



Cayman Islands  
General Registry

# Registrar of Non-Profit Organisations Finance Handbook Part One:

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# Introduction

The Finance Handbook provides general advice on financial management, along with a Template Handbook/ policy and additional Model Spreadsheets which can be adapted by your NPO. It is in three separate parts, but all three parts should be used together.

The three parts to the Finance Handbook are:

**1: Part One: Guidance Manual.** The guidance manual is a text document providing detailed guidance on financial management matters, and detailed instructions on how to use the other documents in the Finance Handbook (Parts Two and Three).

**2: Part Two: Template Financial Handbook.** This document provides a model Financial Handbook. The Handbook contains model policies and systems for a range of financial management topics. It is designed for NPOs to adapt to their own purposes. It is an electronic document only available in soft copy.

**3: Part Three: Model Spreadsheets.** The final part of the pack is the Model Spreadsheets. This provides models of excel spreadsheet documents which can be adapted and used by the NPO. Like part Two, it is an electronic document only available in soft copy.

Parts Two and Three of the Handbook are only available in electronic format to allow for easy amendment and adoption. If you have lost your copy or would like an additional copy, please contact the General Registry/ Registrar of NPOs.

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# Introduction

The recent financial crisis resulted in a sharp decline in donor funding that caused severe financial difficulties for many non-profit organisations (NPO). Majority of NPOs utilised recommended financial management principles but that there is no statistical relationship between their use and the experience of financial distress. Further, evidence suggests that the size and age of the NPO, as well as the experience of its financial manager/ treasurer, are significant factors in whether financial distress is experienced by an NPO.

This guidance provides proven best practice principles that will assist NPOs in mitigating financing of terrorism and financial lost to the NPO. These principles when adopted will assist the NPO with better financial management which in turn will assist is reducing stress in financial management.

# 1. Financial Management

## 1.1 What is Financial Management for NPOs?

Financial Management for NPOs involves setting and following certain simple procedures. These procedures ensure that donor funds are used in the most efficient and effective methodical way, and that the organisation can meet its own objectives.

This Manual will show how effective financial management systems in an NPO will:

- Assist the Management in making more organised and informed financial decisions about the NPO in general and about projects specifically.
- Help the Management in putting together factual and timely information for reporting purposes required by the Registrar of NPOs and donors.
- Provide evidence to donors, and other stakeholders, that the NPO has a financial system in place which will ensure due diligence during the expenditure of project funds and other donations.
- Assist in reducing or eliminating fraudulent financial practices.
- Build a reputation of reliability for the NPO in the sector.

The package covers nine topics. These provide important and powerful Financial Management tools for the Board and Management that will ensure the utilization of funds in the most efficient and effective method to accomplish your NPO's goals. The topics that are covered are:

### 1: Financial Management

This section provides an overview of Financial Management for an NPO.

### 2: Budgets

Budgets are financial plans for an NPO and form the basis for all Financial Management. The Manual covers both Corporate and Project Budgets. Corporate Budgets are developed for the entire organisation and take into consideration planned incomes from all sources. The Manual will review all operational costs like salaries, transportation, rentals, utilities, stationery etc. as well as the cost of project activities. It will also review cash flow projections to provide Management with an anticipated financial direction for the NPO.

The Manual also produces and studies a Project Budget for a donor. These are limited budgets covering a specific set of activities, limited in time and resources and agreed with a donor. The guidance will show the importance of obtaining authentic quotations based on actual market prices, so that the project budget submitted to donors is based on factual and reliable costs.

### 3. Basic Financial Rules

# 1. Financial Management

Basic Financial Rules cover systems, procedures and protocols that an NPO may be expected to use to govern the exercise of its daily financial activities. Together, they strengthen Management's financial decision-making competence, enhance reporting capabilities, lessen errors and fraud, and help increase the reputation of the NPO as a strong, financially capable entity. The basic rules discussed are powerful tools that keep the NPO's financial systems strong and are appreciated by all stakeholders.

## 4. Bookkeeping and Ledgers

Bookkeeping is the basic record keeping process for an NPO, with Ledgers the tool with which it is done. Financial record keeping should be performed on a daily basis and carried out on a simple ledger. An example is provided to illustrate a simple and practical process for the preparation of ledgers. Maintaining such simple ledgers could then be utilised to prepare, Annual Returns, Financial Accounts (Balance Sheet and Income Statement) as well as various Project Financial Reports. These reports will, in turn ensure, that Management are making informed decisions about their NPOs.

## 5. Project Financial Reporting

Project Financial Reports are the formal documents that NPOs can produce to show how a donor's funds have been used. This is one of the most important external reports produced by NPOs. This section will show how to prepare the reports in a neat and tidy manner which reflects the true project expenses, as per approved donor budgets.

## 6. Financial Information for Management

Financial Information for Management is a vital tool for enabling the leadership of an NPO to make informed decisions about the NPO's strategy. The reports provide accurate data on the actual financial operations of an NPO, including the actual incomes received and expenses incurred. The Section will show how to capture this information on a simple template using data extracted from previously discussed Corporate Budgets, Project Budgets and Ledgers.

## 7. Annual Reports and Accounts

Annual Returns and Accounts are formal narrative and financial reports on the activities of an NPO over the previous year. All NPOs are required to produce them as per the NPO Law. This section will examine the Annual Returns and Accounts, identifying the specific elements that each contains.

## 8. Reserves Policy

Reserves are funds put aside by an NPO to meet unexpected circumstances. This section provides guidance on the factors to be considered when setting a level for reserves, why it is in the interests of an NPO to have a reserves policy, and how to set an appropriate reserves level and reserves policy.



# 1. Financial Management

## 9. Audits/ Reviews

Audits/ Reviews are external inspections and verification of an NPO's accounts, financial systems or project effectiveness. There are required when an NPO's gross revenue exceeds CI\$250,000.00 per financial year and remit 30% of that income off island, or when instituted by the Attorney General on recommendation from the Registrar of NPOs. Audit/Reviews can also serve as best practice and provide valuable means for an NPO and stakeholders to satisfy themselves that all is well, or to identify problems and possible solutions.

## 2. Budgets

### 2.1 What are Budgets?

Budgets are simple documents which set out how money will be spent in the future and detail the expected income which will cover this spending. They are both planning tools and predicting tools; not only do they tell you if your plans are working properly, but they also highlight potential problems which may need early action. As such, they are one of the most important management tools for an NPO.

### 2.2 Why are Budgets important?

Almost all of us individually make budgets in our daily lives. We try to figure out how much our take-home salary will be for the next month and how much we will spend on rent, food, children's school fees, transportation etc. and how much we will be able to save after all these expenses are absorbed. Budgets are important for us, personally, because they assist in alerting us if we were heading towards a deficit.

NPOs are not businesses and rely mainly on project funding and other donations which may not always be easily forthcoming. Therefore, preparing budgets for NPOs is extremely important because it alerts the management if there are dips in cash, or if a negative trend is visible in the foreseeable future. Management can then take action to avert this negative trend by reducing costs, increasing income or delaying planned activities.

Donors are very keen to see that NPOs have prepared budgets and always request to examine a copy. A budget proves to the donor that the NPO is being managed in a financially efficient and effective manner, and that the funds provided to the NPO for projects will be well looked after.

### 2.3 Can Budgets be revised?

A budget is a live document and as such should be revisited regularly. This will often lead to revisions in the budget to reflect current circumstances. No budget is perfect in predicting income and costs, and a budget should allow some limited flexibility so that it remains relevant and accurate throughout its life.

More significant changes are more complex. Major variances could be a sign that plans are going wrong or may just be the result of unpredictable external factors. Either way, a major change to a budget means a major change to the organisation's plan. As such, major changes should be agreed by the management and/or donor. Many donors impose such practices as a funding requirement: e.g. requiring that the donor is notified of a variance on any budget line of more than 10%. You should consider imposing a similar rule internally within your NPO.

Remember, even positive changes in the budget should be considered carefully. An unexpected reduction in costs or additional income may seem like a windfall, but the management should plan

## 2. Budgets

for the allocation of these funds as carefully as they would plan if there was a shortfall. A spendthrift approach is more likely to be poorly planned, wasteful or ineffective, and may burden your organisation with additional financial commitments that, long term, it cannot afford.

### 2.4 Corporate Budgets

An NPO should be working with two types of budgets: *Corporate Budgets and Project Budgets*. A corporate budget is a budget for the entire organisation. It will cover all planned incomes from all sources, all operational costs (including salaries, transportation, rentals, utilities, office costs etc) and all project costs.

A template depicting the format for a corporate budget has been developed for your use. A copy can be found in **Finance Handbook Part Three: Template Spreadsheets**. Please feel free to use this template within your NPO.

### 2.5 Corporate Budget Exercise

Copies of an example template budget and example completed budget can be found in **Annex 2.2**. You should use these to work from when completing the following exercise. This template may look cumbersome and difficult at first but is quite straight forward. Let us examine and discuss the different columns:

- **Column A** provides the description of the **items** mentioned here. For example;
  - " AA. Receipts" provides details of various kinds of project incomes such as grants or donations from miscellaneous donors;
  - "BB. Expenses" portrays various types of costs e.g. "BB.1 Salaries" shows the different types of headings for personnel employed within the NPO;
  - "BB.2 Rentals" shows headings for office space (Cell A17) and car rentals (Cell A18);
  - "BB.3 Office Expenses" reflects headings of different operational types like utilities, stationery (Cell A 25), printing (Cell A26), bank charges (Cell A34) etc.;
  - "BB.4 Activity and Program Expenses" makes mention of the various project grants the NPO has signed with donors.
- **Column B to Column M** reflect the **months** from January to December. The purpose of placing all twelve months is to reflect details of approximately which month incomes are expected to be received and approximately which month the expenses will take place. This is important because some months may witness higher expense rates and this will alert the management of the NPO of a possible cash flow situation.
- **Column N** is labelled as "**Total**" and this reflects the total intake of income from January to December (Cell N7) as well as the total expenditures (Cell N43) for the same period. In effect this is the total of Columns B to Columns M.

## 2. Budgets

- **Column O** and **Column P** show **income** from two independent project grants, called “Grant 1” and “Grant 2”. These grants provide the income that cover the costs of the budget (they “absorb” the costs). As we will see below, these columns provide key detail on how much one particular donor is paying towards salaries, rentals, operations and other project expenses.
- **Rows 45 – 47** show the **Cash Flow Projection**. This reflects the state of the NPO’s cash balances. These are key figures, as they will alert management to possible cash disruptions or short falls, as well as highlighting potential surpluses.

Annex 2 contains a completed NPO Corporate budget. We can examine this to see how a Corporate Budget might look in reality.

- Column A, Section “AA. Receipts” reflects the receipt of project income for a total of \$50,000 (Cell N3) to be received in three instalments. These are:
  - \$30,000 in February (Cell C3: funding for the initial activities);
  - \$5,000 in May (Cell F3: after delivery of first major activity); and
  - \$15,000 in August (Cell I3: the achievement of project goals).
- Further to the above, one can see project income for another grant, totalling \$25,000 (cell N4), received in different months.
- Column A, Section “BB. Expenses” shows the following:
  - BB.1 Salaries shows the 4 employees this NPO has on its payroll.
  - Columns B to Columns M show the monthly salary of each employee. E.g., Row 10 shows that the Project Manager receives a monthly salary of \$500 (Cell B10) for a yearly expense of \$6,000 (Cell N10).
- Look again at Row 10 (the “Project Manager Salary”). In Column O, one can see how the salary of the Project Manager is funded (or “absorbed”). Cell O10 shows a total of \$3,500 (Cell O10). This translates to an absorption of 7 months’ salary from project Grant 1 (7 months @ \$500 per month = \$3,500). So, Grant 1, which is for 7 months duration, is funding the salary of the Project Manager for 7 months.
- Stay with Row 10 (“Project Manager Salary”) but move to Column P (which shows money from Grant 2). This cell (Cell P10) shows that a total of \$2,000 of the Project Manager’s salary will be funded from Grant 2. This equates to four month’s salary (4 months @ \$500 per month = \$2,000). So, Grant 2, a 4-month project, is funding the salary of the Project Manager for 4 months.
- Move now to Row 17, “Office Rent”. Columns B to Columns M show the monthly Office Rent at \$350 (Cell B17), adding up to a yearly expense under Column N of \$4,200 (Cell N17). As above, Columns O and P show how this is funded. Cell O17 shows that \$2,450 comes from Grant 1,

## 2. Budgets

equivalent to 7 months Office Rent at \$350 per month. Similarly, Cell P17 shows that Grant 2 absorbs 4 months Office Rent (4 months @ \$350 per month = \$1,400). The same technique can be applied to all the other expenses in the budget.

