
Financial literacy for community groups.
The guide for community series.

This guide is one of a series designed to help build the financial capacity of Australia’s 700,000 community groups and Not for Profit organisations.

More than 65% of Australians belong to at least one community group – these organisations are absolutely vital for the development of a thriving and vibrant Australia.

This guide is part of ongoing work by Westpac to make sure this important sector has ready access to the information it needs to operate effectively in our complex and changing financial environment.

Our free financial education guides make understanding accounting and financial management easier, so you can better manage your cash flow.

Through the Davidson Institute, we offer online content tailored specifically for Not for Profit organisations aimed at bolstering financial literacy across the sector. For more information visit westpac.com.au/davidsoninstitute

Westpac Social Sector Banking.

Community organisations are as varied and unique as Australia. Westpac has been working with Not for Profit and local community organisations of all sizes for years – and whether it be local sports clubs, social enterprises or charities, we’ve learned that the demands and opportunities of the Not for Profit sector are both unique and diverse.

So we offer more than just banking. We are committed to:

• Understanding your unique day-to-day financial workings and requirements.
• Designing and innovating our products and services to align with your needs.
• Providing specialist bankers, equipped with local expertise and specialist knowledge who are dedicated to supporting the Social Sector.
• Connecting you with the education, training, resources and other areas beyond just banking that will help strengthen your organisation and achieve your long-term vision.

We want to provide you with the most beneficial banking partnership for your organisation.

For more information visit westpac.com.au/socialsector
Foreword.

Australians have always embraced the spirit of pitching in to help out. Across the country, community organisations help people in hundreds of ways. But these organisations can only exist because of our willingness to get involved. To make sure they continue to thrive, they need good Financial Officers.

People who take on a Financial Officer role in a community organisation may have a wealth of experience and training or very little. But they all bring a great deal of enthusiasm to the job of making sure these organisations have the strong financial processes they need to grow. This guide aims to help Financial Officers with all levels of experience perform their role and help their organisations go from strength to strength.

Helping community groups succeed is both rewarding and challenging. But your time and effort helps ensure that they can help as many people as possible. I wish you success in taking on this challenge.

Lee White
Chief Executive Officer
Chartered Accountants Australia and New Zealand

On behalf of Westpac’s Commercial and Business Bank, it’s my pleasure to support this guide for Community Financial Officers and in turn, the financial capacity of Australia’s 700,000 community groups and Not for Profit organisations.

The work you do each day plays an important role in supporting local communities, and in doing so, contributes to building a stronger Australia. Given the role you play, I hope this guide serves to help you to fulfil your duties as Financial Officer with greater knowledge and confidence.

At Westpac we have a team of bankers who specialise in the social sector. They work with Not for Profit organisations all day, every day, and have a deep understanding of the unique opportunities and challenges you face.

We are proud to support this guide and its objective to help you build a fiscally strong organisation that’s empowered to achieve its objectives in your local community.

I wish you every success.

David Lindberg
Chief Executive — Commercial and Business Bank
Westpac Group
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So you’re the Financial Officer.

What makes people become Financial Officers of community organisations? Some gravitate to the role because they’re good with numbers. Others just want to ‘give something back’.

What most Financial Officers have in common is a passion for the cause.

Our communities are filled with a veritable army of passionate and highly committed Financial Officers (also known as Community Treasurers) fanning out right across the country, with countless examples of innovation, leadership and finely honed teamwork.

In many cases, it is work that has literally saved organisations from going under. In others, it has helped to transform a group from ordinary to extraordinary.

Not every Financial Officer has formal training in finance or accountancy, or work experience in those roles. But they’re far from naive amateurs. These are people who saw a need in an organisation they were passionate about, got the training and advice they needed and put up their hand (or answered a tap on the shoulder), often going well above and beyond the call of duty.

The position of Financial Officer is the key to keeping the organisation’s finances in order. It requires time, dedication and financial expertise.

Most small Not for Profit organisations (self-help groups, playgroups, amateur dramatic societies, local sports clubs, etc.) do not employ staff. In these associations, the Financial Officer is usually the person who does many of the following activities – organising bank accounts, depositing cash and cheques, paying the bills, keeping the books, drawing up the budgets, and keeping track of the outgoings and incomings so that the organisation knows how they are tracking in relation to the budget.

In larger organisations with a professional staff, the Financial Officer may be supported by the CEO or a Finance Committee, providing a link between the staff and the Board on financial matters and ensuring appropriate policies and procedures are in place.

Sometimes a new Financial Officer is thrown into the role without too much training or preparation, or too much knowledge of what’s involved with overseeing the finances of a Not for Profit organisation.

That’s why we’ve written this guide.

The Guide for Community Financial Officers is designed to help Financial Officers of community organisations, of all shapes and sizes, to take on the role with greater knowledge and confidence and to help Board members to understand what is required of a Financial Officer.

The Not for Profit sector in Australia covers over 700,000 groups, ranging from the thousands and thousands of local groups – sporting clubs, recreational associations, social welfare groups, historical societies and cultural groups – through to national organisations such as the Australian Football League and Opera Australia and international organisations such as Oxfam and The Salvation Army.

What they all have in common is that they don’t operate to make a profit for their owners or members. This does not mean they are not financially accountable – in fact they are often accountable to more stakeholders than most businesses. Your stakeholders may include Board members, staff, members, volunteers, donors and government.

Elected Boards, called ‘Boards of management’, run community organisations. They can also be called ‘Boards of Directors’, or ‘Committees of Management’, or a number of other names – but here we shall call them ‘the Board’. The Board appoints a Chair (or President), a Secretary, and a Financial Officer.

The Financial Officer is usually appointed at the annual meeting and tasked with keeping the finances healthy so the organisation can achieve its mission. Victorian psychologist Dr John Gora says that if a group finds someone who has the ability for critical appraisal, can contribute to strategic planning and be creative about generating funds, “then they have probably found the perfect Financial Officer”.

Anyone taking on the role of Financial Officer in a Not for Profit organisation must have – or needs to learn – a basic understanding of accounting and a working knowledge of the laws governing the organisation’s operation. This may sound daunting, but most accounting is commonsense once you understand the basics – it’s about money coming in, and money going out.

Some people on the Board may not have well-developed financial skills and you need to be able to explain your reports simply and clearly. Remember that financial terms like ‘accrual’ and ‘cash accounting’ mean nothing to some people, so a good Financial Officer also needs to be able to explain the financial jargon.

Being Financial Officer of a community organisation is a great honour, and a great responsibility. An active and alert Financial Officer can ensure their community group is able to extend its activities, resulting in greater benefits to the wider community. It’s a big job, and while you may be able to delegate some duties to staff and volunteers, you can’t delegate the responsibility.
What’s involved in being a Financial Officer?

The main duties of a Financial Officer are to oversee the financial administration of the organisation, review procedures and financial reporting, and advise the Board on financial strategy and fundraising.

Let’s look at what the Financial Officer needs to do in each of these areas:

Financial administration.

- Keep up-to-date records as well as an audit trail (keeping the books) for all transactions. The organisation could consider setting up a finance/audit committee as well as appointing an external auditor for overview and support of the financial management function.
- Protect the organisation against fraud and theft, ensuring safe custody of money, prompt banking, and segregation of duties relating to the financial management of the organisation.
- Present meaningful reports to the Board to support effective decision making and ensure the Board understands them.
- Make sure the Board understands its financial obligations (i.e., who to report to and when and consider setting up a compliance calendar).
- Make sure the organisation complies with tax regulations, such as GST, payroll tax and fringe benefits tax.
- Review all internal processes and reporting methods at least annually.

Often small Not for Profit organisations don’t employ staff, so the Financial Officer has to do the banking, depositing cash and cheques, paying the bills and tracking income and expenditure throughout the year. They need to be on top of the finances so the organisation knows how well it is tracking against the budget and how to respond if unexpected problems arise.

In larger organisations, professional staff manage the daily transactions and record-keeping and the Financial Officer reviews the monthly accounts. Setting up a finance committee creates the opportunity for the meaningful discussion of the financial position of the organisation outside of the Board meeting. Some Boards also appoint an audit committee whose role is to liaise with external auditors, ensure the control systems are adequate, and examine any financial irregularities.

If you’re a medium-sized organisation, and either doing the books yourself or employing someone part-time, consider using an accountant once a month or every quarter to check your work. This will give you the security of knowing your procedures are working.

Whether you are using an Excel spreadsheet, other accounting software or a simple paper-based book system, you will need to keep track of the money. You will need to compare actual financial performance against predicted financial performance so the Board understands the state of its finances. This analysis gives the Board the ability to make more informed decisions about future income or expenditure.

You may have to lodge returns with authorities such as the Australian Securities and Investments Commission (ASIC), Office of Fair Trading, Australian Tax Office (ATO), and the Australian Charities and Not-for-Profits Commission (ACNC). Find out what returns you have to lodge and the dates they are due from the ATO website. ato.gov.au

Some organisations appoint finance committees, or sub-committees, to help the Financial Officer. The advantage of having a finance committee is that a group of interested and financially knowledgeable people can share the load. Another advantage is that you can co-opt experts on to the finance committee and so bring new people into your organisation.

Review procedures and financial reporting.

You will need policies and procedures to protect the organisation and its people. These will include:

1. Controls on expenditure; such as who can authorise spending; upper limits before Board approval is needed (delegation authority); and who can sign cheques or authorise online payments.
2. Controls on income generation, including policies on appropriate forms of fund raising.
3. Systems and procedures for ensuring cash and cheque books and account information and passwords are kept securely.

You need to track:

- What your organisation owns, and how much it’s worth.
- How much money you can easily access.
- Your main sources of income.
- What you are spending money on.
- How much you owe and the repayment arrangements.
- Cash flow, so there’s money available when you need it.
Advising on financial strategy and fundraising.

There is more to managing the finances than just good bookkeeping. You need to prepare reports for members, management and sponsors outlining the current financial situation, looking at possibilities for the future and drawing people’s attention to tax implications, and potential risks or opportunities.

Financial accountability includes planning and budgeting. The budget will grow out of the strategic plan, so ideally a Financial Officer would work with the Board and Executive staff to develop strategy and help set measurable goals.

The financial strategy for a Not for Profit organisation should include the amount of funding required to deliver a forecast service level, where that funding will be sourced from and the activities required to source it, and repay any liabilities/debts incurred. It also needs to take into account reserves for future spending on plant and equipment, building improvements, or to use the money to strengthen the current operations, programs or cashflow of the organisation.

On the basis of the Financial Officer’s reports, the Board may have to modify the strategy and the budget. Unfortunately, a blow-out in expenses is more common than an unexpected increase in income. It is an important function of the Financial Officer and Board to review and monitor the budget to actual regularly.

As Financial Officer you may be asked to prepare funding proposals for grants, sponsorships or even lending/borrowing.

The Financial Officer’s duties will vary according to the organisation’s size and culture, but financial management is a team responsibility. The Financial Officer, the Chair, other members of the governing body and staff must work together to develop a budget, and monitor and evaluate financial progress.

You’ve been elected Financial Officer – Now what?

Here is a checklist of the things you need to do as soon as you get the job:

• Update details of all bank accounts and all signatories.
• If necessary, update signatories straight away. Get the forms from the bank and take them to the next meeting.
• Update the online banking access.
• Notify the ATO of the change of contact person to the new Financial Officer and any other regulatory agency if required.
• Check details of credit card or spending authorisations and organise for the return of outstanding chequebooks or credit cards.
• Check who has the financial files and get all documents and budget information, including special events budgets and details of purchases.
• Make sure you have a master copy of your financial procedures manual.
• Organise for a detailed briefing from the outgoing Financial Officer.
• Prepare a timeline of upcoming payments and dates when bills (insurance/rent/car) are due and when compliance reports need to be lodged.
• The ATO has a comprehensive checklist which you may find useful. ato.gov.au/Non-profit/Your-organisation/In-detail/Checklists/Handover-checklist-for-Not-for-Profit-administrators/
Keeping the books.

The terms ‘bookkeeping’ and ‘accounting’ are often used interchangeably, but they have different meanings, and these differences are significant.

Accounting refers to the whole process of financial recording and reporting, while bookkeeping, as its name suggests, is about keeping the books – recording your income and expenditure, assets and liabilities.

Organisations have different accounting and financial reporting needs, depending on their size and the volume of their transactions. But every organisation needs some kind of bookkeeping system.

