FISCAL MANAGEMENT for NON-GOVERNMENTAL ORGANISATIONS

A Manual To Assist Environmental NGOs In the Eastern Caribbean

ISLAND
RESOURCES
FOUNDATION

DILIGENT FINANCIAL OVERSIGHT AND CONTROL ARE CRITICAL TO MAKING INFORMED INSTITUTIONAL DECISIONS, TO THE RATIONAL ALLOCATION OF NGO RESOURCES, AND TO THE CAREFUL STEWARDSHIP OF NGO FUNDS.

This Manual is published as a public service by Island Resources Foundation as a part of its NGO Institutional Development Programme for the Eastern Caribbean. The Programme was established in 1986 with support from the World Wildlife Fund-U.S. and the Rockefeller Brothers Fund. Since 1989, the programme has been supported by the U.S. Agency for International Development through a Cooperative Agreement with Island Resources Foundation (No. OTR-0158-A-00-9161-00).

The Manual is supplied without charge to non-governmental organisations participating in IRF's NGO Programme. A limited number of additional copies are available for distribution. Send requests to:

Island Resources Foundation
Red Hook Center Box 33
St. Thomas, U.S. Virgin Islands 00802

FISCAL MANAGEMENT for NON-GOVERNMENTAL ORGANISATIONS

A Practical, "How To" Manual
To Assist Environmental NGOs
In the Eastern Caribbean

Prepared By:

JUDITH A. TOWLE
ISLAND RESOURCES FOUNDATION
NGO INSTITUTIONAL DEVELOPMENT PROGRAMME

June 1992

FOREWORD

In 1986 Island Resources Foundation (IRF) launched a programme to provide institutional development assistance for those non-governmental organisations (NGOs) in the Eastern Caribbean whose objectives focus exclusively or in part on the environment and resource development. Since establishment of the programme, IRF has worked closely with its NGO partners to identify and target priority institutional development concerns and technical assistance needs within an overall framework of NGO programme support. One area has consistently stood out as being critical -- namely, the necessity for smaller non-profit, non-governmental organisations to develop more coherent and understandable fiscal management policy and procedures.

This manual was prepared as a direct response to that articulated need and to the related issues and concerns raised by NGO leaders in discussions and meetings with IRF staff. In providing this guidebook for NGOs, our aim was to write a document which is practical in approach, easy-to-understand in format, and specific in addressing the financial management requirements of our target audience -- i.e., the mostly smaller, heavily volunteer-oriented, environmental NGOs of the Eastern Caribbean.

The manual's author hastens to point out a bias which almost predetermined the focus of the manual. Specifically, she is not a bookkeeper or accountant by training or profession. Therefore, the manual is not particularly written for persons with a formal background in a financial field. What the author is and has been for two decades is a *manager* of funds for a non-profit NGO based in the Caribbean. As such, her interests, and therefore the emphasis of this document, are not bookkeeping or accounting *per se*, but oversight and monitoring, fiscal control, forecasting, and the careful stewardship of NGO funds.

As the following pages indicate, the person within the NGO staff or leadership structure who has financial management responsibilities does not necessarily need a formal accounting background or training -- required accounting services can periodically be contracted for by the NGO when necessary, *provided* that the basic internal system provides for the careful and timely recording and reporting of financial transactions. What is critical to the NGO is that the organisation's "fiscal manager" be a responsible person who understands that diligent financial oversight and control are critical to making informed institutional decisions and to the rational allocation of NGO resources. In other words, you do not have to be a bookkeeper or even an accountant to be a good financial manager.

The author wishes to express her appreciation to Kirsten Dear, Financial Officer of the Caribbean Conservation Association, and to Bruce Horwith, Director of IRF's NGO Programme, for their careful review of this document and for the many valuable suggestions and insights each provided for improving the content and readability of the manual.

Lastly, Island Resources Foundation welcomes feedback and comment on the information and recommendations presented in this document. Our NGO Institutional Development Programme is an ongoing one, and a continuing dialogue with our NGO partners is important to us. The following persons may be contacted as indicated.

For Information on NGO Fiscal Management or this Manual:
Judith A. Towle
Vice President
Island Resources Foundation
Red Hook Box 33, St. Thomas
U.S. Virgin Islands 00802
Telephone: 809/775-6225; Fax: 809/779-2022

For Information on IRF's NGO Programme:
Bruce J. Horwith
NGO Programme Director
Island Resources Foundation
Post Office Box 103
St. John's, Antigua
Telephone/Fax: 809-460-1740

CONTENTS

LIST OF FIGURES

LIST OF TABLES

Part 1. THE IMPORTANCE OF FINANCIAL PLANNING

THE BUDGET AS AN NGO PLAN OF ACTION

A budget is the tool used by non-governmental organisations (NGOs) to translate their programme objectives and organisational goals into financial terms. It is a key management tool and represents the group's blueprint for a given time period, expressed in monetary terms.

To design effective budgets, the NGO must first know what its goals and objectives are. The budget -- *the organisation's financial plan of action* -- is merely the logical extension of policy decisions already made, for example, in the NGO's long-term institutional development plan or its annual programme planning document. The process of budgeting forces the NGO to analyse the cost and feasibility of actually doing what it has proposed; it may, therefore, also force revisions in institutional plans to match the financial realities facing the organisation.

Since most NGOs do not have endowments or significant accumulated funds, they depend upon the generation of future income to meet financial commitments. Working within such constraints, the institution's budget can be a helpful monitoring tool, for it provides bench marks or comparison points that indicate whether financial goals and requirements are being met. Furthermore, the proper and timely accounting of revenues through the budgeting process is an important criterion by which NGOs will be evaluated by donor agencies.

The majority of NGOs are usually very uncertain about the amount of revenue they can expect to receive during the next fiscal year. One alternative is to informally generate four *working* budgets for use by NGO decision-makers.*

FOUR TYPES OF NGO BUDGETS:

SURVIVAL BUDGET
GUARANTEED BUDGET
COMPLEMENTARY BUDGET
OPTIMAL BUDGET

THE SURVIVAL BUDGET

The survival (or core) budget calls for a calculation of those *fixed* institutional costs which absolutely must be covered if the organisation is to keep its doors open for business. These costs need to be expressed as exact figures and placed in the budget in order of importance. Income to cover these costs needs to be identified and allocated to cover each expenditure item. Such income will normally come from the NGO's own financial resources (e.g., membership fees) rather than from an external donor.

---

* Vincent, F. and Campbell, P., 1989. *Towards Greater Financial Autonomy*. IRED, Geneva, Switzerland.

THE GUARANTEED BUDGET

This budget covers the expenditures for which funding is guaranteed, i.e., for which the NGO has reasonable assurance the money will be available, whether from the NGO, donor groups, or other sources (see Figure 1).

This is the budget that should be presented to the governing board for formal approval. It will also be the basic working tool for the financial management of the organisation during the fiscal year.

THE COMPLEMENTARY BUDGET

This budget is larger than the guaranteed budget because it incorporates a number of expenditures for which funding has not yet been guaranteed but which have a high probability of being financed during the course of the year.

It can be presented to the governing board for approval provided the budget is separated into specific activities or sub-budgets, indicating those which are additional to the guaranteed budget. The board can then give its authorisation to proceed with any -- or all -- activities once the funds have been secured.

THE OPTIMAL BUDGET

This is the largest budget and reflects the broader development aims of the organisation for the fiscal year. It may include a number of activities for which funding has not yet been identified. This budget is primarily used for fund raising purposes, and it is therefore helpful to break it into sub-budgets according to programme or project categories.

Too often the budget process in NGOs is a routine task handled by the organisation's treasurer, primarily to satisfy the governing board that the group has a fiscal plan. Approval is almost automatic, and the budget may not be looked at again -- until it's time to prepare a new budget for the next fiscal year. This type of budgeting serves little purpose. To be effective, the budget:

(1) must be a joint effort of all the people affected by how money is spent in the organisation, including staff, the board, and (if appropriate) the membership; and

(2) must be a working document which forms a basis for action.

Before we turn to the specifics of budget preparation, we will digress a little to consider another important financial planning issue for NGO's -- namely, the funding of the organisation's "core" budget.

Figure 1. EXAMPLE OF AN EXPENSE BUDGET

Columns are provided for prior year expenditures (for comparison) and for the Guaranteed, Complementary, and Optimal Budgets. The Society's Survival or Core Budget might include the Secretariat and Museum Operations costs, i.e., $24,250.

SEAWARD ISLANDS CONSERVATION SOCIETY
FISCAL YEAR 1991

BUDGET ITEMS	Expenditures FY 1990 (prior year)	Guaranteed (Operational) Budget	Complementary Budget	Optimal Budget
Secretariat				
Salaries	4,000.	5,000.		10,000.
Benefits	1,000.	1,250.		2,500.
Rent	3,000.	3,000.		5,000.
Insurance	1,000.	1,250.		1,250.
Travel	500.	1,000.		3,000.
Equipment	1,000.	0.	2,000.	5,000.
Office supplies	300.	500.		1,000.
Postage and telephone	750.	1,000.		2,000.
Printing	500.	750.		1,000.
	12,050.	13,750.	2,000.	30,750.
Publications				
Quarterly newsletter	1,500.	2,000.		3,000.
Other publications	0.	0.	1,000.	3,000.
	1,500.	2,000.	1,000.	6,000.
Environmental Education				
Workshops, seminars, public meetings	300.	500.		1,000.
Field Trips	300.	500.		1,000.
Vehicle	0.	0.	5,000.	5,000.
	600.	1,000.	5,000.	7,000.
Environmental Monitoring Project	1,500.	6,000.		
Agro-Forestry Project	10,000.	10,000.	15,000.	15,000.
Park Planning Project	0.	0.		10,000.
Museum Operations				
Salaries	6,000.	7,000.		10,000.
Benefits	1,500.	1,750.		2,500.
Materials and Supplies	1,000.	1,000.		2,000.
Exhibits	500.	750.	2,000.	5,000.
	9,000.	10,500.	2,000.	19,500.
TOTALS	34,650.	43,250.	25,000.	88,250.

