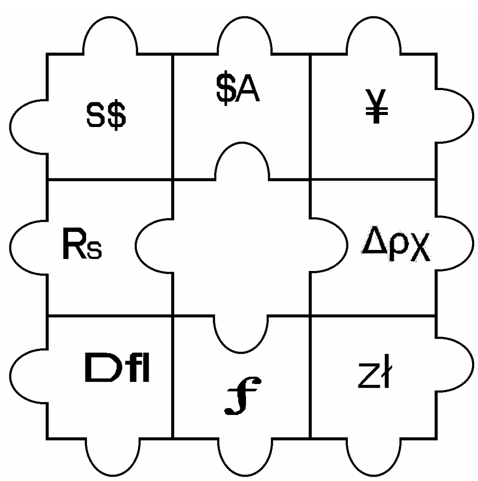
BUILDING NGO/CBO CAPACITY

THROUGH

DEVELOPING AND MANAGING FINANCIAL RESOURCES

PART ONE



CONCEPTS, STRATEGIES and SYSTEMS

HS/654/02E
Main ISBN: 92-1-131642-1
Series ISBN: 92-1-131644-3

FOREWORD

This series of training manuals, designed to enhance the overall management and operational effectiveness of non-governmental and community-based organisations, coincides with the launch of the United Nations Centre for Human Settlements (UNCHS) Global Campaign on Urban Governance. The theme of "inclusiveness," reflecting the Campaign's vision and strategy, is deeply embedded in the learning strategies covered by these manuals. While they have been planned and written to serve the developmental needs of non-governmental and community-based organisations, their leadership and staff, they can easily be adapted to serve the needs of smaller local governments as well.

There is growing evidence and increased recognition of several themes that define and frame the urban governance agenda for the new century and millennium. The first, inclusion, has already been introduced but bears repeating. Those local governments and communities that want to be on the leading edge of social and economic change must recognise the importance of including everyone regardless of wealth, gender, age, race, or religion in the process of forging decisions that affect their collective quality of life. This commitment must then be infused into the very heart of their operating culture.

The second recognition involves shared leadership that cuts across the spectrum of institutional and community fabric. This means, among other things, those non-governmental and community-based organisations (NGO/CBOs) must be seen as competent and worthy partners in the sharing of leadership and responsibilities. The *Building Bridges* manuals in this series are designed to address the management of joint planning ventures as well as the management of conflicts and disagreements that cut across the spectrum of public and not-for-profit community organisations.

The final recognition is the need for organisational competencies within the NGO/CBO community-competencies to manage their financial and human resources, and their outreach endeavours more effectively and efficiently. In order to be strong and effective partners, NGOs and CBOs must be able to demonstrate that their internal houses are also in order.

As described in the Prologue, this series of learning implementation tools has been a collaborative venture between the Open Society Institute and the Government of the Netherlands (the principal funding institutions), Partners Romania Foundation for Local Development, and UNCHS (Habitat). In addition, many others have been involved in the development of this series. They include:

1) a committed group of NGO, CBO and local government leaders from Sub-Saharan Africa who came together to define their learning needs during the UNCHS Capacity Building Strategy Workshop held in Nakuru, Kenya, in November 1998, and who took an active part in reviewing the drafts culminating in a validation workshop in Nyeri, Kenya, 2001, and

2) a network of institutions and trainers representing the Regional Program for Capacity Building in Governance and Local Leadership for East and Central European Countries who participated in field testing the initial drafts of the materials.

Finally, I want to thank Fred Fisher, the principal author of the series, and the superb team of writing collaborators he pulled together to craft these materials. For this particular manual, we have called upon the expertise and talents of Kay W. Spearman and Deborah G. Welch to provide much of the substantive input on NGO/CBO financial management. As always, the team of UNCHS staff professionals, headed by Tomasz Sudra, brought their considerable experience and expertise to polishing the final products.

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CHAPTER 1
INTRODUCTION AND OVERVIEW

Before going any further, it will help to define what we mean by Non-Governmental and Community–Based Organisations, or NGO/CBOs, and how we will use the terms. From the perspective of this manual and its discussions, an NGO/CBO is any non-profit organisation that is independent from government. Our definition encompasses Community-Based Organisations (CBOs) which serve a specific population in a narrow geographic area to national non-profit organisations independent of government to all those that operate within these broad categories. We have deliberately excluded the international NGO/CBOs by assuming that they already have their financial management house in order. This doesn't exclude them from participating on this voyage of discovery, but it may be a trip over familiar territory. NGO/CBOs cover a lot of territory in their collective quests. They work to serve the poor; save the environment; operate schools, health clinics, libraries, and a myriad of other facilities; engage in relief efforts; mediate conflicts; and often operate as pressure groups to influence governments and other key institutions. This "for example" list is certain to evoke protests from individuals who are engaged in those many crusades and programs left unmentioned.

Since NGO/CBOs are usually organised to serve some specific civic benefit or need, they are financed by a variety of public contributions as well as grants from governmental agencies, development institutions, foundations, and private organisations. Many NGO/CBOs charge modest fees to those who can afford to pay them using a sliding-fee schedule based on family size and income. In other words, the financial resource base of NGO/CBOs is as diverse as their reasons for existence. Given this diversity, or in spite of it, this manual will focus on basic concepts, strategies, systems and processes of financial management that are germane to NGO/CBOs and the environment in which they operate. All the financial tools covered in this manual are based on the fundamental assumption that these organisations want to sustain themselves and their services over time and that sustainability is determined largely, although not totally, by the ability to manage financial resources efficiently and effectively.

Travel Advisory During the Nyeri work sessions where key users told the authors what they wanted changed in the manuals before publication, a number of issues were identified that seem to fit the *travel advisory* category. Since many of them tended to be more global, i.e., cutting across the broad spectrum of NGO/CBO financial management topics, this is probably the best place to comment on them.

✓ We don't talk much about the computer software packages that are now available world-wide for use in setting up financial management systems, and managing financial transactions. They are available and should be checked out if you have the hardware resources to support them. This manual deals with the basic systems and procedures that can be managed at many different levels of sophistication.

✓ Another major issue we skirted in the manual is the need to understand and adhere to the national laws and standards governing NGO/CBO financial transactions. Please do! We mention the reality of national and regional variations in legislative and regulatory functions as they relate to various financial management (FM) functions but we leave it up to you to deal with them.

✓ Speaking of regional variations in this business, there are distinctly American and British terms to describe various functions and sub-systems within standardised financial management systems. There may be more as well, but we are not aware of them at this time. We've used the American terminology.

✓ Many of the procedures and systems being discussed might be a bit complex for the smaller NGOs and CBOs. We appreciate the concern but were confronted with the need to weave a learning trail somewhere between the larger systems that would find little use for these concepts and tools, and the smaller organisations that operate their finances out of a shoe box. We don't worry about the first category and encourage the second to take from these pages those ideas and tools that fit for now. Leave the rest for the time when you get bigger and need some changes in how you manage your financial resources.

✓ There is the issue of *bookkeeping* vs. *accounting.* One of our Nyeri colleagues simplified the difference in a manner we had not heard before, and we thought it worth passing on. *Book-keeping* is <u>recording</u>. *Accounting* is <u>recording and reconciliation</u>.

- ✓ We discuss the need for financial policies in the final chapter that deals with fiscal oversight or the auditing function. Many would argue that the discussion of policies should be right up front. We think the discussion is best situated after the discussion of all the *mechanics* of financial management, the machinery you should have in place. More important, these policies are the foundation on which a solid audit can take place. If you are bothered by our order of discussing policies, we suggest you start with Chapter 6 first.

- ✓ This part of the manual doesn't discuss financial planning in any depth. However, Part Two includes a number of management tools that cover this aspect of financial management in considerable detail.

- ✓ Finally, there are some high-powered words and phrases that permeate every discussion of NGO/CBO financial management these days, particularly if you are dealing with donors or other benefactors. We will try to shed some light on some of the more important terms before we delve into the mechanics of financial management. They are the following.

Effectiveness and efficiency
The terms *effectiveness* and *efficiency* will enter into the discussion from time to time. **Effectiveness** is often described as *doing the right things* whereas **efficiency** is defined as *doing things right.* **Example:** Your NGO/CBO has decided to establish neighbourhood service centres to reach citizens who can't travel beyond their immediate community (a policy that defines *effectiveness*). How you actually operate the centres to make the most of available resources and to achieve the goals of the policy are *efficiency* indicators. These are important concepts to keep in mind as you reflect on the topics to be discussed from now on.

Sustainability

Another principle goal of this manual is to provide information and ideas on how, once established, NGO/CBOs can be "sustained." For example, does your NGO/CBO have the capacity to continue operating in the face of significant external shocks such as the loss of donor funds? Has your NGO/CBO been able to develop a diversity of funding sources, including program-generated revenues and outside donations, that will enable it to be sustained over time? In practical terms, is your organisation able to sustain itself through such practical strategies as raising funds, writing good proposals to donors and others, and generating revenues through the sale of goods and services?

Three critical components are essential for NGO/CBOs to be "sustainable." While it may appear that these criteria are for large NGO/CBOs only, small NGO/CBOs should strive to achieve them wherever possible.

1. **Financial systems and procedures** including:

   - Strong financial management and control including good cost accounting systems

   - A significant portion of core costs **(1)** covered by locally generated resources such as user fees, regular fundraising, commercial ventures, and other income-generating activities

   - A diversity of funding sources, financial planning capability, existence of an investment strategy, etc.

2. **General management capacity** including:

   - Clear organisational structure

   - Involved board of policy makers

   - Strategic and business planning ability

   - Sound management practices

   - Well-functioning administrative systems including management information systems, and

   - Marketing skills to expand services.

3. **Program and service delivery** including:

- The ability and commitment to provide high quality programs and services
- Existence of standards and other quality assurance measures, and
- Ability to inform, educate, and communicate.

Sustainability is the critical component, particularly for those NGO/CBOs whose principle mission is to serve the poor, those who are the least able to pay for services. Most NGO/CBOs will have to depend to some extent on external funding, especially for preventive services and outreach programs, where their constituents are unable to pay. A number of checklists and worksheets are provided later to help NGO/CBOs develop and enhance these skills.

Transparency and accountability

Two other interrelated criteria central to financial management are *accountability* and *transparency*, phrases that are often thrown around in the development arena with careless abandon. Certainly, they are important. Organisations that command a special trust from their constituents, beneficiaries and supporters are by their nature transparent and accountable.

Transparency and accountability mean, among other things, making financial statements "user friendly" for those who are not financial specialists but want to be able to read and understand your financial reports. They mean being responsive to those who want to review your financial records by making them easily available. These two leadership qualities are also characterised by holding dialogues on your budget process and other important mission-defining events with your policy board, constituents and beneficiaries. These public events provide assurance that what you plan to do is in accordance with what is needed in your operating domain.

Transparency and accountability are also key building blocks for achieving sustainability. Most NGOs and CBOs survive in a symbiotic relation with those they serve. When trust is betrayed through less than open relationships, support wanes and sustainability suffers.

Many countries have state regulations that address such issues as transparency and accountability in the operation of NGO/CBOs within their domain. Even if this is the case, your organisation's response to these disclosure mandates should confirm your commitment to not only abide by them but to make them an integral part of how you operate in relation to your constituents and supporters.

We will return to these important operating criteria as we discuss in depth the major components of a responsible and responsive financial management process. After all, these systems are geared to achieve effectiveness, efficiency, transparency, and accountability. When in place and operating effectively, they also improve your ability to be sustainable as an organisation.

Travel alert! From time to time, we will ask you to stop for a moment or two and carry out two short tasks: (1) reflect on what you have just read; and (2) jot down a few notes or carry out a similar task on how it relates to your own experience or practices within your organisation. These are opportunities to stop for a while and think about the part of the voyage of discovery you have just completed. Here's the first of these reflective experiences.

Reflection

Take a few moments and reflect on how well your NGO/CBO is currently doing to achieve sustainability based on financial systems and procedures, general management capacity, and program and service delivery. For each of the individual components in these three categories, we suggest you evaluate their effectiveness in helping your NGO/CBO achieve sustainability on a scale of *one* to *five*: 1 = not at all effective; 3 = somewhat effective; 5 = very effective. Use the space below to record your self-assessments.

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Based on these assessments, what specific steps could you take immediately to increase your ability to be sustained over time?

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Now, repeat the exercise in terms of how transparent and accountable your financial systems and procedures are to outsiders.

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What steps do you think you need to take to make your financial transactions more transparent to others? And, more accountable to your supporters?

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Overview

This manual is designed to provide basic financial management information for NGO/CBOs striving to achieve sustainability. Here is a brief summary of what you can expect to find in each of the following chapters.

Chapter 2
Financial records and reporting for NGO/CBOs highlights not-for-profit accounting and identifies the basic financial records, internal controls, and reports that an NGO/CBO should maintain.

Chapter 3
Annual revenue and expense operating budget includes areas of resources for NGO/CBOs including contracts, donations, grants, endowments, fees for service, and commercial or income-generating activities. The development of a budget is presented with sample forms and questions that should be asked by the director and the policy making board of the NGO/CBO.

Chapter 4
Cash flow budget highlights the basic process of developing a cash budget, an essential part of the day-to-day operations of the NGO/CBO.

Chapter 5
Financial administration provides guidelines for monitoring the use of internal controls within the organisation. Information is provided on estimating, collecting, and depositing revenues, essential elements for building a strong resource foundation for sustainability. It also includes information on purchasing, managing store operations, and other methods of controlling costs.

Chapter 6
Financial oversight explains the use and need for internal and external audits and ties the financial management framework together by explaining the importance of implementing policies for each area.

Note: Three types of NGO/CBO organisations will be used throughout the manual to illustrate the financial management concepts, strategies and practices covered in the text. These are health organisations, property or housing management, and cooperatives providing agricultural supplies. While these activities do not encompass the broad spectrum of NGO/CBO engagement around the world, they should provide an adequate frame of reference for understanding the concepts, strategies and systems that will be discussed.

Accounting options

At the heart of financial management is the accounting system. NGO/CBOs may choose to perform their accounting or bookkeeping themselves or to contract with an accounting firm. Regardless of who does the accounting, there are certain accounts that must be maintained and balanced, certain procedures that must be done, and certain reports generated, and all of this must occur on a regular basis. We start this in-depth discussion of NGO/CBO financial management principles and practices in Chapter 2 with a look at the accounting system.

Key points

- NGO/CBOs come in many shapes, sizes, and reasons to exist. In spite of this diversity, financial management is a necessity, and effective financial management a requirement if you want to sustain your NGO/CBO and its program over time.

- Sustainability is imperative unless you plan to go out of business.

- Sustainability requires, among other things:
  - Financial systems and procedures
  - General management capacity, and
  - The ability to plan and deliver programs and services your constituents want and need.

- Other important guidance system qualities and strategies include transparency, accountability, effectiveness, and efficiency. Make them a part of your everyday operation.

- At the heart of financial management is accounting. Whatever approach you take to perform this function, in-house or by contract, there are certain accounts, procedures and reports that are essential to effective and creditable financial management.

Endnotes

(1) Core costs are those costs that are essential to the basic operation of the NGO/CBO. Examples are salaries, office space, utilities, and supplies.

CHAPTER 2
FINANCIAL RECORDS AND REPORTING

Accounting is the art of analysing, recording, summarising, evaluating, and interpreting NGO/CBO financial activities and status and communicating the results. A fundamental purpose of not-for-profit accounting, also called fund accounting, is to disclose how NGO/CBO resources have been acquired and used to accomplish the objectives of the organisation.

> ***Travel Advisory!*** Any discussion of accounting principles and practices is fraught with difficulty and can even be controversial depending on where you are in the world and with whom you are talking. The comments that follow about keeping financial records and reporting your financial condition are based largely on something called fund accounting. It was the NGO/CBO standard in the United States, for example, until about four years ago and may still be used in other countries to prescribe how NGO/CBOs are to keep their financial records and report their financial status. Given these obvious differences in accounting requirements from one country to another, you are urged to consult the legislation and procedures that regulate your financial behaviour as an NGO/CBO. Fund accounting is used as the template for describing a system for NGO/CBOs in this manual because it will be easier for those NGO/CBOs that are small to adopt and operate within. It breaks out certain revenues and expenditures based largely on categories and restrictions. But, the travel advisory is clear: check out what is required by law before adopting fund or any other method of accounting.
>
> There is also another travel advisory message that we need to post at this time. Much of what is covered in this section may be familiar to many readers. If so, great! It means your financial house might be in order. However, we want to reach those NGOs and CBOs that may be struggling with putting together a simple financial record keeping system that can work for them and increase their sustainability.

Basic accounting records for NGO/CBOs

Fund accounting is different from commercial accounting. Its fundamental purpose is fiscal control. A “fund” is a separate and distinct accounting entity established to meet a specific legal or accounting requirement. Each fund receives revenue from different sources and functions as if it were a self-contained business with its own set or chart of accounts and financial reports. The expenses from each fund must be covered by the revenues of that fund. A NGO/CBO may have one or several funds depending upon the types of revenues that they receive.

The following are the normal funds that smaller NGO/CBOs will more often or not use.

Current Unrestricted Fund: This fund is used to account for all unrestricted resources which the policy making body may use as it sees fit. However, expenses must be consistent with the organisation’s charter and bylaws except for unrestricted amounts invested in land, buildings, and equipment that are accounted for in the Land, Buildings, and Equipment Fund. This type of fund is like a *general fund* because it includes all sources of revenue and expenditures that aren’t restricted for one reason or another.

Current Restricted Fund(s): This fund is used to account for restricted resources that are expendable and available for use, but may be used only for operating purposes specified by the donor or grantor.

Land, Buildings and Equipment Fund: This fund is used to account for:

- unexpended restricted resources to be used to acquire or replace land, buildings, or equipment for use in operating the organisation
- land, buildings, and equipment for use in operating the organisation
- mortgages or other liabilities relating to the land, buildings, and equipment used in operations, and
- the net investment in land, buildings, and equipment (or plant).

Larger NGO/CBOs may need additional funds of the following types:

Endowment Fund(s): These funds are used to account for the principal gifts and bequests accepted with donor stipulations that (a) the principal is to be maintained intact in either perpetuity, for a specified period, or until a specified event occurs and (b) only the income on the fund's investments may be expended for general purposes or for purposes specified by the donor.

Grant Fund(s): These funds are used to account for the grants received from granting agencies.