You must be able to show how much was received and spent, from where or to whom, what it was for and who authorised it. This should be recorded using invoices, receipts, bills, cheques, electronic banking receipts and other financial records. Then you need to classify your records into meaningful categories so the information can be sorted and analysed.

The chart of accounts is a list of the different type of expenses, revenue, assets, liabilities and reserves. For example, you might have an account for salaries and another for fundraising income. In Australia, many Not for Profit organisations have referred to the National Standard Chart of Accounts (NSCOA) when setting up their own chart of accounts. Information about the NSCOA is available online at acnc.gov.au

Cash vs accrual accounting.

Many people find the terms ‘accrual’ and ‘cash’ accounting confusing when they first start dealing with finances.

In **accrual accounting**, revenue is recognised when it is earned rather than when it is received, and expenses are recognised when they are incurred, rather than when they are paid. So if you buy an item using your credit card, record the date you bought the item, rather than the date you paid your credit card bill.

With **cash accounting**, you record entries according to the date you paid someone or when someone paid you. So if you invoice someone, you record the transaction on the date that you receive the money, rather than the date that you sent the invoice. At its simplest, cash accounting uses the receipt book and bank deposit details to track income and the cheque book or electronic banking payment details to track expenditure. Cash accounting is the simplest form of bookkeeping and small organisations may find it adequate. If your organisation operates largely on short-term transactions and you don’t have long-term debts or commitments, cash accounting will work as long as your organisation stays small. If you start growing, you will need to switch to accrual accounting.

Accrual accounting is used by many organisations because it gives a better idea of your organisation’s overall medium-term financial status and performance.

Some financial accounts include a mixture of cash and accrual accounting, which can lead to further confusion. It is best to choose one method and use it consistently. When preparing and reading financial statements, it is important to understand what’s included and what’s not. Financial Officers also need to be able to explain this to other members of the Board.

<table>
<thead>
<tr>
<th>Method</th>
<th>Income is recorded when...</th>
<th>Expenses are recorded when...</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accrual</td>
<td>Earned</td>
<td>Incurred</td>
<td>Profit</td>
</tr>
<tr>
<td>Cash</td>
<td>Received</td>
<td>Paid</td>
<td>Cash</td>
</tr>
</tbody>
</table>
Let's look at the most common types of ledger accounts – assets, liabilities, equity, income and expenditure.

As the Financial Officer you are charged with maintaining the records of the organisation’s financial position and financial performance. The information that you maintain is used by the accountant to prepare the organisation’s financial statements – the Balance Sheet (also known as Statement of Financial Position) and the Income Statement (also known as Profit & Loss Statement or Statement of Financial Performance).

You may also have separate ledger accounts for large projects and fundraising events.

**Balance Sheet.**

The balance sheet shows the financial position of an organisation at a particular point in time (often the end of the financial year).

**Assets – what you own.**

Assets is the collective term for all the things that your organisation owns. There are two types of assets – current assets and non-current or fixed assets.

**Current assets** are assets you use in your everyday operations or assets you intend to dispose of within the next 12 months. They include:

- Money in the bank or on hand, also known as cash.
- Money owed to you within 12 months, known as debtors or accounts receivable.
- Items you intend to sell or give away within 12 months, known as stock or inventory.
- Other short term investments.

**Fixed or non-current assets** are used by the organisation over a longer period of time. These include things such as furniture & fittings, vehicles, land & buildings.

The wear and tear on these assets in daily use means their value declines. Your accounts need to show this depreciation; in other words, how much value your assets have lost.

Fixed assets can be further classified into tangible assets (such as land & buildings, plant & machinery etc) and intangible assets (like goodwill, patents, trademarks etc).

**Sample Balance Sheet (as at 30 June 20XX).**

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>5,000</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>1,000</td>
</tr>
<tr>
<td>Inventory</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td><strong>11,000</strong></td>
</tr>
<tr>
<td><strong>Non current assets</strong></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>111,000</strong></td>
</tr>
<tr>
<td><strong>Liabilities and equity</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>14,000</td>
</tr>
<tr>
<td>Wages payable</td>
<td>2,000</td>
</tr>
<tr>
<td>Provision for employee entitlements</td>
<td>3,000</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td><strong>19,000</strong></td>
</tr>
<tr>
<td><strong>Long term liabilities</strong></td>
<td>25,000</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>44,000</strong></td>
</tr>
<tr>
<td>Equity</td>
<td>67,000</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td><strong>111,000</strong></td>
</tr>
</tbody>
</table>
Liabilities – what you owe.

Liabilities are the money that your organisation owes to others. Again, there are two types – current and non-current.

**Current liabilities** are those which must be repaid within 12 months and include:

- Bank overdraft or credit card.
- Suppliers also known as trade creditors or accounts payable.
- Employee entitlements.
- Short term loans.
- Some lease payments.

**Non-current** or long-term liabilities are sources of finance supplied to your organisation, which are not due for repayment in the next 12 months.

Equity – your net worth.

Equity is your organisation’s net worth. It is essentially how much your assets are worth less the money you owe (liabilities). It includes the original start up capital and any accumulated surpluses.

The value of the assets, liabilities and equity form the organisation’s financial position, and are recorded in the Balance Sheet (also known as the Statement of Financial Position).
Income Statement.

Income.

Income includes all the money your organisation receives. It includes (but is not limited to) membership fees, grants, donations, sale of products and services, special events, consulting fees and sponsorships. Each type of income should be recorded separately so you have an understanding of where it comes from.

Expenditure.

Expenditure is all the money your organisation pays out to operate. The two most common types of expenditure are operating and capital expenditure.

Operating expenditure is money you use to run the organisation. It includes overheads, salaries, supplier bills, and maintenance, to name just a few.

Capital expenditure is money you spend on assets that will last longer than one year, such as computers, furniture and equipment, cars, land and buildings.

Operating and capital expenditure are treated differently as the cost of the capital expenditure is spread over the expected life of the asset. If the whole cost was put into one year’s accounts, you would have a distorted view of your profit and losses. So instead the item is recorded as an asset and a depreciation charge is made against the income each year.

For example, if your organisation bought equipment for $40,000 and you expect it will last five years, you would have an average annual depreciation charge of $8,000. The actual amounts will differ each year according to how your accountant treats depreciation.

The total income received by the organisation less its expenses is recorded in the Income Statement (also known as a Profit and Loss Statement or Statement of Financial Performance). If there is more income than expenses the organisation has made a surplus (or profit) and the funds are retained to accumulate in the organisation as Equity. This supports long-term sustainability and growth. If there are more expenses than income then the organisation needs to either borrow money or reduce assets to cover the shortfall.

Sample Income Statement.

<table>
<thead>
<tr>
<th></th>
<th>This year</th>
<th>Last year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jul–Jun $</td>
<td>Jul–Jun $</td>
</tr>
<tr>
<td><strong>Sales/Income</strong></td>
<td>500,000</td>
<td>425,000</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>245,000</td>
<td>197,000</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>255,000</td>
<td>228,000</td>
</tr>
<tr>
<td><strong>GP margin</strong></td>
<td>51.0%</td>
<td>53.6%</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>101,230</td>
<td>95,000</td>
</tr>
<tr>
<td>Rent</td>
<td>13,740</td>
<td>13,740</td>
</tr>
<tr>
<td>Rates</td>
<td>6,400</td>
<td>6,400</td>
</tr>
<tr>
<td>Heat and light</td>
<td>2,350</td>
<td>2,420</td>
</tr>
<tr>
<td>Communications</td>
<td>4,400</td>
<td>3,980</td>
</tr>
<tr>
<td>Insurance</td>
<td>1,200</td>
<td>1,100</td>
</tr>
<tr>
<td>Depreciation</td>
<td>4,100</td>
<td>3,500</td>
</tr>
<tr>
<td>Legal &amp; professional fees</td>
<td>2,500</td>
<td>2,300</td>
</tr>
<tr>
<td>Accounting &amp; auditing fees</td>
<td>5,000</td>
<td>4,500</td>
</tr>
<tr>
<td>Travel expenses</td>
<td>12,000</td>
<td>11,800</td>
</tr>
<tr>
<td>Advertising and PR</td>
<td>24,350</td>
<td>24,220</td>
</tr>
<tr>
<td>Repairs</td>
<td>3,720</td>
<td>2,790</td>
</tr>
<tr>
<td>Printing &amp; stationery</td>
<td>6,240</td>
<td>5,950</td>
</tr>
<tr>
<td>Sundry expenses</td>
<td>940</td>
<td>800</td>
</tr>
<tr>
<td>Bank interest &amp; charges</td>
<td>1,110</td>
<td>1,200</td>
</tr>
<tr>
<td><strong>Total operation expenses</strong></td>
<td><strong>189,280</strong></td>
<td><strong>179,700</strong></td>
</tr>
<tr>
<td><strong>Net profit</strong></td>
<td>65,720</td>
<td>48,300</td>
</tr>
<tr>
<td>NP margin</td>
<td>13.1%</td>
<td>11.4%</td>
</tr>
</tbody>
</table>
Tracking the cash.

Organisations will receive income and make payments via a number of different methods. Keeping track of what’s coming in and what’s going out is vital to having accurate records to build financial statements and meet audit requirements.

Cash handling.

Here are some tips for good cash handling:

- Count and bank cash promptly (many ATMs take deposits after hours).
- Issue receipts (standard receipt books are available from most newsagents) and use your copy to balance the cash on hand.
- Sometimes receipts are not appropriate in which case you should count the money at the end of each event (or at regular intervals), and record how much you have collected and what it was for.
- Never pay wages or expenses from cash waiting to be deposited.

Keep a petty cash box for paying for small items such as stamps or parking. Place an upper limit on how much can be spent on any one item. Any expenses above that amount should be paid for using cheques, credit cards, or online banking so you have a record of them.

- Keep about a month’s petty cash on hand. Enough so you don’t run out but not so much that it becomes a security risk.
- Get receipts for spending and document all petty cash spending through vouchers or a book.
- Balance petty cash regularly.

Sample petty cash records — October 20XX.

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
<th>Cash out</th>
<th>Cash in</th>
<th>Cash on hand</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/10/XX</td>
<td>Opening balance</td>
<td></td>
<td></td>
<td>$60.40</td>
</tr>
<tr>
<td>02/10/XX</td>
<td>Postage</td>
<td>$7.10</td>
<td></td>
<td>$53.30</td>
</tr>
<tr>
<td>05/10/XX</td>
<td>Morning tea supplies</td>
<td>$17.80</td>
<td></td>
<td>$35.50</td>
</tr>
<tr>
<td>12/10/XX</td>
<td>Reimburse Mel’s parking</td>
<td>$8.90</td>
<td></td>
<td>$26.60</td>
</tr>
<tr>
<td>15/10/XX</td>
<td>Replenish from account</td>
<td></td>
<td>$73.40</td>
<td>$100.00</td>
</tr>
<tr>
<td>16/10/XX</td>
<td>Postage</td>
<td>$5.60</td>
<td></td>
<td>$94.40</td>
</tr>
</tbody>
</table>
Bank reconciliations.

Your bank statements are important financial records. Ask your bank for statements that finish at the end of a month as this will make it easier for you to reconcile your accounts. It sounds obvious, but unless you request it, you may find your bank statement starts according to the date you opened the account.

A bank reconciliation is a schedule that explains the differences between the bank statement balance and the organisation’s cash balance. Prepare your bank reconciliations by matching all deposits and withdrawals with your records of income and expenditure. Your bank statement may not equal your cash records because of timing differences, unpresented cheques, and other information not in your cash records, such as interest paid or received. The reconciliation is a record of why they are different. By reconciling regularly (monthly is highly recommended) differences can be rectified early and not become a potential problem in the future.

Sample bank reconciliation.

Bank account: Operating account 03X-XXX 123456

Date of statement: 31/10/20XX

<table>
<thead>
<tr>
<th>Outstanding withdrawals</th>
<th>Date</th>
<th>Detail</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27/10/XX</td>
<td>Chq010102</td>
<td>$1,500.00</td>
</tr>
<tr>
<td></td>
<td>28/10/XX</td>
<td>Chq010103</td>
<td>$56.10</td>
</tr>
<tr>
<td></td>
<td>30/10/XX</td>
<td>Chq010105</td>
<td>$565.50</td>
</tr>
<tr>
<td></td>
<td>31/10/XX</td>
<td>Chq010106</td>
<td>$249.55</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$2,371.15</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Outstanding deposits</th>
<th>Date</th>
<th>Detail</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31/10/XX</td>
<td>Inv177658</td>
<td>$1,540.00</td>
</tr>
<tr>
<td></td>
<td>31/10/XX</td>
<td>Inv177660</td>
<td>$2,130.00</td>
</tr>
<tr>
<td></td>
<td>31/10/XX</td>
<td>Inv177665</td>
<td>$965.00</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$4,635.00</td>
</tr>
</tbody>
</table>

Reconciliation.