FINANCING THE SURVIVAL OR CORE BUDGET

One of the most challenging problems facing smaller NGOs is how to finance administrative costs -- which are also called operational or management costs, fixed costs, or the expenses associated with the operation of the organisation's secretariat. These are the basic expenses which must be financed if the NGO is to continue to function. For example:

- salaries of headquarters staff
- rent and related office costs
- equipment used for headquarter functions
- insurance
- membership services
- maintenance of library.

These costs are generally not funded by outside donors and so it is imperative that the NGO develop effective strategies for:

(1) *controlling core costs* and

(2) *identifying recurring funds to finance administrative costs.*

Fernand Vincent and Piers Campbell in their 1989 publication *Towards Greater Financial Autonomy* identified a six-fold strategy for helping to finance administrative expenses:

STRATEGIES FOR FINANCING CORE COSTS:

CURB ADMINISTRATIVE EXPENDITURES

REDUCE THE ADMINISTRATIVE BUDGET BY FINANCING "SUPPORT" SERVICES FOR PROGRAMME ACTIVITIES UNDER PROGRAMME BUDGETS

REQUEST AN "INDIRECT COST" RATE OR "OVERHEAD" ADMINISTRATIVE ALLOWANCE FROM DONORS ON ALL PROGRAMME-RELATED GRANTS

IF THE DONOR WILL NOT ALLOW INDIRECT COSTS OR OVERHEAD, BE SURE TO INCLUDE ALL DIRECT SERVICES PROVIDED BY THE NGO IN PROJECT BUDGETS

IDENTIFY DONORS WHO WILL PROVIDE INSTITUTION-STRENGTHENING GRANTS

INCREASE INCOME SOURCES AND USE THIS MONEY TO COVER ADMINISTRATIVE EXPENSES

All of these are discussed in more detail below or elsewhere in this manual.

GENERAL ADVICE

The NGO Board should periodically analyse the organisation's core costs and always be on the alert to reduce administrative expenses without reducing efficiency. Ideally, the core budget should be funded from the NGO's own resources, in order to reduce dependency on external donors.

FUNDING SOME ADMINISTRATIVE COSTS IN PROJECT BUDGETS

Many NGOs appear to have higher than necessary administrative costs simply because they have not initiated basic record-keeping practices that enable the NGO to bill funded projects for a portion of core services.

Many so-called core costs -- e.g., overseas telephone calls and fax transmissions, photocopying, vehicle use, even personnel time -- are not totally administrative expenses but should be financed in part by programme-specific budgets. With the establishment of simple logging systems to account for the use of telephones, fax machines, photocopying machines, and vehicles -- to name the most obvious -- the NGO will find that many of the costs associated with these expenses are actually programme-related. The use of daily time sheets for paid staff is also essential to track personnel time in order to charge appropriate accounts.

When negotiating grants or contracts with funding agencies, NGOs need to make certain that the basic support costs necessary for the successful execution of a project are funded as **direct** costs within the project budget -- including secretarial time, photocopying, communications, etc. The recent case of one Eastern Caribbean NGO, asked by a North American donor agency to assist with an environmental conference, is not atypical. The NGO, caught up in the enthusiasm of co-sponsoring an important regional meeting, did not request sufficient funding from the donor to cover its direct support costs and in the end had to subsume these expenses within its own limited administrative budget.

FINANCING INDIRECT COSTS (see also Part 3 of this manual)

Most donors recognise that there are indirect or administrative costs associated with the execution of any funded project. In effect, each funded project must share in the NGO's costs for keeping its doors open. If the NGO did not pay its rent, for example, there would be no project!

Donors generally will reimburse organisations for the administrative expenses incurred in running projects. Rather than trying to calculate the precise proportional amount which each project should contribute to administrative expenses, an indirect cost rate is usually negotiated. This rate is then used to cover all administrative expenses associated with the project -- in effect, to reimburse the NGO for managing the project.

OTHER TECHNIQUES

Here are a few additional suggestions for financing the costs of the NGO secretariat:

- Persuade local business groups to co-fund selected core costs;
- Identify donors willing to support institution-building grants;

- Invest reserve income (i.e., any liquid funds that will not be needed immediately) in interest-bearing accounts;

- Market services and products -- for example, place a fee on services available from the secretariat such as photocopying, use of the fax machine, etc.; rent meeting space to other organisations; offer publications or other products not produced by the NGO for resale at a profit.

STEPS FOR PREPARING AN ANNUAL BUDGET

Forecasting the future requires knowledge of the past and the present

The preparation of a budget involves policy decisions. As stated above, an institutional budget is the outcome -- expressed in monetary values -- of the periodic review of the organisation's goals and objectives by the NGO board and/or membership. Therefore, while the NGO treasurer may be the best qualified person to deal with basic bookkeeping and required accounting, he or she should not unilaterally make the policy decisions that lead to finalisation of an annual budget. If the NGO is large enough, a budget committee should be assembled for this purpose; otherwise, the budgetary process should be the responsibility of the board or its executive committee.

The following are the key steps that should generally be observed by the NGO in order to ensure preparation of an effective annual budget.

(1) ***Establish a list of the organisation's institutional goals and programmatic objectives for the next fiscal year.*** These should be completed as part of a continuing process which requires the board to develop an annual workplan, including review and evaluation of ongoing programmes and presentation of recommendations and projections for new activities.

(2) ***Estimate the costs for each approved programme or activity plus administrative expenses*** (see Figure 2). For continuing programmes and the costs of the secretariat, the prior fiscal year's actual costs will be the starting point. The estimation process should be done in detail (in more detail than in the sample budget provided in Figure 2), since a single expenditure category (e.g., salaries and benefits) may cut across several programme objectives.

(3) ***Estimate expected income*** (Figure 2). Since, for many groups, the principal source of recurring income will be contributions from members and the general public, the overall economic climate of the country and how this will affect expected income from gifts, donations, and membership fees needs to be carefully evaluated.

For many NGOs, another substantial source of income will be externally-funded grants or contracts, with these funds dependent on how successfully the organisation is able to "sell" its programme. The uncertainty associated with this revenue source is one reason for the NGO to prepare a second, complementary budget to support the operational budget (see page 2 and Figure 1).

NGOs must be realistic in estimating income, for if they are overly optimistic or allow too little room for error, the budget will have little meaning and will lose its effectiveness as a management tool. The smaller the amount of cash reserves on hand, the more careful the NGO will have to be in building into the budget a realistic safety margin for the coming year's operations.

(4) ***Compare total projected income to total projected expenses.*** At this point in budget preparation, it is to be expected that expenses will exceed revenues -- and that policy decisions, based on value judgments, will have to be made by the NGO's governing board. For example: what programmes are most impor-

tant to the NGO *for the next 12-month period*? Where can expenditures be reduced with the least amount of negative impact? The time spent reconciling projected income and expenditures is critical to the NGO, for the tangible output of this process -- i.e., the budget document (see Figure 2) -- will be the financial blueprint to guide the organisation through the next year.

To enhance this process, the NGO needs to be very clear about its mission or goals before budget reconciliation begins. Planning should start with the setting of annual programme objectives and the devising of strategies to achieve them. Available resources need to be allocated in light of desired objectives, but to do this will require that objectives are *balanced* against one another -- and against available resources -- until a realistic combination is achieved.

(5) The proposed budget should be presented to the appropriate body for approval. In accordance with the organisation's by-laws, this might be the governing board or the full membership. Approval should only be given if the projected income is sufficient to cover the projected expenditures.

The budgetary process, if fully implemented more or less along the lines of the steps outlined above, can be a relatively lengthy one -- particularly if the NGO has traditionally left this responsibility in the hands of staff or the treasurer working alone. Therefore, the process should be started well before the new fiscal year is to commence. As with all other planning activities, however, better late than never!

SUMMARY OF STEPS FOR PREPARING AN ANNUAL BUDGET

(1) **ESTABLISH A LIST OF INSTITUTIONAL GOALS AND PROGRAMMATIC OBJECTIVES FOR THE NEXT FISCAL YEAR.**

(2) **ESTIMATE THE COSTS FOR EACH APPROVED PROGRAMME OR ACTIVITY PLUS ADMINISTRATIVE EXPENSES.**

(3) **ESTIMATE EXPECTED INCOME.**

(4) **COMPARE TOTAL PROJECTED INCOME TO TOTAL PROJECTED EXPENSES.**

(5) **SECURE APPROVAL FROM APPROPRIATE AUTHORITY AS INDICATED IN THE ORGANISATION'S BY-LAWS.**

Figure 2. EXAMPLE OF A RECONCILED BUDGET

(i.e., where the projected revenue equals the projected expenses)

SEAWARD ISLANDS CONSERVATION SOCIETY
OPERATIONAL BUDGET FOR FY 1991

Revenue (by source):		
Membership Dues	6,000.	
Gifts and Donations	7,000.	
Grants	16,000.	
Publication Sales	1,000.	
Museum Entrance Fees	8,500.	
Museum Shop	2,000.	
Secretariat Services	750.	
Educational Tours	1,000.	
Investment Income	1,000.	
		43,250.
Expenditures (by broad programme category):		
Secretariat	13,750.	
Publications	2,000.	
Environmental Education	1,000.	
Monitoring Project	6,000.	
Agro-Forestry Project	10,000.	
Museum Operations	10,500.	
		43,250.
Surplus/Deficit		-- 0 --

N.B. The above budget is an example only. An effective budget would need to be prepared in greater detail for the expenditure categories, more along the lines of detail found in the sample <u>expense</u> budget provided in Figure 1.

