United Way
Calgary and Area

CAPACITY BUILDING for FINANCIAL MANAGEMENT: A Literature Review

Prepared by Caroline Claussen, MA C3 Inc.
for United Way of Calgary

January 2012

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TABLE OF CONTENTS

Introduction

The United Way of Calgary and Area seeks to improve lives and build extraordinary communities by engaging individuals and mobilizing collective action. Their promise is to create a great city that is great for everyone. To this end, the United Way of Calgary and Area believes that investing in strong organizations and communities is one way in which they can create a better future.

As part of United Way's commitment to ensuring the effectiveness and sustainability of the non-profit community, a series of literature reviews on various areas within capacity building have been developed. This particular review on 'Capacity Building for Financial Management' is one in that series. It is intended that these review will not only inform United Way on how to support capacity building in the area of financial management and avenues of possible investment, but also be of interest and utility to the community of non-profit organizations within Calgary and surrounding area.

Why Capacity Building?

"Capacity building well done in the non-profit sector, I believe, is a critical answer to the extraordinary uncertainty we face and also to the tremendous political pressure under which most non-profits are operating. Capacity building right now is arguably the most important investment the non-profit sector can make." (Paul Light)

The United Way of Calgary and Area has a long history supporting the development and overall capacity of non-profit organizations within Calgary. For more than a decade the organization has provided capacity building grants in a variety of areas, such as: evaluation, HR, leadership and infrastructure support.

Certainly, capacity building has received growing attention over the past 20 years (Ontario Trillium Foundation, 2005). This enhanced interest in capacity building has occurred simultaneously with the shift in the voluntary and community sectors' pool of available funding, increased expectation to do more with less, and overall public expectations of accountability. These changes within the sector have served to create challenges to organizational sustainability, which overall hinders the ability of non-profits to do work that has impact.

Paradoxically, funders have often failed to recognize and support the strong two-way relationship between program success and organizational strength and sustainability (The California Wellness Foundation, 2001). Often, non-profits have found it easier to secure funds for a specific project with tangible outcomes rather than find resources to develop themselves internally. However, if organizational capacity is weak, then programs and services are bound to suffer (TCC Group, 2010). In fact, there is good evidence to suggest that organizational capacity matters to achieving programmatic outcomes (Light & Hubbard, 2002). Fortunately, more and more funders are recognizing this critical link by developing capacity building grants to support their grantees.

Capacity Building for Organizational Effectiveness

In a 2002 overview of capacity building efforts within the United States, findings showed that the majority of work commonly referred to as "capacity building" was focused at the organization level (Light & Hubbard, 2002). Organizational capacity building seeks to strengthen the ability of an organization or agency to achieve a desired outcome. Capacity building in this area can be defined as: *"Supporting organizations to build and maintain the skills, infrastructure and resources to achieve their mission" (United Way of Calgary and Area, 2011).*

Narrowing the focus to capacity building for organizational effectiveness does little to actually narrow the field of capacity building. There are hundreds of approaches to strengthening the capacity of organizations, from leadership, governance, financial management, and HR systems, each of which can be sorted again into multiple areas of focus (Light & Hubbard, 2002). This literature review focuses on the area of financial management capacity, and further explores the mechanisms and practices that enable an organization to maintain financial health while simultaneously providing high impact services to all stakeholders (Hull & Lio, 2006).

Financial Capacity

Financial capacity can be defined as "available organizational resources and relationships (both external and internal) that enable organizations to pursue their mission and fulfil their roles" (Canadian Council on Social Development, 2003, p 12). Others have defined financial capacity as "the resources that give an organization the wherewithal to seize opportunities and react to unexpected threats" (Bowman, 2011, p 38). Financial capacity has also been simply defined as "an ability to do things and withstand unexpected shocks." (Bowman, 2007, p 1).

Financial capacity is complex – it includes the ability to generate and administer funds, while on the other hand including the instruments and mechanisms that structure the relationship between the organization and the funder (Canadian Council on Social Development, 2003). The concept of resources are arguably the most central aspect of financial capacity, because it can affect so much of what an organization is able to undertake and achieve (The Urban Institute, 2001).

Traditional efforts to build non-profits capacity have typically focused on expanding an organization's resources. Simply providing more resources, however, is not always the answer to the challenges faced by non-profits. How resources are used is a critical factor. In a rapidly changing environment, upgrading skills, revamping procedures, and improved technology are some of the ways that help to stretch limited resources (The Urban Institute, 2001).

