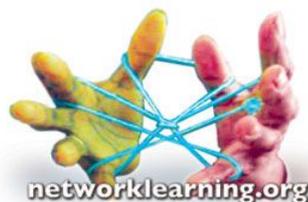# A Beginner's Guide to
NGO Financial Capacity

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networklearning.org

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Section 1: About this Manual

1.1 Who this Manual is for

The primary group for whom this Manual is written are people in the early stages of building a non-governmental organization (NGO). This includes:

- **Accountants**

- **Board Members** who need to monitor the NGO's finances

- **Stakeholders** from the community who also want to learn how to monitor the finances. These individuals, it is assumed, have a few year's schooling and are basically competent with finances – they have managed household budgets; they would start saving if they could; they may have participated in traditional ways of raising small amounts of money such as merry-go-rounds (tontines). However, much of the content of this Manual will be new to them.

 It is hoped that there will be other kinds of readers who will access the Manual, and that they find the language and concepts to be understandable.

1.2 What the Manual covers

There are **accepted ways** of 'doing the accounts' – that is, keeping written records of monies coming in and going out. There are accepted forms in which to keep a record on paper or in a computer and these are used by most NGOs. And there are ways of laying out accounts and budgets that are internationally acceptable to funders.

There is a common **language** and vocabulary used in financial management. Every NGO needs to get familiar with this language. Because then its representatives can sit down with bank managers and funders and be seen as professional people. In the first section of this manual, the language used is simpler but gradually the vocabulary of finance will be brought into the text, along with definitions. A glossary of definitions is also provided (Section 6).

Underlying the forms of financial records are a group of **financial principles**. These should shape each step of the NGO finances. The NGO finances must be…

- **transparent** – so that every part of its financial workings can be seen by concerned observers.

- **accountable** – so that staff have to answer to the boss for what they do. Financial staff have to answer for where the money has gone. And the NGO has to answer to stakeholders and funders, both for what they have done and where the money went.

- **efficient** – so that the money has been used to the best possible effect, and has been spent on reaching the aims of the NGO;

- **well managed** – how to measure this is discussed in Section 4.

- **sustainable** – this means that some of the NGO activities will be able to continue, even when the Director has a heart attack and the Funders lose interest. To ensure that there will continue to be money over time, the NGO needs a strong fund-raising strategy.

When readers reach the end of this Manual, they will be more familiar with the language and basic principles of Financial Management. And they will have thought through questions that will have made the topic of finance clearer.

After this, readers involved with an NGO should encourage bosses and staff to take a further step and work through Mango's "Financial Health Check" (see link in Section 5). This will reveal the state the NGO is currently in – good and bad.

Note: In the text, some key technical terms are shown underlined – these are clickable links to their definition in the glossary (Section 6)

Version 1.0, June 2012
We are keen to make this a useful and sustainable manual. If, after reading it, you have any questions or suggestions, we will respond and incorporate such feedback into future editions: please email info@networklearning.org

Section 2: Basic Concepts around Financial Capacity

2.1 What is an NGO?

NGOs, or non-governmental organizations, have the following characteristics:

≅ They are not public or private organizations; they are not profit-seeking. They are foundations set up to perform certain tasks in a certain area, intended to benefit society – as a whole or a specific section of it.

≅ Each NGO has its own vision, mission and goals.

≅ Usually they are filling a gap – a gap in services where the government and the private sector cannot or are unwilling to render services to a community. They can be unpopular with governments – in South Africa under apartheid, groups of people did not register as NGOs for fear of repression.

≅ They are usually established by volunteers. However, as they grow, most NGOs recruit paid staff and find offices from which to function. And they become professional about money.

≅ The laws in each country regulate the registration, work and funding of NGOs. Each country has its own laws but they all insist on registration and they set out rules for NGO performance, financial resources and accountability. In a country with a legitimate regime, good NGOs are willing to follow the law.

≅ Further reading in "How to Build a Good Small NGO" (see link in section 5).

To function properly, NGOs need both financial resources and some financial management to supervise the use of these resources. Their workers need to keep the process transparent and information flowing to different stakeholders, including:

↟ the people who established the NGO
↟ the people who receive its services
↟ the donors who fund the organization
↟ the State

For all these reasons, every NGO should have sound financial management.

Example: An NGO called Splash-back

Splash-back is a small NGO in the field of Water & Sanitation, set up by an enthusiastic engineering graduate who managed to get some funding to drill three water points. The NGO was registered two years ago. It works in a single District of a Province. So far it has constructed water supply points (wells + pumps) in three villages. One of the water points has never delivered water. These activities formed Phase One of the NGO's mission.

Splash-back has a volunteer keeping its accounts. Every penny coming in or going out is recorded – somewhere. But only the volunteer can find any particular transaction. Once

a year, columns are added up until the total seems a good one. Until now, everyone has accepted this.

The Province has a huge water corporation getting government and European money. The corporation has a department responsible for building the capacity of local NGOs. Now they have asked Splash-back and other water NGOs to work with them. As the corporation's own management of NGOs is being modernised, it is demanding that partner NGOs also modernise and start functioning more efficiently.

2.2   What is good NGO Financial Management?

The current Director of Splash-back is standing back and taking a long look at its functioning. What questions would he ask? To start with…

- is the NGO **transparent**?
- is the NGO **accountable**?
- is the NGO **efficient** – has the money been used to the best possible effect?

Keep these questions in mind as you work with this the manual.

2.3   Building a solid foundation

The beginnings of Financial Management are:

- putting in place the proper **system** of keeping accounts, with the correct use of cash control and Bookkeeping.
- putting in place the exercise of **control** by a manager or accountant, so that each transaction is recorded in the right place and at the right time.

The job of the Financial Manager has three aspects:

1. Showing the **Financial situation** of the NGO
2. Running the **Financial Department** of the NGO
3. Regular **reporting** to management, board, donor and regulatory institutions

The **Financial Situation** of the NGO is made up of:

*a. Money coming in, or **Resources***:

This means all that the NGO receives in terms of money.

Resources may be generated by the NGO itself through fee-paying members or its money-making activities. Or they may be funds raised from the government, the private sector or foreign donors. Resources currently owned by the NGO are classified as 'assets' when they have a money value – cash in the bank or anything that, if sold, would bring in money (e.g. cars, computers).

*b. Money going out, or **Expenditures***:

Expenditures are everything for which the NGO pays out. Common expenditures are:

- Staff salaries

- ≅ Project expenditure
- ≅ Rent
- ≅ Purchase of assets and running costs: materials, electricity, telephone, travel of employees, consultancy fees, audit fees, etc.