CASH-FLOW* MANAGEMENT and BUDGET CONTROL

MINIMISING CASH-FLOW CRISES

The budget process and cash-flow planning are closely linked financial management activities. Most NGOs are vulnerable to cash-flow crises that seriously affect the operation of the organisation. Some of these crises are beyond the control of the NGO (for example, delay in the receipt of funds from a donor), but many are due to poor fiscal management within the organisation.

To minimise such problems, it is important for NGOs to maintain monthly cash-flow plans and to keep these up-to-date. Figure 3 provides a simple 3-month cash-flow plan for our hypothetical Seaward Islands Conservation Society.

Figure 3. QUARTERLY CASH-FLOW PLAN

SEAWARD ISLANDS CONSERVATION SOCIETY

PROJECTED EXPENDITURES	January	February	March
Secretariat Costs	875.	875.	1,475.
Publications	0.	500.	0.
Environmental Education	100.	100.	100.
Monitoring Project	625.	625.	625.
Agro-Forestry Project	1,000.	850.	850.
Museum Operations	1,060.	1,060.	1,060.
Total Expenditures	3,660.	4,010.	4,110.
PROJECTED INCOME			
Cash in Bank 01/01/91	5,000.		
Anticipated Income	2,675.	6,200. *	5,200. **
BALANCE	4,015.	6,205.	7,295.

* Assumes receipt of a $5,000 grant payment for the Environmental Monitoring Project.

** Assumes projected receipt of $4,000 in membership fees following March fund-raising campaign.

* For purposes of this manual, "cash-flow" means the balance between cash coming in and cash going out.

While this cash-flow plan shows comfortable cash balances at the end of each month, note that these balances are contingent on the timely receipt of a scheduled grant payment in February and the successful completion of a membership campaign in March. Furthermore, the Society would be in a more vulnerable cash-flow situation if it had not begun the year with a reasonably healthy $5,000 cash balance. Therefore, fiscal planners in this NGO need to monitor actual expenditures and income based on this cash-flow plan and be prepared to make adjustments based on **earlier** contingency planning, i.e., **before** the donor's check is late or the fund raising campaign has not met expectations -- in other words, the NGO should confront the potential "what if" crisis before it happens.

For NGOs dependent on external grants to fund a portion of their programmes, it is important to draw up a projected schedule of grant payments (at least quarterly) and link that schedule to monthly cash-flow plans. Most donors will provide timely grant payments. However, a second payment is usually contingent on receipt of a progress report and/or fiscal report on the first payment. Therefore, it is important for the NGO to be totally responsive to the donor's reporting requirements so as not to jeopardise future grant payments and thereby increase the potential for cash-flow crises.

NGOs are less vulnerable to cash-flow problems if they have built up sufficient monetary reserves. However, a balance between the need for reserves to maintain cash-flow and the potential for added income from the investment of reserve funds is also necessary. In other words, NGOs need to be fiscally prudent, but they also need to be fiscally creative!

BUDGET CONTROL

The most carefully prepared budget will be of little value if it is not compared throughout the year with actual operations. This means that interim financial statements must be prepared on a regularly-scheduled basis -- certainly every three months is appropriate for most NGOs.

Financial statements also need to be timely. How timely largely depends on the organisation and how much "slippage" or deviation from the budget the NGO can afford before serious consequences take place. If the cash flow balance is relatively low, then the organisation cannot afford the luxury of not knowing where it stands on a timely basis. A good rule of thumb is to have this information in the hands of decision-makers not more than three weeks following the end of the report period (the reporting period to be defined by the NGO as either quarterly, bimonthly, or monthly, but certainly no less than quarterly). If financial statements are not available within three weeks after the end of the reporting period, then it is very likely the information will be "stale" and of minimal value as a management and budget control tool. Fiscal status reports need to be prepared and available for **every** regularly-scheduled board meeting.

Financial statements should compare budget figures with actual expenditures. Since interim figures for a three month period, for example, cannot easily be compared to budget figures for a twelve month period, the annual budget should be displayed in quarterly increments for comparison purposes. Last year's actual figures for the same period may also be useful.

For externally-funded grants or contracts, it is important that the NGO monitor these activities with separate financial statements for each funded activity. This information is also important for the periodic financial reports usually required by donors.

Figure 4 provides an example of a budget control statement for the Seaward Islands Conservation Society, while Figure 5 is a sample fiscal status report for the Society's donor-supported environmental monitoring project.

The quarterly financial statements in Figures 4 and 5 provide the governing board of the Seaward Islands Conservation Society with a great deal of information about its operations during the first quarter of the fiscal year.

Figure 4 summarises fiscal activity for the Society's own funds, that is for that portion of total revenues generated and controlled by the organisation as opposed to project-specific funds provided by an external donor (in the Expense Budget provided in Figure 1 [page 3], two donor-supported projects are shown for the Society for FY 1991 -- the environmental monitoring project and the agro-forestry project).

The financial report provided in Figure 4 shows a small over-expenditure (i.e., $480) in the total amount of internally-budgeted funds. Secretariat costs are only slightly over budget, but the group may want to monitor overseas calls during the next quarter to see if the current upward trend continues. The cancelled OAS workshop saved the organisation the amount budgeted for that activity ($250), but this was partially displaced by the increased insurance premium. Of more concern is the fact that postage costs for mailing the quarterly newsletter have increased substantially over the amount budgeted, and since this increase will be reflected in the remaining three quarters of the fiscal year, the Society will have to make an internal budget adjustment to account for this increase. The higher than anticipated costs for the new museum exhibit should presumably provide the board with a few "lessons learned" for budgeting these costs in the future.

Most importantly, this NGO's board should be troubled by the lower than anticipated revenues for the first quarter. In the first place, the fund-raising campaign fell short of its target by $1,000, which means that even more effort will be required later in the year if the group is to reach its budgeted revenue goal of $6,000 for membership dues (see revenue side of the FY 1991 budget in Figure 2, page 9). Additionally, the board will have to follow-up on the failure of the corporate sponsor to meet its pledged quarterly payment, for this setback has generated a significant $1,000 short-fall in the budgeted "gifts and donations" revenue line. Interest rates are also dropping, and the Society may want to adjust income projections in its cash-flow plan for the next quarter if this appears to be a continuing trend.

The good news is that tourism is up in the Seaward Islands, and this has brought more visitor's to the Society's museum, increasing revenues generated from both entrance fees and the museum shop. As for the fall-off in income from fees charged for educational tours, presumably the Society can make this up by promoting more tours in the months ahead.

Figure 5 provides a slightly different financial statement -- a quarterly status report for the environmental monitoring project supported by the World Wildlife Fund (WWF). This is a 12-month project which began during the last quarter of the prior fiscal year. At the end of March 1991, with the project at its mid-point, a little less than one-half of the approved funds had been expended (i.e., $3,375 had been spent out of a total grant of $7,500). The project, therefore, appears to be in sound fiscal condition, and the board should be pleased. The $5,000 payment from WWF received during the current quarter is the second of two payments, and the Society now has in its bank account all funds to be paid by WWF under this grant. With a cash balance of $4,125 at the end of the quarter, this NGO may want to consider placing a portion of that total in a short-term (probably no longer than three months) interest-bearing account, keeping on hand in its checking account only those funds it will require to meet project expenses during the next quarter. Before taking this action, however, the Society will want to carefully review its cash-flow projections for the next three months.

Figure 4. SAMPLE BUDGET CONTROL STATEMENT

SEAWARD ISLANDS CONSERVATION SOCIETY
FINANCIAL REPORT (Exclusive of Externally-Funded Projects)
REPORT PERIOD: 1 January - 31 March, 1991

ITEM	Estimated Quarterly Budget	Expenses/ Receipts at 31 March	Difference	Explanation
EXPENDITURES				
Secretariat				
Salaries	1,250.	1,250.		
Benefits	312.	312.		
Rent	250.	250.		
Insurance	600.	750.	- 150.	Unexpected increase in premium
Travel	250.	0.	+ 250.	Anticipated OAS workshop cancelled
Office supplies	125.	120.	+ 5.	
Postage and telephone	250.	400.	- 150.	Unusually heavy volume of overseas calls
Printing	188.	188.		
Sub-Totals	3,225.	3,270.		
Publications	500.	650.	- 150.	Increased postage rates for newsletter
Environmental Ed.	300.	150.	+ 150.	Fewer field trips than planned
Museum Operations				
Salaries	1,750.	1,750.		
Benefits	438.	438.		
Materials and supplies	250.	185.	+ 65.	
Exhibits	750.	1,250.	- 500.	New exhibit costs seriously under-budgeted
Sub-Totals	3,188.	3,623.		
TOTALS	7,213.	7,693.	- 480.	
RECEIPTS				
Membership dues	4,000.	3,000.	-1,000.	Fund-raising campaign did not meet target
Gifts and donations	1,500.	500.	-1,000.	Corporate sponsor only partially met quarterly payment
Publication sales	250.	235.	- 15.	
Museum entrance fees	2,150.	2,750.	+ 600.	Tourism up; more off-island visitors
Museum shop	500.	650.	+ 150.	Greater volume of off-island visitors
Secretariat services	175.	170.	- 5.	
Educational tours	250.	0.	- 250.	No tours completed this quarter
Investment income	250.	125.	- 125.	Drop in interest rates
Indirect cost transfers	875.	875.		
TOTALS	9,950.	8,305.	-1,645.	