Closing cash book balance $65,473.20
Add: Outstanding withdrawals/unpresented cheques $2,371.15
Subtotal $67,844.35
Less: Outstanding deposits $4,635.00
Bank account balance $63,209.35
Software or shoebox?

A computer system is not a substitute for paper records. Make sure you keep a hard copy audit trail of all your financial transactions, including receipts, cheque book stubs and tax invoices. You could be audited by the Australian Tax Office at any time.

### Sample income and expenditure ledger

<table>
<thead>
<tr>
<th>Name of organisation</th>
<th>Opening balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month</td>
<td></td>
</tr>
</tbody>
</table>

### Income

<table>
<thead>
<tr>
<th>Date</th>
<th>Receipt</th>
<th>From</th>
<th>Purpose</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Expenses

<table>
<thead>
<tr>
<th>Date</th>
<th>Invoice</th>
<th>From</th>
<th>Purpose</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

There is no one method of bookkeeping. Small organisations may use a paper-based system, but larger organisations will need to use a software package to ensure they are processing transactions as efficiently as possible and with the lowest potential for error. Spreadsheet programs are an intermediate step between paper-based and software systems. Spreadsheets may not have the security and control of software packages, but they are cheaper to run.

Also ensure you make regular back-ups of your computer records. Hard drives do crash, and data does get lost. Keep your back-ups in another location, so they are safe in the event of a fire or burglary.

Very small organisations can get by with what’s called ‘shoebox’ accounting with all accounts kept in a box or filing cabinet. Try to organise your material into folders, large envelopes or separate compartments of a folder for separate items such as:

- Correspondence.
- Bank statements.
- Outstanding bills.
- Paid bills and receipts.
- Asset file with instructions and guarantees.
- Lease file for equipment and rental hire.
- Insurance.
- Cash book – record of your cash receipts and payments.
- Statutory information – constitution, budget and minutes.

One step up from shoebox accounts is a ledger or a journal of income and expenditure. You can use books for ledgers, develop your own spreadsheet or use commercial software. Information in ledgers will include:

- Date.
- Receipt number (if appropriate).
- Who was paid.
- Who paid the money.
- Purpose.
- Account.
- Amount.
Case study 1

A strategic approach.

Taking on the role of Financial Officer in any organisation can be daunting, however accepting the inaugural position with UN Youth, the largest youth-run NGO in Australia, was never going to be easy. Luckily Allen Chen, at the time a first-year Commerce and Economics student at ANU, was up for the challenge.

“To understand the contribution Allen made to the UN Youth, you have to understand two things: how challenging his job was structurally, and how bad things were B.C. (Before Chen),” jokes Alec Webley, who served alongside Allen as Secretary.

When Allen took on the position of Financial Officer, the financial management of the UN Youth was in disarray. Financial records were inaccurate and the organisation had not submitted Annual Returns for the previous two financial years. Undeterred, Allen compensated for his lack of experience with his passion, diligence and attention to detail.

“In a single year, Allen reconstructed and prepared our past year’s accounts for a full audit,” recounts Alec. “He implemented a new national financial transfer system, transitioned our accounts to MYOB, trained the Financial Officers in the state and territories in how to use MYOB, and switched banks to Westpac, all the while managing the financial operations of the organisation as we shifted to a new Company Limited Guarantee structure.”

“In short, he was our single most indispensable national officer.”

Under Allen’s financial management, the national body was able to operate 20% under their allocated budget - a success they were able to leverage to attract new corporate sponsorships.

Talking about his experiences, Allen remains thankful for the extremely supportive team he had around him. “They were always happy to assist whenever they could and, in the end, that’s what helped get us through.”

Fast forward two years and Allen has moved on from his Financial Officer’s role, taking the helm as President of the UN Youth’s ACT division. His legacy is perhaps his greatest achievement; the establishment of a strong financial management system that will long outlast his time in the organisation.
Strategy makes the budget work, not vice versa.

Strategic planning comes before budgeting. The Financial Officer should be involved in the overall business planning, which involves defining or clarifying future directions and setting medium and long-term goals.

Not for Profit organisations need to be clear about why they exist and what they want to achieve. This may sound obvious, but it is easy to become driven by your budget, rather than your budget serving your organisation’s mission. Unlike in the for profit world, your budget may not focus on generating income but may be on how to spend the funds you have received in the most effective manner.

Think of your budget as recording what your strategy will look like from a numbers perspective.

Your planning could include a SWOT (strengths, weaknesses, opportunities and threats) analysis, which is a review of where you stand and what you face as an organisation. It is important that your planning is not limited to the Financial Officer preparing the numbers.

Your organisation needs to consider its overall purpose or mission and what actions it is going to take in the short, medium, and long term to achieve that. You should also take into account who is interested in what you are doing (i.e. your stakeholders) and how their views might impact on your strategy, planning and ultimately your budget.

Once you have examined your own organisation, take a look at the environment in which your organisation operates. Are there any factors, such as interest rates, new legislation or changing demographics that will impact on your organisation, either positively or negatively? If your environment has changed, what can you do to adapt to these changes?

Depending on how the organisation’s funding is sourced the budget is then prepared by either determining how much you can do with the funding you get, or how much funding you need to source to achieve your goals.

Now you have set your goals and objectives for the year, translate them into an action plan. This process includes:

- Determining priorities.
- Working out all the tasks necessary to achieve each goal.
- Allocating responsibilities for each task.
- Setting a timeframe and deadline for each task.

Deadlines need to be realistic or they will be ignored. Some organisations set an end date for a desired goal and plan backwards. Others work forward, assigning dates for the completion of a task, culminating in the end goal.

**Questions to aid planning.**

- Is your purpose clearly understood and articulated?
- What does your organisation do specifically to fulfill its social purpose?
- Does your organisation have a defined organisation structure — and do your members, volunteers, and staff understand it?
- What resources are needed to achieve the purpose and where will you get them?
- What processes, policies, and procedures do you need?
- What might stop you from achieving your purpose?
- What procedures do you have for reporting discrepancies?
Where the money comes from, where it goes.

To prepare for your first budget planning session, you will need to study all your income sources and expenditure.

It is critically important to understand both where the money comes from and where it goes to.

It is helpful for an organisation to understand whether they are an “asking” or an “earning” organisation. For example, a local soccer club could be considered to earn its income through the registration fees of its members. The way it deals with its members will be different to how a community volunteer organisation, which asks for funding from the local council to provide support to the elderly, deals with the council and the elderly.

Income sources.

Donations: Money from well-wishers for many organisations may be the major income source. Your contact list of past donors and future prospects will become a valuable resource, as will an understanding of how to retain their goodwill and donation dollars.

Fundraising events: A significant proportion of many budgets comes from fundraising. Many organisations run the same fundraising events year after year, but you also need to watch for new opportunities as the success of your traditional fundraising activities may vary from year to year.

Membership: Many Not for Profit organisations get a high proportion of their income from membership fees. You should keep a close eye on when memberships fall due, so you can remind your members to renew promptly and follow up their renewal. It’s also important to ensure your membership continues to provide value to retain and grow your members.

Grants: Many Not for Profit organisations receive grants from philanthropic bodies or from federal, state or local governments. There is plenty of competition out there for grants so having the ability to articulate a compelling case as to why the grant should be awarded to your organisation is a valuable resource. These grants are usually in the form of a contract with agreed outcomes.

A key responsibility in managing contracts is to be aware of the milestones and the reporting and delivery conditions under the contract. Also read the fine print and be aware of the legal and financial implications if you do not meet the contract’s specifications. The ability to meet the contract requirements and achieve the agreed outcomes is critical to future grant applications and renewals. Be sure to factor into the project budget all your own contributions – your administrative costs, the time of your volunteers, the management required from your staff, etc.

Remember too to be realistic when you are preparing a project budget. Unless you are careful your total actual costs may be larger than the grant request!

Fee for service: Where appropriate some organisations place a price on their service to the community and collect fees for services provided. In the right situation this can be a more controllable and sustainable source of income for some organisations. Depending on the organisation the price may simply be to cover their costs, or it may generate profits to provide other services free of charge.

Sponsorships: Sponsorships are another source of income provided by an external party, often a large corporate body or local business. In return for providing money to run an event or provide a particular service the sponsoring business wants recognition for their support of the organisation via naming rights or marketing opportunities. Similar to grants there is an agreement between the two parties on an amount to be provided, how that will be used, and the outcomes the sponsoring business is looking for.

Bequests and investments: If your organisation receives large bequests, these often come with specific requests as to how the money is to be used. It’s important that these wishes are adhered to which may require implementation of a specific investment strategy rather than just adding the funds to your annual budget.

Expenditure.

Expenditure is all the money spent by the organisation on either delivering their service or simply operating. It includes everything from rent, to wages, to marketing, to technology, to cleaning, to name just a few. It is often useful to look at all costs from the perspective of whether those costs are incurred in the fulfilment of the organisation’s purpose or whether they are a cost to remain operational. Logically most organisations will look to keep their operating costs to a minimum to ensure as much of their funding as possible goes to delivering their service to the community. Many stakeholders also take a keen interest in how their money is used by an organisation.

Many of the costs to operate, such as rent, licencing, utilities, and some wages, are known as fixed costs because the organisation incurs those costs whether or not they provide their service. On the other hand those costs that are incurred purely because they deliver their service (eg direct wages and/or freight, consumables) are known as variable costs. The more of the service that is delivered the higher the variable costs however the fixed costs will remain the same up to a certain level of delivery. It is useful for an organisation to understand their delivery costs to help forecast how much they will be able to do at a certain level of income and when they may need to increase their income level to continue to grow their service delivery.

Managing expenditure is about making the right decisions on what to spend on. Each expense should be considered in the light of how it assists the organisation in achieving its purpose, and the value the organisation will get from that spend as opposed to something else. It’s important to take both a long term view as well as being conscious of the short term money requirements. A short term tightening of expenses on something such as marketing can have a detrimental impact in the long run and needs to be carefully considered. Likewise the short term financial position shouldn’t be jeopardised for a possible future benefit such as a large expense to purchase goods in bulk to obtain a discount.

Effectively budgeting then managing costs within that budget is a key role of the Financial Officer.

One of the keys to success of a community organisation is that it has the trust and confidence of its stakeholders. Wherever your funds come from and wherever they go it is important to ensure that these funds are dealt with as they were intended and your records reflect this.
Eight simple steps to a budget.

Budgeting is simply the process of planning your organisation’s finances for a specified period, usually 12 months. It is made up of all the activities you plan to undertake in the next 12 months expressed in terms of money.

In other words, it is a statement of anticipated income, expenditure, profits and cash flows.

A budget is a key management tool, as many Not for Profits operate without capital or reserves, so operating losses can have a devastating impact. Your budgeting will tell you whether your income is likely to exceed your expenditure, and if so by how much.

The Financial Officer does not usually write the budget alone. It is prepared in consultation with the Board and staff. It may be tempting to hand over the budget to your accountant, but unless they are on your management team they may not be close enough to your organisation’s goals and objectives to do a thorough job.

A common way of determining the budget is to refer to the past period as a baseline then adjust the income and costs by applying a percentage increase for inflation or making alterations for expected changes in prices and volume. Budgets prepared this way are called incremental budgets.

This method has its disadvantages as it does not consider whether activities and costs are still appropriate: if a mistake is made one year, it is likely to be repeated the following year.

With zero-based budgeting, you start from scratch each year and justify spending on a cost-benefit basis. It is not usually practical to use zero-based budgeting for all your activities as it would be too time-consuming, but you should review your activities regularly to see if the costs are still relevant.

One practical approach is to use the incremental approach for fixed costs and a zero-based approach for variable costs and special one-off projects.

Do some ‘what if?’ scenarios. What if you need another staff member? What if a crucial Board member resigns? What if you lose a grant? Imagine the worst and the best that could happen financially, then look at how you would cope with it. It may seem odd to worry about the best case scenarios, but a sudden upsurge in demand for your services could place your organisation under financial stress.

