



# Questions your Not-for-Profit should be asking about finances

*Presented by*

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Institute of Community Directors Australia*

***Not-for-Profit Finance Week 2021  
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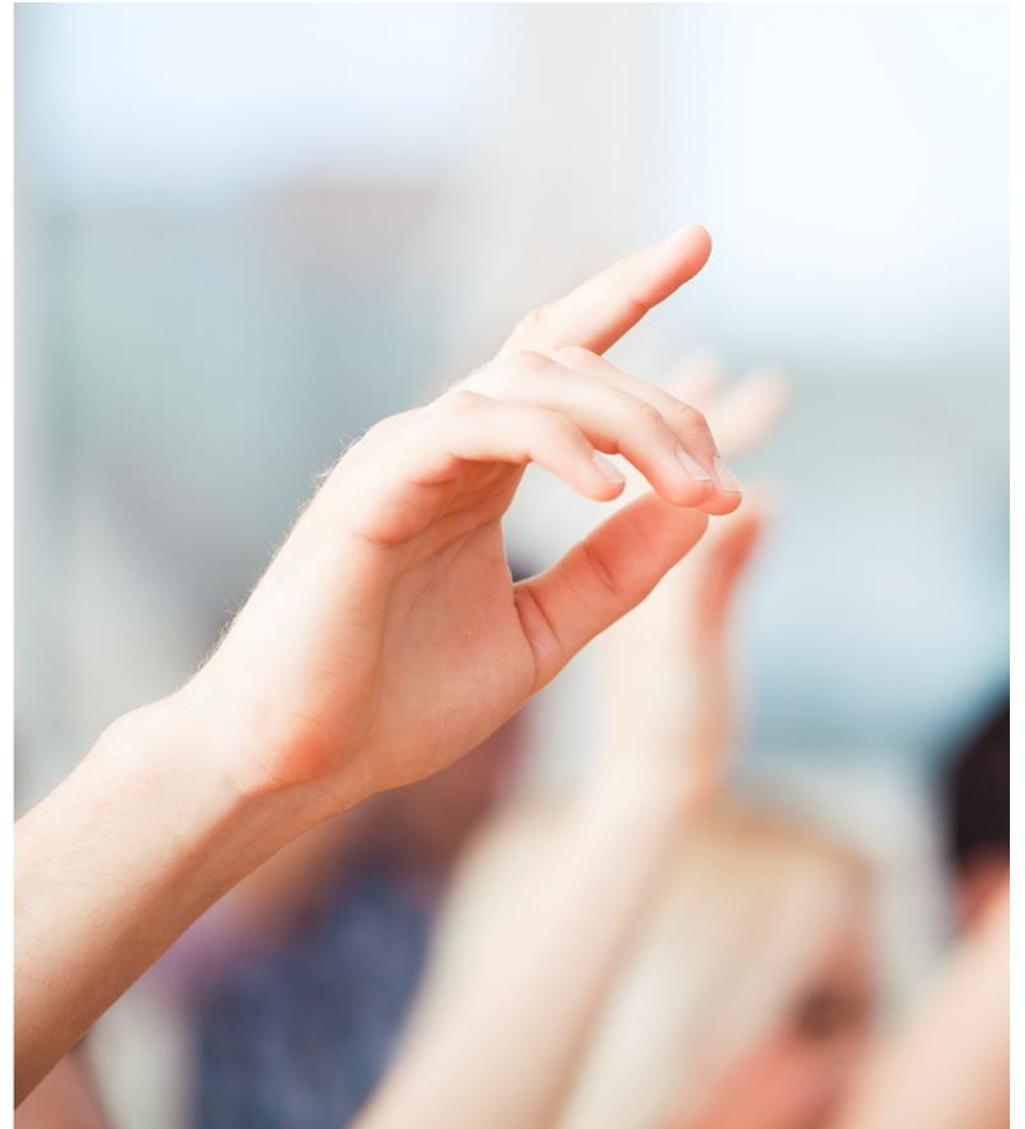


## Asking questions

We encourage you to ask questions and we will answer as many as we can during today's webinar.

