HOUSING MANAGER TRAINING PROGRAM

First Nations

INTRODUCTION TO FINANCIAL MANAGEMENT

Participant's Manual

Participant's Workbook

26-08-05

CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) is the Government of Canada's national housing agency. We help Canadians gain access to a wide choice of quality, affordable homes.

Our mortgage loan insurance program has helped many Canadians realize their dream of owning a home. We provide financial assistance to help Canadians most in need to gain access to safe, affordable housing. Through our research, we encourage innovation in housing design and technology, community planning, housing choice and finance. We also work in partnership with industry and other Team Canada members to sell Canadian products and expertise in foreign markets, thereby creating jobs for Canadians here at home.

We offer a wide variety of information products to consumers and the housing industry to help them make informed purchasing and business decisions. With Canada's most comprehensive selection of information about housing and homes, we are Canada's largest publisher of housing information.

In everything that we do, we are helping to improve the quality of life for Canadians in communities across this country. We are helping Canadians live in safe, secure homes. CMHC is home to Canadians.

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First Nations Housing Manager Training Program

INTRODUCTION TO FINANCIAL MANAGEMENT

PARTICIPANT'S MANUAL

TABLE OF CONTENTS

Overview—Housing Managers Training Program

Building the capacity of First Nations housing managers

The construction and maintenance of affordable, quality housing is a priority issue for First Nations across Canada.

A positive partnership

Your Housing Manager Training Program is the result of an innovative partnership between Canada Mortgage and Housing Corporation (CMHC) and Anokiiwin Training Institute.

Indian and Northern Affairs Canada (INAC), Western Economic Development (WED) and Human Resources Development and Skills Canada (HRDSC) supported the partnership. The result is a highly focused, culturally relevant, challenging and rewarding training program targeted to the specific needs of First Nations Housing Managers just like you.

The Housing Manager Training Program

The primary objective of the First Nations Housing Manager Training Program is to help Housing Managers strengthen the skills and experience they now have and to help them develop new skills through a combination of classroom and hands-on learning.

Strengthening the capacity of First Nations housing managers

As First Nations regain more control over governance and administration of their own affairs, Housing Managers take on increased responsibility for all elements of First Nations housing programs. High-quality training, with a special focus on the broad range of skills that Housing Managers need to effectively manage housing, is a great help to individuals in developing and strengthening the skills, they need for their role.

> **Helpful Hint**
>
> Housing programs include programs started or sponsored by First Nations, governments and government agencies, and private organizations, Housing programs are usually long-term and focus on more than one goal.
>
> Housing projects include short-term activities that have defined start and end dates. The activities include specific actions that support the achievement of housing programs and projects. They usually focus on a single or a few goals.

The ability of Housing Managers to effectively manage housing programs, projects and activities depends in large part on their knowledge and skills and their commitment.

This Module is part of a comprehensive training program specifically designed to help Housing Managers acquire the knowledge and develop the skills they need to put their commitment to positive use.

The Housing Manager Training Program gives you the opportunity to develop practical management skills that are based on a combination of theory and practical application. The specific objectives are to provide

- First Nations Housing Managers with the practical knowledge and skills they need to manage programs, projects and activities
- an introduction to general, transferable management concepts and theories

- a culturally relevant learning experience for First Nations Housing Managers
- practical, professional development for Housing Managers that fits into work schedules and takes as little time as possible away from their communities and work

The Housing Manager Training Program is made up of a number of individual modules. Together, the Modules are a complete training program. Separately, each Module is an individual workshop.

This highly interactive approach to learning new skills encourages you to test new ideas, fine-tune skills and share experiences and expertise with other Housing Managers in a supportive learning environment.

The Housing Manager Training Program is delivered through traditional and innovative learning activities, including

- facilitated classroom training in both urban and community-based programs
- facilitated workshops (an average of one week of workshops every month on an ongoing basis) delivered through both urban and community-based programs or
- a combination of both classroom training and facilitated workshops

The developers of the Housing Manager Training Program are now working on Internet-based, self-paced, computer-based, independent study workshops.

Successful participants will be better managers of all types of housing program activities, including operation, construction, maintenance, financial management and client counselling.

The Housing Manager Training Program depends upon a blend of quality curriculum, professional delivery and your motivation. The fact that you are taking part in the Workshops clearly shows that you are motivated to learn and that you are committed to doing the best job possible.

Training that works for you

The Housing Manager Training Program recognizes that there is a need for common understandings that can be translated into relevant activities for all First Nations Housing Managers. You will learn the basic theory behind many of the duties and responsibilities that all Housing Managers share. Practical exercises in each workshop give you the opportunity to try out that theory on specific issues you must deal with in your own community.

This is what the "**Helpful Hints**" and "**Interesting Facts**" boxes look like.

This is what a reference to another module looks like.

Helpful Hints or Interesting Facts

The *Participant's Manual* is a DETAILED reference document to use in the Workshop.

Reference to another module

Its real value comes later, when you return to your community and your job. The Manual is a permanent reference you can refer to time and time again in response to community issues, problems and opportunities.

Each "*Participant's Manual*" includes

- a table of contents
- an overview of the Housing Manager Training Program
- an overview of the entire Module
- an overview of each chapter
- reference to exercises, test, quizzes and projects
- "Interesting Facts" and "Helpful Hints"
- references to other Modules for information on specific subjects
- an optional glossary or list of words and terms with their definitions

Each "*Participant's Workbook*" includes real-life exercises and activities. These hands-on exercises ensure you understand how to apply the theory you are learning to your own circumstances. Completing the exercises and activities with other participants gives you a chance to learn from each other as you share common concerns and seek advice on individual problems.

Each "*Participant's Workbook*" includes:

- a table of contents
- an explanation of each exercise or project with instructions on completing it
- exercise sheets to complete
- reference to where information on that exercise or project is located in the Manual
- a Workshop Evaluation Form

Workshop facilitators will review how to make the best use of specific *Participant's Manual* and *Participant's Workbooks* at the start of each Workshop.

Making Workshops work for you

In most cases, the Housing Manager Training Program is delivered through individual workshops on specific topics. The curriculum and exercises for the workshops are designed specifically for a workshop presentation. Making the best use of those materials requires your full participation.

The general guidelines for the workshops include

- confirming attendance requirements for the workshop (usually required by the sponsor)
- requirements for passing quizzes and tests, and completing exercises and projects (usually required by the sponsor)
- start time, break times, lunch time and finish time
- procedures for group discussions, exercises and individual work
- respect for other participants
- appropriate use of facilities

- sharing ideas and comments constructively
- any emergency procedures
- other guidelines set by the sponsor or the group

The workshop facilitator will review these guidelines and discuss any additional rules your group feels will help your Workshop work better. You should make certain that you know and meet your sponsor's requirements.

You will get out of the workshops what you put in. Workshops are designed to encourage you to be actively involved—and to encourage the others in your Workshop to take an active part. You each have your own experience and expertise to share. Your active involvement makes the best use of those experiences and knowledge.

Putting it all into perspective

The Housing Manager Training Program is more than just learning new things for the sake of learning itself.

The program helps Housing Managers do their work better and more effectively. It does not end there. The program also helps you, as a Housing Manager, to help all the people in your community enjoy access to affordable, healthy, high-quality, well-maintained housing.

For more information on the First Nations Housing Manager Training Program, please contact your regional Canada Mortgage and Housing Corporation office.

To find the address, telephone number and fax number of the CMHC office closest to you, visit this website:

http://www.cmhc-schl.gc.ca/en/contact/contacten_002.cfm

Introduction to financial management overview

Overview

Housing Managers must manage many different financial activities in order to provide high-quality, well-maintained housing units and related facilities. In this Workshop you will learn basic financial management practices.

Learning how to recognize the tools and techniques used to control the financial affairs of the First Nation's housing programs, projects and activities is the first step towards gaining the skills you need to develop and administer budgets and financial programs. The Introduction to Financial Management Workshop is the first of the Housing Managers Training Program's financial management Workshops. Other Workshops focus on specific skills, including

- basic budgeting
- basic bookkeeping
- understanding how to use audits and financial statements

At the end of this Workshop you will able to describe

- a Housing Manager's general financial management activities
- why finances need to be managed
- the four components of financial management
- what financial management tools are available
- how those tools can help you better manage your housing organization's financial activities
- when to use various types of budgets
- how accounting practices can help you plan for the future by analyzing the past
- why audits are important financial control tools
- how you will put this information to use

Exercise 1—Participant introductions

In this exercise, you introduce yourselves to each other. Your facilitator will explain how to make those introductions.

Exercise 2—Participants expectations

In this exercise, you list what you hope to learn in this Workshop. Your facilitator will record the expectations on a flip chart and post it on the wall so you can refer to it during the Workshop.

Chapter One—Overview of financial management

Overview

The effective management of a First Nation housing organization depends upon the ability to make the best use of limited financial resources. There are a number of tools and techniques available to manage financial affairs. Understanding the tools is the first step towards being able to use them effectively.

In this Chapter you will learn

- why finances need to be managed
- what financial management tools and techniques are available
- how those tools and techniques can help you better manage the financial activities of your housing organization

Things to consider when reviewing this Chapter

- What tools and techniques do you use to manage the financial activities of your housing programs, projects and activities?
- What tools and techniques could you use?

Exercise 3—Assessing your knowledge

In this exercise you identify your financial management experience and your strengths and weaknesses. Be prepared for a group discussion.

Section One—Sound financial management

Getting the most out of limited resources (both financial and non-financial) is one of the main goals of financial management. Financial management plays a crucial role in determining whether an organization accomplishes what it sets out to do. Effective management requires the efficient use of limited resources.

All successful organizations—including private corporations, community co-operatives, non-profit organizations, governments departments and agencies—have sound financial management practices. In each, managers use financial management tools to make decisions that determine the direction of the organization and specific activities and undertakings.

All managers—including Housing Managers—must know how to develop, implement, monitor and enforce sound financial management principles, programs, policies, practices and procedures. Without this knowledge, a manager cannot properly manage.

This Module focuses on doing things right with proper financial management.

Financial management practices are at the centre of most of the Housing Manager's functions. Sound financial management practices are a central element in most management activities and a basic requirement for achieving positive housing-related outcomes.

Given the substantial housing needs of most First Nation communities and the limited resources available to address them, First Nations Housing Managers must make the best decisions possible with the limited resources they have. Good decisions translate into positive results. Sound, daily decision making requires effective financial management.

The All Nations First Nation learned the benefit of sound financial management practices the hard way. Given its present circumstances, the community does not have funding for housing beyond basic services for existing housing and facilities. This is primarily because of its unstable financial history and its current goal of eliminating the fiscal deficit by the end of the year. As a result, the All Nations First Nation Housing Manager must ensure that the Housing Authority has strong financial management as it does not have any money to waste.

Housing Managers deal with a wide range of financial issues every day. Financial management involve many challenges for managers and support staff, such as bookkeepers, accountants and auditors who deal with these kinds of challenges daily, weekly, monthly and annually.

For the All Nations First Nation, factors outside the control of the Housing Manager affect rent collection, even though the Housing Manager is responsible for that function. The factors outside the Housing Manager's control include the willingness or the ability of tenants to voluntarily pay their rent regularly and the willingness of the Board of Directors or the Chief and Council to fully support rent collection.

Housing Managers must make important, long-term decisions in many situations. For instance, should major repairs and larger maintenance programs be contracted out or should the housing organization hire staff for repairs and maintenance? The Housing Authority of the All Nations First Nation contracted major repairs and larger maintenance programs, leaving only minor work for the full-time maintenance manager. Depending on the circumstances of each community, contracting out all major repair work may or may not be the best option. Either way, the Housing Manager must make long-term financial management decisions.

