



Understanding the finances (for NFP boards)

Presenter: Jon Staley, Institute of Community Directors Australia

Acknowledgement of Country

'Hi I'm Jon from Our Community and I am joining today from Melbourne, Wurrundjeri woi-wurrung country ...!'

First languages interactive map: <https://gambay.com.au/>

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

1. I've got a thorough understanding
2. I've got some understanding
3. I've got no idea how much money we've got in the bank, or if we're making or losing money
4. I don't even think I understand the question!

Introduce yourself

BREAKOUT

- Your name
- Your position, role or title and how long you've been involved.
- Why you got involved with your organisation
- Your level of understanding (confidence) in relation to the finances

*Hi I'm ...
I am... and have been involved for ... years
... I got involved with ... because ...
I have a ...
understanding of the finances but ...*

What we'll cover



- Overview of responsibilities
- Finance basics (let's look at the key reports)
 - Budgets
 - Balance sheet
 - Income statement (P & L)
 - Cash flow statement
- Board activity – how are we travelling?
- Why you need to understand your organisation's finances
- Financial roles and responsibilities
- Legal duties of board directors
- Oversight and monitoring

What is the responsibility of board members in relation to financial oversight?

An incorporated association is, in the eyes of the law, a legal person – but only **one legal person**: it can only have one opinion at a time.

Financial RESPONSIBILITIES of board directors

- 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**

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

Key financial reports

- **Balance sheet** – shows the financial position at a point in time
- **Profit and loss statement** – shows performance over a period of time by matching revenue earned with expenses incurred for that period. Shows profitability.
- **Statement of cash flow** – shows the sources and uses of cash during the period
- **Budget** – your organisation's financial plan.



Budgets (& Boards)

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.

Elements of a good budget

- Realistic – based on past performance along with future projections & opportunities (if you don't have history it should be conservative)
- Balanced, or shows positive financial health
- Developed as a board-staff partnership
- Organised in line with financial statements
- Includes supportive services & program budgets
- Projects cash flow or indicates revenue status (e.g what are the assumptions)
- Adopted before financial year starts



When might be a time when your budget doesn't balance and is in the red but can still be approved?

Example budget A

Income	Amount
Grants and Donations	
Grant 1	\$5,000
Grant 2	\$3,000
Individual Donations	\$2,500
Corporate Donations	\$1,000
Total Grants/Donations	\$11,500
Fundraising Events	
Event 1	\$2,000
Event 2	\$1,500
Total Fundraising	\$3,500
Membership Fees	\$1,000
Other Income	
Interest on Savings	\$100
Miscellaneous	\$200
Total Other Income	\$300
Total Income	\$16,300

Expenses	Amount
Program Expenses	
Program 1	\$4,000
Program 2	\$3,500
Total Program Expenses	\$7,500
Administrative Expenses	
Rent and Utilities	\$1,500
Office Supplies	\$500
Staff Salaries	\$4,000
Total Administrative Expenses	\$6,000
Fundraising Expenses	
Event Costs	\$1,000
Marketing and Promotion	\$500
Total Fundraising Expenses	\$1,500
Other Expenses	
Bank Fees	\$100
Insurance	\$300
Miscellaneous	\$200
Total Other Expenses	\$600
Total Expenses	\$15,600
Net Surplus/Deficit	\$700

Community House			
Income	Budget 2023-2024	Actuals July 2023- March 2024 (YTD)	Proposed budget 2024-2025
Grants	4000	12,000	6000
Donations	6000	3000	4000
Products and services	380	1500	1500
Membership	45,000	30,000	45,000
Events	1200	1500	1500
Projects	1500	100	500
TOTAL	58,080	48,100	58,500
Expenses			
Salaries and on costs	38,000	28,500	39,000
Equipment	3000	3000	3200
Rent	7000	5250	7000
Utilities	1420	1000	1500
Communication	1500	1200	1500
Insurance	1200	900	1450
General admin	450	250	400
TOTAL	52,570	40,100	54,050
NET SURPLUS/DEFICIT	5,510	8,000	4,450

