Financial Management
Objectives

• To gain a better understanding
  – Financial management best practices
  – Budgeting Process
  – Roles / responsibilities
  – Financial statements
Your Needs and Expectations

• What questions do you have?
• What do you want to learn?
Terminology

- **Fluency**
  - to speak and understand the language
- **Financial Fluency**
  - understanding your organization’s financial language
- **Financial Statements**
  - are a reflection of your communities history. They tell us where we have been and where we stand today.
- **Auditors’ Report**
  - An opinion on where statements have been prepared according to accounting standards
Terminology

• Balance Sheet
  – Snapshot of financial position at a specific point in time

• Income Statement
  – Reflects activities over a period of time

• Cash Flows Statement
  – Links balance sheet to income statement, shows uses of cash
Terminology

• Assets
  – what you own, something that will **benefit you in the future**

• Liabilities
  – what you owe, something that has to be **repaid**

• Equity
  – the difference between what you have and what you owe

• Revenues
  – something earned or given (funders and other income)

• Expenditures
  – something spent or owed (salaries, travel, etc)
Terminology

• **Surplus**
  – Revenues greater than expenditures

• **Deficit**
  – Expenditures greater than Revenues

• **Accumulated Surplus (Deficit)**
  – Total of all revenues and expenditures since the beginning of the Community

• **Receivable**
  – Uncollected revenue as of the year end date, cash loaned to someone and not received back

• **Payables**
  – Unpaid expenditures as of the year end date, cash loaned from someone and not paid back yet
Terminology

• Financial Assets
  – Cash or things that will turn into cash
  – Used to discharge existing liabilities, or
  – Fund future operations

• Non-financial Assets
  – Capital assets, prepaid expenses, inventories of supplies
  – Employed to deliver services

• Net Debt
  – Financial assets minus liabilities
  – Indicator of future revenue required to pay for past events

• Net Financial Assets
  – When net debt is positive, it’s called net financial assets
Understanding Financial Statements
Misconception About Financial Statements

• Who do the financial statements belong to? Whose are they?
  – Not the auditors
  – Audit report – is the auditors
Opinions

- Unqualified
- Qualified
- Adverse
- Disclaimer of opinion
Components of financial statements

• What are “financial statements”?  
  – Management’s Responsibility 
  – Independent Auditor’s Report 
  – Statement of Operations 
  – Statement of Financial Position 
  – Statement of Change in Net Debt 
  – Statement of Cash Flows 
  – Notes 
  – Supporting Schedules
Financial Statement Responsibility

• Finance department:
  – Enters “transactions” and generates financial statements

• Management:
  – Reviews for accuracy & completeness
Financial Statement Responsibility

• Chief and Council:
  – Approve
  – HAVE ULTIMATE RESPONSIBILITY

• Auditor:
  – Provides an opinion on “fairness”
Users of the Statements

• Objectives of financial statements:
  – Communicate information to users
  – Determine financial health (key concept)
  – Assist in the decision making process
  – Make financial information publicly available (accountability)
Users of the Statements

- Key financial statements users include:
  - Community members
  - Chief and Council
  - Management
  - Finance team
  - Financial institutions (banks)
  - Government (AANDC, FNIH, HRSDC)
Council’s Use of Financial Statements

• Tool for Reporting:
  – Internally – TO Council
  – Externally – FROM Council

• Tool for ANALYSIS
  – Compare actual to past performance
  – Compare actual to expected performance
Council’s Use of Financial Statements

• Tool for DECISION MAKING:
  – Help answer questions such as:
    • Can we afford this?
    • Where do we spend all our money?
  – Creating budgets for future years

• Tool for ACCOUNTABILITIES:
  – Internally – Management & Staff
  – Externally – Chief and Council & the Community
Budgets
Overall Process

- Identify roles & responsibilities
- Develop a work plan
- Identify goals & objectives
- Gather & prepare required info
- Prepare a draft budget
- “Fine tuning” the budget
- Approval of final budget
- On-going monitoring, evaluation & reporting
Understanding Budgets

Budgets – Their Purpose

- To forecast revenue and expenses of a program
- To calculate specific revenue and expenditures
- To allow program managers to plan their activities
- To allow the Nation to allocate overall resources
- To secure funding
- To plan for the future
Roles and Responsibility

• Program managers determine their wants and needs in relation to work plans
• Program managers develop budgets for their programs
• Administration reviews and makes recommendations
• Administration prepares overall budget
• Chief and Council approves
Background Information

Funding changes expectations - probably from Chief and Council

Salary levels changes expectation - probably from finance and C & C

General inflationary increases - probably from finance

Current year results

Future year work plans

Prior year deficit recoveries?