Other situations call for quick responses. A serious mold hazard has been identified in All Nations First Nation houses. It requires immediate, responsible action. The Chief and Council have demanded a complete status report, immediate action to ensure residents' health and a long-term plan to deal with mold. With no new resources available, the Housing Manager has to decide what changes are needed to ensure a successful funding proposal to Canada Mortgage and Housing Corporation (CMHC) and Indian and Northern Affairs Canada (INAC).

Section Two—Managing financial activities

A Housing Manager's financial activities

- identify costs associated with different activities
- identify revenue sources for programs, projects and activities
- estimate costs for major projects and activities
- prepare and manage budgets
- develop and monitor cash flows
- set up and maintain financial reports and books
- ensure organized payment of bills and accounts payable
- ensuring timely collection of revenues and accounts receivable
- deal with over-expenditures and revenue shortfalls
- manage financial surpluses and deficits

- Prepare financial projections for funders and owners of First Nation-owned housing units and facilities
- Report on financial matters to appropriate parties
- Work with outside accountants and auditors
- Make recommendations on financial matters
- Ensure the overall financial health of First Nations housing programs

Financial management is the formal practice of planning, organizing, executing, coordinating, monitoring, forecasting and controlling all the financial activities of an organization. Financial management has four main components.

1. **Budgeting**—Planning, goal-setting and controlling financial transactions
2. **Accounting—**Data entry, report, analysis and advice on financial matters
3. **Auditing—**Review and control of financial activities
4. **Decision making—**Using financial data to make effective decisions

Figure 1 shows how these four components are related. Three of the components—budgeting, accounting and auditing—are separate toolboxes to help managers make decisions. As with any toolbox, there are many tools in each toolbox.

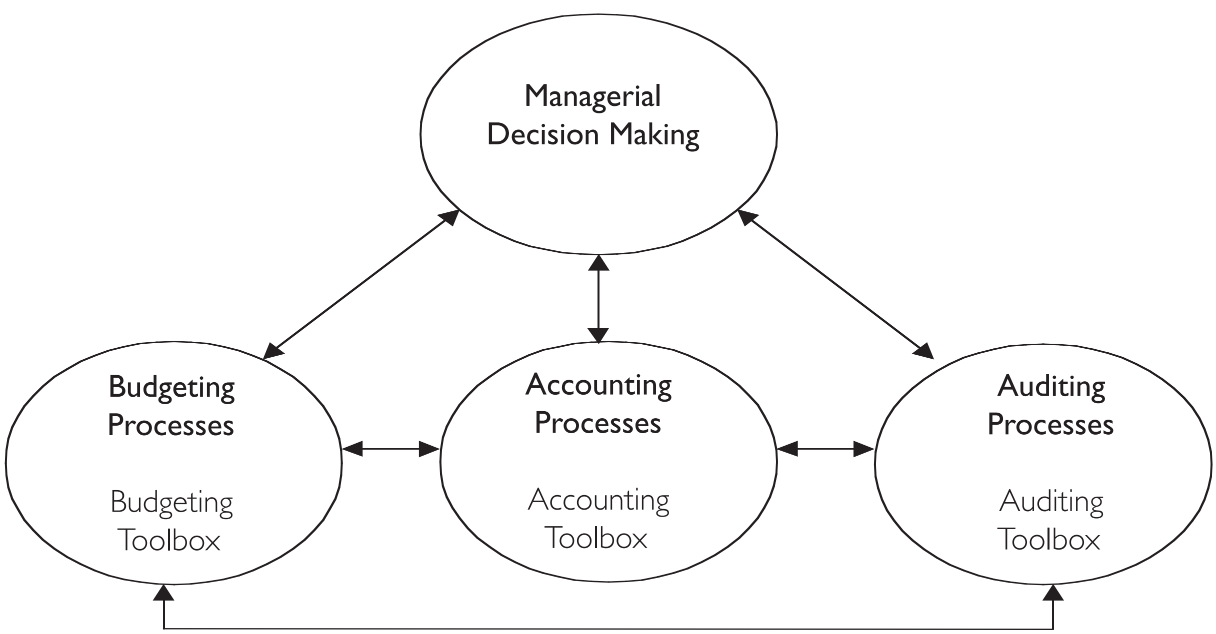

Figure 1—Main components of financial management

Developing and implementing appropriate financial management policies, procedures and systems is essential to making good decisions. That process requires the effective use of planning, budgeting, accounting and auditing tools. To use these tools effectively, it is necessary to understand what each financial practice is designed to do and how to put it to its best use.

Understanding financial management: The campfire example

Financial management is a process of ensuring that specific undertakings have and will continue to have, the required resources so they can continue to take place at their expected and planned level(s). There are many examples of that type of management. For instance, maintaining (managing) a campfire for a specific period in an area where wood supply is scarce requires

- understanding how to start and keep the fire burning
- analyzing how much wood is required as long as heat is needed
- knowing how to use a limited wood supply
- deciding who will be responsible for gathering wood, feeding the fir and ensuring that both are done as needed
- knowing other fire practices and options in case something—wind or rain, for instance—threatens the fire
- keeping the fire burning at the proper rate
- controlling the fire so it does not burn out of control
- putting the fire out properly
- being certain the fire is totally extinguished

Budgeting is the process of setting financial performance targets based on the goals and objectives of an organization for a set period. Effective budgets require accurate forecasts, the setting of realistic performance goals and careful planning within the limits of the available financial resources.

Accounting is the orderly process of identifying financial activities within an organization. It is the practice of record keeping and reporting of an organization's performance and position in monetary terms.

Auditing is the monitoring and controlling of the accounting process, usually done by an independent, outside party, who determines if the organization's accounting systems are appropriate and its financial records are accurate and complete. An audit can also assess how well the financial performance of the organization met its budgetary expectations. Funders, boards of directors and managers use audits to verify the accuracy and completeness of financial information and financial management.

In addition to meeting legal requirements (such as business tax requirements and legal financial requirements for corporations), financial management tools are used for designing, developing and sustaining strong, focused and successful organizations.

Budgeting, accounting and auditing are necessary for strong decision making. Each provides managers with important financial information that can be used to make better decisions.

Achieving positive organizational results through effective financial management requires each of these four, inter-related activities to be coordinated and functioning properly. Effective budgeting, accounting and auditing alone cannot ensure organizational success without the proper decisions being made.

Likewise, good decisions cannot be made without proper financial information. Each process requires the other processes to work effectively. They are inter-related and interdependent. All are necessary for effective financial management.

While all types of organizations require financial management, it is not limited to formal organizations. Households, families and individuals practise the basic principles of financial management every day. Most people live within a budget because they have limited sources of income.

In short, we can't have everything we want. Individuals, organizations and businesses have to make choices about how best to spend and allocate limited resources. All individuals spend, develop plans, forecast and make projections, invest, save, borrow, lend, make financial commitments and have financial obligations. Financial management is an important part of everyone's life.

Sound financial management practices are crucial to making informed decisions and choices that give the most benefit.

Strong financial management leads to sound decisions and positive results for an organization. On the other hand, poor financial practices result into poor decisions and poor results for an organization.

Financial management requires Housing Managers to work cooperatively with different individuals and groups. Each individual and group must assume specific responsibilities to ensure that the overall process works.

Section Three—Reasons for sound financial management practices

Sound financial management practices meet a number of organizational objectives, including the need to

1. develop accurate cost-estimates for planning
2. to budget
3. to control the flow of program and project funds
4. to properly record financial transactions as they happen
5. to share financial information and report financial activities
6. to identify and prevent potential financial problems
7. to take timely corrective action, if necessary
8. to evaluate financial information
9. to meet legal obligations
10. to "feel good" about the job accomplished

Reason 1: The need to develop accurate cost estimates for planning

How well expected costs relate to actual costs partly determines the success or failure of projects and programs. If funds for basic monthly operating expenses are not clearly identified and secured, the organization may not be able to perform as planned.

Depending on the seriousness of cost overruns or insufficient funds, the organization will have difficulty operating unless there is a significant increase in the planned budget or a reduction in operating expenses to offset the shortfall. Those difficulties could prevent the organization from achieving its basic goals.

Reason 2: The need to budget

Housing organizations and programs are allocated financial resources to perform specific tasks. They may be expected to collect revenues from tenants, shelter allowance from the First Nation, in addition to capital resources from CMHC, INAC, the First Nation and other sources. Housing Managers need to estimate and control costs so that revenues will match—or exceed—both operating and capital revenues.

Budgets are simply a financial planning and control tool. They need to be monitored, evaluated, revised and controlled as the need arises, perhaps monthly. Since financial circumstances change constantly, planning is ongoing and budgets are adjusted to meet actual circumstances.

Realistic budgeting is crucial to both tasks. Housing Managers are responsible for developing realistic budgets to achieve the greatest possible benefit for the housing organization.

Reason 3: The need to control the flow of program and project funds

The ability to control the flow of money coming in and going out largely determines the financial health of an organization. A package of short-term and long-term checks and balances on financial activities achieves this control. Without these controls, an organization will eventually lose its ability to manage its ongoing operations.

Housing Managers must be both monitors and control agents. Controlling the flow of funds means controlling cash— both inflows (receipts) and outflows (disbursements). This may not always be as easy as it first seems. It is not possible to pay wages today with money that will not arrive for at least another two weeks. The Housing Manager may have budgeted enough money to cover expenses for the period, but may have ignored the very important cash-flow patterns.

Reason 4: The need to properly record financial transactions as they happen

In order to use financial information to make decisions, accurate records of financial transactions must be in place. Without these, managers cannot assess how well an organization has performed. It is then difficult for a manager to determine if the organization is getting the most out of its limited budget or even where and how money is being spent.

Housing Managers are financial stewards and gatekeepers. Depending on the organization, a Housing Manager may or may be responsible for bookkeeping and accounting activities, but all Housing Managers must ultimately ensure that accurate and complete financial records for housing programs, projects and activities for housing programs, projects and related activities are maintained.

Accurate financial records make it possible for a manager to budget, control program and project funds, and make timely financial decisions.

Reason 5: The need to share financial information and report financial activities

Sound financial management requires, getting the right financial information to the right people at the right time. Decision makers need timely, accurate information.

Just as Housing Managers require accurate financial information so they can make sound financial decisions, other stakeholders—owners, committees, boards, Chief and Council, community members and tenants—may also require similar information. All housing organizations are accountable to those stakeholders in one way or another.

Other stakeholders include funders and project sponsors, such as governments, private investors, CMHC, INAC and other financing and funding sources. Housing Managers must communicate accurate financial information to ensure stakeholders have enough details to make the required decisions.

Reason 6: The need to identify and prevent potential financial problems

Problems are a part of every project or program. Events rarely unfold exactly as planned. Costs can sometimes be higher than anticipated. Activities can take longer than planned. Funding is delayed or less than expected.

Housing Managers must constantly watch for potential problems and act on problem situations as soon as possible. They are expected to respond promptly to unforeseen circumstances, events and other issues that can affect revenues and costs. Accordingly, Housing Managers are routinely required to make decisions (choices, trade-offs, tough decisions, policy development and enforcement, hiring and firing and so on to prevent or correct problems.

Without complete and accurate financial information, it is less likely that appropriate corrective action will be recognized as being necessary. The problem will not be apparent.

The Housing Manager is on the front line of crisis management. The best way to manage a potential crisis is to stop it before it becomes critical. The ability to respond to unavoidable problems promptly and effectively usually depends on the availability of up-to-date, accurate information.

Reason 7: The need to take timely corrective action, if necessary

Sound financial management is the basis for timely, effective corrective action. Managers must have the information they need when they need it. They must also know that the information is reliable.

Even with the finest plans and most perfect circumstances, some problems cannot be prevented. In such cases, a timely, comprehensive response is necessary. Dealing with problems before they get out of hand can mean the difference between a simple inconvenience and a disaster.

The ability to take timely corrective action requires

- accurate, complete information to assess the current situation through up-to-date accounting records over a reasonable time period, such as monthly statements
- information that details clear performance targets over specified periods, such as monthly budgets
- a proper evaluation of accounting records and budgets for similar periods

Reason 8: The need to evaluate financial information

Financial information is more than just a record of the past. Information on past financial performance is very helpful in planning and developing new budgets.

