

Financial resource management in the non-profit sector: key specificities and challenges

Upravljanje finansijskim resursima u neprofitnom sektoru: ključne specifičnosti i izazovi

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Abstract

Non-profit sector organizations are focused on meeting their clients' needs in accordance with a clearly defined mission and set goals, without emphasizing profit. Non-profit organizations can efficiently distribute resources, maintain activities, and achieve their objectives by successfully managing their financial resources. This paper aims to highlight the need for and support more detailed research into the characteristics and models of financial resource management within the non-profit sector and its organizations, to achieve more effective management and efficient allocation of financial resources in this sector. Financial resource management is one of the most challenging areas primarily addressed by financial management. The focus of the paper is on understanding the characteristics and challenges of managing organizations that have social and/or humanitarian goals. Additionally, the goal is to emphasize the importance of applying good management practices, the need to create an adequate framework for the development of financial management in the non-profit sector, and the improvement of financial resource management models, all to enhance the quality-of-service delivery to users based on the analysis of the specificities of financial resource management.

Keywords: non-profit sector, financial resource management, financial management

Sažetak

Neprofitni sektor je fokusiran na zadovoljavanje potreba klijenata u skladu sa jasno definisanom misijom i postavljenim ciljevima, bez isticanja profita. Ove organizacije mogu efikasno raspodeliti resurse, održavati aktivnosti i postići svoje ciljeve uspešnim upravljanjem finansijskim resursima. Ovaj rad ima za cilj da ukaže na potrebu i podrži detaljnije istraživanje karakteristika i modela upravljanja finansijskim resursima u okviru neprofitnog sektora i njegovih organizacija, radi efikasnijeg upravljanja i efikasnije alokacije finansijskih sredstava, u domenu ovog sektora. Upravljanje finansijskim resursima je jedna od najizazovnijih oblasti kojima se prvenstveno bavi finansijski menadžment. Fokus rada je na razumevanju karakteristika i izazova upravljanja organizacijama koje imaju društvene i/ili humanitarne ciljeve. Cilj ovog rada je da pruži sveobuhvatniji uvid u specifičnosti u vezi sa upravljanjem finansijskim sredstvima u neprofitnim organizacijama, da doprinese jasnijoj percepciji i boljem razumevanju kako uspešno upravljati takvim organizacijama i ostvarivati ciljeve. Pored toga, radom se ističe značaj primene dobre prakse menadžmenta, potreba za stvaranjem adekvatnog okvira za razvoj finansijskog menadžmenta u neprofitnom sektoru, kao i unapređenje modela upravljanja finansijskim resursima, a sve u cilju unapređenja kvaliteta pružanje usluga korisnicima na osnovu analize specifičnosti upravljanja finansijskim resursima.

Ključne reči: neprofitni sektor, upravljanje finansijskim resursima, finansijski menadžment


1. Introduction

The non-profit sector and its organizations play a significant role in the social policy of developed countries, as their activities promote the growth and development of society. Their role is increasing, which is directly related

to the concept of social responsibility and the interconnectedness and interdependence of community members. Practically, there is hardly any social issue that non-profit organizations do not involve themselves in solving.

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The operations of non-profit organizations are based on the principle of social necessity, meaning they address the basic needs of individuals and society, such as the protection of human rights and freedoms, ensuring the safety of people and property, and so on. The aim of non-profit organizations is not profit but the provision of public goods. These organizations are not financed by the sale of products and services on the market but through other sources (budget funds, donations, subsidies, contributions, membership fees, etc.).

For the functioning of non-profit sector organizations, a clearly defined mission and set goals are of utmost importance. However, successful financial resource management is crucial for economic sustainability and essential for the operation of non-profit organizations, considering that even these organizations of general, societal benefit could not professionally perform their activities without funds.