Figure 5.

SAMPLE FISCAL STATUS REPORT FOR EXTERNALLY-FUNDED PROJECT

SEAWARD ISLANDS CONSERVATION SOCIETY
FISCAL STATUS REPORT, 1 Jan. - 31 March, 1991

ENVIRONMENTAL MONITORING PROJECT
(World Wildlife Fund)

EXPENSE ITEM	BUDGET	TOTAL EXP. PRIOR RPT. PERIOD	EXPENSES THIS RPT. PERIOD	TOTAL EXPENSES TO DATE	BALANCE (Unexpended Funds)
Salaries	2,000.	500.	500.	1,000.	1,000.
Benefits	500.	125.	125.	250.	250.
Interns	1,500.	0.	500.	500.	1,000.
Field Eq. and Supplies	1,000.	300.	150.	450.	550.
Office Expenses	500.	150.	100.	250.	250.
Vehicle Rental	500.	125.	125.	250.	250.
Indirect Costs (25% of Direct Costs)	1,500.	300.	375.	675.	825.
TOTALS	7,500.	1,500.	1.875.	3,375.	4,125.

CASH STATUS - Environmental Monitoring Project

Grant payment received prior quarter	+ 2,500.
Expenditures prior quarter	- 1,500.
Cash balance forward beginning of current quarter (01/01/91)	1,000.
Grant payment received this quarter	+ 5,000.
Expenditures this quarter	- 1,875.
Cash Balance Forward 31 March, 1991	4,125.

One other word of caution -- NGO boards should not necessarily be pleased by a significant ***under***-expenditure of project funds. Substantial under-spending may point to project planning errors, poor budget forecasting, or problems with project management. All of these can have an adverse effect on the NGO's relationship with the external donor -- particularly if the organisation plans to return to the same funder for support in the future.

REMEMBER . . .

THE MOST CAREFULLY PREPARED BUDGET WILL BE OF LITTLE VALUE IF IT IS NOT COMPARED THROUGHOUT THE YEAR WITH ACTUAL OPERATIONS. FREQUENT AND TIMELY BUDGET CONTROL STATEMENTS AND PERIODIC CASH-FLOW PLANS ARE VALUABLE TOOLS FOR KEEPING THE NGO ON TRACK.

THE PROJECT BUDGET

Before Part I -- which deals with financial planning, the budget process, and fiscal control -- is brought to an end, a few words need to be added on preparing project budgets for external funding sources.

Donors will require varying degrees of detail in the budget portion of proposal applications, and it is important that the NGO check with a prospective donor prior to submission to determine if there is a required budget format. Most governmental funding sources require more detail. Foundations and other private sector donors may be less structured in their requirements but certainly will be favorably impressed with a budget that is well thought-out and complete.

However, whatever the source, it is important to remember that if the potential funder requires a particular format, that is what the NGO must provide. Also, some costs may be disallowed by a particular funding source (for example, most donors will not fund construction costs, and many will not allow the applicant to have a contingency line item); the NGO needs to know these restrictions before writing the budget -- most funders have application guidelines available that outline this type of information.

THE BUDGET AS AN ESTIMATE

The budget that the NGO prepares to accompany its project proposal is an *estimate* of what the actual costs will be. Almost all funding sources will provide a degree of latitude in actual spending, as long as the total amount of the budget is not exceeded.

A donor may ask the NGO to maintain expenditures within a certain percentage (usually 5 to 15 percent) for major budget categories, but will then allow flexibility *within* each major category. For example, if all personnel costs are budgeted at $25,000, the donor may ask that the NGO not under-spend or over-spend the total personnel line item by more than 15% (i.e., actual expenditures should fall in the range of $21,250 to $28,750). However, *within* the personnel budget category, the NGO may make changes in the amounts budgeted for the various personnel lines that make up the total personnel costs.

The donor may have requirements which must be followed in making major changes after the project budget has been approved. Keep in mind, however, that project administrators at donor agencies are not eager to add to their workload by having to process budget changes. The paper work involved for the donor is usually more than that required of the NGO, and the enthusiasm of a project officer for the NGO's project will certainly be diminished proportional to the amount of extra paper work he or she has to handle because of requests for changes. Therefore, try to budget carefully so as to avoid future requests for changes.

BE SPECIFIC

As with the words in a proposal, the numbers in the proposal budget should be as specific as possible. Rounding out a budget line item to the nearest thousand dollars does not inspire confidence, nor does it suggest that the NGO has done as much work in budget preparation as the reviewer is expected to do in budget analysis.

In a similar vein, the NGO should try to avoid non-specific budget categories such as "miscellaneous" or "contingency". The exception to this rule is when the donor does not allow an indirect cost line item. In such cases, a contingency line, typically at ten percent, is usually acceptable.

WHAT TO INCLUDE IN THE PROJECT BUDGET

A project budget should include only those projected costs related specifically to the implementation of the project. A project budget must not be designed to provide funds for general organisational expenses. For example, the monthly charge to maintain a telephone in the NGO's office is generally considered a management expense and would not be billed against a project budget. However, overseas telephone calls specifically related to the project are legitimate project expenses and should be estimated and budgeted in the NGO's proposal.

Generally, funders prefer a budget that classifies a series of related costs under a single major category, with about four to six such major categories per proposal. Sub-costs or sub-lines within each major category are then itemised in more detail. For larger projects with more detailed budgets, a summary page should be provided at the end of the budget which presents a one-page review of all major expenditure categories and the amount budgeted in each.

It is often a good idea to provide "budget notes" which clarify information found in line items. For example, when using a fringe benefit line item, a budget note could be included to describe the specific fringe benefits paid by the organisation.

Figure 6 displays the project budget prepared by the Seaward Islands Conservation Society for its agro-forestry project.

Keep In Mind That . . .

it is important to provide sufficient detail so that the funding source will feel the organisation has planned its costs carefully and has allowed for unexpected contingencies. The donor will be asking whether the budget gives evidence that it is adequate for the tasks to be accomplished but is not so generous as to be wasteful.

Figure 6. SAMPLE PROJECT BUDGET

[N.B. The calculation of the Indirect Cost line item included in the budget below will be discussed in Part 3 of this manual.]

SEAWARD ISLANDS CONSERVATION SOCIETY
BUDGET FOR AGRO-FORESTRY PROJECT
Fiscal Year 1991

PERSONNEL COSTS			
Project Director (1/6 time @ $18,000/annum)	3,000.		
Field Assistant (1/2 time @ $6,000/annum)	3,000.		
Secretarial Support (10 days @ $30/day)	300.		
Benefits (at 10% of salary costs)	630.	(1)	
Total Personnel Costs			6,930.
FIELD COSTS			
Supplies	345.		
Vehicle Rental (15 days @ $25)	375.		
Total Field Costs			720.
OFFICE SUPPORT COSTS			
Postage, Overseas Telephone and Fax, Photocopying	150.		
Report Production	200.	(2)	
Total Office Support Costs			350.
TOTAL DIRECT COSTS			8,000.
INDIRECT COSTS			
25% of Total Direct Costs			2,000.
TOTAL PROJECT COSTS			$ 10,000.

BUDGET NOTES:
(1) National social security.
(2) Printing and dissemination of 25 copies of the final project report.

Part 2. FUND ACCOUNTING

ACCOUNTING FOR NON-PROFIT ORGANISATIONS

The concept of **fund accounting** is one of the ways to differentiate between a for-profit and a not-for-profit institution. Simply stated, fund accounting is a system of fiscal management that requires separation and maintenance of records for those assets donated or granted to or otherwise used by the organisation for *restricted* -- i.e., specific -- purposes or functions. Since the NGO has a stewardship responsibility for the way in which these funds are administered, the need for fund accountability will arise whenever a non-profit receives or utilises any kind of restricted contribution.

> In preparing its financial records, statements and accounting system, the NGO should **always** separate funds which are *restricted* from those which are *unrestricted*.

THE UNRESTRICTED OR GENERAL FUND

All unrestricted contributions, gifts, and income should be recorded in an **Unrestricted Fund** (or **General Fund**). If the NGO never receives restricted gifts or contributions, then this fund could show all fiscal activity, and the organisation would not use fund accounting.

Membership fees are usually recorded as unrestricted income as these monies are given for the general support of the organisation. Special fund raising events, on the other hand, may be designed to raise funds for a particular programme and would be recorded as restricted income.

The NGO's "in-house" or core expenses are incurred in the Unrestricted Fund. These costs are often referred to as administrative, management, overhead, or secretariat expenses; and since they tend to remain relatively unchanged from year to year, they are sometimes called fixed expenses.

Such expenses include: rent and general office costs (telephone, postage, etc.), salaries and benefits for administrative staff, insurance, maintenance of library, and so forth. In the documents presented thus far for the Seaward Islands Conservation Society, these expenses have been grouped and displayed as "Secretariat Costs".

THE RESTRICTED OR PROGRAMME FUND

The **Restricted Fund** (or **Programme Fund**) includes all monies given to the organisation for specified purposes; as such, the NGO is restricted in how it expends these monies.

The Restricted Fund also includes the NGO's own funds that have been designated for discrete programme activities. In the aggregate, the Restricted Fund represents the monetary support the organisation provides to implement its programmatic objectives.

Expenses related to restricted or programmatic funds normally vary with the level of programme activity and are therefore often called variable expenses.

If the NGO is small or has a single well-defined purpose, it may be able to include all of its programmes or activities under one collective "restricted" head, in which case the Restricted Fund would not carry any sub-categories.

However, if the NGO supports a variety of programmes, it will want to establish separate account categories (within the Restricted Fund) to identify discrete activities or projects carried out by the organisation. For example, at present, the Seaward Islands Conservation Society has five sub-categories within its Restricted Fund:

(1) Publications
(2) Environmental Education
(3) Environmental Monitoring
(4) Agro-Forestry
(5) Museum.