Some budgets will be drawn up for the financial year of July to June and others will operate on a calendar year.

**Budgeting example.**

Here are the eight steps that Organisation XYZ (a fictitious organisation used as an example only) took to prepare its annual July to June budget:

1. Looked at last year’s income.
2. Looked at the timing of last year’s income.
3. Asked, ‘What will happen this year?’
4. Worked out this year’s overall figures.
5. Drew up the income side of the budget month by month.
6. Followed the same steps for expenditure.
7. Discussed the options and made necessary adjustments.
8. Presented the budget for sign-off.

The organisation reviewed past records of income (membership, sales, grants, fundraising, consultancy, interest), looked at past records of expenditure (room hire, wages and telephone), assessed income and expenditure, predicted increases or decreases in the year ahead, studied timing, noticed when most income flowed in and when regular bills were paid, and lastly, looked at likely variations in the year ahead.
Step 1. Last year’s income.

XYZ started by reviewing income received in the previous year.

### Last year’s income.

<table>
<thead>
<tr>
<th>Government annual funding</th>
<th>Last year</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal government</td>
<td>20,000</td>
<td></td>
</tr>
<tr>
<td>State government</td>
<td>40,000</td>
<td></td>
</tr>
<tr>
<td>Local government</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Other grants</td>
<td>3,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total grants income</strong></td>
<td><strong>65,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Other income

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Community events</td>
<td>20,000</td>
</tr>
<tr>
<td>Sponsorship</td>
<td>22,000</td>
</tr>
<tr>
<td>Consultancy</td>
<td>48,000</td>
</tr>
<tr>
<td>Donations</td>
<td>57,000</td>
</tr>
<tr>
<td>Fundraising</td>
<td>29,500</td>
</tr>
<tr>
<td>Interest</td>
<td>500</td>
</tr>
<tr>
<td><strong>Total other income</strong></td>
<td><strong>177,000</strong></td>
</tr>
</tbody>
</table>

**Total income**: 242,000

Step 2. Timing of last year’s income.

XYZ looked at when it received various income in the previous year.

### Timing of last year’s income.

<table>
<thead>
<tr>
<th>Government annual funding</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal government</td>
<td>20,000, 5,000 a quarter</td>
</tr>
<tr>
<td>State government</td>
<td>40,000, Lump sum in January</td>
</tr>
<tr>
<td>Local government</td>
<td>2,000, 1,000 upfront, 1,000 on finish</td>
</tr>
<tr>
<td>Other grants</td>
<td>3,000, 1,000 three times a year</td>
</tr>
<tr>
<td><strong>Total grants income</strong></td>
<td><strong>65,000</strong></td>
</tr>
</tbody>
</table>

### Other income

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Community events</td>
<td>20,000, Festival in March</td>
</tr>
<tr>
<td>Consultancy</td>
<td>48,000, 8,000 every two months</td>
</tr>
<tr>
<td>Donations</td>
<td>57,000, 10,000 annual Christmas campaign; 47,000 from six large donors</td>
</tr>
<tr>
<td>Fundraising</td>
<td>29,500, June car raffle, $25,000; chocolates/wine bottling/stall throughout the year, $4,500</td>
</tr>
<tr>
<td>Interest</td>
<td>500, Paid quarterly</td>
</tr>
<tr>
<td>Sponsorship</td>
<td>22,000, 2,000 in July, 10,000 in January, 10,000 in March</td>
</tr>
<tr>
<td><strong>Total other income</strong></td>
<td><strong>177,000</strong></td>
</tr>
</tbody>
</table>

**Total income**: 242,000
Step 3. What will happen this year?

XYZ reviewed the organisation’s plans for the year and factored in any changes in the pattern of activities from the previous year. It then estimated the effect of any likely changes in income sources or expenditure demands for the coming year.

What will happen this year.

<table>
<thead>
<tr>
<th>Government annual funding</th>
<th>Last year</th>
<th>This year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal government</td>
<td>20,000</td>
<td>Lost</td>
</tr>
<tr>
<td>State government</td>
<td>40,000</td>
<td>Same</td>
</tr>
<tr>
<td>Local government</td>
<td>2,000</td>
<td>Same</td>
</tr>
<tr>
<td>Other grants</td>
<td>3,000</td>
<td>Raised to 5,000</td>
</tr>
<tr>
<td><strong>Total grants income</strong></td>
<td><strong>65,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other income</th>
<th>Last year</th>
<th>This year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community events</td>
<td>20,000</td>
<td>Expect extra 5,000</td>
</tr>
<tr>
<td>Consultancy</td>
<td>48,000</td>
<td>Same</td>
</tr>
<tr>
<td>Donations</td>
<td>57,000</td>
<td>Add 5,000 for midyear campaign</td>
</tr>
<tr>
<td>Fundraising</td>
<td>29,500</td>
<td>Same</td>
</tr>
<tr>
<td>Interest</td>
<td>500</td>
<td>Same</td>
</tr>
<tr>
<td>Sponsorship</td>
<td>22,000</td>
<td>Down to 18,000</td>
</tr>
<tr>
<td><strong>Total other income</strong></td>
<td><strong>177,000</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td><strong>242,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

Step 4. This year’s figures?

XYZ looked at the likely figures for the year ahead. The most significant factor was that XYZ will no longer receive a Federal government grant ($20,000). Even with increased fundraising and raising more money from community events, XYZ will still have $12,000 less income this year.

This year’s projected figures.

<table>
<thead>
<tr>
<th>Government annual funding</th>
<th>Last year</th>
<th>This year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal government</td>
<td>20,000</td>
<td>0</td>
</tr>
<tr>
<td>State government</td>
<td>40,000</td>
<td>40,000</td>
</tr>
<tr>
<td>Local government</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Other grants</td>
<td>3,000</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>Total grants income</strong></td>
<td><strong>65,000</strong></td>
<td><strong>47,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other income</th>
<th>Last year</th>
<th>This year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community events</td>
<td>20,000</td>
<td>25,000</td>
</tr>
<tr>
<td>Consultancy</td>
<td>48,000</td>
<td>48,000</td>
</tr>
<tr>
<td>Donations</td>
<td>57,000</td>
<td>62,000</td>
</tr>
<tr>
<td>Fundraising</td>
<td>29,500</td>
<td>29,500</td>
</tr>
<tr>
<td>Interest</td>
<td>500</td>
<td>500</td>
</tr>
<tr>
<td>Sponsorship</td>
<td>22,000</td>
<td>18,000</td>
</tr>
<tr>
<td><strong>Total other income</strong></td>
<td><strong>177,000</strong></td>
<td><strong>183,000</strong></td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td><strong>242,000</strong></td>
<td><strong>230,000</strong></td>
</tr>
</tbody>
</table>
Step 5. Month-by-month income budget.
XYZ drew up the income side of its budget based on their knowledge of the timing of each income stream. (see sample budget)

XYZ followed the same steps for its predicted expenditure, analysing previous expenditure and asking themselves if future costs are likely to remain the same.

Step 7. Discuss options.
If your budget indicates there is a shortfall, options may be:
• Reduce programs or activities.
• Reduce costs (you must be realistic).
• Run a deficit (Can you do it? Is this sustainable?).
• Raise alternative funds.
On the other hand if the budget indicates there is a surplus then the options may be:
• Increase or expand programs or activities.
• Accrue as a reserve for future expenditure.
• Improve the quality of the programs or activities.
• Consider whether all funding sought is necessary.
By having a realistic budget you will have a rational base to make decisions and to ensure you meet your obligations.

Once you have prepared your budget, present it to the Board for discussion and sign-off. Record the discussion and ask someone to move that the budget be accepted. Once it has been seconded, the Board can vote to accept the budget. Once the Board approves the budget, the Financial Officer is responsible for keeping track of how closely the actual figures match budget expectations, including reporting and investigating any major variances.

Agenda Item 8. Board approval for XYZ’s budget.
XYZ’s budget was tabled and discussed. Areas of concern included the loss of our federal grant. We hope to make up some of this deficit by increased fundraising and will also decrease spending on one of our programs, which is now receiving more support from the local community. XXX as Financial Officer moved that the budget be accepted. YYY seconded the motion and the budget was accepted unanimously.
<table>
<thead>
<tr>
<th></th>
<th>July</th>
<th>Aug</th>
<th>Sept</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
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<th>Mar</th>
<th>April</th>
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<td>Other expenses</td>
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<td>-13,783</td>
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<td>-1,796</td>
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</table>
Cash flow is crucial.

All Not for Profit organisations need to manage their cash flow so they have enough money to pay the bills. These bills include day-to-day running expenses and large sums predicted and planned for in your annual budget.

In cash flow management, timing is critical. You must have money available to pay the bills when they come in. If you run out of cash you can’t pay your bills on time and unless arrangements are made to cover shortfalls, you may end up in financial difficulty.

Paying the phone bill a little late may seem trivial, but if you are not in control of your cash flow minor problems can escalate. A lack of cash flow may mean that you have to reduce staff or services. Even profitable organisations have closed due to cash flow problems.

It is the responsibility of every Board member (and especially the Financial Officer) to ensure that systems are in place that will prevent the organisation from trading while insolvent. Any breach of this requirement can create financial risks for individual Board members.

For many community based organisations, income isn’t known at the beginning of the year as it is based on the generosity of donors etc. Especially in these circumstances, a good cashflow regularly reviewed will assist in making your decisions regarding the level of activity of the organisation.

What exactly is a cash flow forecast (sometimes called a cash budget)?

A cash flow forecast has the following crucial characteristics:

- It is a numerical picture of your predicted flow of funds for a particular period, usually month-by-month for the year ahead. Some organisations find it helpful to look at shorter periods, such as weeks or fortnights, but although useful this is more time consuming.
- It allows you to predict what cash you think will come in and how much will go out over that period.
- It is an extension of your budget and you should do it at the same time as you prepare your budget for the year ahead.
- Factor into your cash flow all payments such as wages, asset purchases, loan repayments etc.

Creating a cash flow forecast is not difficult once you’ve got the figures, but getting accurate figures is the challenge. The easier way to do it is to start with previous budgets, cash flow statements or cash flow forecasts to see if there are clear patterns of income and expenditure – then consult your current strategy and budget to see if any major income or expenditure is expected and when this is likely to occur.

Keep a record of any estimates, assumptions or decisions made in preparing the cash flow. This will be useful when presenting your cash flow to the Board or other stakeholders, as well as monitoring the cash flow throughout the year.

If you have staff or sub-committees responsible for their own budgets these will also need to be included in your overall forecast.

Any cashflow forecast will vary from what will actually happen. Use this tool over the year to see where you are heading, how accurate your assumptions have been, and whether any changes may need to be made.

Your cash flow forecast must also include estimated bank balances for easy comparison with your actual bank balances. The closing balance for each period is the opening balance for the next period.

Common elements of a cash flow forecast are:

<table>
<thead>
<tr>
<th>Cash in</th>
<th>Cash out</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants.</td>
<td>Staff.</td>
</tr>
<tr>
<td>Sale of goods and services.</td>
<td>Telephone bills.</td>
</tr>
<tr>
<td>Subscriptions.</td>
<td>Power bills.</td>
</tr>
<tr>
<td>Return on investments.</td>
<td>Rent.</td>
</tr>
<tr>
<td>Donations.</td>
<td>Travel.</td>
</tr>
<tr>
<td>Fundraising activities.</td>
<td>Stationery.</td>
</tr>
<tr>
<td>Sponsorships.</td>
<td>Printing and copying.</td>
</tr>
<tr>
<td>Postage.</td>
<td>Servicing finance.</td>
</tr>
<tr>
<td>Tax.</td>
<td>Cash used to buy assets.</td>
</tr>
<tr>
<td>Equipment purchases.</td>
<td>Special project purchases.</td>
</tr>
</tbody>
</table>
How to improve your cash flow management.

You can improve your cash flow management by:
• Developing an accurate cash flow forecast linked to your budget and strategic plan.
• Separating the recording and handling of cash.
• Banking cash promptly.
• Limiting payments by cash through use of direct debits and other payment methods.
• Make sure banking passwords and access are kept secure.
• Keeping cash in a safe place.
• Reconciling bank statements regularly.
• Collecting money from debtors as quickly as possible.
• Paying suppliers on time, not early.
• Centralising payment procedures.
• Developing close relationships with suppliers to negotiate mutually beneficial payment policies.
• Reviewing your cash situation regularly and analysing significant discrepancies from your budget.
• Following appropriate authorisation and risk management policies.