- Often donors will not find certain kinds of expenses, for example audit costs, public liability insurances and bank charges (Rows 31, 32 and 34). These have not been taken under any grant for absorption and are considered overhead costs of the NPO which are funded from its own sources. Columns O and P for these Rows are therefore blank.
- Rows 39 – 41 show “Activity and Program Expenses”. These are the specific project costs (as opposed to corporate costs) of the two externally funded projects (Grant 1 and Grant 2). These are only headline figures. The detail of these costs will be set out in a separate project budget (see below).
- Rows 45-47 cover the Cash Flow Projection. These reflect the actual movement of funds between income and expenditures for any given month. Some examples:
  - Start with Row 45 (“Receipts – Expenditures”). Column F45 (May) shows a net positive movement (a surplus, or profit) of approximately \$2,310. This comes from the fact that total income under Column F (May) is \$5,000 (Cell F7) and total expenses \$2,691 (Cell F43). This gives a net positive movement of \$2,310. Looking along Row 45, one can see the net movement of every month on this row.
  - Move now to Row 46 (Cash Balance B/F). This stands for Cash Balance Brought Forward which states the actual bank balances brought forward from the previous month. Under Column B (January), one sees a figure of \$2,500 (Cell B46). This is the bank balance of the NPO brought forward from the previous month.
  - Finally, Row 47 shows Surplus/Deficit. This reflects the closing bank balances. For example, study Column L (November). This shows total expected income of \$5,000 (cell L7) and total expected expenditures of \$7,791 (Cell L43). This provides a net movement of cash within November of minus \$2,791 (cell L45). Couple this to the next row (Cell L46) which provides a bank balance brought forward of \$21,890. The result is the Surplus/Deficit at the month’s end, in this case a net bank balance of \$19,100 (Cell L47). Of course, the NPO will always want to see a positive figure mentioned here.

**In summary**, the Corporate Budget provides, in one page, a detailed map of how the NPO expects the 12 months to progress, and where the potential problems may be. At a glance, management can see:

- That they can expect income of \$76,100 in the year (Cell N7)).
- That they can expect to spend \$63,391 in the year (Cell N43).
- That of the total expenditure, \$44,498 (Cell O43), is expected to be funded by Grant 1 and \$17,250 (Cell P43) will be funded by Grant 2 (Column P).

## 2. Budgets

- Anticipated cash projection for the end of the year, depicts a positive bank balance closing of \$14,909 (Cell M47).
- But January may be a problem, with a projected loss of \$2,566 (Cell B45) leaving them \$66 overdrawn at the end of the month (Cell B47).

### 2.6 Project Budgets

A Project Budget is prepared by an NPO in relation to a particular project. There are usually clearly defined goals, expenses, income and time frames for the project. Often a donor will require that such a budget is agreed as part of the funding process. The rule when preparing Project Budgets for donors is very simple: be transparent and honest about the figures. Donors always like to see some details of how project funds will be utilised and during what time frame. A template depicting the format for a project budget has been developed for your use. A copy can be found in **Finance Handbook Part Three: Template Spreadsheets**. Please feel free to use this template within your NPO.

### 2.7 Project Budget Exercise

Copies of an example completed project budget can be found in **Annex 2.3**. You should use these to work from when completing the following exercise. At first sight, it is easy to see that this follows the same principles as the Corporate Budget, so it is not necessary to learn new terminologies and template settings.

Looking in more detail, one notes the following:

- The total project budget is \$49,997 (Cell N44).
- The top row shows the months. The project is anticipated to start in February (Column C) and finish in August (Column I), lasting for 7 months in total.
- As before, Column A details all the expense items. So, for example Cells A3-A6 list the salaries of all the staff who will be working on the project. The total amount requested by the NPO for Salaries is \$9,030 (Cell N7).
- Rows 10 and 11 show “Rentals”, which covers Office Rent and Car Hire. The total amount expected to be spent is \$3,150 (Cell N12) for these two expense items.
- Rows 15-29 show “Office Costs”. These include all those office expenses that the NPO expects it will incur as a direct result of implementing the project. So, for example it covers telephones (Rows 15 and 16), internet costs (Row 17), stationery (Row 18), electricity (Row 20) and gas (Row 21). Again, February to August (Columns C to I) mention the months and the amounts when these are expected to be spent for a total of \$4,358 (Cell N30).
- Finally, Rows 33-39 show “Activity and Program Expenses”. This covers all of the project activities, and the expected amounts for each activity in each month are then mentioned under the months (In this case columns D to J, as the project costs usually take a month or two to process.) Again, the total can be found in Column N.

## 2. Budgets

- Row 41 sets out the “Grand Total Expenses” (Cell A41), showing the total expenses for each of the 7 months from February (Cell C41) to September (Cell J41). This gives a Grand Total of \$46,498 (Cell N41).
- Row 43 adds a “7% Overhead”. This is a Management Fee which an NPO may choose to charge a donor. See the box below for more details on Management Fees.
- Row 44 details “Total Project Expenses”, calculated by adding the “Grand Total Expenses” (Row 42) to the “7% Overhead” (Row 43). This shows the total expenses of the project, split up into months, from February (Cell C44) to September (Cell J44). At the end of the row (Column N) one will see that all the anticipated expenses add up to \$49,997 (Cell M44), which is the total Project Budget for this project.

### 2.8 Final thoughts

As discussed above, there are certain costs that every NPO has which may not be covered by project funds. Examples given included fundraising costs, legal, audit and accounting fees and publicity. These and other un-billable expenses have to be paid for from somewhere.

Standard practice for many NPOs is to charge a “Management Fee” on all its projects. This is a percentage of the total project cost, usually about 7.5%. These funds are not allocated to any project purpose and are kept by the NPO to meet all its un-billable costs, as well as to provide a strategic reserve (see **Reserves** later in this guidance).

In this example, the overhead is added in Row 43. Some donors may find this percentage a bit high, and others may refuse to pay it. However, it is increasingly standard practice and you are well within your rights to insist that it is included.

One final piece of advice: The NPO should do its homework when making Project Budgets, to get quotations and factual costs from the open market, so that the figures presented are reliable and as close to reality as possible. This is important because during the implementation of the project the NPO should be spending as per budget, with as little deviation as possible. Of course, deviations are usually allowed by the donor but large differences will require that the NPO seek approval from the donor. This wastes everyone’s time which may require a lot of explanation and may end up in frustration. Therefore, it is strongly suggested to get it right the first time.

## Annex 2.1: Corporate Budget (Template)

DETAILED BUDGET in Pak Rs.																
Name of the NGO: XYZ																
	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
	Item	Jan-14 Amount	Feb-14 Amount	Mar-14 Amount	Apr-14 Amount	May-14 Amount	Jun-13 Amount	Jul-14 Amount	Aug-14 Amount	Sep-14 Amount	Oct-14 Amount	Nov-14 Amount	Dec-14 Amount	TOTAL Approved	ABSORPTIONS	
															GRANT 1	GRANT 2
1	<b>AA. RECEIPTS</b>															
2	<b>DONATIONS &amp; GRANTS</b>															
3	1. Grant 1															
4	2. Grant 2															
5	3. Donor 1															
6	4. Donor 2															
7	<b>GRAND TOTAL RECEIPTS</b>															
8	<b>BB. EXPENSES</b>															
9	<b>BB.1 SALARIES</b>															
10	1. Project Manager															
11	2. Project Officer															
12	3. Admin & Finance															
13	4. Assistant Project Officer															
14	<i>Total Salaries</i>															
15																
16	<b>BB.2 RENTALS</b>															
17	1. Office rent															
18	2. Car Rentals															
19	<i>Total Rentals</i>															
20																
21	<b>BB.3 OFFICE EXPENSES</b>															
22	1. Mobile Phone															
23	2. Landline															
24	3. Internet costs															
25	4. Stationery															
26	5. Printing															
27	6. Electricity															
28	7. Gas															
29	8. Water															
30	9. Local Transportation															
31	10. Audit															
32	11. Insurance															
33	12. Assets															
34	13. Bank charges															
35	14. IT Support															
36	15. Kitchen and hygiene															
37	<i>Total Office Expenses</i>															
38																
39	<b>BB.4 ACTIVITY &amp; PROGRAM EXPENSES</b>															
40	1. Project Grant 1 (as per grant budget)															
41	2. Project Grant 2 (as per grant budget)															
42	<i>Total</i>															
43	<b>GRAND TOTAL EXPENSES</b>															
44	<b>CASH FLOW PROJECTIONS</b>															
45	Receipts - Expenditures															
46	Cash Balance B/F															
47	Surplus/(Shortfall)															