Financial Management

"Good financial management is connected to every facet of the organization's operations – and it's essential to success." (Wallace Foundation)

Solid financial management plays a critical role in the development and maintenance of effective organizations. In the past decade, there has been heightened interest in this area due to changes in the funding environment and availability of resources. Good financial management practices are critical elements of any non-profit organization and demand careful attention in capacity building efforts (The Urban Institute, 2001). Financial management includes the competence to manage organizational resources, as well as the capability to ensure efficient financial operations (TCC Group, 2010).

According to the National Endowment for the Arts (2011), there are seven characteristics of financially healthy non-profits. They are:

- Sufficient income to ensure stable programming;
- Internal source of cash or ready access to cash in times of shortfall;
- Engaged in income-based, rather than budget-based, spending;
- Retains a positive cash fund balance (surplus);
- When deficit does occur, there are accumulated surpluses sufficient to cover the current year's deficit;
- Has established (or plans to establish) an operating reserve to finance growth and cash shortfalls;
- The board and management hold themselves responsible for the financial stability of the organization.

While there are many handbooks and online resources dedicated to financial reporting that must be completed by non-profits, few approach the topic of financial management from a strategic planning function that supports decision making in regards to programs and sustainability. This literature review will expand the discussion of financial management to include not only basic financial principles such as preparing budgets, financial statements, and other non-profit essentials, but also the concept of resource diversification and sustainability as critical components of overall robust financial capacity.

Financial Basics

Basic skills such as cash management, bookkeeping, and generating financial statements are essential skills in supporting a healthy organization (McNamara, 1999). Basic accounting processes are generally included in the literature around financial management. By adhering to sound accounting principles, reliable financial information can be produced and stakeholders can be ensured of fiscal responsibility (Minnesota Council of Non-profits, 2010).

Basic accounting processes include a yearly accounting cycle, in which many key activities are performed. The cycle includes bookkeeping, generating financial statements and analyzing information from those statements (McNamara, 1999).
Based on the literature, the following identifies elements that need to be in place to support financial capacity and develop into a financially healthy non-profit. They are:

- **Fiscal policies and procedures manual** – non-profit organizations should adopt written financial procedures to monitor major expenses such as payroll, investments, contracts, and consultants (Minnesota Council of Non-profits, 2010). The board should be responsible for developing and authorizing these procedures, with the board treasurer ensuring that it is regularly reviewed (McNamara, 1999). Assessment of risk and development of systems to ensure separation of financial duties to serve as checks and balance to prevent theft and fraud also need to be considered at this point (Minnesota Council of Non-profits, 2010).
- **Accounting systems** – Accounting starts with basic record keeping (or bookkeeping). Depending on the size of the organization, different methods will be adopted to support the growth, size, and complexity of the non-profit (McNamara, 1999). In addition to the method used, the system used to support that method should align with the size and complexity of the organization. In some cases, a small organization may outsource the record keeping to a business that manages bookkeeping activities (along with other financial management activities). For organizations that are large enough, use of in-house personnel and technological systems may be more appropriate.
- **Chart of accounts** – While each non-profit may have their own method of charting accounts, there are generally five areas that are universally present and include: (1) assets, (2) liabilities, (3) net assets (or fund balances), (4) revenues, and (5) expenses (McNamara, 1999).
- **Budget(s)** – Budgeting is a key component in non-profit financial management, and all organizations should have an operating budget (Carpenter, 2007). Budgets should include timelines, as well as the steps to be taken for implementation. There may be several different types of budgets, depending on the size and complexity of the organization. There should minimally be an operating budget, which shows planned revenue and expenses for the year (McNamara, 1999). The literature also recommends the development of program budgets for each major service that is provided to clients. (Carpenter, 2007; McNamara, 1999).
- **Financial statements –** In order to know how the organization is doing, some basic analysis is required (McNamara, 1999). Individuals responsible for an organizations financial reporting should prepare and analyze reports on at least a

quarterly basis (Minnesota Council of Non-profits, 2010). These financial statements should include the following elements: (1) balance sheet, (2) statement of functional income and expenses, and (3) statement of cash flows (Carpenter, 2007).