All of the Society's restricted fiscal activity is recorded within one of these five accounts, each of which, in turn, reflects a primary programmatic purpose or objective of the organisation.

As an NGO grows and expands its activities, the list of programme accounts within the Restricted Fund may become so long as to be cumbersome for reporting purposes -- particularly in the organisation's annual financial statement. To report on each separately-identified or separately-funded project would make the annual report lengthy and unwieldy; moreover, the reader would find it difficult to extract the kind of information useful in understanding the NGO's programme priorities -- there would simply be too much data to absorb.

At this point, the organisation should begin to group similar projects and activities under a few major programme categories -- no more than perhaps half a dozen. These broad programme categories should relate to the overall objectives or purposes of the NGO, and the annual financial statement should provide aggregate information within the selected priority areas.

If the NGO so chooses, separate schedules can be prepared and attached to the annual financial statement showing the details of each separately-identified or separately-funded project. Members of the governing board may want this more detailed financial data.

To make this clearer, let us look at the specifics of the Island Resources Foundation (IRF), a real-life NGO. During fiscal year 1991, the Foundation supported 15 separately-funded projects. These projects were, for fiscal accounting purposes, classified within one of four primary programme accounts or categories which reflect the Foundation's major areas of interest: (1) Resource Management; (2) Research; (3) Publications and Technical Assistance; (4) Land Stewardship. Throughout the fiscal year, IRF maintained separate financial accounts to track each of the 15 funded projects (similar to the fiscal status report provided in Figure 5 for the hypothetical Seaward Islands Conservation Society). However, in IRF's **annual financial statement**, the detailed information on each of the 15 funded projects was consolidated within the Restricted Fund and reported as a part of one of the four primary programme categories. This made the annual report easier to read and understand. At the same time, IRF's

in-house fiscal records could track any one of the 15 funded projects, and the information was also readily available to board members, to staff, or to donor agencies who might require more detail.

THE IMPORTANCE OF FUND ACCOUNTING

By separating its fiscal records into an **unrestricted/management fund** and a **restricted/programme fund**, an NGO is able to present a more accurate and informative picture of how it allocates its funds -- i.e., between the operation of its programmes (its "good works") and the core costs associated with keeping its doors open for business. This is the kind of information which is useful (and in many cases required) by external funding sources. An example of an annual Statement of Income and Expenditures for the Seaward Islands Conservation Society, using fund accounting principles, is provided in Figure 7.

By allocating all income and expenses either to the Unrestricted Fund or to one of the five Restricted Funds, the Society has presented its board, membership, and donors with a clear, easy-to-understand financial statement. Too often, in the non-profit world, annual financial statements are prepared by outside auditors who have had little practice working with not-for-profit organisations; resulting financial reports usually follow formats used for profit-making groups, with some slight modifications. The end-product is usually not as useful and easy to interpret as a statement prepared along the lines of the fund accounting strategy used in Figure 7.

The statement displayed in Figure 7 gives the reader immediate access to the following kinds of information:

(1) the allocation of revenue and expenditures not only by line item category but also by programme areas;

(2) an overview of the priority interests and concerns of the NGO based on revenues earned and funds allocated within five primary programme areas;

(3) an indication of what it cost this NGO during fiscal year 1991 to "stay in business," that is, to keep a management structure in place to support its five primary programme areas.

Two items do not appear in the financial statement presented in Figure 7 which are unique to non-profit organisations and which should be included for a complete picture of the NGO's income and expenses. These are (1) contributed or in-kind services and (2) indirect costs. Both of these will be discussed in Part 3 of this manual.

THE FIXED ASSET OR PLANT FUND

An NGO might consider adding another fund account to its financial statement if it has acquired fixed assets (land, buildings, furniture and fixtures, equipment, etc.) The **Fixed Asset Fund (or Plant Fund)** is used to remove these assets from the General Fund. In this way, the General Fund represents principally the current activity of the NGO, while the Fixed Assets Fund represents those assets not readily available in the sense that they cannot be converted easily to cash and expended.

Figure 7.

SAMPLE INCOME and EXPENDITURES STATEMENT, USING FUND ACCOUNTING PRINCIPLES

SEAWARD ISLANDS CONSERVATION SOCIETY
STATEMENT OF INCOME AND EXPENSES
For the Fiscal Year Ended 31 December, 1991

	UNRESTRICTED	RESTRICTED FUNDS					ALL FUNDS
	Management and General	Publications	Environmental Education	Environmental Monitoring	Agro-Forestry	Museum	
Income and Support							
Membership dues	5,000.	500.					5,500.
Gifts and donations	5,000.	500.	1,000.				6,500.
Grants				6,000.	10,000.		16,000.
Publication sales		800.					800.
Museum Entrance fees						10,000.	10,000.
Museum shop						2,500.	2,500.
Secretariat services	500.						500.
Educational tours			1,000.				1,000.
Investment income	700.						700.
Total Income and Support	11,200.	1,800.	2,000.	6,000.	10,000.	12,500.	43,500.
Expenses							
Salaries	4,500.	500.	500.	1,500.	6,000.	7,000.	20,000.
Benefits	500.	100.	100.	375.	600.	700.	2,375.
Professional fees	1,000.						1,000.
Travel	1,200.					1,000.	2,200.
Materials/supplies	450.	100.	200.	850.	500.	2,000.	4,100.
Rent	3,000.						3,000.
Insurance	750.		200.				950.
Vehicle costs			550.	375.	400.		1,325.
Tel./fax/postage	1,000.	700.	100.	100.	150.	500.	2,550.
Printing	700.	700.	200.	100.	200.	300.	2,200.
Total Expenses Before Depreciation	13,100.	2,100.	1,850.	3,300.	7,850.	11,500.	39,700.

INTER-FUND TRANSFERS

There are times when it will be necessary for the Restricted Fund to transfer monies to the Unrestricted Fund, or vise versa. Two examples are typical of such transactions in non-profit organisations.

The first occurs when an indirect cost fee is levied against an externally-funded programme (see also Part 3 of this manual). The monies represented by the indirect cost fee are then transferred from the Restricted Programme Fund to the Unrestricted General Fund where they are available for expenditure as core or management costs.

Secondly, there may be times when the organisation's governing board elects to transfer unrestricted funds, not needed for general core operations, to a specific restricted account in support of a programme activity.

Part 3. UNIQUE FEATURES OF NON-PROFIT ACCOUNTING

In designing its financial management system, the NGO should not overlook two areas which are unique to not-for-profit organisations:

(1) Placement of a value on contributed or in-kind services, and

(2) Calculation of an indirect cost rate.

CONTRIBUTED SERVICES

Many NGOs depend heavily or almost entirely on volunteers to carry out their programme functions. Yet non-governmental organisations often forget to cost the real value of such "in-kind" contributions of labour or to include these contributions in financial statements. From a management perspective, it is important to calculate the value of all contributions, including the contributed services of volunteers. Otherwise, it is difficult to determine the real costs of a given activity or to evaluate cost-effectiveness.

It is also important to demonstrate to potential donors the precise value of local contributions to a proposed project. In fact, many donors will require a "matching contribution" from the NGO. When this is a requirement, the donor will often accept an "in-kind" rather than a cash contribution.

The question often asked by NGOs is whether they should place a value on contributed services and record them as "contributions" in their financial statements. The answer is "*yes*" if the following conditions exist:

(1) There is reasonably good control over the employment of such services.

(2) There is an objective basis on which to value such services.

(3) The services are directly contributing to the fulfillment of the NGO's stated mission.

Generally, volunteer fund raising efforts are not recorded as contributed revenues because fund raising as such is not directly fulfilling the objectives of the NGO.

If the NGO is using contributed services as a match for securing grant funds or is recording these services on its financial statements, the organisation must maintain good back-up records to document both the extent and value of the services. Time sheets, therefore, are just as important for volunteer labour as for paid staff.

In placing a value on contributed labour, the NGO must provide a rational explanation for how the value was calculated. For example:

CONTRIBUTED SERVICES - MUSEUM

Total no. of volunteers *	17
Total no. of volunteer days *	100
Value of labour = 100 days x $20/day =	$ 2,000

* Documented with time sheets.

Figure 8 is a revision of the Income and Expenditure Statement first presented as Figure 7 (page 22). In the revised statement, provision has been made to include "*contributed services*" as a revenue category, with the value of the volunteer labour allocated to three programme categories in the Restricted Fund. Note that this income entry must be offset by a corresponding expenditure entry; thus, both the revenue side and the expenditure side of the statement have been increased by $5,000.

Figure 8.

