with industry standards
- Ensure that the organization is adequately managing its risks, either by insurance or other means, to ensure its continued existence
- Responsible for ensuring that guidelines and requirements set by the organization's funders are being followed
- Periodically review operating policies and procedures, and provide assurances that management is following Board policies. This may include, but is not limited to: internal controls, accounting procedures, investment policies, and personnel policies
- Oversee the organization's financial operations (may be delegated to the Finance Committee of the Board). Duties may include, but are not limited to:
  - Regular review of the organization's financial activity
  - Oversee the budget process
  - Operation or review of other activities, such as fundraising, employment practices, the audit, and investment performance
  - Review and approve year-end audited financial statements

JOB TITLE: BOARD TREASURER

FUNCTION: To provide fiscal/financial management and control for the corporation.

DUTIES AND RESPONSIBILITIES:

The Treasurer shall be the principal financial officer of the Organization. He or She shall be responsible for: (a) the maintenance of adequate books of account; (b) all funds and securities; (c) all the duties incidental to the office of the Treasurer and such other duties from time to time may be assigned to him/her by the Chairperson or by the Board of Directors including, but not limited to:

- Monitoring the receipt of all securities and money due to, and held by, the organization
- Ensuring that all funds are properly deposited in organization's designated depository
- Render monthly, quarterly, and annual financial reports of the corporation to the Board of Directors
- Ensuring that all Federal, State, and local financial reports are filed on a timely basis
- Overseeing the preparation of the annual budget and monitoring its implementation
- Ensuring that the organization maintains tax-exempt status
- Establishing a contract with an independent chartered accountant to conduct an annual financial audit
- Signing financial forms and instruments as necessary
- Ensuring adequate diversification of deposits and investments
- Ensuring the safety of principal and liquid investments as well as a competitive rate of return on the investments
- Overseeing the work of the Chief Financial Officer

COMPETENCIES (Knowledge, Skills, Abilities):

- Knowledge of fund accounting systems and internal control requirements
- Ability to analyze and interpret financial statements, budgets, and budget projections
- Knowledge of financial reporting requirements for pertinent regulatory agencies
- Ability to work in a team and to delegate responsibility
- Ability to develop methods or make recommendations to maintain positive cash flow
- Knowledge of, and commitment to, the organization's purpose and programs
- Knowledge of, and skills in financial planning

JOB TITLE: EXECUTIVE DIRECTOR

FUNCTION: Acts as Chief Executive Officer responsible for managing the affairs of the organization under the general oversight of the Board of Directors.

DUTIES AND RESPONSIBILITIES:

- Staffs the Board of Directors and the Executive Committee and provides staff support to other Board Committees as needed, recommending policy positions as appropriate
- Ensures compliance with and implementation of Board Policies
- Provides overall administration of the day-to-day affairs of the Organization
- Anticipates and proposes solutions to organizational development, operating, program, and financial problems and issues
- Facilitates the adequate availability and development of personnel
- Assists the Board in facilitating financial stability for the Organization and its Programs
- Facilitates regular Board review and analysis of financial information, proposing appropriate action when indicated
- Facilitates the creation and implementation of annual budgets, goals, and objectives
- Oversees the creation and management of operations and programs to ensure compliance with and implementation of goals, objectives, policies, reporting and regulatory requirements
- Ensures that the short and long term working capital and financial management needs of the organization are adequately addressed
- Ensures maintenance of effective internal controls for the protection of organization's assets
- Oversees the annual financial audit process

COMPETENCIES (Knowledge, Skills, Abilities):

- Thorough understanding of not-for-profit financial management information requirements

JOB TITLE: FINANCE DIRECTOR/CONTROLLER

FUNCTION: Acts as Chief Financial Officer responsible for overall administration of internal accounting and financial matters under the direct supervision of the Executive Director.

DUTIES AND RESPONSIBILITIES:

- Ensures maintenance of effective internal controls to assure safeguarding of assets and reliability of financial statements
- Prepares monthly financial statements and ensures their accuracy and timeliness
- Ensures compliance with any and all financial and contract reporting requirements for private or public funding, licensing, or regulatory agencies
- Assists in resolving accounting and financial problems and/or issues
- Ensures complete, up-to-date operating procedures for all accounting and financial controls
- Assists in the preparation of annual budgets and cash flow projections
- Staffs the Budget and Finance Committee of the Board as needed
- Ensures proper preparation for annual financial audit
- Reviews all receipts and disbursements, ascertains correct account distribution and ensures all support documentation is accurate and in order
- Assists in preparing special cost studies as required
- Performs additional duties as requested by the Executive Director and Board Treasurer

COMPETENCIES (Knowledge, Skills, Abilities):

- Thorough understanding of not-for-profit accounting, bookkeeping, and financial management information requirements
- Demonstrated oral and written communication skills
- Formal education in accounting required
- CCA or CGA preferred or demonstrated equivalent in education and experience

JOB TITLE: STAFF ACCOUNTANT

FUNCTION: Under limited supervision, assist the Chief Financial Officer in performing multiple duties related to the accounting functions of the organization within established deadlines.

