



British Columbia  
Museums Association  
SINCE 1957

# Best Practices module

## FINANCIAL MANAGEMENT

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## Introduction

Good financial information is critical to the effective management of all businesses, including museums. Effective financial management benefits all aspects of the facility's operation by providing relevant information to the board, management and staff. Board members rely on financial information to effectively oversee the activities of the museum. Management and staff use financial information for planning and delivering programs.

The intent of this Module is to document the fiduciary responsibility of museum management by explaining basic principles and standards of financial management.



## Elements Of Financial Management

Financial Management, by definition, refers to the management of a facility's financial assets. Museum Financial Management refers to the management of a museum's financial resources in order to put the facility's assets to effective use in meeting its mandate.

Overall control of a museum's finances is the responsibility of the board of directors. This group maintains the fiduciary responsibility and general oversight for the facility's financial resources. Implementation of the board's financial direction is the responsibility of museum management. Fulfilling management direction is the role of staff, who need to understand how to use financial information in order to deliver the facility's programs. (It is noted that Fiduciary Responsibility refers to the requirement to act honestly, in good faith and to the best of a person's ability in representing the interests of the organization.)

Financial management includes a range of tactics including: understanding financial statements, financial management reporting, reporting authors and audiences, budget preparation, fund raising, and asset management.

### Financial Statements

The financial status or health of your museum is recorded in financial statements. These documents are a means of conveying a concise picture to management of the financial condition of the organization. Such documents are typically prepared by the museum's accountants. However, strong internal controls and oversight by the finance committee or treasurer is important.

There are four key financial statements that every museum should maintain – namely the **Balance Sheet**, **Income Statement**, **Statement of Financial Condition**, and the **Cash Flow Statement**. These are explained below. (The reader is referred to their own facility's financial statements for reference.)

The **Balance Sheet** is sometimes called the statement of financial condition. It depicts the financial condition of the museum as of a specific date. The three elements of the balance sheet are assets, liabilities and net assets. The difference between assets (what the museum owns) and liabilities (what the museum owes) is the net assets (the effective "value" of the museum). This relationship is represented by the formula:  $\text{Assets} - \text{Liabilities} = \text{Net Assets}$

The **Income Statement** or Statement of Operations represents the difference between revenues and expenses. Revenues include monies obtained from all sources. For a museum, these can be categorized as grants and self generated. Grants are typically from various government agencies, but can also include Gaming income (bingo and the provincial government Direct Access program). Self-Generated sources include such items as: admission fees, donations, memberships, rent, gift shop income, restaurant income, and bank interest.



## Elements Of Financial Management cont'd...

Expenses are goods and services that have been used in the process of obtaining revenues. They represent the cost of doing business. From an accounting perspective, expenses can be categorized as operating expenses, wages and salaries, grant and special project expenses and administrative expenses.

The **Statement of Changes in Financial Position** reports the inflow and outflow of working capital (liquid resources). It represents the source and application of funds and is represented by the formula:

Source of working capital – Uses of working capital = Increase (Decrease) in working capital.

The **Cash Flow Statement** represents cash income and payments for the museum. This is a particularly important statement for planning purposes as it reveals the ability to pay bills. It is sometimes referred to as the Receipts and Disbursements statement. The statement typically records cash at the beginning of the period plus cash in less cash out which equals cash on hand.



## Financial Management Reporting Cycle

What reports should be prepared and how often, depends on a number of factors, including the:

- Financial stability of the organization
- Number of changes to the financial picture during the period
- Availability of cash to meet financial obligations
- Availability of staff or other professionals to carry out analysis and prepare reports.

The size and complexity of the museum (overall size and number of staff, departments and program) will dictate the appropriate range and detail of its financial reports. Most provincial institutions will produce the following reports, although the level of detail may vary considerably:

### Monthly Reports:

A **Financial Report Summary** should be prepared monthly. This document is a budget comparison as of a point in time and can be written on three pages. It shows budget to actual information and also compares the figures to the same period last year.

The report tallies net income from operations by reporting revenues and expenses for the reporting period by category. These figures for the month should be tallied against the budget figure with the difference being the “variance”. This report typically has this month’s information on page one and year-to-date information on page two.

A written executive summary of the financial highlights becomes page three. This summary is prepared to interpret the museum’s financial status by way of key observations and recommended actions.

An **Attendance Report** is an important part of monthly financial reporting, even if admission is free or by donation. For ease of viewing this information should be graphed by type of visitor (including adults, children, seniors, bus tours or any other category of interest). The graph should present tallies by day with comparisons to the same period the year earlier.