Legal structures.

The Not for Profit sector is extremely diverse. Some organisations are incorporated, some have their own acts of parliament, some are mutual societies, and others are branches of church-based organisations, just to name a few. The legal structure of an organisation will determine its tax obligations, reporting requirements, and legal obligations.

The most common legal structures for Not for Profit organisations are:
• Unincorporated associations.
• Incorporated associations.
• Company limited by guarantee.
• Co-operatives.
• Charitable trusts.

A brief description of each is below.

Unincorporated associations – the simplest structure available and generally used by small, informal community groups.

These groups often act together through a shared interest or purpose but have limited income and only conduct a limited range of activities. This type of organisation does not have a separate legal identity and cannot hold assets or offer legal protections for members. This means that people acting for the organisation are personally liable for their actions. They are simple to establish and may or may not have a formal constitution which generally means there are very few administrative requirements.

Incorporated associations – the most common structure adopted by a significant number of Not for Profit organisations in Australia. Incorporated associations are registered with the relevant governing body in each state and as such are subject to the incorporation laws of that state. This will determine what level of administration and financial reporting is required. Incorporation offers some protections to an organisation’s members and office-holders as it is a separate legal entity and can hold assets, enter into contracts, and be sued in its own right.

Company limited by guarantee – a more complex type of structure that gives an organisation its own legal entity and allows it to enter into contracts, own assets etc. A company limited by guarantee is a special type of public company, regulated by the Australian Investments and Securities Commission, whose members specify the amount they are willing to contribute to the organisation if it is wound up, which limits their liability in that instance. It comes with very strict requirements around company conduct, financial reporting, and communications with members. While it allows organisations to operate nationally the strict requirements may be too onerous for smaller less resourced groups. However the stricter reporting regulations do offer more comfort for stakeholders in larger organisations that may help when looking to secure funding.

Co-operatives – a less common structure often used by groups who form because they have a common need or purpose. For example, a group of sugar cane growers might form a co-operative to purchase assets that all of the growers can use. Co-operatives are democratically owned and managed, and unlike other legal structures for Not for Profit organisations, subject to their constitution, they may carry out for-profit ventures and distribute profits to members. They are regulated under each state’s co-operative legislation.

Charitable trusts – a legal structure used when the purpose of the organisation is to distribute funds held in trust to other Not for Profit organisations. These trusts do not undertake actions themselves to fulfil a social purpose. There are a number of different types of charitable trusts. Each is established and administered in accordance with a specific trust deed.
Tax facts.

Not for Profit organisations may have to pay income tax, Goods and Services Tax (GST), fringe benefits tax and payroll tax. This will have implications for the way you keep your accounts and your transaction records.

Tax concessions.

Many community organisations are exempt from paying income tax, but this is not an automatic right.

If you are a charity, you must be registered with the Australian Charities and Not for Profits Commission (ACNC) before you can apply to the Australian Taxation Office (ATO) to become income tax exempt.

Information on ACNC registration is available at acnc.gov.au

Not for Profit organisations that are not charities can self-assess their income tax status and exemption.

Ask the ATO for their requirements if you’re not certain whether your organisation is tax exempt. Information for Not for Profits is also available on-line at ato.gov.au/non-profit

To qualify for a tax exemption your activities must not be carried out for the profit or gain of individual members. Organisations such as professional associations, which operate for the common benefit of members, can qualify as Not for Profit organisations.

Your Not for Profit organisation can still make a profit, but these profits must be used to carry out your organisation’s purposes, not distributed for personal gain to members, owners or other individuals.

Although Not for Profits can’t operate for the financial gain of individual members, they can pay their members for their services or compensate them for expenses they incur on behalf of the organisation.

Concessions available to many not-for-profit organisations are:

- Income tax exemptions.
- GST concessions.
- FBT exemption or rebate.

If your Not for Profit organisation is exempt from income tax, it is also exempt from Capital Gains Tax (CGT)

Income tax.

Are you tax-exempt?

Organisations that can be exempt from income tax include:

- Charities (registered with the ACNC and endorsed by the ATO).
- Community service organisations.
- Cultural organisations.
- Educational organisations.
- Employment organisations.
- Health organisations.
- Resource development organisations.
- Scientific organisations.
- Sporting organisations.

To check if your organisation is exempt visit ato.gov.au

Not for Profit organisations that are not exempt need to determine which income is taxable and which is not. Receipts derived for mutual dealings with members are not assessable but expenses incurred to get mutual receipts are not deductible.

Organisations with taxable income of $416 or less a year do not have to lodge an income tax return. If your organisation’s taxable income is more than $416 a year, you have to lodge an income tax return.

Australian Business Number.

Even if your organisation is income tax exempt, you need an Australian Business Number (ABN) for other tax obligations.

A Not for Profit organisation can use its ABN to:

- Register for GST and claim tax input credits.
- Register for Pay As You Go (PAYG).
- Deal with investment bodies.
- Apply to the ATO for endorsement as a deductible gift recipient (DGR), tax concession registered charity or income tax exempt fund.
- Avoid having tax withheld from your income.
- Deal with the ATO on other taxes.

For further information on ABN requirements visit ASIC.gov.au
**Business Activity Statements.**

You will need to lodge a Business Activity Statement (BAS) monthly if your annual turnover is $20 million or more. Otherwise, you have the option of lodging your BAS monthly or quarterly.

The activity statement is used to report and pay PAYG (instalments and withholding), FBT instalments, GST and related tax obligations, and company tax instalments.

The ATO will send you a personalised activity statement for you to lodge, with some parts already filled in. Your activity statement will generally only show the obligations that relate to you. For example, if you do not have a PAYG withholding obligation, this section will not appear on your activity statement.

You must complete an activity statement at the end of each reporting period (month or quarter) if you have any PAYG, fringe benefits tax or GST and related obligations, even if the amount for that period is nil.

**Goods and Services Tax.**

Goods and Services Tax (GST) is a broad-based tax of 10 per cent on most goods and services. It is a transaction-based tax, so no organisation is exempt.

Not for Profit organisations must register for GST if their annual turnover is $150,000 or more and they may choose to register if it is lower. Other organisations must register for GST if their annual turnover is $75,000 or more and they may choose to register if it is lower. If your organisation is not registered for GST, you cannot charge GST on your goods or claim a GST credit for goods and services you’ve bought.

If you are registered for GST, you must add 10 per cent to the price of your taxable goods and services and pay the ATO 1/11th of the price you charge for them.

GST is included in the purchase price of many things you buy for your organisation. If you’re registered for GST, you can claim a credit for the GST you’ve paid – this is called an input tax credit. You must have a tax invoice for your purchase in order to claim input tax credits.

Some goods and services are GST-free; for example, basic food, exports and some health services. However, if you make GST-free supplies, you can claim an input tax credit for the GST component of the goods and services you bought to make the GST-free supplies.

Some goods and services, such as financial services, are input taxed and so do not include GST in the price. You can’t claim input tax credits for GST for anything you acquired to make an input taxed supply.

The ATO gives the example of a bank buying a calculator to calculate interest on its housing loans. GST is included in the price of the calculator, but the bank can’t claim an input tax credit for this GST.

Another example is charity fundraising events such as fetes, balls, galas and dinners. These can be input taxed, which means that no GST is charged on the fundraising revenue and you can’t claim any input tax credits for the expenses of running the events.

**Pay As You Go system.**

Pay As You Go (PAYG) instalments is a system for making regular payments to the ATO toward the anticipated income tax liability. It also covers tax withheld from employee remuneration and any supplier payments where their ABN hasn’t been provided and tax has been withheld.

**PAYG withholding.**

With the PAYG system you withhold tax from payments you make. Even if you are an income-tax-exempt organisation, you are not exempt from PAYG withholding.

Under PAYG withholding, if you make certain listed payments you must withhold an amount from the payment and send it to the ATO.

Your organisation has PAYG withholding obligations if you make any of the following types of payment:

- Salary, wages, commissions, bonuses or allowances to an employee.
- Remuneration to a Director or member of a Committee of Management.
- Salary, wages, commission, bonuses or allowances to an office holder.
- Eligible termination payments, pensions and annuities.
- Social security and compensation payments.
- Payments for work or services under labour hire arrangements.
- Payments for work or services where your organisation and an individual have a voluntary agreement to withhold.
- Payments to a business which does not quote an ABN (highest marginal tax rate).

As an employer, you must withhold the correct amount from your employees’ salary or wages and send this to the ATO. Tax tables show you how much to withhold. At the end of the financial year, you must give employees a payment summary to include in their tax returns.
Exemptions.
You do not need to withhold an amount if:
• The whole of the payment is exempt income of the supplier.
• The payer is an individual paying for a supply of a private or domestic nature.
• The payment does not exceed $75.
• The supply is made by a member of a local governing body under a State or Territory law.
• The supply is wholly input taxed.
• The payee has made a written, signed statement that the supply is private or domestic in nature, or relates to a hobby.
• The supplier is not carrying on an enterprise in Australia.
• The supplier has no reasonable expectation of profit or gain from the activity.

Superannuation guarantee.
If your organisation employs staff, you are subject to the Superannuation Guarantee scheme. Under this law, employers are required to pay a prescribed minimum level of superannuation support for most employees even if you are exempt from income tax.

From 1 July 2014, you must pay a minimum of 9.5% (this increases to 10% from 1 July 2021) of each eligible employee's ordinary time earnings (OTE) each quarter in super. If your organisation does not provide enough superannuation support, you must pay a Superannuation Guarantee Charge, which is not a tax-deductible expense.

Most employees, whether full-time, part-time or casual, are covered by this legislation.

Your organisation does not need to pay the superannuation guarantee for employees who are:
• Paid less than $450 in any calendar month.
• Non-resident employees paid solely for work outside Australia.
• Under 18 and employed less than 30 hours a week.
• Employed no more than 30 hours a week for work primarily of a private or domestic nature.

The maximum amount of superannuation support that an employer has to provide for an employee each quarter is known as the maximum contribution base which is indexed annually. You don't have to pay super guarantee contributions for any earnings above this limit. This limit does not apply to other mandated contributions, such as contributions you pay under an award.

Fringe Benefits Tax (FBT).
If you are classified as a registered charity, your staff can salary-package up to $30,000* worth of benefits before triggering the Fringe Benefits Tax (FBT).

Charities survive on a shoestring budget which can prevent them from matching the salaries offered by commercial employees. But the FBT breaks allow them to attract good quality staff by offering packages. Effectively, the staff get more for their salary dollar.

For example, Julie Smith, an administration manager with a medium-sized organisation, has mortgage and credit card repayments paid out of her gross (before-tax) salary.

The payments Ms Smith packages would normally attract a 47% per cent FBT bill if she worked for a run-of-the-mill business. The ability to re-package her mortgage and credit card bills was a significant drawcard.

The cap of $30,000* of grossed-up taxable value per employee does not apply in some instances, such as housing provided to a minister of religion.

Fringe benefits tax (FBT) is tax payable by employers which provide fringe benefits to employees.

Fringe benefits include things such as:
• Allowing the employee to use the work car for private use.
• Providing a cheap loan.
• Paying an employee’s private health insurance.

You need to distinguish between volunteers and employees. Volunteers are not paid in either cash or fringe benefits, though they may be reimbursed for out of pocket expenses. When you provide more than reimbursement, the person is generally regarded as an employee.

When the total taxable value of an employee’s fringe benefit exceeds $2,000 in a financial year, it must be reported on the employee's annual payment summary. The employee doesn’t have to pay income tax on the reportable fringe benefits. From 1 April 2016, all salary packaged meal entertainment benefits will be reportable, and subject to a separate $5,000 cap. Benefits exceeding this cap will be counted towards the employee’s FBT exemption or rebate cap.

Fringe benefits exempt from FBT include some minor benefits less than $300, some taxi travel, certain work-related items, such as mobile phones and work-related preventive health care.

*This amount increased to $31,177 from 1 April 2015 for 2 years.
**49% from 1 April 2015 for 2 years. Both the above increases due to the 2% temporary budget repair levy.
The following organisations can also provide some exempt benefits. They are:

- Public benevolent institutions.
- Religious institutions for certain employees.
- Not for Profit institutions whose activities include caring for elderly or disadvantaged people and who provide benefits to live-in carers.

