



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?

- You 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??