### Quarterly Reports:

Depending on the number of grants, a **Grant Status Report** could be prepared. This report compares actuals to projections for operating and project grants. It also contains a status report on all applications and expected timelines for approval. This report may contain an analysis of alternative actions and implications of delays in receipt of approvals or conditions that may accompany approvals (percentage of request approved, or elements of matching or in-kind estimates requiring revision).



## Financial Management Reporting Cycle cont'd...

A **Fundraising Report** may also be prepared which compares actuals to projections for donations. It provides a status report on all foundation proposals, and any communications relating to submitted proposals. It may contain an analysis of alternatives if proposals are only partially supported and for new fundraising initiatives.

**Quarterly Cash Flow Projections** allow management and the board to determine the cash status. This document should include cash flow to date and incorporating projections for the remainder of the current fiscal year focusing on any anticipated cash surplus or deficit.

**Payroll tax reports** should also be prepared to document that payroll tax reports have been submitted on time and remittances for tax deductions and employer employee benefits been made to government agencies and insurers.

### Annual Reports:

**Charitable Status and Non-Profit Society Reports** need to be prepared to ensure that the organization has fulfilled its reporting responsibilities to maintain charitable status and good standing as a non-profit society with the Registrar of Companies.

**Financial Statements** need to be prepared for the fiscal year. These include the four statements discussed above (Balance Sheet, Income Statement, Statement of Financial Position and Cash Flow Statement). Analysis of these statements should focus on internal management decision-making addressing the following questions:

- What was the financial performance over the past year?
- In what ways and for what reasons was performance different from the budget?
- What financial implications must be taken into account when planning for the upcoming year?

The Board should confirm the degree of financial accountability it requires from outside accountants. There are three levels of accounting assistance provided by private accountants with increasing degrees of accountability (and usually increasing costs). These are:

- Notice to reader (Accountant uses the Museum's information)
- Review (Accountant questions and verifies some revenues and expenses)
- Audit (Accountant verifies most revenues and expenses and confirms there are no material errors)



## Report Authors and Audiences

In a small not-for-profit museum, the board treasurer or external/internal accountant/bookkeeper might prepare the financial information for all in-house financial statements. This individual would work with the executive director to prepare the narrative with financial highlights to be presented to the board.

The Executive Director reviews all reports prior to presentation to board members to ensure that the financial information is accurate and can be translated into issues and opportunities facing the organization. Key staff members should have the opportunity to review income and expense reports for the whole organization.

The board treasurer or Finance Committee reviews all financial statements and reports on financial activity to the full board. In a smaller museum, the Executive Director might report first to the board treasurer, who can then keep the full board apprised of the organization's financial status.

The Finance Committee will often review the numbers in greater detail than the full board. The full board may be better able to respond to aggregated information with important financial trends and issues highlighted in an accompanying narrative report.

Each board member should have the opportunity to review organization-wide income and expense reports to ensure they can meet their fiduciary responsibilities. To help the board fulfill its oversight function, it is important for the Executive Director and the Finance committee to present the information in as clear and concise a manner as possible.

The audit (if conducted) and management letter are addressed directly to the board of directors because of its oversight function. Typically, the auditor works with the finance staff to prepare federal and provincial reports and may be included at board meetings during which presentations are given, and at the Annual General Meeting of the non-profit society.





## Budget Preparation

Budget preparation is the financial management process through which the museum estimates what income and expenses will be over a particular period or for a particular purpose. This process will be applied to a variety of financial forecasting activities such as the Annual Operating Budget, Project or Program Budgets (which may be required for grant applications or funding proposals) and Capital Budgets.

Because the Board of Directors is ultimately financially responsible for the museum's financial wellbeing, it is important that the board participate actively in the budget preparation process, particularly in the preparation of the Annual Operating Budget. This involvement will generally be through the participation of a Finance Committee or the board Treasurer. Staff, whether paid or volunteer must be integrated into this planning process, and will likely be responsible for many of the projections of future revenue estimates and costs, as well as analysis of past budgets and financial statements.

Annual Budget planning includes an analysis of how the previous years budget compared to the actual revenues and expenditures. While there will be significant variation for each museum, budgets will generally include some of the following general headings:

### Income

- Grants and Sponsorships
- Generated Revenue (including admissions, sales, rentals, memberships, etc.)
- Fund Raising and Donations

### Expenses

- Administration (Accounting, bank charges, computer expenses, licenses, marketing, supplies, travel and utilities)
- Museum Operations (displays, conservation, collections care, maintenance)
- Special Projects
- Wages and Benefits

Most importantly, the budget process always needs to be connected to the larger museum planning process of identifying what the organization needs are in order to achieve its vision, mission and purpose.