- **Financial analysis –** By themselves, numbers don't usually mean that much. By engaging in financial analysis, a picture can be created that can inform an organization how it is doing (McNarama, 1999). The type of analysis an organization conducts depends on the nature and needs of the organization and the business it conducts.
- **Financial reporting –** The types and frequency of reports depends on the nature of the organization and its business (McNamara, 1999). Government bodies and foundations may require certain types of financial reports, while private donors may want financial reports that verify that funds are being spent as expected. The board of directors are another entity that should be requiring regular financial reporting. As legally responsible for the organization, they require financial reports that are accurate, timely, in context, and appropriate (Non-profits Assistance Fund, 2005). In any case, adequate financial reporting can be an essential element to legitimacy and trustworthiness by donors (Verbruggen, Christiaens & Milis, 2011).
- **Financial review and/or audit –** Some funders will not provide funding unless they receive financial statements in the form of an annual review or audit (Carpenter, 2007).

Key Financial Roles

Within the area of financial management are key roles and functions that organizations should pay attention to in order to be financially healthy. In addition to the board, the role of Chief Financial Officer (CFO), Treasurer, and Finance Committee need to be considered when building financial capacity within non-profits.

- **Board of Directors -** As mentioned above, the board of directors is legally responsible for the organizations work, in addition to the short and long-term planning that occurs (Non-profit Assistance Fund, 2005). While there is no doubt that the board requires appropriate financial information, the format and contents of the reports should be determined by their intended purpose. According to the Non-profits Assistance Fund (2005), there are four general types of reporting required by the board:
    - Compliance and information (the most common purpose of reporting);
    - Evaluation (assessments of effectiveness and measurement of progress towards identified goals);
    - Planning (projecting future needs and consideration of trends);
    - Taking action (reaction to external environment or addressing problems with programs, budgets, or cash flow).

- **Treasurer –** The specifics of a treasurer's responsibilities should be laid out in the by-laws, but generally include maintaining accounting records, bank accounts, and reporting financial results to the board (Non-profit Assistance Fund, 2009). The treasurer must be knowledgeable about the organization's financial affairs and ensures that the board receives accurate and timely financial information.
- **Finance Committees –** Not every non-profit has, or needs, a finance committee. Generally, finance committees are found in non-profits where there are many complex funding sources or where the organization frequently uses loans, bonds, or other types of finance. In these cases, the individuals participate in budget planning, recommend fiscal policies, and discuss financial statements in detail (Non-profit Assistance Fund, 2009). In addition to simply reviewing reports, these individuals should also be using a financial lens to consider the organization's plans and challenges.
- **Chief Financial Officer (CFO) –** Generally, this role is one that not only carries out the organization's financial strategy, but is integrated into all organizational process to expand the strategic capacity of the financial function. Ideally, this role supports identification of financial goals, options to achieve them, decision making, and the ramifications of those financial decisions in the short and long-term (Pomeranz, Vichare & von Bargen, 2010). Often in small and mid-size organizations the resources to support such a position are hard to justify, given the many demands on limited resources. However, regardless of budget size, there is a need for the kind of financial strategic capacity that is often provided by a CFO.

More than the Basics: Financial Management and Operations

"A non-profit ignores financial management at its peril. Still, many non-profit executives give short shrift to the financial underpinnings of their organization." (The Wallace Foundation)

While much of the literature on financial management concentrates on accounting cycles and risk management, financial management is much more than that (The Wallace Foundation, 2011). Good financial management links together the organizational mission with the deployment of financial resources in pursuit of that mission (Canadian Council on Social Development, 2003). Focusing solely on the importance of programming without ensuring adequate finances short changes the ability of the organization to meet its mission. Financial management supports the creation of systems through which the program staff and financial staff can work together to set priorities and agree on the most effective and efficient ways of meeting organizational objectives (The Wallace Foundation, 2011).

Budget Planning and Program Costs

For most non-profit organizations, limited resources and overwhelming demand is an issue faced daily. Non-profit leaders are constantly forced to make decisions about how to allocate resources among many competing priorities. That is why resource-allocation decisions are some of the most important and powerful decisions that non-profit executives make in relation to the achievement of their organization's goals (Colby & Rubin, 2003).