## Annex 2.2: Corporate Budget (Completed)

DETAILED BUDGET in \$														Name of the NGO: XYZ	
A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P
Item	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	TOTAL	ABSORPTIONS	
	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Approved	GRANT 1	GRANT 2
														(7 Months)	(4 Months)
<b>AA. RECEIPTS</b>															
<b>DONATIONS &amp; GRANTS</b>															
1. Grant 1		30,000			5,000			15,000					50,000	50,000	
2. Grant 2							5,000		15,000		5,000		25,000		25,000
3. Donor 1		500											500		
4. Donor 2								600					600		
<b>GRAND TOTAL RECEIPTS</b>	-	<b>30,500</b>	-	-	<b>5,000</b>	-	<b>5,000</b>	<b>15,000</b>	<b>15,600</b>	-	<b>5,000</b>	-	<b>76,100</b>	50,000	25,000
<b>BB. EXPENSES</b>															
<b>BB.1 SALARIES</b>															
1. Project Manager	500	500	500	500	500	500	500	500	500	500	500	500	6,000	3,500	2,000
2. Project Officer	260	260	260	260	260	260	260	260	260	260	260	260	3,120	1,820	1,040
3. Admin & Finance	350	350	350	350	350	350	350	350	350	350	350	350	4,200	2,450	1,400
4. Assistant Project Officer	180	180	180	180	180	180	180	180	180	180	180	180	2,160	1,260	720
<b>Total Salaries</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	<b>15,480</b>	<b>9,030</b>	<b>5,160</b>
<b>BB.2 RENTALS</b>															
1. Office rent	350	350	350	350	350	350	350	350	350	350	350	350	4,200	2,450	1,400
2. Car Rentals	100	100	100	100	100	100	100	100	100	100	100	100	1,200	700	400
<b>Total Rentals</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>5,400</b>	<b>3,150</b>	<b>1,800</b>
<b>BB.3 OFFICE EXPENSES</b>															
1. Mobile Phone	20	20	20	20	20	20	20	20	20	20	20	20	240	140	80
2. Landline	30	30	30	30	30	30	30	30	30	30	30	30	360	210	120
3. Internet costs	8	8	8	8	8	8	8	8	8	8	8	8	90	53	30
4. Stationery	5	5	5	5	5	5	5	5	5	5	5	5	60	35	20
5. Printing		15	25	25	25	25	25	25	40	40	25	25	295		
6. Electricity	25	25	25	25	25	25	25	25	25	25	25	25	300	175	100
7. Gas	11	11	11	11	11	11	11	11	11	11	11	11	132	77	44
8. Water	4	4	4	4	4	4	4	4	4	4	4	4	48	28	16
9. Local Transportation	10	10	10	10	10	10	10	10	10	10	10	10	120	70	40
10. Audit					250							250	500		
11. Insurance		100						100					200		
12. Assets	650					650		1,850		450	550		4,150	3,150	1,000
13. Bank charges	3	3	3	3	3	3	3	3	3	3	3	3	36		
14. IT Support	40	40	40	40	40	40	40	40	40	40	40	40	480	280	160
15. Kitchen and hygiene	20	20	20	20	20	20	20	20	20	20	20	20	240	140	80
<b>Total Office Expenses</b>	<b>826</b>	<b>291</b>	<b>201</b>	<b>201</b>	<b>451</b>	<b>851</b>	<b>201</b>	<b>2,151</b>	<b>216</b>	<b>666</b>	<b>751</b>	<b>451</b>	<b>7,251</b>	<b>4,358</b>	<b>1,690</b>
<b>BB.4 ACTIVITY &amp; PROGRAM EXPENSES</b>															
1. Project Grant 1 (as per grant budget)		2,700	750	15,300	500	500	500	8,750	960				29,960	29,960	
2. Project Grant 2 (as per grant budget)								250	750	300	5,300	2,000	8,600		8,600
<b>Total</b>	-	<b>2,700</b>	<b>750</b>	<b>12,300</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>9,000</b>	<b>1,710</b>	<b>300</b>	<b>5,300</b>	<b>2,000</b>	<b>35,560</b>	29,960	8,600
<b>GRAND TOTAL EXPENSES</b>	<b>2,566</b>	<b>4,731</b>	<b>2,691</b>	<b>14,241</b>	<b>2,691</b>	<b>3,091</b>	<b>2,441</b>	<b>12,891</b>	<b>3,666</b>	<b>2,706</b>	<b>7,791</b>	<b>4,191</b>	<b>63,691</b>	46,498	17,250
<b>CASH FLOW PROJECTIONS</b>															
Receipts - Expenditures	(2,566)	25,770	(2,691)	(14,241)	2,310	(3,091)	2,560	2,110	11,935	(2,706)	(2,791)	(4,191)	12,409		
Cash Balance B/F	2,500	(66)	25,704	23,014	8,773	11,083	7,992	10,552	12,661	24,596	21,890	19,100			
Surplus/(Shortfall)	(66)	25,704	23,014	8,773	11,083	7,992	10,552	12,661	24,596	21,890	19,100	14,909			

## Annex 2.3: Project Budget (Completed)

DETAILED PROJECT BUDGET in \$													
Name of the NGO: XYZ													
A	B	D	E	F	G	H	I	J	K	L	M	N	
Item	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	TOTAL
	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Approved
<b>EXPENSES</b>													
<b>A. SALARIES</b>													
Project Manager		500	500	500	500	500	500	500					3,500
Project Officer		260	260	260	260	260	260	260					1,820
Admin & Finance Officer		350	350	350	350	350	350	350					2,450
Assistant Project Officer		180	180	180	180	180	180	180					1,260
<b>Total Salaries</b>	-	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	-	-	-	-	<b>9,030</b>
<b>B. RENTALS</b>													
1. Office rent		350	350	350	350	350	350	350					2,450
2. Car Rentals		100	100	100	100	100	100	100					700
<b>Total Rentals</b>	-	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	-	-	-	-	<b>3,150</b>
<b>C. OFFICE EXPENSES</b>													
1. Mobile Phone		20	20	20	20	20	20	20					140
2. Landline		30	30	30	30	30	30	30					210
3. Internet costs		8	8	8	8	8	8	8					53
4. Stationery		5	5	5	5	5	5	5					35
5. Printing													-
6. Electricity		25	25	25	25	25	25	25					175
7. Gas		11	11	11	11	11	11	11					77
8. Water		4	4	4	4	4	4	4					28
9. Local Transportation		10	10	10	10	10	10	10					70
10. Audit													-
11. Insurance													-
12. Assets	650					650		1,850					3,150
13. Bank charges													-
14. Fuel for vehicle		40	40	40	40	40	40	40					280
15. Kitchen and hygiene		20	20	20	20	20	20	20					140
<b>Total Office Expenses</b>	<b>650</b>	<b>173</b>	<b>173</b>	<b>173</b>	<b>173</b>	<b>823</b>	<b>173</b>	<b>2,023</b>	-	-	-	-	<b>4,358</b>
<b>D. ACTIVITY &amp; PROGRAM EXPENSES</b>													
1200 School Bags		2,700											2,700
Conference Head Teachers							500	8,250					8,750
Books & Racks			750					500					1,250
Teacher Training (IT)				5,300									5,300
Laptops to Teacher				10,000	500	500							11,000
M&E, Report writng									960				960
<b>Total</b>	-	<b>2,700</b>	<b>750</b>	<b>15,300</b>	<b>500</b>	<b>500</b>	<b>500</b>	<b>8,750</b>	<b>960</b>	-	-	-	<b>29,960</b>
<b>GRAND TOTAL EXPENSES</b>	<b>650</b>	<b>4,613</b>	<b>2,663</b>	<b>17,213</b>	<b>2,413</b>	<b>3,063</b>	<b>2,413</b>	<b>12,513</b>	<b>960</b>	-	-	-	<b>46,498</b>
<b>7% NGO Overhead</b>	<b>46</b>	<b>347</b>	<b>200</b>	<b>1,296</b>	<b>182</b>	<b>231</b>	<b>182</b>	<b>942</b>	<b>72</b>	-	-	-	<b>3,500</b>
<b>TOTAL PROJECT EXPENSES</b>	<b>696</b>	<b>4,960</b>	<b>2,863</b>	<b>18,508</b>	<b>2,594</b>	<b>3,293</b>	<b>2,594</b>	<b>13,454</b>	<b>1,032</b>	-	-	-	<b>49,997</b>

## 3. Financial Rules

### 3.1 What are Financial Rules?

Financial rules refer to a range of practices and policies relating to the financial transactions of an NPO. Basic rules take little effort to incorporate as policy but, when adopted, pay great dividends in the form of strengthening the leadership's financial decision-making competence, timely reporting capabilities and elimination of errors and fraud. It also increases the reputation of the NPO as a strong and financially capable entity. Strong financial management is greatly appreciated by donors, government authorities, auditors and other stakeholders.

The simple rules mentioned below are but powerful tools that keep the NPO's financial systems strong and are appreciated by all stakeholders. They will help by:

- Reducing and eliminate fraud;
- Ensuring greater transparency in financial transactions;
- Facilitating the preparation of NPO Annual Accounts;
- Providing organised material for Donor reporting;
- Facilitate the work of external Auditors; and
- Provide Management with the basis of making informed, strategic financial decisions.

### 3.2 Fourteen Essential Rules.

There are many different rules and regulations that an NPO can adopt. A few of these are considered essential. These are listed below, along with a highlight of possible issues that the leadership should consider when adopting them. Basic template rules have been set out in *Section 3* of the **Finance Handbook Part Two: Template Finance Handbook**. This section should be read in conjunction with *Section 3* of Part 2 of the **Finance Handbook**.

**1. Acquire three (3) quotations for all proposed purchases**

(See *Section 3.1* of the **Finance Handbook Part Two**). The leadership will need to set a threshold (e.g. \$1,000) above which this rule comes into force. You may add additional rules stating that the vendor is well established (e.g. has been in business for more than three years). In time the NPO will gain a reputation for obtaining quotations, thereby encouraging vendors to offer the best rates. Also, it has been observed that after-sales service improves greatly. Fraud is prevented since the option of kickbacks from a vendor to an employee is eliminated.

**2. Call for three (3) quotations for all proposed yearly service contracts**

(See *Section 3.1* of the **Finance Handbook Part Two**). This covers such things as IT maintenance contracts, security services contracts and car rental contracts. See 1 (above) for issues and justifications.

**3. Obtain public tenders on all major purchases**

(See *Section 3.1* of the **Finance Handbook Part Two**). All major purchases or contracts (for example of US \$25,000 and above) should be subject to a public tender. Public tenders are usually advertised in newspapers. A purchasing committee of 3 people can then vet the tenders received. This will assist in making the purchase mechanism transparent, fair and fraud free.

## 3. Financial Rules

4. **Always pay by bank cheque or (if available) online bank transfer**  
(See *Section 3.2* of the ***Finance Handbook Part Two***). There are many advantages to this practice. Firstly, it is safe. Unsigned cheques are worthless, and using cheques removes the need to keep large amounts of cash in the office, preventing theft or misplacement (although cheque books and account passwords should of course be kept safe). Secondly, it ensures that there is always an official record of a payment. This makes it easy to prove purchases to vendors or auditors. Thirdly, it makes corruption more difficult. Finally, it ensures that the vendor pays the proper amount of tax into the Government's treasury, boosting the economy of the country and reducing poverty. Always keep cheque books in a locked place, preferably a safe.
5. **Ensure two signatories sign cheques or approve online bank transfers**  
(See *Section 3.2* of the ***Finance Handbook Part Two***). The involvement of two people greatly reduces the risk of error or fraud.
6. **Execute bank reconciliation**  
(See *Section 3.3* of the ***Finance Handbook Part Two***). These rules ensure that all the entries on the bank statement have been checked and verified by the correct document (e.g. receipts, cheque stubs or cash logs).
7. **Carry out bookkeeping**  
(See *Section 4* of ***Finance Handbook Part One*** (below) and *Section 3.4* of ***Finance Handbook Part Two***). This has many benefits. It provides the leadership with accurate management information; it helps quickly identify problems, losses or possible frauds; and it makes the creation and audit of annual accounts at year end much simpler.
8. **Prepare corporate budgets**  
(See *Section 2* of ***Finance Handbook Part One*** and *Section 2* of ***Finance Handbook Part Two***). This is a vital activity to give the leadership an understanding of the financial situation and control over how funds are applied during the year. Budgets should be regularly reviewed (at least quarterly) to ensure that spending is on track.
9. **Safeguard project funding from donors**  
(See *Section 5* of ***Finance Handbook Part One*** (below)). Money from donors for projects is usually restricted incomes – that is, it has been provided to the NPO to accomplish particular goals and must not be used for anything else. Under no circumstances should the NPO use, borrow, lend or utilise such funding for other projects. If the NPO gets into a financial crisis and cannot implement the project then it is only ethical, and in the best interest of the NPO, to return the funds to the donor.
10. **Fulfil contractual reporting obligations.**  
(See *Section 5* of ***Finance Handbook Part One*** (below)). Project funds are provided after the signing of a contract between the NPO and the donor. This contract will specify the number, and intervals, of project reports that the donor will be expecting to receive over the life of the project. The NPO should never delay on providing such contractual reports, whatever the reason. One of the biggest yardsticks for donors to ascertain the competency of NPOs, after the accomplishments of project

## 3. Financial Rules

goals, is that the NPO provides narrative and financial reports as per the signed contract. Providing timely narrative and financial reports will almost certainly make the NPO a candidate for future funding from the same donor.

### 11. Keep details of project expenditures separate

(See *Section 5 of Finance Handbook Part One* (below)). This will help management to know how much they have spent and what amount of funds are remaining for outstanding project activities. Also, by keeping project expenditures separate, financial reporting to donors becomes simple. Some donors, on larger projects, may request that the NPO open a separate project bank account.