In order to plan properly, a Housing Manager needs to know what worked well and why, as well as what did not work well and why. Good financial information helps Housing Managers and other decision makers evaluate success in terms of planned performance objectives and actual performance outcomes.

Accurate financial information is the principal way an organization can really determine if it made the best use of its resources and obtained the best return on its investment. Inaccurate information or poor evaluation of that information can contribute to long-term problems that are difficult to correct.

Reason 9: The need to meet legal obligations

Most organizations are required by law to document and make accurate financial information and reports available on request to appropriate parties. The main reason for these legal requirements is to demonstrate financial accountability to stakeholders, shareholders, members and funders. When that information is not available as required, the organization may lose funding or face legal penalties.

All incorporated organizations are legally required to follow basic financial management practices. First Nations housing organizations are usually accountable to other stakeholders and funders, such as a committee, a Board of Directors, elected officials, community members, CMHC, INAC, financial institutions and tenants.

Reason 10: The need to "feel good" about the job accomplished

Like everyone else, Housing Managers do a better job if they feel good about the work they do. Most of the functions performed by the Housing Manager involves some type of financial transaction. In many cases, a Housing Manager's performance appraisal depends largely on how well finances are managed.

Successfully managing the finances for housing programs, projectss and activities makes the job of the Housing Manager more productive and rewarding. Preparing, maintaining and properly documenting financial transactions through appropriate financial systems and tools are key to the productive management of those projects and programs.

Chapter Two—Using financial tools to achieve financial goals

Overview

The first step in developing the skills to successfully manage finances is to identify and understand the different financial management tools. Financial management is based on the effective use of these tools. Housing Managers should be able to use at least eight essential financial management tools.

Financial management must reflect the financial goals of the organization. There are seven basic goals related to managing financial matters.

In this Chapter you will learn

- how to use a complete package of financial tools to prepare and use financial information for sound decision making
- the seven basic goals of financial management activities

Things to consider when reviewing this Chapter

- How can you use each of the eight essential financial management tools in your own housing organization?
- Does your organization have the seven basic financial management goals described in this Chapter? If not, why not?

Section One—Important financial management tools

Proper management of all financial activities relating to the housing program is one of the major functions of a Housing Manager. Quite often, the way finances are managed appears to be much more complicated than it really is. The first step in developing the skills to successfully manage financial matters is to identify and understand the tools used for different financial management activities. Financial management practices are based on the effective use of these financial management tools.

Housing Managers should be able to use these eight essential financial management tools.

Forecasts

Forecasting is an essential tool for all managers. Housing Managers must make informed decisions about future events, such as forecasting projected revenues and expected costs for projected activities. Sound management requires good planning. In order to accurately plan, managers need to forecast (predict) what they think will happen and how they will likely respond to different situations. An important part of this is to identify anticipated events, timeline and expected outcomes.

As mentioned previously forecasts are important tools in the budgeting toolbox.

Budgets

A budget is a financial planning and control tool. It expresses the organization's goals within specific financial and operating plans. It is a plan of activities and programs expressed in terms of the assets, equities, revenue and expenses that will be involved in carrying out the organization's plans. As indicated previously, budgets are important tools in the budgeting toolbox.

Budgets are a centralized tool for all managers. Housing Managers must regularly and routinely develop, monitor and revise budgets according to the financial information that is available at any time.

Estimates

Estimates are basically educated guesses. They are essential indicators for managers, planners and decision makers to use in assessing project costs, revenues and timeframes. Estimates should be based on the best information available—that is, the most accurate, complete, reliable information. As indicated previously, estimates are important tools in the budgeting toolbox.

Housing Managers use estimates every day. Examples include projecting the amount of rent income from tenants and projecting the duration of the construction season.

Cash flow analysis

Cash flow analysis is one of a manager's most important tools. Regardless of whether the annual budget (forecast or actual) is sufficient, unless there is enough cash on hand or in the bank to meet expenses, the organization is likely to have severe financial difficulties. As indicated previously, cash flow analysis is an important tool in both the budgeting and accounting toolboxes.

Housing Managers must ensure that all expenses are paid when they are due. This is required even though the organization may be waiting for payment from others—such as revenues from tenants or funds that are not fully distributed by funders and sponsors. The Housing Manager must be able to ensure proper cash flow at all times, as suppliers, staff, contractors, utilities and other creditors expect to be paid on time.

Interpretation

Proper interpretation of financial information is a vital component of accounting and overall financial management There must be accurate interpretation and effective response to financial statements. Decision makers require accurately interpreted financial information so they can make the right decisions for the organization. As indicated previously, interpretation is an important tool in both the budgeting and accounting toolboxes.

Monitoring

Financial management systems provide decision makers with detailed, organized and effective tracking and monitoring of an organization's financial well-being over time. Decision makers can monitor an organization's performance by comparing current financial statements to original budgets, along with records of past performances. As previously indicated, monitoring is an important tool in the three toolboxes—budgeting, accounting and auditing.

Housing Managers must compare completed budgets to actual performance results. Budgets are monitored regularly in order to control expenses and maximize outcomes. Without regular and proper monitoring, expenses may increase to higher levels that unnecessarily absorb already limited funds.

Managers must also ensure that the accounting process is effectively monitored through appropriate auditing.

Evaluation

Evaluating performance is a manager's ongoing responsibility. An evaluation helps managers determine what went right and is working well and what went wrong and is not working well. Managers can then act to improve the organization wherever it is needed. Evaluation helps managers improve future budgetary and planning. For example, Housing Managers use financial information to evaluate investment performance, staff productivity of its employees, contractor performance and the usefulness of equipment. As indicated previously, evaluation is an important tool in the three toolboxes—budgeting, accounting and auditing.

Financial statements

Financial statements are fundamental decision-making tools. They have up-to-date financial information on an organization's overall performance at a specified period. The three most important financial statements are the balance sheet, the income statement and the cash flow statement. Housing Managers must be able to read and understand financial statements and other records. As indicated previously, financial statements are important tools in all the toolboxes—budgeting, accounting and auditing.

Case Study 1—Analyzing Financial Statements

In this exercise, you role-play either a director or a community member. The goal is to evaluate the financial statements and develop a brief statement on the financial status of the organization. Be prepared to participate fully in the discussion.

Section Two—The seven basic practices of financial management

Financial management practices must reflect the financial goals of the organization. The seven basic practices related to managing financial matters are:

Practice 1: Analyze

Financial information is most useful when it is thoroughly and systematically analyzed to find out

- what worked well
- what didn't work well
- why didn't something work well
- what changes could make things work better in the future
- what indicators will tell you that things are working better

Practice 2: Forecast

Forecasting requires long-term vision and understanding of the goals to be achieved, activities stemming from the goal and the costs of implementing the activities.

- What revenues are available and when will they be made available for different housing activities?
- How many housing units will meet housing needs without overbuilding?
- How much money is needed to build and maintain the housing units?
- How many people should be hired to build and operate those housing unit, and what are their wages and salaries?
- How much needs to be budgeted for contingencies ("just in case") to deal with unforeseen circumstances?

Practice 3: Document

Documenting is standard procedure in effective financial management. Documents are the base of an organization's financial information. Documenting requires clear, consistent, precise record keeping so information is accurate and up-to-date.

- Is there a written record of all financial transactions?
- Is there detailed information about payment schedules for employees, outside suppliers and others?
- Is there a written record to protect the interests of decision makers if there are accusations of inappropriate or inefficient use of funds?

Practice 4: Track

Tracking is an important tool for both managers and accountants. Tracking is the process of revisiting past transactions to clarify current issues or problems and to assist in making more informed decisions.

- How quickly can a financial record be recovered and reviewed?
- How much did the organization pay for a product in the past?

Practice 5: Control

Effectively managing financial matters requires controlling financial activities. This enables managers to ensure that there is enough money for required activities and funds are being appropriately used. Without financial control, an organization is extremely vulnerable and risks not being able to properly finance planned activities.

- Does the organization have at least one person monitoring financial transactions to ensure that funds are allocated according to plan?
- What are the systems or safeguards (such as policies, procedure and protocols) to ensure financial control?
- Who is responsible for maintaining specific controls on financial activities?

Practice 6: Correct

Sound financial management means not duplicating past mistakes and to be on top of ever-changing circumstances to avoid making new mistakes. Examples include:

- Why are building materials costing much more than last year, when the organization bought the same quantity from the same supplier?
- Should the organization continue to purchase from a supplier whose prices have increased significantly over the past three consecutive years?
- Why are rent revenues significantly lower than they were during the past four years?

Practice 7: Report

Accurate and timely financial reports support informed decision making. Generally, accounting personnel prepare reports that summarize an organization's financial standing. Managers and other decision makers use the reports to make informed decisions. Financial reports help decision makers deal with many types of questions. For instance:

- Is the organization on budget to complete the required number of housing units?
- What should be in the budget next year?
- Is the organization spending too much money on any specific activity?
- Does the organization have the cash flow needed to make its monthly payments?
- Is the organization meeting it financial goals and objectives?
- What is the overall financial health of the organization?

Exercise 4—Assessing your organization (part 1)

In this exercise, you identify and describe the financial management tools your organization uses, and discuss your responses with the group.

Chapter Three—Financial management: roles and responsibilities

Overview

Managers have day-to-day responsibility for most financial operations. If there are financial problems, the manager is usually held responsible. Accordingly, Housing Managers must fully understand the reasons for financial management practices and tools and ensure they are used appropriately.

Managers oversee and coordinate the activities of financial management support staff. In most organizations, support staff are accountable to and report directly to the manager who is responsible for delegating work to them and ensuring it is completed satisfactorily. In this Chapter you will learn

- the roles and responsibilities of everyone involved in the financial management of First Nations housing projects and related activities
- the many responsibilities of Housing Managers in ensuring strong financial accountability within the housing organization
- the role of support staff

Things to consider when reviewing this Chapter

- what you can do to improve your understanding of what financial tools are used for which management activities
- the specific reasons that effective financial management is important to your community's Chief and Council, housing organization, tenants and homeowners.

Section One—Financial management roles and responsibilities

Depending on the organization, one or more of the following is responsible for financial management

- funders and sponsoring agencies, such as CMHC and INAC
- elected officials, such as Chief and Council, boards or committees
- appointed or delegated representatives, for example, some boards
- chief executive officers (CEOs), managers, program director and supervisors
- bookkeepers, accountants, payroll clerks and other financial personnel and support staff
- internal and external auditors

While different people may have specific financial management responsibilities, managers have significant responsibilities. For instance, while a governing body such as a board of directors is responsible for the overall financial well-being of an organization, managers have the day-to-day responsibility for most financial operations.

A Housing Manager's financial management role is to ensure

- the organization has the financial resources it needs to properly discharge its mandate or mission
- the organization has an immediate and long-term financial plan based on clear goals and objectives within specific budgets

- there are always complete, accurate, properly maintained financial systems and records
- the organization's financial records and systems meet generally accepted accounting principles (GAAP)
- the organization's goals and objectives are being realized as demonstrated by its actual financial results supporting its budgets
- there are regular, complete and accurate financial statements for internal management and external reporting
- the organization is making the best possible financial investments with its limited resources
- the organization is meeting its financial commitments to employees and creditors
- the organization is collecting revenue from everyone it should

Managers can rarely do all the work associated with these activities without help. Most managers oversee and coordinate the activities of individuals—both staff and outside professionals—and trust them with certain financial responsibilities. In most organizations, support staff, with few exceptions, are accountable to and report directly to the manager or the accountant, who delegate work to them and ensure that is it completed satisfactorily. Generally, the roles of support staff are:

The accountant—assists decision makers by maintaining financial records in the required form and provides up-to-date information on the financial performance of the organization.