Chart of accounts
Within each fund are accounts [2] such as cash, inventory, accounts payable, user fee revenues, and telephone expenses. Each organisation should have accounts for all of their resources and accounts that show how they use all of those resources. The complete list of all of these accounts is called the "chart of accounts." It is used to track:

- How much money an organisation has (assets)
- How much money it owes (liabilities)
- How much the difference is between what an organisation has and what it owes (fund balance)
- How much money is coming in (revenues), and
- How much money is being spent (expenses).

Two accounting reports are used to show this information so that the director or other interested parties can monitor and determine the financial status of the organisation on a regular basis. The first report is called the Statement of Revenues and Expenses. The second is called the Balance Sheet or the Statement of Financial Position. For profit organisations use the term Statement of Profit and Loss. Examples of these reports are provided later in the chapter.

Where are the accounts recorded?
These accounts can be recorded in a blank accounting book(s) or a computerised accounting system. It is difficult to maintain the records by hand and generate the reports required by external users. Wherever possible, try to use a computerised accounting system. It will provide all of the following journals and automatically post routine transactions such as paying for salaries or utilities. In addition, by using a computerised accounting system, various financial and management reports are designed into the program and can be prepared with the click of a mouse. If accounting records are not kept on a computer, then the following journals (books) should be kept, at a minimum.

Note: It is very easy to keep the accounting records on a laptop computer using a commercial - not fund - accounting package such as Quickbooks or Peachtree. In your country there may also be fund accounting packages which are more appropriate for NGO/CBOs to use.

General journal: This is the simplest type of journal for recording accounting entries. It is used when no special journal (e.g., cash disbursements journal or cash receipts journal) exists for recording the accounting transaction. It has only two columns: one for debits and one for credits.

Cash disbursements journal: Use this to record all payments made in cash such as accounts payable, merchandise purchases, and operating expenses. There are usually separate columns for the date, check number, explanation, accounts credited, accounts debited, accounts payable debit, purchases debit, and other.

Figure 1. Cash disbursements journal

Date	Check no.	Explanation	Accounts credited	Accounts debited	Accounts payable debit	Purchases debit	Other

Cash receipts journal: to record all transactions involving the receipt of cash. Examples are cash sales, receipt of interest and dividend revenue, collections from customer/ client accounts, and cash sale of assets. Typically there are separate columns for the date, explanation, cash debit, sales discount debit, other debit, account credit, accounts receivable credit, and other credits.

Figure 2. Cash receipts journal							
Date	Explanation	Cash debit	Sales discount debit	Other debit	Accounts credited	Accounts receivable credit	Other credits

Revenue accounts

Revenue accounts are used to track the source of the organisation's income. As a director, it is important to know how much money comes in from fees for services rendered versus contributions from fund raising events or contracts from a local government. Pick only those revenue accounts that make sense for your organisation. Revenue accounts appear on a Statement of Revenues and Expenses like the example on the following page.

When deciding which revenue accounts to use or when adding accounts to your current chart of accounts, think about how much detail the program managers need to see to understand where the revenues come from. Also, think about what may need to be listed on any reports that may have to be filed with granting agencies.

Figure 3. Sample revenue accounts	
Sample revenue accounts for a health NGO/CBO:	
Clinic fees	Endowment income
Health fees	Sales of educational materials
Tuition and fees	Donated services
Contributions	Unrestricted gifts and grants
Central government grants	Unrestricted income from endowments
Private grants	Investment income
Contracts	

Expenses

Expense accounts track what the organisation is spending. Don't hesitate to break out your expenses into as many accounts or categories as you think are needed to track the money leaving your organisation. This detailed breakdown makes future planning and budgeting much easier.

Revenue and expense account balances accumulate over one year. At the beginning of a fiscal year, accounting reports show revenue and expense account balances starting back at zero. This allows the director to compare how much the organisation made and spent on specific items this year to how much it made and spent on those items last year. A Statement of Revenues and Expenses is used to make this kind of comparison.

Figure 4. Sample expense accounts	
Sample expense accounts:	
Salaries	Telephone
Employee health and retirement benefits	Postage and shipping
Payroll taxes	Occupancy (rental of office space)
Professional fees	Rental of medical equipment
Contract service payments	Conferences, conventions, meetings
Advertising	Printing and publications
Bank charges	Awards and grants
Interest on loans	Miscellaneous expenses
Office supplies	Depreciation expense
Medical supplies	

Statement of revenues and expenses

The Statement of Revenues and Expenses may have monthly and year-to-date numbers appearing on it. It would look like this:

Figure 5. Statement of revenues and expenses		
Any Organisation, Statement of Revenues and Expenses, as of June 30, 2000		
	June 1–30, 2000	Jan 1–June 30, 2000
Support and revenues		
Grant from XYZ Foundation	5,000	30,000
Grant from Central Government	0	12,400
Program Service Fees	0	22,000
Total Support and Revenue	**5,000**	**64,400**
Expenses		
Payroll Expense	1,500	43,500
Office Supplies	1,000	2,985
Program Supplies	0	8,350
Utilities	600	5,400
Total Expenses	**3,100**	**60,235**
Other Revenues or Expenses	0	0
Excess of revenues over expenses	1,900	4,165

Many managers believe the most helpful statement is the one that provides the current month and year-to-date comparisons as well as a comparison to the previous year. Following is an example of this statement.

Figure 6. Statement of Revenues and Expenses				
Any Organisation, Statement of Revenue and Expenses, as of June 30, 2000				
	June 1 - 30, 2000	June 1 - 30, 1999	Jan 1 - June 30, 2000	Jan 1 - June 30, 1999
Revenues				
Grant from XYZ Foundation	5,000	6,850	30,000	25,450
Grant from Central Government	0	0	12,400	11,000
Program Service Fees	0	0	22,000	20,000
Total Revenues	**5,000**	**6,850**	**64,400**	**56,450**
Expenses				
Payroll Expense	1,500	1,450	43,500	40,000
Office Supplies	1,000	575	2,985	2,885
Printing	0	750	0	750
Program Supplies	0	250	8,350	9,200
Postage	0	225	0	350
Utilities	600	580	5,400	5,000
Total Expenses	**3,100**	**3,830**	**60,235**	**58,185**
Other Revenues or Expenses	0	0	0	0
Excess (deficit) of revenues over expenses	1,900	3,020	4,165	(1,735)

Reflection

You've had an opportunity to look at some basic accounting structures. No doubt you were thinking about those you are currently using in your own NGO/CBO and making mental comparisons. Based on what you have been reading, jot down in the space below some changes you might want to make in your own accounting process that would help you improve your sustainability as an organisation. You might also want to indicate why these changes would help.

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Balance sheet accounts

Revenue and expense accounts track the sources of organisational income or revenues and the purpose of each expense. When a transaction is recorded in one of the balance sheet accounts, then the accountant usually assigns the amount of the transaction to one or more revenue or expense accounts. For example, the accountant not only must record that cash has been paid out of the checking account or balance sheet account, but must also keep track of what the organisation spent the money on: utilities or office supplies (expense accounts).

As described above, the balance sheet identifies what the organisation owns and what it owes. It does not "zero" out at the end of the fiscal year. It is like a "picture" of the financial status of the organisation on any one day. Balance Sheet accounts fall into three categories: assets, liabilities, and fund balance.

Balance Sheet Equation **Assets – Liabilities = Fund Balance**	
Assets	how much cash, inventory, property, or equipment an organisation has or what it owns
Liabilities	how much the NGO/CBO owes on the property or equipment or what it owes
Fund Balance	how much money, property, or equipment that the organisation owns with no claims against it

Asset accounts

These accounts reflect items that an organisation owns. Examples are:

Current assets (will use or receive in the next year)

- Cash on hand
- Money in checking or savings accounts
- Money the organisation is owed for services that the organisation has provided, or items that have been sold (accounts receivable)
- Money that the organisation has loaned to other organisations or persons

Land, buildings, and equipment

- Furniture and fixtures
- Equipment
- Property such as buildings or land
- Un-expired supplies

Liability accounts

Current Liabilities (will pay off in one year)

- Accounts payable

- Credit cards

Long-term Liabilities (will pay off over several years)

- Loans for equipment, vehicles, or land
- Mortgage on property

Fund balance accounts

Since the fund balance is an amount that has no claims against it, it can be sub-divided into several accounts. Examples:

- Unreserved
- Unreserved, designated (set aside) for some specific purpose
- Reserved

The following chart provides definitions and more information on the balance sheet accounts:

Figure 7. Sample balance sheet accounts

Sample accounts	
Account types	Used to track
Assets	
Bank account	Transactions in checking, savings, and money market accounts. Add one bank account for each account your organisation has at a bank or other financial institution.
Accounts Receivable (A/R)	Transactions between you and your customers/ clients including invoices, payments from customers/ clients, deposits of customer/ clients' payments, refunds, and credit memos.
Other current asset	Assets that are likely to be converted to cash or used up within one year such as petty cash, the value of an inventory on hand, notes receivable due within a year, prepaid expenses, and security deposits.
Fixed asset	Long-term notes receivable and depreciable assets your organisation owns that are not liquid and not likely to be converted into cash within a year, such as equipment, furniture, land, or a building.
Liabilities	
Accounts payable (A/P)	Your organisation's outstanding bills.
Credit card	Credit card transactions.
Current liability	Liabilities that are scheduled to be paid within one year such as sales tax, payroll taxes, accrued or deferred salaries, and short-term loans. Some organisations include the current portion of long-term liabilities in this kind of account.
Long-term liability	Liabilities such as loans or mortgages scheduled to be paid over periods longer than one year.
Fund Equity	
Fund Balance - Reserved	Segregation of a portion of fund balance for any items that may be legally restricted and set aside from "funds available for spending."
Unreserved Fund Balance - Designated	Segregation of a portion of fund balance to indicate tentative plans for financial resource utilisation in a future period such as general contingencies or for equipment replacement. Such designations reflect tentative managerial plans or intent and should be clearly distinguished from reserves. Designated portions of fund balance represent financial resources available to finance expenses other than those tentatively planned.
Unreserved Fund Balance	The excess of current assets over current liabilities.

Sample balance sheet

The Balance Sheet shows the balance in each balance sheet account with subtotals for assets, liabilities, and fund balance. The balance sheet gets its name from the fact that the sum of the assets equals the sum of the liabilities plus equities; the totals "balance." Following is an example of a balance sheet from the same day as the Statement of Revenues and Expenses and Changes [3] given above. It indicates the resources the organisation owns or has and what it owes.

> This is a Balance Sheet for the Unrestricted Fund. It represents all of the assets (money, property, etc.) that a NGO/CBO owns and any claims (liabilities) against those assets.
>
> It identifies the Fund Balance at the beginning of the year and includes any addition or subtractions from the operations of the current year.
>
> The number for the result of operations for the year is any Excess of Revenues over Expenses from the Statement of Revenues and Expenses as of September 30, 2000.
>
> This Excess of Revenues over Expenses number is the same as the number from the Statement of Revenues and Expenses generated on the same day - September 30, 2000. See the next page for how the Statement of Revenues, Expenses and Fund Balance flows into the Balance Sheet.

Figure 8. Balance Sheet Unrestricted Fund

Any Organisation, Balance Sheet, Unrestricted Fund, as of September 30, 2000		
	Sept. 30, 2000	Sept 30, 1999
ASSETS		
Current Assets		
Cash	6,250	5,000
Notes and Accounts Receivable	0	2,000
Inventories	1,500	1,000
Total Current Assets	**7,750**	**8,000**
Property, Land and Equipment		
Land	25,000	25,000
Buildings, less accumulated depreciation	58,000	60,000
Machinery and Equipment (less accumulated depreciation)	23,000	20,000
Total Property, Land and Equipment	**106,000**	**105,000**
TOTAL ASSETS	113,750	113,000
LIABILITIES & EQUITY		
Liabilities		
Current Liabilities		
Accounts Payable	1,850	1,500
Credit Cards	750	3,250
Payroll Liabilities	1,400	1,200
Total Current Liabilities	**4,000**	**5,950**
Long Term Liabilities		
Truck Loan	8,000	12,000
Total Liabilities	**12,000**	**17,950**
FUND BALANCE		
Undesignated fund balance at beginning of year	85,800	85,000
Excess (Deficit) of Revenues over Expenses	1,190	(1,735)
Total Undesignated Fund Balance	**86,990**	**83,265**
Contribution of land from the local government	14,760	11,785
Total Fund Balance	**101,750**	**95,050**
TOTAL LIABILITIES AND FUND BALANCE	**113,750**	**113,000**

Sample Balance Sheets for a not-for-profit health organisation with several funds.

Organisation	
Balance Sheet Unrestricted Fund September 30, 2000	
ASSETS	
Current Assets	
Cash	6,250
Notes and Accounts Receivable	0
Inventories	1,500
Total Current Assets	**7,750**
Property, Land and Equipment	
Land	25,000
Buildings less accumulated depreciation	58,000
Machinery and Equipment less accumulated depreciation	23,000
Total Property, Land and Equipment	106,000
TOTAL ASSETS	**113,750**
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	1,850
Credit Cards	750
Payroll Liabilities	1,400
Total Current Liabilities	4,000
Long Term Liabilities	
Truck Loan	8,000
Total Liabilities	12,000
FUND BALANCE	
Undesignated fund balance at beginning of year	85,800
Excess of Revenues over Expenses	1,190
Total Undesignated Fund Balance	**86,990**
Contribution of land from the local government	14,760
Total Fund Balance	101,750
TOTAL LIABILITIES AND FUND BALANCE	113,750
Note: Since the Balance Sheet is for the Unrestricted Fund, only the Excess of Revenues over Expenses (1,190) for the Unrestricted Fund is moved over to the Balance Sheet.	

Organisation			
Statement of Revenues and Expenses and Changes in Fund Balance, as of September 30, 2000			
	Unrestricted Fund	**Restricted Fund**	**Total**
Revenues			
Clinic fees	1,000	0	1,000
Public contributions	1,200	0	1,200
Tuition fees	50	100	150
Central government contributions	400	350	750
Contracts	75	20	95
Donated services	60	0	60
Sales of educational materials	800	0	800
Total Support and Revenues	**3,585**	**470**	**4,055**
Expenses			
Medical supplies	500	40	540
Contract service payments	600	250	850
Professional fees	100	0	100
Telephone, fax, long distance	50	0	50
Office supplies	40	0	40
Postage and shipping	70	20	90
Rental of medical equipment	80	0	80
Printing and publications	0	60	60
Rental of office space	90	0	90
Utilities	40	0	40
Postage and shipping	60	0	60
Advertising	5	0	5
Salaries	760	0	760
Awards and Grants	0	30	30
Total Expenses	**2395**	**400**	**2795**
Excess of Revenues over Expenses	1190	70	1260
Undesignated fund balance at beginning of year	85,800		
Total Undesignated Fund Balance	**86,900**		

Figure 9. Sample balance sheets of an NGO/CBO with several funds Voluntary Health and Welfare Service, Balance Sheets, December 31, 2001 and 2002					
Assets	**20x1**	**20x2**	**Liabilities and fund balance**	**20x1**	**20x2**
Unrestricted Fund					
Cash	2,207	2,530	Accounts payable	148	139
Investments	3,802	3,195	Research grants payable	596	616
Pledges	475	363	Contributions designated for future periods	245	219
Inventories of educational materials, at cost	70	61	Total liabilities and deferred revenues	989	974
Accrued interest, other receivables, and prepaid expenses	286	186			
			Fund balances:		
			Designated by the governing board for:		
			Long-term investments	2,800	2,300
			Purchases of new equipment	100	0
			Research purposes	1,152	1,748
			Undesignated, available for general activities	1,799	1,313
			Total fund balance	5,851	5,361
Total	**6,842**	**6,335**	**Total**	**6,842**	**6,335**
Restricted					
Cash	3	5	Fund balances:		
Investments	71	72	Professional education	84	0
Grants Receivable	58	46	Research grants	48	123
Total	**132**	**123**	**Total**	**132**	**123**
Land, Building, and Equipment Fund					
Cash	3	2	Mortgage payable, 8% due 20xx	32	36
Investments	177	145			
Pledges	32	25	Fund balances:		
Land, buildings, and equipment at cost less accumulated depreciation of 296 and 262	516	513	Expended	484	477
			Unexpended - restricted	212	172
			Total fund balance	696	649
Total	**728**	**685**	**Total**	**728**	**685**
Endowment Funds					
Cash	4	10	Fund balance	1,948	2,017
Investments	1,944	2,007			
Total	**1,948**	**2,017**	**Total**	**1,948**	**2,017**

Financial reporting

There are two groups of people who use accounting reports, one inside the organisation and the other outside the organisation. The accounting systems and procedures we have been discussing are designed to help you not only to maintain financial sustainability but to communicate more clearly to others your fiscal status at any given time. This is an important factor in assuring others that you are operating your NGO/CBO professionally and responsibly, that you are accountable. The following is a brief look at various reporting opportunities that are available when you operate with effective and efficient accounting systems and procedures.

Internal users

Members of your NGO/CBO staff who are responsible for planning, organising, operating, and evaluating specific programs and activities of the organisation should be familiar with the accounting processes and trained to use financial reports as planning and operating tools. Not only are they valuable in controlling on-going costs, they are essential when the staff sits down to prepare forecasts and budgets for the next financial period.

External users
NGO/CBOs exist in a world that demands their scrutiny. Because of what you do as an NGO/CBO, who you serve in the community, and how you garner your resources, there are individuals, businesses, and interest groups that have an interest in the financial activities of the organisation. Depending on what you do and who contributes to what you do, these might include grant agencies, creditors (banks and lenders), investors, suppliers, contractors, and others. The more successful you are, the more individuals and organisations you will find yourself accountable to. These users will want to see the Balance Sheet and the Statement of Revenues, Expenses and Changes in Fund Balance.

Financial reports prepared by the NGO/CBO in accordance with grant or national accounting standards provide a common understanding and basis of comparison to other NGO/CBOs and other agencies. This provides others with a clear picture and understanding of your financial condition.

By providing reports on a consistent and timely basis, NGO/CBOs can develop and sustain a "trust" relationship with external users. This may be essential for getting additional funding from granting agencies, central governments, or other organisations.

Compliance reporting
Compliance reporting involves any specific reports in a predetermined format that a granting agency or the central government may require. These reports are used to "prove" to the overseeing agency that monies have been spent in compliance with written agreements. When setting up the chart of accounts for a fund, it is important to review any agreements to identify any required reporting.

Financial records, reports and the annual budget
The Statement of Revenue and Expenses and the Balance Sheet are statements of what revenues have actually been received and what expenses have been paid. Now we turn to the planning process, which is the preparation of an estimate of revenues and expenses for the forthcoming fiscal year - the annual budget.