You need to keep employment records about employees, including personal details and tax file numbers. These records must be kept in a secure place. Records should include:

- Full name.
- Contact details – address, phone and email address.
- Emergency contacts.
- Tax file number.
- Date employment started.
- Holiday leave.
- Sick leave.
- Superannuation fund.

*Note: Check the ATO website (ato.gov.au/non-profit) for updates.*

**Deductible Gift Recipients (DGR).**

Some organisations, are entitled to receive income tax deductible gifts. You can become a DGR if you are:

- Listed by name in the income tax law as a DGR, or
- Endorsed as a DGR by the ATO.
  (Note that some DGR categories require charities to be registered with the ACNC before they can be endorsed as DGRs by the ATO).

To apply to the ATO for endorsement, your organisation must:

- Have an ABN.
- Be covered by one of the categories of DGR set out in the tax law.
- Maintain a special fund to receive gifts.

**Other taxes.**

You may be able to claim exemptions, concessions and rebates for some of the following taxes. As requirements vary between States and Territories, you will need to seek clarification from your local State or Territory revenue office.

**Stamp duty.**

Stamp duty is a tax on written documents and certain transactions including motor vehicle registrations and transfers, insurance policies, leases, mortgages, hire purchase agreements and transfers of property, such as real estate or certain shares. Many States and Territories are in the process of abolishing stamp duty on common transactions such as mortgages, shares, business asset transfers, and even land transfers so you should check the status of stamp duties on the relevant State or Territory revenue office website.

**Payroll tax.**

Payroll tax is the tax on wages paid by employers. Your organisation is liable for payroll tax when your total Australian wages exceed a certain level. This level varies from State to State.

**Land tax.**

Land tax is a tax imposed everywhere except the Northern Territory. It is a tax levied on landowners, except in ACT, where it is levied on lessees under a Crown lease. Landowners are generally liable for land tax when the unimproved value of taxable land exceeds certain thresholds.

*Note: Further details on tax issues for Not for Profit organisations can be found on the ATO website (ato.gov.au/non-profit).*
The importance of auditing.

An audit is an independent check of an organisation's financial records by a suitably qualified professional. The purpose of an audit is to confirm that the organisation's finances are being accurately reported as there are many stakeholders who rely on this information. These interested parties may be a corporate body that provides sponsorship or grants, or even the ATO to ensure tax concessions still apply.

The audit requirements for Not for Profits depend on their legal structure and any registrations (such as being a registered charity). The regulators for companies limited by guarantee and incorporated associations generally require an audit once the entity reaches a certain level of revenue and/or assets. Your constitution may require an annual audit even if regulations don’t. It’s important to know what the requirements are for your entity and whether or not you are required to have an audit or a review.

Whereas an audit provides ‘reasonable’ assurance over the financial statements a review provides a lower ‘limited’ level of assurance.

Even if your organisation doesn’t have to be audited, it is a good idea to have an audit or review to provide some reassurance that your accounts are complete and accurate. This is especially important if you’re fundraising or receiving government grants as the terms of the grant may require an audit or review.

The qualifications for the auditor or reviewer also vary depending on the type of legal entity and charitable status. Generally the auditor must be a member of the Chartered Accountants Australia and New Zealand (formerly the Institute of Chartered Accountants Australia), CPA Australia or another prescribed body. They may also need to hold Registered Company Auditor registration with the Australian Securities and Investments Commission. You will need to determine what qualifications the auditor must have for your entity and ensure that the person you appoint to do the audit meets the criteria. The constitution of the entity may also prescribe the qualifications required.

When preparing your material for the auditor, review the previous year’s accounts and ask yourself the following questions with which to brief your auditor:

- Have there been any significant changes in your activities or management?
- Have you made any significant changes in your accounting procedures?
- Has any new legislation affected your accounting procedures?
- Are there any matters arising out of the previous year’s audit?

In order for the auditor to do the audit (or review), you must have a set of financial statements for them to audit. This may be prepared by you or an accountant. The requirements for what your financial statements must include also depend on the legal form and size of your entity and your charitable status. The financial statements will generally include a statement of financial position, a statement of profit and loss, a statement of cash flow, and notes to the accounts. The notes include information such as the nature of your organisation’s operations, a summary of significant policies or events, and information on your organisation’s commitments and risks.

The auditor will perform tests on your accounting systems, review your internal accounting controls, examine corroborating documents, analyse your procedures, and check your cash accounts and other balances.

The auditor may want to see petty cash records and receipts, cheque books, financial statements (prepared by you or an accountant), your asset register, bank statements and reconciliations, and GST records.

Once the auditor has reviewed your accounting principles and financial statements, you will receive a report which will give the auditor’s opinion on whether the financial statements have been prepared correctly. An audit doesn’t provide a one hundred percent guarantee that there are no errors in the financial statements but it provides the people who use the financial statements—your members, people providing donations and government departments or other bodies providing funding—with an additional level of comfort that an independent professional has audited them.

The auditor may also discover weaknesses in your internal financial systems and provide a separate report to the board recommending changes to your processes and procedures.
The below shows the types of records you should have available.

Principal accounting records.

Computers have virtually taken over manual bookkeeping records, but the underlying components are worth mentioning here:

- Cash books to record all cash receipts and payments. All transactions in the cash book should be reconciled monthly with bank statements. Today, internet banking allows speedy and accurate reconciliations.
- A general ledger to record all assets and liabilities, income and expenditure. It contains summaries of all transactions for a given period, and keeps a running total of all assets and liabilities.
- A general journal to record one-off transactions, especially at balance date. This is used mostly at year end when many adjustments may have to be made.
- A register of members to record names, addresses and other information about members. This is required under constitutions and various laws.
- A petty cash book to record small payments from petty cash, such as for pens, pencils and taxi fares.
- Payroll records are required under taxation and various employment legislation.
- Statutory records, including minutes of all meetings. Various laws stipulate the records that must be maintained.
- Asset register - depending on the size and complexity of the organisation to record specific details of major assets.

Subsidiary records and audit trails.

- Receipt books for collecting all money. Tax deductible funds should always issue receipts showing their Deductible Gift Recipient (DGR) number. Duplicate copies of receipt books provide a sound audit trail.
- Bank deposit books. Used to record details of cash and cheques deposited in banks, deposit books provide a necessary audit trail for both manual and computer-based systems.
- Cheque books. One of the most frequently used documents in any enterprise, since many payments are still made by cheque.
- Documentary evidence (vouchers etc) to support payments, including any petty cash disbursements. This is a necessary audit trail that must be retained for several years.
- Tax invoices. Vital if the entity is registered for GST and wishes to claim input tax credits. May also be examined by a tax inspector.
- Stock sheets. Usually prepared at the end of accounting periods to record all stock on hand.
- Working papers to support amounts shown in financial statements circulated to Board and committee members. These are important, since they explain how figures have been compiled and assumptions used in their compilation. This provides a vital audit trail, and may be used in any legal processes.
- Budget papers for all income and expenditure and other activities. These papers show how figures have been compiled, and are useful when comparing actual results against budget. They’re important planning documents which help estimating in future years.
- Financial Officer’s report. A crucial document, the Financial Officers report deals with the organisation’s detailed financial report. Its purpose is to give a clear and concise overview of the organisation’s financial health and likely outcomes for the year.
Reporting to the Board.

Here’s an example of a typical monthly report. It consists of a summary, a statement of budget differences for the year, a cash report, personnel record, and capital expenditure approvals.

**Summary.**

The summary should provide a brief overview of the accounts and your interpretation of the organisation’s current financial position. You need to highlight any significant matters to draw the Board’s attention to these issues.

**ABC’s Financial Officer’s monthly report for July.**

We would have had a pleasing result for July if we hadn’t had to buy new computers, and a printer costing $4,000. This was an unpredicted, but necessary expense. This unbudgeted expense will place considerable pressure on our cash flow over the next few months.

However, we are planning to sell some of our paintings in October and they should realise in excess of $4,000. This sale was not anticipated in our budget.

If we hadn’t had that unexpected expense, our net surplus of $200, on an accrual basis of accounting, would’ve been $575 ahead of budget. Our gala came out ahead of budget in spite of the bad weather on the day.

**Budget report.**

The budget report should show all budget variations for the month and any amendments to the annual budget.

<table>
<thead>
<tr>
<th></th>
<th>Budget this Month</th>
<th>Actual this month</th>
<th>Budget Variance this month</th>
<th>Budget YTD</th>
<th>Actual YTD</th>
<th>Budget Variance YTD</th>
<th>Revised Budget for year</th>
<th>Official Budget for year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asset Sales</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>4,500</td>
<td>0</td>
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<tr>
<td>Fundraising</td>
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<td>450</td>
<td>2,100</td>
<td>2,550</td>
<td>450</td>
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<td>125</td>
<td>250</td>
<td>375</td>
<td>125</td>
<td>4,625</td>
<td>4,500</td>
</tr>
<tr>
<td>Sponsorship</td>
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<td>120</td>
<td>120</td>
<td>0</td>
<td>1,440</td>
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<tr>
<td>Grants</td>
<td>0</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total income</strong></td>
<td><strong>2,470</strong></td>
<td><strong>3,045</strong></td>
<td><strong>575</strong></td>
<td><strong>2,470</strong></td>
<td><strong>3,045</strong></td>
<td><strong>575</strong></td>
<td><strong>16,015</strong></td>
<td><strong>10,940</strong></td>
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<tr>
<td>Expenditure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages (inc. tax, super, etc)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Equipment</td>
<td>0</td>
<td>4,000</td>
<td>4,000</td>
<td>0</td>
<td>4,000</td>
<td>4,000</td>
<td>4,000</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>2,845</td>
<td>2,845</td>
<td>0</td>
<td>2,845</td>
<td>2,845</td>
<td>0</td>
<td>9,940</td>
<td>9,940</td>
</tr>
<tr>
<td><strong>Total expenditure</strong></td>
<td><strong>2,845</strong></td>
<td><strong>6,845</strong></td>
<td><strong>4,000</strong></td>
<td><strong>2,845</strong></td>
<td><strong>6,845</strong></td>
<td><strong>4,000</strong></td>
<td><strong>13,940</strong></td>
<td><strong>9,940</strong></td>
</tr>
<tr>
<td><strong>Net surplus</strong></td>
<td>-375</td>
<td>-3,800</td>
<td>-3,425</td>
<td>-375</td>
<td>-3,800</td>
<td>-3,425</td>
<td>2,075</td>
<td>1,000</td>
</tr>
</tbody>
</table>

**Cash report.**

Carry out a bank reconciliation each month and look ahead to make sure there are no cash flow problems likely to arise. If you know in advance about cash flow shortfalls, you can act to counter them.

**Personnel report.**

Where there are staff, the Financial Officer or administrator should provide a staff update.

**Capital expenditure.**

Include a statement on capital expenditure requiring Board’s approval.

**Name and date.**

Your report should always show your name and the date the report was prepared. The report should be circulated to Board members before the Board meeting and within 10 to 14 days after the end of each month.
Other reports.

If you are receiving grants from state or federal government, you may have to make regular (milestone) reports to the granting bodies (often quarterly) and an end-of-project report. The milestone reports will probably include client statistics and a financial statement for the board. The end of term report will usually include:

- The audited financial statements.
- A copy of your annual report.
- A report on your performance against each agreed measure.
- Client service statistics.

ABC’s report.

ABC’s cash report.

At the end of June, ABC had $4,500 in the bank – after the payment of $4,000 for the new equipment. A bank reconciliation confirms this figure. Provided the asset sales set down for October proceed no cash shortfall is anticipated.

ABC’s personnel report.

No personnel changes to report.

ABC’s capital expenditure.

As already reported, we have bought a new computer. We discussed this matter last meeting and as directed, we sought advice from one of our members, Greg Jones, who runs an IT department. His opinion confirmed our suspicion that it wasn’t worth fixing the computer as it was eight years old.

The Board approved capital expenditure of up to $5,000, providing funds could be found to meet the cash shortfall. To meet the shortfall, the Board proposed that we sell some paintings which were donated to us five years ago.

Board member Jo Prince has agreed to arrange for the sale of the paintings by placing them into a local auction. The paintings should fetch in excess of $4,000.

Neither the purchase of the computers nor the sale of paintings was in our budget, which we now need to amend.

Prepared by:
Fiona Day (Honorary Financial Officer)
Date: July 20XX

How to write good reports to the Board.

