



## Chapter 2

### FINANCIAL ADMINISTRATION

## Policies and Procedures

Your Board is responsible for the financial health of the organization. As a result, Board members need to:

- Establish sound financial operating policies and procedures for effective control of finances for your organization and housing portfolio.
- Prepare an operating budget for each housing development in the portfolio.
- Regularly review the financial affairs and performance of your organization and housing portfolio.

Your financial policies provide the framework for making decisions and defining the objectives you want to achieve, while procedures explain how financial activities will occur.

The organization needs financial policies and procedures to cover spending authority, rent or housing charge payments and arrears, security deposits or membership shares, financial record keeping, marketing to minimize vacancy loss, and purchasing goods and services. Some sample policies include:

- The Board will approve budgets, and review financial performance on a regular basis to ensure the organization does not overspend. In co-ops, the Board recommends budget approval to the general membership.
- Purchase requisitions will be used to order goods and services, with specific amounts defined for verbal quotes, written quotes and public tenders.
- Spending authority limits will be defined for staff and Board members.

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For more information on developing policies, refer to the *Governance Guide* in this Housing Provider Kit, or contact the BC Non-Profit Housing Association (BCNPHA) at 604-527-8859 or 1-800-494-8859 to obtain a copy of their Policy Template Manual. Housing co-ops can contact the Co-operative Housing Federation of BC at 604-879-5111 or 1-866-879-5111. The CHF BC offers workshops on policy development, and has a resource library with many sample policies.

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## Review Financial Performance

Regular review of financial reports, such as the income statements with budget comparisons, arrears report, cash report and rent/housing charge losses, will enable you to assess the organization's financial performance, and to investigate and act on any significant or unexplained variances from the budget.

You can contact the BCNPHA or the CHF BC to arrange financial management training.

## Cash Flow Analysis

### a) CASH FLOW PROJECTIONS

Cash flow projections predict the amount of cash your organization has available each month compared to the amount you need to pay bills. If you have more cash than bills, your cash flow is positive. If you have more bills than funds, cash flow is negative. You need to regularly review projected revenues and expenses to:

- Identify potential periods of negative cash flow.
- Take action to avoid shortfalls.
- Accurately modify your monthly cash flow budget.
- Ensure you have enough cash to pay bills and salaries.

### b) CASH FLOW PROBLEMS

Non-profits and co-ops may encounter cash flow problems when expenses are higher than anticipated, or income is received later than it's needed. For example:

- Your twelve-month budget period starts in January, but you received a property tax bill at the beginning of July for the entire year.
- You have an unfunded budget deficit from the previous year, because some time elapsed between submitting your financial statements and having the statements reviewed.
- Your subsidy is based on annual projected operating costs and you have spent more than the amount budgeted.

### c) CASH FLOW PLANNING

Prepare cash flow projections for the coming fiscal year, and update your monthly projections throughout the year. Present cash flow information to the Board of Directors for regular review. Pay particular attention to months where expenses exceed revenues or they are almost identical. Negative cash flows can occur when revenue and expenditures are almost the same, because unexpected expenses can cause a negative cash flow during these months.



## **d) ADDRESSING CASH SHORTFALLS**

Your Board and management staff should plan actions enough in advance to address periods when you may experience negative cash flow problems.

Here are some possible strategies you can use to plan for and address cash flow problems:

- Postpone major purchases, hiring new staff, or increasing wages.
- Set up instalment payment schedules for prepaid expenses such as property taxes and insurance.
- Hold fundraising events sooner than originally planned.
- Plan additional ways to generate funds.
- Seek cash advances from funding organizations.
- Use an overdraft or line of credit for short-term borrowing.
- Review areas where expenses can be reduced.

With an accurate cash flow budget, you should have enough funding to cover expenses, but if you do experience cash flow problems, contact your Property Portfolio Manager.

## **Bank Reconciliation**

Complete a bank reconciliation each month when the bank statement arrives to match your record of revenues and payments to those on the statement. Identify cheques that have not yet cleared and deposits that have not yet shown up on the statement. Bank reconciliations should be reviewed by a second party to maintain internal control.

## **Financial Record Keeping**

Your financial record keeping must be in accordance with generally accepted accounting principles, which include:

- Accounting policies must be consistently applied from year to year.
- Records must reflect historic costs. If you paid \$1,000 for an item, the value cannot be inflated or deflated. The item must continue to be recorded at \$1,000.
- Revenues and expenses are recorded as they're incurred, using the accrual method of accounting. When an invoice is received, it is recorded as an expense, although it may not be paid until sometime in the future. When rent or housing charges are due on the first of the month, they are recorded as income.

Use the same revenue and expense categories in the general ledger accounts that you used in the operating budget. Record shelter and program expenses and revenues separately.



