

# FINANCIAL MANAGEMENT FOR NON-PROFIT ORGANIZATIONS

The purpose of any financial management system is to provide financial stability for the organization – a critical component in the organization’s long-term success. Both board and staff are accountable for the financial integrity of a non-profit organization.

According to [A Guide to Financial Statements of Not-for-Profit Organizations](#), by the Chartered Professional Accountants of Canada, “Financial information is typically measurable, objective, comparable over time, sometimes comparable across organizations, and can provide an indicator of organizational health.”

The key components of a non-profit organization’s successful financial management system include its internal and external financial systems. Internally, staff will collect the appropriate data, manage the financial systems and create financial reports for their boards. Boards, serving on behalf of the organization’s membership, must have sufficient oversight of financial affairs to ensure [financial stability](#) and report to external stakeholders, which include members, funders, donors, and the Canada Revenue Agency. Ultimately, the organization’s financial reporting helps demonstrate the protection of the assets entrusted to the organization and ensure the efficient and effective use of the organization’s resources.

## KEY COMPONENTS OF FINANCIAL REPORTING

Based on an organization’s strategic plan, an [operational budget](#) can be created that will show the planned revenue and expenses for the upcoming year. A non-profit organization may require more than one type of budget, depending on its different activities. In general, a budget should include: expected revenues including grants, and expenses including salaries, staff benefits, rent, office equipment and supplies, as well as

program costs and administrative expenses. A budget should be prepared for an organization's fiscal year; however, a longer-term budget may be needed if the organization works on programs and services that require multi-year funding.

Depending on the size of an organization, a system of **internal accounting** is required to ensure that all financial transactions are recorded. Smaller organizations may use a cash-basis accounting system, which tracks income and expense, but not the amount owed by the organization or owed to the organization. As a non-profit grows, it may prefer using an accrual-basis system, which uses journals and ledgers to track cash receipts and disbursements before it is transferred into a general ledger organized by a chart of accounts.

Whichever method is used, [financial policies](#) are important to a non-profit board and are often developed by organizations to monitor the flow of finances and timing of quarterly reporting (as needed), as well as helping to ensure easier reporting at the end of the fiscal year. For example, these policies can help determine how expenditures are approved. It is generally recommended that there are two designated signing authorities for all cheques, which may include a board member and assigned staff person.

A solid financial system includes [financial monitoring and reporting](#), which assists in planning. Both staff and board should understand [how to read and assess financial reports](#) on a regular basis. Key reports may include: a Statement of Net Assets or “cash flow” that depicts the changes in cash flow; a Statement of Operations or “income statement” depicts the changes in the organization's assets and shows if there is extra money or a deficit; and a Statement of Financial Position or “balance sheet” depicts the overall value of the organization at a given time (usually the end of the year), by reporting total assets and subtracting total liabilities to determine net assets.

Another form of financial control is a [financial audit](#), which is a requirement for non-profit organizations that receive public and/or lottery funding. A financial audit is comprehensive analysis by a professional accountant from an outside firm, who produces a report that shows how well an organization is managing its resources. A non-profit

organization will usually set up an audit committee to support this process. The results of an annual audit are usually reported in an annual report, as the annual audited financial statements, to the organization's membership. These audited financial statements provide a key measure of a non-profit organization's credibility and accountability.

### **Other Topics to Explore:**

[Financial Audit](#)

[Audit Committees](#)

[Financial Planning aka Budgets](#)

[Financial Policies](#)

[How to Read Financial Reports](#)

Financial Stability

### **On-Site Materials**

Sample SaskCulture Policies

### **Other links:**

[\*A Guide to Financial Statements for Not-for-Profit Organizations: Questions for Directors to Ask\*](#), by Chartered Professional Accountants of Canada, 2012. (\$15)

[\*Canadian Revenue Agency Checklists\*](#).

[\*Basic Overview of U.S. Nonprofit Financial Management\*](#), by Carter McNamara, MBA, PhD. Authenticity Consulting, Copyright 1997-2008.

[\*Keeping the Record Straight: Introductory Accounting for Non-Profit Organizations\*](#). Certified General Accountants of Ontario, 2012.

[\*New Accounting Standards for Charities and Non-Profits\*](#). WEBINAR. Imagine Canada, 2012.