SAMPLE INCOME and EXPENDITURES STATEMENT, INCLUDING "CONTRIBUTED SERVICES" LINE ITEM AND INDIRECT COST TRANSFER

SEAWARD ISLANDS CONSERVATION SOCIETY
STATEMENT OF INCOME AND EXPENSES
For the Fiscal Year Ended 31 December, 1991

	UNRESTRICTED	RESTRICTED FUNDS					ALL FUNDS
	Management and General	Publications	Environmental Education	Environmental Monitoring	Agro-Forestry	Museum	
Income and Support							
Membership dues	5,000.	500.					5,500.
Gifts and donations	5,000.	500.	1,000.				6,500.
→ Contributed services				1,000.	2,000.	2,000.	5,000.
Grants				6,000.	10,000.		16,000.
Publication sales		800.					800.
Museum Entrance fees						10,000.	10,000.
Museum shop						2,500.	2,500.
Secretariat services	500.						500.
Educational tours			1,000.				1,000.
Investment income	700.						700.
Total Income and Support	11,200.	1,800.	2,000.	7,000.	12,000.	14,500.	48,500.
Expenses							
Salaries	4,500.	500.	500.	1,500.	6,000.	7,000.	20,000.
Benefits	500.	100.	100.	375.	600.	700.	2,375.
→ Other services				1,000.	2,000.	2,000.	5,000.
Professional fees	1,000.						1,000.
Travel	1,200.					1,000.	2,200.
Materials/supplies	450.	100.	200.	850.	500.	2,000.	4,100.
Rent	3,000.						3,000.
Insurance	750.		200.				950.
Vehicle costs			550.	375.	400.		1,325.
Tel./fax/postage	1,000.	700.	100.	100.	150.	500.	2,550.
Printing	700.	700.	200.	100.	200.	300.	2,200.
Total Expenses Before Depreciation	13,100.	2,100.	1,850.	4,300.	9,850.	13,500.	44,700.
Inter-fund Transfers							
→ Indirect costs	2,788.			(825.)	(1,963.)		

ESTABLISHING AN INDIRECT COST RATE

Many NGOs are unable to cover all core or administrative expenses from unrestricted donations, membership dues, sale of publications, entrance fees, or from other sources of unrestricted income. It therefore becomes important for the NGO to know how to establish an **indirect cost rate** (also known as "overhead" or an "administrative fee"). This is a charge which should be made on all externally-funded projects and is a cost over and above the project's direct costs. In effect, each separately-funded project or programme has an add-on expense or cost representing that project's proportional share of the NGO's core costs. Remember that the core expenses are those costs the NGO incurs simply by "staying in business," so that it can operate and manage programmes.

Indirect costs are costs for activities that benefit more than one project (e.g., the cost of renting the office from which the NGO manages its programmes). It is difficult to determine exactly how much each project should pay, and therefore all indirect costs are usually pooled and then represented as a fixed percentage of the direct programme costs. This percentage is called an indirect cost rate.

The concept of indirect costs or overhead was essentially conceived by donors looking for a simplified way to reimburse organisations for administrative expenses incurred in running projects. Rather than attempting to calculate the precise value of, for example, the time of the executive director or office space -- on a project by project basis -- it was recognised that it would be more convenient to allow a specific percentage over-and-above the project's direct costs budget to cover administrative costs.

While most donors accept the concept of indirect costs, many NGOs have not established accounting practices which permit the organisation to recover these costs. This is a mistake because NGOs which do use an indirect cost rate are often able to cover a substantial portion of their administrative budget from these funds.

Most donors will generally accept an "administrative fee" of 10 percent without expecting backup documentation on how the rate was calculated. If the NGO asks for a more substantial indirect cost rate, it probably will be asked to provide a solid justification of how the rate was determined. Since misunderstandings can occur about indirect cost policies, it is important for the NGO to establish early on in its development a policy for defining, distributing and displaying indirect costs in proposals, so that this information can be conveyed in a logical and understandable manner to potential funders. To do this, the NGO must follow the steps outlined on pages 29-30 of this manual; the board cannot *arbitrarily* establish what it thinks is an appropriate rate.

The critical thing for NGOs to remember is:

DON'T FORGET TO ADD ON AN ADMINISTRATIVE FEE OR INDIRECT COST LINE TO ALL BUDGETS SUBMITTED TO DONORS FOR PROJECT FUNDING!

Realistically, it may be easiest for smaller NGOs to simply use a 10 percent administrative fee to cover indirect costs -- at least initially. However, at some point, it is going to be worthwhile for the NGO to determine an indirect cost rate. To do this, the NGO must first take steps to allocate all of its expenses as either direct or indirect costs. Such steps may result in the establishment of accounting procedures which initially seem so detailed and time-consuming that the NGO grows discouraged. Remember, however, that the objective is to find a rational way for each project and funding source to pay its fair share of administrative costs, and the NGO's efforts will be rewarded in due time.

STEP ONE: DEFINING THE NGO'S DIRECT AND INDIRECT COSTS

Direct costs are for activities or services which benefit a particular project; because these activities or services are easily traced to projects, their costs are charged directly to specific projects on an item-by-item basis.

Indirect costs are those expenses for activities or services that benefit more than one project. Their benefits to a *specific* project are difficult to trace. For example, it may be difficult to determine how the executive director of an NGO benefits a specific project, although everyone would agree that a benefit does accrue.

Table 1 illustrates some examples of direct versus indirect costs.

Table 1. Examples of Direct and Indirect Costs.

INDIRECT COSTS	*DIRECT COSTS*
RENT - administrative headquarters of the NGO	***RENT*** - facility leased specifically for a project or programme
SALARIES - administrative staff	***SALARIES*** - project staff or consultants
TRAVEL - not usually an indirect cost unless travel will benefit the institution rather than a specific programme	***TRAVEL*** - related to project implementation .
SUPPLIES - general office supplies, library materials, stationery	***SUPPLIES*** - specialised materials purchased for the benefit of one programme,
EQUIPMENT - office machines such as typewriters and computers	***EQUIPMENT*** - used for implementation of specific projects
TELEPHONE - basic use charge	***TELEPHONE*** - overseas calls related to projects
PHOTOCOPYING - basic use charge for equipment	***PHOTOCOPYING*** - copies made for a project report

STEP TWO: ACCOUNTING FOR THE NGO'S DIRECT AND INDIRECT COSTS

The NGO must find ways to account for direct vs. indirect costs on a daily basis, i.e., as the cost is being incurred.

For example, since the staff of most small NGOs will often spend part of their time on administrative activities and part on programme activities, the use of time sheets (which require staff to record their time according to activity) will help the NGO allocate salary (and benefit) costs appropriately. The use of a telephone log or a photocopying machine log, in which staff record overseas calls or the number of copies made for specific projects, will permit the NGO to allocate costs between direct and indirect expenses when the telephone bill or copying machine lease payment are due.

Furthermore, the NGO's expense ledger or checkbook will have to be organised in such a way as to allow for the recording of expenses as either direct or indirect costs (see Part 4 of this manual, especially Figure 9).

STEP THREE: CALCULATING THE INDIRECT COST RATE

An indirect cost rate is a ratio of indirect costs to direct costs. That is, at the end of a fiscal year, the NGO adds up all its indirect costs and all its direct costs and then calculates its indirect cost rate by dividing its total annual indirect costs by its total annual direct costs. The resulting percentage is the NGO's new indirect cost rate. For example, if the NGO's total indirect costs are $25,000 and its total direct costs are $75,000, its indirect cost rate would be 33%.

$$\frac{\text{TOTAL INDIRECT COSTS}}{\text{TOTAL DIRECT COSTS}} = \frac{\$\ 25{,}000.00}{\$\ 75{,}000.00} = 33\%$$

STEP FOUR: APPLYING INDIRECT COST RATES IN PROPOSAL BUDGETS

In preparing a proposal budget to request funding for a specific project, the NGO may -- after calculating its indirect cost rate -- use that rate as a line item in its proposal budget. The percentage rate is applied as a charge against all direct costs. For example, in Figure 6 (page 18), the Seaward Islands Conservation Society has used its computed indirect cost rate of 25% in the proposal budget it submitted to the World Wildlife Fund. The $2,000 indirect cost figure in this budget is money that will be available for expenditure by the Society in meeting its secretariat or management costs.

Monies budgeted as the indirect cost charge should be transferred from the restricted Programme Fund to the unrestricted General Fund ***only as they have been earned***, that is, as direct costs for the project are expended, the indirect cost rate should be applied against those expenditures and that sum transferred to the unrestricted General Fund. For example, if during a three month period, an NGO expended $5,000 in direct costs for Project X and its indirect cost rate is 20 percent, then ***at the end of the quarter***, the NGO should transfer $1,000 from its Restricted Fund to its Unrestricted Fund.

The revised financial statement provided in Figure 8 (page 27) includes an inter-fund transfer line. In this case, an indirect cost transfer of $2,788 has been made from the Restricted Fund to the Unrestricted Fund. The amount transferred is now available to meet expenses incurred by the Management and General Account.

The steps outlined in this section represent one commonly used method for calculating and applying an indirect cost rate. However, some funding sources may have specific requirements regarding indirect cost rates which the NGO will have to consider in applying to that source for programme funds.

Part 4. THE NGO's ACCOUNTING SYSTEM

Arithmetic is where the answer is right and everything is nice and you can look out of the window and see the blue sky -- or the answer is wrong and you have to start all over and try again and see how it comes out this time.

(CARL SANDBURG, *Complete Poems)*

The overall effectiveness of the NGO's financial management system is closely linked to the adequacy of its accounting methods and practices. It is not, however, the intention of this manual to provide a basic course in NGO bookkeeping or accounting. Not only is this subject outside the scope of expertise of the manual's author, but there is a great deal of diversity in the accounting methods and practices available to non-governmental organisations. Each NGO must adopt an accounting system best suited for its purposes while, at the same time, conforming to standard accounting principles.

This chapter is designed to highlight a few basic concepts and techniques associated with non-profit accounting -- and to discuss them in a relatively simple format. As such, the chapter is not directed specifically at NGO bookkeepers or accountants but rather at NGO fiscal managers. As the box on page 32 points out, these are not necessarily the same persons!

SELECTING AN ACCOUNTING SYSTEM

In today's expanding market of accounting systems, methods, manuals, and even computerised software programmes, the small NGO can be overwhelmed with options. A few general tips might be helpful:

- In designing, choosing, or upgrading its accounting practices, the NGO should get some expert advice -- usually an accountant can be found among its membership or a member can identify one to assist.

- Don't be tempted to employ an overly-complicated system -- even if the NGO plans to grow rapidly.