DUTIES AND RESPONSIBILITIES:

- Prepare, record, and process accounts payable and cash disbursements
- Prepare, record, and process accounts receivable and cash receipts
- Prepare allocation tables for indirect expenses and revenue items as needed
- Perform monthly bank reconciliations
- Prepare and process payroll and deductions schedules
- Assist in the posting of accounts to the General Ledger for:
    - Accounts Receivable
    - Cash Receipts
    - Accounts Payable
    - Cash Disbursements
    - Payroll
- Review open invoice reports and follow up with a schedule of payments or adjustments
- Assist Controller) with the year-end financial audit
- Maintain required records, reports, and files in an organized manner
- Perform other related duties as directed within the project guidelines established

COMPETENCIES (Knowledge, Skills, Abilities):

- Degree in accounting or equivalent education/experience
- Minimum three years of previous accounting experience
- Demonstrated communication and organization skills
- Computer literacy preferred

JOB TITLE: BOOKKEEPER OR ACCOUNTING ASSISTANT

FUNCTION: Under limited supervision, assist the Chief Financial Officer or Staff Accountant in performing multiple duties related to the accounting functions of the organization within established deadlines.

DUTIES AND RESPONSIBILITIES:

- Assist in the preparation and recording of accounts payable and cash disbursements
- Assist in the preparation and recording of accounts receivable and cash receipts
- Assist in the preparation of allocation tables for indirect expenses and revenue items as needed
- Perform monthly bank reconciliations if needed
- Assist in the posting of accounts to the General Ledger for:
    - Accounts Receivable
    - Cash Receipts
    - Accounts Payable
    - Cash Disbursements
- Assist Controller with the year-end financial audit.
- Maintain required records, reports, and files in an organized manner
- Perform other related duties as directed within the project guidelines established

COMPETENCIES (Knowledge, Skills, Abilities):

- Associate degree in accounting or equivalent education/experience
- One year previous bookkeeping experience
- Demonstrated communication and organization skills
- Computer literacy preferred

Sticky Money: Your strategic financial plan

Source: The Non-profit Times
Publication Date: 02/01/2005
Author: McLaughlin, Thomas A.

Strategies usually start failing as soon as the planning retreat ends. Why? No one plans for implementation. And even when implementation is thoroughly planned, there is an excellent chance that the plan doesn't provide for how it is to be funded.

This typically happens because those who think grand strategic thoughts often don't communicate with the people who manage the money. If they did, it would make strategic positions more achievable. The solution is to have a strategic financial plan as part of your overall strategy.

A strategic financial plan need not be grand. It also need not be highly detailed, with cross-references and footnotes stretching endlessly. It just has to be realistic. A strategic position with a well-thought-out financial plan has a very good chance of working. A strategic position without a well-thought-out financial plan may drift, and few will understand why.

Three areas to cover

A strategic financial plan should cover three areas of financial activity: cash flow, capital structure, and profitability. Depending on the organization and its strategic position, any two of these areas are likely to be more important than the other one. The key is recognizing which are the two areas, and what to do in each.

Liquidity

Liquidity refers to the ability of an organization to meet its liabilities in the ordinary course of its business. Conventionally, short-term assets are defined as cash and any other type of asset that could potentially be converted directly to cash within that business cycle. Short-term liabilities are those obligations paid to an external party, money that will come due during the same business cycle.

For nonprofit organizations, cash is king. With cash, a nonprofit can take advantage of unexpected opportunities or cope with unexpected problems. Without cash, an organization struggles and can even go out of business entirely.

Capital structure

Think of capital as sticky money. Capital is given to an organization by an outside source, and it stays in the organization. (Contrast this with flowing funds below.) The identifying characteristic of capital is that it is often connected directly to an outside party that, under certain circumstances, could pull that capital back.

Nonprofits have three meaningful sources of long-term capital--profit, loans, and capital donations. For-profits also have three, with equity sales replacing capital donations.

Many nonprofits are undercapitalized and don't realize it. They see the symptoms of poor cash flow and low profit margins or high expenses and don't appreciate that these are often rooted in inadequate sticky money. Some think that the "bottom line" means profit or is somehow related to operations. The real bottom line, in the sense of a point beyond which no nonprofit can go, is the inability to bring capital into the organization.

Profitability

Everyone knows the definition of profit. And by now, most in the nonprofit sector accept that it is necessary for a nonprofit to make a profit if it wants to be around for a while. Revenue comes in, but it usually goes out in nearly the same quantities. Think of most revenue, including donations, as flowing funds. Only if they leave a bit-profit--do they produce sticky money. Profit is not the sole reason for a nonprofit's existence, but it is a requisite. No margin, no mission.

How they relate

A strategic financial plan is built on how the three areas interact with each other. Consistent profitability will bring in sticky money more easily and with less direct cost than either borrowing or getting capital donations. Capital facilitates things like investment in buildings and equipment, and liquidity allows operations to continue uninterrupted.

Different strategic positions will put differing pressures on these three areas. Rapid growth always strains liquidity unless there is a reliable source of expansion capital or high profits, both of which are unlikely in a nonprofit setting.

Institutions that rely on a heavy investment in capital assets, such as universities and hospitals, will be limited in the amount of money they can invest in their campuses and equipment if profitability is low and they can't borrow additional funds.

The implications for strategy

Strategy leaders must recognize these interactions and then find ways to work with them. While all strategies are based in a unique time and set of circumstances, it is possible to illustrate how to support common strategies by emphasizing one or two of the three basic areas. The accompanying chart shows common organizational strategies on the left, with some appropriate financial strategies on the right.

Other strategies beyond those listed might also work because so much of the choice depends on the characteristics of the organization. For instance, nonprofits that do not require major capital assets will handle growth very differently than those that do.

The chart shows how it is often possible to hold steady in one of the three areas while emphasizing one or both of the remaining two. For instance, rapid growth demands high liquidity to cover all the short-term costs associated with growth, such as taking on new staff and paying expenses that will only be recovered later on. It also practically demands high profitability--which is probably one of the signs that high growth is necessary and possible.