The bookkeeper—documents all financial transactions—some organizations have a separate bookkeeper who supports an accountant while others rely on an accountant for bookkeeping.

The administrative assistant—provides basic administrative support to bookkeepers, accountants and managers.

Project officers

—have specific financial tasks within specific projects and report on the tasks and activities to the manager or the accountant.

Other personnel—perform specific financial tasks as needed.

All individuals must work together. The Housing Manager is responsible for leading this team.

Exercise 5—Assessing your organization (part 2)

In this exercise, you identify and describe the financial management tools your organization uses and discuss your responses with the group.

Case study 2—Rent collection

Working in groups, study the outlined situation and draft options for dealing with the problem of rent collection.

Chapter Four—Understanding and using budgets

Overview

Budgets express organizational goals in specific financial and operating objectives. They manage the allocation of limited resources to the organization's most important activities and priorities.

Generally, budgets set out to maximize product or output (maximum benefits) while minimizing costs.

Housing Managers use both general program budgets and specific project budgets. Program budgets cover the activities of the housing program. Project budgets usually fit within the program budget.

Budgets come in various sizes and forms. Managers use various types of budgets for different purposes. Housing Managers use several different types of budgets for multiple.

In this Chapter you will learn

- how to recognize different types of budgets
- why different types of budgets are necessary
- when to use different types of budgets

Things to consider when reviewing this Chapter

- Are you using budgets properly in your organization?
- What different types of budgets should you be using for your housing programs, projects and activities?

Section One—An overview of budgeting

A budget is a financial plan—a plan of activities and programs—and a control tool—a way of controlling an organization's expenditures. The budget expresses the organizational goals in specific financial and operating objectives. Budgets are used to manage the allocation of limited resources to the most important activities and priorities of the organization during a specific period. Generally, budgets set out to maximize outcomes and benefits while minimizing costs.

Budgets are informed future forecasts and projections based on planned expenditures and projected revenues for an organization's activities. They are financial road maps that show the position the organization wants to achieve. Budgets can be developed for the short-term (usually one year or less), the medium-term (usually one to three years) and the long-term (generally over three years).

Since budgeting processes and practices are future-oriented, managers must accurately predict future outcomes in uncertain situations. Budgets attempt to answer questions like:

- What will the telephone bill be next August?
- What should the telephone bill be next month?
- What will be the price of gasoline next year and how much gas will be needed to remain operational?
- Will the photocopier break down and if it does, when is it most likely and how much will it cost to fix it?

Because these are questions without exact, precise answers, managers must predict and anticipate expenditures future when they develop budgets.

Budgets can differ in their level of detail, depending on

- the length of time they cover
- the amount of information available
- what information those using budgets to make decisions need.

It is difficult, if not impossible, to accurately predict events that may happen five years from now. However, it is usually possible to predict, with some accuracy, events that may happen within the next month. As a result, there are generally more details in a short-term budget than longer-term budgets.

To make informed projections, decision makers and planners need as much information as they can get. Without adequate information, budgets will only be guesses about the future, not usable financial road maps.

In larger organizations, an overall or master budget may be broken down into smaller, more specific budgets for each department, such as human resources and maintenance. In smaller organizations, there may only be one budget for the entire organization.

For housing organizations, specific budgets may include

- a monthly and annual operating budget
- a monthly and annual maintenance budget
- a weekly and monthly specific construction budget
- a monthly and annual capital budget

Budgets must support the financial goals of the organization by outlining a specific performance path for the organization that ensures that priorities and strategic activities are completed in the best way possible.

To better understand how priorities and strategic activities relate to the budgeting process, refer to the example of the All Nations First Nation.

The All Nations First Nation has developed a budgeting process for its housing program that serves that purpose. The development of this budgeting process was not easy and was developed through trial and error over many years (refer to the All Nations First Nation Community Profile for further details). A housing-related Band Council Resolution (BCR) states the following:

- The Chief and Council are committed to providing quality accommodation for all Band members.
- The Chief and Council understand that housing is vital in ensuring quality of life for its community members, starting with a healthy and safe environment in which children are encouraged and supported to complete their education.
- The Chief and Council understand that a good home environment is the place where children start getting the support to participate in sports, art and other recreational activities while aspiring to meaningful employment and economic development.

The Chief and Council of All Nations First Nation have outlined a number of short-term goals and long-term goals. Short-term goals include

- appoint a Housing Authority
- prepare, present and promote the All Nations First Nation housing policy
- address urgent housing needs by promoting the construction and operation of quality, long-lasting, energy-efficient homes
- initiate training in property management, construction and maintenance trades
- negotiate involvement with and assistance from, INAC, CMHC, Social Development Canada, Human Resources and Skills Development Canada, the provincial government, private developers and any other agencies or institutions with an interest in housing and improving the quality of life in First Nation's communities
- dispose of, by sale to community members, any home if it is over 30 years old or if the cost of repairs and upgrade exceeds the house value

Long-term goals of the All Nations First Nation Chief and Council include

- eliminate the housing shortage and stop the housing crisis for the First Nation and all its members
- ensure resources are in place for future generations

The All Nations First Nation Housing Manager uses budgeting to meet these goals. All Nations must budget because there is not enough funding to accomplish all the objectives that flow from these goals at the same time. If funding were unlimited, there would be much less need for budgets. All Nations could then make purchases and run up expenses continually without any concern over running out of money. However, like almost everyone else, All Nations has limited resources and, as a result, needs to develop and implement budgets.

A Housing Manager will use both general program budgets and specific project budgets. General program budgets cover activities that take place over many periods. Program budgets that outline day-to-day type activities are also known as "operating" budgets. Project budgets deal with non-continuous activities, such as construction of a five-unit housing project or a major renovation project. Some projects are capital projects and the budgets are "capital" budgets. For instance, construction of a five-unit housing project or a major renovation project is a "capital" project."

The period a budget covers should match the organization's objectives, including special circumstances that may occur.

Budgets are necessary components for almost all funding proposals and requests. Funders and project sponsors usually want to know the amount of funding assistance required for each activity and the specific details of how the applicant plans to spend the money.

Funders and project sponsors, like most other organizations, are interested in maximizing the return on their investment. Typically, they "invest" in an organization if they perceive that organization will use the funding to assist them in meeting their own goals and objectives. They will ultimately decide on whether a funding proposal is a good investment on that basis. The proposal or program budget enables them to decide how well the funding they are being asked to provide will be used to meet general goals and specific objectives. Accordingly, the accuracy and completeness of a budget within a funding proposal is a key consideration for funders.

Exercise 6—Budgeting resources (part 1)

Exercise 7—Budgeting resources (part 2)

In these exercises, you list the types of resources and related sources in the preliminary stages of developing an operating budget, and discuss your list with the other participants.

Section Two—Types of budgets

There are many types of budgets for a variety of budgeting purposes. Some examples are:

Master budget

A master budget is an organization's main budget. It includes budget totals from all departments and sub-departments. A master budget generally includes a budgeted balance sheet, a budgeted income statement and a budgeted cash flow statement. Generally, master budgets do not have much detail—the details are in the department budgets.

Operating Budget

An operating budget is used to estimate an organization's overall operations. It details revenues by source; it also details operating expenses. The following two tables are examples of an operating budget for the All Nations First Nation Housing Authority.

Revenues					
	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
Rent (CMHC only)	90,456	96,580	118,663	121,630	124,671
Subsidy Section 95 (CMHC only)	117,580	127,072	164,821	164,614	164,424
RRAP, Pathway, HRSDC, and others	16,000	16,400	16,810	17,230	17,661
Contribution to audit from Band	4,000	4,100	4,203	4,308	4,415
Other allocated reve-nues	48,000	49,200	50,430	51,691	52,983
Total revenues	**276,036**	**293,352**	**354,927**	**359,473**	**364,154**
Expenses					
	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
Administration costs	60,000	62,013	66,189	67,844	69,540
Insurance expense	86,600	89,505	95,533	97,922	100,370
Interest expense (mortgages)	51,420.84	49,142.02	71,109.43	70,778.68	67,485.06
Bad debt expense (unpaid rent)	368.28	370.32	395.39	584.64	239.70
Incentives	30,000	31,006	33,095	33,922	34,770
General maintenance (janitorial)	13,300	13,500	13,675	13,900	14,150
Miscellaneous	20,017	20,702	22,952	23,313	22,798
Depreciation expense	142,920	156,768	156,768	156,768	156,768
Total expenses	**404,626.12**	**423,006.34**	**459,716.82**	**465,032.32**	**466,120.76**
Surplus (deficit)	**(128,590.12)**	**(129,654.34)**	**(104,789.82)**	**(105,559.32)**	**(101,966.76)**
Adjusted	**14,698.16**	**27,483.98**	**52,373.57**	**51,793.32**	**55,040.94**

Table 1—All Nations First Nation Housing Authority budgeted income statement—2002–03 to 2006–07

Administration expenses					
	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
Wages and benefits	42,500	42,575	42,700	42,950	43,300
Office supplies	870	890	915	940	985
Bank charges	500	505	512	520	530
Postage	1,000	1,025	1,040	1,070	1,110
Printing	1,250	1,280	1,320	1,365	1,420
Honorariums	5,600	5,600	5,600	6,000	6,000
Telephone	2,700	2,750	2,800	2,850	2,900
Travel	3,000	3,000	3,300	3,300	3,600
Training	500	1,500	1,500	1,500	1,500
Other	2,080	2,888	6,502	7,349	8,195
Total expenses	**60,000**	**62,013**	**66,189**	**67,844**	**69,540**

Table 2—All Nations First Nation Housing Authority administration budget—2002–03 to 2006–07

Cash budget

A cash budget is used for cash planning and control. It estimates and compares cash inflow and cash outflow for a specific period and helps the manager avoid cash shortages by maintaining the cash balances for the current and future needs of the organization.

Table 3 is a basic cash flow budget for the All Nations First Nation's planned CMHC-funded five-unit housing construction project in 2003.

The appendices provide an example of an annual cash flow budget for the All Nations First Nation Housing Authority.

Loan amount 554,144.00 Stage of construction	Advance number	Date	% complete	Lender advance — cumulative	Total value
Project start-up	1	03-Apr-03			
Foundation complete	2	30-Apr-03	16	88,663.04	88,663.04
Insulation and vapour barrier	3	09-Jun-03	42	232,740.48	232,740.48
Exterior finished–drywall installed	4	07-Aug-03	69	382,359.36	382,359.36
Final CMHC inspection	5	14-Oct-03	96	531,978.24	531,978.24
Completion	Final	17-Oct-03	100	554,144	554,144

Table 3—Cash inflow budget for 2003 CMHC-funded project—All Nations First Nation

Capital budget

This budget lists key revenue sources and expenditures for capital items such as housing stock, major repairs and renovations, replacement reserve fund, loan proceeds and so on. The appendices provide an example of an annual capital budget for the All Nations First Nation Housing Authority.

Supplemental budget

This budget lists additional financial details for items that are not in the main budget. For instance, the All Nations First Nation Housing Authority annual administration budget is a supplementary budget for its annual operating budget. Refer to the appendices for details.

Add-on budget

This budget is developed from information from a previous budget period with adjustments for inflation and other changes.

Bracket budget

This is a budget with revenues and expenses given at higher and lower amounts than the base figure, which allows decisions based on best-case and worst-case scenarios.

Stretch budget

This is an optimistic budget, generally used for high-end revenue forecasts with no direct reference to operating costs.

Activity-based budget

This budget lists expected costs for one or more separate activities or functions.

Target budget

This budget categorizes major revenue sources and expenditures, and matches them to specific program or project objectives.

Program budget

This budget describes revenues and expenses for program specifics, such as staff training, maintenance and community relations.

Travel budget

This budget describes the planned and expected travel-related revenues and expenses for a set period.

Human resource budget

This budget describes the planned and expected salaries, benefits and other employee-related expenses for a set period.

Training budget

This budget describes the planned and expected training-related expenses within the organization for a given period of time.