Income	Core Operations	Goodworks Funded Project	Therapy camp	Fundraising event	Total
Grants - Government	0				0
Grants - Foundations	16,500	100,000			116,500
Seminars & Consulting	38,219				38,219
Donations	55,257				55,257
Therapy Camp	0		25,203		25,203
Tea Party Donations	0			22,480	22,480
Membership	2,833				2,833
Sponsorship	51,000		2,500		53,500
Interest	2,664				2,664
Earned Income	19,663				19,663
Sundries	19				19
Total Income	186,155	100,000	27,703	22,480	336,338
Equipment	28,489	13,000			41,489
Rent	24,728				24,728
Salaries	168,536	25,500		2,000	196,036
Camp expenses	0		11,541		11,541
Gas, Light, e.t.c.	2,515	748			3,263
Insurance	5,071	1,508			6,579
Photocopying/Printing/Stationery	2,955	878		500	4,333
Telephone & Internet	2,471	735			3,206
Travel	5,875	1,747			7,622
Web Page Design & Maintenance	2,142	637			2,779
Other costs	9,953	2,959		250	13,162
Total Expenditure	252,735	47,712	11,541	2,750	314,738
Deficit/Surplus	-66,580	52,288	16,162	19,730	21,600

Sample budget by program etc

	Core operations	Major event	Project x	Total
Income				
Expenses				
Net surplus/deficit				

BREAKOUT GROUPS

Some quick questions about this budget:

What is the:

Overall total projected income?

Overall total projected expenditure?

Overall deficit/surplus?

As a board member what questions (if any) might you want to ask the treasurer/CEO about this budget?

Income	Total
Grants - Government	0
Grants - Foundations	116,500
Seminars & Consulting	38,219
Donations	55,257
Therapy Camp	25,203
Tea Party Donations	22,480
Membership	2,833
Sponsorship	53,500
Interest	2,664
Earned Income	19,663
Sundries	19
Total Income	336,338
Equipment	41,489
Rent	24,728
Salaries	196,036
Camp expenses	11,541
Gas, Light, e.t.c.	3,263
Insurance	6,579
Photocopying/Printing/Stationery	4,333
Telephone & Internet	3,206
Travel	7,622
Web Page Design & Maintenance	2,779
Other costs	13,162
Total Expenditure	314,738
Deficit/Surplus	21,600

This is the same overall budget without program areas – what are the advantages/challenges of reading the previous layout?

Last years income with anticipated changes

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.

Income stream	Total amount (\$)	Change
Government annual funding		
Federal government	20,000	Lost
State government	40,000	Same
Local government	2,000	Same
Other grants	3,000	Raised to 5,000
TOTAL grants income	65,000	
Other income		
Community events/festivals	20,000	Expect extra 5,000
Consultancy	48,000	Same
Donations	57,000	Add 5,000 for mid-year campaign
Fundraising	29,500	Same
Interest	500	Same
Investments	0	
Sales	0	
Sponsorship	22,000	Down to 18,000
TOTAL other income	177,000	
TOTAL income	242,000	

This year's income based on anticipated changes

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 fund-raising and raising more money from community events, XYZ will still have \$12,000 less money this year. XYZ's board will have to look at ways of dealing with this impact.

Income stream	Last year (\$)	This year (\$)
Government annual funding		
Federal government	20,000	0
State government	40,000	40,000
Local government	2,000	2,000
Other grants	3,000	5,000
TOTAL grants income	65,000	47,000
Other income		
Community events/festivals	20,000	25,000
Consultancy	48,000	48,000
Donations	57,000	62,000
Fundraising	29,500	29,500
Interest	500	500
Investments	0	0
Sales	0	0
Sponsorship	22,000	18,000
TOTAL other income	177,000	183,000
TOTAL income	242,000	230,000

Questions to ask about the Budget (financial state)



1. Where did we end up last year?
2. Are our income sources rising or falling?
3. Are our expenses under control?
4. Do we have sufficient reserves?
5. Is our cash flow adequate?
6. Does our financial activity mirror the budget?
7. Are our financial and strategic plans consistent?
8. Are we being productive with our use of staff/resources?
9. Are we filing all compliance documents on time?
10. Are appropriate cost classifications identified?