But even nonprofits that use a large amount of capital assets, such as vehicles or land and buildings, might be able to coast a bit here if they wish, investing only in additional assets proportionate to the percentage of growth expected.

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Nonprofits that must shrink in size will want to get rid of excess assets, which benefits liquidity without much effort, but they need to be very disciplined about reducing expenses in parallel with their reduced revenue.

Whether your strategy fits one of the profiles in the chart or not, here's how to develop your financial strategy. First, analyze the key things that have to be done to accomplish your strategy. Then figure out the financial implications for your liquidity, capital structure and profitability.

Most strategies will have some impact on cash flow, especially if they involve growth--or reductions in services. Growth demands cash while reductions produce it as outstanding bills get paid--as long as closing costs are minimal.

Hopefully you initially considered the profitability implications of your strategy. If not, do it now. If your strategy could lower your profitability, or if it involves investing in a building or equipment, make sure you understand the implications for your capital structure.

Capital assets require constant re-investment, but selling them produces cash, assuming the outstanding debt on it is lower than sales prices. Selling most capital assets also reduces operating cost and might improve profitability.

A strategic financial plan is not the same thing as a budget. The strategic financial plan should actually drive the budget process. Getting more donations is also not in itself a financial strategy. If capital funding is sticky money, grants and donations are fluid funds. Getting revenue in the form of operating grants could easily have no positive impact on profitability or on capital structure. And if the terms of the grant are unfavorable, it could actually worsen cash flow.

Metrics for a strategic financial plan can be drawn from standard financial ratios: current ratio and days cash for cash flow; debt to net assets and accounting age of property for capital structure; and the total profit margin and the operating profit margin are some examples. Use financial choices to support your strategy, or it won't have a leg to stand on.

Thomas A. McLaughlin is a national nonprofit management consultant with Grant Thornton in Boston. He is the author of "Streetsmart Financial Basics for Nonprofit Managers" and the book "The Art of Strategic Positioning: Decide Where To Be, Plan What To Do" (John Wiley and Sons, 2005). His email address is thomas.mclaughlin@gt.com

Strategic Positioning: Decide where, plan what

Source: The Non-profit Times
Publication Date: 07/01/2004
Author: McLaughlin, Thomas A.

Traditional strategic planning doesn't work very well. The traditional mission-vision, SWOT (strength, weakness, opportunities, threats) analysis, make-a-plan approach tries to do so many things in the name of strategy that it often leaves mountain of detail and not enough strategy.

Worse, participants can end up felling confused, unsatisfied and disengaged. It's no wonder that the nicely printed and bound strategic plan that sits unread on a shelf has become a staple of comedians and cartoonists.

Here's a simpler approach. It's based on eth assumption that there are two kinds of work in this area: planning strategy and planning work. Planning strategy is done by leaders, mostly board members, senior executives and (hopefully) some level of participation by lower-level managers and staff. Planning work is done exclusively by management.

The method that arises from this distinction is called strategic positioning and it's different from traditional strategic planning in many ways. Here's the essence of the approach.

A strategic positioning requires that the organization answer just two fundamental questions: Where do you want to be in five to ten years and what will it take to get there?

The first question should be answered by some combination of the board of directors and the senior management, while the second is purely the responsibility of management, with board approval.

The essence of strategic position is that it aims at some point in the future to place the organization into pre-defined relationships with a handful of key elements in its environment. In short, it answers the question, "where do you want to be in five to ten years? In several different ways. There are six distinct steps in deciding where you want to be and how to get there.

1. Create or re-affirm your mission. This step is close to self-explanatory. For existing organizations, double-check that your mission is still viable, relevant and desirable. Modify it if necessary. In the actual process, aim for conceptual agreement and leave the word-smithing for later. Concepts can unite, words can divide. For new organizations, articulate the mission as succinctly and compellingly as possible

2. Scan your environment. Stand at the front door of your organization and look outside. Imagine what you'll be seeing there in five to ten years. This is a monstrously ambiguous topic, but there's some help. Break your environment into seven distinct elements, and examine the trends in each one.

A. The need for the type of service you offer – what is the nature of the need for your services? Most nonprofits are formed in response to some sort of dysfunction in the community – illness, lack of education, the inaccessibility of cultural experiences, etc. Research the need for your service extensively.

B. The population (users) you choose to serve – basic demographic trends. What does this population look like now? What will it look like in a few years?

C. Your chosen geography – does your organization focus on a specific neighborhood, a region, a multi-state area, or the entire country?

D. Your competitors – okay, if you're squeamish you can call them alternatives to your services. Whatever, these are the things that can take your revenue away. Be sure to cover both direct competitors and indirect competitors.

Slide rule companies went out of business not because they lost to direct competitors but because electronics were miniaturized. Paradox: only your competitors will be interested in being your collaborators.

E. Your funding sources - who provides the funds to pay for the service? Government? Foundations? Individuals? Fee for service?

F. The role of tangible assets in providing your services (technology, buildings, intellectual capital, etc.).

G. Your labor force – someone has to do the mission-related work. What does this labor force look like now, and how will it change in the next five to ten years?

3. Scan your internal strengths. Now do another scan, this time focusing internally instead of externally. Pattern your internal scan along exactly the same lines as your external scan. One catch – the only thing that should show up is your strengths. Why? You're building a foundation for the future. Would you rather build it on strengths or weaknesses?

Examine the services you offer. What's your service model? Under what circumstances does it work best? Research the users of your service. Re-visit your assumptions about geography. Analyze your competitors, both the ones whose names you know and the entities (or even practices) that could potentially take your revenue away.