The **Financial Department**:

In each organization there must be a department – whether a group or just one person – responsible for the management of the resources. The department carries out the tasks of:

- ≅ Bookkeeping
- ≅ Budgeting (see Section 3)
- ≅ Internal Control (see Section 4.4)
  and…

Regular **Reporting**:

The Financial Department should have a pattern of reporting, i.e. presenting agreed-on papers to the Director and Board at regular intervals. (See Section 4.5)

Listen to problems! Every organisation needs to be able to hear when things are going wrong. A junior who feels that the procedures are followed too loosely might tell his boss and be ignored. That junior should be able to take the issue – to a Board member, perhaps – and be listened to, without fear of causing trouble. So there should be a complaints procedure, with someone responsible for ensuring that complaints are in fact listened to and, if necessary, acted on.

> *Example:* ***Splash-back begins good Financial Management***
>
> *The Director of Splash-back, together with the water corporation, has organised a workshop in 'Basic NGO Accounting'. This is a workshop intended for all the NGOs that may work with the corporation – each NGO chooses two workers to learn accounting skills and supervision over time is provided by one of the corporation's accountants.*
>
> *In the workshop, one of the first activities for the NGOs is to look back to see how well the finances followed the plans of their NGO (Phase One). This means making a good Balance Sheet for the previous year. Splash-back was unable to do this because the Bookkeeping had been so poor. When it asked itself the question "What are we capable of doing?" the answer was "We don't know".*
>
> *But from now on (Phase Two), Splash-back will be using the following system – you can see filled-in examples of these items in Section 7:*
>
> - ⚰ *Cash Receipts (See Section 7.1)*
> - ⚰ *Payment Vouchers (7.2)*
> - ⚰ *A General Ledger (7.3)*
> - ⚰ *Cash Books (7.4. See also Section 4.3)*
> - ⚰ *A Petty Cash Book (7.5)*
> - ⚰ *Trial Balances (7.6)*
> - ⚰ *Balance Sheets (7.7)*
> - ⚰ *Cash flow forecasts (7.8)*
> - ⚰ *A Fixed Assets Book (7.9. See also Section 4.3)*
> - ⚰ *Budgets – estimated and actual (7.10)*

2.4   Introduction to NGO Accountability

Accountability means that…

⤴ staff have to answer to the boss for what they do,

⤴ financial staff have to answer for where the money has gone; and

⤴ the NGO has to answer to stakeholders and funders – both for what they have done and where the money went.

> ### *Example:* ***Splash-back starts holding itself accountable***
>
> *Splash-back starts by holding meetings in the three villages to present a rough account of how the money was spent. In the village where the pump is dry there is a lot of bad feeling. The Director promises that they will try to find the money to drill again at another site.*

2.5   Introduction to NGO Sustainability

A 'sustainable' NGO is one that functions effectively in the way it delivers its services – and can therefore continue into the future. That means that the NGO has to work at preserving its existence. One way to do this is by acting in ways that will ensure a continued flow of support from the public, the government and/or donors. (This is discussed further in Sections 3 and 4).

2.6   Questions that can be asked

The reader who understands this first section can start asking questions – at first silently, then out loud. Remember that, before making any statements or taking any action, it is important to have complete answers to these questions and understand what they mean.

Go around the NGO and start asking the following:

≅ The NGO **vision, mission, and goals:** are they familiar to all the staff?
Have meetings been held with other stakeholders in which they are discussed?
Do NGO activities fit the mission and goals?

≅ Have all the senior staff received training in budgeting?
How have they used their training recently? Can you be specific?

≅ What does sustainability mean to the NGO?
Does it have a plan?

≅ What do the staff know about transparency?
When was the issue last raised? In what circumstance?

≅ What do the staff know about accountability?
When was the issue last raised? In what circumstance?

Section 3: Plans and Budgets

3.1   The Plan

Planning is an important activity. A good NGO Plan is essential to guide the work of the organisation and helps it to concentrate on its purpose and mission. Planning helps in decision-making – in finding different options and selecting the most promising. As part of the planning, the NGO needs to make good draft budgets, so that it knows roughly how much each option would cost.

When planning activities and formulating the budget, it is always good practice for the organisation's boss to work with staff from both the programme side and the financial side together. They can then produce quality plans with budgets – plans that can be relied on.

The NGO Plan is made up of a list of activities to be carried out (implemented) within a certain time frame. Alongside each activity, it should be noted what resources are needed. This plan of activity will be unique for each NGO – rooted in its particular mission, vision and goals.

Given the importance of a good plan, management and programme staff should begin the process of plan-making as early as possible. The organization may make monthly or yearly plans, or have a time-frame that is even longer.

The planning should be done before any application for funds is sent to possible donors. Donors expect any NGO to have a comprehensive annual plan which identifies areas and projects where the organisation will work. It should contain:

- key activities,
- expected outcomes,
- a time-frame
- an estimation of cost (this is discussed further in the following Section).

There are three types of plans:

1. Strategic Plan (usually long-term: five to ten years)

2. Tactical Plan (usually mid-term: one to five years)

3. Operational Plan (usually short-term: for a month to one year)

Planning is a stage in the **Project Cycle** (see link in Section 5). Applied to Financial Management, the focus is on the money side of work. In general, planning will involve the following:

- The NGO asks itself what it is willing to do and what it is capable of doing.

- The NGO analyses its mission, vision, scope of work, time-frame and stakeholders (including staff). It analyses the internal environment, its organizational capacity, its past effectiveness in project and programme management, and any special skills it has available.

- Then the NGO asks what the needs are in their area. It analyses the external environment to find out the problems and their causes, which groups have needs and

how these could be addressed through activities or a project. It seeks advice or external input and may carry out a Needs Assessment, a PRA or other fieldwork (see link to "Information: its Collection and Use", Section 5).

⚔ Once the approaches that would address the problem are made clear, they have to be "actualised" – turned into a written account of "Who, when, where, who, how and why". In other words, rough plans are turned into a project proposal. This proposal will include priorities, aims, draft costs, expected results etc.

⚔ For each phase of the project, the NGO has to work out:
  ○ what resources are needed, including cash resources.
  ○ the sources and amounts of available and likely financial resources.
  ○ whether there are possible new resources available, and how the gaps can be filled.

⚔ As the NGO identifies the gaps in funding it considers how the gaps can be filled with a fund-raising plan.

(NB: some Donors want project proposals presented in 'Logical Frameworks'. For an example, see link to "Information: its Collection and Use", Section 5).