Variance on the Budget



- Any deviation from the budget approved by the board
- Do you have a policy for how you assess variations?
- Some boards look at a percentage or dollar amount

**BALANCE
SHEET**



**INCOME
STATEMENT**
(Profit & Loss)

**CASH FLOW
STATEMENT**

ASSETS	2020	2019
<i>CURRENT ASSETS</i>		
Cash at bank	170,000	150,000
Accounts Receivable	5,000	5,000
Stock on hand	145,000	145,000
TOTAL CURRENT ASSETS	320,000	300,000
<i>NON-CURRENT ASSETS</i>		
Property, plant & equipment (at cost)	610,000	600,000
TOTAL NON-CURRENT ASSETS	610,000	600,000
TOTAL ASSETS	930,000	900,000
LIABILITIES		
<i>CURRENT LIABILITES</i>		
Accounts Payable	5,000	5,000
organisation credit card	2,000	2,000
Unearned income (e.g grant funding)	15,000	
Employee entitlements	3,000	3,000
Tax	2,500	2,500
TOTAL CURRENT LIABILITIES	27,500	12,500
<i>NON-CURRENT LIABILITIES</i>		
10-year bank loan	473,000	511,000
Long service leave provision	9,500	6,500
TOTAL NON-CURRENT LIABILITIES	482,500	
TOTAL LIABILITIES	510,000	530,000
ASSETS		
Retained earnings *	370,000	370,000
Current equity*	50,000	0
NET ASSETS	420,000	370,000

BALANCE SHEET

E.g. Statement of financial position
Point in time – snapshot!



What we own ASSETS

Current	320,000
Non - Current	610,000
TOTAL	930,000

What we owe LIABILITIES

Current	27,500
Non - Current	482,500
TOTAL	510,000



NET ASSETS (aka equity)

420,000

OUR ASSETS!



Yes, our people are an asset – but they don't show up as an asset on the balance sheet!

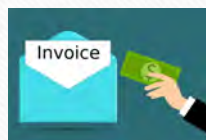
ASSETS	2020
CURRENT ASSETS	
Cash at bank	170,000
Accounts Receivable	5,000
Stock on hand	145,000
TOTAL CURRENT ASSETS	320,000
NON-CURRENT ASSETS	
Property, plant & equipment (at cost)	610,000
TOTAL NON-CURRENT ASSETS	610,000
TOTAL ASSETS	930,000

BALANCE SHEET

What's the story behind the figures?

LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	5,000
organisation credit card	2,000
Unearned income (e.g grant funding)	15,000
Employee entitlements	3,000
Tax	2,500
TOTAL CURRENT LIABILITIES	27,500
NON-CURRENT LIABILITIES	
10-year bank loan	473,000
Long service leave provision	9,500
TOTAL LIABILITIES	510,000

What we own ASSETS



What we owe LIABILITIES

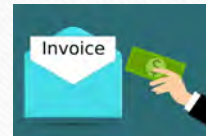


Payslip	
April 2017	
Annual Earnings	90000
Taxation	
Wages	200
Residual Pay	89800
Food Tax	1000
Monthly Personal Relief	1000
Deductions	
PFYE	1000
Ward	1000
Wages	1000
Annual Contribution	20000
Net Pay	29300

Assets – liabilities =
net assets (equity)

OUR ASSETS!

Current



Noncurrent



ASSETS	2020
<i>CURRENT ASSETS</i>	
Cash at bank	170,000
Accounts Receivable	5,000
Stock on hand	145,000
TOTAL CURRENT ASSETS	320,000
<i>NON-CURRENT ASSETS</i>	
Property, plant & equipment (at cost)	610,000
TOTAL NON-CURRENT ASSETS	610,000
TOTAL ASSETS	930,000

ASSETS

Everything the organisation owns: cash, inventory 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.

OUR LIABILITIES!

Current

Noncurrent

LIABILITIES	
<i>CURRENT LIABILITES</i>	
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<i>NON-CURRENT LIABILITIES</i>	
10-year bank loan	473,000
Long service leave provision	9,500
TOTAL LIABILITIES	510,000



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).

Employee entitlements

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.