Reflection time again!
We've described four important reasons why you should have good financial records: internal and external reporting, meeting compliance requirements from other organisations, and forward planning and budgeting. Rate your organisation in terms of its use of financial records to accomplish these goals. A = excellent; B = good; C = fair; D = poor. After rating your assessment in each case, record one thing you could do to improve your score.

- My staff and I are able to make sound, daily operational decisions based on our current financial situation as provided by our accounting system and procedures. Score! (___)

  ____

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- My staff and I are able to use our financial statements effectively to promote our organisation to the outside world to: compete for contracts; get grants and contributions; increase the credibility of our organisation; and achieve other worthy goals. Score! (___)

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- My staff and I are able to meet the financial compliance obligations of other agencies and organisations to their complete satisfaction in regard to time requirements and financial information. Score! (___)

  ____

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- Our past and current financial records are invaluable when it comes to creating long-term plans and preparing our annual budget. Score! (___)

  ____

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Key points

- Accounting is the art of analysing, recording, summarising, evaluating and interpreting an NGO/CBOs financial activities and status, and communicating the results.

- There are many different accounting choices available to NGO/CBOs. Finding one that is within your organisation's capacity to operate it, meets all the external requirements for reporting, and provides on-going and accurate information and data for making quality decisions is the key to financial management.

- For small NGO/CBOs with a limited capability to manage their financial transactions, fund accounting may be the best alternative.

- The more detailed your chart of accounts, the more effective will be your ability to make sound financial decisions.

- Effective financial reports will keep your staff informed, the outside world aware of your financial well-being, the auditors of funding organisations happy, and your budget and planning activities enviable paradigms of enlightened self-interest.

Travel advisory! Before we move on to explore the various programs and management processes the accounting system is designed to support, we want to remind you again that certain accounting standards and practices may vary from country to country. While we are confident that all of you are aware of what is expected of you in your particular financial operating domain, we decided to say it anyway.

Endnotes

(2) Accounts are the way accountants keep a record of the increases, decreases, and the balance of an item like cash, inventory, or telephone expense. These increases and decreases may also be called *debits and *credits. Balances for each account are contained in ledgers or the books for the accounting records.

(3) The only difference between a Statement of Revenues and Expenses and a Statement of Revenues, Expenses and Changes in Fund Balance is that Fund Balance information is added.

CHAPTER 3
ANNUAL OPERATING BUDGET: RECONCILING REVENUES AND EXPENSES

The second most important financial tool for managing your NGO/CBO is the *annual operating budget*. In case you slept through Chapter 1, let us remind you that the accounting system is the foundation upon which you build your financial management program. It provides the mechanisms to perform a wide range of financial management activities.

Before delving into the budget process it might be helpful to remind everyone that NGO/CBO budgets are financial plans to be managed, not documents to be revered. In the uncertain world that most small, local NGO/CBOs operate, the budget document is a necessary navigational tool, but course corrections may be essential before the budget calendar runs its course. The budget is your best judgement about what revenues you have available or can expect to generate during the budget cycle and how you plan to allocate them to achieve your organisation's goals.

There are also many ways to prepare a budget: line-item budgets, performance budgets, program budgets, zero-based budgets, and more. We plan to keep this discussion as uncomplicated as possible and talk about a form of line-item budget based in part on the fund approach to accounting. Given the diversity of the NGO/CBO audience, this seems like the most useful approach although not the best in terms of overall management.

To understand the overall budget process, the following six-step framework is suggested for your consideration. Since the NGO/CBO community is so diverse in size and character, these steps may need to be compressed or rearranged to meet your needs and circumstances. More about these options after we look at the steps.

Step 1: Organise the process

Step 2: Identifying revenue sources and preparing estimates

Step 3: Prepare program requests

Step 4: Director reviews revenue estimates and requests

Step 5: Policy makers review proposed operating budget

Step 6: Budget approval and monitoring

Note: *These steps make some fundamental assumptions that may be beyond the experience of many small, local NGO/CBOs. For example, it assumes a staff to delegate financial planning tasks to even if it's only one person, and a policy board of some kind to pass official judgement on your budget plans. If you are a one-person organisation and operate without the benefit of an advisory or governing board of some kind, you may want to carry out these tasks with a professional colleague who operates a similar type organisation.*

At first glance, it may seem the process we are describing is for larger NGO/CBOs only. Not so. Even if your NGO/CBO has only one staff person - you - there will still be the need to estimate revenues and expenses to determine if your NGO/CBO can financially continue to exist. In other words, operating financially from day to day is not an option if you want to survive. Even if you do not use the sample forms provided, the explanations given with the forms should be helpful to the small NGO/CBO that has a minimum amount of time for budget preparation.

We strongly encourage you to use computers in this process if at all possible. The budget forms and even the estimates can be done in Microsoft Office (Word and Excel) which is globally available.

Step 1. Organise the process
Establish a budget calendar with specific due dates for each of the following steps. Start in enough time before the beginning of the fiscal year [(4)] so that there is adequate time for estimation and review. Collect all the documents you will need to prepare your budget and alert your staff to the process.

Step 2. Identifying revenue sources and preparing estimates

The revenue part of the budget for many NGO/CBOs is problematic. It is a two-part process: identifying sources and estimating what you might expect from these various sources. If you are like most NGO/CBOs you are probably on a constant search for funds to keep your organisation afloat. Given this probability, we will spend considerable time looking at various sources of funding that might be within your sphere of influence and persuasion. After this discussion we will look at ways to estimate how much revenue you will have to work with in the coming budget cycle.

Donations or fundraising

Fund raising requires skills and experience in marketing your ideas and organisation within the community or sphere of influence and creating new ways to get the public to support your efforts. Since each culture has its own unique way of raising funds for community projects and organisations, it is difficult to be specific about what might work best in your environment. Rather than suggest specific activities to raise needed funds, like organising cultural events or door to door campaigns, here are a few strategic ideas about how to get organised to tap this part of your revenue base.

- Be able to state why you need support in a clear and convincing way. What makes your organisation and mission different from others who are also looking for funding from many of the same sources? Be prepared to state these differences.

- Make a list of those who will benefit most from your programs and those who are most likely to support your efforts to serve these constituents. As you can see, the list is two fold: those you will serve and those who would like to help you to serve these individuals or groups.

- Seek out a diversity of supporters, both in terms of size of contributions and types of contributors, what the marketing specialists call *markets*. You want to develop a base of individual donors who believe in your cause and can provide support over time. One-time contributors are important but it means you need to contact them each year to solicit their contributions. Most NGO/CBOs do not have this time luxury.

- Look for some community leaders who can be the champions of your cause. This is where boards of advisors, directors, or whatever you decide to call them can be enormously useful to your organisation.

- Recognise your strengths as a program and organisation and use them to your advantage when you go after funds from the community. For example, is your mission compelling? Are you dedicated to bringing about needed and desirable change? Are you known for being innovative, entrepreneurial, more efficient than others, grassroots-oriented, or by any other quality that makes your NGO/CBO stand out from the others?

- Recognise that fundraising is a cost of doing NGO/CBO business. This means you need to budget your staff's time and other organisation resources to carry out the fundraising tasks.

- Finally, think of "funds" in non-monetary terms. Revenue is the medium for getting things done. The time and talent of volunteers and the donation of equipment, goods, or other commodities are often more valuable than cash contributions so think expansively when going after donations from the community.

Fees for services

Charging "consumers" or clients for using the program is a common way of generating revenues. It should be noted, however, that there are arguments on both sides of this practice. Advocates of user fees and charges justify their utilisation on the grounds that:

- People appreciate things more if they are required to pay for them.

- Persons benefiting from the use of programs should share in the expense of furnishing the program.

- A small charge can support increases in the level of services rendered and can make possible the enrichment of programs.

Opponents of user fees and charges claim that:

- Those who need and use NGO/CBO programs the most do not have money to pay for services.

- Services provided by NGO/CBOs are a service primarily for those most in need and should be provided free of charge.

In health care-type NGO/CBOs, for example, user fees can include registration fees, consultation charges, fees for drugs and laboratory services, and a daily bed charge if in-patient care is provided. NGO/CBOs that have pre-payment [(5)] plans often charge small co-payments for clinic visits or drugs. Some organisations with insurance plans charge non-members commercial rates for services and drugs. Preventive care services, many times, are provided free-of-charge.

The sale of drugs at a profit, as well as ancillary services such as laboratory services and diagnostic centres, are a means by which many health NGO/CBOs generate funds to subsidise preventive health care and other services for poor patients.

A word of caution about offering pre-payment plans. Many times this revenue source is not very successful as a means of raising revenues, and membership fees often bring in a relatively small proportion of total income. If membership fees are based on a sliding scale according to ability to pay, the majority who join tend to be the poorest. Another common reason for the lack of success of these programs is that many do not require a waiting period before joining, and thus people tend to join only when they are ill.

Grants
Grants are financial awards made by a funding agency to support a project or program that has usually been sought through a proposal or application. The three primary sources of grants are governments, foundations, and corporations.

Government grants. These can include different levels of government, such as the central government of a country, a city, or some other intermediate level of government. Grants from governments are usually awarded on a competitive basis. The organisation seeking a grant submits a proposal or application to the grantor government. It is then customary for evaluation of the proposal and determination of the approval for funding to be guided by a predetermined rating system. Law usually sets the overall purpose of government grants, and grantor governments tend to award grants for projects that address needs as the grantor perceives them. The proposals required are often lengthy and complicated and must conform with established due dates for submission. The dilemma with many grant opportunities is the amount of time required to write proposals and the fierce competition that often exists for government or donor organisation grants.

Local and national governments constitute an important source of funding for many NGO/CBOs in developing countries. Government support can range from in-kind donations to tax exemptions to various kinds of direct financial support, and it is not uncommon for an NGO/CBO to receive several types of government support at the same time.

Foundations. These organisations are in the business of making grants. Foundations are more likely to focus on emerging issues and needs. They usually do not require or even want to see lengthy proposals, and they often do not have much staff to provide assistance or even feedback on grant applications and inquiries from applicants. Finally, it is more difficult to find information on foundations and the projects they are prepared to support. There are five types of foundations:

National or international general purpose foundations. These foundations have a prescribed scope and pattern of grant giving. They generally have a large amount of money to grant. They tend to have multiple interests, but particularly in projects that have high potential for broad impact. They also tend to fund projects they view as innovative.

National or international special purpose foundations. These are foundations that have historically given funds to projects in a specific service area, such as infrastructure, the environment, health, ageing, etc.

Family foundations. A board consisting of members of a philanthropic family often directs them, and their giving patterns usually follow the personal interests of the family. These priorities can change periodically, and a connection with a family member or friend can be particularly advantageous in seeking a grant from a foundation of this type.

Corporate. While corporations can and do make grants, some corporations structure their giving through a foundation to co-ordinate and stabilise their philanthropic activities. This practice makes corporations less vulnerable to yearly profits or losses. Corporate foundations tend to award grants in communities or regions where they have a facility or a special interest. Accordingly, they tend to target projects that can have a positive impact on the corporation’s employees or on the local economy of the town or region in which they are located.

Community foundations. These foundations are usually created out of the concern of public-spirited citizens and exist to deal with local needs. They are most likely to fund projects that address pressing local needs in an innovative way. NGO/CBOs in communities without community foundations can be instrumental in their formation by inviting community leaders, wealthy citizens, and business leaders to agree to discuss the concept.

> ***Travel Alert!*** Check around to see if someone is publishing a list of various types of foundations that operate in your country or region. They tend to be fairly common, often published by an umbrella NGO, and good sources of information and inspiration. If you don't find such a resource, think about creating such a list, selling it and making it a yearly venture.

Corporations. Corporations tend to give money to projects that they perceive as an investment in their own present or future interests. For example, corporations may give grants to projects that enhance the quality of life in the area such as supporting the arts, medical institutions, schools, and universities. In so doing, they enhance the appeal of the community environment as an interesting place to live, a plus when recruiting new employees and in retaining existing ones. Private corporations will also give money to projects that cause the corporation to be perceived by the community as a contributor to a better quality of life. For this reason, projects with high publicity value as public image builders for the corporation will be appealing investments for corporate funds.

Government contracts

Sometimes an NGO/CBO can take over a function currently performed by government or establish a program the government wants but doesn't want to operate directly. In this case, the government would pay a certain amount of money to the NGO/CBO for the NGO/CBO to provide the service. For example, in some countries, NGO/CBO-run hospitals have been designated by national governments as district hospitals responsible for providing hospital services for the entire district for which the NGO/CBO receives grants, subsidies, and other support from the government. The types of services that governments agree to contract to NGO/CBOs vary significantly from country to country and even from region to region within a country.

Endowments

An endowment is essentially a sum of money that is invested to generate income. There are different types of endowments: those that restrict the organisation to spending interest income and never touching the principal, and those called term or wasting endowments which allow spending of the principal with certain restrictions, usually a maximum percentage each year or only after a set period of time. Endowments can be restricted, in which case generated income can only be used for specified purposes such as service delivery, or unrestricted.

As government and donor funding for NGO/CBOs becomes less certain, the idea of setting up endowments as a steady source of income has become more popular among NGO/CBOs and donors. Sources of endowments include international foundations, bilateral government agencies, and private individuals.

Income-generating activities

Although donations, contributions, fund raising, user fees, and membership dues constitute by far the largest sources of community financing for NGO/CBOs, a number of organisations supplement their income with income-generating activities. For example, NGO/CBOs sometimes generate revenues by providing technical assistance, training, and research services to other NGO/CBOs, private employers, and governments.

> ***Travel Advisory!*** Engaging in commercial ventures as an NGO or CBO is one of those *good news-bad news* possibilities. First, the bad news: It may jeopardise your taxstatus, annoy your donors, and become so attractive that you move away from your initial mission of serving a disadvantaged constituency. You might also need to set up a separate accounting process to assure that the funds are managed separately. Since, presumably, you are engaging in such commercial activities to support your non-profit activities, you need to establish a procedure for transferring profits and to keep it transparent.
>
> The good news: Creating a separate commercial organisation provides an element of freedom in the way your organisation operates and hopefully provides opportunities to fund other endeavours. For example, you might want to use your profits to establish a micro-credit program for CBOs.

Reflection

As you can see, there are many potential sources of revenue to tap as an NGO/CBO. Before moving on, take a moment and ponder them in terms of your own organisation's strategy for generating revenue and other means of direct support that increases your sustainability factor. In the following space record your main revenue sources and the percentage that each represents in your current operating budget.

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Now, review the many ideas presented above, jot down those potential sources you aren't currently pursuing and put together a game plan to increase your potential funding base based on new thinking.

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Estimating revenues

The other part of the revenue challenge is to estimate how much of your revenue will come from what sources over the next fiscal year. Your best source of wisdom to complete this task will be your experience of funding your organisation over the last several years. The amount of revenues collected from a given source for a five-year period provides a good starting point for estimating revenues. Using five years' data, if you have such a history, provides an overall picture of behaviour for several years, showing seasonal fluctuations and extraordinary changes. It provides a good picture of the normal growth pattern of the revenue source.

Once this information is gathered, the question is, "What should I do to arrive at accurate revenue estimates for each source of revenue for the budget year?" The answer is not simple. The ability to accurately estimate revenues comes with experience, and even after several years of experience, the estimations may not always be completely reliable.

One must look at the historical records for trends in the past, consider program changes, economic indicators, advice of others, and then decide on a number that represents as closely as possible the expected revenue from that source for the coming budget year. Historical trends, tempered with knowledge of the programs provided by your NGO/CBO, will usually be the most reliable source. However, the estimation of revenues is not entirely objective and depends in large part on accurate guessing.

The question then arises, "If it is not possible to arrive at a concrete estimate of revenues for the coming year, doesn't my organisation run the risk of spending more than it receives?" This possibility, unfortunately, plagues most NGO/CBOs. That is why monthly monitoring of actual collected revenues, as compared to anticipated revenues, and actual expenses as compared to actual collected revenues, is so important. Given this reality in the life of most NGO/CBOs, it is vital be very conservative in estimating revenues.

In the process of estimating revenues, one should always be pessimistic. If the historical trends indicate that revenues may be one of two numbers, the lesser amount should be used. In addition, if it appears in the course of the fiscal year that the expected revenues will be less than the amount budgeted, the director should modify expenses accordingly.

Introduction to the revenue estimate worksheet (Form A)

The Revenue Estimate Worksheet (used in forms A, B, and C) is provided as an aid for estimating revenues. Information has been provided in an attempt to simulate the point where you would usually start using this form—about two months before the end of the fiscal year.

The upper half of the form gives historical and informational data for the past 4 years, along with the percentage growth.

The lower half of the form provides a table where monthly collections are shown. The percentage of the total revenue source collected each month is a guide for anticipating income. It is important to consider the timing of income to ensure that money is available when needed. An NGO/CBO that relies heavily on revenues that will not be received until mid-fiscal year should wait until then to make major purchases such as equipment. An NGO/CBO whose income is steady throughout the year need not wait to make major purchases, but should stagger them throughout the year.

The following are explanations of the terms found on the form:

Revenue source – designates the revenue on which this form will provide information.

Accounting code – this is a numerical system for standardised accounting codes.

Fiscal year – this column allows for four years of previous history, an estimate for the current year, and a projection for the budget year.

Amount received – this column reflects the rounded dollar amount actually received for each of the stated years and provides places for the current year estimate and the budget year projection.

% Change from previous fiscal year – this column is used to compute the percentage growth from year to year. It is computed as follows:

15,000 - 10,000 / 10,000 = 50.00%
18,754 - 15,000 / 15,000 = 25.03%
24,000 - 18,754 / 18,754 = 27.97%

Changes, Adjusted % Change, Adjusted Change and Explanation - these columns are completed if there is an increase or decrease in the revenue source. It is important to record any changes on this sheet so that they will be available for future explanations and forecasting.