### How to ask a question:

1. Go to the Control Panel on the right-hand side of your screen
2. Scroll down to the 'Questions' tab under 'Polls' and click the arrow to expand the text box
3. Type your question and click 'Send'



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# What we'll cover

1. Financial roles and responsibilities
2. Financial Statements
  1. Statement of Financial Performance [aka Profit and Loss statement]
  2. Budgets
  3. Statement of Financial Position [aka Balance sheet]
  4. Cashflow Statement
3. Financial oversight and monitoring
4. Additional Resources

## **ONLINE POLL:**

**How well do you understand the financial performance and position of your organisation?**

- a) I've got a thorough understanding
- b) I've got some understanding
- c) I've got no idea how much money we've got in the bank, or if we're making or losing money
- d) I don't think I even understand the question!

## What do you need to know and understand?

- **A statement of financial performance** *(Are you making money or losing money?)*
- **A statement of financial position** *(What do you own and what do you owe to others?)*
- **A comparison of budget versus actual** *(How accurate have your predictions been?)*
- **A forecast to the end of the financial year** *(What do you expect will happen in future?)*
- **Some commentary on variances and other assumptions**  
*(Can you explain what has happened? What assumptions have you made about the future?)*
- **A cash flow statement**  
*(Do you have enough money flowing in to pay for upcoming bills as they fall due?)*
- **An up-to-date download of bank account balances**  
*(Do your financial statements align with what is recorded in your bank accounts?)*

## What do you need to know and understand?

The aims of sound financial management is to ensure your organisation:

- can meet all of its **financial obligations**
- is **prudent** and has **processes to protect against fraud**
- complies with all relevant **legislation**
- is **professionally managed and directed**

This will assist your organisation to be recognised through your community as one that is worth supporting and belonging to.

You are also contributing to your organisation's ability to survive.

# 1. FINANCIAL ROLES AND RESPONSIBILITIES

Board directors have a responsibility to:

- set the direction of the organisation, through the **strategic plan**
- agree with the ways and means, through the **business plan**
- sign off on the specifics, through the **annual budget**

Throughout the year they must also:

- ask for explanations of any significant **variance from the budget**
- ask for explanations of any significant **variance from projected outcomes**
- require **remedial measures** to be taken where the budget's going astray.

## LEGAL DUTIES of board directors

- Duty to act bona fide in the best interests of the company
- **Duty to exercise powers for proper purposes**
- Duty to retain discretion
- Duty to avoid conflict of interest
- Improper use of position in the company
- Use of confidential information
- **Related-party transactions**
- **Payments to directors**
- **Duty of care, skill and diligence**
- **Duty to prevent insolvent trading**



## **Financial ROLES of board directors**

### **Treasurer:**

- Responsible for keeping and maintaining proper financial records
- Must report regularly and present a statement of accounts to annual general meeting.

### **Secretary:**

- Keeps and maintains minutes of each meeting – including recording any financial decisions

### **Board:**

- Establish a financial management system (policies and procedures; authorities and delegations, check and balances and compliance; Controls; Reporting; Monitoring and evaluating)
- Analyse and assess financial impact of decisions
- Ensure adequate cash flow to finance planned activities and operations
- Not trade whilst insolvent
- Safeguard resources via appropriate financial controls

**It is important to know when it's time to engage a professional to do your accounts!**

## Financial RESPONSIBILITIES of board directors

- Provide a **financial framework** for planning future activities and operations
- Manage transaction **processing systems** and produce information
- Ensure **legality and regularity in the use of funds**
- **Report and interpret the results** of activities and operations measured in financial terms

More specifically:

- Determine your resources
- Cost your needs
- Set a budget and allocate funds to programs and projects
- Monitor and report progress against your budget
- Stay abreast of all significant financial issues
- Allow organisational staff to handle day-to-day financial decisions

# 2. FINANCIAL STATEMENTS

- 2.1 Statement of Financial Performance  
[aka Profit & Loss Statement]
- 2.2 Budgets
- 2.3 Statement of Financial Position  
[aka The Balance Sheet]
- 2.4 Cashflow Statements



# 2.1 Profit and Loss Statement

## Definition:

A historical statement of the financial **PERFORMANCE** of your organisation over a period of time (usually 12 months).

*Sometimes called the 'Income and Expenditure Statement' or 'Revenue Statement'*

It records all the money coming in (**INCOME**) and all the money going out (**EXPENDITURE**) of the organisation over a specific time period.