Managing non-profit organizations is generally challenging because they often face limited resources, the need to comply with regulations and standards, and the necessity to achieve positive social impacts. In the past, both in practice and academia, little attention was given to the issue of financial management in the non-profit sector. However, in contemporary turbulent times and during the global economic crisis, many questions arise that often trigger various social transformations. One such question is: does the global economic crisis affect the funding of the non-profit sector on a global scale?

Non-profit sector organizations have specificities, characteristics, and challenges that significantly distinguish them from profit-oriented organizations. One specificity is the focus of financial management, which in non-profit organizations is on social benefit and the achievement of the organization's mission and goals, while in profit organizations, it is on making a profit. In non-profit organizations, the goals are often directed towards the improvement of the community and solving the social problems of community members.

Financing is one of the key challenges for non-profit organizations, whose activities rely on donations, subsidies, and other sources of public funding. Therefore, non-profit organizations face the challenge of securing sufficient funds to carry out activities, programs, pay employees, acquire resources, and achieve their mission and goals. It is a fact that the responsibility of non-profit organizations is of a broader social nature because they are accountable not only to their members but also to society as a whole.

In earlier periods, relatively few studies were conducted on financial management in the non-profit sector and how organizations in this sector operate. Only recently has there been significant interest in how these organizations operate. The reason lies in the fact that many organizations often struggle with effective financial resource management and in the reduction of funding sources for non-profit sector organizations.

2. Understanding and significance of the non-profit sector

In practice and scholarly literature, numerous definitions of the non-profit sector exist, but a universally accepted one has yet to be established. Several reasons contribute to the differences in defining the non-profit sector. In highly developed countries, the definition of non-profit entities is primarily based on legal regulations and tax exemptions as fundamental parameters of their classification. In some countries, particularly developing ones, there is still no adequate legal framework regarding the non-profit sector, nor are there well-developed tax regulations for this area.

The non-profit sector comprises organizations whose primary goal is to provide services to society on a non-profit basis, meaning they do not aim to generate profit but are established to supply goods and services needed by all members of a particular community. Non-profit organizations can generally be defined as organizations whose primary objectives cannot be assessed using conventional economic measures (Kaplan & Norton, 1996, p. 180).

Various, diverse, and inconsistent terminology is used to denote the sector focused on meeting clients' needs, which is the essence of its mission: non-profit sector, public sector or public services, voluntary sector, independent sector, informal sector, social overhead, third sector, etc. Terminological ambiguities are often confusing when discussing the non-profit sector. Depending on political, cultural, and economic development, the non-profit sector is referred to differently in different countries, as noted by Salamon and Anheier (1992) in their comparative studies. Currently, this sector is most commonly referred to as the "nonprofit sector" in America, the "voluntary sector" in England, the "économie sociale" in France, the "Verein" in Germany, and the "nongovernmental economy organization" in developing countries. Other terms are also in use, such as those describing the nature of the sector, like the "third sector," "charitable sector," "civil society," "associational sector," or "tax-exempt sector" (Kolin, 2005, pp. 29-35).

Essentially, the non-profit sector encompasses various organizations that perform a wide range of public and private programs (Gačić et al, 2023). The attribute "non-profit" does not imply that these organizations are legally prohibited from generating profit or that they cannot achieve a positive difference between income and expenses, but rather that no one has the right to appropriate the surplus. Any surplus must typically be directed towards enhancing their activities and serving their users/target groups (Meler, 2003).

The non-profit sector consists of organizations/entities whose primary motivation for establishment and operation differs from profit-oriented entities (maximization of business results/profit), such as educational institutions, healthcare facilities, military, police, museums, churches, charitable foundations, various non-profit associations and NGOs, volunteer

associations, many public sector organizations providing services such as transportation, water processing, and distribution, etc (Milošević et al, 2023). We can distinguish two categories of non-profit organizations. The first category includes organizations/associations founded by the state at the national and local levels, which are mostly financed from the budget, so-called budget users, while the second category includes organizations that secure funds through donations, gifts, contributions, and other third-party givings, and are formed as civil society organizations to meet the needs of their founders, members, interest groups, and sympathizers.