Unearned revenue

Payment for a good/service that hasn't been delivered yet

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

Employee entitlements

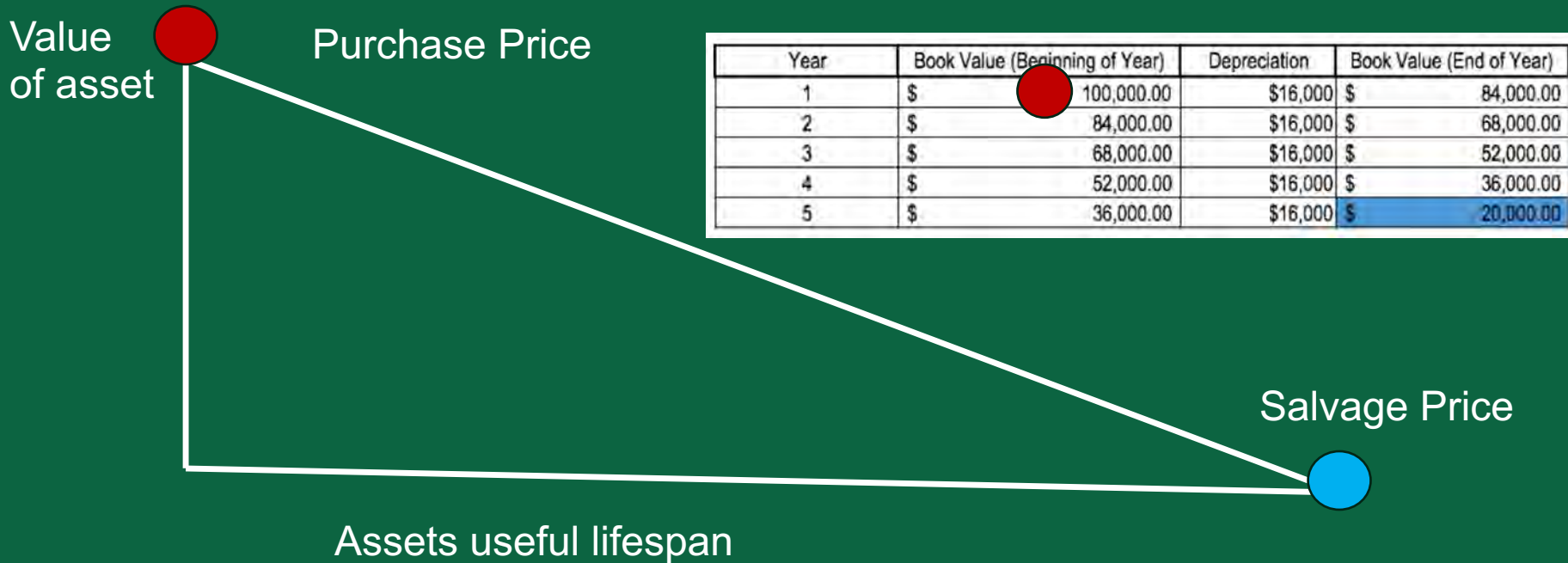
With a longer than 12month timeframe eg. Provision for long service leave

BALANCE SHEET

ASSETS	2020	2019
<i>CURRENT ASSETS</i>		
Cash at bank	170,000	150,000
Accounts Receivable	5,000	5,000
Stock on hand	145,000	145,000
TOTAL CURRENT ASSETS	320,000	300,000
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<i>NON-CURRENT LIABILITIES</i>		
10-year bank loan	473,000	511,000
Long service leave provision	9,500	6,500
TOTAL LIABILITIES	510,000	530,000
ASSETS		
Retained earnings *	370,000	370,000
Current equity*	50,000	0
NET ASSETS	420,000	370,000

DEPRECEATION

Straight line depreciation



The process of reducing the (book) value of a tangible fixed asset due to:

- Use
- Wear and tear
- Passing of time
- Obsolescence

Depreciation should be recognized in each report: **balance sheet e.g** property, plant, equipment less depreciation
income statement e.g. that year's depreciation amount as an expense

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	2018 \$	2017 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	106,079	120,347
Investments	4	126,971	124,417
Trade and other receivables	5	105,670	102,219
TOTAL CURRENT ASSETS		338,720	346,983
NON-CURRENT ASSETS			
Property, plant and equipment	6	55,629	46,505
Motor Vehicle	6	11,750	12,500
TOTAL NON-CURRENT ASSETS		67,379	59,005
TOTAL ASSETS		406,099	405,988
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	7	56,648	100,216
Funding Received in Advance	7	97,400	18,000
Employee Leave Provisions	7	66,994	44,078
TOTAL CURRENT LIABILITIES		221,042	162,294
NON CURRENT LIABILITIES			
Employee Leave Provisions	7	6,500	17,496
TOTAL NON CURRENT LIABILITIES		6,500	17,496
TOTAL LIABILITIES		227,542	179,790
NET ASSETS		178,557	226,198
EQUITY			
Retained surplus		178,264	225,741
Revaluation deficit		293	457
TOTAL EQUITY		178,557	226,198

The accompanying notes form part of these financial statements.