- Make sure that the accounting system is designed so that someone within the organisation, other than the bookkeeper/accountant/fiscal officer, has access to the financial books. Internal "controls," employed at random, are critical to ensure the fiscal integrity of the system and the NGO.

- Avoid using expensive external auditors for routine accounting tasks. Generally, auditors should only be brought in at the end of the fiscal year for: (1) an official, independent verification of the accounts; (2) perhaps to prepare the General Ledger if the NGO does not have the in-house expertise to complete this task; and (3) to prepare the annual financial statements.

SOME BASIC DEFINITIONS . . . *

Accounting has been called the art of recording, classifying and summarising transactions and events which are of a financial character and then interpreting the results. The recording phase translates financial transactions and events into written accounting data. Classifying pertains to sorting these data in a systematic manner. Summarising brings the accounting data together in a form that further enhances the data's usefulness. Interpreting the results involves analyses, comparisons, and explanations of the summarised accounting data.

Bookkeeping is the process of recording in a systematic manner, with a preconceived plan, financial transactions that have taken place. Bookkeeping is concerned primarily with the mechanical and the routine. Its main function is to record transactions and maintain records that are later summarised in the form of financial statements.

Accounting, therefore, is broader in scope. It includes bookkeeping plus the analysis and interpretation of recorded data. In performing these functions, the "accountant" exercises skill and judgment and applies logic and reason. Accounting draws (from the information furnished by the bookkeeping process) inferences as to the *condition* and *conduct* of an organisation, the two fundamental objectives of accounting.

Financial management has a far wider scope, although it includes accounting. It involves a series of resource utilisation decisions that are designed to achieve a desired goal over a period of time. In a for-profit organisation, the objective is to create revenues in order to obtain a profit. In non-profit organisations, the objective is to create *benefits* that are greater than the costs involved in their generation. These benefits are more difficult to measure than those of for-profit businesses since they may include value concepts such as increased skills or improved awareness.

* Source: "Financial Management: Towards Greater Autonomy." In: *NGO MANAGEMENT*, No. 22 (July-Spetember, 1991). NGO Management Network, c/o ICVA, Geneva, Switzerland.

- **At the very least, the NGO's accounting system must ensure that the fiscal records are kept in a professional manner, that all transactions are recorded immediately, and that financial reports are produced on a timely basis.**

COMPUTERS AND ACCOUNTING

More and more NGOs now have access to in-house computers, and thus the option of computerising accounting systems appears to be an increasingly attractive one. According to one source, the most critical question a non-profit group considering a computerised system can ask is will the change result in:**

** Masaoka, J., n.d. "Computers and Accounting," Reprint No. 01. Support Centers of America, Washington, D.C.

- better control?
- lower costs?
- more timely reports?
- increased efficiency?

Additionally, the NGO should evaluate its existing system, specifically:

(1) Does the current accounting system provide all the information needed by fiscal managers?

(2) Is the information up-to-date?

(3) Does the NGO have access to adequate in-house expertise as well as sufficient staff and/or volunteer time to implement a computerised system?

One of the biggest mistakes an organisation can make is to believe that an accounting system already in trouble can be improved by putting it on the computer -- in fact, a poor system on the computer *may* be worse than one on paper. Rather than rushing to purchase an expensive accounting software package, the NGO could consider interim steps. The change, for example, to fund accounting (see Part 2 of this manual) can first be implemented on paper, then gradually computerised. If financial reports are not current or complete, computerisation is not necessarily going to change that situation. It is more likely that the staff and/or volunteers handling bookkeeping/accounting tasks do not have the time to be up-to-date or are inexperienced. Additional training, more staff, or help from a consultant may be a better first step in improving the system, then later moving on to computerisation.

Another viable option for many NGOs is to computerise certain accounting functions, but not the entire system. The simplest way to do programme-related expense tracking on a computer is to use a spreadsheet programme to essentially mimic what is already done on paper, i.e., creating a template (the basic form with titles and formulas in place) that shows, for example, expense categories (rows) by programme categories (columns). Many computerised spreadsheet programmes (like Lotus 1-2-3) can be used for budgeting, cash-flow control, and fiscal status reports; the financial information displayed in Figures 1, 3, 4, 5, and 6 of this manual could easily be prepared using a computerised spreadsheet programme.

The *advantages* of an **automated spreadsheet** for expense tracking and budgeting are*:

- the flexibility of adjusting incorrect entries or re-designing the spreadsheet;
- its "visual" similarity to the paper-and-pencil worksheet;
- the ease with which calculations and recalculations are done; and
- the readability of computer-printed reports, if properly designed.

The big *disadvantages* of **automated spreadsheets** are*:

- their propensity to hide faulty assumptions and incorrect data (data transmission errors will occur);
- the lack of a trail when adjustments are made; and
- the lack of all the other features of a full accounting system. For example, it is cumbersome to integrate an expense tracking automated spreadsheet with a general ledger, payroll, or other accounting functions.

* Public Interest Computer Association, May 1986. "Resource Notebook." Washington, D.C.

A step up from the use of computerised spreadsheets would be implementation of a **fully automated accounting system**. Expense tracking is only one function of commercially-marketed software packages. The big *advantage* of these packages is that they have the capability of managing a complete accounting system, producing all standard financial reports while leaving an acceptable audit trail. For bigger NGOs which carry out a large number of transactions each month, a computerised accounting package may be the best approach. In fact, such a system is often viewed by external donors as desirable. The primary *disadvantage* of automated accounting is the burden that it places on the organisation to design, learn, and maintain -- and perhaps change -- the system. The NGO must have in place persons (generally staff rather than volunteers) who are well-informed about accounting, about the group's computer system, and about the organisation's fiscal procedures.

In short, before deciding to go with any computerised system, the NGO must answer some of the basic questions presented above about (1) the *needs* of the organisation and (2) the organisation's *capabilities* for meeting those needs with an automated system. Finally, remember that installation of a computerised accounting system does not remove the organisation's responsibility to maintain documentary evidence for fiscal transactions -- just like it would with a manual system.

ESTABLISHING ACCOUNTING PROCEDURES

CASH VERSUS ACCRUAL ACCOUNTING

In for-profit organisations, financial records are almost always kept on an accrual basis. Accrual means simply that records are kept so that in addition to recording transactions resulting from the receipt and disbursement of cash, the organisation also records the amounts owed to it by others and the amounts it owes to others.

However, in not-for-profit organisations, a cash basis of accounting is often used instead. Cash accounting means that only transactions where cash has been involved are recorded. Most small non-profit organisations use cash accounting.

Accrual basis usually provides a more accurate picture of an organisation's financial condition than cash basis. Then why do non-profits use cash accounting? One reason is that cash accounting is easier and faster; it is adequate when the nature of the organisation's activities is such that there are no significant amounts of money owed to others, or vice versa, and so there is little meaningful difference between the cash and accrual basis. This is certainly the case with most small NGOs. Additionally, persons not formally trained as bookkeepers or accountants can maintain the NGO's fiscal records using a cash accounting system. Non-accountants would have a more difficult time understanding the kind of double-entry bookkeeping generally required for an accrual system.

Many medium-size NGOs follow a modified form of cash basis accounting, wherein certain items are recorded on an accrual basis and certain items on a cash basis. Still others keep their financial records on a cash basis, but at the end of the year convert them to the accrual basis by recording obligations and receivables for annual financial statements -- this task is often performed by an external accountant or auditor .

Despite the ease of cash accounting, it is important to be aware of the pitfalls associated with this method. Certainly, keeping the NGO's accounts on an accrual basis will prevent the organisation from **spending money it does not have**. The tighter the NGO's budget, the more important this becomes. As a minimum requirement, *NGOs receiving project-specific support from external donors should keep their fiscal records* ***for these projects*** *on an accrual basis in order to ensure that project expenditures stay within the approved budget.*

> *The important point is that the NGO's financial accounts should be maintained on a basis that is appropriate to the size, nature, and needs of the organisation.*

STANDARD ACCOUNTING PRACTICES

There are basically only three steps which need to be included in any accounting system, whether a simple cash system or a more complex accrual system. These are*:

* Gross, J., 1974. *Financial and Accounting Guide for Nonprofit Organizations*. Ronald Press Company, New York.

(1) *Recording each transaction in a systematic manner as it occurs.*

For NGOs using a cash basis system, recording can be done in the checkbook. Since many banks now use so-called "one-write" check systems (checks have a one-line carbon strip on the back), information is transferred directly to attached journal sheets as the check is written. Figures can be extended at the same time to appropriate ledger columns for an immediate recording of financial information. It is therefore possible to bypass the more traditional "cash disbursements" and "cash receipts" journals which require duplication of information recorded in the checkbook.

(2) *Summarising transactions so that all "like" transactions (e.g., expenditure categories) are grouped together.*

Typically, and most easily, this summarising is done informally in a simple columnar format on a worksheet (either manually or using a computerised spreadsheet programme). It can be more formally handled in a system in which so-called "double-entry" transactions of debits and credits are posted to a formal financial record called the "general ledger". What is important is for the NGO to identify a system that summarises transactions in a way that is meaningful and addresses the organisation's fiscal management requirements.

(3) *Preparing financial statements from the summary information prepared in step 2.*

Financial statements provide a picture of the organisation's financial condition (the *balance sheet* shows the financial resources of the group at a particular date, and the *income statement* shows transactions taking place during a given period of time). They can be prepared by a staff accountant, by the organisation's treasurer if he or she has the proper training, or by an external accounting/audit firm brought in at the end of the fiscal year (perhaps in connection with an independent audit).