Maintenance budget

This budget describes the expected and actual costs of maintaining equipment and infrastructure over a specified period. Table 4 shows the All Nations First Nation's major maintenance budget for 2002-2003.

Budget	Square feet	Unit cost—$	# of Units	Total—$
Replace kitchen flooring	100	$3	5	$1,500
Replace living room flooring covering	240	4	5	4,800
Exterior painting	960	1.50	5	7,200
Paint kitchen—$150	100	1.60	5	800
Paint bathroom—$90	60	1.70	5	510
Paint bathroom 2—$90	60	1.80	5	540
Paint living room—$360	240	1.90	5	2,280
Paint bedroom 1—12x12 = 144x15=$216	144	1.10	5	792
Paint bedroom 2—12x10=120x15=$180	120	1.11	5	666
Paint bedroom 3—12x10=120x15=$180	120	1.12	5	672
Paint bedroom 4—12x10=120x15=$180	120	1.13	5	678
Replace bedroom 1— flooring covering	144	3	5	2,160
Replace bedroom 2—flooring covering	120	3	5	1,800
Replace bedroom 3—flooring covering	120	3	5	1,800
Replace bedroom 4—flooring covering	120	3	5	1,800
Replace bathroom 1—flooring covering	60	3	5	900
Replace bathroom 2—flooring covering	60	3	5	900
Replace roof shingles	1,100	1	3	3,300
Replace siding	1,024	125	5	6,400
Replace soffits and downspouts	1	300	5	1,500
Replace exterior doors	1	800	5	4,000
Replace interior doors	1	600	5	3,000
Replace windows	1	3,000	3	9,000
Drill new water well	1	1,500	1	1,500
Replace foot valve in water well	1	150	2	300
Replace submersible pump	1	500	2	1,000
Regravel driveway	1	300	2	600
Replace sidewalk blocks	1	300	5	1,500
Replace septic tank and tile bed	1	4,000	1	4,000
Replace refrigerator	1	600	5	3,000
Replace cook stove	1	500	5	2,500
Replace clothes washing machine	1	600	5	3,000
Replace clothes dryer machine	1	450	5	2,250
Replace dishwasher	1	350	5	1,750
Replace electric furnace	1	600	1	600
Replace gas furnace				
Replace oil furnace				

Budget	Square feet	Unit cost—$	# of Units	Total—$
Replace wood stove				
Replace water pump and controls	1	350	5	1,750
Replace sewage pump	1	450	5	2,250
Replace water pressure tank	1	150	5	750
Replace hot water tank	1	450	5	2,250
Replace kitchen exhaust fan	1	150	5	750
Replace kitchen cupboards	1	4,000	2	8,000
Replace heat recovery ventilator	1	2,000	1	2,000
Total maintenance				**96,748**
Maintenance managers $42,000 (other budget)?	1	41,933	1	41,933
Two maintenance men 36,000x2=$72,000	1	36,109	1	36,109
Material	**1**	**200**	**100**	**20,000**
Electric furnace ductwork contract	1	400	100	40,000
Roof repair	1	1,000	5	5,000
Water delivery truck, 70 units	1	120	70	8,400
Garbage truck	1	150	100	15,000
Septic truck sewage pump-out	1	50	100	5,000
Eavestrough cleaning	1	50	100	5,000
Downspout repair				0
Splash pad adjustment				0
Total				**176,442**
Grand total				**273,190**

Table 4—Major maintenance budget, 2002–2003—All Nations First Nation

Case study 3—Assessing a draft "master" budget

In this case study, you role-play either a director or a community member. The goal is to evaluate the draft budget and develop a brief statement on the organization's financial status. Be prepared to participate fully in the discussions.

Chapter Five—Ensuring accountability with accounting

Overview

Proper accounting is a fundamental and necessary part of financial management. It is based on preparing, maintaining and analyzing accurate financial records. Those records are an essential element of budget planning and development. Without actual financial records to compare budgets, budgets are of limited value.

Efficient accounting is crucial for any organization. Accounting systems hold vital information that can be used to steer the organization in the best possible direction.

One of the most important bookkeeping–accounting concepts is the fundamental accounting equation that defines the relationship between assets, liabilities and equity.

The accounting cycle represents the process of documentation of all financial transactions and the preparation of basic financial records and statements. There are four main stages of the accounting cycle.

In this Chapter you will learn

- how accounting is different from budgeting
- how accounting is used to give guidance to organizations by understanding the past
- how to identify and analyze assets, liabilities and equity in accounting terms
- how to manage the four main stages of the accounting cycle

Things to consider when reviewing this chapter

- Are proper accounting measures in place in your housing organization?
- Are you using the accounting process to give guidance to yourself and your community's senior decision makers?
- How can you improve accounting practices for your housing program and produce better information?

Section One—An overview of accounting

Financial management requires an organization to have sound accounting processes. While budgeting focuses on future activities, accounting deals with financial activities that have already taken place. As a result, accounting records are statements of fact rather than future projections.

Accounting deals with matters that have already taken place or "actual" events.

- How much was the telephone bill last month?
- How much money was spent on gas last month?
- How much did the technician charge to fix the photocopier last August?

These questions should have clear, definitive answers.

Accounting is one of the ways to determine if the budgeting process worked as planned. As such, it is a fundamental and necessary component of the financial management process.

Past performance can offer valuable insights into future performance. Accounting is based on preparing, maintaining and analyzing accurate financial records. These records are an essential element of the budget planning and development process. Without accounting records to compare to, budgets are of limited value.

Accounting systems measure what actually happened as opposed to what should have happened. They hold vital information that can steer the organization in the best possible direction. Without sound accounting, decision makers and planners would not have enough information to determine whether the organization is achieving its expected performance.

Management accounting vs. financial accounting

There are two main areas of accounting: management accounting and financial accounting. Housing Managers need to understand both.

Management accounting
Management accounting provides financial information to decision makers within the organization, generally prepared and presented for internal purposes and internal audiences only. It strives to meet internal decision making objectives and functions. This system offers managers a large toolbox that contains many valuable financial management tools.

Financial accounting
Financial accounting provides financial information to decision makers both inside and outside an organization. This system of accounting outlines the financial position of the organization to external stakeholders as well as internal managers.

Housing Managers must prepare and present financial accounting information in order to meet minimum eligibility requirements for CMHC housing programs. Financial accounting information is also required for the year-end First Nation Band-wide audit submitted every year to INAC.

Financial accounting systems and external financial reporting are legal requirement for all incorporated organizations, that is, all legal corporations. In addition, some housing organizations prepare and present financial information to the community as part of community awareness, and to ensure accountability and transparency.

> ***Exercise 8—Assessing your organization (part 3)***
>
> In this exercise, you identify and describe your organization's existing accounting practices and discuss your responses with the group.

Section Two—Introducing assets, liabilities and equity

Financial management requires managers to know how to effectively manage an organization's resources. In order to do this, managers need to understand the accounting concepts of "assets," "liabilities" and "equity."

Assets are items of value owned by an individual or organization that provide benefits to them in the future. All individuals, non-profit organizations, governments and businesses have assets. Common assets within First Nations housing organizations include the value of the housing stock, office equipment and furniture, tools, some supplies and other forms of equipment. Other common but less obvious assets are accounts receivable, cash advances, paid deposits and prepaid expenses.

Assets are crucial elements in all organizations. Organizations cannot function or exist without assets, and they cannot operate without money, office equipment and furniture.

There are two main categories of assets: "current assets" and "long-term" or "fixed" assets.

Current assets are assets that can be converted into cash within one year or the operating cycle (whichever is longer) without interfering with the normal operations of the organization. Examples of current assets include cash on hand, bank balances, accounts receivable, inventory and prepaid expenses.

An **"account receivable"** is an amount owed to the organization by customers for goods and services sold on credit.

"Prepaid expenses" are expenses paid in advance by the organization in which there is usually a portion consumed and a portion that is deferred until the next accounting period(s). The unused costs represent a current asset on the balance sheet. For instance, an insurance policy renewed one month before year-end is prepaid for 11 months. Eleven-twelfths of the premium will be recorded as an asset.

Long-term assets are assets acquired for use in the operation of the organization within an asset life considered to be two years or more (commonly referred to as fixed assets). Examples of long-term assets include land, buildings and equipment.

Total assets=total current assets+total long-term assets?

Liabilities are debts owed by the organization and represent creditors' claims against the assets of an organization. There are two main categories of liabilities: "current liabilities" and "long-term liabilities."

Current liabilities are debts or obligations that are to be paid within one year or the operating cycle (whichever is longer). Examples of current liabilities include accounts payable and the current portion of long-term debt.

"Accounts payable" are amount owed by the organization to creditors for goods and services purchased on credit. An example of an account payable is a utility bill. For instance, if the expense is incurred in May and then paid in June, the accounting records for May would show an accounts payable of the total amount owing for the utility bill.

Long-term liabilities are debts or obligations that are due in more than one year. Examples include mortgages and the long-term portion of loans.

Total liabilities=current liabilities+long-term liabilities

"Equity" is the amount of assets an organization owns and controls without a claim against it by an outside interest.

In housing organizations, equity includes the value of the housing stock minus the remaining mortgage liability and minus accumulated depreciation. Equity may also include capital grants from outside funding sources and income (both past and present) that has not been spent. Any portion of earned income that is transferred out of the organization (withdrawn) is included in the calculation of equity.

According to its financial statements, the All Nations First Nation Housing Authority has two types of equity accounts (see its balance sheet in the Appendixes for details). They are

- beginning equity
- change in equity (that is, incurring either a surplus or deficit and other changes).

Exercise 9—Identifying assets and liabilities

In this exercise, you identify your organization's assets and liabilities and discuss your responses with the other participants.

Section Three—Introducing the fundamental accounting equation

One of the most important accounting concepts is the "fundamental accounting equation." It defines the relationship between assets, liabilities and equity. According to the formula, the total value of assets must equal the combined values of liabilities and equity at all times.

Assets=liabilities+equity
The coin analogy illustrates this fundamental accounting equation. The entire coin is made up of assets, liabilities and equity. However, only one side of the coin is assets while the other side is both liabilities and equity.

The sum of liabilities and equity equals one side of the coin, exactly equal to the size of the other side of the coin (assets). In other words, the total value of assets always equals the combined total of liabilities and equity at any given time.

This fundamental accounting equation represents the basis for the "balance sheet"—the organization's statement of financial position at any time. The balance sheet, for any organization, is one of the most important financial statements that managers use for decision making and planning and control.

Another way to look at the fundamental accounting equation is to view assets as resources and the total of liabilities and equity as the source of the resources.

Assets	**equal**	**Liabilities+Equity**
Resources	**equal**	**Source of resources**
Sum of resources	**equals**	**Sum of sources**

Section Four—The accounting cycle

The accounting cycle represents the process of preparing financial statements from individual financial transactions.

There are four main stages of the accounting cycle.

Entering financial transactions into journals

This is the day-to-day level of activity, usually done by a bookkeeper.

Posting journals to appropriate accounts in general ledger

This is also a day-to-day level of activity done by a bookkeeper.

Preparing a trial balance of general ledger account balances

This is done once at a specific time, depending on the length of the accounting cycle. Depending on the organization, this is done either by a bookkeeper or accountant.

Preparing financial statements

This is done once at specific time, which depends on the length of the accounting cycle, after completion of the trial balance, by either a bookkeeper or accountant.

An organization's management sets the length of the accounting cycle—one year, one quarter, one month, one week or even one day. Usually, the accounting cycle is monthly.

Accounting and managerial decision making

Financial statements provide essential information for making decisions and planning.

Figure 2 shows how the accounting process enables decision makers to make better decisions.