> ### *Example: Splash-back starts making Project Proposals for Phase Two*
>
> *Splash-back is fortunate. The water corporation has a budget to build NGO capacity in the Province; and it selects Splash-back as one of the NGOs to work with. It helps the Director along with others in the NGO and community to develop a strong Plan and a matching Budget.*
>
> *Part of the proposal concentrates on making all aspects of the NGO more professional – which means that from now on, the NGO gets staff who have been properly trained and are paid for their work, including the accountants. It also means that the NGO uses generally accepted standards in their fieldwork.*
>
> *Other parts of the proposal concern making the NGO more gender-responsive and its activities more sustainable.*

3.2 The Budget

The basis for each budget is the activities the organisation is going to implement – what these planned activities will cost.

The process of planning will have, it is hoped, produced a strategic plan for the next five to ten years that includes several specific projects. However, It is recommended that the NGO puts together its budget according to the organisation's financial year. Every organisation is expected to have an **annual budget**, which includes the sources and uses of funds for all its activities.

The annual budget should play a crucial role in the financial management of the NGO:

⚔ Firstly, it is the financial **plan** for the next year – it reflects a financial commitment to implement the activities of the organisation.

⚔ Secondly, it is a financial **forecast** for the next year – it reflects areas where funding is needed.

Managers use the budget as one of their chief tools when directing project activities. It is also a key tool in fund-raising – without it, the NGO cannot approach donors and NGO members.

Financial Indicators: 'Indicators' are a management tool, used to monitor progress in the field. Like sign-posts on a road, they tell the NGO that it is moving forward in the right direction. It is vital to include financial indicators in order to monitor income and expenditure.

- When an NGO adopts indicators, they should make sure that they are:
  1) measurable, 2) do-able, and 3) mean something to everyone.

Example: an indicator for Splash-back

One indicator Splash-back might consider is: "At the end of one year, the amount of water used per head in the village will have increased on average by half a bucket".
— Is this indicator measurable, do-able and does it mean something?

Preparing the budget

The budget is drawn up by the financial staff in co-operation with the programme staff. As well as covering the planned activities, the budget also lays out the costs of running the organisation as a whole – paying the staff, external collaborators etc. It is recommended that any organisation includes a budget line that puts some money aside for maintenance, replacement of obsolete facilities and equipment.

Once drafted, it is very important that the Board should then approve both the budget and plan of activities. The Board has the job of supervising the organisation and keeping it moving in a good direction.

Successful organisations follow these steps:

1. They make a realistic estimate of the expected income from all the sources that will finance the budget.

2. They determine all the NGO running costs and likely project-related expenditure, including estimates for future new items.

3. They define their budget time span and the currency used in calculations.

4. They develop and use codes for each item in the budget, for easy reference, review and follow-up (see Section 4.3).

5. They attach a cost to each item, based on the budget analysis and estimates. They total all income and probable expenditure and calculate whether they have enough money or too little.

6. They make the first draft of the Budget – showing the gap between expected expenses and income – available for discussion. After analysing this, they make adjustments to the plan and create a final draft, where the gap must be made equal to zero. This might be done by cost-cutting (e.g. by buying second hand in place of new or using volunteers in place of a full-time employee) or fund-raising (e.g. by holding a lottery run with the local newspaper).

7. When the Budget is finalised, they get approval from the Board.

8. They make regular reviews of the Budget and update it every quarter – especially important if the NGO's income base is weak or insecure.

3.3   **Making the Budget responsive to Cross-cutting issues**

Some issues are 'cross-cutting' – part of the fabric of all NGO activities. Here we consider two important ones: Environment and Gender. If the NGO takes these issues seriously then policies on them have to be reflected in the budget – because unless resources are given to them, there will be no real change.

3.3.1 Environment-friendly budgets

Even if an NGO does not have safeguarding the environment in their mission they can still try to look after it.

> #### Example: *Splash-back builds in some 'Environmental Awareness'*
>
> *The management and board passed a rule: for any purchases over a certain amount – such as construction materials or vehicles – the alternatives should be assessed as to their environmental aspects.*
>
> *For example, when starting a new construction, there is a choice between using local wood and imported wood. Using local wood might be contributing to deforestation but also helps local employment; imported wood might be part of somewhere else's deforestation and might have also travelled for months on ships using fossil fuels…*
> *The rule states that the purchasing officer can spend a little more for products that are more environment-friendly. This is reflected in a slightly higher budget for such items.*

3.3.2 Gender-responsive budgets

How do your NGO activities, policies and programmes affect women, men, boys and girls? A little extra in the budget can ensure better allocation of resources and better monitoring.

> #### Example: *Splash-back makes a gender-responsive budget*
>
> *Before Splash-back finalises its plans for Phase Two (see Section 3.1), the Director, Board members and staff visit effective water projects in the Province.*
>
> *They realise that the NGO only did half a job with the first water points. The community had played only a tiny role and the NGO hardly spoke to any women. If they had, they would have realised that the daily job of fetching water is organised by the women and done by them and their children. They would also have been told that one of the water points is too far from the houses.*
>
> *One reason this happened was that at its start, almost all the volunteers in Splash-back were males with engineering interests, old contacts of the first Director. They did not fully realise that it is women who manage the household and, among other things, the storage of water, the family's use of a latrine (if it has one) and whether the children wash their hands properly. These are all activities that affect the optimal use of water and the health of family members.*
>
> *The Splash-back team learn that a good project must include:*
>
> - *effective waste disposal and latrine construction and use – designed with gender issues in mind*
>
> - *repairs and maintenance – which needs regular money collection within the community, and*

⚔ *A representative village Committee responsible for organising it all.*

And they realise that Splash-back needs to start recruiting professionals who can reach and motivate both women and men. So the NGO has to adapt its recruiting strategy – and budget – to include a salary for this professional. They recruit a woman. This means an additional budget is needed for building a women's latrine next to the office.

Gender-responsive Budgets are used in an increasing number of countries. Other examples:

⚔ A scholarship budget is split 50:50 between boys and girl so that girl students have an equal chance with boys;

⚔ Rules to promote equality of Terms of Employment are put in place.

Advancing gender equality: The NGO could perform a gender-responsive check for any group that needs help due to being discriminated against (on grounds of gender or of ethnicity, age, disability etc.). When looking at activities and financial reports, ahead of the next plan and budget, it asks questions such as the following:

≅ Does the organisation analyse its activities, plans and budgets from the viewpoint of gender?

≅ Does it have a gender policy for staffing, payment, and responsibilities (including for senior positions and board)?