Given this fact, however, the reality is that much of the financial data available in many non-profits is worrisome (Colby & Rubin, 2003; The Wallace Foundation, 2011). While the information on revenues tends to be fairly robust, organizational knowledge about costs tends to be weak (Colby & Rubin, 2003). The literature suggests that without an understanding of the relationship between specific expenses and organizational goals, non-profits cannot make informed, productive financial decisions (The Wallace Foundation, 2011). When organizations have a true understanding of the all-in costs of running programs and services, they possess powerful information that can allow them to allocate resources to those that have the greatest impact (Colby & Rubin, 2003). Accurate cost data also makes it possible to look at program finances from a strategic perspective, and assess the flow of funds within the organization as a whole. This full understanding can provide a clear view on which programs are covering their own costs or even generating surplus funds, and which programs are actually producing a deficit.

Organizations that possess strong financial management capabilities are able to make resource-related decisions intelligently, all in the pursuit of maximizing impact and promoting its mission. The concept of "mission match" and financial health is critical in the organizational balancing act. There is no question that organizations have to maintain financial health if they are to remain viable. However, viability loses its meaning in the absence of mission (Colby & Rubin, 2003).

Funding Stability and Resource Diversification

Financial capacity is also more than just money in the bank – it includes relationships with funders and the institutions and mechanisms that enable or hinder the organization in carrying out its work (Canadian Council on Social Development, 2003). Certainly over the past decade there has been increased focus on the impact of funding practices on the financial capacity of non-profits. Each funding source imposes opportunities and constraints that affect the capacity of organizations to purse and achieve their goals.

Non-profits rely on grants, contracts for service, donor contributions, and sales of goods and services to finance operations and capital improvements. Depending on any given year, non-profits can face a fair amount of uncertainty when considering their financial status. Far too often, non-profits build budgets around the contracts the organization receives as opposed to the programs and services they provide (The Wallace Foundation, 2011).

There is no doubt that there is a close relationship between the characteristics of the funding environment and non-profit strategy (Crittenden, 2000). One of the ways in which to reduce potential financial vulnerability is through diversification of revenue sources (Crittenden, 2000; Carroll & Jones Stater, 2008). What is revenue diversification? Essentially, a diversified revenue structure for non-profit organizations is one in which there is relatively equal reliance on revenue generated from donor income, earned income, and investment income (Chang & Tuckman, 1991).

The literature would suggest that revenue diversification is positively correlated with financial health in non-profit organizations, as displayed by higher operating margins and larger net assets (Carroll & Stater, 2008). In a 2000 study done by Crittenden, it was found that successful organizations (using a set of financial criteria) were not only strong in their overall financial orientation, but also tended to be balanced in their sources of funding (i.e., percentage of funding source relative to total funding). Unsuccessful organizations tended to have the least diversified funding base, with government funding providing a higher percentage relative to total funding. In other studies, it has been found that revenue concentration (the opposite of diversification) leads to a greater risk of insolvency and dramatic decline in revenue (Keating et al, 2005).

This issue of revenue diversification is tied to the concept of financial stability, as there are studies that ask the question, “Does diversification leads to greater financial stability over time for non-profit organizations?” (Carroll & Stater, 2008, p. 950). The literature suggest that diversification does indeed lead to greater financial stability, which in turn directly affects the ability of non-profits to provide programs, compensate staff, and promote mission awareness (Carroll & Stater, 2008).

Financial Sustainability

Any discussion of financial management capacity would not be complete without an exploration of financial management sustainability. Essentially, financial sustainability is the ability to maintain financial management capacity (Bowman, 2008). This includes short-term sustainability, as indicated by annual surpluses, as well as long-term sustainability indicated by asset growth (Bowman, 2011). Short-term sustainability is associated with the ability to be resilient, while long-term sustainability is associated with the ability to maintain services.

In a 2011 study, Bowman explores the concept of the “sustainability principle” (Bowman, 2011, p 39). This principle asserts that sustainability requires sufficient annual surpluses to maintain asset values at replacement costs over the long-term while simultaneously maintaining available financial resources in the short-term (Bowman, 2011). Organizations unsustainable in the short-term are often plagued by chronic cash shortages, while organizations at risk of being unsustainable in the long-term may have adequate cash but inflation will cause the value of its assets to erode over time.

How do organizations ensure long-term financial sustainability? Financial sustainability requires growth of assets faster than the long-term rate of inflation of 3.4 percent (Bowman, 2008). In the same 2011 study mentioned above, Bowman found that more than half of the non-profit organizations included in the study were unsustainable in the long-term, with 45% of them demonstrating negative returns. The author further recommends that non-profit organizations should regard poor returns seriously, and "begin planning a capital campaign when return on assets fall appreciably below 3.4 percent." (Bowman, 2011, p 46). National US data demonstrated that non-profits are more focused on generating unrestricted cash in the short-term rather than long-term capital preservation.