For an organization to be called non-profit and belong to the non-profit sector, it should be (Marić, 2009, pp. 43-45):

- "Formal, meaning it is fully or partially institutionalized;
- Non-profit oriented, meaning that profit is not the key business goal of the organization and it does not distribute the realized profit to third parties;
- Independent, meaning it is autonomous in terms of controlling and managing its operations and activities. This means that the organization has its own management procedures, and its work is not controlled by any external institution (except state institutions that are under government supervision and its financial funds);
- Voluntary, meaning that a certain degree of voluntary participation is involved in the organization's work, both in carrying out tasks and actions and in managing its operations."

The criteria are not standard nor constant, meaning they can vary under certain conditions. These criteria can simultaneously be understood as characteristics of non-profit organizations. There are many different types of non-profit organizations with varying characteristics. There are numerous social causes advocated through non-profit organizations, and three key phases of non-profit organizations include (1) establishment, (2) management, and (3) leadership (Carroll, 2018).

Non-profit organizations possess several characteristics that distinguish them from profit-oriented organizations. Some of the more significant characteristics of non-profit organizations, as noted by Wolf (1999), include:

- The primary goal of their work is public benefit (benefit/utility);
- They are organized as non-profit or humanitarian entities;
- They have a specific legal and tax status;
- There is a prohibition on personal interests and profit distribution to individuals;
- They have specific sources of funding;
- There are difficulties in measuring outputs - work results;
- There is a lack of profit indicators (metrics);
- They often have low financial dependence on service users;

- They have a specific way of management, including the establishment of hierarchical levels in the management structure, among other aspects.

A defining characteristic of non-profit organizations is that, in most cases, these organizations have a monopoly in the provision of public goods and services. Typically, they are the sole providers of certain types of goods and services. This eliminates competition and market dynamics in the provision of certain public goods, which can significantly impact their quality and the degree to which certain needs are met by their use (Antić & Sekulić, 2007, p. 41).

The fundamental difference between profit and non-profit organizations arises from their differing goals and methods of financing. Organizations whose primary goal is to maximize financial results belong to the profit sector, while organizations that perform a wide range of activities (mainly socially beneficial services) for humane reasons, as well as the desire and obligation to continuously meet social needs at an appropriate level regardless of financial results, belong to the non-profit sector. Therefore, it can be stated that the primary characteristic of all non-profit organizations is providing public benefits to members of the social community without profit indicators, unlike profit-oriented organizations that are driven by the amount of profit generated. The main differences between the profit and non-profit (public) sectors are most pronounced in the following areas: legal form and special tax status; interest groups; area of work; financing, and the determination of societal functions (Halafar, 2010).

Considering the legal form and specific tax status of non-profit organizations, these legal entities do not have shareowners, choose appropriate organizational forms, and are specific in terms of public contributions and profit distribution methods. Non-profit organizations have significantly greater possibilities for meeting the needs of various stakeholders compared to the private sector (Ciarko & Paluch-Dybek, 2022). As for the area of work, non-profit organizations are present in all fields and areas. The main difference compared to profit organizations in terms of financing is the fact that non-profit organizations do not generate profit and cannot distribute it (Halafar, 2010).

It can be said that all those organizations that serve the public interest, whose activities are typically tax-exempt, cannot distribute assets and profits (which are not the primary goal of operations-surplus income over expenses) to members or other interested parties, but instead use it for development and enhancement of activities and programs (Milanović, 2023).

Non-profit organizations have significant importance in the social policies of developed countries. Since the modern state cannot meet all citizens' needs, these needs are met in the non-profit sector. There is virtually no social problem that non-profit organizations do not engage in solving. Numerous studies have shown that the next period of modern society's development will be marked by the increasing involvement of these organizations in

various areas of social life. The role of non-profit organizations in the community is becoming more significant, directly proportional to the concept of social responsibility, as belonging to a community or group of people connected by social and other ties and dependent on each other.