≅ Does the organisation use gender indicators?

≅ Can both women and men access the system for information and monitoring?

≅ Has the organisation done an internal gender-related audit?

3.4 **Fund-raising**

After making a plan and budgeting the activities, the NGO has to raise funds – to find enough sources of income to finance its activities. (This activity is covered more fully in "A Guide to Fund-raising for NGOs" – see link in Section 5).

There are three approaches to raising funds: self-funding, funding via community-based donors and funding via (inter-)national donors…

3.4.1 Self-funding

There are a few types of development that can at least partly self-fund. A water project is one of these – because people need water and are prepared to pay for it. However, the amounts that can be charged are relatively small – and there must be a system in place that provides for those unable to pay anything at all, e.g. the elderly.

Example: Splash-back is able to partially self-fund

Following their Phase Two Plan, Splash-back is building a gravity-fed piped water supply to one Health Centre and school. It will charge for the water (although it may be difficult to collect: the Ministries funding such facilities are currently 14 months behind with payments).

Part of the land nearby is good for growing vegetables and they also plan to charge farmers for water here.

The three nearby villages will be supplied by the pipe system.

It is essential that each village is helped to build an efficient, trained Water Committee with financial management skills. This Committee can then administer the charges for water and use the funds to pay for maintenance and repairs. This village money is not put into the Splash-back accounts.

Latrine construction will be started in the same three villages – community members will contribute the land, labour and part of the money. The Water Committee has to decide which households are unable to contribute themselves – e.g. old people – but still need water and latrines. These households will be subsidised by the community.

3.4.2 Community-Based (CB) donors

This means finding a lot of people with a direct interest in the goals of the NGO – people who may be possible users of its services and who can commit to paying regular small amounts.

They may be official Members of the NGO. For example, an NGO working for disabled children can be supported by a big group of people with disability in the family. In South Africa there is a legal NGO which supports people who need legal advice – they have a wide base of donors giving very small amounts. Such NGOs spend mainly on expert staff and cannot afford projects that need much capital like smart buildings.

With CB donors, the NGO needs to report to people who are its neighbours, who give money made in the local economy. The obvious communication methods are regular meetings in person, supported by newsletters.

3.4.3 Big donors

These are organisations at national or international level, mainly moving money from the richer North to the resource-poor South. Communication with the big donors in the capital or overseas is mainly written, in formats which the donors have designed.

3.4.4 Requirements for success with donors

A good NGO wants to build a good relationship with donors. Both the community-based groups and the big donors can – and should – make trouble for an NGO which performs badly. When an NGO starts approaching potential donors to fund its activities, it needs to recognise the responsibilities that go with fund-raising. The following aspects are important for success:

- ≅ Be **professional:** The NGO has to show it has a clear and unique identity – and fills a well-defined need. This has to be clear especially in its documents. An NGO has to be very professional in money matters.

- ≅ Keep a **Basic Documents File**, containing all the key information:
    — registrations and certifications
    — financial reports
    — mission statement, aims and objectives
    — list of the names of the members of the Board of Trustees
    — etc.

- ≅ A good **Project Plan** is essential – especially for applying to big funders as these mostly fund projects, not organizations or running costs.

≅ Develop the **right mental attitude**: there are rarely easy or quick results with fund-raising, especially in a difficult economic climate. Begin by making a shortlist of funding organisations that match your NGO's goals and objectives. If you get fifteen, then work closely to reduce them to five, then to three. Look carefully at their websites to check that they can offer funds and keep only those that seem really involved with your themes and objectives. Then write to these organisations.

3.5 The financial relationship between NGOs and donors

Working to build good relationships with their donors is a sensitive area and can easily go wrong. The NGO should be careful to show transparent honesty at every step.

Funding: Big donors have written guidelines as to what they will fund. Many will only fund projects, not running costs, however they will still need to see records of the running costs and check that they are appropriate. Sometimes they may fund items in the capital budget, such as a vehicle. And some *will* fund running costs if they are part of a project they are funding.

Ask the donor for their guidelines – and read carefully.

Cooperation: In some areas there are several donors involved in projects. Imagine a district where three International NGOs (e.g. Water-Aid, Health-Aid and Agri-Aid) are all involved. And there are three kinds of people involved: local workers in the field, government people and people from the international NGO.

Especially in this situation, your NGO needs to show that it is:

⚐ **honest** – e.g. for a village meeting that involves water and health, your NGO should not charge the same costs to Water-Aid and Health-Aid!

⚐ **economical** – you should actively co-ordinate with the other agencies to save costs, e.g. instead of three vehicles going out with three workers, the three share a Jeep and its costs.

3.6 Questions that can be asked

The reader who has read and understood this section can start asking relevant questions:

≅ Can I see the Budget? Who was involved in making it? Who had the loudest voices? Who spoke for the community?

≅ Can I see the Plan? Who was involved in making it? Who had the loudest voices? Who spoke for the community?

≅ Do you have a plan for Fund-raising? Can I see it? Who are you targeting for fund-raising? What are your strategies, leaflets and letters etc. so far? Any success?

Section 4: Financial Management in detail

4.1 Goals and Functions of Financial Management

The purpose of financial management is to make good use of the available resources in meeting the needs of the target group. For that to happen, various decisions need to be made:

⚔ **Deciding on the investment of resources:** the NGO has to work out where to put its money, people, time and other resources – in other words, how to allocate its resources in order to get back various types of assets that will bring income or other benefits.

In taking a decision to invest, you might put cash in a bank account where the bank will pay a return (in the form of interest), or perhaps buy a car or a piece of land. Each of these assets could play a role in meeting the needs of the organization – and each organization will seek the right mix of investments, according to its own situation. How much each asset will bring to the organization will be considered and evaluated.

⚔ **Deciding to fund-raise:** this means deciding to invest time and effort in this activity in the expectation of a good return. (See Section 3.3)

⚔ **Analysis and planning of activities with their budgets:** This function is very important if financial decisions are to be effective.
Managers should analyse the current performance of the NGO to spot any current and predictable future problems – and then decide how to remedy them.
An excellent planning tool is to analyse Strengths, Weaknesses, Opportunities and Threats (this is known as 'SWOT analysis' – see link in Section 5).

As decisions are made, the appropriate procedures, regulations, control and registration need to be put in place. And once activities start, the Financial Manager assists with their monitoring and management.