## Fund Raising

Establishing an effective fundraising program is typically a major component of museum financial management. Due to the limited ability of most museums to generate significant gate revenue, fund-raising becomes a requirement to ensure financial survival.

Most museums will establish annual fundraising campaigns and activities directed towards raising operating and special project funds. Capital campaigns (for a one time expenditure on new building or equipment), annual campaigns (usually associated with membership renewal), special event fundraising or project fundraising and endowment campaigns (for long-term stability), will follow as the organization grows.

The kind of fundraising that will be successful will vary for each individual institution, but will always be based on clearly defining and articulating the objectives and tactics. Fundraising should be seen as an ongoing activity that focuses on building relationships (“friend-raising”). There needs to be a commitment to keep donors informed, so they continue to feel part of the museums activities. Fundraising professionals talk about the “pyramid of giving” which refers to the museum using the strategy of increasing the number of donors (the size of the pyramid base) and moving donors gradually up the pyramid (so a \$25 donor may become a \$1000 donor).

It is important to recognize that donors need a reason to give. Museum managers need to understand their motivation for giving (what is in it for them?) and address those motivations. Start by assessing the existing fundraising program and how it relates to the institution’s vision and mission.

It is also important to be able to answer these questions:

- Why do donors support you now (or what’s in it for them)?
- For what other reasons might they support you in the future?
- What resources do you have available for fundraising (staff, volunteers, finances)?
- Are there ways to encourage existing donors to give more?

Once it is determined whom in the organization is going to do the work and what resources they will have to carry it out, the next step is to prioritize the fundraising activities. Start by brainstorming or envisioning what the museum’s fundraising program should look like in three years.

Make sure that this vision is realistic and attainable, and outline the steps needed to achieve it. Make a detailed one-year plan (with time-lines and responsibilities) and a broader three-year plan. Include a process to periodically review and evaluate how you are doing.



## Assets Management

The museum's assets include everything that the museum owns or that has an exchange value. In accounting terms this will include: financial investments, cash, equipment, property (including intellectual property), real estate, goodwill and other items (tangible and intangible) that have a financial value.

Management of the museum's assets is the responsibility of the governing authority, and is the process by which the resources that support museum operations are protected and increased.

Fixed Assets include the assets (land, buildings and equipment) that are retained and used by the museum. They should be maintained in such a way that financial value is maintained or so that they can be replaced (e.g. equipment) when their value has been diminished by use.

The museum collections form a significant part of the assets of the organization. However, they cannot be treated as a financial asset, as they cannot be sold to finance museum operations or maintenance of other assets. In the event that items in a collection are deaccessioned and sold, the museum will generally have a policy that will restrict those proceeds to new accessions or collections care.

Sound Assets Management is based on the premise that management will prudently invest available funds to generate revenue. Museums will generally focus on two categories of funds. One is unrestricted funds (which may be available from operating funds) that can be placed in a savings account or term deposits. The other is restricted and/or endowment funds (being held for a specific future purpose or project) which are specifically donated for investment with only the earnings/interest being used to support operations or programs.

## Conclusion

In addition to their specific duties and job descriptions, all persons associated with a museum operate under the umbrella of financial management. That is, the organization has to be operated in a financially viable manner or it will cease to exist. At all levels, individuals make decisions affecting the future of the organization. Being informed with accurate and timely financial information is crucial to the facility's future.



## Financial Management Information Sources

- Alliance for Nonprofit Management - [www.allianceonline.org](http://www.allianceonline.org)

An excellent source of financial management information, specifically written for non-profit organizations.

- Nonprofitscan.ca - <http://www.nonprofitscan.ca/home.asp>

Wide range of on-line publications and articles on diverse topics including risk management.

- Financial Management Training Centre - [www.exinfm.com](http://www.exinfm.com)

A free site providing a number of short downloadable courses.

- Basic Guide to Non-Profit Financial Management - <http://mapnp.nonprofitoffice.com>

Developed by a non-profit management company in Minnesota providing consulting, training and board recruitment to non-profits.

- Free Management Library - <http://www.managementhelp.org/>

On-line Library developed by the already mentioned Alliance for Nonprofit Management.

- Non-profit Good Practice Guide - <http://www.npgoodpractice.org/>

Contains many resources, including excellent glossaries

- Canada's National History Society - <http://www.historysociety.ca>

A range of resources and tips under the "Paths" section of their web site.

- Canadian Heritage — [http://www.pch.gc.ca/index\\_e.cfm](http://www.pch.gc.ca/index_e.cfm)

Includes a wide range of publications and guides that can assist with the development of museum policies and planning (follow the links to publications)