### 12. Comply with the NPO's objectives

(See *Section 1 of Finance Handbook Part Two*). Every NPO has stated objectives, and they are required to ensure that all of their activities are within these objectives by law. In addition, it is in the interests of the NPO to stick to the activities it was established for, both for moral and strategic reasons; morally, because the founders, volunteers and funders of the NPO supported it because of these stated objectives, and the current leadership have a moral duty to respect that; strategically, because an NPO that focuses on its core objectives will become a specialist and gain a reputation for expertise. Changing focus because of fashion or temporarily improved funding opportunities ultimately erodes the expertise and reputation of the organisation, which in turn undermines its sustainability. Of course, over a long period of time the objectives of an NPO may cease to be fit for purpose or become outdated or otherwise inappropriate. In such cases, the leadership have a responsibility to update/amend the governing document whilst respecting the principles on which the NPO was originally founded.

### 13. Ensure the NPO has a Reserves Policy

(See *Section 5 of Finance Handbook Part Two*). Reserves are a specific amount of unrestricted, free funds kept aside to act as a shock-absorber in times when funds are scarce or when there is an unexpected cost. The Leadership need to work out, based on the history of the NPO's operations, what the minimum amount of funds, in operational months, should be kept aside. For most NPOs this will be at least 3 months of normal expenditure, although the individual circumstances may make a much larger or much smaller figure as appropriate – zero reserves may even be appropriate, although this should be a deliberate decision rather than a position taken by default. Donors and other stakeholders appreciate the strong financial management of organisations that implement a Reserves Policy. This assures them that the NPO is being run by professionals who have strong financial management and will therefore utilise project funds efficiently as per budget and contract signed.

### 14. Always mark assets

(See *Section 3.5 of Finance Handbook Part Two*). Physical, movable assets with a minimum value should be marked with an NPO specific label. These assets should also be entered in an Asset Register which mentions the geographical location of assets and should be updated if the asset is transferred to the project site or other program facilities. This will keep the Management informed of the location of the assets and keep it safe from getting mixed up with assets of other organisations in the same location.

## 4. Bookkeeping and Ledgers

### 4.1 What is Bookkeeping?

Bookkeeping is the record keeping of incomes and expenditures.

Financial record keeping should be performed on a daily basis and can be carried out on a simple ledger. Maintaining a simple ledger is a very important financial management tool. It helps to keep the leadership informed of the management position of the NPO, helping them to make informed decisions about the NPO. It provides accurate and up-to-date information which can be used for updating budgets. It also helps with the preparation of annual accounts and various Project Financial Reports. These reports will, in turn ensure that the NPO can always be aware of its ongoing financial position. It all starts here with ledgers.

A simple blank ledger for you to adapt and use is included in *Finance Handbook Part 3: Template Spreadsheets*. Items may be added, modified, and amended to suit the NPO.

### 4.2 Bookkeeping Exercise

**Annex 4.1** (below) shows a sample completed ledger with financial transactions already recorded. We will use this ledger to explain the different features of a ledger and how you should use one in the day-to-day operation of your NPO. The example ledger in **Annex 4.1** is a filled-in simple ledger covering a one-month period.

The ledger is broken up into two sections:

#### **Detailed Ledger:**

The left- hand portion of the template is the Detailed Ledger, and this consists of the following headings:

Column A is “**Description**”. This mentions the same income and expense narrations which were discussed these in Section 2 on *Budgets* (above).

Column B is “**Grant**”. This requires you to enter a code or an abbreviation referring to the specific grant that is being recorded. For example:

- Cell B3 mentions GRT1, which is a code for Grant 1. Cell B4 mentions GRT2, code for Grant 2. So, all incomes and expenses in relation to Grant 1 will be coded under GRT1.
- Turn to Cell B11. This shows has the salary for the project Manager is under code GRT1. In other words, this will be charged to Grant 1.
- Turn to Cell B26. This shows that Electricity expenses for this month are also charged to Grant 1.
- Some expenses are not paid for from grant income. These are charged to Overheads, coded as “OH”. See Cell B30 (Audit Fees) for an example.

Column C is “**Attachment Number**”. This is the specific number allocated to a backup for that month (*‘Backups’* means any document which relates to the payment, e.g. receipts, cheque-stubs, invoices etc). In this example, we started by numbering the first ‘backup’ of the year ‘1’ on the 1<sup>st</sup> of January, and continued in sequence.

## 4. Bookkeeping and Ledgers

- Turn to Cell C3. This shows that this item is verified by backup '23'. So, there exists on file an attachment numbered 23 which is the 'Backup' for this item of expenditure. This may be a copy of a cheque from the donor, an agreement with the donor or an email from the donor stating that the amount was deposited into the NPO's bank account.
- Cell C11 mentions the Project Manager's attachment number as '42'. This may be a copy of his contract, or his pay slip for that month or a copy of the cheque for his salary for the month. This backup will be marked '42'.
- The attachment number in Cell C28 is '30'. This relates to Water Expenses, and there will be a water bill or something similar which is the backup in this case.
- Sometimes you may have more than one attachment number mentioned under this section, for example, under Cell C29 you see three attachments mentioned as 29, 39 and 46. Two may be bank transaction attachments and one may be petty cash transaction.

Column D is "**Bank Transactions**". This covers all income and expenditure directly from the NPOs bank account. This may be by cheque, online transfer, transfer letter. All these transactions are mentioned in this column.

- Turn to Cell D3. This shows \$30,000 from Grant 1 was paid directly into the bank account. This was probably a deposited cheque or bank transfer.
- Similarly, Cell D6 shows \$350 received from Donor 1.
- Expenses are also shown. Cell D11 shows the payment of the salary of the Project Manager. \$500 was paid either through a cheque or bank transfer.
- Cell D25 shows a payment of \$12 for a printing bill. Cell D34 shows \$35 paid for the IT Support contract. Both were likely cheques.

Column E is "**Petty Cash Transactions**". This covers all income and expenditure in cash.

- You will note that there is no income received as cash. This reflects that most income from donors will be by a more formal banking method like cheque or bank transfer.
- There are some cash expenses, however. Cell E22 shows \$21 for payment of Landline phone costs, and Cell E26 shows \$19 paid from petty cash for an Electricity bill.
- Cell E 35 shows \$11 for Kitchen and Hygiene costs, which reflects informal petty cash purchases for tea, sugar, milk, cleaning materials etc. from the local shop.

Column F is "**Total Transactions**". This is the sum of the Bank Transactions under Column D and the Petty Cash Transactions under column E.

- For example, Cell F29 shows Total Local Transportation and Fuel costs of \$33, obtained by adding the Bank Transactions of \$30 (Cell D29) and Petty Cash Transactions of \$3 (Cell E29).

There is no column for **dates** as to when the actual transaction took place. This is to be mentioned on the actual backups for the income or expense. If you wish for this to be mentioned on the ledger itself, it is relatively simple to add another column for dates.

### Summary Ledger:

## 4. Bookkeeping and Ledgers

The right-hand side of the ledger is the Summary Ledger, and this is provided for management to make informed financial decisions on the strategy for the next month. Much of the Summary Ledger is populated with information harvested from the Detailed Ledger.

There are three parts to the Summary Ledger. The first part aggregates the important information from the Detailed Ledger. It is made up of the following:

Column G is Description. It only contains two rows, Total Receipts and Total Expenditures.

Column H is “**Total Bank Transactions**”. This consists of two rows.

- Cell H2 reflects total income received through bank transactions. The total in this example is \$30,350. This figure is taken from the Detailed Ledger Cell D8.
- On the same basis, Cell H4 shows total income from petty cash. Again, this information is taken from the Detailed Ledger.

Column I is “**Total Petty Cash Transactions**”. This also consists of two rows.

- Cell I2 shows total income received through petty cash. This reflects the total from the Detailed Ledger in (Cell E8). In this case, the total 0.
- Cell I4 shows total expenses made through petty cash transactions. This again is copied from the total in the Detailed Ledger (Cell E50).

Column J is “**Total Transactions**”. This simply adds the totals from Columns H and Columns I.

- Cell J2 shows Total Receipts of \$30,350 by adding Total Receipts from Bank Transactions (\$30,350, Cell H2) to Total Receipts from Petty Cash Transactions (\$0, Cell I2). This calculation is copied to calculate total expenditure, with the result in Cell J4.

The second part of the Summary Ledger is “**Bank Reconciliation**”.

- This starts by manually entering the shows “**Bank Balance Brought Forward**” in Cell I9. This is the closing balance in the bank account at the end of the last accounting period. Last month’s closing figure becomes this month’s opening figure. In this case our opening figure is \$976 mentioned in Cell I9.
- The next section is “**Add total Receipts for the Month**” and “**Minus Total Expenses**”. These figures can be gathered from the Summary section 1. Remember, this is the Bank Reconciliation, so only use the bank receipts and expenditures from Column H.
- In this example, total receipts from bank transactions of \$30,350 (Cell H2) and total expenditure (Cell H4) are copied into Cells I10 and I11 respectively. If you are using the Template Ledger from *Finance Handbook Part 3*, this is done automatically.
- Cell G12 shows the “**Bank Closing Balance**” for the end of the month, calculated from the figures above (Bank Balance Brought Forward (\$976 Cell I9) PLUS Total Receipts for the Month (\$ 30,350 Cell I10) and MINUS Total Expenses for the Month (\$4,999 Cell I11). This closing figure becomes the Brought Forward Figure for the next month.

The third part of the Summary Ledger is “**Petty Cash Reconciliation**” and is mentioned in Column G. This follows exactly the same principle as for Bank Reconciliation.

## 4. Bookkeeping and Ledgers

- Cell G16 is “**Petty Cash Brought Forward**”, which is entered manually using the closing figure from the previous month. In this case our opening figure is \$115 mentioned in Cell I16.
- The next section is “**Add total Receipts for the Month**” and “**Minus Total Expenditure**” can be gathered from Column I in Section 1 of the summary (see above).
- **However**, if you look at the Cell D36 in the Detailed Ledger, you will see that \$65 was transferred from the bank to petty cash to deal with petty cash expenses. This transaction has to be mentioned here. Therefore, Cell I17 will have a balance of \$65.
- Cell G19 the “**Petty Cash Closing Balance**”. This is calculated in the same way as the “**Bank Closing Balance**”. This gives a closing Petty Cash Balance figure \$117 (Cell 19). As before, this closing figure becomes next month’s opening figure.

### 4.3 Conclusion

In summary, ledgers are organised tools used to capture incomes received and expenses made. Keeping an organised ledger on a daily basis will result in a finished product that looks similar to the ledger we have been discussing in the paragraphs above.

One ledger must be prepared for every month of the year. At the end of the year you can close the NPOs financial books with twelve ledgers. These completed ledgers then form the basis for the annual financial accounts, as well as for project management reports which can be submitted to donors. The monthly ledgers also provide up-to-date and accurate information which will assist in making informed decision on the NPO’s financial position.

Remember, a template for you to adapt and use has been included in the *Finance Handbook Part Three: Template Spreadsheets*.