Activity:

1. What does note 6 tell us?
2. If property, plant and equipment had been listed 'at cost' what impact would this have had on overall equity?

NOTE 6: PROPERTY, PLANT AND EQUIPMENT PLANT AND EQUIPMENT

Plant and equipment:

At cost	259,413	236,788
Less accumulated depreciation	203,784	190,283
Total plant and equipment	55,629	46,505
Motor Vehicle:		
At Cost	23,684	23,684
Less revaluation adjustment	11,934	11,184
At Market Value	11,750	12,500
Total property, plant and equipment	67,379	59,005

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.



Asset register

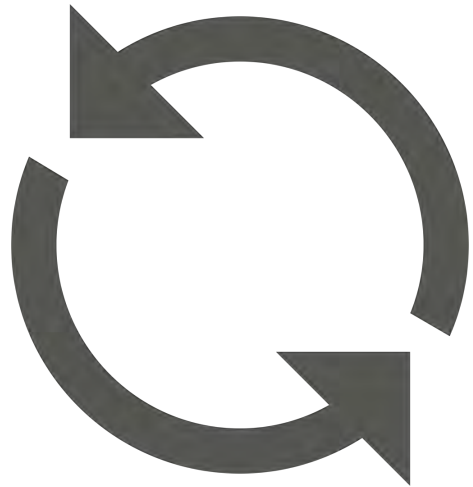
[Organisation] [Year]

ID #	Description	Brand	Model no	Serial no	Purchase value	Purchase date	Current value	Location
1.	Lenovo Yoga AIO 7 27-inch R7-5800H/32GB/1TB SSD + 2TB HDD/RX 6600M 8GB All in One Desktop	Lenovo	AIO 7	Xyz123-4d	\$3299	2023	\$1600	Patrick's desk
2.	Lenovo Yoga AIO 7 27-inch R5-5600H/16GB/512GB SSD + 1TB HDD All in One Desktop	Lenovo	AIO 7	Xyz420-7k	\$2697	2022	\$1300	Fatima's desk

<https://communitydirectors.com.au/help-sheets/assets-register>

Break

Let's take 10 minutes to refresh, recharge and re-caffeinate (as required).



Accounting systems

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

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

REVENUE

=

The income earned from

Sale of goods!



Provision of services!










DEFERRED REVENUE (Unearned income)

The payments that an organisation receives in advance for goods or services that haven't been delivered yet. Is recorded as a liability in the balance sheet until the service/goods have been provided.

E.g. Unexpended income from advance grant funding

ACCRUED EXPENSES

An accrued expense, also known as an accrued liability, is an accounting term that refers to **an expense that is recognised on the books before it has been paid.**

	Nov	Dec	Jan	
Scenario 1 Sale of goods				Deferred revenue
Scenario 2 Provision of service				Accrued revenue
Scenario 3 Grant funding				Deferred revenue

BALANCE SHEET

Balance Sheet

As at 31 August 2021

31 Aug 2021 31 Aug 2020

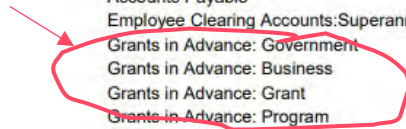
Assets

	31 Aug 2021	31 Aug 2020
Bank		
Everyday account	\$355.47	\$355.30
Term Deposit	\$37,214.36	\$36,967.44
Statement account	\$2,308.55	\$5,211.78
Savings account	\$431,249.60	\$359,208.34
Total Bank	\$471,127.98	\$401,742.86
Current Assets		
Accounts Receivable	\$9,075.00	\$65,999.00
Rental bond	\$3,500.00	\$3,500.00
Total Current Assets	\$12,575.00	\$69,499.00
Fixed Assets		
Office Equipment:At Cost	\$14,664.01	\$11,085.47
Office Equipment:Less Accumulated Depreciation	-\$8,347.88	-\$4,327.13
Total Fixed Assets	\$6,316.13	\$6,758.34
Total Assets	\$490,019.11	\$478,000.20