Admin fees?

Expenses outside the control of the departments
Budgeting Guidelines

• Be as specific and detailed as possible
• Document the assumptions you are using
• Analyze uncertainties and options
• Allow for contingencies
• Consider what can be added or deleted if necessary
Revenue

• What are your potential revenue sources
• What is the nature of the funding
  – Flexible transfer payments
  – Contribution arrangements
  – Unconditional grants
  – Transfers from other programs
Revenue

• How much can you expect
• When will you receive it
• Document your expectations and assumptions
• Be specific and detailed
• Is there any revenue deferred from prior years
Expenditures

• Review the last audited financial statements
• Review the latest management financial statements
• Review prior year budget
• What are the good and bad points
Expenditures

• List all expenditures by GL codes
• Analyze each account – what is included
• Will the expenditure be required next year?
• Will it be higher, lower, or the same?
• Document the details and your assumptions
Expenditures

- Wages, salaries and benefits
  - Include all positions – permanent and temporary
  - What will salaries be – what increases?
  - Include cost of benefits – vacations, group insurance, pensions, WCB, overtime
  - Consider training, recruiting and termination costs
Expenditures

• Be sure to consider unusual items
  – Loan payments – ie. Equipment and vehicle loans and or leases.
  – Debt recovery requirements
  – Admin fees
  – Office rents
  – One time costs
  – Others?
Budget Format

• May be specific to your First Nation – check with Finance and Administration
• Excel spreadsheet
• Details of sources of revenue and total
• Details of expenses and total
• Projected surplus or deficit
Evaluate Your Budget

• Review on an overall basis
• Is it reasonable and achievable?
• If there is a budgeted surplus – is it allowed under funding agreements? Can you keep it?
• If there is a budgeted deficit – will it be allowed? How will it be funded?
• What can be added or deleted if necessary?
• Will you meet the goals of your program?
Budget Approval

• May be specific to your First Nation
• Usually initial approval by Finance
• Overall approval by Chief and Council
• May have to be approved/discussed with funding bodies.
• Sometimes approved by community.
My Budget is Approved – What’s Next?

• Your are only just started
• Review work plan to ensure it is still in line with the budget.
• Plan your activities in line with the budget
• Start now to eliminated unbudgeted items
• If cuts need to be made start now.
• Monitor your results
Monitor Your Results

- On a monthly and quarterly basis:
  - Compare actual to budget.
  - Identify variances and get explanation.
  - Project to the end of the year.
  - Plan corrective actions.
Actual to Budget Variance

• The difference between what you budgeted and what you spent. Positive and negative.
• More accurate as the year progresses.
• Unexpended amounts are not necessarily good – is the program being successful.
Actual to Budget Variances

- Analyse why the variance occurred
- Unanticipated expenses, over-expenditure, additional program work done
- What will the year-end result be?
- What corrective action can be taken
Corrective Action

- To address budget variances
- Can money be re-allocated from other lines
- Is there additional funding available
- What expenditures can be cut?
- What approvals are necessary?
- Take the necessary action!
Summary

• Budgeting is a team effort – program managers are key players
• Start early, be detailed, document assumptions and specifics.
• Get it approved and understand what the approval means.
• Modify your activities to meet the budget
Summary

- Monitor actuals to budget on a regular basis.
- Analysis and explain variances
- Consider corrective actions
- Take corrective actions
Overall Benefits

• Proper assessment of projected revenues and expenditures

• Prevents:
  – Recovery of funds
  – Deficit positions
  – Cash flow shortages
Commitment to Action

• Learn the skills of budgeting
• Incorporate guidelines
• Follow a good budgetary process:
  – Allocate confirmed revenues
  – Approve annual budgets
  – Monitor budgets monthly
  – Interpret results
  – Take corrective actions
QUESTIONS??