## Annex 4.1: NPO Ledger (Completed)

						Name of the NGO: XYZ For the Month:				
DETAILED LEDGER						SUMMARY LEDGER				
A	B	C	D	E	F	G	H	I	J	
Description	Grant	Attachment Number	Bank Transactions	Petty Cash Transactions	Total Transactions	Description	Total Bank Transactions	Total Petty Cash Transactions	Total Transactions	
1	<b>AA. RECEIPTS</b>									
2	<b>DONATIONS &amp; GRANTS</b>									
3	1. Grant 1	GRT1	23	30,000	-	30,000				
4	2. Grant 2	GRT2		-	-	-				
5	3. Grant 3	GRT3		-	-	-				
6	4. Donor 1	DR1	24	350	-	350				
7	5. Donor 2	DR2		-	-	-				
8	<b>GRAND TOTAL RECEIPTS</b>					<b>30,350</b>	<b>-</b>	<b>30,350</b>		
9	<b>BB. EXPENSES</b>									
10	<b>BB.1 SALARIES</b>									
11	1. Project Manager	GRT1	42	500	-	500				
12	2. Project Officer	GRT1	43	260	-	260				
13	3. Admin & Finance	GRT1	44	350	-	350				
14	4. Assistant Project Officer	GRT1	45	180	-	180				
15	<i>Total Salaries</i>			<b>1,290</b>	<b>-</b>	<b>1,290</b>				
16	<b>BB.2 RENTALS</b>									
17	1. Office rent	GRT1	31	350	-	350				
18	2. Car rental	GRT1	26	100	-	100				
19	<i>Total Rent</i>			<b>450</b>	<b>-</b>	<b>450</b>				
20	<b>BB.3 OFFICE EXPENSES</b>									
21	1. Mobile Phone	GRT1	35	18	-	18				
22	2. Landline	GRT1	38	-	21	21				
23	3. Internet costs	GRT1	41	6	-	6				
24	4. Stationery	GRT1	47	3	-	3				
25	5. Printing	OH	25	12	-	12				
26	6. Electricity	GRT1	36	-	19	19				
27	7. Gas	GRT1	37	-	6	6				
28	8. Water	GRT1	30	-	3	3				
29	9. Local Transportation and Fuel	GRT1	29+39+46	30	3	33				
30	10. Audit	OH	34	25	-	25				
31	11. Insurance	OH	32	2	-	2				
32	12. Assets			-	-	-				
33	13. Bank charges	OH	33	2	-	2				
34	14. IT Support	OH	27	35	-	35				
35	15. Kitchen and hygiene	OH	28+40	-	11	11				
36	16. To Petty Cash	OH	50	65	-	65				
37	<i>Total Office Expenses</i>			<b>198</b>	<b>63</b>	<b>261</b>				
38	<b>BB.4 ACTIVITY &amp; PROGRAM EXPENSES</b>									
39	1. Purchase and distribution 4000 School Bags			-	-	-				
40	1.1 Payment for purchase of bags	GRT1	48	2,998	-	2,998				
41	2. Conference with Head Teachers			-	-	-				
42	2.1 Advance to Hotel for hosting Conference			-	-	-				
43	3. Books & Racks for 10 Libraries			-	-	-				
44	4. Teacher Training (IT Solutions)			-	-	-				
45	5. Laptops to Teacher during training			-	-	-				
46	6. Water wells for 20 Schools			-	-	-				
47	7. Monitoring and Evaluation and Report Writing			-	-	-				
48				-	-	-				
49	<i>Total Activity &amp; Program Expenses</i>			<b>2,998</b>	<b>-</b>	<b>2,998</b>				
50	<b>GRAND TOTAL EXPENSES</b>					<b>4,936</b>	<b>63</b>	<b>4,999</b>		

## Annex 4.2: NPO Ledger (Template)

Name of the NGO: XYZ		DETAILED LEDGER				SUMMARY LEDGER			
For the Month:									
A	B	C	D	E	F	G	H	I	J
Description	GRANT	ATTACHMENT NUMBER	BANK TRANSACTIONS	PETTY CASH TRANSACTIONS	TOTAL TRANSACTIONS	Description	TOTAL BANK TRANSACTIONS	TOTAL PETTY CASH TRANSACTIONS	TOTAL TRANSACTIONS
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									
11									
12									
13									
14									
15									
16									
17									
18									
19									
20									
21									
22									
23									
24									
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# 5. Project Financial Reporting

## 5.1 What is Project Financial Reporting?

NPOs with long-term ambitions to improve their communities almost always obtain external project funding. The donor provides the NPO with a particular amount of funds and with specific goals to achieve within a limited period of time. Contractual documents signed between the donor and the management of the NPO will state that narrative and financial reports are required, as well as the specific time periods when the donor expects to receive both. NPOs with long-term ambitions will therefore need to be able to produce good quality project financial reports.

Narrative reports are a means for the donor to ascertain the progress that has been achieved towards the attainment of project goals. Financial reports, which will look at in detail in this section, are to:

1. Confirm to the donor that the NPO's spending in particular categories are within approved limits. These categories are called 'line items', as they occupy a single line on the budget spreadsheet.
2. Confirm to the donor that the NPO is spending as per approved set of expenditures: For example, if the management of the NPO goes on a foreign trip and this is not part of the approved set of expenditures then the donor will not approve such expenses as related to the project.
3. Confirm that the financial report is in harmony with the narrative report. The narrative report will mention that the NPO has started with the project and perhaps obtained quotations or achieved a needs analysis. The financial report should reflect the same spending. For example, the financial report cannot reflect that the NPO has purchased 100 computers when this is not mentioned in the narrative report. Both reports should be in harmony with each other.

A simple blank reporting form for you to adapt and use is included in *Finance Handbook Part 3: Template Spreadsheets*. The template is simple, but strong and very transparent. Items may be added, modified and amended to suit the project. A copy is also provided in **Annex 5.1** (below) for your reference.

This section will also show how budgets and ledgers provide the information needed to simply produce accurate reports. We will be referring to the materials from these sections in the exercise.

## 5.2 Layout of the Project Reporting Form

Look at **Annex 5.1 "Project Financial Reporting (Template)"**.

On the top left-hand corner is the information on the project. "**Donor Reference**" is the abbreviation or code used by the donor. "**Period of Reporting**" refers to the time period (usually 1, 3, 6 or 12 months) that the report covers. Finally, "**Project Title**" is the official name that the NPO has provided to this project.

Let's start with Column A, "**Description**". This is simply a description of the expenditure items ('Line Items') that it has been agreed will be paid for by the project. It covers such things as salaries, vehicles, rent, printing, materials etc.

Turn now to Column B, "**Donor Approved Budget**". This is the budget that the donor has approved for each 'line item' in the project. These figures will have been agreed at the beginning of the project, and do not change without donor approval. The donor examines financial reports to confirm that the spending level by the NPO is within these limits and that these have not been exceeded. Often the donor has a flexibility policy (usually 10%), which will be mentioned in the project contract. This means that if the NPO goes over a

## 5. Project Financial Reporting

specific line item like, this extra cost will have to be offset by savings from another line items (so, for example, an extra \$1,000 spent on salaries will be offset by a \$1,000 saving on rentals). The total cost of the budget (Cell B14) will remain the same.

Turn to Column C, “**Project Expenses to Date**”. This reflects the actual total project expenses that the NPO has carried out. It enables a direct comparison between the agreed budgets (Column B) and the ‘Actuals’ (Column C). It covers all items of expenditure from its inception (start) to the current date (present). This information will be available to us from the Ledgers that were covered in Section 4.

Now look at Column D, “**Amount Remaining**”. This is basically the calculation of the Donor Approved Budget (Column B) Minus Project Expenses to Date (Column C). The figure that you will see in this column is the remaining amount from the budget that will be spent on the project by the NPO.

At the bottom of the form is a space for verifying the contents of the report. The report is signed and dated by a named project officer (who completed the report) and a senior official of the NPO (who verifies its contents).

### 5.3 Reporting Form Exercise

**Annex 5.2** (below) shows a sample completed project reporting form with financial transactions already recorded. We will use this sample completed report (**Annex 5.2**) to explore the different features of a reporting form and how you should use one in the operation of your NPO. You will also need **Annex 2.3: Completed Project Budget** and **Annex 4.1: NPO Ledger (Complete)** for this exercise, so please have these documents handy.

Let’s start with Column A, “**Description**”. If you compare the Completed Form (**Annex 5.2**) with the Completed Project Budget (**Annex 2.3**), you will see listed the same expense headings. For example:

- In **Annex 2.3**, “BB.1 Salaries” (Cell A2) is the same as “BB.1 Salaries” (Cell A4) in **Annex 5.2**.
- Similarly, “BB.2 Rentals” in **Annex 2.3** is the same as “BB.2 Rentals” in **Annex 5.2**.
- Indeed, all expense line items mentioned in the Project Budget template (**Annex 2.3**) are the same as the ones mentioned in the Project Financial Report (**Annex 5.2**).

Column B is the “**Donor Approved Budget**”. Figures to be mentioned here are the ones approved by the donor and are extracted from **Annex 2.3**.

- Look first at the total approved “Salaries” in **Annex 2.3** (Cell N7). The total approved budget for Salaries is \$9,030. This figure is copied into the Project Financial Report in Cell B4.
- Following the same principle, the total “Rentals” budget (**Annex 2.3**, Cell N 12) is copied in **Annex 5.2** Cell B6. The same is true for all the line items.
- The result is a total approved budget of \$46,498, shown in both **Annex 2.3** Cell N42, and **Annex 5.2** Cell B12.

Column C is the “**Project Expenses to Date**”. This reflects total project expenses that the NPO has carried out from the start of the project to the date when they prepared the Report. Details of the expenses are extracted from the NPO ledgers for the reporting period.

## 5. Project Financial Reporting

- First, we need to know how much in total was spent on “Salaries”. The NPO ledgers for the reporting period show us that \$1,290 was spent on salaries in the January and February. This figure is placed in the Project Financial Report (Cell C4).
- Again, this process is repeated for all line items. So, the total spent on “Rentals” in the month (Annex 4.1, Cell F19) is placed in the Project Financial Report (Annex 5.2, Cell C6).
- Grand total expenses that we are showing on the Project Financial Report are \$5,390. This should tally with the total reported in the ledgers.

Now turn to Column D “**Amount Remaining**”. This is basically the calculation of the Donor Approved Budget (Column B) Minus Project Expenses to Date (Column C). This simple calculation provides key management information on how the project is progressing against plans.

- For example, \$750 has been spent on “Salaries” from a total budget of \$9,030. This leaves a balance of \$8,280 to be spent on salaries for the rest of the project.
- A similar calculation shows a balance of \$26,962 remaining to be spent for Activities and Program.

Finally, look at Row 13. This calculates the Overhead that the NPO is earning on the project. This overhead (often known as a ‘Management Fee’ is a vital charge for most NPOs as it generates unrestricted funds which can be used for a range of non-project expenses. This includes such things as building reserves, fundraising costs, and professional advisors such as lawyers or accountants.

In this project, an overhead of 7.5% is charged (this is a standard amount). Cell C13 shows that in the project to date, the management fee is calculated at \$406. This is added to actual expenses to date of \$5,390 to give a total spend on the project of \$5,796. Cell D13 shows that \$3,088 remains to be claimed as overhead on the project.

### 5.4 Golden Rules of Project Financial Reporting

The credibility of your reports determines your credibility as an NPO. Reports are an opportunity to demonstrate your transparency and honesty. Remember, in about 10% of cases donors audit projects, and unexplainable discrepancies between reports and reality will destroy your relationship. So:

1. Always load genuine project expenses on to these reports and describe them accurately.
2. Mention all the figures in the Project Financial Report, and never leave any out, for whatever reason.
3. Always provide donor reports on time.
4. Prepare reports as neatly and as clearly as possible.
5. Try to keep expenditure within the approved limits, but if this is not possible be sure to highlight the over- (or under-) spend as soon as possible, with reasons as to why it happened. Donors dislike surprise almost as much as inaccuracy and lateness.
6. Do not try to hide bad news.