Research your funders and what they like about you. Why do you fit with their motivations, capacities, and so forth. What special assets do you already have that are helpful in the delivery of your services? Study your labor force with a clear eye.

In all of these strength scans, details count. Facts are primary. The hardest part about strength scanning is the lack of honesty from management, especially in large organizations with intense politics – everything they do is always just a little above average. Blind voting and strength prioritizing can help keep everyone honest. You know what your strengths are, and so does everyone else in the organization. You can't build on weakness or self-deception.

4. Compare your environmental trends with your strengths and decide where you want to be. Where do you want your organization to be with respect to each of your environmental trends in five to ten years? That is the essence of your strategic position. To get it, line up every one of your environmental trends and match it with your internal strengths, if any. Go down the list one by one, literally putting a trend and your strength(s) in that area side-by-side. Examine the lists very closely. Think through the implications of the match-up (or lack of it) between an environmental trend and your internal strength. If you don't have a strength to match a trend, don't worry about it right now – that will be management's job later on. Right now, strives for a conceptual conversation.

Leaders – stop right here. Turn this over to the managers.

The leadership of the organization has decided where it wants to be in five to ten years. Now it's management's job to figure out what to do to get there. This is work planning. Management should now go away for a few weeks and do two things:

5. Craft a succinct statement of the desired strategic position. Put into as few words as possible a description of where the organization's leadership wants to be five years from now with respect to each of those seven elements.

This is not just playing with words. A simple, one-or-two sentence description of the desired strategic position should play a primary role in educating, guiding and motivating everyone in the organization for the next several years.

6. Devise for work plan for getting there. This is where you figure out how to bridge the gaps between current strengths and the desired position. It's management's job to figure out ways to capitalize on strengths, build or acquire new strengths, and minimize or mitigate weaknesses.

Once the work plan is complete, it needs buy-in from leadership. With that in hand, the focus becomes one of implementation. Again, that's management's job, but now they will have a clear statement of the desired strategic position to guide them.

Strategic positions should ordinarily endure for years, whereas work plans change, sometimes frequently. Two questions and six steps result in a two-part, long-lived product.

Thomas A. McLaughlin is a national nonprofit management consultant with Grant Thornton in Boston. He is the author of "Streetsmart Financial Basics for Nonprofit Managers" and the book "The Art of Strategic Positioning: Decide Where To Be, Plan What To Do" (John Wiley and Sons, 2005). His email address is thomas.mclaughlin@gt.com

Issues to consider when choosing a financial institution

Business Banking

1. What types of financial services does your organization need now? For the future?
2. Are they large enough to grow with your organization, yet still of a scale where your organization is considered a valuable account?
3. What will be your minimum balance?
4. How do the rates and service charges compare?
5. Do they have a community focus?
6. Do they provide specialized services for nonprofit organizations?
7. How convenient is the location?

Investment Management

1. Are they registered as a portfolio manager or advisor?
2. What is their investment experience? (Ideally they should have a CFA designation.)
3. Are they familiar with the BC Societies Act Prudent Investor rule?
4. What is the minimum portfolio size?
5. What is the fee/commission structure? (set up and close out fees, annual fees)
6. Do you have to approve each trade or is it done on a discretionary basis?
7. Can they help you create an investment policy?
8. How often will they send reports?
9. How often will they review the account with you?
10. Do they have any past performance data?
11. Can they customize the portfolio to exclude certain types of securities which may be a poor risk from a risk management/ethical point of view?
12. Will the investments be in a pooled or mutual fund or in individual securities?
13. Where is the head office? In BC or elsewhere?

Borrowing

1. Do they recognize all of your assets; i.e. human, staff, board, and volunteer?
2. Do they have people that know your business?

Glossary of Terms

Accountability The responsibility of a foundation/organization to publicly disclose information on their activities, particularly justification for financial activities and the decisions surrounding them. It is also the capacity to account for one's actions; or as a representative of one's organization, to account for either your actions or the actions of your organization.

Accounts payable Amounts owed by an organization, eg. unpaid bills for purchases, monthly obligations, loan repayments.

Accounts Receivable Amounts owed to an organization services or programs that the organization has delivered prior to receiving the income or provided for on credit.

Amortization a) allocation of cost over the useful life of the asset in a rational and systematic manner. b) allocation of revenue (deferred contributions) over a number of periods to match expenses related to the revenue.

Annual General Meeting (AGM) Typically the most important meeting an organization has each year. The governing Board, executive Director, and the general membership are normally present at an AGM.

Annual report A report issued by the organization that provides financial statements and descriptions of its activities. Annual reports vary in format from simple typewritten documents to detailed publications that provide substantial information about the organization's programs, activities, services, plans, etc.

Arm's Length Transaction A transaction that is conducted as though the parties were unrelated, thus avoiding any conflict of interest.

Articles of incorporation A document filed with provincial or federal governments by persons establishing a corporation. This is the first legal step in forming a non-profit corporation.

Assets What the organization owns or is owed to them as a result of past transactions or events. Can be hard, intangible, human, technical, proprietary, reputation, social.

Audit Independent verification of economic events.

Auditor A firm of Chartered Accountants hired to give an independent opinion on the organization's financial statements.

Auditor's Report In an annual report, the auditor's opinion on the organization's financial data and supporting evidence.

Balance sheet An accounting statement of an organization’s financial condition as of a certain date, generally at the end of its fiscal quarter or year.

Basis Price 1/100th of 1% in yield; hence 50 basis points is 1/2 of 1%.

Bearish An attitude or indication implying that prices are likely to experience a substantial decline.

Board of Directors A group of volunteers chosen to govern the affairs of a non-profit organization.