Indicators of Financial Management Capacity

As the literature has demonstrated, financial management capacity is a critical element of organizational effectiveness. The capacity of an organization to develop appropriate and effective financial management processes and systems, strategically use financial information to support program development and costing, and to ensure stability and sustainability are essential to a healthy and vibrant organization. While it is important to understand and reflect on the elements of financial management capacity, how can one assess whether any one of the above mentioned areas are present in an organization? What concrete measures exist to indicate that an organization has the financial management capacity it needs and requires?

Within each area described above are key documents or proof of business processes that indicate whether an organization is building and actively supporting its financial management capacity. Some of these documents or processes are more powerful indicators than others. For example, the general rule of thumb for short-term capacity is three months cash on hand for satisfying general operating expenses. Organizations with less than three months cash on hand should be viewed as seriously financially vulnerable.

There are numerous resources available for free or for a nominal cost that provide organizations with an opportunity to assess their financial management capacity (Greater Twin Cities United Way; Non-profit Association of Oregon, 2010; TCC Group, 2010). See Appendices for further information on any of the above assessment tools.

Below is a proposed table with areas of financial management capacity, along with proposed documents or processes that could be used to determine financial management capacity. The table also includes an assessment of how important the presence of these documents and processes are in reflecting capacity in each area. This table is intended to be used to provide an overview, rather than an exhaustive checklist of financial management processes and procedures.

Assessment criteria are defined as:

- **Very Important** – Indicator is an essential or basic requirement to the operations of all non-profits. Organizations that do not meet the requirements should be viewed as extremely financially vulnerable.
- **Important** – Indicator is recommended as standard practice for effective and financially healthy non-profits.
- **Emerging Importance** –Additional indicators that an organization can implement to enhance and strengthen their financial management operations.

Table 1.0 – Financial Management Capacity Indicators

Financial Capacity Area	Indicator	Assessment
1. Basic Accounting	Processes in place that demonstrate the organization follows accounting practices that conform to accepted standards	**Very Important**
	Fiscal policies and procedures manual	**Very Important** – This includes outlining the risk management policies and procedures.
	Appropriate technology is used to run efficiently and effectively	**Important –** This would include the ability to track and store all important information, to analyze financials, etc.
2. Financial Statements and Reporting	Evidence of systems that provide appropriate information needed by both staff and board to make sound financial decisions	**Very Important**
	Monthly financial statements that include a Balance Sheet as well as a Statement of Activities and Changes in Net Assets	**Important**

3. Budget	An annual comprehensive operating budget which includes costs for all programs, management, fundraising, and all sources of revenue	**Very Important**
	Organization has established, or is actively trying to establish a reserve of funds to cover at least three months of operating expenses	**Very Important**
	Documented evidence that the board has reviewed and approved the annual operating budget	**Very Important –** This may be evidenced through board meeting minutes and agendas
	Evidence of diversified funding streams	**Emerging Importance**
4. Financial Review	The organization has an annual, independent audit of their financial statements, prepared by a certified public accountant	**Important**
	The audit or an organization prepared annual report, which includes financial statements, is made available to stakeholders	**Very Important** – Stakeholders would include service recipients, volunteers, funders, and other interested parties
5. Financial Management Skills	Program managers play an active role in the development of budgets for programs under their direction	**Important**
	Board committee has a detailed understanding of the annual budget and plays a significant role in directing the use of unrestricted funds	**Very Important**

	Number of additional people with financial management knowledge, experience, and skills	**Emerging Importance –** this would include staff, members, consultants, partners, volunteers, etc.
	Training provided to board and appropriate staff on relevant financial management topics	**Emerging Importance**

Conclusion

Financial management capacity is an area of capacity building that has often focused on accounting principles and practices. While critically important, this is not the only area that contributes to a strong, financially healthy non-profit organization. Connecting financial management to mission-focused organizational objectives is critical, as well as ensuring that the organization has not only capacity but sustainability over the long-haul.

As the literature points out, however, many organizations do not focus beyond the basics of financial management. Often, organizational staff is valued for being “program” people as opposed to “finance” people. The need to change this dichotomy is apparent, as the value and benefit of bringing the two together can result in enhanced capacity and sustainability.