The lower half of the form provides space for monthly receipts for the last four years along with the current year estimate and the budget year projection. Monthly receipts are filled in based on historical records. For example, the percentage is computed as follows using the FY 98-99 the months of July, August, and September:

Monthly income / Total income for the year
1,440 / 24,000 = 6.00%
1,670 / 24,000 = 6.96%
1,200 / 24,000 = 5.00%

FORM A: REVENUE ESTIMATE WORKSHEET

Revenue Source: Health clinic fees **Accounting Code**: 313

Fiscal Year	Amount Received	% Change From Previous FY	Changes	Adjusted % Change	Explanation
95-96	$10,000	N/A			
96-97	15,000	50%	Yes, a fee increase from $5 per visit to $6.25 per visit.	25%	Percentage growth is calculated differently when a user fee change has been made. In 95-96, $10,000 was collected based on a $5 per client fee. In 96-97 the user fee was increased 25% to $6.25 per client. Client numbers fluctuate from year to year.
97-98	18,754	25.03%			
98-99	24,000	27.97%			
99-00 (est)					
00-01 (proj)					

Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	Total
FY 95-96 % of Total	600 6.00%	700 7.00%	500 5.00%	700 7.00%	700 7.00%	700 7.00%	1,000 10.00%	1,500 15.00%	1,100 11.00%	900 9.00%	800 8.00%	800 8.00%	10,000 100%
FY 96-97 % of Total	950 6.33%	1,000 6.67%	750 5.00%	1,050 7.00%	1,100 7.33%	1,000 6.67%	1,500 10.00%	2,250 15.00%	1,650 11.00%	1,350 9.00%	1,225 8.17%	1,175 7.83%	15,000 100%
FY 97-98 % of Total	1,125 6.00%	1,310 6.99%	940 51.01%	1,305 6.96%	1,315 7.01%	1,325 7.07%	1,885 10.05%	2,813 15.00%	2,063 11.00%	1,688 9.00%	1,505 8.02%	1,480 7.89%	18,754 100.00%
FY 98-99 % of Total	1,440 6.00%	1,670 6.96%	1,200 5.00%	1,680 7.00%	1,690 7.04%	1,670 6.96%	2,400 10.00%	3,600 15.00%	2,640 11.00%	2,160 9.00%	1,940 8.08%	1,910 7.96%	24,000 100.00%
FY 99-00	1,872	2,184	1,560	2,140	2,194	2,104	3,120	4,680	3,432	2,808	**?**	**?**	26,094
In the following example, we will estimate the last 2 months for FY 99-00													

SOME EXAMPLES OF HOW TO USE THE DATA FROM THE PRECEDING CHARTS TO ESTIMATE FUTURE REVENUES (FORM B) - OPTION 1

A. Percentage (%) of total annual revenue collected in May of the last 4 years:
FY 95-96 = 8.00% FY 96-97 = 8.17%
FY 97-98 = 8.02% FY 98-99 = 8.08%
Consistently, 8% of total revenues have been collected in May.

B. Look at the percentage growth of total revenues for the last 3 years:
96-97 = 50% (.5) or 25% (.25) adjusted
97-98 = 25.03% (.2503)
98-99 = 27.97% (.2797)
Revenues have consistently grown by 25% for the last 3 years. 98-99 growth was a little more.

C. What would 25% and 27% growth above the 98-99 total be?
$24,000 x 125% = 30,000
$24,000 x 127% = 30,480

D. What is 8% of 30,000 and 30,480?
$30,000 x 8% (.08) = 2400
$30,480 x 9% (.09) = 2743

E. How much revenue has been collected so far in FY 99-00?
1,872 + 2,184 + 1,560 + 2,140 + 2,194 + 2,104 + 3,120 + 4,680 + 3,432 + 2,808 = $26,094.

How much revenue collected as of April 30, 1999?
1,440 + 1,670 +1,200+1,680+1,690+1,670+2,400+3,600+2,640+2,160 = $20,150.

F. What % is $20,150 of the total of 24,000?
20,150 / 24,000 = 83.95% or 84%
If anticipated total revenues for FY 99-00 is either 30,000 or 30,480; has 84% of the revenue been collected?

REMEMBER:
FY 99-00 20,150 / 24,000 = 84%
26,094 / 30,000 = 87%

26,094 / 30,480 = 88%

Since both ratios are higher than the 84%, this means that revenues are on target for being at least a 25% growth over the 24,000 collected in 98-99. Since the growth is even better, the estimate of 30,480 can be used.

G. Therefore, one could use Step D's larger number of $2,743 as the estimate for May.

H. The same calculation procedure is repeated for the month of June OR one could add 26,094 + 2,743 and subtract from the estimate of 30,480. This would make 1,643 the estimate for the month of June.

NOTE: After any calculations it is helpful to graph the results to see if it "looks" correct.

Sometimes when the calculations do not provide clear-cut answers, it helps to look at a picture before making that final decision. When looking, consider the following:

- Are there consistent ups and downs?
- By just looking at this graph, what would you expect the months of May and June to do?
- Are either of the answers close to your estimate after looking at the graph?
- If not, you may wish to adjust the monthly figures you use to arrive at the yearly estimate for 99-00.

FORM B: REVENUE ESTIMATE WORKSHEET FOR THE REMAINDER OF THE CURRENT YEAR - OPTION 1

REVENUE SOURCE: HEALTH CLINIC FEES **ACCOUNTING CODE: 313**

Fiscal Year	Amount Received	% Change From Previous FY	Changes	Adjusted % Change	Explanation
95-96	$10,000	N/A			
96-97	15,000	50%	Yes, a fee increase from $5 per visit to $6.25 per visit.	25%	Percentage growth is calculated differently when a user fee change has been made. In 95-96, $10,000 was collected based on a $5 per client fee. In 96-97 the user fee was increased 25% to $6.25 per client. Client numbers fluctuate from year to year.
97-98	18,754	25.03%			
98-99	24,000	27.97%			
99-00 (est)					
00-01 (proj)					

Year	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
FY 95-96	600	700	500	700	700	700	1,000	1,500	1,100	900	800	800	10,000
% of Total	6.00%	7.00%	5.00%	7.00%	7.00%	7.00%	10.00%	15.00%	11.00%	9.00%	8.00%	8.00%	100%
FY 96-97	950	1,000	750	1,050	1,100	1,000	1,500	2,250	1,650	1,350	1,225	1,175	15,000
% of Total	6.33%	6.67%	5.00%	7.00%	7.33%	6.67%	10.00%	15.00%	11.00%	9.00%	8.17%	7.83%	100%
FY 97-98	1,125	1,310	940	1,305	1,315	1,325	1,885	2,813	2,063	1,688	1,505	1,480	18,754
% of Total	6.00%	6.99%	5.01%	6.96%	7.01%	7.07%	10.05%	15.00%	11.00%	9.00%	8.02%	7.89%	100%
FY 98-99	1,440	1,670	1,200	1.680	1,690	1,670	2,400	3,600	2,640	2,160	1,940	1,910	24,000
% of Total	6.00%	7.00%	5.00%	7.00%	7.00%	7.00%	10.00%	15.00%	11.00%	9.00%	8.00%	8.00%	100%
FY 99-00	1,872	2,184	1,560	2,140	2,194	2,104	3,120	4,680	3,432	2,808	2,743	1,643	30,480

ESTIMATING REVENUES FOR THE REMAINDER OF THE CURRENT FISCAL YEAR (FORM B) - OPTION 2

A. Take the month of May's dollar amounts for the last 4 years: 800, 1225, 1505, 1940
Compute the percentage increase from year to year:

1225	-	800 / 800	=	53% (.53)
1505	-	1225 / 1225	=	23% (.23)
1940	-	1505 / 1505	=	29% (.29)

B. Look at the historical comments; the 53% figure should be reduced in half or 26.5 percent. Thus: 26.5%, 23%, 29%.

There was a drop in the monthly income in 97-98. Try to ascertain why it happened and if it could happen again.

C. If the three numbers are averaged: 26.5 + 23 + 29
3 = 26% (.26)

If a moving average which adds more weight to the latter years is used:

26.5 + 23
2 = 24.75 + 29.0
2 = 26.8 or 27% (.27)

D. There are three choices for computing the percentage growth in May of 99-00.
29% - which is what happened last year
26% - the average of the last three years
27% - moving average of the last three years.

Any of the three numbers could be used, but it might be wisest to use the 26%, thus the 1998-99 dollar amount was:

$1,940 x 1.26 = $2,445 for May 1999-00.

Same computations for June:

A. Compute percentage increase over the last 4 years
800 47%
1175 26%
1480 29%
1910

B. Adjust for historical comments on percentages
47 / 2 = 23.5%

C. Calculate the average of the 3 percents
23.5 + 26 + 29
3 = 26%

Calculate the moving average
23.5 + 26
2 = 25 + 29
2 = 27%

D. 3 choices: 29%, 26%, and 27%
Choose 26%
1998-99 June is 1910 x 1.06 = 2407 for June 99-00

E. Is there some reason why the user fee might rise or fall in May or June? If so, adjust accordingly. If there are no adjustments the calculations would be:

99-00 April YTD 26,094
May + 2,445
June + 2,407
$30,946 total estimate for the remainder of 99-00.

Year	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
FY 95-96	600	700	500	700	700	700	1,000	1,500	1,100	900	800	800	10,000
% of Total	6.00%	7.00%	5.00%	7.00%	7.00%	7.00%	10.00%	15.00%	11.00%	9.00%	8.00%	8.00%	100%
FY 96-97	950	1,000	750	1,050	1,100	1,000	1,500	2,250	1,650	1,350	1,225	1,175	15,000
% of Total	6.33%	6.67%	5.00%	7.00%	7.33%	6.67%	10.00%	15.00%	11.00%	9.00%	8.17%	7.83%	100%
FY 97-98	1,125	1,310	940	1,305	1,315	1,325	1,885	2,813	2,063	1,688	1,505	1,480	18,754
% of Total	6.00%	6.99%	5.01%	6.96%	7.01%	7.07%	10.05%	15.00%	11.00%	9.00%	8.02%	7.89%	100%
FY 98-99	1,440	1,670	1,200	1.680	1,690	1,670	2,400	3,600	2,640	2,160	1,940	1,910	24,000
% of Total	6.00%	6.96%	5.00%	7.00%	7.04%	6.96%	10.00%	15.00%	11.00%	9.00%	8.08%	7.96%	100%
FY 99-00	1,872	2,184	1,560	2,140	2,194	2,104	3,120	4,680	3,432	2,808	2,445	2,407	30,946

TOTAL PERCENTAGE INCREASE METHOD FOR ESTIMATING REVENUES FOR THE NEXT YEAR (FORM C)

NOTE: This estimate is based on the FY 99-00 estimate from Form B—Option 2 of 30,946.

1. Look at the percentage increase of the total revenues over the last 5 years:
96-97 = 50% (.50) or 25% (.25) adjusted
97-98 = 25.03% (.2503)
98-99 = 27.97% (.2797)
99-00 = 28.94% (.2894)

A) Compute the average. This computation gives equal weight to all years:

$$\frac{25 + 25.03 + 27.97 + 28.94}{4} = 26.7\% \ (.267)$$

B) Moving average, which gives more weight to later years.

$$\frac{\frac{\frac{25 + 25.03}{2} = 25.02 + 27.97}{2} = 26.5 + 28.94}{2} = 27.7\% \ (.277)$$

C) Look at the differences in the percentage increases over the years:

Most recent fiscal year	99-00	28.94	(28.94 - 27.97 = .97)
	98-99	27.97	(27.97 - 25.03 = 2.94)
	97-98	25.03	(25.03 - 25.0 = .03)
Oldest fiscal year	96-97	25.00	

D) Why did 99-00 not rise as much as 98-99? Was there a decline in clients? Is this decline apt to be repeated in 00-01? Or will user fees be more like the .97 increase of 99-00?

E) Potential numbers are:

1) Based on calculation of a)
1999-00 estimate 30,946 x 1.267 = 39,208

2) Based on calculation of b) = 27.7%
1999-00 estimate 30,946 x 1.277 = 39,518

3) Based on last year's percentage growth = 28.94%
1999-00 estimate 30,946 x 1.2894 = 39,902

4) Or if you are not comfortable with any of the above, you could back off to an arbitrary figure of, for example, 20%. This kind of adjustment would be made if you anticipated a major drop in the user fee for the budget year.
1999-00 estimate 30,946 x 1.20 = 37,135

F) Whichever number you choose to use, it is very helpful to estimate the monthly amounts of income so that purchases can be planned. This especially needs to be done if the user fee is the major source of revenue for your NGO/CBO.

The following table explains one way of providing monthly estimates, given that the 2000-01 projection is $37,135:

1) Look at the monthly percentages for July for the last 5 years:

Each year approximately .06% of the total revenue is collected in July. The other amounts are evaluated in the same manner.

July	=	.06	Jan	=	.10
Aug	=	.07	Feb	=	.15
Sept	=	.05	Mar	=	.11
Oct	=	.07	Apr	=	.09
Nov	=	.07	May	=	.08
Dec	=	.07	June	=	.08

G) The percentages must add to 100%; you may find it easier to deal with 3 or 4 decimal places rather than two because it is easier to balance to 100%.

- To distribute the monthly amounts multiply each month's percentage times the total for 2000-01:

$37,135	x	.06	=	2228 for July	.10	=	3714 for Jan
		.07	=	2599 for Aug	.15	=	5570 for Feb
		.05	=	1857 for Sept	.11	=	4085 for Mar
		.07	=	2599 for Oct	.09	=	3342 for Apr
		.07	=	2599 for Nov	.08	=	2971 for May
		.07	=	2599 for Dec	.08	=	2971 for June

These monthly estimates can be used to monitor the inflow of money to see if you are going to meet the projected total for 2000-01.

It also helps to graph these projected numbers on top of the historical data. By so doing, the "picture" might point out where errors have been made in projecting things that are hard to see if one just looks at numbers.

FORM C: REVENUE ESTIMATE WORKSHEET FOR ESTIMATING REVENUES FOR THE NEXT FISCAL YEAR

Revenue Source: Health clinic fees **Accounting Code: 313**

Fiscal Year	Amount Received	% Change From Previous FY	Changes	Adjusted % Change	Explanation
95-96	$10,000	N/A			
96-97	15,000	50%	Yes, a fee increase from $5 per visit to $6.25 per visit.	25%	Percentage growth is calculated differently when a user fee change has been made. In 95-96, $10,000 was collected based on a $5 per client fee. In 96-97 the user fee was increased 25% to $6.25 per client. Client numbers fluctuate from year to year.
97-98	18,754	25.03%			
98-99	24,000	27.97%			
99-00 (est)	30,946	28.94%			
00-01 (proj)					

Year	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total
FY 95-96 % of Total	600 6.00%	700 7.00%	500 5.00%	700 7.00%	700 7.00%	700 7.00%	1,000 10.00%	1,500 15.00%	1,100 11.00%	900 9.00%	800 8.00%	800 8.00%	10,000 100%
FY 96-97 % of Total	950 6.33%	1,000 6.67%	750 5.00%	1,050 7.00%	1,100 7.33%	1,000 6.67%	1,500 10.00%	2,250 15.00%	1,650 11.00%	1,350 9.00%	1,225 8.17%	1,175 7.83%	15,000 100%
FY 97-98 % of Total	1,125 6.00%	1,310 6.99%	940 5.01%	1,305 6.96%	1,315 7.01%	1,325 7.07%	1,885 10.05%	2,813 15.00%	2,063 11.00%	1,688 9.00%	1,505 8.02%	1,480 7.89%	18,754 100%
FY 98-99 % of Total	1,440 6.00%	1,670 6.96%	1,200 5.00%	1.680 7.00%	1,690 7.04%	1,670 6.96%	2,400 10.00%	3,600 15.00%	2,640 11.00%	2,160 9.00%	1,940 8.08%	1,910 7.96%	24,000 100%
FY 99-00 % of Total	1,872 6.05%	2,184 7.06%	1,560 5.04%	2,140 6.92%	2,194 7.09%	2,104 6.80%	3,120 10.08%	4,680 15.12%	3,432 11.09%	2,808 9.07%	2,445 7.90%	2,407 7.78%	30,946 100%
FY 00-01 % of Total	? 6.00%	? 7.00%	? 5.00%	? 7.00%	? 7.00%	? 7.00%	? 10.00%	? 15.00%	? 11.00%	? 9.00%	? 8.00%	? 8.00%	37,135 100%
FY 00-01 % of Total	2,228 6.00%	2,599 7.00%	1,857 5.00%	2,599 7.00%	2,599 7.00%	2,599 7.00%	3,714 10.00%	5,570 15.00%	,085 11.00%	3,342 9.00%	,971 8.00%	2,971 8.00%	37,135 100%

Travel Advisory! We've just introduced you to a rather detailed set of options for estimating revenue sources for the next year. If your operation is small, understaffed, and often swamped with work, you might be a bit overwhelmed by the seeming complexity of the calculations. Nevertheless, we would urge you to wrestle with these ideas if you are concerned about sustaining your NGO/CBOs efforts. Without estimating your cash flow as accurately as possible over the new year, you will not be able to prepare the next step of the budget process with any degree of confidence. To make the task a bit easier, we have included some blank forms in the back of the manual for calculating and recording your revenue projections.

Step 3. Prepare program requests

What does your NGO/CBO plan to accomplish with the estimated resources?
As program directors prepare to submit a budget and as the director and policy makers review budgets, they should always consider "Are we accomplishing our goals by using the resources in this way?" To answer this question, you must first know what the organisational goals are. Priorities in budget funding should always reflect organisation goals. This all-important question also applies if you are operating a one person NGO/CBO. In case you are among the thousands of NGO/CBOs that operate without *program managers* or *policy boards* as suggested in the opening sentence, don't stop reading! You are among our favourite people.

There are many definitions of the word "goal." Webster's dictionary calls it "the end towards which effort is directed; the terminal point of a race." Here are a few other definitions just to give a better idea of what a goal is:

- A broad statement of intended accomplishment
- A statement of specific condition that will exist if the responsibility outlined is implemented according to the budget and objectives specified
- A broad statement of purpose and direction toward which organisational resources will be directed

Objectives are short-term goals or sub-goals with a specific time frame. Sometimes they are called targets, milestones, or strategies. Objectives are different from goals in that they are more specific and more quantifiable, specific enough to let an organisation know when and if they have been achieved. If the staff has developed objectives based on the organisation's goals, then the objectives should reflect both anticipated staff work and estimated cost for achievement.

Expenses
Certain fixed expenses must occur to achieve the goals established by the NGO/CBO. For example, salaries, materials and supplies, building rental, and utilities are probably essential to the operation of the NGO/CBO. Following are some common classifications of expenses.

Types of fixed expenses
Personnel Services—may include expenses for salaries, wages, per diem or other compensation, fees, allowances or reimbursement for travel expenses, and related employee benefits, paid to any officer or employee for services rendered or for employment. Employment benefits may also include employer contributions to a retirement system, health insurance, sick leave, terminal pay, or similar benefits.

Materials and Supplies—may include articles and commodities which are consumed or materially altered when used such as office supplies and all items of expense to any person, firm, or corporation rendering a service in connection with repair, sale, or trade of such articles or commodities.

Other Services and Charges—these include all current expenses other than those listed in any of the other categories. For example, services or charges for communications, transportation, advertising, printing or binding, insurance, public utility services, repairs and maintenance, rentals, miscellaneous items, and all items of expenses to any person, firm or corporation rendering such services.