Annex 5.1: Project Financial Report (Template)

**PROJECT FINANCIAL REPORT**

DONOR REFERENCE \_\_\_\_\_  
 PERIOD OF REPORTING \_\_\_\_\_  
 PROJECT TITLE: \_\_\_\_\_

	A	B	C	D
	DESCRIPTION	Donor Approved Budget	Project Expenses To Date	Amount Remaining
1				
2				
3	<b>BB. EXPENSES</b>			
4	<b>BB.1 SALARIES</b>			-
5				
6	<b>BB.2 RENTALS</b>			-
7				
8	<b>BB.3 OFFICE EXPENSES</b>			-
9				
10	<b>BB.4 ACTIVITY &amp; PROGRAM EXPENSES</b>			-
11				
12	<b>GRAND TOTAL EXPENSES</b>	-	-	-
13	<b>7.5 % NGO Overhead</b>	-	-	-
14	<b>TOTAL PROJECT EXPENSES</b>	-	-	-

15 Prepared By : \_\_\_\_\_ Approved By: \_\_\_\_\_  
 16 Signature \_\_\_\_\_ Signature \_\_\_\_\_  
 17 Date \_\_\_\_\_ Date: \_\_\_\_\_

## Annex 5.2: Project Financial Report (Completed)

DONOR REFERENCE: CF/001/2020

PERIOD OF REPORTING: Month 1 (1-28 February 2020)

PROJECT TITLE: Capacity Building and School Support

	A	B	C	D
	DESCRIPTION	Donor Approved Budget	Project Expenses To Date	Amount Remaining
3	<b>BB. EXPENSES</b>			
4	<b>BB.1 SALARIES</b>	9,030	750	8,280
5				
6	<b>BB.2 RENTALS</b>	3,150	800	2,350
7				
8	<b>BB.3 OFFICE EXPENSES</b>	4,358	842	3,516
9				
10	<b>BB.4 ACTIVITY &amp; PROGRAM EXPENSES</b>	29,960	2,998	26,962
11				
12	<b>GRAND TOTAL EXPENSES</b>	<b>46,498</b>	<b>5,390</b>	<b>41,108</b>
13	<b>7.5% NGO Overhead</b>	<b>3,494</b>	<b>406</b>	<b>3,088</b>
14	<b>TOTAL PROJECT EXPENSES</b>	<b>49,992</b>	<b>5,796</b>	<b>44,196</b>

15	Prepared By : _____	Approved By: _____
16	Signature _____	Signature _____
17	Date _____	Date: _____

# 6. Financial Information for Management

## 6.1 Introduction to Financial Information for Management:

Financial Information for Management is information on actual financial operations of the NPO. It reflects the actual income received, and actual expenses incurred in the previous month. This information is captured on a simple template extracted from the budgets and ledgers which are discussed above.

Financial Information templates are produced for various reasons:

1. **For the Management of the NPO:** It is essential for the leadership to understand the financial position of the NPO in real time. This enables them to manage the NPO by identifying problems and informing strategic decisions.
2. **For preparation of Annual returns:** The Financial Information Template brings the financial operational data which provides the bases of the Annual returns. It also helps auditors.

## 6.2 How does the Template Work?

Look at **Annex 6.1: Financial Information for Management template**. The main body of the template and the descriptions are the same as the ones used for Corporate Budgets and NPO Ledgers.

One template is used for the whole year, and at the end of every month the information for that specific month is filled into the template. At the end of twelve months the NPO has a fully completed Financial Information for Management report for the year.

Column A, under “**Items**” has exactly the same descriptions under Receipts and Expenses as previously mentioned under **Annex 2.2: Corporate Budget (Completed)** and **Annex 4.1: NPO Ledger (Completed)**.

Columns B to N, reflect the **months** in the year, and have the same description and layout as for those mentioned in **Annex 2.2** and **Annex 2.3** (above). The figures now are **actual** figures. These actual figures will be taken from the monthly NPO ledgers.

Column O has been labelled as **Approved Budget**. This is the approved budget for the NPO.

Column P is termed as **Variance**. This column reflects figures which will be the difference between actual figures and the approved budget. In effect this will be the difference between Column N and Column O. This explains the difference between what was planned and what actually was received as income or spent as expenditures. This column is a very important and powerful tool for managers. It shows if the NPO is heading in the direction as per plan. Based on these figures the NPO’s Leadership can then make informed strategic financial decision about changes in direction required.

Columns R and S are termed as “**Absorptions**” and are the same as discussed under **Annex 2.2: Corporate Budget (Completed)**. In summary this reflects what amount of income is received for a specific grant and what amounts of expenditures were spent against a specific grant. This is another useful too. It informs the Leadership of the amounts of expenditures the grants are funding. Management will want to see that most of their billable expenditures have been loaded against grants and that the reliance on Overheads is minimal. This then forms the heart of the template.

## 6. Financial Information for Management

Rows 44 to 47 reflect **Cash Flow** in real terms. This section is very important for management to ascertain if they have enough funds to carry out project implementation and cater to other operational requirements. On the other hand, there may be a surplus of funds which allow the NPO to carry out other work.

### 6.3 Working Example of the Financial Information for Management Report:

Please turn your attention to **Annex 6.2: Financial Information for Management (Completed)**. This is a template filled with real figures for all twelve months in the year and analyses the NPO's performance against an approved budget. Additionally, this also reflects the amount of expenditures that was loaded to each project.

- **Actual figures taken from NPO template:**

The figures for each month on the Financial Information for Management report (Columns B - M labelled as January to December) have been taken from specific monthly NPO Ledgers. For example, ALL the figures under Column C for February, on the Financial Information for Management report, have been taken from **Annex 4.1: NPO Ledger (Completed)**.

The NPO Ledger (**Annex 4.1**) shows Total Receipts as \$30,350 in Cell F8 and this is the same figure as mentioned in Column C for Total Receipts under Cell C7 in the Financial Information for Management report (**Annex 6.2**). Similarly, total expenses for \$4,999 on the NPO ledger (Cell F50) is also mentioned as total expenses for February under Column C (Cell C43) in the Financial Information for Management report. Information for the other months would be taken from the NPO Ledgers of that respective month. For example, to complete the figures for July (Column H) you would have to consult the NPO Ledger for July.

Point to note here is that an NPO's Ledger provides a synopsis of one month's financial information, but the Financial Information for Management report provides a holistic view of the NPO for the whole year.

- **Analysis of Actual Receipts and Expenses to Budgets:**

Please now turn your attention to Column N which is labelled as **Total** from January to December, and compare this to Column O which is the **approved Budget** (taken from the Corporate Budget (**Annex 2.2**)). The result is shown on Column P under **Variance**.

Column O mentions that \$76,100 was budgeted to be received. Column N tells us that the NPO received a total of \$75,750 (a shortfall of \$350 mentioned in Column P Cell P7). Going deeper you will see that Donor 1 (Cell N5) only provided \$350 against an anticipated \$500 (difference of \$150 mentioned in Column P Cell P5) and Donor 2 (Cell N6) only provided \$400 of the budgeted \$600 (difference of \$200 mentioned under Column P Cell P6). Please note that this information mentioned as Variances in the top portion of Column P instantly provides Management with a view of where they need to beef up their efforts to gain missed budgeted incomes.

Similarly, for the expense side, we see that the NPO spent a total of \$66,669 (Cell N43) against a budgeted expenditure of \$66,691 (Cell O43). This means that the NPO spent \$22 less, in total,

## 6. Financial Information for Management

than what was budgeted. If you look closely you will witness that the NPO spent \$250 less (Cell P14) on Salaries and spent \$20 more (Cell P19) on Rentals. Obviously, if the NPO would have spent more than what was budgeted, management would have evaluated what actions were required to lower expenditures.

- **Grant Expenditures compared to Budget:**

Columns R and S are reflecting the amounts **Grants absorbed** for the expenses incurred by the NPO.

Please examine Grant 1 under Column R. These figures come from **Annex 2.3: Project Budget (Completed)**. Comparing the actual figures under Column R of the Financial Information for Management report and the Project Budget from Annex 2.3, you will notice that Total Receipts of \$50,000 were received by the NPO, exactly as budgeted. On the expense side, programme expenditure was \$28,704 (Cell R41) against a budgeted \$29,960 which means that \$1,256 was saved. However, you will see that \$10,120 (Cell R14) was spent for Salaries against a budget \$9,030 (**Annex 2.3**) which is \$1,090 more than anticipated. \$ 3500 were spent on Rentals (Cell R19) against a budgeted \$3,150 which is \$350 more than anticipated.

This is not something that should have happened and the NPO should have placed stricter controls in place to stop such over spending. As mentioned under *Project Budgets* (Section 2.6, above), this is not viewed favourably by donors. Luckily, this is less than 10% of the budgeted amount and can be covered by the savings elsewhere. The point here is that monitoring of project funds and expenditures is crucial and it is in the interest of the NPO's future to remain within budgeted amounts. This 10% could easily have been larger.

- **Grant Financial Performance:**

Grant 1 has been implemented and total expenditure reflected is at \$46,413 (Cell R43). Now to this figure, we shall add \$3,500, which was budgeted by the NPO as overhead earnings for the implementation of the project, and this brings the total Grant 1 expenditure to \$49,913.

The donor provided the charity with \$50,000. Therefore, the NPO should refund to the donor \$87 because the project was implemented with lower funds than budgeted. This is only 0.5% of the total budget but the impact this will have on the donor is tremendous. This will prove to the donor that the NPO:

- a. Budgeted for the implementation of the project
- b. Had a proper mechanism to absorb costs for Project Funds
- c. Implemented the project within 99.5% of the budgeted amount
- d. Acted ethically in refunding the surplus remaining amount of Project Funds to the donor.

- **Analysis on Cash Flow:**

## 6. Financial Information for Management

In January the NPO started off with a brought forward cash balance of \$2,500 (Cell B46) and closed its books with a positive \$12,581 (cell M47) in December. **Annex 2.2: Corporate Budget (Completed)** reflects a budgeted closing of a positive \$14,909 (Cell M47).

This is a reduction in anticipated bank balances of \$2,400. The Management will be keen to analyse the reason for this drop. In summary the Actual Receipts were down by \$350 (Cell P7). Additionally, expenditure on salaries and office expenditure were all more than expected. Management may want to analyse their budgeting procedures to avoid such shortfalls in the future.

### 6.4 Importance of using Financial Information for Management reports

- The report compares actual figures against budgets and encourages Management to address large variances. Lower than anticipated receipts of income, or higher expenditures, can become detrimental to the financial health of NPOs.
- The report reflects the receipts of incomes, and absorption of expenditures, for Project funds. Management is always interested to confirm that most expenditures are being absorbed by project grants and that the loading on overhead are minimal, as these must be paid for from the NPOs own free funds.
- The report produces a Cash Flow. This reflects the results of the operations of the NPO. Variances in actual figures against budgets will certainly affect Cash Flow (reduces or increases cash in the bank) and encourages Management to keep an eye on this section to ensure that strategies are going accordingly to plan, if not better.
- The report is a simple but powerful template, containing a lot of information, which is used by Management to make informed, and timely, financial decisions about the NPO.
- The report is used effectively to extract information for Annual Accounts required by Government entities.
- And finally, this report is very much appreciated by Auditor, since most of the important figures they look for are summarised on this template and they can then sample their investigation based on this report.