**SURPLUS = Revenue (Income) – Expenses**

Income is **GREATER** than Expenditure (making money)

*Businesses refer to this as a PROFIT*

**DEFICIT = Expenses – Revenue (Income)**

Income is **LESS** than Expenditure (losing money)

*Businesses refer to this as a LOSS*

# INCOME

All sources of income generated over the past 12 months

Examples

Grants

Sponsorships and donations

Fees and charges

Revenues from events, and the sale of goods and services

Interest earned from investments

Other sundry (random) sources

# EXPENDITURE

All costs incurred over the past 12 months

Examples

Salaries and superannuation

Insurance (WorkCover)

Equipment

Utilities (electricity, gas, water, telephones)

Fundraising costs

Depreciation on equipment (cars, computers, mobile phones)

**Bellavista  
Community Group  
ABN 123 345 567**

**Statement of  
Financial Performance  
(Profit and Loss Statement)**

**For the periods:  
1 July 2019 – 30 June 2020  
1 July 2018 – 30 June 2019**

	<b>Notes</b>	<b>2020</b>	<b>2019</b>
<b><i>INCOME</i></b>			
Government Grants		100,000	100,000
Sponsorship	1	2,000	30,000
Donations	2	2,000	20,000
Crowd Funding		0	3,000
Goods and services	3	8,000	40,000
Investment income	4	2,000	4,000
Sundries	5	1,000	3,000
JobKeeper		120,000	0
<b>TOTAL INCOME</b>		<b>235,000</b>	<b>200,000</b>
<b><i>EXPENSES</i></b>			
Equipment		0	(5,000)
Employee wages		(115,000)	(110,000)
Administration costs	6	(15,000)	(10,000)
Insurance		(4,000)	(4,000)
Gas, Electricity, Water		(5,000)	(6,000)
Computer costs	7	(10,000)	-
Video & website	8	(35,000)	-
Transport & accommodation		(2,000)	(14,000)
Sundry expenses	9	(3,000)	(1,000)
<b>TOTAL EXPENSES</b>		<b>(160,000)</b>	<b>(150,000)</b>
<b>SURPLUS (DEFICIT)</b>		<b>75,000</b>	<b>50,000</b>

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# Accrual Accounting V Cash Accounting

**Example:** If you receive an annual insurance bill for \$1,200 in March 2021, then:

- under an **accrual accounting** method, you'd record an expense of \$100 for every month of the year ( $\$100 \times 12 = \$1200$ )
- under the **cash accounting** method you'd record an expense of \$1200 in March – when you received and paid the bill.

The main difference lies in the **timing** of when revenue and expenses are recognized.

**Accrual accounting:** Revenues and expenses are recorded when a **transaction occurs** rather than when payment is received or made.

**Cash accounting:** Revenues and expenses are **recognised at the time the cash is received or paid out.**

Understanding what system your organisation uses will help you make better sense of profit and loss statements – especially if they are broken down into **monthly reports.**

# Red Flags on the Profit and Loss Statement



## INCOME/REVENUE

- An unexpected reduction in revenue in comparison with previous years
- “One-off” income (eg: something that can’t be repeated such as receiving a grant or selling an asset)

## EXPENSES/COSTS

- Increased expenditure without increased income
- An unexpected increase in costs compared to previous years
- Any unusual and unexpected, but significant expenses
- Insufficient breakdown of income or expenses

## 2.2 Budgets

### Definition:

**An estimate of future income and planned expenses for a period of time (usually a year)**

Budgeting is the process of planning your organisation's finances for 12 months. It's all the activities you plan to undertake in the next 12 months, expressed in terms of money..

The board must approve the budget, every year.....and that needs to get minuted (before the new financial year starts)

This isn't just a formality. The board has to sign off on what's going to be purchased and what's going to be spent, and any purchasing or spending that hasn't been approved is unauthorised, improper and grounds for dismissal.



# How do you develop a budget?

- Gather past financial performance if you have it
- Break your information into categories:
  - Revenues/income
  - Costs/expenses
    - Fixed costs (which do not change, such as monthly internet bills) and
    - Variable costs (which do change, such as electricity usage)
- Try to predict any likely changes in your Income and Expenses
- Place all items into a spreadsheet according to the months in which they fall

The Treasurer presents the budget to the board. It's not a job for one person, and preparing a budget should involve the CEO, the chair, and consultation with the heads of every section of the management team. If you have a finance subcommittee or a budget subcommittee they'll check it over before it comes to you.