Capital Outlays—these are purchases which result in acquisition of or additions to fixed assets which are purchased by the NGO/CBO, including machinery and equipment, furniture, land, buildings, improvements other than buildings, and all construction, reconstruction, or improvements to real property accomplished according to the conditions of a contract. Most organisations establish a minimum purchase amount to determine whether an item is considered equipment or capital outlay. For example, one organisation may consider the purchase of a $400 desk to be budgeted in the category of Materials and Supplies; other NGO/CBOs consider that a $400 purchase of a desk should be considered capital outlay.

Estimating expenses
Each program should complete a form similar to the Form D—Program Budget Request form and Form E—Supporting Personnel Detail form.

In the Program Budget Request form, the 3rd, 4th, and 5th columns are historical and estimated numbers that provide a basis of comparison for deciding on the amount needed for the budget year. The last three columns contain amounts requested for the budget year. The total budget request is divided into two columns: Budget for Existing Services, and Change in Services.

The Budget for Existing Services consists of minimum dollar amounts required to meet the recurring costs of providing services or conducting activities at the currently established level. Amounts in this column should include personnel services, materials and supplies, other services and charges, replacement capital outlays, and any other operating expenses necessary to operate the program through the budget year with no increase in the activities or services provided. These numbers are generally close to the numbers for the preceding years. Changes reflect inflation, salary increases, price changes, or population increases. No additional personnel or equipment, other than replacement equipment, should be requested in the Budget for Existing Services column.

Requests for money to either increase or decrease the activities or services provided or to initiate new services should be shown in the column "Changes in Service." For example, a new mobile library service which would require a vehicle, books, a person to staff the vehicle, and increased operating expenses would be registered in the "Change in Services" column under the appropriate major categories.

The "Budget Year" column is the sum of the Budget for Existing Services and the Changes in Service columns. This merely provides a total request for the budget year for that program.

Following the Program Budget Request form are the supporting forms which supplement and substantiate the numbers contained in the summary form.

To provide a concrete example of how expenditure requests might look in a projected budget for the coming year, we have continued the example of the Health Services program used to illustrate the revenue side of the process. Each of the supporting detail forms provides additional information with the numbers found on the summary.

As with the forms presented to illustrate revenue projections, we have made some basic assumptions that may not fit the scope or mandate of your particular NGO/CBO. We hope you understand the problem we are having with being specific enough to illustrate concepts and procedures while recognising that any effort to do so will be seen by many as not reflecting their operational reality. Our only advice in the face of this dilemma is to suggest you take what fits, adapt it to meet your needs, and move on to the next step in the process.

Reflection

Spend a few moments to reflect on how you and your organisation determine program costs and operating expenditures for next year's budget. Do you just project current year costs without much foresight by, for example, adding a percentage for inflation? Or, do you actually take a fresh look at each budget item in the cost column and ask questions like: Should we continue to offer this service in its present form? Does it continue to meet our organisation's mission? What would happen if we decided to drop it? If we dropped it, what might be the consequences for our constituents? For our NGO/CBO?

In the space below, record some things you might do differently when putting together your operating budget for next year, and state why you think these changes might be beneficial to the organisation.

____

____

____

FORM D - PROGRAM BUDGET REQUEST

PROGRAM Health services FUND Unrestricted FISCAL YEAR 2000-01							
Object Code	**Title of Account**	**Prior Yr. Actual FY 98-99**	**Current Yr. Budget FY 99-00**	**Current Yr. Estimate FY 99-00**	**Budget for Existing Services FY 00-01**	**Change in Service FY 00-01**	**Budget Year FY 00-01**
1 - 00	PERSONNEL SERVICES						
1 - 01	Salaries	137,600	144,841	140,022	152,464	12,000	164,464
1 - 14	*Social Security	8,435	8,878	8,583	9,346	736	10,082
1 - 11	*Retirement	6,880	7,242	7,001	7,623	600	8,233
1 - 12	*Life Insurance	390	420	385	504	36	540
1 - 13	*Health Insurance	15,600	16,800	15,400	21,000	1,500	22,500
1 - 15	*Unemployment Insurance	138	145	140	152		152
1 - 22	*Worker's Compensation	688	724	799	762		762
	Subtotal	169,731	179,050	172,330	191,851	14,872	206,723
2 - 00	MATERIALS AND SUPPLIES						
2 - 01	Office Supplies	189	200	196	250	25	275
2 - 10	Immunizations/Medical serum	195	200	187	200	100	300
2 - 21	Repairs of medical equipment	832	800	799	565		565
2 - 31	Disposable shot needles	156	200	250	125		125
	Subtotal	1,372	1,400	1,432	1,140	125	1,265
3 - 00	OTHER SERVICES AND						
3 - 92	CHARGES				200	100	300
3 - 72	Memberships & Subscriptions		250	300	1,255		1,255
	Disposal of waste products (shot needles)						
	Subtotal		250	300	1,455	100	1,555
4 - 00	CAPITAL OUTLAY						
4 - 64	5 – examining tables				3,900		3,900
4 - 65	1 - 78 inch by 38 inch desk				650		650
4 - 85	1 - 1/2 ton pickup truck					4,000	4,000
	Subtotal				4,550	4,000	8,550
	TOTAL	**171,103**	**180,700**	**174,062**	**198,996**	**19,097**	**218,093**
	Requested Personnel	13	14	14	14	1	15

* While listed here for example purposes, we recognise that many organisations may not offer these types of benefits, and that benefits will differ from organisation to organisation and from country to country.

FORM E - SUPPORTING - PERSONNEL REQUEST

This form is provided as an aid for calculating personnel costs for the budget year. It is a listing of all positions authorised for the program according to title, along with salaries for the current year and recommended salaries for the budget year. New requested positions should not be included on this form. They should be shown on the Form F - Supporting - Change in Service form.

Because of the high percentage of the budget that goes for personnel services, or salaries and benefits, this request form is particularly helpful to the director in evaluating the needs of the program. The totals of the Form E - Supporting - Personnel Request form are shown on the Form D - Program Budget Request form under the category of "Personnel Services." The totals are shown by line-item expense.

Form E - Supporting - Personnel Request

PROGRAM Health services FUND Unrestricted FISCAL YEAR 2000-01

No.	Position		Current Year			Budget Year				
			Rate	Longevity	Annual	Rate	Long	Hrs. or Mo.	Calculation	Annual
1	Registered Nurse		8.50	.25	18,200	8.75	.30	2080	8.75 + .30	18,824
2	Health Leader	(Name of person)	6.50	.15	13,832	6.75	.20	"	x	14,456
3	Health Leader	(Name of person)	6.50	.10	13,728	6.75	.15	"	2080	14,352
4	Health Worker	(Name of person)	4.00	–	8,320	4.25	.05	"		8,944
5	Health Worker	(Name of person)	4.25	.05	8,944	4.50	.10	"		9,568
6	Health Worker	(Name of person)	4.25	.05	8,944	4.50	.10	"		9,568
7	Health Worker	(Name of person)	3.75	–	7,800	4.00	–	"		8,320
8	Health Worker	(Name of person)	4.00	–	8,320	4.25	.05	"		8,944
9	Health Worker	(Name of person)	3.75	–	7,800	4.00	–	"		8,320
10	Health Worker	(Name of person)	3.25	–	6,760	3.50	–	"		7,280
11	Health Worker	(Vacant)	3.00	–	6,240	3.00	–	"		6,240
12	Health Worker	(Name of person)	5.00	.05	10,504	5.25	.10	"		11,128
13	Health Worker	(Name of person)	6.25	.10	13,208	6.50	.15	"		13,832
14	Health Worker	(Name of person)	5.50	.05	11,544	6.00	.10	"		12,688
									TOTAL	152,464

	BASIS FOR CALCULATION	CALCULATIONS	
Social Security	Total x .0613%	152,464 x .0613	9,346
Retirement	Total x .05%	152,464 x .05	7,623
Life Insurance	$3 x 12 mos. x total number of personnel	3 x 12 x 14	504
Health Insurance	$125 x 12 mos. x total number of personnel	125 x 12 x 14	21,000
Unemployment Insurance	Total x .001%	152,464 x .001	152
Worker's Compensation	Total x .005%	152,464 x .005	762
Other			(transfer these to Form D)
		GRAND TOTAL:	191,851

FORM F - SUPPORTING - CHANGE IN SERVICE

When a program director desires to request a change in current services, this form has been provided as an aid. Examples of a change in service are:

- requesting new personnel
- requesting new capital outlay
- increasing the present service level
- decreasing the present service level
- adding new services to be provided by the program
- deleting current services that have been provided by the program
- any other like situations

The form supplements and explains the numbers found in the Program Budget Request form and enables the director to evaluate requested funds alongside similar requests by other program directors.

A Supporting - Change in Service form should be filled out for each proposed change requested for the program. By putting each change on a separate form, the director can use the pieces of paper as a way to prioritise any proposed changes.

<table>
<tr><td colspan="7">Form F - Supporting - Change in Service
PROGRAM <u>Health services</u> FUND <u>Unrestricted</u> FISCAL YEAR <u>2000-01</u></td></tr>
<tr><td colspan="7">BRIEFLY EXPLAIN AND JUSTIFY THE PROPOSED SERVICE CHANGE:
Need to add a Registered Nurse position. This person will co-ordinate the health-related activities of the five health clinics.
Will need a 1/2 ton pickup to perform duties.</td></tr>
<tr><td></td><td><u>COST OF PROGRAM</u></td><td></td><td colspan="4"><u>ADDITIONAL PERSONNEL</u></td></tr>
<tr><td></td><td>PERSONAL SERVICES</td><td></td><td>Position</td><td>No.</td><td>Rate (Mo. Or Hr.)</td><td>Annual Salary</td></tr>
<tr><td></td><td>Salary</td><td>12,000</td><td>Registered Nurse</td><td>1</td><td>1,000 Mo.
or $5.77 per hr.</td><td>$ 12,000</td></tr>
<tr><td></td><td>Social Security</td><td>736</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>Retirement</td><td>600</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>Life Insurance</td><td>36</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>Health Insurance</td><td>1,500</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>MATERIALS AND SUPPLIES</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>Immunisations/Medical serum</td><td>100</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>Office Supplies</td><td>25</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>OTHER SERVICES AND CHARGES</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>Membership in professional organisation</td><td>100</td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>CAPITAL OUTLAY</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>1.5 ton pickup truck</td><td>4,000</td><td></td><td></td><td></td><td></td></tr>
<tr><td colspan="2">TOTAL</td><td>19, 097</td><td>TOTAL</td><td>1</td><td colspan="2">(transfer to Form D, Change In Service column)</td></tr>
</table>

Step 4. Director reviews revenue estimates and requests

The following questions give an idea of the factors that should be considered by the director when reviewing the requests:

- Does the proposed service level justify the budget request? Could the money be put to better use elsewhere?
- Are the objectives of the service worthwhile? Is the best approach being taken to achieve the objectives? Is there adequate financing for the service level proposed?
- Will spending more on the service next year save money in the long run?
- Can existing services be delivered in ways that are more efficient thus reducing costs?
- Is each program organised to prevent duplication of work?
- Have price changes been taken into account?
- Are proposed capital outlays consistent with the long-range objectives of the NGO/CBO?

- If there is not enough money to fund all services, which are to be eliminated first?

- What is the general budgetary approach of each program director? Is one too conservative, while another consistently overestimates the budget?

- Are the estimated revenues enough to meet the long-term needs? Is this the right time to attempt to raise additional revenues for this program?

Once the director has completed the review and made adjustments, then the budget should be submitted to the policy-making board for approval. We suggest submitting a minimum of two forms to the policy board if you have one. The first is a summary of the revenues expected to be received during the next fiscal year, and the second a program summary of planned expenses. Expenses should not exceed revenues. Following are sample headings for the proposed revenue and expense reports:

Figure 10. Headings for a summary of revenues budget report

Program	Prior year 3 actual revenues	Prior year 2 actual revenues	Prior year 1 actual revenues	3 year average	Current revenue budget	Current estimated revenues	Recommended revenue budget

Figure 11. Headings for a summary of expenses budget report

Program	Prior year 3 actual expenses	Prior year 2 actual expenses	Prior year 1 actual expenses	3 year average	Current expense budget	Current estimated expenses	Recommended expense budget

Step 5. Policy makers review proposed operating budget

One feature of a "sustainable" NGO/CBO organisation is a strong policy board which is responsible for helping to define the organisation's mission, formulating policy, overseeing the functions of the NGO/CBO, and promoting and securing funding for the organisation. A board made up of national and local leaders in the field and/or other well-connected individuals can play an important marketing role. Their support is especially important for helping to establish the organisation's reputation for raising funds both domestically and internationally and for increasing the demand for the NGO/CBO's services.

Policy body consideration of the proposed budget should not be a routine procedure of ratifying what the NGO/CBO director has recommended. It should be a serious consideration of the services to be provided by the NGO/CBO in the coming year. In considering the budget, a policy maker should ask:

- Does the budget meet the needs of the community that the NGO/CBO has been created to serve?

- Have adequate plans been made to ensure that monies are used in the best way possible to provide required client services?

- Are the revenue estimates reasonable? Are expense requests realistic for the service levels proposed? Have all the costs been considered?

- Will the budget in its present form provide the services desired by the clients of the community?

- Have long-range plans been adhered to? Will the proposed budget be consistent with established policy and past governing body action?

Step 6. Budget approval and monitoring

Once the budget is approved, then it should be entered into the accounting records so that monthly variance [(6)] reports can be generated. A summary budget report for an NGO/CBO could look like the one on the following page:

Figure 12. Actual revenues and expenses compared to budgets

NGO/CBO Organisation							
Actual Revenues and Expenses Compared to Budgets as of June 30, 2000 (6 months)							
Account	**Current Month Budget**	**Current Month**	**Variance**	**Annual budget (12 months)**	**Annual Budget Year-to-date**	**Year-to-date**	**Year-to-date Percentage**
Revenues							
Donations	12,500	11,250	(1,250)	150,000	75,000	82,500	55%
User fees	4,200	4,250	50	50,000	25,000	26,000	52%
Property Rental	1,500	1,500	0	18,000	9,000	9,000	50%
Other Revenues	165	160	(5)	2,000	1,000	840	42%
Total Revenues	18,365	17,160	(1,205)	220,000	110,000	118,340	54%
Expenses							
Personal Services							
Salaries	13,680	13,680	0	164,464	82,082	68,949	42%
Social security	840	840	0	10,082	5,042	4,234	42%
Retirement	686	686	0	8,233	4,116	3,458	42%
Life insurance	45	45	0	540	270	227	42%
Health insurance	1,875	1,875	0	22,500	11,250	9,450	42%
Unemployment insurance	13	13	0	152	76	64	42%
Worker's compensation	64	64	0	762	381	320	42%
Subtotal	17,203	17,203	0	206,723	103,217	86,702	42%
Materials and Supplies							
Office supplies	23	20	3	275	138	165	60%
Immunization / Medical serum	25	50	(25)	300	150	255	85%
Repairs of medical equipment	47	45	2	565	283	271	48%
Disposable needles	10	20	0	125	63	106	85%
Subtotal	105	135	(30)	1,265	634	797	63%
Other services and charges							
Memberships and subscriptions	25	0	25	300	150	300	100%
Disposal of waste products	105	210	(105)	1,255	628	1,067	85
Subtotal	130	210	(80)	1,555	778	1,367	88%
Capital Outlay							
5-examining tables	0	0	0	3,900	7,900	7,900	100%
1-78 inch by 36 inch desk	650	650	0	650	650	650	100%
1- 1/2 ton pickup truck				4,000	4,000	4,000	100%
Subtotal	650	650	0	8,550	8,550	8,550	100%
Total Expenses	18,088	18,198	(110)	218,093	113,179	97,416	45%

Monitoring the budget

The director and policymaking board should look at the report and note any large discrepancies between budgeted and actual amounts. It is as important to look at large "good" variances (e.g., actual revenues exceeding budgeted revenues) as it is to look at large "bad" variances (e.g., actual expenses exceeding budgeted expenses).

After the NGO/CBO has been in operation for several years, multiple years of financial and operating information should be available. One useful starting point is to compare actual amounts with budgeted amounts for the same activity over a period of years. If actual figures always seem to be significantly lower than budgeted figures, it is possible that budget estimates for revenues and expenses are being intentionally overstated. If actual revenues are always higher than budgeted revenues, the estimates may be made intentionally low to make the revenue collection process look efficient. If actual expenses are always higher than budgeted expenses, it is possible that estimates are being kept artificially low to hide the actual cost of operations in the budget process.

Specifically, look for answers to the following questions:

- Are there significant differences between actual revenues and expenses and the budgeted amounts?
- Do these differences seem to occur annually to the same degree?
- What appears to be the cause of the differences: poor estimating, uncontrollable factors, or efficient/inefficient management?
- Do they warrant closer study?

How the annual budget relates to the cash flow budget

The annual budget is a plan. Once the plan has been approved, then the director or a designee must monitor the actual amount of cash on hand to ensure that there is sufficient cash to pay for expenses as they are made. The next chapter deals with the cash flow reality of budget implementation. But first, here is a review of the key points to keep in mind when putting together the annual operating budget.

Key Points

- The annual budget is the most important financial tool NGO/CBOs have to work with second only to the accounting system.
- The budget process includes these key steps: organising the process; seeking out funding sources; preparing revenue estimates; preparing program requests; providing for higher level scrutiny, if you have higher levels who scrutinise; getting approval; and monitoring budget implementation.
- NGO/CBOs have many potential sources of revenue: fundraising, donations, grants, fees for service, contracts, and endowments. Rarely are any of these potential sources easy to realise.
- Revenue estimates are most reliable when projected from a multi-year experience of accruing them.
- Preparing the expenditure side of the budget is an exercise in short-term planning. Take it seriously.
- Monitoring budget implementation is critical and the results will reveal much about how sustainable your organisation is at the time and will be in the future.

Endnotes

(4) Fiscal year is a twelve month accounting period. Fiscal years can begin at the first of any month and end on the last day of the preceding month one year later, (July 1 – June 30, or October 1 – September 30). State law may govern the fiscal year for NGO/CBOs in your country.

(5) Pre-payment plans can also be called subscriber plans. In the health care area, an example of a pre-payment plan may be that an individual “subscribes” to the services of a clinic for an annual fee. In return for payment of the annual fee, the person is entitled to use the services of the clinic on an as-needed basis. The advantage to the NGO/CBO for pre-payment plans is that an annual fee is charged, and therefore, revenues can be more easily estimated, especially if the annual pre-payment plan coincides with the NGO/CBO’s fiscal year. The advantage to the individual is that the cost of the annual plan is usually much less than the cost of “per incident” visits to a clinic.