Liabilities

Current Liabilities		
Accounts Payable	\$4,355.24	\$12,913.37
Employee Clearing Accounts:Superannuation Payable	\$3,960.01	\$0.00
Grants in Advance: Government	\$17,872.00	\$0.00
Grants in Advance: Business	\$12,365.00	\$0.00
Grants in Advance: Grant	\$10,000.00	\$0.00
Grants in Advance: Program	\$23,570.00	\$0.00
GST	-\$623.80	\$21,577.09
Provision: - Annual Leave	\$27,299.82	\$0.00
Provision: - Long Service Leave	\$21,203.00	\$17,170.00
Taxes Owing:PAYG Withholding	\$10,822.00	\$0.00
Total Current Liabilities	\$130,823.27	\$51,660.46
Non-Current Liabilities		
	\$0.00	\$0.00
Total Non-Current Liabilities	\$0.00	\$0.00
Total Liabilities	\$130,823.27	\$51,660.46
Net Assets	\$359,195.84	\$426,339.74
Equity		
Current Year Earnings	\$55,694.36	\$210,206.74
Retained Earnings	\$303,503.28	\$216,133.00
Total Equity	\$359,197.64	\$426,339.74

Deferred revenue



Governance factors to consider in relation to 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
- When was the last time we valued our assets?
- Were these assessed independently?
- What are the trends over time?
- Is our financial position improving or deteriorating?

**BALANCE
SHEET**

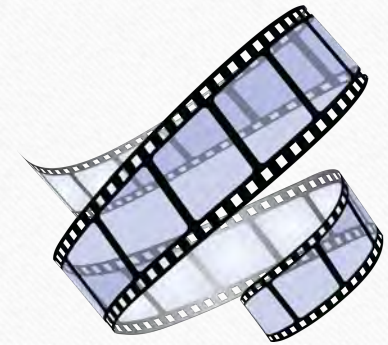


**INCOME
STATEMENT**
(Profit & Loss)

**CASH FLOW
STATEMENT**

INCOME STATEMENT

Profit & Loss statement
or P & L



An income statement is a
summary of an organization's
revenue and **expenses** over a
period of time

(e.g a short clip/movie of what happened between two points in time)

INCOME STATEMENT

(Statement of financial performance)

Definition:

A statement of the financial **PERFORMANCE** of your organisation over a period of time.

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 STATEMENT

FOR THE PERIOD ENDED DD-MM-YYYY

What came
in

REVENUE
EXPENSES

\$
X
(X)

What went
out

PROFIT/(LOSS)

X/(X)

What we were
left with

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)

**A Community organisation
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**

What do you think might be the story behind these figures across two years?

	Notes	2020	2019
INCOME			
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
TOTAL INCOME		235,000	200,000
EXPENSES			
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)
TOTAL EXPENSES		(160,000)	(150,000)
SURPLUS (DEFICIT)		75,000	50,000

Another community
organisation
ABN 765 432 111

Budget vs actuals
(Profit and Loss Statement)

For the periods:
Jan – Aug 2021 Actuals
Jan – Dec 2021 Budget

Account	Jan-Aug 2022	Budget Jan Dec 22	Unspent Budget	Earned/ Spent %
Income				
Workshop Registrations	933		933	
Programs	135,000	54,478	80,522	247.81%
Management	5,000	5,000	0	100.00%
New Money	4,500	0	4,500	0.00%
Grants	0	0	0	0.00%
Other Income	7,650	10,000	(2,350)	76.50%
Partnerships	13,350	30,000	(16,650)	44.50%
Sponsorship	25,800	60,000	(34,200)	43.00%
Government grant	357,328	536,000	(178,672)	66.67%
Workshops	47,115	30,000	17,115	157.05%
Interest Received	369		369	0.00%
Total Income	597,045	725,478	(128,433)	82.30%
Operating Expenses				
Salaries				
Total Salaries	324,248	499,207	174,959	64.95%
Employment Oncosts				
Total Employment Oncosts	56,662	88,596	31,934	63.96%
Accommodation				
Accommodation:Insurance	1,260	3,000	1,740	42.01%
Accommodation:Rent	28,315	42,000	13,685	67.42%
Total Accommodation	29,575	45,000	15,425	65.72%
Administration				
Total Administration	10,892	28,500	17,608	38.22%
Communications				
Total Communications	37,795	26,500	(11,295)	142.62%
Facilities and Equipment				
Total Facilities and Equipme	3,084	6,000	2,916	51.41%
Project Costs				
Total Project Costs	7,572	44,000	36,428	17.21%
Sector Development				
Total Sector Development	167	6,000	5,833	2.78%
Total Operating Expenses	469,997	743,803	273,806	63.19%
Net Profit	127,048	(18,325)	(145,373)	

Governance questions to consider/ ask about in relation to the income statement.