Minutes and agenda are usually the responsibility of the Chairperson and Secretary in consultation with the Financial Officer.

The Financial Officer needs to provide monthly and often quarterly reports to the Board. If your organisation has staff, they can prepare much of the detail of the reports well in advance of the meeting. It is good practice to circulate these reports before the meeting so people have time to read and understand them.

At each meeting, you should give an updated estimate of the year-end result, after taking into account actual results to date and comparing them to the budget. As well as providing an overview of your organisation’s finances, it is good practice to separate the accounts for specific programs and projects or jobs.

It is your responsibility to make sure your fellow Board members understand the budget and your monthly reports. Your reports need to communicate complex financial information to people who don’t necessarily understand numbers. You must be able to explain in everyday language the meaning behind the numbers. Graphs and charts are a great tool to present information, track trends and show meaningful information, to support the words. If people don’t understand, they will either switch off or you will have unnecessary discussions at each meeting about the same information.

Effective reports.

- Are comprehensive and concise.
- Are easy to understand.
- Are up-to-date.
- Are broken down into programs and projects.
- Compare actual figures to date with budgeted figures.
- Highlight discrepancies.

Your reports should be as detailed as possible so you can answer questions such as:

- How much money goes into particular aspects of a program (for example, how much goes into advertising and how much into administration?).
- Are there any unbudgeted or unusual revenue or expenses? What is the cash balance and are there any cash flow problems?
- Are we meeting our financial commitments on time; for example, payroll taxes, GST returns and superannuation?
- Are we having to dip into reserves or restricted funds?
- Are we relying on credit too much?
- Is Board approval needed for any major purchases?
- Do we have many unpaid bills? Who is chasing them up?
Case study 2

Partnering and collaborating for optimal success.

The business of education and the environment in which Independent Schools operate is becoming ever more complex, competitive and challenging. The key to success for Matthew Flinders Anglican College is the close relationship and collaboration between board and management.

Matthew Flinders Anglican College (MFAC) was established on Queensland’s Sunshine Coast in 1990 and has grown from 160 students to 1300 students in its 25 year life. MFAC provides education from Prep through to Senior; has a curriculum that extends across academia, sport, arts, and community; and is in demand by parents for their style of education “due to the type of citizens we encourage our students to become” [mfac.edu.au/our-college/history].

Sharon Verrinder, Director of Business and Operations at the college for the past 5 years, has been instrumental in the management of the school’s business throughout its most recent growth spurt. Sharon attributes much of the school’s success on the collaborative partnership that has built up between the school’s Board of Directors, Principal, and business management leaders. “The governance and management skills required to keep at the forefront are constantly changing. Human resource management, events and marketing management, facilities management, asset management, systems compliance, workplace health and safety management, retail outlet management, construction management, financial standards, management of technology – the list goes on. We are fortunate at Flinders to have a team of exceptional individuals whose leadership is cohesive, effective and responsive in facing each day’s operational and strategic challenges.”

Sharon reports to both the Chairman of the Board of Directors and the Principal. “Part of our success story is a shared understanding of contemporary management practices in independent education. In particular with respect to finances, human resources, risk management, compliance and marketing, which are all essential in any successful business operation.”

“’The risks and challenges of the governance role of independent school boards reflect those of the corporate world. Our college’s Board of Directors have between them a broad range of interests, talents and experience, not least of which is financial and business acumen. The Board of Directors is an extraordinarily participatory Board with each and every Director giving of time, energy and expertise. We have a very committed group of people with a great diversity in experience – we count ourselves very fortunate.”

The education industry is highly competitive and heavily regulated making it a complex industry to be successful in. However in Sharon’s view it is the multi-faceted aspect of being a “human organisation that deals with the lives of people” that makes it both the most challenging and most rewarding. “Flinders is a progressive school - we are certainly going through exciting times where change is well measured and where there is a need to be open to new pathways. The shared business and financial acumen of the board and management team are a hidden opportunity for our college in gaining a strategic advantage.”
Keeping track of your assets.

Asset register.

An asset register allows you to keep track of your assets and provides a fair estimate of their worth. It meets your taxation, statutory and sale-of-business obligations. It is also an appropriate place to record serial numbers, make, model, etc.

You need an asset register to:

• Record asset acquisitions – either purchased, donated, or payment in kind.
• Maintain adequate accounting records of assets – cost, description, and where they are kept in the organisation.
• Maintain accurate records for depreciation.
• Provide management with information to help plan future asset investments.
• Record the retirement and disposal of assets.

You can start your asset register by recording all physical assets, regardless of the funding source.

The types of physical assets that should be recorded include:

• Land and Buildings.
• Office equipment.
• Motor vehicles.
• Furniture.
• Computers.
• Communications systems.
• Other equipment.

After that, check each asset item at least once a year.

As a general rule, record each asset separately. The exception is multiple assets that combine to perform one function, such as a computer consisting of a CPU, monitor, and keyboard.

When the purchase cost is not known because the goods have been donated, record the asset at the cost of a comparable item at current prices.

Record assets in the register in the month they are acquired. The cost should include installation costs, computer cabling, transportation and other associated costs incurred to make the asset usable. Use purchase orders, invoices and delivery dockets to provide the detail.

You also need to record leased assets. There are two types of leasing arrangements: operating lease and finance lease. A finance lease finances the cost of a leased asset. These finance leases must be recorded in the asset register against the asset. An operating lease means the asset is just being rented and not technically owned by the organisation and is ‘given back’ at the end of the lease period. It’s good practice to keep a separate record of operating lease assets to ensure they’re accessible when the lease expires, and to arrange replacement if necessary.

Disposal of assets.

When you dispose of an asset – sell, give away or throw away – update your asset register to include the date of disposal, the disposal amount and the method of disposal. Cease depreciation at the end of the month you disposed of the asset.

Treat trade-in of an asset as a disposal. When you sell an asset, record the proceeds in your financial records as well as your assets register.

Basic assets register.

<table>
<thead>
<tr>
<th>ID No.</th>
<th>Description</th>
<th>Brand</th>
<th>Model No.</th>
<th>Serial No.</th>
<th>Purchase $</th>
<th>Depreciation $</th>
<th>Current $</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>2.4Ghz, Intel2.66 DDR memory 80Gb HDD</td>
<td>Dell</td>
<td>Dimension 2400</td>
<td>Xyz1234-d</td>
<td>2,400</td>
<td>1,200</td>
<td>1,200</td>
<td>Patrick</td>
</tr>
<tr>
<td>2.</td>
<td>2.2Ghz, Intel2.66 DDR memory 80Gb HDD</td>
<td>Dell</td>
<td>Dimension 2000</td>
<td>Xyz1234-d</td>
<td>2,000</td>
<td>1,000</td>
<td>1,000</td>
<td>Peter</td>
</tr>
</tbody>
</table>
Policies and procedures – write them up.

All community organisations, large and small, need sound systems for regulating and recording financial transactions. There should be an audit trail for every financial transaction.

Your job will be easier with written policies and guidelines. This is sometimes called a Financial Procedures Manual. Staff, Board members and volunteers will then operate safely within your specifications.

Your systems must be appropriate for your organisation and are more likely to be followed if you’ve written – or updated them – yourself with input from other Board members and staff. If you are the Financial Officer of a larger organisation, you may find it more efficient for a staff member to write or update the manual, with oversight and review by you and the Board.

Your manual should describe all of your organisation’s financial administrative tasks and specify who is responsible for each one. It should include clear descriptions of how functions such as paying bills, paying salaries, depositing cash, and transferring money between funds are handled.

Documenting your financial procedures is also a good opportunity to check your processes and see if you have adequate controls. As you work through your processes, imagine you are doing the task for the first time and ask yourself questions like:

- How do we record transactions?
- How do we classify transactions?
- Who collects the information?
- Who records the information into our bookkeeping system?
- How do we check that the information is correct?
- What financial reports do we produce from this information?

Responsibilities.

Your manual will include responsibilities of key members in your organisation. For example, the Board’s financial responsibilities may be to:

- Develop a strategic plan.
- Approve the budget.
- Set a reserves policy.
- Handle potential conflicts of interest.
- Determine control procedures.
- Apply for grants.
- Handle bad debts.

Write a similar list of responsibilities for your own role as Financial Officer, your Finance Subcommittee, and staff.

Areas of financial management.

As well as looking at your financial management in terms of responsibilities, you will need to look at your systems for each financial activity.

<table>
<thead>
<tr>
<th>Budgeting</th>
<th>Reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Document procedures for:</td>
<td>Document procedures for:</td>
</tr>
<tr>
<td>- Budget development.</td>
<td>- Interim reporting to the Board.</td>
</tr>
<tr>
<td>- Obtaining board approval.</td>
<td>- Annual reporting to the Board.</td>
</tr>
<tr>
<td>- Reporting of variances.</td>
<td>- Reporting &amp; making payments to the ATO.</td>
</tr>
<tr>
<td></td>
<td>- Reporting requirements for grants or sponsorships.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Income</th>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Document procedures for:</td>
<td>Document procedures for:</td>
</tr>
<tr>
<td>- Issuing invoices.</td>
<td>- Estimates and tendering.</td>
</tr>
<tr>
<td>- Recording donations, fundraising, bequests etc.</td>
<td>- Purchase orders and invoice payment.</td>
</tr>
<tr>
<td>- Following up invoices.</td>
<td>- Bank signatories.</td>
</tr>
<tr>
<td>- Receiving and banking money.</td>
<td>- Credit cards.</td>
</tr>
<tr>
<td>- Ensuring compliance with ATO requirements about tax deductible gifts.</td>
<td>- Petty cash.</td>
</tr>
<tr>
<td></td>
<td>- Asset purchases.</td>
</tr>
</tbody>
</table>
Reconciling

Document procedures for:

- Reconciling the cash book with your bank statements.
- Keeping your asset register up to date.
- Managing your payroll systems.
- Managing investments.

Investments

Document procedures for:

- Recording due dates of long term investments.
- Gathering information on re-investment.
- Approval of re-investment/other use of funds.

People

Document people policies and procedures for:

- Systems for paying salaries and superannuation.
- Contracts of employment.
- Reimbursing out of pocket expenses such as parking, stationery, travel etc.
- Volunteer time and value.

Assets

Document procedures for:

- Recording acquisition of assets in the asset register.
- Working out depreciation.
- Regularly reviewing asset values.
- Periodically stock-taking your assets.
- Recording disposal of assets.

An example of ABC’s money handling procedures.

(ABC is a smaller group run by volunteers)

Steps to follow when handling cash:

- Give receipts to people who give you cash – record the date, the name of the person, the amount, and what the money is for.
- Record this information in your income ledger.
- Keep cash you receive separate from petty cash.
- Bank cash as soon as possible (within the next two days).
- Keep cash secure until it is banked.

On some occasions, it is not practical to give receipts (for example, when people donate money to a tin shake appeal). In these instances, count the money when you have finished your collections, record the date, the total amount of money collected and what it was for.

Being a Financial Officer of any community organisation will always have its challenges but with the right systems in place to identify and overcome those challenges it will make it far easier to monitor the money coming in and going out of your organisation.

Almost everything that a community group does depends on a level of funding. The better the financial management, the more money is there to do the job your group was established to do in the first place.
A risk is any event or action that harms your organisation’s reputation or your ability to achieve your objectives and carry out your operations.

**10-point risk management plan.**

**Risk assessment.**
1. Develop/review your strategy.
2. Highlight the potential risks.
3. Research the evidence.

**Risk analysis.**
4. Categorise the risk.
5. Prioritise the risks (see matrix on page 40).

**Risk management.**
6. Devise a risk management strategy.
7. Agree on a plan of action.
8. Communicate the risk management strategy.
9. Regularly monitor and evaluate the risks.
10. Review policies and procedures.

The risk of anything going significantly wrong is usually small, but it can have disastrous consequences. Having effective risk management strategies in place will help you to monitor any potential risks and deal with them efficiently should they arise.

Some examples of risks for Not for Profit organisations are:

- **Lack of financial skills.** People often volunteer or work for Not for Profit organisations because they feel strongly about the organisation’s mission and want to be of service. They may not have strong financial skills. You can overcome this weakness by having clear processes and procedures for all financial transactions and training staff and volunteers to follow them.

- **Introducing too much change too quickly.** Some Financial Officers come in with a new broom approach and want to make major changes. While often these changes will be for the better, you need to remember that volunteers and staff who have been with the organisation for many years may resent these changes. Consulting with staff and providing training will go a long way toward implementing change.