Bonds Marketable and non-marketable securities issued in Canadian or foreign currency with an original term to maturity in excess of one year

Budget A financial report containing estimates of income and expenses.

Bullish The attitude of someone who is anticipating a bull market, or the description of an event that is supposed to cause market prices to rise.

By laws Rules governing the operation of a non-profit corporation. By laws often provide the methods for the election of Directors, the appointment of officers and the description of their duties, the creation of committees, and the conduct of meetings, etc.

CA Chartered Accountant

Capacity Building The process of building the potential for not-for-profit organizations to respond to the needs of the community they serve.

Capital Gain The profit you get when you sell an asset, like an investment, for more than you paid for it.

Capital Loss When the sale price of an asset is lower than its purchase price, you have a capital loss.

Capital reserve Monies set aside for capital purposes.

Cash flow The flow of monies into (receipts) and out of (disbursements) the organization.

Cash flow forecast An estimate of when and how much money will be received and paid out of a business. It usually records cash flow on a month-by-month basis for a period of two years.

CGA Certified General Accountant

Charity As a noun, refers to a kind of non-profit organization that solicits and is able to accept donations or gifts from individual and corporate donors. A registered charity is a charity which has successfully applied to the federal government under the Income Tax Act for charitable status. An organization benefits from obtaining charitable status because it possesses the privilege of issuing official receipts to donors for their monetary contribution. This donor can, in turn, submit the receipt to Revenue Canada for a tax exemption.

CMA Certified Management Accountant

Collaborative A formal or semi-permanent partnership created between two or more organizations in order to better achieve mutually desired objectives.

Collateral Property (real, personal or otherwise) pledged as security for a loan. Also, any supplementary promise of payment, such as a guarantee.

Collateral Mortgage A loan backed up by a promissory note and the security of a mortgage on a property. The money borrowed may be used for the purchase of the property itself or for another purpose, such as a transitional house, group home, etc.

Constitution A system, often a written document, which establishes the rules and principles by which an organization is governed.

Contingency planning Allowing for financial flexibility in preparing a budget in order to meet unanticipated events.

Corporate giving program A grantmaking program established and administered within a profit-making company. Gifts or grants go directly to charitable organizations from the corporation. Corporate giving programs do not have a separate endowment; their expense is planned as part of the company's annual budgeting process and usually is funded with a determined percentage of pre-tax income.

Corporate Sponsorship Group sponsorship, normally from the business community. Corporate sponsorship is often done in exchange for publicity.

Cost The amount paid or charged for something.

Credit Rating Every piece of credit history information in your credit file is assigned a rating by the credit grantor. The most common ratings are "R" ratings. These are known as North American Standard Account Ratings and are the most frequently used. The "R" indicates that the item being described involves revolving credit. If you always pay on time, it will be coded an R1. If an amount was written off because you never paid it back, it is coded R9. The R ratings are a coding system that translates "on time", "one month late", "two months late", etc., into two-digit codes

Credit Risk The risk of loss one assumes under a financial contract that a borrower or a counterparty to a loan or other credit-related contract may default or fail to perform its obligations.

Debt Money owed.

Default A borrower defaults on his obligations when he fails to make a required payment of principal or interest at a specified time.

Deferred Revenue Income for which the cash has been collected by the organization, but has yet to be "earned".

Deficit A deficiency in amount - an excess of expenditures over revenue.

Deliverables Measurable outputs or change produced by a given program or activity. For example, the number of girls attending school in a given community increased by 50%, or the air pollution in a given area decreases by 30%.

Demand Loan A loan that must be repaid in full, on demand.

Depreciation The amount of expense charged against earnings by an organization to write off the cost of a plant or machine over its useful live, giving consideration to wear and tear, obsolescence, and salvage value.

Direct deposit If you receive money on a regular basis (i.e. from a job, pension, allowance), your employer, the government or person paying the allowance can deposit the money directly into your account.

Disbursement Payment.

Disbursement quota The amount that a registered charity must spend each fiscal period on charitable activities or as gifts to qualified donees to keep its charitable registration.

Discretionary funds Funds distributed at the discretion of one or more trustees or staff, which usually do not require prior approval by the full Board of Directors.

Donor A person, group or organization that gives or donates something, usually funding, to a charity. A volunteer can "donate" services or time to help solicit further funding from sponsors.

Due Diligence Process of investigating all risks associated with an organization or grantee.

Economic Development Any effort or undertaking which aids in the growth of the economy.

EFT/POS Electronic funds transfer (EFT) at the point of sale (POS). A payment option which allows consumers to pay for purchases by transferring funds directly from their accounts to a merchant's accounts.

Electronic Funds Transfer (EFT) A system that transfers funds through electronic messages instead of by traditional means, such as cash or cheques.

Executive Director A person employed by a non-profit organization to oversee operations and management and implement the policy decisions of the Board of Directors.

Expenditure Actual expenses incurred at the end of a reporting period or a fiscal year.

Expense A cost, eg. stationery and supplies, printing and duplicating, postage and telephone.

Fiduciary duty The legal duty of acting wisely (such as in the case of investing money) on behalf of another. fiduciary responsibilities relates to holding a position of trust that requires a Board member to act honestly, in good faith, and in the best interests of the organization.

Financial Disclosure Any and all information that affects the full understanding of an organization's financial statements. Some items may not affect the ledger accounts directly. These would be included in the form of accompanying notes, the financial disclosure. Examples of such items are outstanding lawsuits or tax disputes.

Financial report An accounting statement detailing financial data, including income for all sources, expenses, assets and liabilities. A financial report may also be an itemized accounting that shows how funds were used by an organization.