## Annex 6.1: Financial Information for Management (Template)

Financial Information for Management														(Logo of the NGO)			
A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	R	S
Item	Jan-20 Amount	Feb-20 Amount	Mar-20 Amount	Apr-20 Amount	May-20 Amount	Jun-20 Amount	Jul-20 Amount	Aug-20 Amount	Sep-20 Amount	Oct-20 Amount	Nov-20 Amount	Dec-20 Amount	TOTALS	APPROVED BUDGET	VARIANCE	ABSORPTIONS	
																GRANT 1	GRANT 2
<b>AA. RECEIPTS</b>																	
<b>DONATIONS &amp; GRANTS</b>																	
1. Grant 1																	
2. Grant 2																	
3. Donor 1																	
4. Donor 2																	
<b>GRAND TOTAL RECEIPTS</b>																	
<b>BB. EXPENSES</b>																	
<b>BB.1 SALARIES</b>																	
1. Project Manager																	
2. Project Officer																	
3. Admin & Finance																	
4. Assistant Project Officer																	
<b>Total Salaries</b>																	
<b>BB.2 RENTALS</b>																	
1. Office rent																	
2. Car Rentals																	
<b>Total Rentals</b>																	
<b>BB.3 OFFICE EXPENSES</b>																	
1. Mobile Phone																	
2. Landline																	
3. Internet costs																	
4. Stationery																	
5. Printing																	
6. Electricity																	
7. Gas																	
8. Water																	
9. Local Transportation																	
10. Audit																	
11. Insurance																	
12. Assets																	
13. Bank charges																	
14. IT Support																	
15. Kitchen and hygiene																	
<b>Total Office Expenses</b>																	
<b>BB.4 ACTIVITY &amp; PROGRAM EXPENSES</b>																	
1. Project Grant 1 expenses																	
3. Project Grant 2 expenses																	
<b>Total</b>																	
<b>GRAND TOTAL EXPENSES</b>																	
<b>CASH FLOW</b>																	
Receipts - Expenditures																	
Cash Balance B/F																	
Surplus/(Shortfall)																	

## Annex 6.2: Financial Information for Management (Completed)

Financial Information for Management														(Logo of the NGO)			
A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	R	S
Item	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	TOTALS	APPROVED BUDGET	VARIANCE	ABSORPTIONS	
	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount	Amount			GRANT 1	GRANT 2
<b>AA. RECEIPTS</b>																	
<b>DONATIONS &amp; GRANTS</b>																	
1. Grant 1		30,000			5,000			15,000					50,000	50,000	-	50,000	
2. Grant 2							5,000		15,000		5,000		25,000	25,000	-		25,000
3. Donor 1		350											350	500	(150)		
4. Donor 2									400				400	600	(200)		
<b>GRAND TOTAL RECEIPTS</b>	<b>-</b>	<b>30,350</b>	<b>-</b>	<b>-</b>	<b>5,000</b>	<b>-</b>	<b>5,000</b>	<b>15,000</b>	<b>15,400</b>	<b>-</b>	<b>5,000</b>	<b>-</b>	<b>75,750</b>	<b>76,100</b>	<b>(350)</b>	<b>50,000</b>	<b>25,000</b>
<b>BB. EXPENSES</b>																	
<b>BB.1 SALARIES</b>																	
1. Project Manager	250	500	500	500	500	500	500	500	500	500	500	500	5,750	6,000	(250)	3,750	2,000
2. Project Officer	260	260	260	260	260	260		550	260	260	260	260	3,150	3,120	30	2,110	1,040
3. Admin & Finance	350	350	350	350	350	350	350	350	350	350	350	350	4,200	4,200	-	2,800	1,400
4. Assistant Project Officer	180	180	380	180	180	180	180	180	180	180	180	180	2,180	2,160	20	1,460	720
<b>Total Salaries</b>	<b>1,040</b>	<b>1,290</b>	<b>1,490</b>	<b>1,290</b>	<b>1,290</b>	<b>1,110</b>	<b>1,030</b>	<b>1,580</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	<b>1,290</b>	<b>15,280</b>	<b>15,480</b>	<b>(200)</b>	<b>10,120</b>	<b>5,160</b>
<b>BB.2 RENTALS</b>																	
1. Office rent	350	350	350	350	350	350	350	350	360	360	360	360	4,240	4,200	40	2,800	1,440
2. Car Rentals		100	100	100	100	100	100	100	100	100	120	120	1,140	1,200	(60)	700	440
<b>Total Rentals</b>	<b>350</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>450</b>	<b>460</b>	<b>460</b>	<b>480</b>	<b>480</b>	<b>5,380</b>	<b>5,400</b>	<b>(20)</b>	<b>3,500</b>	<b>1,880</b>
<b>BB.3 OFFICE EXPENSES</b>																	
1. Mobile Phone	18	18	20	24	16	15	18	17	14	18	19	19	216	240	(24)	146	70
2. Landline	26	21	32	28	27	26	21	23	28	28	34	36	330	360	(30)	204	126
3. Internet costs	7	6	7	7	7	7	7	7	7	7	7	7	83	90	(7)	55	28
4. Stationery	3	3	4	4	6	7	5	3	4	6	4	3	52	60	(8)	35	17
5. Printing	3	12	15	11	15	8	9	4	9	13	21	3	123	295	(172)	77	46
6. Electricity	18	19	17	18	18	23	26	28	26	24	20	18	255	300	(45)	167	88
7. Gas	11	6	11	11	11	11	11	11	11	11	11	11	127	132	(5)	83	44
8. Water	3	3	3	3	3	3	3	3	3	3	3	3	36	48	(12)	24	12
9. Local Transportation	7	33	8	9	13	14	13	9	9	9	9	9	142	120	22	106	36
10. Audit		25								60	15		100	500	(400)	25	75
11. Insurance		2	22										24	200	(176)	24	-
12. Assets			610			600		1,900				900	4,010	4,150	(140)	3,110	900
13. Bank charges	1	2	1	2	1	2	2	2	2	2	1	2	20	36	(16)	13	7
14. IT Support	35	35	35	35	35	35	40	40	40	40	40	40	450	480	(30)	290	160
15. Kitchen and hygiene	2	76	16	21	23	13	160	19	17	16	14	15	392	240	152	330	62
<b>Total Office Expenses</b>	<b>134</b>	<b>261</b>	<b>801</b>	<b>173</b>	<b>175</b>	<b>764</b>	<b>315</b>	<b>2,066</b>	<b>170</b>	<b>237</b>	<b>198</b>	<b>1,066</b>	<b>6,360</b>	<b>7,251</b>	<b>(891)</b>	<b>4,689</b>	<b>1,671</b>
<b>BB.4 ACTIVITY &amp; PROGRAM EXPENSES</b>																	
1. Project Grant 1 expenses		2,998	660	15,550	498	551	144	6,800	100	803	7,170	1,980	28,104	29,960	(1,856)	28,104	
2. Project Grant 2 expenses								250	790	355	7,170	1,980	10,545	8,600	1,945		10,545
<b>Total</b>	<b>-</b>	<b>2,998</b>	<b>660</b>	<b>15,550</b>	<b>498</b>	<b>551</b>	<b>144</b>	<b>7,050</b>	<b>890</b>	<b>1,158</b>	<b>7,170</b>	<b>1,980</b>	<b>38,649</b>	<b>38,560</b>	<b>89</b>	<b>28,104</b>	<b>10,545</b>
<b>GRAND TOTAL EXPENSES</b>	<b>1,524</b>	<b>4,999</b>	<b>3,401</b>	<b>17,463</b>	<b>2,413</b>	<b>2,875</b>	<b>1,939</b>	<b>11,146</b>	<b>2,810</b>	<b>3,145</b>	<b>9,138</b>	<b>4,816</b>	<b>65,669</b>	<b>66,691</b>	<b>(1,022)</b>	<b>46,413</b>	<b>19,256</b>
<b>CASH FLOW</b>																	
Receipts - Expenditures	(1,524)	25,351	(3,401)	(17,463)	2,587	(2,875)	3,061	3,854	12,590	(3,145)	(4,138)	(4,816)	10,081				
Cash Balance B/F	2,500	976	26,327	22,926	5,463	8,050	5,175	8,236	12,090	24,680	21,535	17,397	2,500				
Surplus/(Shortfall)	976	26,327	22,926	5,463	8,050	5,175	8,236	12,090	24,680	21,535	17,397	12,581	12,581				

# 7.1 Annual Reports and Accounts

## 7.1 Introduction to Annual Reports and Accounts

In almost every country in the world, businesses and not for profit (NPOs) entities are required by law to file yearly comprehensive reports about their activities.

These returns, reviews and audit reports consist of a **narrative report** about what the business or NPO achieved during the past year. The **financial report** contains an Income Statement, Balance sheet, Cash flow Statement and Notes.

## 7.2 The Financial Report:

The Financial Section primarily discusses the incomes received, the operational expenditures, bank balances, purchases of assets and project expenses. Additionally, the Financial section also looks at account receivables (what is owed to the NPO) and accounts payables (what the NPO owes suppliers or vendors). NPOs will normally publish the following three important reports in The Financial Section of their Annual Report:

**Income Statement:** This statement shows the results of the operation of the NPO *over a specific period*, usually one year. The Auditors in all likelihood will prepare this statement for the NPO. However, the basic understanding of the mechanics should be known to the management of the NPO.

## 7.1 Annual Reports and Accounts

INCOME STATEMENT			
XYZ NGO			
(For the Year Ended 31 December 2013)			
	Notes	2013	2012
<b>Income Received:</b>			
- Grants	1	7,500,000	4,000,000
- Donors	3	35,000	25,000
- Others			35,000
<b>Total Income</b>		<b>7,535,000</b>	<b>4,060,000</b>
<b>Expenditures</b>			
- Program Costs	4	6,997,619	3,546,788
- Operations Costs	5	222,624	189,768
- Other costs		-	-
<b>Total Expenditures</b>		<b>7,220,243</b>	<b>3,736,556</b>
<b>Appropriations</b>			
<b>Total Appropriations</b>		-	-
<b>Surplus for the Year</b>		<b>314,757</b>	<b>323,444</b>

An Income Statement reflects the results of the operations of an NPO over a particular amount of time, usually one year. It identifies the various income streams, which in this example relates to Grants and Donors. Similarly, main expenditures are reflected as Project costs (all those expenditures that are loaded directly for the implementation of projects) and Operational costs (all those costs that are necessary for the day to day existence of the NPO but are not billed to the donor such as audit costs, bank charges, printing for marketing materials etc). At the end of the Income Statement you see a Surplus for the year. This is simply the Incomes received minus the Expenditures incurred which in the example above is \$7,535,000 (Income) minus \$7,220,243 (Expenditures) leaving a surplus for the year of \$314,757

**Balance Sheet:** The Balance Sheet reflects where the funds of the NPO are *on a given day* (usually the last day of the year). The Auditors will most likely prepare a Balance Sheet for the NPO however it is a good to have an idea of what this financial statement reflects.

The figure mentioned as **net total assets** for \$525,057 is the difference between **total assets** and all **liabilities** [Creditors]. The following lines split the total assets into the different types, reflecting whether they are tied to a project, are free for spending, or are allocated as reserves. On a Balance Sheet, *Net Total Assets* should always be exactly equal to *Net Total Funds*.

The Column on Notes for both the Income Statement and Balance Sheet are notes from the auditors providing details of that particular line item. So, for example: Note 10, mentioned in the Income Statement, will provide us with details of Income from the Grants. Note 8, in the Balance Sheet will provide us with details of Debtors.

BALANCE SHEET					
XYZ NGO					
(As on 31 December 2013)					
	Notes	2013	Rs	2012	Rs
<b>1. Tangible Assets</b>					
- 1.1. Computers	6		8,300		6600
- 1.2. Others	7		3,400		2600
<b>Total Tangible Assets</b>			<b>11,700</b>		<b>9200</b>
<b>2. Current Assets</b>					
- 2.1. Debtors	8	7,200		5,500	
- 2.2. Bank Balances	2	545,757		305,000	
<b>Total Current Assets</b>		<b>552,957</b>		<b>310,500</b>	
<b>3. Creditors (Due within one year)</b>					
- 3.1. (Creditors)	9	39,600		37,200	
<b>Net Current Assets</b>		<b>513,357</b>		<b>273,300</b>	
<b>Net Total Assets</b>			<b>525,057</b>		<b>282,500</b>
<b>4. FUNDS</b>					
- 4.1 Project Funds	10		77,600		50,000
- 4.2 NGO Un-Restricted (Free Funds)	11		197,457		132,500
- 4.3 Reserve Funds	12		250,000		100,000
<b>Total Funds</b>			<b>525,057</b>		<b>282,500</b>
<b>Net Total Funds</b>			<b>525,057</b>		<b>282,500</b>

**Cash Flow Statement:** The Cash Flow Statement provides a summarized version of the passage of cash INTO and OUT of the NPO. The cash flow statement therefore reflects both:

## 7.1 Annual Reports and Accounts

- a) Actual cash into the NPO represented by incomes received from all of its operations (grants, donors, donations);
- b) Actual cash out of the NPO which are payments for activities (salaries, rent, utilities, project expenses).