Building financial management capacity requires attention – not just to the material outputs of financial management work, but also to the process that supports those outputs. By viewing financial management capacity building as a worthwhile investment of time and resources, organizations can begin to increase their overall effectiveness through understanding the strategic value of having such capacity within their organizations.

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Appendix A: Resources and Tools for Financial Management Capacity

Resources for Financial Capacity Building

Alberta Culture and Community Spirit, Government of Alberta: Offers a variety of resources under the Voluntary Sector Services area.
http://culture.alberta.ca/bdp/default.aspx

Alliance for Non-Profit Management: Membership association that delivers management and governance support services to non-profit organizations. The offer workshops and conferences in this area. www.allianceonline.org

Canadian Charity Law: This organization assists Canadian charities, their staff, and boards of directors, to understand their legal and ethical obligations when operating a Canadian registered charity. http://www.canadiancharitylaw.ca/index.php

CompassPoint Non-profit Services: For over 35 years, CompassPoint has worked to support non-profit organizations and leaders to build on their strengths, experiences, and achievements through consulting, coaching, and peer learning opportunities in a variety of areas. http://www.compasspoint.org/

National Council of Non-profits: The National Council of Non-profits, the US's largest non-profit network, works through its member State Associations to amplify the voices of America's local community-based non-profit organizations, help them engage in critical policy issues affecting the sector, manage and lead more effectively, collaborate and exchange solutions, and achieve greater impact in their communities.
http://www.councilofnonprofits.org/

Tools for Assessments

The Non-profit Association of Oregon: 8 page questionnaire that assesses five different dimensions of financial management capacity. http://www.nonprofitoregon.org/

TCC Group: The TCC Group has developed a Capacity Building Self-Assessment tool that non-profits can use to assess and prioritize their capacity building needs. There are specific questions regarding financial management capacity. The tool is also useful in the analysis of what type of capacity building would yield the most impact for non-profits' current stage of development. http://www.tccccat.com/

Appendix B: Greater Twin Cities United Way - Assessment of Financial Activities Tool

Checklist to Assess Financial Activities in Non-profit Organizations

How to Use the Tool
The checklist indicators represent what is needed to have a healthy, well-managed organization. Since it is a self-assessment tool, organizations should evaluate themselves honestly against each issue and use the response to change or strengthen its administrative operations.
Ratings:
Each indicator is rated based on its importance to the operation and effectiveness of any non-profit organization. The ratings are:

E: Indicators with an "E" are essential or basic requirements to the operations of *all* non-profit organizations. Organizations which do not meet the requirements of these indicators could place their organizations in jeopardy.
R: An "R" rating signifies that these indicators are recommended as standard practice for effective non-profit organizations.
A: Additional indicators which organizations can implement to enhance and strengthen their management operations and activities are rated with an "A".

Checklist Responses:
Organizations can respond in one of three ways to each indicator used:

1. **Needs work** - An indicator that is marked as "Needs Work" implies that work has been done towards achieving this goal. The organization is aware of the need for this indicator, and is working towards attaining it.
2. ***Met -*** All indicators marked as "Met" demonstrate that the organization has fulfilled as essential management need. However, the organization should review these indicators in the future to be sure that their management remains healthy in view of the many internal and external changes which constantly occur in all organizations.
3. ***N/A -*** Indicators marked as "N/A" can mean several things, including:
   - the indicator is not applicable to the management operations of this organization
   - the organization is not sure of the need to meet the requirements of this indicator
   - the organization has not met, nor is working on this indicator presently, but may address it in the future

All organizations should take note: All responses to indicators should be reviewed carefully to see if they could improve management operations. Indicators checked "N/A" due to uncertain applicability to the organization must be further reviewed to determine if they should become a part of "doing business." If the assessors simply do not know what the indicator means, further information may be needed to accurately assess the feasibility of its application. Indicators marked "N/A" because they have not been met, but that apply to the organization, may require immediate attention. Technical assistance, consulting, or training may be required to implement these indicators.

The indicators in this checklist should be informative and thought provoking. The checklist can be used to achieve not only a beginning level of good management, but improve existing management to provide the organization with greater stability, reliability and success in the non-profit community. It is also a useful tool if an organization is experiencing management problems, to help pinpoint any weaknesses so action can be taken or assistance sought to improve the organization's health. All organizations should use the checklist to reassess themselves periodically to ensure compliance with established rules and regulations, and to continue improving administrative health through the indicator's helpful suggestions.