Fiscal year The accounting year of an organization, which may or may not be the same as the calendar year.

Fixed assets Assets like machinery, land, buildings, or property used in operating a business that will not be consumed or converted into cash during the current accounting period.

Fixed expenses Fixed operational costs that do not change with the volume of activities, such as rent for business premises, insurance payments, utilities, etc.

Form T3010A The form required from all charities by the Federal Government detailing their activities and expenditure through the year. Charities are required to submit this form within six months of the end of their fiscal year.

Foundation An organization or institution established by an endowment. It exists to distribute grant money to voluntary organizations or individuals, allotting some of the funds to provide for its future subsistence.

Four Pillars A term used to describe the main types of financial institutions: banking, trust, insurance and securities

Fund A sum of money or resources intended for a special purpose.

Funding cycle A chronological pattern of proposal review, decision-making and applicant notification. Some donor organizations make grants at set intervals (quarterly, semi-annually, etc.) while others operate under an annual cycle.

GAAP Generally Accepted Accounting Principles: A set of rules and guidelines for reporting financial information. Each country may have its own GAAP.

GIC Guaranteed Investment Certificate: An investment in which you deposit money, over a fixed period of time, and are paid a set rate of interest.

Gifts in-kind Donations made to an organization in some form other than money. Some examples of gifts in-kind include labour, land, food, clothing, office space, furniture, or advertising. Gifts in-kind may also be called in-kind donations.

Governance Refers to the actions of the volunteer Board of Directors of an organization with respect to establishing and monitoring the long-term direction of that organization's values and goals through policy and procedures.

Grant A sum of money given by a donor to support the work of a Not-for-Profit Organization.

Infrastructure Base or foundation of a world system (ie. economy, society, organization). It is the basic equipment required for a particular system to function.

Insurance Coverage by contract whereby one party agrees to indemnify or guarantee another against loss by a specified contingent event or peril.

Internal control	All measures taken to safeguard assets; check the accuracy and reliability of accounting data; promote operating efficiency; and ensure compliance with the organization’s policies and legislation.
Investment	Using money to provide income or profit.
Investment Income	This is income earned on investments you make. Investment income includes interest, dividends and capital gains.
Invoice	Bill for goods or services received or provided.
Journal	A record of transactions, can be manual or computerized.
Lease	An agreement to rent for a period of time at an agreed price.
Letter of Credit	A written undertaking from a bank guaranteeing payment.
Leverage	The use of borrowed money to buy more of an asset than would otherwise be possible in order to increase the potential profit earned on that asset. Used in fundraising as a small, initial investment by an organization in order to create tools to attract and raise additional funds.
Line of Credit	An agreement negotiated between a borrower and a lender establishing the maximum amount of money a borrower may draw. The agreement also sets out other conditions, e.g., how and when money is to be repaid.
Liquidity	Has to do with how easy it is to turn your investments quickly into cash, without a major penalty. Some investments, such as mutual funds, let you cash out on short notice. With others, it depends on how easy it is to find a buyer on the open market. Note: Law or the contract terms may stop you from reselling some securities for months or even years.
Long-term liabilities	Money that you owe over a period longer than 12 months, such as mortgages, bank loans and other obligations.
Minimum monthly balance	The least amount of money that has been in a bank account during the whole month.
Mission Statement	A brief statement outlining the specific task(s) for which a group has charged itself.
Money Markets	The part of the capital market where government Treasury bills, commercial paper, bankers' acceptances and other short-term obligations are bought and sold
Mutual Fund	An investment product in which your money is pooled with the money of many other investors. A professional manager(s) uses the pooled money to buy a portfolio of investments or securities, and monitors each of the investments on an ongoing basis. There are many varieties of mutual funds, each with specific objectives. By investing in a mutual fund, you purchase units of that fund. The value of your units can go up or down depending on the type and performance of the mutual fund
Notes and Disclosures	A detailed set of notes immediately following the financial statements contained in the annual report that expands upon and/or explains in some depth the information contained in the financial statements.
N.S.F. Cheque	Not Sufficient Funds. If a cheque is returned for this reason, it means that there was not enough money in your bank account to cover the amount of the cheque. There is a fee to you if this situation occurs
Operating Loan	A loan intended for short-term financing, supplying cash flow support or to cover day-to-day operating expenses.
Operating Expenses	All of the elements of an organization’s cost of doing business, such as salaries, rent, depreciation, and others. Some of these expenses are fixed and some are variable.

Overdraft The withdrawal from a bank account of an amount greater than the positive balance in the account. Often used to refer to a negative balance in one's account.

Policy A course or principle of action adopted by a government, party, business or individual.

Prime Lending Rate The rate of interest charged on loans by credit unions, banks, trust companies to their most creditworthy customers.

Promissory Note 1) An unconditional promise to pay on demand or by a fixed date a certain amount of money. 2) A written promise to pay money or money's worth usually for goods and/ or services received.

Ratio Comparison of two figures used to evaluate business performance, such as debt/equity ratio and return on investment.

Reconciliation Checking all bank account papers to make sure that the bank's records and your records agree.

Request for Proposal (RFP) An RFP is similar to a job posting, but for a contractor for a specific project. It lists project specifications and application procedures.

Return Any increase in value or in income you earn on an investment.

Risk Tolerance Your comfort level with accepting possible losses from your investments.

Rule of 72 A simple formula that tells you roughly how long it will take to double your money. Formula: Divide 72 by the interest rate or the rate you expect your money to grow in an investment. Example: an investment growing at a rate of 8% per annum could be expected to double in value in approximately nine years.

Securities Investments such as stocks and bonds.