4.2 The Structure of an Accounting System

The financial management of an NGO is based upon a **system** that will ensure healthy functioning: that is, its accounting system. Whatever system is used should be simple, transparent and understandable. It should, at minimum, have the following features:

⚔ It correctly records all money coming in (income) and going out (expenditure), the assets owned by the organisation and the liabilities owing to third parties. Examples of such records are: money received from a donor; money from the sale of water; cars that the organisation has; money that has to be paid to vendors for products purchased, such as pumps. (See also Section 4.3)

⚔ Each transaction should be supported by a document as evidence, which can later be easily found if needed.

⚔ It should be able to produce reports that can be presented to stakeholders, donors and regulatory institutions – that show the money transactions of the NGO in a number of time frames: daily, weekly, monthly, or annually.

4.3   Recording income and expenditure

To record income and expenditure, the NGO needs to use:

≅ **Bank Accounts:** There should be a separate bank account for each (big) donor as well as for the payroll.

≅ **Cash Books** (See Section 7.4 for example)**:** For each bank account the NGO has a separate Cash Book. The Cash Book records the account-related receipts (money coming in) and payments (money going out).

When thinking about a cash book, imagine a sheet of paper with a line dividing it in two halves. On one side is a listing of the income and on the other is a listing of the payments (a short description and the amount).

   — A Cash Book can be a paper book or part of a computerized system (see below).
   — Each transaction is entered into the book, with a code used by the NGO to refer either to the project or an internal item (see 'Accounting Codes' below).
   — Each entered transaction ('entry') in a Cash book should be supported by a document – usually an invoice, e.g. for purchase of computer or selling a good.
   — At the end of each month the Cash Books should be checked for accuracy – e.g. all the entries are checked against the documents, and against the bank account.
   — At the end of each month, each side is added up and the two totals compared: this is called a 'Trial Balance' and will show how much you are 'in credit' – or 'in debit'. (See Section 7.6 for example)

≅ **Asset Book** (See Section 7.9 for example): a separate book should hold records of assets, showing their value when bought and the rate of depreciation.

   ### Example: *A look at Splash-back's assets*

   ⚔ *Splash-back's main asset during Phase One was drill equipment.*
   ⚔ *It hopes that, with funding, its assets will soon include a four-wheel-drive vehicle.*
   ⚔ *It plans to increase internal funding by renting out its drill equipment for a cost that other NGOs can afford.*
   ⚔ *It will need replacement drills in five years which will involve a big lump of money.*

≅ **Accounting Codes:** When transactions are recorded in the accounting books they are sorted according to type, each type having a code. This code labels the transaction. It is A good idea to use simple codes that are easy to remember. For example: TC01 for transport costs, W01 for wages, OR01 for the office rent.

   • The codes should be the same as those used in the budget.
   • Be consistent in always using the same code for the same sort of transaction.
   • Sometimes a new code may need to be created if a new type of transaction occurs.

4.3.1 Computerised Accounting Systems

There are many good accounting software packages an NGO can use. Having a computer with accounting software has many advantages. It makes the recording of transactions much easier. The bookkeeper does not have to go back and forth between the books when entering a transaction. For example: the NGO purchases office equipment for $1,000, pays only $500 cash with the rest being credit. With a computerised system, this can be done in one action, which automatically records the office equipment in the [Asset Book](#), the cash transaction in the Cash Book and the outstanding money owed under 'accounts payable'.

A computerised accounting system is quick, accurate, and helps in producing the end-of-period reports. It will avoid delays. Especially if an NGO cannot afford a bookkeeper, it should learn to use a simple, user-friendly software package. There is free 'Open Source' software available, such as GnuCash, especially developed for NGOs. This can be downloaded [from](#) www.gnucash.org

4.4   **Ten key principles to ensure the system works well**

The accounting system you use need not be complicated. But it must follow generally accepted accounting principles, which will guarantee that your system is transparent. The most important principles are:

1. Record activities over a standard time period, such as a month, quarter or a year.

2. Be consistent, applying the same accounting principles and methods each year.

3. Recognize expenses and [liabilities](#) as soon as they are known. In other words, enter them into the system quickly. For example, if there is rent to pay at the beginning of each month, this is listed as an expense immediately the month begins.

4. Recognize income and [assets](#) only when they are certain as soon as possible. In other words, delay entering them into the system – as you cannot count on them yet. For example, if a donor agrees to make the organisation a grant, the cash is only recorded when it actually comes in, as this will probably take several weeks. It only becomes income when it is actually paid.

5. Record all [transactions](#) at their original purchase price. For example: the NGO bought a piece of land for $750 three years ago. Today its market value is $1,000. It is recorded at the $750 purchase price and not at its current value.

6. Keep the transactions of different projects and donors separate from each other. This prevents their financial affairs from becoming entangled. For example: an NGO has two projects, a Malaria Vaccine Project and a Youth Help Project – each must have a separate account. Any donor that regularly provides funding should also have a separate account.

7. Make 'full disclosure': this means including all relevant information in the financial reports – everything that might affect a reader's understanding. This includes individual transactions, if leaving them out could affect the decisions of a person reading them.

8. Record transactions only for things that can be given a precise value in currency. So an NGO cannot record the value of its employees or 'intangible assets' – i.e. assets which it cannot touch.

9. Record only those transactions for which there is objective evidence, such as an invoice from a supplier. Without evidence of a transaction, it would be difficult to prove its existence to the outside official checker (auditor).

10. Ensure that all the records and figures fit with each other. This is very important for accounting: the books have to be 'internally consistent'. Auditors call this the "integrity" of the records.

4.5   A complete accounting system

In the previous Section, we introduced the Cash Book and Asset Book for recording transactions going in and out. What follows are the other books/procedures that an NGO needs to establish an effective accounting system. (Note: each NGO may have a slightly different set of books according to its needs):

1. The **General Ledger**: This is where transaction totals are 'posted' (written down) monthly. These transactions include: income, grants, expenses and transactions related to assets and liabilities. (See Section 7.3 for example)

2. **Petty Cash**: There needs to be a system to record receipts of cash from the bank and what it is spent on. These transactions should be recorded in a Petty Cash Book (See Section 7.5 for example)

3. **Budget Sheets**: These show the budget amounts *along with actual expenditure*. The sheets are filled in on a monthly basis using the expenditure budget codes. They also show 'cumulative' figures – each month's figure added to all the previous months.

4. **Purchase Orders**: These record orders for goods and services (procurements). There should be a system in place for approving and signing them off (see 'Internal Controls' below).

5. **Travel Record**: The NGO should record transactions relating to travel.

6. The **Payroll**: This records the transactions relating to the payment of employees (salaries, gratuities and incentives).