Figure 2—The accounting cycle

Decision makers generally receive prepared financial statements from an accountant. This information describes the point at which budgetary planning and financial accounting meet. Financial statements show

- if the forecasts were accurate
- if the organization broke even, lost money or made money during a specific period
- the value of all assets
- insight into how the next period should be budgeted, based on the actual financial results of the previous period
- actual financial results compared to previous periods
- if there are important trends to consider in future planning

Case study 4—Assessing a failed construction project

You role-play a consultant company and work with your group to explain the likely reasons the project failed.

Chapter Six—Keeping financial operations on track with audits

Overview

An audit examines accounting records and statements to protect against fraud or error and to ensure that the financial statements have been prepared in accordance with "generally accepted accounting principles (GAAP)".

Funders, boards of directors and managers use audits to monitor and control accounting when they consider it necessary to more fully examine an organization's financial operations.

In this Chapter you will learn

- how audits are used as financial management tools
- why audits are necessary
- the purposes of internal audits
- the purposes of external, or investigative, audits

Things to consider when reviewing this Chapter

- How can audits help you better manage your organization's finances?

Section One—An overview of auditing

An audit is an examination of accounting records and statements. An audit is conducted to protect against fraud or error and to ensure that the financial statements have been prepared in accordance with "generally accepted accounting principles (GAAP)". Audits are used to monitor and control the accounting process.

There are two types of audits.

Internal audits
Internal audits are continuous and conducted by managers, accountants and other staff.

External audits
External audits are periodic and conducted by external auditors—people who are not employees of the organization.

Funders, boards of directors and managers use audits if they feel one is needed to assist in the organization's decision-making process. Often, funders require a yearly external audit to ensure the accuracy of the financial statements.

Audits can also be investigative. An investigative audit is used if there is a belief that there has been improper financial management. But in most instances, the decision to have an internal or external audit is based on a desire to evaluate and improve financial operations and performance.

Section Two—Internal audits

Some large organizations have specific staff who regularly conduct internal audits. These people report directly to senior management and or the board of directors. Most small organizations, such as First Nation housing organizations, do not have the financial resources to employ internal auditing staff or even to hire someone temporarily to conduct an internal audit. Instead, they may establish an internal auditing committee that probably includes the manager and a member of the governing board.

Generally, managers should audit the budgeting and accounting systems and the budgeting and accounting policies and procedures. Manager audits help protect against embezzlement and identify and help eliminate honest errors.

To minimize time and effort, manager audits should be periodic, random samples of financial records. The key to an audit is the "audit trail"—the tracking of individual financial transactions from original source documents, such as receipts, invoices and cancelled cheques, to other accounting records, such as journals, ledger and financial statements. Random sample reviews will determine whether the proper forms are being used, if information is being accurately recorded and if signatures are complete and authentic.

Section Three—External audits

External audits are an evaluation of an organization's completed financial statements by an independent auditor—someone not employed by the organization. The role of the external auditor has two fundamental components:

1. an independent, unbiased and professional perspective
2. a professional opinion on the fairness and accuracy of the financial statements according to generally accepted accounting and auditing standards.

The auditor's report is an opinion based on a judgment. It is not a guarantee that the financial statements fairly represent an organization's financial performance.

The external auditor usually presents the audit findings in three standard paragraphs:

Paragraph 1—identifies the organization, the financial statements reviewed and date. The paragraph says that preparing the statements is management's responsibility and that the auditor's responsibility is to express an opinion about them.

Paragraph 2—outlines what the auditors did to enable them to express an opinion, stating that they followed generally accepted auditing standards in assessing the accounting principles and estimates used by management.

Paragraph 3—states what the auditor's opinion is concerning the fairness of the financial statements and whether they meet GAAP.

Sometimes smaller organizations (usually smaller companies) have a "review" to validate their financial statements and practices. In a review, a professional accountant examines the financial statements and conducts more limited verification on certain transactions. Instead of an auditor's report, there is a letter stating that something less than an audit has been conducted.

In these cases, it is important to read the letter carefully to properly understand exactly what has been reviewed and how much assurance and reliability the accountant is offering.

In many cases, an organization has financial statements that are neither audited nor reviewed. The reliability of these statements depends entirely on the reader's confidence in the people who prepared the statements.

Yearly external audits are mandatory for First Nations and Administrations. First Nations housing organizations are part of these external audits. Housing Managers need to understand external auditing processes to help facilitate the auditing requirements. Housing Managers should also be aware of internal auditing processes as an additional financial control tool.

Exercise 10—Assessing your organization (Part 4)

In this exercise, you describe your organization's auditing practices and discuss your responses with the group.

Case study 5—Responding to a politically sensitive issue

In this exercise, you work in a small group and prepare an internal briefing document for Chief and Council on fireproofing the community. Be prepared to present a group report on your briefing and to discuss it with the other participants.

Summary

Housing Managers must manage different financial activities to provide high-quality, well-maintained housing units and related facilities for First Nation communities. Learning how to recognize the tools and techniques to control the financial affairs of the First Nation's housing programs, projects and activities is the first step towards gaining the skills you need to develop and administer budgets and related financial programs.

Appendix 1—All Nations First Nation Housing Authority financial statement

Annual statement of financial position as of March 31, 1997–1998 to 2001–2002

	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Current assets					
Accounts receivable	1,617.31	15,520.61	24,025.62	14,105.26	1,841.42
Cash on hand	621.95	417.90	555.50	300	250.37
Bank balance	11,190.88	13,392.25	26,670.99	17,524.48	32,723.11
Prepaid expenses	2,614.55	4,357.37	1,179.20	2,411.14	1,586.29
Total current assets	16,044.69	33,688.14	52,431.31	34,340.87	36,401.19
Long-term assets					
Housing stock (INAC)	3,259,098	3,259,098	3,259,098	3,259,098	3,259,098
Housing stock (CMHC)	824,051	1,251,000	1,251,000	1,251,000	1,251,000
Less: accumulated de preciation	1,343,040	1,485,960	1,628,880	1,771,800	1,914,720
RR fund (CMHC only)	77,797.04	49,186.89	60,416.23	72,207.05	83,087.40
Total long-term assets	2,817,906.04	3,073,324.89	2,941,634.23	2,810,505.05	2,678,465.40
Total assets	**2,833,950.73**	**3,107,013.03**	**2,994,065.54**	**2,844,845.92**	**2,714,866.59**
Current liabilities					
Accounts payable	13,072.76	18,518.82	28,300.91	35,765.22	38,071.07
Current portion of long-term debt	114,889.29	94,958.10	96,586.64	96,784.34	92,981.16
Total current liabilities	127,962.05	113,476.92	124,887.55	132,549.56	131,052.23
Long-term liabilities					
Loans payable: CMHC	721,740.83	1,048,394.71	1,007,918.49	967,888.89	929,676.08
Total long-term liabilities	721,740.83	1,048,394.71	1,007,918.49	967,888.89	929,676.08
Total liabilities	**849,702.88**	**1,161,871.63**	**1,132,806.04**	**1,100,438.45**	**1,060,728.31**
Equity					
Beginning	2,185,736.73	1,984,247.85	1,945,141.39	1,861,259.50	1,744,407.48
Change in equity					
Surplus (deficit)	(160,480.32)	(179,106.72)	(150,528.15)	(178,949.62)	(146,129.08)
Other	(41,008.56)	140,000.26	66,646.27	62,097.59	55,859.88
Total equity	1,984,247.85	1,945,141.39	1,861,259.50	1,744,407.48	1,654,138.28
Total liabilities and equity	**2,833,950.73**	**3,107,013.03**	**2,994,065.54**	**2,844,845.92**	**2,714,866.59**

Annual income statement, 1997–1998 to 2001–2002

	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Revenues					
Rent (CMHC only)	58,480.08	59,979.57	83,839.99	85,989.74	88,194.60
Subsidy Section 95 (CMHC only)	85,470	86,625	114,740	117,877	117,730
RRAP, Pathway, HRSDC, and others	14,720	15,200	15,200	15,200	15,680
Band contribution to audit	3,760	3,760	3,760	3,840	3,840
Other allocated revenues	200,000	200,000	25,000		25,000
Total revenues	**362,430.08**	**365,564.57**	**242,539.99**	**222,906.74**	**250,444.60**
Expenses					
Administration costs	166,256	177,338	56,547	56,962	58,501
Insurance expense	75,810	75,810	85,100	82,300	84,400
Interest expense (mortgages)	101,572.95	95,363.69	52,419.10	55,629.26	53,581.21
Bad debt expense (unpaid rent)	3,985.45	1,083.60	11,330.05	13,214.09	3,949.47
Incentives	25,745	26,125	27,900	28,500	29,300
General maintenance (janitorial)	11,875	12,065	12,953	13,019	13,121
Miscellaneous	5,414	13,966	3,899	9,312	10,801
Depreciation expense	132,252	142,920	142,920	142,920	142,920
Total expenses	**522,910.40**	**544,671.29**	**393,068.15**	**401,856.35**	**396,573.68**
Surplus (deficit)	**(160,480.32)**	**(179,106.72)**	**(150,528.15)**	**(178,949.62)**	**(146,129.08)**
Adjusted	**(24,242.87)**	**(35,103.12)**	**3,721.89**	**(22,815.53)**	**740.39**
%	**-4.64%**	**-6.44%**	**0.95%**	**-5.68%**	**0.19%**

Annual cash flow statement, 1997–1998 to 2001–2002

	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Total CEC (beginning)	13,249.11	11,812.83	13,810.15	27,226.49	17,824.48
Bank balance (beginning)	12,689.35	11,190.88	13,392.25	26,670.99	17,524.48
Cash on hand (beginning)	559.76	621.95	417.90	555.50	300
Operating					
Surplus (deficit)	(160,480.32)	(179,106.72)	(150,528.15)	(178,949.62)	(146,129.08)
Add: depreciation expense	132,252	142,920	142,920	142,920	142,920
Add: accounts payable	6,536.38	5,446.06	9,782.08	7,464.31	2,305.86
Add: bad debt expense	3,985.45	1,083.60	11,330.05	13,214.09	3,949.47
Subtract: accounts receivable	808.66	13,903.30	8,505.01	(9,920.36)	(12,263.84)
Subtract: prepaid expenses	1,307.28	1,742.82	(3,178.17)	1,231.93	(824.84)
Total operating cash flow	**(19,822.42)**	**(45,303.17)**	**8,177.13**	**(6,662.79)**	**16,134.94**
Cash receipts (other)					
Loan proceeds received		426,949			
Annual capital allocation	218,200	224,315	229,850	236,970	242,953
Transfer in from RRF	7,500	49,250	14,726	14,730	16,230
Total receipts (other)	225,700	700,514	244,576	251,700	259,183
Total cash receipts and OCF	**205,877.58**	**655,210.83**	**252,753.13**	**245,037.21**	**275,317.94**
Cash disbursements (other)					
Loan principal paid	6,573.90	19,525.60	40,562.06	37,351.90	39,399.95
Payment to RRF	20,014.15	20,639.85	25,955.34	26,520.82	27,110.35
Capital expenditures (new units)		426,949			
Capital expenditures (R and M)	133,915	162,525	164,968	173,111	176,009
Capital expenditures (emergency repair)	46,873	23,370	7,989	17,200	17,600
Total cash disbursements (other)	**207,376.05**	**653,009.45**	**239,474.40**	**254,183.72**	**260,119.30**
Total CEC (ending)	11,812.83	13,810.15	27,226.49	17,824.48	32,973.48
Bank balance (ending)	**11,190.88**	**13,392.25**	**26,670.99**	**17,524.48**	**32,723.11**
Cash on and (ending)	**621.95**	**417.90**	**555.50**	**300**	**250.37**
Net change	**(1,436.28)**	**1,997.33**	**13,416.33**	**(9,402.01)**	**15,149.01**

Annual loan payment schedule, 1997–1998 to 2001–2002

	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002
Loan Payments					
Principal paid	10,640.73	19,525.60	42,539	40,957.38	43,203.13
Interest paid	101,572.95	95,363.69	52,419.10	55,629.26	53,581.21
Principal and interest	112,213.68	114,889.29	94,958.10	96,586.64	96,784.34