(6) Variances are the differences between actual and budgeted expenses.

CHAPTER 4
CASH FLOW BUDGET

Cash budgeting

Monitoring the NGO/CBO's cash position is one of the most important activities of the director. A cash budget is different from the annual revenue and expense or operating budget and is not considered or approved by the governing body. The operating budget provides estimates for revenues and expenses on an annual basis. The cash budget is concerned with estimating the specific dates that cash will be received and disbursed by the organisation.

Typically, the projection covers a year and is broken into separate mini-projections for each month or week. A cash budget is the best tool to rely upon to make an informed approach to decision making for the NGO/CBO. Specifically, it:

- Answers the question of how much cash is available for investment, when it is available, and for how long
- Identifies cash shortfalls that require short-term financing, and
- Can warn of potential revenue shortfalls or unexpected large disbursements that were not expected in the initial budget and could result in a deficit budget.

Types of cash budgets

All cash budgets project receipts and disbursements for a period of time. They differ on the time period covered. There are three types of cash budgets:

Annual cash budget

An annual cash budget projects cash flow and cash position on a monthly basis. The annual operating budget is used to determine the amount of cash available for payment of expenses and for investment. Following is a very simple example of how a cash budget can be set up based on:

- Estimated Revenues of $295
- Estimated Expenses of $295
- Also, the NGO/CBO director has determined that we always want to keep a minimum balance of $10 in the cash account. Note that May is the only month that got as low as $10. It may be that we can keep a part of that $10 in a savings account so that interest can be earned on some part of the cash that is always kept in the bank account(s).

Note that there are larger disbursements in February and December than in other months. Examples of larger needs for cash like these might be the purchase of some piece of equipment or other one-time cash disbursement.

Note also that there is a consistent pattern of spending at least $15 a month. Think of this as the minimum operating expenses required for the NGO/CBO to operate on an ongoing basis. This would include expenses like salaries, utilities, and other monthly recurring expenses.

Figure 13. Summary annual cash budget
Example of a summary annual cash budget

Beginning Balance	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Balance forward
	+ 50	+ 55	+ 15	+ 15	+ 10	+ 10	+ 15	+ 20	+ 25	+ 55	+ 60	+ 65	
Estimated Revenues (295)	+ 20	+ 20	+ 15	+ 30	+ 20	+ 20	+ 20	+ 20	+ 50	+ 20	+ 20	+ 35	
Estimated Expenses (295)	- 15	- 60	- 20	- 35	- 20	- 15	- 15	- 15	- 20	- 15	- 15	- 50	50
Balance Forward	= 55	= 15	= 15	= 10	= 10	= 15	= 20	= 25	= 55	= 60	= 65	= 50	50

Monthly cash budget
A monthly cash budget provides estimates of cash flows and resulting cash position on a weekly basis. Using the example of January from the table above, we can determine:

- Estimated Revenues for the month are $20
- Estimated Expenses for the month are $15
- A balance of $50 is coming forward from last month.
- We want to keep a minimum of $10 in the accounts (savings and checking)

Figure 14. Monthly cash budget

Month of January

Beginning Balance at first of the month	Week 1	Week 2	Week 3	Week 4	Balance forward to next month
50					
Estimated Revenues (20)	+ 0	+ 5	+ 10	+ 5	
Estimated Expenses (15)	- 4	- 3	- 4	- 4	
Balance Forward	= 46	= 48	= 54	= 55	55

Weekly cash budget
A weekly cash budget estimates cash flows and cash position on a daily basis. Only use a weekly budget at those times when you really need it. It works the same as the examples above except that the cash balance is estimated on a daily basis. Rarely will an NGO/CBO need to estimate cash this closely.

Using historical data to project cash budgets
Another approach to preparing a cash budget is much more complex but more accurate and, therefore, more useful. It requires that you develop a three-to-five year historical database of cash receipts by source of revenue and disbursements by category of expense. This will look very similar to the Revenue Estimate Worksheets that were provided in the Annual Budget chapter. If you choose this method, at a minimum, collect this data for each month, and calculate a monthly average and the month's percentage of annual total. Information on the cash (both deposits and disbursements) position can be taken from the bank statements received each month. This historical information of actual deposits and disbursements can then be used to estimate cash balances.

The calculations and approach are very similar to those used in the Estimating Revenue Worksheets. Most NGO/CBOs will not need an approach this sophisticated and can use the basic approach presented in the "Example of an Annual Cash Budget" form presented in Figure 13.

Figure 15. Three year historical cash analysis

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	TTL
Donations													
FY 97-98	1,000	5,000	21,000	1,000	3,010	8,500	750	1,500	7,500	5,500	7,660	40	62,460
FY 98-99	2,000	4,000	23,000	1,500	3,000	9,075	875	2,000	8,000	5,000	9,050	40	67,540
FY 99-00	0	5,000	25,100	2,000	3,000	10,050	1,000	4,000	10,050	7,000	8,000	50	75250
Avg.	1,000	4,667	23,033	1,500	3,003	9,208	875	2,500	8,517	5,833	8,237	43	68,417
% of Total	1.46%	6.82%	33.67%	2.19%	4.39%	13.46%	1.28%	3.65%	12.45%	8.53%	12.04%	0.06%	100%
User fees													
FY 97-98	1,100	1,200	1,200	1,300	1,200	1,300	1,250	1,100	1,400	1,100	1,400	1,100	14,650
FY 98-99	1,250	1,260	1,300	1,400	1,200	1,300	1,200	1,200	1,500	1,200	1,500	1,200	15,510
FY 99-00	1,450	1,380	1,400	1,435	1,430	1,500	1,410	1,495	1,500	1,150	1,800	1,300	17,250
Avg.	1,267	1,280	1,300	1,378	1,277	1,367	1,287	1,265	1,467	1,150	1,567	1,200	15,803
% of Total	8.02%	8.10%	8.23%	8.72%	8.08%	8.65%	8.14%	8.00%	9.28%	7.28%	9.91%	7.59%	100%
Rent from property													
FY 97-98	1,200	1,310	940	1,305	1,315	1,325	1,650	1,800	1,785	1,500	1,505	1,480	17,115
FY 98-99	1,700	1,500	1,450	1,300	1,400	1,600	1,600	1,600	1,575	1,800	1,775	1,400	18,700
FY 99-00	1,790	1,510	1,235	1,450	1,800	1,560	1,775	1,705	1,825	1,655	1,790	1,710	19,805
Avg.	1,563	1,440	1,208	1,352	1,505	1,495	1,675	1,702	1,728	1,652	1,690	1,530	18,540
% of Total	8.43%	7.77%	6.52%	7.29%	8.12%	8.06%	9.03%	9.18%	9.32%	8.91%	9.12%	8.25%	100%
Other revenues													
FY 97-98	100	140	230	500	350	250	500	300	150	500	300	350	3,670
FY 98-99	100	170	300	230	300	260	500	300	350	400	325	380	3,615
FY 99-00	300	350	275	285	415	290	350	350	275	400	320	360	3,970
Avg.	167	220	268	338	355	267	450	317	258	433	315	363	3,752
% of Total	4.44%	5.86%	7.15%	9.02%	9.46%	7.11%	11.99%	8.44%	6.89%	11.55%	8.40%	9.68%	100%
Shared revenues from state budget													
FY 97-98	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	7,000	84,000
FY 98-99	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	90,000
FY 99-00	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	96,000
Avg.	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,5000	90,000
% of Total	8.33%	8.33%	8.33%	8.33%	8.33%	8.33%	8.33%	8.33%	8.33%	8.33%	8.33%	8.33%	100%

Which cash budget should our NGO/CBO use?

NGO/CBOs should prepare an annual cash budget at a minimum, and then monitor it closely. Others may choose to also prepare the additional monthly cash budget if there is the need to monitor cash flow even more closely.

Projecting expenses

Expenses are more difficult to project because they are less predictable. You forecast expenses on the same basis as revenues (daily, weekly, or monthly). There are three major categories of expenses:

Personnel Services (Payroll costs)

Determining the pattern for payroll is easy since employees are paid on a regular basis. This may be monthly, twice a month, or once every two weeks. The pay date and amount is known in advance, and the payment is certain. Because of this, you can anticipate the amount of payroll disbursement using historical records. Also, since the payment is made in cash, check, or bank transfer to employee bank accounts, the impact on the NGO/CBO's account is immediate. To reduce the transaction cost and conserve cash, you should limit payroll payments to no more than twice a month. Since payroll costs are normally distributed evenly throughout the year based on the number of pay periods, determine monthly payroll costs by dividing the annual payroll budget by the number of pay periods and then adjust for seasonal payroll variations such as summer part-time employees. In a monthly pay cycle (12 pay periods), there is one pay period per month. In a twice-a-month pay cycle (24 pay periods), there are two pay periods per month. However, in a biweekly pay cycle (26 pay periods), two months have three pay periods.

Service and supply costs

This type of expense is nearly impossible to project because it represents many small purchases that occur throughout the year on an as-needed basis. Identify any recurring expenses such as utility costs and contractual services that are more predictable and project them separately. This will reduce this category's uncertainty. For the remaining expenses, analyse the three-to-five year expense patterns, and project the same way as revenues.

Capital outlay costs
Using the operating budget, identify the specific purchases that will be made such as tables or a pickup truck. Request that the person responsible for purchasing major equipment prepare a monthly cash disbursement schedule for the major purchases.

Consolidate the major purchases schedule with others into an overall disbursement schedule for the cash budget. Remind project managers to advise you of any changes to the planned disbursement schedule.

Creating the cash budget

We have discussed how to estimate revenues and expenses, and the following example brings all of the pieces together into one chart. Note that:

- The revenues are identified and projected by *individual* revenue source for each month.
- The expenses are identified and projected by *summary* expense type rather than each line item.
- The beginning cash balance coming forward from December of the prior year is 22,630.

The month of January's available cash balance is calculated as follows:

- Step 1: Find total estimated revenues for January of 11,497.
- Step 2: Subtract estimated expenses, cash disbursements, of 13,200 to get a negative (1,703).
- Step 3: Add the beginning cash balance coming from December of the prior year of 22,630 to get a total ending cash balance of 20,927. This amount is the ending balance for the month of January and becomes the beginning balance for the month of February. The excess of revenues over expenses for February of 1,907 is added to the 20,927 to get an ending March balance of 22,834. This is also considered the beginning balance of April, and so forth throughout the rest of the year. The ending balance of 25,740 will be carried forward to January of the next year.

Comprehensive cash budget

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Receipts													
Donations	1,000	4,667	23,033	1,500	3,003	9,208	875	2,500	8,517	5,833	8,237	43	68,416
User Fees	1,267	1,280	1,300	1,378	1,276	1,367	1,287	1,265	1,467	1,150	1,567	1,200	15,803
Property Rent	1,563	1,440	1,208	1,352	1,505	1,495	1.675	1,702	1,728	1,652	1,690	1.530	18.540
Other Revenues	167	220	268	338	355	267	450	317	258	433	315	363	3,752
Shared Revenues	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500
Total	11,497	15,107	33,310	12,069	13,639	19,836	11,787	13,283	19,470	16,568	19,308	10,637	196,510
Disbursements													
Personal Services (Payroll)	4,715	4,715	4,715	4,715	4,715	4,715	4,715	4,715	4,715	4,715	4,715	4,715	56,580
Supplies	1,885	1,885	1,885	1,885	1,885	1,885	1,885	1,885	1,885	1,885	1,885	1,885	22,620
Services	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600	6,600	79,200
Capital Outlay	0	0	0	10,000	0	0	0	20,000	5,000	0	0	0	35,000
Total	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	13,200	193,400
Net Receipts - Disbursement	(1,703)	1,907	20,110	(11,131)	439	6,636	(1,413)	(19,917)	1,270	3,368	6,108	(2563)	
Beginning Cash Balance	22,630												
Ending Cash Balance	20,927	22,834	42,944	31,812	32,251	38,888	37,474	17,558	18,827	22,195	28,304	25,740	

Applying the cash budget

Cash budget projections provide an early warning of a cash shortfall. If the projected "ending cash balance" becomes negative in any month, that is a signal to plan for short-term borrowing or to reduce expenses. *NGO/CBOs should strive to maintain one month's core operating expenses (salaries, utilities and other essential operating expenses) as the minimum ending cash balance.*

Updating the cash budget

After the cash budget has been completed, you update it with actual results monthly. By updating, you can improve the accuracy of the projection to year-end and establish a database of actual results for subsequent years' projections.

Updating the cash budget with actual results is very important in determining the financial status of the NGO/CBO. Any significant differences between the projections and actual receipts or disbursements should alert you to the need to review the cash budget projections. Variances between actual and projected may result from unanticipated events. These include changes in: the economy, state-shared revenue distribution formulas and schedules, administrative procedures, one-time sale of an asset, or emergency situations which increase the demand for services. Such events can affect the timing and amounts of receipts and disbursements. In either case, modify the cash projections to consider these events.

These variances may be signalling the need to cut expenses or that you may be able to invest more money in a savings account. If variances happen too frequently, then you may need to re-evaluate your forecasting methodology.

After the year-ends, review the cash budget, compare actual results to projections, and document the reasons for significant variances. This information can be used to improve next year's cash budget projection methodologies and processes.

Reflection

If you aren't currently doing a cash flow budget for your organisation, think about the times in your organisation's life when such a budget would have been useful, and might have even saved you some serious headaches.

Key points

- A cash flow budget can keep you out of financial difficulty as you implement your operating budget.
- If you aren't already using this simple cash flow tool, do.

CHAPTER 5
FINANCIAL ADMINISTRATION

Travel Advisory! This chapter contains a lot of good ideas about how to administer your finances but not all of them may be of interest to all of you. So, we suggest you scan through the sections and focus on those that are of most interest to you. It includes the following discussions: revenue collection and the procedures required if you have routine payments coming into your NGO/CBO for services; internal controls largely concerned with helping keep your employees honest when they are inclined not to be for whatever reason; inventory; purchasing tips; how to manage your store operation if you have one; some key thoughts on containing your costs; or in other words, a potpourri of suggestions about how to maintain your organisation's sustainability from the inside of the organisation.

Revenue collection

Once your NGO/CBO begins to implement the new budget, the director should monitor revenues to ensure that they are in line with estimates and the cash budget. Following are some suggestions for ways to enhance revenue collection.

Travel Advisory! The next few sections are based on assumptions that may not quite fit your organisation's way of operating. For example, you may not be billing customers. If you aren't, skip the following discussion on billing for services. However, don't skip the rest of the chapter without checking to see if other sections are relevant to your NGO/CBO financial management needs.

Figure 16. Checklist for revenue collection

Evaluation checklist for revenue collection procedures

	Are there written policies and procedures for preparing billing lists?
	Are bills prepared promptly? Does the present billing system effectively process the present number of clients?
	What is the number of days from which the billing list is prepared to the time bills are mailed? How does this compare with prior years?
	Will the present billing system be able to effectively process the clients projected for three years in the future?
	Are there adequate safeguards to assure all clients are being invoiced?
	Are there written policies and procedures for accepting payment from clients over the counter?
	Are there written policies and procedures for processing payments received in the mail?
	Are each day's receipts deposited in the bank intact and without delay?
	Are there written policies and procedures for handling requests for "writing off" or "forgiving" accounts?
	Are there written policies and procedures for issuing refunds?

Billing for services

Many NGO/CBOs provide services directly to the public such as health care or nursery services and housing management. And most can charge at least a portion of the costs for these services. Billing practices should be the same as those of a private or commercial business which demands prompt payment for services rendered. To encourage prompt payment on services provided on an ongoing basis such as housing management, establish a policy of mailing bills promptly at scheduled intervals (i.e., monthly) with late payment notices, late payment penalties, and eventual discontinuance of the service.

Once basic billing practices are established, continually strive to improve these processes. Consider implementing billing techniques such as coupon books, cycle billing, or hiring a private contractor to improve the efficiency and effectiveness of the billing function.

Procedures for accepting payments
Many customers will want to pay the bill in person at your office.

- Procedures should include: stamping the customer's portion of the bill to indicate payment was made and indicating on both bill portions if payment was made in cash, by check, by charge card, or by a comb ination of methods.
- If payment is made by check, the account number should be written somewhere on the face or the back of the check.
- If the customer does not have his or her portion of the bill, a pre-numbered and duplicate receipt should be written out, and the original of the receipt should be given to the customer and the other should be retained in the office.
- For every payment received, there should be a bill or receipt retained in the office that exactly matches the amount paid and that reflects the account number and name of the customer.
- At the end of each business day, there should be a stack of bills and/or receipts that add up to the day's total business and exactly equals the amount of money to be deposited in the bank.

If customers want to pay their bill by check and send it to your office through the mail service, there are generally two choices for handling these payments. You can use your own staff to open and process the mail payments, or you can contract with a bank to help with receipt of payments.

In the first option, you should develop written procedures for processing the mail by your staff.

- The staff should carefully open each envelope being sure to remove all contents of the envelope so as not to miss some small note or other enclosure.
- Most envelopes will contain a copy of the bill being paid and a check for the payment.
- As the staff removes these bills and checks, they need to examine each carefully to see that the check is properly dated and signed, that the amount of the check equals the amount of the bill, and that the bill is not overdue.
- Any payments that do not meet their requirements should be set aside for special handling.
- A calculator tape should be produced for the total of all the checks and all the bills.
- Once these equal each other, the checks are prepared for deposit by endorsing them with the deposit stamp for the NGO/CBO.
- All checks and cash that were received over the counter should be added to the deposit. The deposit should be made every business day.
- Checks and cash should not be held for more than one day in the collection office to reduce the opportunity for theft.

Procedures for posting payments to accounts
- Each day staff should record all payments received to the customers' accounts.
- If computerised files are kept, the payments can be entered as a batch, and the computer software can add up the total amounts paid to be sure they equal the total amount of bills paid and payments received.

- If payments are recorded onto hand-prepared ledgers, calculator tapes should be prepared after all postings to be sure the totals agree.

Coupon payment books (used for housing and property management NGO/CBOs)
One way NGO/CBOs can improve the billing for repetitive fees or charges is by providing customers with coupon payment books. These books can be customised to meet your needs as well as those of your customers. Costs are significantly reduced since coupon books are sent out only once rather than printing and mailing monthly bills. In addition, you can include envelope address stickers with the coupon book to encourage payment or provide other governmental information of interest to citizens. If you choose to establish a coupon book payment program, you will need a separate process for rebilling those who are delinquent in their payments.