# Red Flags on the Budget



- Any deviation from the budget approved by the board at the start of the financial year (July 1 – June 30)



## 2.3 Balance Sheet

### Definition:

A snapshot of the financial POSITION of your organisation, which outlines everything it owns and is owed on a specific date.

### ASSETS

The monetary value of everything your organisation owns.

### LIABILITIES

The monetary value of everything your organisation owes to others.

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**NET ASSETS** = What you own (Assets) – What you owe (Liabilities)  
= What your organisation owns outright  
= Aka EQUITY

**Bellavista  
Community Group  
ABN 123 345 567**

**Statement of  
Financial Position  
(Balance Sheet)**

**As at 30 June 2020**

<b>ASSETS</b>	<b>2020</b>	<b>2019</b>
<i>CURRENT ASSETS</i>		
Cash at bank	170,000	150,000
Accounts Receivable	5,000	5,000
Stock on hand	145,000	145,000
<b>TOTAL CURRENT ASSETS</b>	<b>320,000</b>	<b>300,000</b>
<i>NON-CURRENT ASSETS</i>		
Property, plant & equipment (at cost)	610,000	600,000
<b>TOTAL NON-CURRENT ASSETS</b>	<b>610,000</b>	<b>600,000</b>
<b>TOTAL ASSETS</b>	<b>930,000</b>	<b>900,000</b>
<b>LIABILITIES</b>		
<i>CURRENT LIABILITES</i>		
Accounts Payable	5,000	5,000
organisation credit card	2,000	2,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>7,000</b>	<b>7,000</b>
<i>NON-CURRENT LIABILITIES</i>		
10-year bank loan	503,000	523,000
<b>TOTAL LIABILITIES</b>	<b>510,000</b>	<b>530,000</b>
<b>ASSETS</b>		
General funds*	370,000	370,000
Retained earnings*	50,000	0
<b>NET ASSETS</b>	<b>420,000</b>	<b>370,000</b>

# ASSETS

Everything the organisation owns: cash, inventory, prepaid expenses and vehicles

## CURRENT ASSETS

What the organisation owns that is expected to be turned into cash within a year

Cash at Bank

Cash held in bank accounts

Funds on Hand

Cash held in petty cash and non-bank sources

Debtors

Invoices issued for amounts owing to your organisation (aka Accounts Receivable)

Stock

Goods held by your organisation, awaiting sale (aka Inventory)

Prepaid expenses

Items the organisation has paid for but not yet gained the full use of (although they will do so within the next 12 months). Includes items such as rent and insurance.

## NON-CURRENT ASSETS

What the organisation owns that is not a current asset, such as assets that cannot be easily converted into cash.

Investment Funds

All investments held with a maturity greater than one year (eg: term deposits)

Land & Buildings

All land and buildings that are owned in the organisation's name

Office Equipment

All office equipment, such as furniture and computers (valued at original purchase cost)

Depreciation

All non-current assets decline in usefulness as they age. Depreciation is a non-cash item that systematically spreads the cost of each asset (except land) over its useful life.

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(Balance Sheet)**

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# LIABILITIES

Everything the organisation owes: loans and creditor invoices.

## CURRENT LIABILITIES

What the organisation owes that is expected to be paid back within a year

Short-Term Debt

The amounts owing on overdrafts and credit cards.

Current portion of Long-Term Debt

The amount owing within the next 12 months on any long-term loans held in the organisation's name.

Creditors

Amounts owed that the organisation has been invoiced for but has yet to pay (aka Accounts Payable).

Accruals

Items the organisation has gained full use of but not yet paid for (although they will need to do so within the next 12 months). Eg: salaries, leave loading and taxes.

## NON-CURRENT LIABILITIES

What the organisation owes that is not a current liability, that is due to be repaid in more than a year.

Long-Term Debt

Total loans owed by the organisation with a maturity of greater than one year.

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**Statement of  
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(Balance Sheet)**

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# ASSETS

## TOTAL ASSETS minus TOTAL LIABILITIES

### GENERAL FUNDS

This is the ending balance from **last year's** Statement of Financial Position.

### RETAINED SURPLUS/DEFICIT

This is the amount of surplus/deficit generated and retained by the organisation **this year**.  
(This sum is calculated from the Income and Expenditure Statement)

### NET ASSETS

This is the final balance (= GENERAL FUNDS plus RETAINED SURPLUS).