Annual capital expenditures, 1997–1998 to 2001–2002

	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002
Capital expenditures					
Additions to stock (5 CMHC units)		426,949			
Improvements to stock (R and M)	133,915	162,525	164,968	173,111	176,009
Emergency repair	46,873	23,370	7,989	17,200	17,600
Transfer to RRF	20,014.15	20,639.85	25,955.34	26,520.82	27,110.35
Total expenditures	**200,802.15**	**633,483.85**	**198,912.34**	**216,831.82**	**220,719.35**
Source of funds for capital expenditures					
Loan proceeds (CMHC)		426,949			
RRF transfer to capital exp.	7,500	49,250	14,726	14,730	16,230
Annual capital budget allocation	218,200	224,315	229,850	236,970	242,953
Total source of funds	**225,700**	**700,514**	**244,576**	**251,700**	**259,183**
Balance	**24,897.85**	**67,030.15**	**45,663.66**	**34,868.18**	**38,463.65**

Annual rent collection statement, 1997–1998 to 2001–2002

	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Rental Income	58,480.08	59,979.57	83,839.99	85,989.74	88,194.60
Tenant portion	19,253.70	19,747.39	34,323.46	35,203.55	36,106.20
Shelter allowance portion	39,226.38	40,232.18	49,516.54	50,786.19	52,088.40
Rent collected	56,862.77	44,458.96	59,814.37	71,884.48	86,353.18
% collected from tenants	0.916	0.921	0.942	0.947	0.949
Transfer (shelter allow.) -%	1	0.653	0.555	0.759	1
Accounts receivable	1,617.31	15,520.61	24,025.62	14,105.26	1,841.42
Amount collected (accounts receivable)	3,421.50	533.71	4,190.56	10,811.53	10,155.79
Bad debt expense	3,985.45	1,083.60	11,330.05	13,214.09	3,949.47

Annual administration expenditure statement, 1997–1998 to 2001–2002

	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Administration expenses					
Wages and benefits	144,276	144,276	42,311	42,311	42,311
Office supplies	714	780	961	854	859
Bank charges	505	411	428	449	473
Postage expenses	851	867	1,017	968	989
Printing costs	836	904	1,187	1,082	1,229
Honorariums	1,663	2,004	4,437	4,978	5,657
Telephone expense	3,491	4,488	2,391	2,911	2,401
Travel expense	10,474	18,088	2,786	2,660	2,685
Training expense					
Other	3,446	5,520	1,029	749	1,897
Total expenses	**166,256**	**177,338**	**56,547**	**56,962**	**58,501**

Appendix 2—Budget statements—All Nations First Nation Housing Authority

Budgeted annual balance sheet, 2002–2003 to 2006–2007

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
			Assets		
Current assets					
Accounts receivable	1,851.60	1,976.96	2,923.20	1,198.52	1,228.48
Cash on hand	621.95	417.90	555.50	300	250.37
Bank balance	11,190.88	13,392.25	26,670.99	17,524.48	32,723.11
Prepaid expenses	2,023.13	2,115.03	2,298.58	2,325.16	2,330.60
Total current assets **Long-term assets**	**15,687.56**	**17,902.14**	**32,448.27**	**21,348.15**	**36,532.57**
Housing stock (INAC)	3,259,098	3,259,098	3,259,098	3,259,098	3,259,098
Housing stock (CMHC)	1,251,000	1,805,144	1,805,144	1,805,144	1,805,144
Less: acc. depreciation	2,057,640	2,214,408	2,371,176	2,527,944	2,684,712
RR fund (CMHC units)	103,241.77	5,493.86	20,288.55	37,322.98	51,459.13
RR fund (INAC units)					
Total long-term assets	**2,555,699.77**	**2,855,327.86**	**2,713,354.55**	**2,573,620.98**	**2,430,989.13**
Total assets	**2,571,387.33**	**2,873,230**	**2,745,802.82**	**2,594,969.13**	**2,467,521.70**
			Liabilities		
Current liabilities					
Accounts payable	26,300.70	23,265.35	20,687.26	16,276.13	11,653.02
Current portion of long-term debt	92,981.16	131,656.32	131,656.32	131,656.32	131,656.32
Total current liabilities **Long-term liabilities**	**119,281.86**	**154,921.67**	**152,343.58**	**147,932.45**	**143,309.34**
Loans payable: CMHC	894,602.63	1,388,199.74	1,338,801.41	1,272,425.33	1,205,401.14
Total long-term liabilities	**894,602.63**	**1,388,199.74**	**1,338,801.41**	**1,272,425.33**	**1,205,401.14**
Total Liabilities **Equity**	**1,013,884.49**	**1,543,121.41**	**1,491,144.99**	**1,404,081.65**	**1,348,710.48**
Beginning	1,654,138.28	1,557,502.84	1,330,108.59	1,254,657.83	1,190,887.48
Change in equity					
Surplus (deficit)	(128,590.12)	(129,654.34)	(104,789.82)	(105,559.32)	(101,966.76)
Other	31,954.69	(97,739.91)	29,339.06	41,788.97	29,890.50
Total equity	**1,557,502.84**	**1,330,108.59**	**1,254,657.83**	**1,190,887.48**	**1,118,811.22**
Total liabilities and equity	**2,571,387.33**	**2,873,230**	**2,745,802.82**	**2,594,969.13**	**2,467,521.70**

Budgeted annual income statement, 2002–2003 to 2006–2007

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Revenues					
Rent (CMHC only)	90,456	96,580	118,663	121,630	124,671
Subsidy Section 95 (CMHC only)	117,580	127,072	164,821	164,614	164,424
RRAP, Pathway, HRSDC, and others	16,000	16,400	16,810	17,230	17,661
Band contribution to audit	4,000	4,100	4,203	4,308	4,415
Other allocated revenues	48,000	49,200	50,430	51,691	52,983
Total revenues	**276,036**	**293,352**	**354,927**	**359,473**	**364,154**
Expenses					
Administration costs	60,000	62,013	66,189	67,844	69,540
Insurance expense	86,600	89,505	95,533	97,922	100,370
Interest expense (mortgages)	51,420.84	49,142.02	71,109.43	70,778.68	67,485.06
Bad debt expense (unpaid rent)	368.28	370.32	395.39	584.64	239.70
Incentives	30,000	31,006	33,095	33,922	34,770
General maintenance (janitorial)	13,300	13,500	13,675	13,900	14,150
Miscellaneous	20,017	20,702	22,952	23,313	22,798
Depreciation expense	142,920	156,768	156,768	156,768	156,768
Total expenses	**404,626.12**	**423,006.34**	**459,716.82**	**465,032.32**	**466,120.76**
Surplus (deficit)	**(128,590.12)**	**(129,654.34)**	**(104,789.82)**	**(105,559.32)**	**(101,966.76)**
%	-31.78%	-30.65%	-22.79%	-22.70%	-21.88%
Adjusted	14,698.16	27,483.98	52,373.57	51,793.32	55,040.94
%	3.63%	6.50%	11.39%	11.14%	11.81%

Annual budgeted cash flow statement, 2002–2003 to 2006–2007

	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
Total CEC (beginning)	32,973.48	29,815.14	42,619.82	49,932.61	57,297.57
Bank balance (beginning)	32,723.11	29,564.14	42,308.77	49,512.61	57,097.07
Cash on and (beginning)	250.37	251	311.05	420	200.50
Operating					
Surplus (deficit)	(128,590.12)	(129,654.34)	(104,789.82)	(105,559.32)	(101,966.76)
Add: depreciation expense	142,920	156,768	156,768	156,768	156,768
Add: accounts payable	(11,770.38)	(3,035.35)	(2,578.09)	(4,411.13)	(4,623.11)
Add: bad debt expense	368.28	370.32	395.39	584.64	239.70
Subtract: accounts receivable	1,851.60	1,976.96	2,923.20	1,198.52	1,228.48
Subtract: prepaid expenses	436.84	91.90	183.55	26.58	5.44
Total operating cash flow	**639.35**	**22,379.77**	**46,688.72**	**46,157.10**	**49,183.90**
Cash receipts (other)					
Loan proceeds received		554,144			
Annual capital allocation	250,342	256,552	263,087	269,534	275,328
Transfer in from RRF	160,870	160,870	170,000	171,400	143,250
Total receipts (other)	411,212	971,566	433,087	440,934	418,578
Total cash receipts and OCF	**411,851.35**	**993,945.77**	**479,775.72**	**487,091.10**	**467,761.90**
Cash disbursements (other)					
Loan principal paid	41,560.32	43,839.14	60,546.89	60,877.64	64,171.26
Payment to RRF	187,870	191,078	206,250	207,650	179,500
Capital exp. (new units)		554,144			
Capital expenditures (R&M)	167,500	173,445	185,825	190,535	195,430
Capital exp. (emergency repair)	18,080	18,695	19,950	20,444	20,958
Total cash disbursements	**415,010.32**	**981,201.14**	**472,571.89**	**479,506.64**	**460,059.26**
Total CEC (ending)	**29,815.14**	**42,619.82**	**49,932.61**	**57,297.57**	**65,149.81**
Bank balance (ending)	29,564.14	42,308.77	49,512.61	57,097.07	64,799.71
Cash on and (ending)	251	311.05	420	200.50	350.10
Net change	**(3,158.34)**	**12,804.68**	**7,312.78**	**7,364.96**	**7,852.24**

Annual capital budget, 2002–2003 to 2006–2007

	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
Capital expenditures					
Additions to stock					
(5 units)		554,144			
Improvements to stock (R and M)	167,500	173,445	185,825	190,535	195,430
Emergency repair	18,080	18,695	19,950	20,444	20,958
Transfer to RRF	187,870	191,078	206,250	207,650	179,500
Total expenditures	**373,450**	**937,362**	**412,025**	**418,629**	**395,888**
Source of funds					
Loan proceeds		554,144			
RRF transfer to capital exp.	160,870	160,870	170,000	171,400	43,250
Annual capital budget allocation	250,342	256,552	263,087	269,534	275,328
Total source of funds	411,212	971,566	433,087	440,934	418,578
Balance	37,762	34,204	21,062	22,305	22,690

Annual administration budget, 2002–2003 to 2006–2007

	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
Administration expenses					
Wages and benefits	42,500	42,575	42,700	42,950	43,300
Office supplies	870	890	915	940	985
Bank charges	500	505	512	520	530
Postage expenses	1,000	1,025	1,040	1,070	1,110
Printing costs	1,250	1,280	1,320	1,365	1,420
Honorariums	5,600	5,600	5,600	6,000	6,000
Telephone expense	2,700	2,750	2,800	2,850	2,900
Travel expense	3,000	3,000	3,300	3,300	3,600
Training expense	500	1,500	1,500	1,500	1,500
Other	2,080	2,888	6,502	7,349	8,195
Total expenses	**60,000**	**62,013**	**66,189**	**67,844**	**69,540**

Annual rent receipts budget, 2002–2003 to 2006–2007

	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
Rental income	90,456	96,580	118,663	121,630	124,671
Tenant portion	37,032	39,539.12	58,464.03	59,925.84	61,424.10
Shelter allowance portion	53,424	57,040.88	60,198.97	61,704.16	63,246.90
Rent collected	88,604.40	94,603.04	115,739.80	120,431.48	123,442.52
% from tenants	0.95	0.95	0.95	0.98	0.98
% Transfer (shelter allowance)	1	1	1	1	1
Accounts receivable	1,851.60	1,976.96	2,923.20	1,198.52	1,228.48
Amount collected (accounts receivables)	1,473.13	1,481.28	1,581.56	2,338.56	958.81
Bad debt expense	368.28	370.32	395.39	584.64	239.70

First Nations Housing Manager Training Program

INTRODUCTION TO FINANCIAL MANAGEMENT

PARTICIPANT'S WORKBOOK

TABLE OF CONTENTS

Exercise 1—Participant introductions

In this exercise, you introduce yourself to the other Workshop participants and tell them something about yourself. The other participants will do the same thing.