Sponsor A person or organization, usually a business, that supports an activity by pledging money in advance.

Statement A computer printout which lists all the transactions in a bank account for a period of time. Statements are usually given once a month.

Stocks Traded on a stock exchange, these are shares in a company. Essentially, you purchase shares in exchange for owning a part of that company.

Strategic Plan A future-oriented perspective where organization's decisions are made based on an analysis of external and internal trends and data.

Sustainability The ability to meet the needs of today's people and environment without compromising that of subsequent generations. When a program seeks to create sustainability, it aims to create an environment that can renew itself without damage to future stakeholders.

Term deposit An investment in which you deposit money, over a fixed period of time, and are paid a set rate of interest.

Term Loan A loan intended for medium-term or long-term financing to supply cash to purchase fixed assets such as machinery, land or buildings or to renovate business premises.

Treasury Bills (T-Bills) Short-term government obligations that are payable to the bearer and sold on a discount basis; the difference between a T-bill's market or discounted price and its face or redemption value is effectively interest if the T-bill is held to maturity.

Variable expenses Costs of doing business that vary with the volume of business, such as advertising costs, manufacturing costs and bad debts.

Venture Capital Commonly refers to funds that are invested by a third party in a start-up business either as equity or as a form of secondary debt.

Web Resources

- Nonprofit Finance Fund
- Nonprofit Financial Center Online
- Alliance for Nonprofit Management
- Voluntary Sector Knowledge Network
- Sample Financial Policies & Procedures Handbook
- Grant Thornton LLP. 2000. Not-For-Profit Investment Policy Guide

185 Cutback Strategies
A list to help you think creatively about your organization, its mission, its future, its response to immediate financial crises, and its long-term preparation for a changing culture.

Alliance's Financial Management FAQs
Provides answers to basic nonprofit accounting and budgeting questions. A useful resource for individuals who are beginners in the world of nonprofit accounting.

Audit Guide For Audit Committees of Small Nonprofit Organizations
Virginia Society of Certified Public Accountants provides a super starting point.

Basic Guide to E-Commerce
Carter McNamara's Free Management library provides resources to help you conduct business over the Internet including marketing and selling products.

Basic Guide to Nonprofit Financial Management
The Free Management Library offers comprehensive guidance on financial issues.

Charity Village
Canada's supersite for the nonprofit sector --- 3,000 pages of news, jobs, information and resources for executives, staffers, donors, and volunteers.

Critical Issues in Financial Accounting Regulation for Nonprofit Organizations
A comprehensive source of information on the financial side of nonprofit organizations. Includes information on legal regulations, accounting for contributions, and other important accounting issues.

Definitions of Key Financial Terms
Handy definitions of all those financial terms.

Employee Compensation
Carter McNamara's Free Management Library provides information on employee compensation in nonprofits including salary surveys.

Fundraising and Financial Sustainability
Nonprofit Good Practice Guide. With strong financial knowledge, accounting practices, tax filing and fund development activities, nonprofits can create and maintain a solid operation.

Greenlight Resource Directory
Greenlight Resource Directory offers printable, easy-to-use forms, sample policies, and templates for your nonprofit accounting needs.

Greenlights Leadership Articles
Greenlights for Nonprofit Success offers articles about leadership in the nonprofit sector, including avoiding executive burnout and an E.D.'s financial "to-do" list.

I Know
Provides information on choosing the right nonprofit accounting software and contact info for vendors of these products.

KDV Management
KDV offers expert advice in the areas of financial management, accounting, organizational development, strategic planning, and technology. Their website provides many resources for nonprofits in these topic areas.

nfpAccounting Technologies
nfpAccounting Technologies is a California-based fund accounting specialist firm for nonprofits. Their website includes a number of resources including financial calculators and "Fund Accounting 101," an introductory guide to nonprofit accounting.

Nonprofit Financial Center Online Guides
Nonprofit Financial Center provides tools to help you with financial assessment, strategy, reporting, budgeting, and much more.

npEnterprise Forum
The npEnterprise Forum is a place to share ideas and learn about social entrepreneurship in nonprofits.

Resources for Audit Committees
The American Institute of Certified Public Accountants has compiled a list of helpful resources available on the Web.

Print Publications

All the Way to the Bank: Smart Nonprofit Money Management, 2nd ed.
Author: Allen, Larson
Publisher: Larson Allen Weishair & Co, 2002
Solid financial support and management are key to mission success. Make the most of the resources you have with the tools and techniques in this book.

Bookkeeping Basics: What Every Nonprofit Bookkeeper Needs to Know
Author: Ruegg, Debra L. and Lisa M. Venkatrathnam
Publisher: Amherst Wilder, 2003
Gives you enough knowledge and skills to track the financial activity of your nonprofit. Includes step-by-step instructions, detailed examples and forms to use.

Bookkeeping for Nonprofits: A Step-by-Step Guide to Nonprofit Accounting
Author: Dropkin, Murray
Publisher: Wiley, 2005
Contains the tools needed to create and maintain a complete and accurate set of accounting records. Those with little or no bookkeeping experience will appreciate the many illustrations and checklists.

Budget-Building Book for Nonprofits, The: A Step-by-Step Guide for Managers and Boards
Author: Dropkin, Murray and LaTouche, Bill
Publisher: Jossey-Bass, 1998
Guides nonprofit executives and Boards through the budget cycle, offering practical instruction on completing each step of the process. Includes examples, to-do lists, worksheets, schedules, and other hands-on tools.