Every time cash comes into the NPO as income or departs the NPO as expenses, it gets recorded in the Cash Flow Statement.

The Cash Flow Statement and the Income Statement both display figures of operations over a particular period of time, usually twelve months. The Balance Sheet on the other hand is more reflective of information on a particular date, usually the last day of the financial year.

Management must always keep an eye on the Cash Flow statements to confirm that the NPO has enough cash to pay for project and operational expenses. Big business companies have landed themselves into financial trouble because they did not manage Cash Flows accurately.

The contents of the three financial statements mentioned above are then audited by an external auditor. These auditors will then sign a statement confirming that they are satisfied with the figures presented by the NPO.

### 7.3 The Narrative Report:

The narrative report primarily discusses the NPO's accomplishments in the past year and spells out plans for the future. There are many different presentation techniques that may be adopted, and a good narrative report would encompass most of the following sections:

- Letters from Senior officials: Usually including the Founder, Chairman and/or Chief Executive. This introduces the Annual Report, thanks the donors, appreciates the hard work and accomplishments of the staff during the past year and usually touches on the goals for the future.
- Operational Information: Details on the Board of Directors, registered office address, bankers, auditors, website address etc.
- Objectives of Existence: A short paragraph setting out the aims and objectives of the NPO.
- Review of Activities and Impact: This is the heart of the narrative section. It discusses in detail the work that was done and the impact that this work had. It may include photos, testimonies from beneficiaries or others, and reference to partners and key donors.
- Future Plans may then be mentioned for the short term (1 year) and what the NPO envisions to achieve during this time. The Management may also briefly discuss the medium (2-5 year) and long term (5-10 year) plans.

### 7.4 Importance of preparing Annual Returns:

There are many reasons why an NPO should prepare Annual Returns:

- NPOs are required to file annual returns within six months and the end of the financial year.

## 7.1 Annual Reports and Accounts

- It encourages management to **revisit** the past year, both financially and programmatically and think about the successes and achievements, the short comings and opportunities. The preparation of the Annual Return provides management time to reflect on what aspects of the work they got right and what aspects require more efforts and different strategies in the future.
- It supports Management's efforts to ponder over the **future course of action** and what specific goals the NPO wishes to achieve during the short, medium and long terms. These are then shared in the Annual Return and form the basis for future debate on strategies.
- Annual reports are excellent **marketing tools** provided to donors when seeking funds for projects. Donors are keen to review what activities the NPO undertook during the past year and what its finances look like. It also provides the donor with assurances of record keeping, both narrative and financial.
- Annual Returns are a source of announcing to the community what the NPO's achievements and contribution were to Society during the past year.

## 8. Reserves

### 8.1 Introduction to Reserves:

Reserves are sums of free money deliberately put aside by an NPO to protect against the impact of an unexpected financial problem. 'Free money' is cash which is not restricted or allocated for any particular purpose. Reserves provide insurance against sudden changes in the income or expenditure commitments of an NPO. For example, reserves may be utilized to:

- Fund shortfalls or loss of income;
- Fund unplanned additional costs, such as project overruns or project overspends;
- Fund unplanned emergency expenditure, such as repairs or replacement of fixed assets or temporary staffing;
- Buy time to start or continue project during funding delays or cash-flow problems;
- Provide resources for fund-raising or other development work;
- Provide seed-funding for new project opportunities;
- Provide donors with assurance that the financial management of the NPO is strong, and assurances to creditors that the NPO can meet its financial commitments;
- Provide confidence to stakeholders that the NPO can weather unforeseen financial difficulties.

### 8.2 What is a Reserves Policy?

A Reserves Policy is a statement by an NPO explaining:

- **The level of reserves that the NPO should hold.** This figure will vary depending upon the circumstances of the organisation. See section 8.3 for how to identify the right figure for your NPO.
- **The circumstances in which Reserves can be spent.** Reserves are held for a reason and should be spent when necessary. It is wise to set out these circumstances in advance to help with decision making in times of possible crisis.
- **How the reserves target will be met.** Often an NPO will identify a target level for reserves which is higher than the level currently held. If so, a plan for increasing reserves until they meet the target should be developed. They should also have a plan for spending excess reserves if they hold too much.
- **The form the reserves should take.** Reserves are funds that may be required at short notice. It is therefore recommended that investments are chosen which can be liquidated almost immediately into cash.
- **The main considerations behind the policy.** What were the key factors considered by the leadership when formulating the policy? Setting these out in writing will aid decision making should circumstances change.

Reserves are funds that have not been committed, formally or informally, to a particular use. As such, they would not usually include:

- **Restricted Funds:** Restricted funds can only be used for a specific project or purpose, usually as part of a contractual commitment.
- **Fixed Assets:** Fixed assets are tangible items such as property or vehicles.

## 8. Reserves

- **Endowment Funds:** An endowment is an asset held by an NPO in order to generate income. Whilst the income would be part of the free reserves, the endowment itself would not normally be considered part of it.
- **Designated Funds:** The management of an NPO may decide to allocate certain funds towards essential costs or projects, for example staff wages or property costs. Such funds would be excluded from any calculation of the reserves (also known as 'Allocated Funds').

### 8.3 Guide to Developing a Reserves Policy

There is no single method for setting up a Reserves Policy. The guidance sets out some steps that most NPOs will follow when developing a policy. These are:

- **Identify expenditure commitments:** The Board and Management need to study the NPO's expenditure commitments and whether these commitments could be forgone, if required, to save financial resources. This will require the Board and Management to identify any restrictions on the use of the NPO's funds as well as any legal or contractual commitments the NPO has made. They will also need to consider the impact on the NPO's ability to operate if certain expenditures are cut.
- **Examine income stability:** Assessing the stability and certainty of current funding. The greater the stability and certainty of income sources, the lesser the need for substantial reserves.
- **Carry out a Reserves needs assessment:** The Board and Management should identify the types of events which may lead to unplanned spending and the extent to which reserves will be required. How likely are these events, and what impact would they have?
- **Calculate the level of reserves needed:** Use the information gathered to propose a level for reserves. The number may also be a range, e.g. between 3- and 6-months expenditure. As a guide, most organisations aim to hold at least 3 months expenditure in reserve.
- **Monitor, review and adjust:** Once the level of reserves has been identified the NPO may find that such reserves are too high or too low. The Board and Management need to monitor and discuss the policy to bring the reserves to the required level.
- **Formalize the Reserves Policy:** Once the Board and Management are satisfied with the level of reserves, the final formalized reserves policy should be agreed and incorporated.

## 9. Reviews and Audits

### 9.1 Introduction to Reviews

A financial statement review is a service under which the accountant obtains limited assurance that there are no material modifications that need to be made to an NPO's financial statements for them to be in conformity with the applicable financial reporting framework (such as GAAP or IFRS). A review does not require the accountant to obtain an understanding of internal control, or to assess fraud risk, or other types of audit procedures. Consequently, a review does not provide the accountant with assurance that he has become aware of all the significant matters that would normally have been discovered and disclosed in an audit.

Reviews can be conducted by a qualified professional who is associated with the NPO. The Board takes responsibility for the preparation and presentation of the entity's financial statements, while the accountant should have a sufficient level of knowledge of the purpose and activities of the NPO to review the financial statements.

### 9.2 Introduction to Audits

An audit is the examination of the financial data, systems, procedures, records, backups and projects of businesses, NPOs or other organisations by an independent external organisation or person. The findings are reported in an Auditor's Report.

Conventionally audits were the examination of the financial accounts, which are presented in an Annual Report, and performed by a person independent of that organisation. However today, many donors request that an audit of the actual accomplishment of project goals be carried out. The Audit Report would then state whether the goals achieved were good value for time and money, in addition to verifying that the finances are in order.

### 9.3 What do Auditors do?

The auditors usually follow a set pattern of investigation. When they are introduced to an organisation, they will determine the type, and extent, of the audit procedures necessary to carry out the task they have been assigned. They may follow all, or some, of the following procedures:

- **Ask questions** on a broad range of topics, covering all aspects of the business or NPO.
- **Inspect samples** from a wide cross section of the financial records and backups presented. This at times, may just be samples of expenditures for a particular month but at times, could be an examination of the expenditures for a whole project. In addition, backups attached to payments forms a very important part of this section. For example, if the NPO paid a salary to a person without an employment contract that would not be looked upon very favourably.
- **Check the assets purchased**. Auditors usually travel to the physical location where the assets are located and will verify if the purchase was a new acquisition and in working condition. For example, auditors may want to visit the project office location (different from the NPO's main office) where assets like computers and printers have been installed for the implementation of a project and will verify that the purchases are authentic.

## 9. Reviews and Audits

- **Obtain written confirmation** from banks, creditors and debtors. With approval from the NPO, the auditors will write to the banks requesting for a separate confirmation of bank transactions and balances for particular months. Similarly, they may write to creditors to confirm that a certain amount of funds are due to the NPO.
- **Test the organisations systems and controls**. The auditors assess the financial rules of the NPO and verify that they are being followed.
- **Study procedures and processes in action** during their visits to the client's premises. The auditors are there to authenticate that the processes and procedures claimed by the NPO to be in place are actually running smoothly.
- **Produce a report** at the end of the audit stating their findings and recommendations. A Management Letter may also be written by the auditors to the Board and Management pointing to potential weaknesses and risks in the systems which require attention.

### 9.4 Importance of Audits:

Audits are impartial and independent examination of an NPO's financial records accompanied by a statement that the accounts maintained by the NPO are true and fair. This has a number of uses:

1. **Provides credible independent verification that all is well with the organisation and its systems**. This is useful for the leadership and management, donors and accountants.
2. **Identifies areas weaknesses and vulnerabilities**. Where there are weaknesses, audits can identify them, allowing management to solve problems, improve efficiency and reduce the risk of fraud.
3. **Provide appropriate solutions to complex financial problems**. Finance Managers and external auditors will work together to identify potential weaknesses and work on solutions to strengthen the systems.

### 9.5 Recommendation for good audits:

The auditors have a licence to carry out audits of businesses and NPOs. In most cases, auditors will work together with the Accountants to strengthen internal financial systems and improve processes. A few points are mentioned, as guidance, below to assist the Accountants of the NPO to have a good rapport with auditors:

- **Never lie to auditors**. This is perhaps the worst thing a person can do. It exposes the person, and the department, to additional inquiries and investigation.
- **Admit a mistake** if one is found. Indeed, everyone should learn from one's mistakes but then move on.
- **Do not fabricate paperwork**. Always use genuine invoices, receipts and backups.
- **Walk the auditors through the systems and procedures** imbedded in a corporate or NPO culture. The auditors may have simple ideas to improve and strengthen these without great upheaval or they may find the system adequate as it is.

## 9. Reviews and Audits

- **Accountants should not try to** influence the auditors. State the facts and allow the auditors to make their own judgment.
- **Gifts** should never be provided to an auditor.
- Be as **helpful and detailed** as possible with your responses and provide as much supporting paperwork as has been requested during the audit.
- Be **courteous and cooperative** and do not attempt to waste time by “going slow” on responses.
- **Work together** with the auditors as one team, to go through the accounts as smoothly and efficiently as possible.