<u>Disclaimer</u>
This checklist is designed to provide accurate and authoritative information regarding the topics covered. Legal requirements and non-legal administrative practice standards reflected herein are capable of change due to new legislation, regulatory, and judicial pronouncements, and updated and evolving guidelines. All stated legal requirements are in effect as of September 1, 1995. The same are utilized with the understanding that the provision of this checklist does not constitute the rendering of legal, tax, or other professional services.

If the organization requires professional assistance on these or other non-profit tax, management, or accounting issues, please contact your own professional advisors.

Rating *	**Indicator**	**Met**	**Needs Work**	**N/A**
E	1. The organization follows accounting practices which conform to accepted standards.			
E	2. The organization has systems in place to provide the appropriate information needed by staff and board to make sound financial decisions and to fulfill Internal Revenue Service requirements.			
R	3. The organization prepares timely financial statements including the Balance Sheet [or statement of financial position] and Statement of Revenue and Expenses [or statement of financial activities] which are clearly stated and useful for the board and staff.			

R	4. The organization prepares financial statements on a budget versus actual and/or comparative basis to achieve a better understanding of their finances.			
E	5. The organization develops an annual comprehensive operating budget which includes costs for all programs, management, and fundraising and all sources of funding. This budget is reviewed and approved by the Board of Directors.			
R	6. The organization monitors unit costs of programs and services through the documentation of staff time and direct expenses and use of a process for allocation of management and general and fundraising expenses.			
E	7. The organization prepares cash flow projections.			
R	8. The organization periodically forecasts year-end revenues and expenses to assist in making sound management decisions during the year.			
E	9. The organization reconciles all cash accounts monthly.			
E	10. The organization has a review process to monitor that they are receiving appropriate and accurate financial information whether from a contracted service or internal processing.			
E	11. If the organization has billable contracts or other service income, procedures are established for the periodic billing, follow-up and collection of all accounts, and have the documentation that substantiates all billings.			
E	12. Government contracts, purchase of service agreements, and grant agreements are in writing and are reviewed by a staff member of the organization to monitor compliance with all stated conditions.			
E	13. Payroll is prepared following appropriate State and Federal regulations and organizational policy.			
E	14. Persons employed on a contract basis meet all Federal requirements for this form of employment. Disbursement records are kept so T4's can be issued at year end.			
E	15. Organizations that purchase and sell merchandise take periodic inventories to monitor the inventory against theft, to reconcile general ledger inventory information, and to maintain an adequate inventory level.			
R	16. The organization has a written fiscal policy and procedures manual and follows it.			
E	17. The organization has documented a set of internal			

	controls, including the handling of cash and deposits, approval over spending and disbursements.			
E	18. The organization has a policy identifying authorized cheque signers and the number of signatures required on cheques in excess of specified dollar amounts.			
E	19. All expenses of the organization are approved by a designated person before payment is made.			
R	20. The organization has a written policy related to investments.			
R	21. Capital needs are reviewed at least annually and priorities established.			
R	22. The organization has established a plan identifying actions to take in the event of a reduction or loss in funding.			
R	23. The organization has established, or is actively trying to develop, a reserve of funds to cover at least three months of operating expenses.			
E	24. The organization has suitable insurance coverage, which is periodically reviewed to ensure the appropriate levels and types of coverage's are in place.			
E	25. Employees, board members, and volunteers who handle cash and investments are bonded to help assure the safeguarding of assets.			
E	26. The organization files CRA's T3010 form in a timely manner within prescribed time lines.			
R	27. The organization reviews income annually to determine and report unrelated business income to the CRA.			
R	28. The organization has an annual, independent audit of their financial statements, prepared by a certified public accountant.			
R	29. In addition to the audit, the CPA prepares a management letter containing recommendations for improvements in the financial operations of the organization.			
R	30. The Board of Directors, or an appropriate committee, is responsible for soliciting bids, interviewing auditors and hiring an auditor for the organization.			
R	31. The Board of Directors, or an appropriate committee, reviews and approves the audit report and management			

	letter and with staff input and support, institutes any necessary changes.			
E	32. The audit or an organization prepared annual report, which includes financial statements, is made available to service recipients, volunteers, contributors, funders and other interested parties.			
A	33. Training is made available for board and appropriate staff on relevant accounting topics and all appropriate persons are encouraged to participate in various training opportunities.			
Indicators Ratings: E=essential; R=recommended; A=additional to strengthen organizational activities				