The characteristics and specificities of non-profit organizations indicate the multifaceted importance and existence of various impacts and functions of these types of organizations in modern society. There are many ways to observe the impact of the non-profit sector on society. Horton (Connors, 1988) highlights eleven impacts of the non-profit sector on society: social innovations, re-evaluating definitions of reality and morality, an element of play, social integration, preservation of tradition, a sense of mystery, self-fulfillment, negative feedback, support to the economic system, contribution to general well-being, and achieving social goals.

Among the many functions that the non-profit sector has in our society, this paper will mention only two of the most important: allocative and developmental functions. The first, allocative function, is achieved through the process of securing necessary financial resources from appropriate institutions (funds) and distributing them—directing them to continuously satisfy planned and agreed social (collective) needs. By allocating, i.e., transferring financial resources from designated state funds to the funds of non-profit sector entities, intended to meet various social needs, the planned and purposeful allocation of resources to individual segments of the social superstructure and its further reproduction is achieved (Marić, 2009). The second, developmental function, is achieved by influencing the work capacity and quality of individual factors in the production process in the field of material production, significantly contributing to increased labor productivity. Thus, these non-profit sector entities appear as significant generators of economic development, or as important qualitative factors (indirectly productive).

Ultimately, during its development and functioning, the non-profit sector has managed, on one hand, to achieve a whole range of different direct impacts on the modern development of humanity, and on the other hand, to realize invaluable direct and indirect contributions to the development of the business/production sector. Therefore, it can rightly be said that non-profit organizations are "agents of humanitarian changes", existing to improve human lives, crucial for the quality of life in society, and at the service of society.

3. Financial resource management in the non-profit sector

3.1. General overview of financial resource management and the tasks of financial management

A group of authors identifies three categories of resources that non-profit organizations critically need to achieve their goals and operate smoothly: financial resources, employees and volunteers, and revenues from products

and services or activities of the non-profit organization (Alfirević et al. 2013).

Financial resource management is one of the key aspects of sustainability for non-profit organizations, aimed at helping managers to effectively and efficiently utilize resources to achieve their mission and objectives, fulfill commitments to stakeholders, and be more accountable to donors and other interested groups. This complex activity also aims to ensure the trust of donor agencies, partners, and beneficiaries, gain advantages in a competitive environment with increasingly limited available resources, and provide a solid basis for long-term financial sustainability (Velat, 2005).

Krug and Weinberg (Krug & Weinberg, 2004, p. 325) define the "goal of financial resource management in non-profit organizations as ensuring that revenues can be sustained while achieving core objectives". As part of overall management, financial resource management in non-profit organizations encompasses financial planning, financial analysis, cost control, and monitoring of financial resources to achieve its goals. The focus is on ensuring that the funds raised, approved funds, and material resources are used appropriately to realize the mission and goals of the organization.

In practice, financial resource management primarily involves managing modest resources. The fact is that the non-profit sector carries out its mission in a competitive environment where available financial resources are dwindling. Therefore, it is necessary to use approved funds and resources properly and effectively. It also includes risk management processes, establishing systems and procedures for financial control, which implies a planned and organized way of managing resources. Financial management in the non-profit sector also involves a high level of attention to project, program, and organizational goals.

Financial resource management is a crucial component of organizational management, typically handled exclusively by a financial manager. For a non-profit organization manager, managing the organization's finances is a particular challenge. The sources of income for non-profit organizations often fluctuate due to economic changes and political climate. Nevertheless, these organizations must compete for workforce and other inputs like any other organization. Accurate records and reliable reports related to financial information are prerequisites for financial management. The public accountability of the organization requires exceptional accuracy and reliability of financial data.