4.6   Ten important Internal Controls

Internal controls are very important for any organisation. They catch errors and ensure there is no misuse of resources. It means having procedures in place to check that things are in good order, including:

1. Checking that there are accurate and up-to-date accounting records.

2. Checking that assets are recorded (and, where necessary, insured).

3. Methods to detect fraud. For example, the Boss could make surprise visits to the accounting department – and ask to view the safe, review the books and demand explanations for any figures that do not match.

4. Protecting staff members from temptation. For example, keeping cash in a safe with two keys, one held by the treasurer and one by the accountant.

5. Having cheques that must be signed by two authorised people.

6. Doing monthly bank reconciliations. A bank reconciliation is a process in which bank account statements are compared to the bookkeeping records – these must tally with each other.

7. Ensuring any transaction is properly authorised. For example, procurement should be authorised by at least three different people: the purchase is prepared by one employee, checked by another and signed off by a third.

8. Ensuring a separation of duties to avoid fraud. For example, with procurement, the employee who decides where to purchase is different from the person who writes the cheque.

9. Ensuring the payroll is checked and properly authorised before the money goes out.

10. Ensuring that all policies and procedures are approved by management and known to the staff.

4.6.1 External Controls

Over and above these internal controls, there may be a requirement for an annual **audit** to be carried out. In this, the accounts as a whole are checked by an external 'auditor' **–** a specialised type of accountant. In most countries auditors are trained and licensed. They are expected to be independent of any organisation they audit.

4.7 **Financial Reporting**

For a successful, sustainable organisation, good financial reporting – which includes an effective monitoring system – is essential.

The following people need to receive financial reports:

- ≅ Managers
- ≅ Board of trustees/director(s)
- ≅ Donors
- ≅ Stakeholders

The financial resources of the organisation can be monitored and reported upon in different ways. Principally, the tools used are:

- ≅ The **Monthly Financial Report**: this includes a narrative report, which tells the story of the month and highlights any financial issues that need to be tackled by management.

  Such a report would typically include:
    — a summary of expenditure and income
    — the payroll sheet
    — the bank and cash reconciliation report
    — a statement of assets and their depreciation
    — a list of outstanding loans and liabilities
    — a check-list of documents needing authorisation by the Director.

- ≅ The **Budget Monitoring Report**: this shows the estimated budget next to the actual expenditure. Differences between the two ('variance') can be noted and analysed – and reveal where the management needs to intervene to get things back on budget. (See Section 7.10 for example)

- ≅ The **Financial Audit**: one of the most important elements of financial reporting. As well as the external annual audit, it is recommended for organisations to produce at least two internal audited reports per year.

  These audits review items such as:
  — the budget
  — purchases
  — cash management and advances
  — use of petty cash
  — separation of duties
  — bank accounts
  — financial reports and monitoring

- ≅ A **Timetable**: this is needed in order to have a reliable rhythm for producing and studying the various reports. The NGO should have an agreed reporting practice and timetable for each group of people who receive financial reports. For example:

- **managers** get reports *monthly* – to enable them to monitor the implementation of projects and to make certain decisions.
  The reports include a bank and cash reconciliation and a report of times when the plan had to be changed or varied ('variance reports').

- **the Board** get reports *quarterly* – to ensure that any issues and problems are reviewed in good time and followed up.
  The reports include an attached 'narrative report ' (a report telling the story and explaining any variances).

- **donors** receive reports *half-yearly* – some donors hold back slices of funding (called 'tranches') until they have checked how the first slice was used. One way they check is through the financial report, so this is very important to ensure continuity of funding.

- The **annual report** including audited accounts is prepared and submitted to the Board and, when approved, made available to relevant parties.

4.8 NGO Accountability

Accountability means doing what was promised, in an effective and honest way. It is a wide-reaching principle that is not confined to financial matters. In this section, however, it is just financial accountability that is considered.

As noted in the introduction, accountability means that financial staff have to answer to the boss for what they do and where the money has gone. And the NGO has to answer to stakeholders and funders – showing that the money has been used to the best possible effect, and has been spent on realising the stated aims of the NGO.

In its broadest sense, it means that the NGO has to be accountable to all those affected by its activities. So it needs to look at its own actions and the effects they have – to be ready to defend them, or to acknowledge any that went wrong or had bad side-effects.

It also means that if the NGO violates regulations and laws, creates unplanned problems or fails to take the interests of stakeholders into consideration – then it has to be held to account morally and perhaps financially.

An NGO has financial accountability in various directions:

1. externally, towards donors – as they require relevant information about their funding and how it is used.

2. externally, towards the users of services or stakeholders – as they want to know how the projects and services are being translated into action ('implemented') and funded.

3. Internally, to staff – the NGO should be clear and transparent in dealing with its staff. This protects the staff and also motivates them.

Accountability reflects the NGO's professionalism. An NGO should be able to prove it is honest and effective:

- it should be able to produce financial records showing the sources of funds and how they have been used.

- The accounts should be transparent – open to the scrutiny of both donors and stakeholders.

- Its records should have been audited and regulations followed. Correct auditing makes the system worthy of trust.

- Internal accountability includes internal controls which stop any misuse of resources by staff members (see Section 4.6). But this only works properly if staff have a fair salary and working conditions.

Measures that provide accountability:

- The NGO has an annual report and financial accounts.

- The NGO has a Board including representatives of the community it serves, who actively supervise its performance.

- The NGO is certified by an 'accountability accreditation board' (if one operates in the country). Accountability accreditation boards are organisations established to monitor and certify that an NGO is keeping to social standards and is accountable. See, for example: saasaccreditation.org or hapinternational.org.

- The management of the NGO is accountable to the workers and vice versa.

- The principal and practice of accountability is made understandable to all staff members within the NGO.

- The NGO has a good strategy for its contact with the community and stakeholders.

- The NGO complies with regulations.

- The NGO has a complaint mechanism, which is used in practice.

4.9 NGO Sustainability

A sustainable NGO is one that functions effectively in the way it delivers its services – and can continue doing so into the future. An NGO has to work to preserve its existence. In this section we will just consider financial sustainability. (See Section 5 for further reading)

The NGO that seeks to be sustainable must act in ways that will develop and solidify support from the public, the government and/or donors – in order to ensure stable and continuous sources of funding. Many NGOs never achieve this.

To build a sustainable financial position, the NGO needs to be creative. For example:

- It can make greater efforts to raise money 'internally' – i.e. generate income from projects, publications and other activities. For example, a water project selling more water.

- It can invest more time looking for external funding, including donations and donor funding.