SIMPLIFIED ACCOUNTING METHODS FOR RECORDING AND REPORTING *(Steps 1 and 2)*

Many NGOs are simplifying their accounting practices by moving toward what one publication has called "one book" accounting*. (For more detail on the "one book" accounting system, the reader is referred to the publication shown in the footnote on this page.) The objective is to record financial transactions within a simplified system which: (1) reduces the number of account books necessary; (2) eliminates more time-consuming bookkeeping procedures and (3) facilitates the process of summarising, analysing, and reporting on fiscal data.

Figure 9 is an example of a simplified worksheet used to record cash receipts and cash disbursements for the Seaward Islands Conservation Society for a one month period of time.

* Kanada, J. and Husack, G., 1986. *Financial Management for Development Agencies*. Environment Liaison Centre, Nairobi, Kenya and Manitoba Institute of Management, Inc., Winnipeg, Canada.

In order to make the data easier to read, the number of Restricted Fund accounts has been reduced from five to two.

Using this cash receipts/disbursements worksheet, the NGO can now summarise fiscal transactions in a variety of ways, depending on the management requirements of its fiscal officer, the reporting conditions set by external donors, and the oversight demands of the governing board. For example, using worksheet data, separate or integrated summary reports on income and expenditure could be prepared for the Unrestricted Fund, the Restricted Fund and/or each sub-account (programme category) within the Restricted Fund. These are the kinds of financial summaries that should be presented to the board for periodic review of the organisation's finances. They also serve as the basis for fiscal status reports for externally-funded projects (see Figure 5, page 14) or for organisational cash-flow management plans (see Figure 3, 10), and provide the necessary information to monitor actual income/expenses against the approved budget (see Figure 4, page 13).

Such recording and reporting methods can fulfill the basic requirements for a relatively simple and direct, cash basis accounting system (with the added proviso that the NGO should use simplified accrual accounting for donor-funded projects in order to provide better control of these expenditures). In short, these accounting practices will enable the Seaward Islands Conservation Society to (1) record fiscal transactions in a systematic manner and (2) summarise and report on such transactions with a reasonable level of fiscal control.

FINANCIAL STATEMENTS ***(Step 3, page 36)***

Smaller NGOs may only require formal financial statements annually at the end of the fiscal year and could at this point turn to a professional accountant or external auditor for assistance.

Financial statements for non-profit organisations (whether monthly, quarterly, or yearly) should include:

- *A Balance Sheet*, that presents the financial status (i.e., assets and liabilities) of the NGO at the end of a designated accounting period;
- *A Revenue and Expense Statement* that is usually prepared in some detail and presents total revenue and expenses for the designated accounting period;
- *Special Purpose Statements* that relate to particular operations of the NGO.

A formal financial statement must disclose the basis for reporting income and expenditures, i.e., accrual or cash basis. It must also indicate the accounting treatment for fixed assets and investments, including donated assets.

Financial statements are prepared from accounting data recorded in a "general ledger" in which all categories of financial transactions affecting the NGO are summarised by specific accounts. The general ledger includes all cash and non-cash transactions, including assets and liabilities as well as income and expense accounts. It also includes a "fund balance" account which is comparable to the NGO's "net worth" at the date shown on the financial statement. If the NGO does not have the in-house capability to prepare the general ledger, this task could periodically be undertaken by an external accountant contracted for this particular service.

Figure 9. EXAMPLE OF A SIMPLIFIED WORKSHEET TO RECORD THE CASH TRANSACTIONS

DATE	ITEM	Cheque/ Deposit No.	CASH IN BANK Received (Income)	CASH IN BANK Paid (Expenses)	CASH IN BANK Balance	REVENUE CATEGORY	EXPENSE CATEGORY
01/01/91	BALANCE FORWARD				5,000.		
02/01/91	World Wildlife Fund	34	5,000.			Grant	
02/01/91	John Creque	34	25.			Membership	
02/01/91	Paul Charles	34	25.			Membership	
02/01/91	Pat Edwards	34	25.			Membership	
02/01/91	ABC Rentals	2345		250.			Office/Rent
03/01/91	XYZ Insurance Co.	2346		750.			Insurance
04/01/91	Seaward Islands Electrical Co.	2347		25.			Office/Electricity
04/01/91	Seaward Islands Telephone Co.	2348		450.			Telephone
05/01/91	Museum Gate	35	500.			Entrance Fees	
05/01/91	Museum Shop	35	100.			Shop Sales	
07/01/91	Price Waterhouse	2349		1,000.			Professional Fee
07/01/91	Design Graphics	2350		350.			Museum Exhibit
09/01/91	Island Printing	2351		200.			Printing
10/01/91	Windward Handicrafts	2352		250.			Materials
10/01/91	Business Machines, Ltd.	2353		200.			Printing
11/01/91	Julian Francis	36	25.			Membership	
11/01/91	Ruth Hughes	36	25.			Membership	
11/01/91	Museum Gate	36	400.			Entrance Fees	
11/01/91	Museum Shop	36	150.			Shop Sales	
11/01/91	Larry Adams	36	25.			Membership	
14/01/91	1st Office Supply	2354		75.			Supplies
14/01/91	LIAT	2355		185.			Travel
16/01/91	Caribbean Industries	37	500.			Donation	
16/01/91	Leeward Auto	2355		85.			Vehicle
17/01/91	Seaward Islands Post Office	2356		335.			Postage
17/01/91	Federal Express	2357		125.			Postage
18/01/91	Ministry of Education	38	500.			Grant	
22/01/91	Island Lumber	2358		195.			Museum Exhibit
25/01/91	Cable and Wireless	2359		62.			Tel./Fax
28/01/91	4-H Clubs	39	45.			Secretariat Services	
28/01/91	Museum Gate	39	450.			Entrance Fees	
28/01/91	Museum Shop	39	150.			Shop Sales	
29/01/91	Jacqueline Brown	2360		1,500.			Salary
29/01/91	David Williams	2361		1,200.			Salary
29/01/91	Felix Herbert	2362		1,000.			Salary
29/01/91	Eustace Lawrence	2362		500.			Salary
29/01/91	Winston Murray	2363		500.			Salary
29/01/91	Paulette Mills	2364		750.			Salary
	Totals/Month		7,945.	9,987.	2,958.		
29/01/91	Inter-Fund Transfer/Indirect Costs						

OF THE SEAWARD ISLANDS CONSERVATION SOCIETY FOR THE MONTH OF JANUARY 1991

UNRESTRICTED FUNDS			UNRESTRICTED FUNDS					
SECRETARIAT			ENVIRONMENTAL MONITORING			MUSEUM OPERATIONS		
Received (Income)	Paid (Expenses)	Balance	Received (Income)	Paid (Expenses)	Balance	Received (Income)	Paid (Expenses)	Balance
		3,000.			1,000.			1,000.
			5,000.					
25.								
25.								
25.								
	250.							
	750.							
	25.							
	225.			135.			90.	
						500.		
						100.		
	1,000.							
							350.	
	100.			100.				
							250.	
	55.			100.			45.	
25.								
25.								
						400.		
						150.		
25.								
	25.			15.			35.	
							185.	
500.								
				85.				
	245.			55.			35.	
	100.			25.				
						500.		
							195.	
	50.						12.	
45.								
						450.		
						150.		
	750.			750.				
							1,200.	
	250.			750.				
				500.				
							500.	
	250.			250.			250.	
695.	4,075	(380.)	5,000.	2,765.	3,235.	2,250.	3,147.	103.
		690.			(690.)			
		310.			2,545.			

WRITTEN POLICIES AND PROCEDURES

NGO fiscal managers should keep in mind the importance of having ***written*** policies and procedures to facilitate more effective implementation of the organisation's financial system. Some of the more obvious areas to be covered by written policies are:

(1) ***PROCUREMENT*** (of supplies, equipment and services). An NGO's procurement policy needs to confirm:

- procedures for issuing and approving purchase requisitions, including requirements for purchase authorisation forms;
- pricing policies, including bid procedures where appropriate;
- procedures for verifying receipt of goods/services and methods for confirming that actual costs match projected costs or formal quotations.

(2) ***TRAVEL***. An NGO's travel policy needs to provide for:

- travel request/authorisation procedures (and forms);
- travel advance procedures (and forms) that clarify the amount of money to which the traveler may have access prior to his/her trip;
- establishment of standard per diem allowances and clarification of what other travel expenses will be covered by the organisation;
- procedures for filing travel vouchers following completion of institutionally-supported travel.

(3) ***PROPERTY MANAGEMENT***. A property management policy should include:

- procedures for maintaining an inventory for all items recorded as assets;
- physical security procedures (e.g., who has access to the NGO's office after hours, under what circumstances may equipment be removed from the office, etc.);
- procedures to secure insurance to protect assets;
- procedures that establish routine maintenance schedules for assets.

Smaller NGOs may assume that such written policies are not necessary given their size and volunteer-based structure. Nevertheless, an early clarification of these and related issues -- even in all volunteer organisations -- will help to ensure that such functions are carried out more efficiently, rationally, and equitably.

FINAL THOUGHTS ON FISCAL MANAGEMENT PROCEDURES

(1) **Always** file a supporting voucher for every transaction, giving full details on disbursements and receipts. **Internal vouchers** are also essential to document inter-fund transfers.

(2) **Always** keep your financial records up-to-date.

(3) Bank reconciliations must be prepared **promptly** upon receipt of the monthly bank statement.

(4) Maintain **consistency** in the use of accounting methods from period to period.

Finally, the NGO needs to remember that its accounting system must reinforce and strengthen a larger institutional goal -- namely, to provide sound fiscal management policy and procedures for the organisation. The information generated by the accounting system must inform and enhance the decision-making process within the organisation. Otherwise, the NGO has only created a routine and mechanical bookkeeping system -- not a *financial management* system.