Prepare annual financial statements showing the income and expenses for the shelter components of the development, with a separate statement for the replacement reserve fund. Separate schedules should be prepared for other activities such as fundraising, providing care for residents, or retail operations. Each year, hire an independent, professional auditor, who is not a member of the Board, to audit these financial statements. Obtain quotes for audit services to ensure your audit costs are in line with fees charged to non-profit organizations.

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For more information on financial administration and reporting, refer to the *Financial Reporting Requirements* supplement to this guide.

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## Purchasing Guidelines

Purchasing policies enable the organization to obtain the best balance of quality, service and price. For detailed information on how to hold a competitive bidding process, select a service provider, and oversee the contract, refer to the chapter on purchases and service contracts in the *Maintenance Guide* in this Housing Provider Kit, which explains:

- Price guidelines for competitive bids.
- How to prepare tender specifications and evaluate quotes.
- How to set up contracts.
- Contract monitoring.
- Common payment terms.

## Conflict of Interest

Your directors' business or personal interests must not be in a conflict of interest — or appear to have a conflict of interest — with their duties managing a subsidized housing development. In addition, the way you conduct business should ensure no director, officer, member or employee of the society or co-op, or any of their associates or family members receives any personal gain.

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For detailed conflict of interest guidelines, refer to the *Governance Guide*.

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## Spending Authority

### **CHEQUES**

Print the organization's full name and address on numbered cheques. Make payments by cheque, but don't keep any pre-signed cheques. Cheques should only be signed after they are completed. We recommend two signatures for each cheque, and you need to arrange signing authority with your financial institution. For example, your Board Chair, Vice-Chair, Treasurer and Secretary may be the people authorized to sign cheques for the organization. All invoices should be approved before a cheque is issued to pay for goods and services. Supporting documentation for each cheque — such as an approved invoice, purchase order and packing slip, if applicable — should be sent to signing officers to review.

If you record your cheques manually, complete cheque stubs by filling in the date, the name of the payee and the amount of the payment. To avoid duplication of payment, mark the date and the number of the cheque issued in payment, then stamp PAID on the invoice. File paid invoices by supplier, or in numerical order by cheque number.

### **INVOICES**

Assign spending authority for different dollar amounts and types of transactions to specific positions, and monitor spending to ensure this control is followed. Your Board designates signing authority for different amounts. For example:

- A manager may be authorized to approve expenditures within budget, up to \$5,000.
- A member of the Board or finance committee may be required to approve expenditures in writing for sums between \$5,000 and \$15,000.
- Amounts greater than \$15,000 could require a motion of the Board or general membership in a co-op for approval.

### **PETTY CASH**

If you set up a petty cash fund for minor purchases, assign one person to be in control of the fund and accountable for any discrepancies. Have people submit a petty cash voucher with receipts attached for all petty cash claims. Petty cash vouchers should be signed as proof of receipt. The cash and value of the vouchers should always equal the petty cash balance. Periodically, have your petty cash reconciled by an independent third party.



## Bank Accounts

Set up at least two bank accounts in the organization's name. One is an operating account to manage deposits, such as your subsidy payments and the rents you receive from residents, and withdrawals for operating expenses, including mortgage payments. Ask your financial institution to return cancelled cheques with a bank statement each month.

When you receive funds, deposit them into the operating account right away.

Set up a separate account for the replacement reserve. Reserve funds are set aside in the annual budget to cover the future replacement cost of refrigerators, stoves, furnaces and other capital items. (See Chapter six for information on replacement reserves.)

You can use the same two accounts for more than one development, but need to report the monthly revenues, expenses and reserve deposits separately for each building.

Make arrangements for the operating account to take automatic electronic deposits, because BC Housing pays subsidies through electronic deposit. Every month we will send a 'payment advice,' which lists the subsidy amount we deposited for each development.

If you are a new housing provider, set up your bank accounts at least one month prior to the interest adjustment date (IAD), so we can send your first monthly subsidy before you start paying the mortgage on the development the following month.

If you collect security deposits, set up a third interest bearing account for these funds. Co-operatives built through the HOMES BC program need to set up a separate account for share purchase funds.

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The Residential Tenancy Act (RTA) governs the administration of security deposits. For more information on security deposits, refer to the Administration Section in the *Operations Guide*.

To obtain a copy of the *Guide for Landlords and Tenants in BC*, or more information about the RTA, call the Residential Tenancy Office at 604-660-3456 or 1-800-665-8779. Or you can download a copy from:  
**[www.pssg.gov.bc.ca/rto/adobe/guide.pdf](http://www.pssg.gov.bc.ca/rto/adobe/guide.pdf)**

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