- Additional money might come from renting fixed assets (e.g. land) or interest from cash assets (savings deposited in the bank).

The financial sustainability of NGOs is greatly affected by the current global economic and financial crisis. Many governments have embarked on austerity measures; many organisations have been badly affected and many projects closed down through lack of funding. An NGO that considers starting a long-term campaign to raise funds will require great efficiency in planning, advocating, budgeting and approaching prospective donors. It is increasingly important to diversify and not depend on just one donor.

4.10 NGO financial Transparency

Transparency is necessary for a good organisation and should be accepted as normal. It goes hand-in-hand with accountability (see Section 4.8). There should be transparency in all NGO activities – in its mission statement, its board and management practices, its internal environment and policies.

Transparency will help considerably in building a close relationship with stakeholders and donors. When an organisation communicates trustworthy information publicly, it opens the way for more cooperation. When management and staff members work at increasing the transparency of the NGO, they help to increase its credibility.

Financial transparency exists where the following are in place:

- ≅ Clear financial information – accounting records that are clear, understandable, believable and kept in accordance with accepted standards

- ≅ Internal and external financial controls (see Section 4.6)

- ≅ A good and clear relationship with donors, including different accounts for different sources of funds

- ≅ A lack of any conflicts of interest

- ≅ No information is kept hidden or allowed to be inaccurate.

> ### Example: *Splash-back moves to become more transparent*
>
> *Following analysis of Phase One of its operation, the NGO Splash-back realises that to be taken seriously it has to move. Until now it has worked out of rent-free rooms belonging to the uncle of the Director – in a village where one of the two working water points had been constructed. So how could it be seen as honest and transparent? It moved to the regional town and started paying rent.*

Section 5: On-line reading to learn more

An NGO Exercise to diagnose its Financial Health:

- "Mango's Health Check: How healthy is financial management in your not-for-profit organization"
  www.mango.org.uk/Guide/HealthCheck

General Guides to NGO Finances:

- "A Practical Guide to the Financial Management of NGOs"
  www.nid.org.na/pdf/publications/Financial%20training%20manual.pdf

- "NGO Financial Management Pocket Guide"
  www.securethefuture.com/our_experience/archive/financemng.pdf

Networklearning Manuals on related aspects of NGO management:

The following are free to download from the **Networklearning Library** at
www.networklearning.org/index.php?option=com_docman&Itemid=52

- "How to Build a Good Small NGO"
  www.networklearning.org/index.php?option=com_docman&task=cat_view&gid=41&Itemid=119

- "Managing the Project Cycle"
  www.networklearning.org/index.php?option=com_docman&task=cat_view&gid=78&Itemid=119

- "A Guide to Fund-raising"
  www.networklearning.org/index.php?option=com_docman&task=cat_view&gid=39&Itemid=119

- "Information: Its collection and use throughout the Project Cycle"
  www.networklearning.org/index.php?option=com_docman&task=cat_view&gid=44&Itemid=52

- "NGO Self-assessment through a SWOT exercise"
  www.networklearning.org/index.php?option=com_docman&task=cat_view&gid=47&Itemid=119

- "Building Sustainability into your NGO" (webpage)
  www.networklearning.org/index.php?option=com_content&view=article&id=135:building-sustainability-into-your-ngo&catid=21:management&Itemid=145

Section 6: GLOSSARY

Accountability – This means that financial staff have to answer to the boss for what they have done and where the money has gone; and in its broader sense, that the NGO has to answer to stakeholders and funders. (See Sections 2.4 & 4.8)

Assets – Everything the organisation owns that can be converted into cash value – such as cars, tables, computers, money in the bank, stocks and money owed.

Asset Book – The book that lists the organisation's assets, noting their value when purchased and their depreciation. (See Section 7.9)

Auditor – A professional who critically looks at all the accounting information including internal controls. The auditor then gives an opinion as to whether the accounts are accurate and honest. Auditors may be from inside the organization (internal auditor) or from outside (external auditor). (See Sections 4.6 & 4.6.1)

Balance Sheet – This gives a record of the financial position of the organization at a certain point in time, e.g. at the end of the financial year. It has two columns, with one side giving the organization's assets and the other side its liabilities. Both sides must be 'balanced' or equal. (See Section 7.7)

> For example: If the total value of assets is $2,000 and the total value of liabilities is $1,600, this means that we show $400 of 'net assets' (or 'capital') on the balance sheet. Conversely, if the liabilities amount to $2,000 and assets are only $1,600, then we say that the organization has $400 of liabilities (amounts which must be paid) – an indication that the organisation has financial problems.

Bookkeeping – This is the recording of every movement of money coming in and going out – such as income, payments, sales etc. plus assets. The recording is done in account books that follow the normal layout and are understandable by outsiders.

Budget – The budget is a financial plan. It lists all the expected outgoings and incomes over a future period of time, and will include the expected costs of project activities. It can be used to initially raise funds for, and later to manage, these activities. A budget is also needed for planning where to save money or to borrow from others. With good budgeting, action can be planned, performance measured and bad situations avoided. (See Sections 3.2 & 7.10)

Cash Book – This is the accounting book in which the organisation records its money payments in and out of the bank. (See Sections 4.3 & 7.4)

Depreciation – The amount deducted from the value of an asset each year. Most kinds of asset lose value over time. This loss of value or depreciation needs to be transferred into an expense.

> For example: A car purchased for $1,000 is considered to have a useful life of five years. So each year, one-fifth, or $200, is the depreciation cost. After five years its value in the Asset Book will be $0. If an organisation can afford to, it would put aside the same amount each year so that it could replace the car after five years.

> Note: Some 'fixed' assets, such as land, may not depreciate but increase in value.

Expenditure – The money going out to pay others, such as project expenses and <u>running costs</u>.

Liabilities – This is everything the organisation owes to others (its debts). Examples of liabilities are the unpaid telephone bill or a loan from the bank.

Procurement – The buying of goods and services – and getting the best deal possible. This may not be simply the cheapest price; the NGO may see "best deal" as involving other factors. For example, it could pay a little more for wood that comes from a managed source that protects the rain-forest.

Reconciliation – An examination of the balance in the <u>Cash Book</u> with the balance in the bank statement, with the aim of finding any differences or mismatches – and then sorting out such differences until the items and the totals match.

Running Costs – The amounts that need to be spent to keep the organisation running, regardless of its activities (i.e. not project-related): salaries, rent, water, electricity etc.