There are many ways for members of a group to introduce themselves to each other. Your facilitator will give you directions about the introduction activity for this Workshop.

Use the space below for notes about the other participants.

Exercise 2—Participants' expectations

In this exercise, you set out your expectations for this Workshop.

In the space below, list what you hope to achieve or learn in this Workshop. Once you have listed your expectations, we will share them with the group. Your facilitator will write them on the flip chart and post them in the classroom so that we can refer to them throughout the course.

To list your expectations, answer the following question:

"This was a great Workshop because I learned . . .

Exercise 3—Assessing your knowledge

1. Please list the different types of financial management activities–functions that you have engaged in over the past 12 months.

2. What was your role in each of these functions–activities?

3. What was the purpose and what was achieved through your involvement?

4. In your opinion, what are your strong points in financial management?

5. What areas would you like to improve?

Case study 1—Analyzing financial statements

Background

Participants will role-play as Directors of the Board of the All Nations First Nation Housing Authority at an open meeting. Each Director has equal status. The facilitator will act as Board chair.

This is a regularly scheduled Board meeting. The purpose of this meeting is to evaluate the Authority's most recent financial statements (see the five-year financial statements for the All Nations First Nation Housing Authority in Appendix 1 of the Participants' manual). The community is expecting major decisions at this meeting.

Fictitious financial statements have been prepared for each Board member for this case study. Unfortunately, there is no other source of information about the Authority's finances. Directors are usually responsible—and potentially liable—for an organization's finances.

The new Housing Manager, an ex officio (cannot vote) member of the Board, called in sick at the last minute.

Assignment

Participants will play roles as Board members or as interested—and vocal—community member. The Directors and community members are to openly evaluate the financial statements of the All Nations First Nation Housing Authority.

If the facilitator does not assign you a role as a Director, you will act as an interested and vocal community member. The facilitator, acting as the Board chair, will ensure that every member of the community has a chance to participate in the discussion. However, only the Directors can vote.

The outcome will be a brief statement by the Board about the financial status of the organization. If there are still differences of opinion on this issue (a lack of consensus), then the Board will have to vote formally. The opinion of the majority will be expressed within all Board decisions including any resolutions passed.

Exercise 4—Assessing your organization (part 1)

Complete the chart.

Financial management tool	Used? (y/n)	Used by . . .	When?

Exercise 5—Assessing your organization (part 2)

Complete the chart by identifying people or positions with a role or responsibility in financial management.

Person/position	Function or duties	Reports to . . .

Case study 2—Rent collection

Background

The Housing Authority of the All Nations First Nation passed a motion January 15, 2002 giving the Housing Manager authority to take all necessary and reasonable steps to improve rent collection for its 20 CMHC-funded units. Current guidelines require employed residents living in CMHC-funded housing to pay a set, monthly rent. Rent collection has been sporadic in the past, depending on

- strength of policies concerning the payment of rent by employed residents
- willingness or ability of tenants to voluntarily and regularly pay rent
- the Housing Manager's willingness to be aggressive in collecting rents
- willingness of the Housing Authority and Chief and Council to fully support the Housing Manager's rent collection activities

Only six of the 20 residents who are required to pay rent actually provide on time. Two are consistently late; only pay after several requests and then do not provide full amount owed. The remaining 12 tenants are on social assistance and do not pay rent.

The new Housing Manager wants all the residents who must pay rent to provide the full amount on time on a regular basis. The Housing Manager also wants to collect the unpaid rent for last six months.

After contacting the tenants who must pay rent, the Housing Manager hasn't been able to increase the number paying rent. Tenants have responded to requests for rent by

- saying they will pay the rent as soon as they have the money to do so
- saying they won't pay their rent until all the tenants who must pay rent actually pay
- suggesting they will quit their jobs so they won't have to pay rent
- complaining to Housing Authority directors that they are being harassed by the Housing Manager
- complaining to the Chief and Councillors that they are being harassed by the Housing Manager
- threatening the Housing Manager
- complaining that housing is a treaty right
- complaining that the people on social assistance have good or better options for housing, so why should they work?

Since the new Housing Manager has contacted all the tenants, those who were already paying their rent regularly are complaining about paying rent when others are refusing to pay rent. Some have complained directly to the Housing Manager. A few are complaining to Housing Authority directors and the Chief and Council.

The Housing Manager is concerned that some of the residents who have been paying their rent regularly will stop paying until everyone who must pay rent actually does pay rent.

Assignment

Working in small groups of two or three, draft options on ways to deal with the situation.

Each option should include the following

- a description of the strengths and weaknesses of each option
- identification of the best option and the main reason(s) why it was chosen
- a general action plan with a brief description of the following
  - important timelines
  - main roles and responsibilities
  - key activities

Select one representative to present your options, the option your group prefers and your action plan to the whole group.

Exercise 6—Budgeting your resources (part 1)

Make a list of the kinds of resources (financial and non-financial) needed to operate your organization.

Resource	Type	Purpose of the resource

Identify the cost and source of these resources.

Resource	Estimated cost	Source

Exercise 7—Budgeting your resources (part 2)

Make a list of the kinds of resources (financial and non-financial) needed to construct a five-unit housing project.

Resource	Type	Purpose of the resource

Identify the cost and source of these resources.

Resource	Estimated cost	Source

Case study 3—Assessing a draft "master" budget

Background

Participants will role-play as Directors of the Board of the All Nations First Nation Housing Authority at an open meeting. Each Director has equal status. The facilitator will act as Board chair.

The Board of Directors is holding a regularly scheduled meeting. At the meeting, the Board will critically evaluate the five-year budgeted financial statements and decide whether to approve the draft budget. (See the five-year financial statements for the All Nations First Nation Housing Authority in Appendix 1 of the *Participants' manual*.)

Each member of the Board will receive a copy of the financial statements. Unfortunately for Board members, there is no source of information other than the completed budget.

The new Housing Manager, an ex officio (cannot vote) member of the Board, called in sick at the last minute. The Housing Manager drafted the budget.

Assignment

Participants will play roles as Board members or as interested—and vocal—community member. The Directors and community members are to openly evaluate the financial statements of the All Nations First Nation Housing Authority.

If the facilitator does not assign you a role as a Director, you will act as an interested and vocal community member. The facilitator, acting as the Board chair, will ensure that every member of the community has a chance to participate in the discussion. However, only the Directors can vote.

The final product will be a brief statement by the Board on the financial status of the organization. If there are still differences of opinion on this issue (a lack of consensus), then the Board will have to undertake a formal vote.

Exercise 8—Assessing your organization (part 3)

1. Identify and describe your organization's bookkeeping and accounting procedures.

2. Describe how bookkeeping and accounting information is used, and identify the people who use this information.

3. Identify the people in your organization responsible for ensuring that bookkeeping and accounting are done.

Exercise 9—Identifying Assets and Liabilities

1—Identify all assets in your organization. Determine which are current assets and which are fixed assets.

Asset	Current asset	Fixed asset

2—Identify all liabilities in your organization. Determine which are current liabilities and which are long-term liabilities.

Liability	Current liability	Long-term liability

Case study 4—Assessing a failed construction project

Background

The North Star First Nation, a community neighbouring All Nations First Nation and a member of the same Tribal Council, has just seen one of its most important housing projects fail. The Chief and Council, wanting to make sure that this does not happen again, has hired a consulting team to evaluate the situation and make recommendations.

Highlights of the failed project include:

- The proposed construction of 15 housing units was not completed within the short construction season as planned) and, as a result, will have to be left until the next spring.
- Cost overruns of a significant nature (Joe's Construction Co., an outside company, refused to continue work until the North Star First Nation Housing Authority paid its latest invoice). Total invoices to date are 15 per cent over the original budget.
- The Housing Authority and Joe's Construction Co. disagree about the terms of the contract. Joe's Construction Co. believes that a specific contract clause allowed it to make additional billings under specific circumstances. The Housing Authority disagrees. Part of the contract—the original agreement—is written but part of it is not—a telephone conversation that amended the contract. The Housing Authority claims that the amended contract did not have the specific clause. Both parties are considering legal action.
- Seven apprentice carpenters from the community have not been paid for a month because of a cash shortage.
- A preliminary estimate from another construction company says that completion of the project will result in total costs three times higher than originally scheduled.
- Financial records for the period are not complete—there are time gaps, signs of poor recording methods, missing receipts and invoices and so on.

Assignment

Working in groups of two to three, take the role of the members of the consulting company and work together to develop likely reasons why the project failed so badly. Suggest practical methods to ensure that such a situation does not arise again. Select one of your group to summarize the briefing document for the whole group.

Exercise 10—Assessing your organization (part 4)

1. Identify and describe the auditing procedures in your organization.

2. Describe how auditing information is used and identify the people who use this information.

3. Identify those in your organization responsible for ensuring that auditing is done

Case study 5—Responding to a politically sensitive issue

Background

House fires have always been a problem in the All Nations First Nation community. On average, there are two fires a year that destroy houses. In many cases, lives are lost. Unreported smaller fires occur more frequently.

On March 10, 2002, the Chief and Council held a news conference asking for an immediate grant of $1,000,000 to improve the community's fire prevention.

Within three days of the news conference, a major regional newspaper published an article saying that three years previously, the federal government provided $150,000 for a community fireproofing program.

The current Chief's brother was the Housing Manager at the time and is now a member of Council. Band files have no record of a federal government grant or loan for a fireproofing program.

To respond to the newspaper article, the Chief asked the new Housing Manager to brief him and Council on how the money was spent. He has asked for a two-part, written report for internal use

1. a summary of how the $150,000 was spent
2. three options for spending the $1,000,000 on fireproofing

Assignment

Working in groups of two to three, take the role of the members of the consulting company and work together to develop likely reasons why the project failed so badly. Suggest practical way to ensure that such a situation does not arise again. Select one of your group to summarize the briefing document for the whole group.

Exercise 11—Workshop evaluation

1. List the three things you liked best about this Workshop.
    - ______________________________
    - ______________________________
    - ______________________________

2. List the three things you liked least about this Workshop.
    - ______________________________
    - ______________________________
    - ______________________________

3. How would you rate the *Participant's Manual* and *Participant's Workbook* for the Workshop?

	Very useful	**Satisfactory**	**Not very useful**
Usefulness	❑	❑	❑
Completeness	❑	❑	❑
Relevance to your own job	❑	❑	❑

Comments ______________________________

____

4. Do you think you will use the materials for reference after the Workshop? ❑ Yes ❑ No

5. How would you rate the facilitator for this Workshop?

	Excellent	**Very good**	**Good**	**Fair**	**Poor**
Knowledge of subject	❑	❑	❑	❑	❑
Style of presentation	❑	❑	❑	❑	❑
Ease of understanding	❑	❑	❑	❑	❑
Relevance of presentations	❑	❑	❑	❑	❑

Comments ______________________________

____

6. How would you rate your own participation in this Workshop?

	Excellent	Very good	Good	Fair	Poor
Attendance at Workshop	❑	❑	❑	❑	❑
Reading of materials	❑	❑	❑	❑	❑
Participation in discussions	❑	❑	❑	❑	❑
Completion of exercises	❑	❑	❑	❑	❑
Understanding of material	❑	❑	❑	❑	❑

Comments ____

____

7. What do you think could be done to improve this Workshop?

____

____

____

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____

8. How would you rate the length of this Workshop?

	Too long	Just right	Too short
Length of Workshop	❑	❑	❑

Comments ____

____

9. Would you recommend this Workshop to others? ❑ Yes ❑ No

Why? ____

____

10. Are you interested in taking other Workshops in the First Nations Housing Manager Training Program?

❑ Yes ❑ No

11. If you are interested in taking other Workshops in the First Nations Housing Manager Training Program, what subjects interest you the most?

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12. General comments about the Workshop.

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Notes