Example in housing management

Each customer is provided with a coupon payment book for one year (twelve months). It contains twelve coupons or tickets pre-printed with the customer's name, account number, payment due date, and amount due. Each month the customer tears out the payment coupon from the book for that month and sends or takes it to the NGO/CBO for payment of the amount due. These are especially effective for leases or payment plans.

Deposit techniques
Once you have reviewed and accelerated your billing and collections, you should also increase the speed of making deposits to the bank. Here are some tips on making your deposit procedures more efficient:

- Deposit each day's receipts intact daily
- Deposit all cash in as few bank accounts as possible
- Take large cash receipts to the bank immediately, and
- Transfer funds electronically if this option is available.

By applying these collection techniques, the finance manager can achieve one of the primary cash management objectives: to get the cash in the bank account as quickly as possible.

Internal controls

Internal controls are a very important part of the financial management process. They provide the safeguards in the form of structures, processes, and procedures to minimise the loss of assets. NGO/CBO assets need to be protected not only from theft, fraud, and embezzlement but also from inappropriate or poor decision making.

The primary objectives of internal control are to:

- Provide management with reliable and timely data
- Safeguard assets and records
- Establish accountability for assets with timely verification and appropriate follow-up
- Promote operational efficiency, reduce duplication of effort, and deter inefficient use of resources, and
- Assure that transactions are recorded so accurate financial statements can be prepared in compliance with generally accepted accounting principles.

Figure 17. Segregation of duties for cash The duties to be considered for segregation of duties involving cash	
	Opening of mail and listing of checks
	Handling of receipts of currency
	Preparation of bank deposits
	Maintenance of cash receipts register
	Maintenance of accounts receivable records
	Initiation of electronic fund transfers
	Approval of electronic fund transfers
	Approval of voucher packages for payment
	Preparation of checks
	Signing of checks
	Reconciliation of bank accounts
	Authorisation of write-offs of uncollectible accounts
	Control of the accuracy and completeness of electronically processed cash receipts data

Evaluating internal controls

Many NGO/CBOs get into financial difficulty either because they don't establish internal control mechanisms in the first place or don't implement them properly when they are in place. Once these safeguards are in place, here are a few thoughts to guide you in implementing them:

- *First, internal controls are intended to provide reasonable assurance that the objectives outlined above can be achieved.* It is probably not possible to guarantee achievement of all these objectives. The cost of doing that would be prohibitive.

- *Second, internal control costs should not exceed the benefits derived from the control.* This requires a balance between the cost of the control and the benefit to be derived. It is important that controls do not become an end in themselves.

- *Third, internal controls should permeate the organisation*. Internal control mechanisms are just that-mechanisms. They come alive and have meaning and relevance when they are linked to the personnel system. To ensure a good internal control system, managers must hire competent personnel with integrity, train them so that they understand their duties and responsibilities, and segregate certain responsibilities when it comes to handling money.

Segregation of duties

Travel Advisory! The extent to which duties can be segregated will depend on availability of adequate staff to carry out the duties.

Effective internal control systems operate on the principle that "no one person should ever be placed in a situation to carry out or conceal an error or irregularity without timely detection by others in the normal course of carrying out their duties and responsibilities."

In general, certain functions should be fixed and separated for three different types of activities:

- Authorising financial transactions,
- Recording transactions in the financial records, and
- Maintaining custody of assets.

No single person should be responsible for all three of these activities. For example, if the purchase and recording of an inventory item are not separated, the control does not prevent the recording of unauthorised inventory purchases or the absence of recording those that are authorised. Similarly, if recording of cash receipts is not separated from maintaining custody of cash, the possibility of concealment of theft is enhanced.

Segregating duties is an essential part of internal control. In some cases, this means breaking a task into smaller functions and involving two persons where in the past one person could do both quite easily. However, with the inherent risks associated with cash, it is better to be less efficient and separate cash receipts processing from record keeping which then requires collusion between employees to hide theft or embezzlement activities.

Reflection

Nobody likes to think they have people in their organisation who are less than trustworthy. And yet, there is lots of evidence around that NGO/CBOs and CBOs attract their share of such folks. What have you done to assure that your organisation won't be taken advantaged of by a needy or greedy employee? While the following checklists are useful if your organisation handles sizeable sums of cash, there are other ways for your organisation to be hurt financially by one of your own.

Before moving on, take a moment and think about your organisation's vulnerability. Are there steps or actions you could take that would minimise the potential for theft or other harmful activities by your employees? If so, jot them down and list the things you will need to do to implement them.

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Travel Advisory! **If you have more than three people in your NGO/CBO who handle a sizeable amount of cash or are involved in receiving payments from clients, you'll want to complete the next two Internal Control Checklists and decide on appropriate steps to be taken to turn your "No" checkmarks into "Yes"**. In these situations, the NGO/CBO director should periodically review the organisation's internal controls for cash transactions using the two following checklists*:* Internal Control Checklist for Cash Receipts, and Internal Control Checklist for Cash Disbursements. A "yes" check mark indicates good internal controls. "No" checkmarks suggest you may need to make some changes in your procedures and their implementation.

Figure 18. Checklist for cash receipts

Internal control checklist of cash receipts

YES	NO	
		The NGO/CBO director authorises all bank accounts.
		The person preparing the cash deposit does not open the mail.
		The person opening the mail does not have access to the accounts receivable ledger.

		The employee who opens the mail lists the receipts in detail.
		An independent person compares the listed mail receipts with the cashiers' records.
		All cash receipts are deposited intact daily.
		All cash receipts are journalised and posted to the accounting system when received.
		All miscellaneous cash receipts are independently controlled.
		Someone other than the person who prepares the bank deposits physically deposits the cash.
		The person who physically deposits the cash does not have access to the accounts receivable ledger.
		The duplicate deposit ticket, stamped by the bank, is returned to a person other than the one who prepares the deposit.
		Bank-stamped duplicated deposit tickets are compared with the cash receipts book.
		All persons who handle cash are bonded.
		All post-dated checks* are reported when received.
		All post-dated checks* are held in safekeeping.
		Returned customer checks* are delivered to a person other than the one who prepared the bank deposit.
		The physical control of negotiable securities is held for safekeeping by an independent third party.
		Vacations for those handling cash are mandatory. (Have you ever noticed that embezzlers hate to take vacations?)
		A system of dual cash and investment control is in place.
		A surety bond is required for all employees who handle cash.
		*These items may not be entirely applicable in countries that do not commonly use checks for payment of goods and services.

Figure 19. Checklist for cash receipts

Internal control checklist for cash disbursements

YES	**NO**	All checks* are pre -numbered by the printer and accounted for.
		All spoiled or voided checks* are mutilated, retained, and properly filed to prevent reuse.
		There is a policy against making checks* payable to "Cash," "Bearer," or "Currency".
		All checks are properly controlled.
		All unused checks* are properly controlled.

Persons who sign checks* or orders to pay individuals are other than those who:		
		Handle petty cash.
		Approve disbursements.
		Record cash receipts.
		Post to ledger accounts.
		All persons who sign checks* or orders to pay are so designated by NGO/CBO policy.
		Banks are instructed not to cash checks or orders to pay that are made payable to the order of the "NGO/CBO Organisation".
		Signing blank checks* or orders to pay in advance is forbidden.
		All checks* or orders to pay are countersigned.
		When checks* or orders to pay are presented for signature, they are supported with invoices and supporting documentation.
		All invoices and supporting documentation are stamped "Paid" at the time of payment.
		The preparation of checks* or orders to pay and the approval of invoices are separated.
		All bank accounts are reconciled monthly.
		Cash receipts reports are prepared monthly.
		All bank statements and paid checks* or orders to pay are delivered directly to the person preparing the reconciliation.
The duties of the person preparing the bank reconciliation excludes the following tasks:		
		Signing checks* or orders to pay.
		Recording cash transactions.
		Handling cash.
The person who reconciles the bank account also performs the following tasks:		
		Accounts for all checks or orders to pay.
		Examines signatures.
		Examines endorsements.
		Examines payee's name.
		Examines dates.
		Transfers of funds from one bank account to another are promptly recorded.
		Is authority for bank transfers limited to the NGO/CBO director or designate.

		Long-outstanding checks* or orders to pay are followed and controlled.
		Stop payment notices on outstanding checks* or orders to pay are properly controlled.
		Vacations are mandatory.
		Surety bond are required for all employees disbursing cash.
* These items may not be entirely applicable in countries that do not commonly use checks for payment of goods and services.		

Inventory

Physical security is also a high priority internal control when an NGO/CBO deals with inventory items. Employee theft of useable/saleable incoming goods may require locks and keys, secure containers, or fenced-in areas. Here are some measures that can be taken to ensure that inventory items are not stolen, especially those items that can be resold easily.

- Inventory storekeepers should count the raw materials they receive and prepare stock transfer-in lists indicating the part numbers and quantities received.

- If the inventory items are used within the NGO/CBO, the receiving program should send copies of the receiving reports in numerical sequence to inventory control and to accounts payable. Both should account for the numerical sequence and follow up on any missing reports.

- If the inventory items are sold, e.g., seeds and fertiliser by an agricultural co-operative, the customer should sign a “receiver” copy certifying that she has received the items listed on the invoice.

- At least once a year, periodic inventories should be performed to reconcile the actual physical count of each item to the inventory records. The difference between the two may be due to theft or sloppy record keeping.

Legal/ethical internal controls

Internal control measures should be in place to identify:

- Kickbacks and bribes to purchasing agents, managers, or other decision makers from suppliers who sell products or services to the NGO/CBO, or
- Commitments to suppliers which override or circumvent standard purchasing procedures.

Accounting control procedures

Following is a list of accounting control procedures that should be in place:

- *All transactions are recorded*: Procedures to prevent the omission of actual transactions from the organisation’s records.

- *All recorded transactions are real:* To prevent the inclusion of fictitious or non-existent transactions in the organisation’s records; e.g., duplicate recording of transactions.

- *All recorded transactions are properly valued*: To ensure that correct monetary amounts are assigned to transactions in the organisation’s records.

- *All recorded transactions are recorded timely*: To ensure that transactions are reflected in the proper accounting period in the organisation’s records.

- *All recorded transactions are properly classified*: To ensure that transactions are charged or credited to the correct general ledger accounts and, where applicable, subsidiary ledger accounts.

- *All recorded transactions are summarised correctly*: To ensure that charges and credits in the books of original entry are accumulated correctly in the company's records.

- *All recorded transactions are posted correctly*: To ensure that information on documents is correctly entered in the books of original entry and the subsidiary ledgers and that the accumulated totals in the books of original entry are correctly transferred to the general and subsidiary ledgers.

Figure 20. Accounting **Checklist for accounting control procedures**	
	Recorded
	Real
	Properly valued
	Timely
	Classified
	Summarised
	Posted

Physical security of accounting records
Another important consideration is the safety of the accounting records—protection from fire, theft, water damage, destruction, misappropriation, misuse, and other such acts of God and human beings. To accomplish this, the following internal controls should be in place:

- Appropriate personnel are responsible for specified records.

- Records are safeguarded from physical hazards (e.g., by use of fireproof vaults and cabinets).

- Access to records is restricted to authorised personnel.

- Electronic data processing data files and production programs are protected from unauthorised access.

- Backup electronic data processing files are stored off-site at a controlled location.

- Insurance coverage is obtained for losses from fire, theft, or accidental destruction of the general and subsidiary ledgers, books of original entry, and journal entries.

- Records are retained for an appropriate period of time.

Purchasing
One of the major considerations of any organisation, regardless of size, is the problem of securing materials, equipment, and supplies. Since these purchases may account for about one-third or more of an organisation's expenses, sound purchasing and materials management procedures are important to the financial integrity of the organisation and its managers.

Purchasing has been defined as buying the right quality, in the right quantity, at the right price, from the right source, at the right time. The key word here is "right."

- The right quality, for instance, is not always the best quality nor is it always the cheapest. The right quality is the one that fulfils all necessary requirements for a particular item at the lowest overall cost.

- Buying the right quantity will assure an adequate inventory of supplies and material at the most reasonable cost. When quantities ordered are too small, the price per unit is usually higher; an excessive amount of time must be spent on paperwork, and the risk of running out of supplies increases. When orders are too large, overall inventory costs are higher, extra warehouse space is often necessary, and expensive stock may become obsolete on the shelf.

- In determining the right quantity, consideration should be given to price breaks offered by some suppliers for larger orders (bulk orders), and to the overall trends in market prices. For instance, when the market price of a necessary item is rising, larger than usual quantities should be ordered; when the trend is downward, smaller quantities are justified.

- The right price in purchasing is one that is fair and reasonable to both buyer and seller. Competitive bidding may be used to encourage competition among suppliers and thus gain more favourable practices for an organisation. In competitive bidding, informal requests for quotations may be used for small, low-cost purchases. Replies to such informal requests may be submitted under a supplier's letterhead or on standard forms commonly available from commercial printers or office supply stores.

- Sealed bids should be used for larger, more expensive purchases and may, in fact, be required by law or granting agencies.

Figure 21. Goals of purchasing

- Right quality
- Right quantity
- Right price
- Right source
- Right time

Travel advisory! This is a good point to remind each of you about the importance on having a written manual that spells out your organisation's policies and procedures on such financial tasks as getting tenders or quotations on major cost purchases, the operation of stores, control of petty cash, etc. Don't assume your employees know what to do in each of these areas. A procedural manual also simplifies your life when you experience staff turnover.

Figure 22. Sample bid request

Sample tender (quotation) request

To furnish the (Name of NGO/CBO) refuse bins as specified below. Bids will be received in the office of the Purchasing Agent until 2:00 p.m.; July 23, 2001. The NGO/CBO reserves the right to accept any or all bids received.

Item	Quantity	Description	Unit	Total
1.	100	Plastic refuse bins—3 feet wide by 3 feet tall upon 4 inch rolling casters with lid. Must conform in detail to sample for inspection in room 301, NGO/CBO Headquarters, 102 Dwyer Avenue.		
DELIVERY:		Delivery to be made within ____ days after receipt of Purchase Order, F.O.B., NGO/CBO Headquarters, 102 Dwyer Avenue, __________.		
TERMS:		Discount ____% _____days.		

NOTE: Vendor to submit sample of item offered in bid. All or None__________ Low Item____________	FIRM:_______________________________ ADDRESS:_______________________________ TELEPHONE NO.:_______________________________ BY:_______________________________ DATE:_______________________________

- Buying from the right source means selecting the supplier who can provide the optimum combination of the right quality, in the right quantity, at the right price, at the proper time. Delays in delivery, lost time due to malfunctioning equipment, and inadequate service can all contribute to higher operating costs and often are as important in determining the lowest and best bid as is the original purchase price. These factors suggest that certain information should be required from suppliers before they are added to an organisation's bidders' list. Such a requirement enables an organisation to determine with some degree of assurance the supplier's ability to perform. When a supplier is found to be deficient in meeting requirements, she should not be placed on the bidders' list until the deficiency is cleared.

- Finally, consider the right time. There is a fairly new concept in management circles known as *just in time* which applies primarily to inventory for production purposes. In other words, keeping inventory to a minimum based on when you need it. The right time might also apply to buying when costs may be lower for various reasons.

The purchasing function should be separate and apart from the accounting function to discourage collusion with suppliers. The purchase order becomes a permanent record of any transaction involving merchandise purchased or services rendered and payment thereof.

Preparing bid specifications

All purchasing is based on some standard or specification. A "standard" is any measure of extent, quality or value of any type, model, or example for comparison; a "specification" is a description of dimensions and types of materials, performance, and functions. When purchasing is centralised, types, sizes, and grades of products used by programs can be surveyed and reduced to the minimum actually needed. Following this process of simplification, standard specifications describing the products can be developed. The simplification process should begin with the most commonly used items and need not include items used in small quantities by only one or two programs.

- The first rule in preparing a specification is to keep the description of the merchandise simple and concise, reference to a catalogue number may suffice.

- Specifications should include a description of intended use as well as any functional, material, or performance requirements.

- Keep the specifications for certain equipment, e.g., vehicles or other pieces of commonly used equipment, broad enough to allow for at least three bids.

- Encourage the use of generic brands rather than a specific name brand.

- Keep one copy for the purchasing file, send one to each possible vendor, one to the program requesting the merchandise, and one to the accounting program.

- When the bids are received, they should be examined to determine the lowest and best or "right" bid given.

Open contract
For certain items like office supplies, gasoline, etc., it is unnecessarily cumbersome to take bids each time they are needed. These items, therefore, can be purchased under an "open contract" whereby a bid may be awarded once a year, and the items are purchased as needed throughout the year under the contract terms.

Small purchases
Purchasing costs should have a reasonable relationship to the value of the item being purchased. An excessive number of small purchases can significantly increase purchasing costs, and procedures should be worked out to control and minimise such orders.

Bartering
Bartering is when an organisation exchanges goods and services for another organisation's good and services. No monies are exchanged. Exchanging goods in this manner can be very beneficial for small NGO/CBOs.

Donations
Donations can come in several forms: revenues, materials, equipment, or property. Private businesses will often donate materials, equipment, or property that they no longer need. Gifts of revenues are made occasionally, but sometimes the gifts are restricted to specific use. It's a good idea to let others know of your needs in case there are opportunities for donations particularly of equipment or materials that private companies may no longer need.

Collective purchasing
Consolidation of bidding and purchasing procedures results in increased savings to all units involved. There are two basic approaches to entering into co-operative purchasing arrangements. Using the first method, two or more agencies (e.g., a city and a NGO/CBO) may combine their requests for bids from suppliers and then place their orders either jointly or separately with the best bidder.

Under the second method, the largest of the co-operating agencies adds to its requirements the needs of smaller organisations and then acts as ordering and billing agent for the group. Deliveries from the supplier may either be to each member of the group or to a central storage facility operated by the largest member. In the latter case, the large jurisdiction would then receive payments from the subdivisions and make all payments to suppliers.

Managing goods and equipment (store operations)

Inventory control (pilferage control)
All items, which are stored, should be identified. For larger warehouses, a classification system should be established with a number code for stock identification.

- The stock number should begin with three or four numbers that establish the basic product class.

- Next should be three numbers, which identify the particular type of product, followed by two numbers that indicate size, colour, etc. The stock number should not be used to identify stock bin or location of an item as these are subject to change.

- Two additional numbers may be assigned to identify the inventory category to which an item is assigned such as “critical” or “basic,” as an aid to inventory management. Requisition control and purchase expediting for selected categories can be based on these two numbers.

- If desired, another two digits may be added to identify storeroom location.

A stock record card should be kept for each commodity stored. This card should show deliveries, issues, and balance-on-hand at all times. Deliveries are posted from reports of goods received; each “issue out” is posted from the signed request, and the balance-on-hand is then reduced accordingly.