Sustainability – The approaches of the NGO meet its community's needs not only in the present, but will be able to do so for following generations. For example, there is a policy and mechanism in place to transfer management skills to community members. (See Section 4.9)

Transparency – Means that every part of an NGO's financial workings can be seen by concerned observers. (See Section 4.10)

Transactions – These form the basis of the accounting record. Every time a decision is made that involves money, there will be a transaction. This is recorded at the date the money transfer takes place.

> For example: the NGO decides to buy a bicycle. This becomes reality when €50 changes hands. Then, the transaction is recorded as €50 in the accounting books.

Section 7: BOOKKEEPING TOOLS

7.1   Splash-back **Cash Receipt**

Cash Receipt
No:
Date: /   /
Received (amount): $_____
From:
Payment of (description):
Authorised by (signature):

7.2   Splash-back **Payment Voucher**

Note: This format requires that each payment is processed by three different people

Payment Voucher	Date:	Voucher no.
Payment of (description):		
Amount:	$	
Paid to:		
Payment method:		
Prepared by (signature):		
Approved by (signature):		
Authorised by (signature):		

7.3   Splash-back **General Ledger**

[Example: **January 2012**]

Date	Activity	Code	Cash	Office Supplies	Workshop	Utilities	Wages
31-12-2011	Balance Brought forward	BB	500*				
01-01-12	Grant	Gr 01	100,000				
02-01-12	Stationary purchase	STP 02		5,000			
05-01-12	Salaries	S01					15,000
15-01-12	Workshop**	W44			6,000		
20-01-12	Water	UW01				45	
25-01-12	Electricity	UE02				65	

* Rounded figure   ** Workshop theme is financial management

7.4   Splash-back **Cash Book**

[Example: **January 2012**]

Date	Summary	In	Out	Balance	Debit	Credit
31-12-2011	Balance Forward	500*		500		
01-01-12	Grant Received	100,000		100,500	Bank	Funders
02-01-12	Stationery		5,000	95,500	Stationery	Bank
05-01-12	Salaries		15,000	80,500	Salaries	Bank
15-01-12	Workshop		6,000	74,500	Consultancy	Bank
20-01-12	Water		45	74,455	Utilities	Bank
25-01-12	Electricity		65	74,390	Utilities	Bank

7.5   Splash-back **Petty Cash Book**

[Example: **January 2012**]

Amount Received	Date	Particulars	Total	Postage	Travel Expenses	Misc.
100	02-01-12					
	02-01-12	Postage	8	8		
	15-01-12	Train Tickets	20		30	
	16-01-12	Dinner for two	20			20
	18-01-12	Envelopes	12	12		
	18-01-12	Taxi Fare	10		15	
	20-01-12	Coffee for office	5			5
	25-01-12	Unload pump				10
100	29-01-12		100	20	45	35

7.6   Splash-back **Trial Balance**

[Example: **31st January 2012**]

	Debit	Credit
Cash	74,390	
Debtors*	925	
Land**	1900	
Office Computer	1600	
Creditors (new pump)		15,000
Splash - Back Capital		63,815
Total	78,815	78,815

Narrative:
* Debtors are farmers, health centre and a school. They buy water. Sum is for first three months.
** Organization leased a piece of land at a nominal price for 50 years.

7.7   Splash-back **Balance Sheet**

[Example: **31st December 2012**]

Assets	$	Liabilities + Capital	$
Cash	74,390		
Debtors	925	Creditors	15,000
Land	1,900		
Office Equipment	1,600	Capital	63,815
Total	**78,815**		**78,815**

7.8   Splash-back **Cash Flow Forecast**

[Example: **Jan - Jun 2012**]

	Jan.	**Feb.**	**March**	**April**	**May**	**June**	
Incoming Money							
Balance	500	-	-	-	-	-	
Grant 1	100,000	-	-	-	-	50,000	
Grant 2	-	-	15,000	-	-	-	
Selling Water	-	-	-	-	-	3,700	
	-	-	-	-	-	-	
Total Incoming	**100,500**	**-**	**15,000**	**-**	**-**	**53,700**	
Outgoing Money							
Supplies	5,000	-	-	-	-	-	
Salaries	15,000	15,000	15,000	15,000	15,000	17,500	
Workshop	6,000	-	-	-	-	-	
Utilities	110	110	110	110	110	110	
Office Equip.	1,600	-	-	-	-	-	
land	1,900	-	-	-	-	-	
Rent	3,000	3,000	3,000	3,000	3,000	3,000	
Pumps	-	-	15,000	-	-	-	
Total Outgoing	**32,610**	**18,110**	**33,110**	**18,110**	**18,110**	**20,510**	
Opening Balance	**67,890**						
Closing Balance	**67,890**	**49,780**	**31,670**	**13,560**	**-4,550**	**28,640**	

Note: In May, Splash-Back had a deficit of $4,550, however in June the second slice of Grant 1 was received to cover costs; the closing balance is $28,640.

7.9   Splash-back **Assets Book**

Item Number	Description	Date	Amount ($)	Units
co-1	Computer, Dell (second hand)	01-12-12	300	2
co-2	New Apple Computer (special offer)	01-12-12	400	1
Pr-3	Printer, 4-in-one (printer, fax, scanner, copier)	01-12-12	200	1
Ta-4	Tables, including conference table	01-12-12	200	4
Cha-5	15 wooden chairs	01-12-12	300	15
		Total value:	**1,600**	

7.10 Splash-back **Budget – Estimated and Actual**

[Example: **For six-month period, Jan - Jun 2012**]

	Annual Budget	Budget Jan - Jun	Actual Jan - Jun	Difference	% Jan - Jun	Remarks
Incoming Money						
Grant 1	150,000	100,000	100,000	0	0	
Grant 2	100,000	100,000	100,000	0	0	
Selling Water	3,700	37,000	37,000	0	0	
Total Incoming	203,700	203,700	20,3700	0	0	
Outgoing Money						
Supplies	5,000	5,000	5,000	0	0	
Salaries	180,000	90,000	90,000	0	0	
Consultancy	6,000	6,000	6,000	0	0	
Utilities	1,320	660	660	0	0	
Office Equip.	1,600	800	1,600	800	100	
land	1,900	1,900	1,900	0	0	
Rent	36,000	18,000	18,000	0	0	
New Pumps	15,000	15,000	15,000	0	0	
Total Outgoing	246,820	137,360	137,360	800		
Incoming minus Outgoing	-43,120	66,340	66,340			Budget deficit is 43,120

Note: Splash-back needs extra efforts to raise more funding for the next half of the year. If not, it will have a deficit of $43,120 for the whole budget year.