The persistent presence of financing issues requires non-profit financial management to, besides the fundamental goals derived from the organization's mission, also focus on goals related to adequate financial management, such as (Marić, 2009):

- Maximizing the number of users paying for services;
- Completely or approximately matching costs and revenues;
- Maximizing income (budget);

- Reducing and eliminating all unnecessary costs;
- Maximizing material satisfaction of employees.

Management in non-profit organizations has two primary financial tasks: attracting resources and allocating resources. The first task consists of attracting and securing various funds, members, volunteers, and other factors that can primarily be involved in securing necessary operational funds for non-profit organizations. It is essential to note that these resources do not always have to be exclusively monetary but can also be material in nature (food, water, medicines, building materials, clothing, footwear, etc.). The second task of management is to create an adequate model for using the collected funds. The solution to this task is to direct and use available resources primarily to achieve the organization's mission (Marić, 2009). In other words, when allocating/spending available resources, management must consistently adhere to the principle of economy in non-profit organizations, which means that the goals and tasks arising from the mission of these organizations are achieved with minimal resource expenditure (financial and other material).

It should be noted that this principle, for some non-profit organizations, especially in the state sector (schools, universities, police, etc.), should not be primary when fulfilling their mission. The application of the economic principle must not compromise the quality and quantity of task execution or weaken the efficiency and effectiveness of services, such as police and health services. There is no universal financial system model in the non-profit sector or a model that fits all non-profit organizations. However, some basic components need to be in place to achieve good practices in financial resource management.

3.2. Specificities in financing non-profit organizations

One of the specific features of non-profit organizations is their financing. Since these organizations do not generate revenue from the sale of products or services, their operation depends on donors, sponsorships, or donations. Unlike for-profit organizations, which are market entities where self-financing plays a significant role as it represents a dominant source of funding, non-profit organizations have negligible or no participation of their own capital in the overall structure of available resources (Knežević et al, 2023). The minimal presence of self-financing is due to the fact that non-profit organizations are primarily established to meet non-profit demands that are significant for the community, where the profitability of operations is of secondary importance or not considered at all. It is entirely logical that a healthcare service will provide primary care (such as first aid) to all individuals in need, regardless of their ability to pay, by applying the principles of public interest and universal accessibility. Similarly, a fire department will provide fire protection to any individual (physical or legal) irrespective of whether they have fulfilled their tax obligations.

On the other hand, regardless of which non-profit organization it is, all non-profit activities are funded from so-called "non-returnable" sources. These are funds that

the financier provides for the implementation of a pre-defined project of public interest, thereby relinquishing further ownership of the funds and the right to their return. During the execution of non-profit activities, the organization is the sole owner of the funds, in the sense that it manages them, respecting the agreed purpose and the principle of economic spending of the received funds. This means that a non-profit organization effectively and efficiently satisfying non-profit needs fulfills its business mission and has no further obligations towards the financier. Therefore, it is important to emphasize that the financing of non-profit organizations does not have the character of investment (placement or investing) or the goal of capital multiplication, fund return, or maximizing business results.

When it comes to fundraising in a non-profit organization as a continuous process, aligned with the organization's priorities and goals, it primarily refers to all forms of non-refundable giving, granting, or donating (donations, gifts, aid, bequests, endowments, etc.). This practically means that the funds given to a non-profit organization are spent non-refundably and purposefully, without primarily considering whether the invested money-capital will be recovered, multiplied, and increased, or economically justified after the activity. For this reason, the inflow of funds into a particular non-profit association entirely depends on the urgency, importance, and type of project being implemented. Moreover, it is not uncommon for the implementation of a project to consistently result in a negative business outcome, yet the state continues to plan significant budget allocations because the project is of public importance (combating various dependencies, work of humanitarian social organizations, etc.).

Donations, sponsorships, and public revenue funds are the dominant (primary) sources of funding for non-profit organizations, while revenues generated in the market, rental income, loans, and the issuance of all forms of securities are secondary sources of funding for non-profit organizations (Mitchell & Calabrese, 2019).