Figure 23. Sample inventory stock card

Stock Number:	**1450-300-10-00-22-1**					
Item description:	**2 cm. X 3 cm. Widgets**					
Location:	**Bin 2 Drawer 2**					
Minimum 100	Maximum 800					
Date	**Deliveries in**	**Delivery from**	**Unit cost**	**Issues out**	**Issued to**	**Balance on hand**
1/1/xx						595
2/5/xx				50	Program A	545
3/8/xx				75	Program B	470
4/15/xx				125	Program B	345
5/18/xx				75	Program B	270
6/23/xx				160	Program A	110
6/23/xx	500	ABC Supply	$1.12			610
7/24/xx				390	Program B	220
Suppliers:	ABC Supply		Smith Company			
	Brown Supply		Ace Corporation			

The card should provide space to show the minimum and maximum amount of each item that should be stored. When the supply on hand nears the minimum, the storekeeper should send a requisition to the purchasing agent to replenish the stock. The stock record card should also include an adequate description of the item, its location in the storehouse, reference to the suppliers, date, source of charge or credit, and unit price.

A complete physical inventory of all stores should be made at least once a year. Any difference between the quantities recorded on the stock record cards and the physical inventory should be investigated. Adjustments should then be made on the card records to bring the book inventory into line with actual quantities on hand.

Storage facilities
The trend in storage facilities is toward fewer and larger storerooms. Increasingly expensive land and construction costs make this more economical than a multitude of storage locations. Larger storerooms also facilitate automated warehousing techniques that can minimise labour costs. It is generally suggested that NGO/CBOs:

- Receive, inspect, stock, and distribute all purchases from centralised store locations.
- Use a system where all materials stored in a closed, controlled area.
- Stock only equipment, materials, and supplies that are necessary or which can be purchased in volume quantities at significantly lower prices.

Containing costs: Through other methods
Containing costs is also called cost control or productivity improvement. It is a systematic and ongoing approach to looking for ways to reduce the cost of providing services while maintaining or increasing the quality of services. The primary goal of "cost containment" is to maintain the same or a higher level of services, yet provide them as inexpensively as possible. To be able to contain costs, one must have a way to monitor and control expenses and be able to determine the actual cost of providing a particular service.

Areas in your organisation you should examine for the potential of containing costs:

- Where a problem has already been identified by an employee or service recipient.
- Where employees perform a series of repetitive tasks or where the same task may be done in more than one place in the organisation.
- Where new technology can provide a quicker or more efficient way to perform a task or to provide for a service.
- Where work is backlogged or the work unit always misses deadlines.
- The largest service or program activity of the organisation is provided (rationale: returns on doing it better will be much higher).
- Changes other organisations have implemented that are similar to those you can make.

Cost finding for setting user fees
Cost finding is a somewhat informal and inexpensive technique of determining costs. There are no formal accounting entries to identify and record costs for specific cost centres. Instead, cost finding uses available expense information and adjusts it to derive the cost data. Costs are converted to expenses by assigning them to the period in which the resources were used.

The cost-finding process is simpler and less rigorous than cost accounting [(7)]. Special skills and computer capability are not necessary. Cost finding is not a continuous process. It is employed on an "as needed" basis. More extensive use is made of estimates and sampling which make it less precise than cost accounting. Greater emphasis is placed on direct costs [(8)]. Shortcut formulas are used in allocating overhead costs.

Examples of useful records for cost finding include: financial and budget reports, payroll registers and timesheets, work orders, labour reports, equipment use reports, purchase orders, invoices, stores requisitions, and fixed asset inventories. A budgetary accounting system with detailed expense types (personnel, services, supplies, and equipment) is a good source of relevant expense information.

Here is a description of the steps involved in one approach to cost finding:

- Identify the current total operating expenses for the program (ex. health clinic) for which costs are being collected.
- Deduct equipment expenses and other expenses such as supplies, prepaid [(9)] insurance, and pay raises benefiting another fiscal year.
- Add expenses of other fiscal years benefiting the current period such as supplies purchased in other years but consumed in the current period.

- Add depreciation [10] of the fixed assets used in the delivery of services. Depreciation recognises the cost of plant or equipment as an operating expense during the accounting period in which the assets are expected to provide benefit. The straight-line method of calculating depreciation (original cost value minus salvage value) is the simplest and most commonly used method for estimating useful life used.
- Add expenses of other funds benefiting the service such as pensions, insurance, land, equipment, and buildings.
- Total the expenses.
- Add the overhead costs [11].
- Total full costs.
- Convert full costs to unit costs (per client served).

The cost finding approach described above is an example of only one method. You will have to fine tune the process depending on the availability and use of the information and the level of preciseness desired. For example, you may decide not to adjust the expenses for other periods because personnel costs represent the major portion of costs and generally reflect the current period. Material and other costs related to other periods may not be significant enough to meet your needs. If your budget accounts reflect benefits, insurance, building, and equipment charges, you may not have to add depreciation or spend considerable time allocating expenses from other funds since the charges will be represented in the budget accounts.

Figure 24. Cost finding formula for determining the cost of a program per client

Step 1:	Start with total program operating expenses from the accounting records
Step 2:	Subtract expenses of materials bought to be used in another fiscal year
Step 3:	Add expenses of material and goods bought in another fiscal year but used in this period
Step 4:	Add depreciation of assets used in this program
Step 5:	Add expenses of other funds that benefit the program
Step 6:	This equals the total expenses of the program
Step 7:	Add overhead costs
Step 8:	This equals the total full costs of the program, e.g., providing this program service.
Step 9:	Divide total full costs by the number of clients served in the program
Step 10:	You now have the total cost per client of providing this program or service.

There are other considerations that must be taken into account besides historical data. When a new fee is being estimated for the first time and no historical data is available, the experience of other organisations of similar size and operation should be considered.

Reflection

This chapter has laid out at least six areas of operation where you can tighten up the financial aspects of your NGO/CBO operation. These include revenue collection, internal controls, inventory, purchasing, store operations and something called cost containment. Out of these categories of financial administration, pick one you think you would like to focus on in the next week or so and jot down some actions you can take to make it a more effective and efficient part of your operation.

The financial practice I want to improve is:
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My reason for focusing on this particular part of our NGO/CBO operation is:
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Steps I plan to take are:
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The improved system or practice will be installed by; (name a realistic date):
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The results I hope to achieve by these actions are:
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Key points

- There are many available options to improve the way finances are made more secure, processes enhanced, and costs contained within NGO/CBOs.

- Revenue collection practices begin with finding better ways to bill your customers, then deciding how to take their money in the most efficient way possible, and making it secure once it is collected.

- Internal controls are necessary even in religious organisations where *Thou Shalt Not Steal* is a major commandment. Given this, it behoves all NGO/CBOs to curb such employee temptations.

- However, internal controls provide lots of other benefits to your organisation: more reliable and timely data; operational efficiencies such as reduced replication of efforts; and ease in reporting your financial status to others.

- Dividing up the tasks and responsibilities of those who handle cash in the organisation is one of the best safeguards. Those who are responsible for monetary transactions also appreciate it.

- Managing inventories within most organisations is a dull but important task. If done well, it can eliminate temptations to “borrow from the store”, conserve physical space, and assure operations people that the supplies and materials are there when they need them.

- Purchasing is another area where NGO/CBOs can not only save money but also improve the efficiency and effectiveness of implementing their mission by having the right quality and quantity from the right source at the right price at the right time. It doesn’t get much better than this within most NGO/CBOs.

- In addition to competitive purchasing by preparing formal bid specifications, think about bartering, donations and collective buying as other ways to get the goods and services you need at the right price.

- Store operations can be improved significantly through better record keeping and managing the physical space required more creatively. Many NGO/CBOs fall short in both categories.

- Cost containment and cost finding are important financial tools for making your organisation more easily sustainable over time.

Endnotes

(7) Cost accounting is a broad field of accounting concerned primarily with the measurement, accumulation, and control of costs.

(8) Direct cost – a cost that can be readily identified with and traced to a specific program. Example: the salary of a nurse that is assigned full-time to a specific program.

(9) Prepaid (prepaid expense) – this is an expense paid in advance of its actual occurrence. Rent and insurance premiums are often paid in advance of the time period covered. For example, the whole year’s insurance premium may be paid a year in advance. Prepaid expenses are considered a current asset and are reduced as each month’s premium is charged to insurance expense.

(10) Depreciation - the reduction in value of a piece of equipment, machinery or other similar asset. It is a systematic allocation of the original cost of the item over its useful life. The reduction is due to the use or obsolescence of the item over time.

(11) Overhead costs are also called indirect costs, costs that cannot conveniently or economically be assigned to specific programs.

CHAPTER 6
FINANCIAL POLICIES AND THE OVERSIGHT RESPONSIBILITY

Travel advisory! Your first reaction might be: Why are we talking about the need for financial policies at this point in the manual and not earlier? Good point. However, we have a dual rationale for discussing them now. First, we believe the discussion of various components of a sound financial management system in previous chapters should increase your understanding of the importance of having clear policies. Secondly, policies are the platform on which auditors perform when they sit down to conduct their periodic review of your financial performance and accountability.

Creating a financial policy framework

Financial policies are statements created by the director and policy board to clarify their philosophy and intentions. Broadly defined, policies are formal positions taken by an organisation to support the implementation of its financial goals. Policies provide a framework for financial management and guidance for conducting the financial affairs of an NGO/CBO. The process of auditing becomes much easier when the financial management philosophy and intentions of the organisation are clear.

Informal, unwritten, incomplete, conflicting, and inconsistent financial policies are harmful to the public image of the NGO/CBO. They give the impression that the organisation's management does not know what it is doing or does not place a high priority on thoughtful and prudent financial management. Without a clear picture of the basis on which financial decisions are made by the NGO/CBO, granting agencies and users of financial information are certain to be confused and may lose confidence in the ability of the NGO/CBO management to handle its financial affairs effectively.

Sample policies

Accounting

- The NGO/CBO will establish and maintain accounting practices in accordance with generally accepted accounting principles and standards.

- The NGO/CBO will conduct a cost analysis of all services on a regular basis.

- The NGO/CBO will have an annual audit performed by an independent public accounting firm that will issue an opinion on the annual financial statements and a management letter detailing areas that need improvement.

- The NGO/CBO will establish a system of internal controls, which is periodically reviewed.

Budget

- The NGO/CBO will project revenues and expenses for the next three to five years and will update the projections annually.

- The NGO/CBO will develop a program to integrate performance measures and productivity indicators with the annual budget.

- The director or designee will perform, at a minimum, a mid-year budget review and analysis and provide the information to the policy makers.

Revenues

- The NGO/CBO will make realistic forecasts of revenue and clearly state the assumptions underlying the forecasts.

- The NGO/CBO will conduct an annual review of selected fees and charges to determine the extent to which the full cost of associated services is being recovered by revenues.

Cash management

- The NGO/CBO will invest at least xx % of its idle cash on a continuous basis where legally possible.

- The NGO/CBO will establish guidelines that emphasise safety and liquidity in the investment of funds.

Purchasing

- The NGO/CBO will solicit competitive bids for all purchases over $ xxxxxx.

- The NGO/CBO will establish a program of delivery inspection to ensure that items delivered meet specifications.

Reflection

We suggest you take a bit of time and review the suggested policy statements and put an X beside those policy statements that are like or similar to ones your organisation has adopted and operates by. As you review each of the above policy statements, also put an 0 beside those policies you don't have in effect but need to adopt. After doing your X's and 0's, record a summary of each of those with an 0 in the space below and declare what your action plan will be to get it adopted formally as a part of your organisation's operating procedures.

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Auditing

The final management process we want to discuss is financial oversight, and the oversight tool of choice is the audit. Often, NGO/CBO officials have less than favourable words to utter about the auditing process since it is often a requirement of regulatory agencies and external funding organisations. Nevertheless, it is a procedure that can help organisations become more effective and efficient in the management of their fiscal resources. Before we get more specific about auditing, we want to alert you that we will also be talking about financial policies in this final chapter as well. There is a direct relationship between your organisation's policies and the auditing act. Policies inform auditors and others about your organisation and managerial intentions. The audit, in many ways, confirms whether you fulfilled these intentions. Given this more positive spin on an age-old oversight tool, let's get more specific.

The purpose of an "external" audit is to have an independent third party verify that financial information has been prepared in accordance with legal or grant agency requirements. Using an outside auditor is the best way to ensure that numbers are valid and consistent. The most established forms of auditing in both the private and public sectors are financial and compliance. Audits can also be management enhancers. If you are having an audit performed by an outside agency, consider having those who are conducting the audit add a new task to their assignment. It is to look for ways you can increase the managerial efficiency and effectiveness of your organisation.

Financial auditing consists of a systematic examination and evaluation of the financial systems, transactions, and accounts of an organisation in order to offer an opinion on the "fairness" or reliability of its financial statements. The compliance aspect of auditing is to ensure that an organisation is following the laws that govern the handling of its general finances such as those pertaining to grant monies, spending, investing, and borrowing. A compliance audit can also focus primarily on regulations that apply to specified funds such as intergovernmental grants. Though a compliance audit can be conducted separately, it is usually more efficient and ultimately more fruitful to have it performed along with a financial audit.

Advantages of auditing

Audits can benefit NGO/CBOs in more ways than certifying that you have complied with certain rules and regulations and that there has been no irregularities in the use of your funds. Here are a few of the potential advantages that audits can provide.

- Financial audits can verify key information on which certain decisions should be based, policy as well as administrative decisions.

- They can help establish ways to ensure that this information is placed in proper perspective and made available in the most helpful form to all concerned with such decisions.

- A carefully designed audit can reveal weaknesses in an accounting system that may be obscuring the true financial picture, multiplying confusion, or promoting waste of funds and services.

- A compliance audit can clarify the meaning of regulations governing particular grants, identify available options in handling grant funds, and generally help an NGO/CBO to avoid the loss of funds that can result from failure to comply properly with all the rules attached to the various grants it receives.

Selecting the audit firm

When selecting an auditing firm it is impossible to ascertain in advance with complete confidence which firm will actually outperform others. So much depends upon the competence of the individuals assigned to the audit and how they interact with the individuals and decision-makers with whom they come into contact. During an audit, the auditor is responsible for making important, partially subjective evaluations regarding the credibility of the organisation's director and policy board, the quality of internal controls, and the rationale of exceptions to "fairness" in reporting and legal compliance.

An auditor checking the reliability of an organisation's financial statements must take into account the care with which legal regulations have been followed. Failure to comply with these regulations could result in many cases in significant enough changes to seriously alter the information in the financial statements. Most granting agencies and many central government agencies have audit requirements that stipulate a financial audit be conducted to meet their requirements and that it include a compliance review.

Audit review of internal controls

Internal controls are a system of checks and balances designed to reduce the risks inherent in handling cash, inventory items, or other assets. They are contained in the organisation's structure, processes, and procedures to safeguard the assets and ensure accurate and timely reporting.

Internal controls are the systems an organisation has established to:

- Prevent fraud and waste
- Ensure accuracy of accounting and other operating data
- Promote adherence to stated policies
- Further the efficiency of operations, and
- Ensure conformance with applicable laws or grant requirements.

Systems devised to achieve the first two objectives are usually referred to as accounting controls; those covering the latter three are known as administrative controls.

Internal controls—accounting

For the auditor, the chief purpose of examining these controls is to determine whether they can be relied upon to assure the accuracy of the various data that goes into the forming of the financial statements and to assure compliance with applicable laws. The auditor's estimate of the likelihood of errors and omissions in recording and classifying transactions is based not only on evaluation of the system but also on the staff that uses it. Thus, the review includes the NGO/CBO's organisational structure, staffing, and the specific duties of its personnel. The auditor's conclusions about the controls determine the kinds and extent of tests that will be applied to both the controls themselves and the recorded data.

Figure 25. Internal controls

- Accounting controls are basically the means of keeping track of resources
- Administrative controls are the means of using resources
- A payroll register keeps track of payments to persons on the payroll
- A personnel authorization system ensures that the appropriate people are hired or assigned to the appropriate tasks.

Another aim of internal control evaluation is to gain a sense of the potential for undetected abuse. If the potential for abuse is high, even without evidence of any irregularities, the auditor usually alerts the director and/or policy board. An example of such a potential for abuse would be a purchasing co-op for agricultural supplies where the director is the sole handler of all receipts and bookkeeping and insists on receiving only cash.

Internal controls—administrative
Another objective is to determine whether management is diligently exercising its responsibility. Although lack of diligence may have little direct impact on the auditor's formal opinion on current financial statements, it may open the way for negligence of truly significant proportions, such as the failure to respond quickly to warning signals of budgetary overruns.

Key Points

- Financial policies will provide the philosophical platform from which the auditors perform their fiscal dance.
- The outside audit will verify that your financial house is in order.
- It will also provide you with some additional benefits such as insights into changes you might want to make in your financial system to make it work more effectively for you NGO/CBO.
- An effective audit should review your organisation's accounting and administrative controls in addition to checking your compliance with external regulations and funding mandates of a fiscal nature.

COMPLETING THE CIRCLE

We have come to the end of this financial odyssey and yet the discussion of policies could also be the beginning of our journey. We've elected to put it at the end since it ties in so closely with the external audit process.

This manual is very different from others in this series. The differences are in both style and content. The style and content are more procedural and less cerebral. It also has a more prescriptive tone about many of the ideas that are put forth perhaps because financial systems are often more mechanical and less creative, and we might add, for good reason. Creative finance officers can be a problem if their creativity of what to do with funds gets out of hand.

Part II of the manual, *Management and Training Design Tools*, is also a bit different from others in the series. It has less of a "training" focus and more of a *how-to-do-it* character. We encourage you to turn the pages and take a look at the *Financial Management Assessment Worksheets* (Tool 1A). It will give a shorthand account of what you have just been reading and provide a good way to give your organisation's financial systems a quizzical overhaul. This checklist can serve as the template for undertaking a systematic renovation of your financial systems and procedures. To help in this task, see Tool 1B in Part Two, *Planning Financial Management Improvements*.

The Self-Assessment Questionnaire, *Assessing Your Organisation's Strength, Integrity and Areas for Potential Improvement* (Tool 2A) is designed to help you assemble all the information needed to undertake a strategic planning process. When you complete this assessment, you will have all the information you need to write a business plan. (See Tool 2B: *Suggested Outline for a Business Plan*). Both are designed as practical management tools to take a top-down, inside-out look at your organisation whether it is a one-person shop or a nationally recognised NGO/CBO. We hope you find them useful.

We've also included a few training designs for trainers who want to assist NGO/CBOs in their professional and organisation development efforts.