Cash Flow Management Book for Nonprofits, The: a Step-by-Step Guide for Managers, Consultants, and Boards
Author: Dropkin, Murray and Allyson Hayden
Publisher: Jossey-Bass, 2001
Presents a plan for cash flow management and effective strategies for day-to-day and long-term financial plannning. A practical workbook with worksheets, sample forms, and more.

Effective Economic Decision-Making by Nonprofit Organizations
Author: Young, Dennis, ed.
Publisher: Foundation Center and National Center on Nonprofit Enterprise, 2004
Twelve experts share their insights on core operating decisions, resource development issues, and strategic decisions on programmatic ventures.

Financial Leadership for Nonprofit Executives
Author: Peters, Jeanne and Elizabeth Schaffer
Publisher: Amherst H. Wilder Foundation, 2005
ISBN: 0094006944
Gives the framework, specific language, and processes to manage a successful nonprofit. It shows how to protect and grow the assets of an organization and accomplish as much mission as possible with those resources.

Financial Leadership for Nonprofit Executives: Guiding Your Organization to Long-term Success
Author: Peters, Jeanne
Publisher: Amherst H. Wilder Foundation, 2005
Gives the framework, specific language, and processes to manage a successful nonprofit. It shows how to protect and grow the assets of an organization and accomplish as much mission as possible with those resources.

Financial Responsibilities of Nonprofit Boards, rev. ed.
Author: Lang, Andrew S.
Publisher: BoardSource, 2003
Provide your Board members with an understanding of their financial responsibilities including an overview of financial oversight and ways to ensure against risk.

Fiscal Sponsorship: 6 Ways to do it Right
Author: Colvin, Gregory
Publisher: Study Center Press, 2000
In cases when forming a new nonprofit organization is not feasible, a fiscal sponsorship arrangement may be worthwhile. Six models are provided to show how a project can benefit from a relationship with a sponsor.

Generating and Sustaining Nonprofit Earned Income: A Guide to Successful Enterprise Strategies
Author: Oster, Sharon M.
Publisher: Jossey-Bass, 2004
Help your organization achieve greater financial stability through a diversified stream of revenue. This resource teaches how to establish and manage an earned income venture to free your organization from excessive dependence on fundraising.

Grant Seeker's Budget Toolkit
Author: Quick, James Aaron and Cheryl Carter New.
Publisher: John Wiley, 2001
This book walks readers through the entire budgeting process, providing insider tips, guidelines, and general rules. More importantly, it arms readers with a complete, step-by-step budgeting system.

Guide to Nonprofit Contributions, 4th ed.
Author: Practitioners Publishing Corporation
Publisher: Practitioners Publishing Corporation, 2001
Provides numerous examples of different types of contributions and thoroughly discusses the proper accounting treatment for each. Addresses operating considerations relating to contributions, including fraud, internal controls and tax considerations.

Guide to Nonprofit Expenses, 4th ed.
Author: Practitioners Publishing Corporation
Publisher: Practitioners Publishing Corporation, 2001
Provides numerous example expense allocation methods and financial statement presentations and discusses operating concerns relating to nonprofit expenses, including internal controls, fraud examples, and perceptions of charity watchdog groups.

Model Policies and Procedures for Not-For-Profit Organizations
Author: McMillan, Edward J.
Publisher: Wiley, 2003
ISBN: 0047145317
Model policies for accounting and finance, internal controls, risk reduction and office administration. An associated Web site contains all of the documents found in the book.

Nonprofit Financial and Accounting Manual
Author: Practitioners Publishing Corporation
Publisher: Practitioners Publishing Corporation, 2001
A thorough discussion of all the issues related to nonprofit accounting. Useful for bookkeepers as well as other people in the organization.

Not-for-Profit Accounting Field Guide
Author: Larkin, Richard F. and Marie DiTommaso
Publisher: Wiley & Sons, 2003
A quick reference to the unique accounting and financial reporting issues affecting nonprofits.

Not-for-Profit Accounting Made Easy
Author: Ruppel, Warren, 2002
Suitable for anyone who needs to read and understand a not-for-profit financial statement - this is *the* not-an-accountants guide to not-for-profit accounting.

Not-for-Profit Budgeting and Financial Management
Author: McMillan, Edward
Publisher: Wiley, 2003
The author's continuous budgeting system is easy to use and monitor and ensures true fiscal accountability. The system enables nonprofits to create reasonable financial plans that fit their organization's needs.

Presenting Nonprofit Financials: An Overview of Board Fiduciary Responsibility
Author: McLaughlin, Thomas A.
Publisher: National Center for Nonprofit Boards, 2001
This CD-ROM and guidebook aims to familiarize Board members with the financial information they need. Gives an overview of the lines of responsibility within the organization and an understanding of how to assess a nonprofit's financial health.

The Practical Guide to Managing Nonprofit Assets
Author: Schneider, William A., Di Meo, Robert A. and Michael S. Benoit
Publisher: Wiley, 2005
ISBN: 0471692236
Explores phases of investment processes—fundraising challenges; special issues facing hospitals, colleges, & religious orders; spending policies; investment theories; fiduciary issues and roles & responsibilities of various providers/vendors to the fund.

Understanding Nonprofit Financial Statements
Author: Berger, Steven.
Publisher: BoardSource, 2003
ISBN: 1586860534
Help motivate and involve your Board members to become active fundraisers. Use the accompanying Fundraising Checklist to create successful development strategies and build Board members fundraising skills.

Notes

The information and materials contained within this handbook and the Financial Fitness series are designed to assist individuals in the key management and Board roles within most not-for-profit organizations. *Accounting Athletics*, *Financial Fitness* and *Legal Limberness* will help organizations move themselves further along the curve of understanding what it takes to be healthy, financially strong and stable organizations.

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