The primary sources of funding for non-profit organizations represent an external form of financing for these organizations, as they are realized from various sources in their environment. Among them, the most important are budget revenues and donation revenues.

In recent years, the non-profit sector has increasingly faced the problem of insufficient funds necessary to finance the bulky public apparatus typical of modern society. In contemporary society, non-profit needs are growing daily, both in terms of demand volume and the emergence of new types. Based on economic trends worldwide, it is clear that the structure of funding for these entities will significantly change, primarily in terms of increasing the share of secondary sources compared to those considered dominant. Modern business trends are driving increased activity of non-profit organization management in finding new ways to increase the efficiency of non-profit management functions. This includes, among other things, creating organizational models that will conduct efficient planning, organizing,

and control, as well as enhancing work discipline, strengthening accountability and motivation, and increasing productivity as the basis for implementing various forms of business rationalization.

3.3. Specificities of financial reporting in the non-profit sector

The idea of objectivity and transparency in the operations of non-profit organizations, particularly from the aspect of asset value and annual revenues achieved, is crucial. Transparent, systematized, and clearly presented operations are the basis for efficient and socially responsible management in profit sectors, but this is often not the case with non-profit organizations. Efficient, transparent, and socially responsible management is essential to achieving set goals, which is significant not only for the profit sector but also for the non-profit sector, especially the public sector (Adžić, 2022).

Strong demands for transparency, accountability, and the requirement that every expenditure results in increased benefits (value), highlight the need for transforming the traditional system of information management support in the public sector (Stojanović et al., 2021).

Financial reporting in the non-profit sector is much more complex, complicated, and specific compared to profit-oriented organizations due to numerous methodological issues in presenting certain figures, as well as the specifics of their functioning and financing. It is not an end in itself but provides users with objective, relevant, and reliable information about the reporting entity. Therefore, the purpose of financial statements is to meet the common needs of most users for quality information necessary for making various decisions.

Non-profit organizations prepare financial statements that objectively present assets, liabilities, and revenues and expenses, as well as precisely determine the extent to which financial resources have been used and for what purposes, to establish whether and to what extent the goals have been met. Every non-profit organization requires current, objective, and reliable financial information to evaluate business activities and financial condition. Financial information must be timely recorded, audited, summarized, and presented.

Non-profit organizations use two accounting tracking systems: single-entry and double-entry, with differences related to the chart of accounts (Vasić, 2022). Prescribed mandatory financial statements in the profit sector include the balance sheet, income statement, statement of changes in equity, cash flow statement, and notes to the financial statements. In the non-profit sector, these are the balance sheet, statement of revenues and expenses, abbreviated statement of revenues and expenses, notes to the financial statements, and the statement of receipts and expenditures in the single-entry bookkeeping system (Milanović, 2023).

"The accounting system must provide clear information in two most important areas: 1) operational accounting and

2) sources of funds, above which there should be financial statements that complement accounting data to respect the financial constraints in the operations of each non-profit organization" (Shim, Siegel, 1997, p.9).

In the balance sheet, collected funds in the form of membership fees and service charges are classified as assets, while taxes, donations, and gifts can be defined as contributions that may potentially give donors tax benefits. It should be noted that in some cases, other donations and gifts may include intangible assets such as donated fixed assets, materials, or volunteers. These funds have their market value and are recorded as assets of the non-profit organization, having their specific value. Revenues and expenses are timely recorded and presented in actual amounts to properly create a balance of inflows and outflows. The balance of revenues and expenses is a financial statement that shows how the collected funds were spent and utilized in non-profit organizations. Often, creating a balance of revenues and expenses represents the "operational accounting report" of non-profit organizations. In fact, in non-profit organizations, the emphasis is on the inflows and outflows of collected funds, where the difference between inflows representing revenues and outflows representing expenses in the equation actually shows the basic accounting condition in non-profit organizations (Shim, Siegel, 1997, p. 9):

$$\text{Assets} + \text{Expenses} = \text{Liabilities} + \text{Balance} \\ (\text{Surplus/Deficit}) + \text{Revenues}$$