- **Theft and fraud.** While theft and fraud only happens occasionally, there are plenty of cautionary tales about employees or volunteers who’ve stolen money or taken the laptop when they’ve left. If you suspect fraud, act quickly to notify your Chairperson and Board, and investigate. Take action to minimise loss, then review systems and procedures to reduce the likelihood of it happening again.

- **Conflicts of interest.** Conflicts of interest can occur when people stand to gain financially or they (or their families) are involved in an organisation with competing or contradicting objectives. Consider asking Board members to sign a statement stating they have no conflicts of interest. Use ‘the tabloid test’ – how would the situation look if it was reported in a tabloid newspaper?

**Risk management.**

Have a brainstorming session to identify any potential risks. Questions to ask are:

- What risks would prevent us meeting our objectives or carrying out our operations?
- What controls could we adopt to minimise risks to an acceptable level?
- Is your strategy realistic and achievable?
- Could a failure in operations prevent you achieving your objectives?
- Are you losing money or not maximising your financial returns?
- Are you failing to meet your regulatory or taxation obligations?
- Are your people failing to perform?

Once you have identified the risks, analyse and rank them in terms of their likelihood, potential impact and priority.

Develop strategies and methods to prevent or minimise risk. Proactive risk management involves identifying risks and taking action to prevent or minimise the risk.
Managing financial risk.

One way of managing your risks is through internal systems and checks and balances. For example, ideally no financial transaction should be handled by the same person from beginning to the end – including internet banking transactions.

You need to decide who can authorise spending, and how much each person can spend before they need to use banking tokens or have the spending agreed to by their manager or the Board. This information must be recorded in your procedures manual and included in training programs.

Even if people have spending limits, it is common practice and common sense to have all transactions authorised by one or two office bearers. Often one of these people will be the Financial Officer.

This can be inconvenient, but it is important to have someone responsible for monitoring expenditure to keep a watchful eye on cash flow and prevent any opportunity for fraudulent behaviour.

Some organisations allow any two out of three or four people to sign cheques. While this is a practical and flexible arrangement, it does weaken the monitoring function.

Your bank will ask for a list of office bearers who have signing authority and request that they fill out a form for security purposes so their signature can be checked against future cheques. Remember to advise the bank when your office bearers change.

Your financial recording systems should ensure that all expenditure is accurately recorded and directly linked to an item in your budget.

- **Lack of reserves.** Your organisation needs a minimum level of reserves to fund working capital and provide a safety net for cash flow fluctuations.
- **Many small organisations find it hard to build reserves, but it is worth doing. You can ask your funders and supporters for more money specifically to establish reserves, or budget to put aside an amount each year so reserves accumulate slowly over time.**

- **Inadequate insurance.** Insurance is a safety net in case something goes wrong. But, what if you don’t have enough cover or the right type of insurance? Certain insurances are mandatory, such as worker’s compensation if you employ staff, and third party insurance if you have vehicles.

In addition to mandatory insurances, you may want to consider:
- Public liability insurance.
- Professional indemnity insurance for Directors.
- Property insurance if you own properties.
- Contents insurance.

One reason often sited for having inadequate insurance is the cost. Do the research to find the insurance you need and structure the premiums to suit the organisations cash flow.

- **Growing programs too fast.** A larger organisation can mean that management and supervision resources are spread too thinly.
- **Income erosion.** Fewer paying clients, fewer customers, and fewer consultancies can all lead to revenue being below expectations.
- **The big project.** Tendering for a large project in an area where your expertise is limited can expose your organisation to new risks.
- **Inappropriate borrowing.** It is possible to borrow money to relieve cash flow problems and then find that expected income does not eventuate.

- **Organisation inertia.** An organisation can become so rigid its ability to react to new demands is too slow for proper functioning.
- **Decline in service standards.** Unless an organisation can continue to meet the needs of its clients, customers and stakeholders more efficiently than its competitors it may find itself sidelined.
- **Decline in employee development.** Unless the organisation provides its staff with the opportunity to extend themselves the organisation may stagnate and fall behind.
- **Poor cost control.** Accuracy in forecasting both income and expenses, having good controls in place, and monitoring regularly will help reduce the risk.
- **Neglecting appropriate ratios.** In financial matters gross figures are not everything – the ratios are also important. What is your assets-to-liabilities ratio? Income-to-debt? Cost per client? Marginal cost per client?
- **Insufficient information.** If your system of reporting is either too slow or not comprehensive, people will not know what they need to know. As Financial Officer, it is your responsibility to amass the necessary information and pass it on to the Board.
- **Decline in membership.** If you can’t keep your members engaged either by the cause you’re supporting or the fun you provide, they’ll go elsewhere. The loss of membership dues is the least of your worries; you lose volunteer labour until the work falls on fewer and fewer shoulders, so they resign, and you’re into a vicious cycle.
- **Reliance on a single form of funding.** An organisation that has most of its funding from one source (Government grant, one donor, special event etc) is particularly vulnerable to decisions made by people outside of the organisation. Having varied sources of funding helps you to ride out a loss of one source until it can be replaced.
Prioritising risks.

<table>
<thead>
<tr>
<th>Impact</th>
<th>Very low probability 1</th>
<th>Low probability 2</th>
<th>Medium probability 3</th>
<th>High probability 4</th>
<th>Very high probability 5</th>
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<tbody>
<tr>
<td>Very high 5</td>
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<td>Medium</td>
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<td>High 4</td>
<td>Low</td>
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<td>Medium 3</td>
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<td>Medium</td>
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<td><strong>Glossary.</strong></td>
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<tr>
<td><strong>Accounts Payable</strong></td>
<td>See Creditors.</td>
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<tr>
<td><strong>Accounts Receivable</strong></td>
<td>See Debtors.</td>
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<tr>
<td><strong>Accrual Accounting</strong></td>
<td>Accrual accounting is the system of tracking income and expenses that recognises income when it is earned (regardless of when cash is received) and recognises expenses when they are incurred (regardless of when they are paid).</td>
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<tr>
<td><strong>Assets</strong></td>
<td>Assets refers to everything that the organisation owns.</td>
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<tr>
<td><strong>Audit</strong></td>
<td>An examination of financial records by a suitably qualified professional to attest to their accuracy and compliance with regulatory requirements.</td>
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<tr>
<td><strong>Balance Sheet</strong></td>
<td>A statement showing the financial position of an organisation, including assets that it owns, the liabilities that it owes, and the equity accumulated. It is also known as a Statement of Financial Position.</td>
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<tr>
<td><strong>Bank Reconciliation</strong></td>
<td>A statement that shows the transactions that have been recorded in the cash book but not the bank account. It reconciles the balance in the cash book with that of the bank statement.</td>
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<tr>
<td><strong>Budget</strong></td>
<td>An itemised plan for expected income and expenses over a specific period of time.</td>
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<tr>
<td><strong>Cash Accounting</strong></td>
<td>Cash accounting is the system of tracking income and expenses based on when cash is actually exchanged. Income is recognised only when payment is received, and expenses are recognised only when they are paid.</td>
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<tr>
<td><strong>Cash Flow</strong></td>
<td>Cash coming into an organisation from various sources versus cash going out to pay expenses. Positive cash flow means more came in than went out; negative cash flow means the opposite.</td>
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<tr>
<td><strong>Cash Flow Forecast</strong></td>
<td>A forecast of the expected amount and timing of cash coming into the organisation and going out.</td>
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<tr>
<td><strong>Cash Position</strong></td>
<td>The difference between cash inflows and outflows for any given period.</td>
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<tr>
<td><strong>Chart of Accounts</strong></td>
<td>A list of the accounts that an organisation will use to classify financial transactions.</td>
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<tr>
<td><strong>Creditors</strong></td>
<td>Creditors are those who have loaned money to the organisation. Specifically, trade creditors are those who have supplied goods to the organisation on credit terms. Trade creditors are also known as Accounts Payable.</td>
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<tr>
<td><strong>Current Assets</strong></td>
<td>Current Assets are those assets owned by an organisation that will be converted into cash within one year eg. cash, debtors, stock, prepayments.</td>
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<tr>
<td><strong>Current Liabilities</strong></td>
<td>Current Liabilities are those obligations due to be paid within one year, such as creditors and bank overdraft.</td>
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<tr>
<td><strong>Current Portion Long Term Debt</strong></td>
<td>The repayments due on a long term debt in the next 12 months, excluding interest.</td>
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<tr>
<td><strong>Debtors</strong></td>
<td>Debtors refers to the amount owed to the organisation by customers who have purchased goods or services from the organisation on credit. They are also known as Accounts Receivable.</td>
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<tr>
<td><strong>Equity</strong></td>
<td>Equity is the organisation’s own funding accumulated through retaining earnings. It is also known as Net Worth.</td>
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<tr>
<td><strong>Expenses</strong></td>
<td>The costs an organisation pays to operate. For example, rent, wages, advertising etc.</td>
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<tr>
<td><strong>Financial Statements</strong></td>
<td>Documents that are a record of the financial aspects of an organisation. The most common financial statements are the Income Statement and Balance Sheet.</td>
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<tr>
<td><strong>Fixed Assets</strong></td>
<td>Fixed Assets are those assets owned by an organisation that last longer than a year. For example, equipment or buildings. Fixed Assets may also be known as Long Term Assets.</td>
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<tr>
<td><strong>Fixed Costs</strong></td>
<td>Fixed costs are those expenses which are incurred whether or not the organisation delivers its service, such as rent or utilities. They increase in a stepped fashion over time.</td>
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<tr>
<td><strong>Income Statement</strong></td>
<td>A statement of financial performance. The summary of the income and expenses of an organisation that are recognised during an accounting period. Also known as a Profit and Loss Statement or a Statement of Financial Performance.</td>
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<tr>
<td><strong>Intangible Assets</strong></td>
<td>Non-material assets that cannot be held or touched. The most common example is Goodwill.</td>
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<td><strong>Inventory</strong></td>
<td>See Stock.</td>
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<tr>
<td>Term</td>
<td>Description</td>
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<tr>
<td>Liabilities</td>
<td>Liabilities are debts that the organisation owes to creditors.</td>
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<tr>
<td>Long Term Assets</td>
<td>See Fixed Assets.</td>
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<tr>
<td>Net Profit</td>
<td>Net Profit is the amount of income remaining after all expenses have been paid. It may also be known as a Surplus.</td>
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<tr>
<td>Net Worth</td>
<td>See Equity.</td>
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<tr>
<td>Reserves</td>
<td>Funds set aside from the operating budget for a planned future expense, such as building upgrades or equipment purchases.</td>
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<tr>
<td>Retained Earnings</td>
<td>Retained earnings are the net profits/surpluses (positive or negative) from the Income Statement that are left to accumulate in the organisation.</td>
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<tr>
<td>Stakeholders</td>
<td>Any person or organisation that has an interest in the operations of an organisation. They may provide funds, be a user of the service, or a supporter of the cause.</td>
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<tr>
<td>Stock</td>
<td>Goods owned by the organisation for the purpose of selling to generate an income. Stock can include raw materials, work in progress, and finished goods. Stock is also known as Inventory.</td>
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<tr>
<td>Surplus</td>
<td>See Net Profit.</td>
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<tr>
<td>Variable Costs</td>
<td>Cost directly incurred through provision of goods or services. These costs will increase proportionally with the amount of goods or services delivered.</td>
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</tbody>
</table>

**Acronym buster.**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ABN</td>
<td>Australian Business Number</td>
</tr>
<tr>
<td>ACNC</td>
<td>Australian Charities and Not-for-Profits Commission</td>
</tr>
<tr>
<td>ASIC</td>
<td>Australian Investment and Securities Commission</td>
</tr>
<tr>
<td>ATO</td>
<td>Australian Taxation Office</td>
</tr>
<tr>
<td>BAS</td>
<td>Business Activity Statement</td>
</tr>
<tr>
<td>DGR</td>
<td>Deductible Gift Recipient</td>
</tr>
<tr>
<td>FBT</td>
<td>Fringe Benefits Tax</td>
</tr>
<tr>
<td>GST</td>
<td>Goods and Services Tax</td>
</tr>
<tr>
<td>NSCOA</td>
<td>National Standard Chart of Accounts</td>
</tr>
<tr>
<td>PAYG</td>
<td>Pay As You Go</td>
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</tbody>
</table>
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