

FINANCIAL REPORTING

WHY HAVE FINANCIAL REPORTING

- ❑ To ensure the organisation is financially sustainable, that funds are being used efficiently and expenditure is under a control.
- ❑ To demonstrate to donors that you are financially stable with a track record of good financial management
- ❑ To establish trust with donors.
- ❑ The end result is that if you are fulfil the above, you will encourage funders to give money knowing it will be used efficiently and effectively.

INCOME AND EXPENDITURE

Monthly Reporting of Income and Expenditure

- ❑ To track your financial situation, you should keep monthly income and expenditure figures. This allows you to track any variations in income and expenditure from month and to month by each area of income and spending.
- ❑ It allows you to monitor expenditure to ensure that this is not getting out of control.
- ❑ The figures should be derived from detailed books or ledgers kept listing all incomings and outgoings on a daily basis.
- ❑ It is vital that all expenditures have a receipt. This even more important when dealing with donor bodies who will not refund expenditures, or will ask for funds given be paid back where an organisation is unable to prove expenditure.

Sample monthly income and expenditure table:

Income (RwF)	January	February	March	April	May	June
Income from international donors						
Income from individual donors						
Government income						
Operational income						
Interest						
Total						
Expenditure (RwF)						
Staff wages						
Premises rent						
Premises expenses						
Staff expenses						
Capital equipment						
Vehicle purchase						
Vehicle running costs						
Repairs and maintenance						
Administration expenses						
TOTAL						
Surplus / deficit						

Monitoring the Budget

- ❑ Having produced a detailed monthly total, you should track the monthly totals against your budget for the year and ensure that by the end of the year you are at least in balance, or preferably in surplus.

- ❑ The monthly figures enable you to take action in time where there is an accumulating deficit which will be need to be corrected by the year-end.

Sample monthly budget review table:

Income and Expenditure budgets (RwF)	January	February	March	April	May	June
Income - budgeted						
Income - actual						
Variance						
Year to date - budgeted						
Year to date - variance						
Expenditure - budgeted						
Expenditure - actual						
Variance						
Year to date - budgeted						
Year to date - variance						

Annual Statement of Financial Activities

- ❑ At the end of your financial year, you will need to prepare a statement of financial activities which is an account of income and expenditure account. This will be included in your annual report.
- ❑ Essentially, this statement shows the income earned for the year and deducts from it all the expenses incurred in earning that income. If the income is larger than the expenses then the organisation has generated a surplus which is added to their reserves. If the expenses exceed the income then there is a deficit which reduces the reserves.

Sample annual statement of financial activities

Incoming Resources

Voluntary income

Donations and fundraising

Incoming resources from charitable activities

Grants and other service contract income

Other income

Income from operating activities

Gain on disposal of fixed assets

Investment income

Total Incoming Resources

Resources Expended

Costs of generating voluntary income

Fundraising

New donor acquisition

Costs of Operational Activities

Cost Of Generating Funds For Charitable Activities

Research

Information

Support

Total resources expended

Net Movement In Funds

Total funds at 1 January

Net (outgoing)/incoming resources

Total funds at 31 December

CASH FLOW

- The cash budget shows the total expected outflows (payments) and inflows (receipts) during the year. It is vitally important that this budget is prepared so that the organisation is aware of shortages and surpluses during the year. A known cash shortage can be planned for and resolved by, for example arranging a loan or seeking funding.
- The cash flow statement will be different from the income and expenditure figures. The cash flow statement represents movements in cash.

Sample cash flow forecast

Cashflow	June	July	August	Sept	Oct	Nov
Receipts	Actual	Actual	Budgeted	Budgeted	Budgeted	Budgeted
Grant Income						
Operational income						
Other income						
Cash inflow						
Payments						
Staff costs						
Premises costs						
Project charges						
Other running costs						
Cash outflow						
Net cash outflow						
Cash/bank balances at beginning of period						
Cash/bank balances at end of period						

THE BALANCE SHEET

- ❑ The balance sheet is a "snapshot" of the assets and liabilities of the organisation at a single point in time.
- ❑ Analysis of items should be given in the notes to the accounts. Two particular items are:

Restricted and Unrestricted Funds

- ❑ Restricted funds cannot be used for anything other than that specified by the donor.
- ❑ Unrestricted or general funds are not subject to externally imposed restrictions and can be used for day-to-day operations in line with the organisation's aims and objectives.

Depreciation

- ❑ The figure for fixed assets does not show their true value. It shows the cost, less amounts written off for depreciation, and is described as "net book value". This may be higher or lower than the amount for which they could be sold in the open market, or for which they could be replaced.
- ❑ So, for example, if a vehicle is bought for \$20,000 and it has an estimated useful life of 5 years, then depreciation will be charged at \$4,000 per year against each of the incomes of the next 5 years. The resultant net book value (for example, at the end of year 2 $\$20,000 \text{ minus } (2 \times \$4,000) = \$12,000$) may have no resemblance at all to what an equivalent van is currently selling for in a used car dealers.

Sample balance sheet

Fixed Assets

Less accumulated depreciation
Buildings, plant and machinery

Current Assets

Cash in hand and at bank
Debtors – money receivable
Stock
Pre-paid expenses

Total assets less current liabilities

Current liabilities

Creditors
Tax due

Fixed Liabilities

Amounts falling due after one year

BANK RECONCILIATION

- ❑ It is important to ensure that you keep close track of the amount in your bank account.
- ❑ This is to ensure that at least once a month you have a clear picture of the amount you have in the bank. The closing statement on your bank statement will not necessarily be the true figure because of deposits or payments that had not been cleared by the statement date.
- ❑ For the same reason, the amount of cash shown in your own books, will not necessarily equate with the bank balance shown on the statement.
- ❑ You may also have bank charges which do not receive notice of until the statement is received.
- ❑ The bank statement acts as a check to ensure errors have not been made in your books. Also, it may highlight a mistake made by the bank. If you haven't kept a good record, you will have no chance of getting them to correct an error.
- ❑ Another important reason to keep a close eye on the account is that it may uncover irregularities.
- ❑ Therefore a bank reconciliation should be prepared from your bank statement every month.
- ❑ First every item should be checked against receipts and payments made by cheque, direct transfers and debit card. These should be listed in your own books.
- ❑ On your bank reconciliation, list any deposits that have not yet cleared the bank statement.
- ❑ Look at last month's bank reconciliation to ensure that all the deposits listed appear on this month's bank statement and ascertain any payments made which have not yet cleared as they will need to be listed on this month's statement.
- ❑ If your books do not show the same balance as the reconciliation you will need to track down the cause of the difference.

Sample bank reconciliation

Bank Reconciliation July, 2010		
		RwF
Balance at 31 st July		100,000
Deposits		
	<i>Amount</i>	
29 th July – xxxxxx	20,000	
1 st August – xxxxx	50,000	70,000
<i>Subtotal</i>		170,000
Outstanding Payments		
<i>Date</i>	<i>Amount</i>	
10 th July - chq 1234	30,000	
30 th July - BACS to xxxxxx	10,000	
<i>Subtotal</i>		40,000
Balance per books		130,000