In the balance sheet, assets and receivables are recorded and presented as assets, while liabilities are presented on the liabilities side of the balance sheet. Cash and donations are recorded and shown as assets, while all payments are presented as liabilities. Instead of the capital item that is shown in the liabilities section of profit-oriented companies, in non-profit organizations, we encounter the item balance, which indicates the difference between assets and liabilities. The financial situation or state of certain categories of non-profit organizations can often be misinterpreted precisely because of the specifics of their financial reporting.

For example, the market value of a building, structure, or business space owned by a non-profit organization can be a significantly large item when recording and presenting the assets of that organization, which can lead to the creation of a false picture. Therefore, in addition to the balance sheet and the cash report, the report on changes in the balance status is extremely important (for example, this report in profit-oriented companies can be equivalent to the report on changes in equity). This report shows increases and decreases in the balance status of cash inflows and activities, i.e., outflows of funds within a given period. Related to the relationship between income and expenses as a benefit for the reporting non-profit entity, which is very difficult to measure, this financial report in profit-oriented entities is called the income statement. This financial report reflects the ways in which the money of non-profit organizations is spent on business activities, whose success in the case of non-profit organizations is not measured by the accumulation of

capital and maximizing the difference, but by the success of achieving the set goals and the ability to cover business expenses from cash inflows. Therefore, this report in non-profit entities does not have the same substantial meaning as the income statement in profit-oriented entities and is very often integrated into the report on changes in the balance (surplus/deficit of funds) and, as consolidated, represents the relationship between sources of funds and the distribution of expenses (Andrejević Panić, 2016). The obligation to record and present the use of restricted and unrestricted funds represents another specificity of financial reporting in non-profit organizations. Non-profit organizations that are financed from local government budgets, state designated funds, and very often from private foundations, etc., receive such financial resources with clauses on usage with time, legal, or specific usage restrictions, which is why they are called restricted funds and must be presented in that way. Funds that do not require any specific purpose of expenditure, that is, they do not need to justify the purpose, but can be used for the maintenance of the organization, are called unrestricted funds. Very often, donations from private foundations have specific usage or purpose restrictions in this context. The preparation and compilation of financial statements are carried out on prescribed forms or forms provided by the tax administration, depending on national regulations. The distribution of expenses must be very carefully recorded and presented in financial statements because it must align with the applicable actions related to them. Therefore, it can be stated that detailed and proper preparation of financial statements can be a significant factor in seeking additional funds, which further emphasizes their importance for the operation of non-profit organizations (Andrejević Panić, 2016).

4. Conclusion

For non-profit organizations to be economically sustainable and fulfill their mission and goals, effective financial management is crucial. These organizations have a realistic opportunity to increase their financial stability and maximize their impact on society by adhering to key principles such as mission-based financial planning, objective and transparent financial reporting, efficient resource allocation, application of good financial management practices, focused resource mobilization, and continuous monitoring and evaluation. These guidelines can be beneficial for many nonprofit organizations to more efficiently allocate resources, support accountability and transparency, reduce operational risks, and attract new donors, sponsors, and other stakeholders. Moreover, effective methods and techniques of financial resource management help nonprofit organizations in their intent to endure in the long term. Managing nonprofit organizations requires a high degree of responsibility, flexibility, coordination, and cooperation with business partners, donors, and a focus on achieving social welfare. It can be stated that financial management for nonprofit organizations is a continuous process that requires constant review, correction, improvement, and development. Ultimately, only through quality management, defining a clear mission, and setting appropriate and realistic goals can a nonprofit

organization attract more donors, sponsors, and volunteers, significantly contributing to the community with its programs and activities.

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