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# Red Flags on the Balance Sheet



- A lack of clarity as to the source of funds
- Significant variation in liabilities (debt) in comparison to forecasts
- A reduction in the value of net assets (assets ↓ OR liabilities ↑)
- Current liabilities (short term debts) are greater than current assets (assets that are cash or easily converted to cash)
- Net assets are negative
- Accrued expenses are huge
- Accounts payable are excessive

# Asset Register

- A record of all assets acquired and owned by your organisation.
- Helps keep track of your assets and is also needed at audit time.
- Should include details such as:
  - date of acquisition
  - cost and description
  - depreciation
  - location (if applicable) and
  - disposal of assets.
- See here for more information: <https://communitydirectors.com.au/help-sheets/assets-register>



## 2.4 Cashflow Statements

### Definition:

A forecast of all inflow and outflows of cash and cash equivalents on a month-by-month basis.

- Cash is all physical cash on hand and balances in bank accounts
- Cash equivalents are short term, highly liquid investments that are easily converted to known amounts of cash with little risk of a change in value. For example, stock on hand in a café or gift shop.



- The projected forecasts are usually set for 3 – 6 months into the future
- The purpose of a cash flow forecast is to identify any concerning cash flow trends that can be addressed before they arise.
- This helps protect you against any liquidity concerns (ie the ability to pay bills as they fall due) as well because you can easily see the months where your cashflow is tight or in the negative, and the months it looks good, and your ability to commit to further expenses.



# Red Flags on the Cash Flow Statement



- Negative cash flow from operating activities
- Reliance on selling assets (cash from investments) or increased borrowings for cash
- Large decrease in cash flow in comparison to previous years



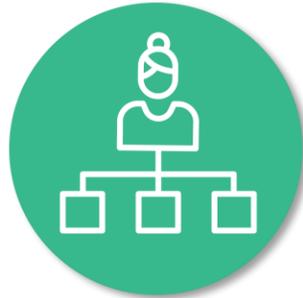
# 3. OVERSIGHT AND MONITORING

Delegation does NOT absolve you of your responsibility



## Systems

What happens when?



## Structures

Who does what?



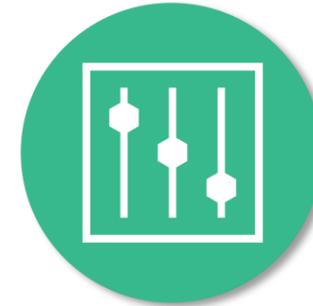
## Policies

What must we do to comply?



## Compliance Schedule

When are things due?



## Control measures

How do we know things have been done



## Reporting

What's been happening and what does this tell us?

# Red Flags in Financial oversight and monitoring

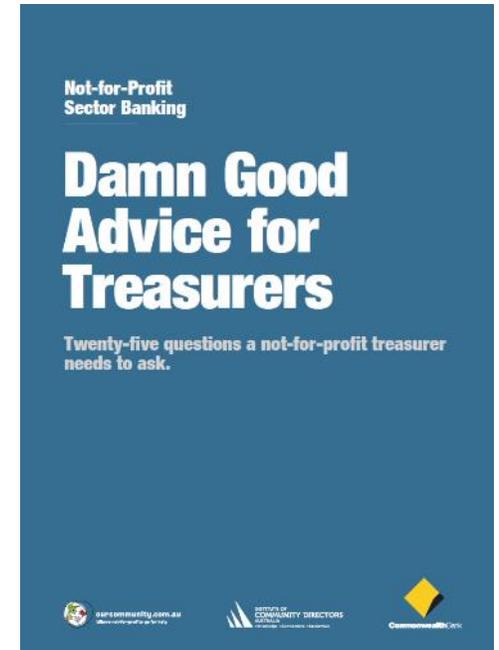


- A failure to obtain independent valuation of major assets
- Late reports
- Vague answers to financial questions



# 4. ADDITIONAL RESOURCES

- <https://communitydirectors.com.au/tools-resources/home>
- <https://communitydirectors.com.au/advice-guides/damn-good-advice-for-treasurers>
- <https://communitydirectors.com.au/help-sheets/known-when-your-groups-finances-may-be-ailing>
- <https://communitydirectors.com.au/help-sheets/assets-register>
- <https://communitydirectors.com.au/help-sheets/types-of-insurance-an-organisation-needs>



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# Questions?