INCOME/REVENUE

- Has there been an unexpected reduction in revenue in comparison with previous years in any areas
- Is there “one-off” income – if so, what is the context?

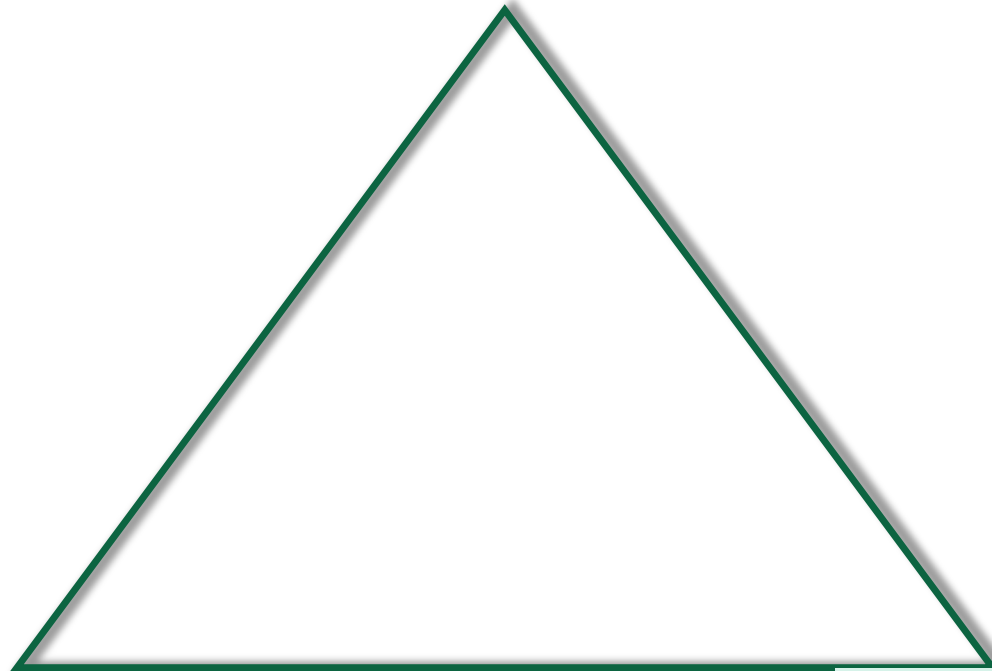
EXPENSES/COSTS

- Have we seen an Increased expenditure without increased income – what is the story behind this if so?
- Has there been an unexpected increase in costs in comparison with previous years?
- Any unusual and unexpected but significant expenses
- Insufficient breakdown of income or expenses

**BALANCE
SHEET**

**INCOME
STATEMENT**
(Profit & Loss)

**CASH FLOW
STATEMENT**



CASH FLOW STATEMENT

Definition:

A retrospective look at where cash has come from and gone to over a set period.

It records all inflow and outflows of cash and cash equivalents

- 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.

Cashflow statements include three sections:

- operating activities
- investing activities
- financing activities

CASH FLOW STATEMENT

Statement of Cash Flows

For the month ended 31 August 2021

	AUG 2021
Operating Activities	
Receipts from customers	58,216.80
Payments to suppliers and employees	(65,912.21)
Cash receipts from other operating activities	(12,267.34)
Net Cash Flows from Operating Activities	(19,962.75)
Financing Activities	
Other cash items from financing activities	(65,679.70)
Net Cash Flows from Financing Activities	(65,679.70)
Net Cash Flows	(85,642.45)
Cash and Cash Equivalents	
Cash and cash equivalents at beginning of period	556,770.43
Net change in cash for period	(85,642.45)
Cash and cash equivalents at end of period	471,127.98

Core activities

Funding the business

Core activities

Outside Core Activities

Funding the business

How much cash do we have at end of period?

How much did we start with?


What is the change over the period?

Statement of Cash Flows For the Year Ended 30 June 2021

	2021	2020
Note	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from government grants and community services	5,085,975	5,697,240
Payments to suppliers and employees	(5,273,220)	(6,139,002)
Dividends received	85,253	79,348
Interest received	15,465	57,549
Interest received related to bequest reserve	2,834	6,422
Interest paid on lease liabilities	(18,260)	(26,605)
Net cash provided by/(used in) operating activities	<u>(101,953)</u>	<u>(325,048)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for property, plant and equipment	(2,961)	(58,517)
Net purchase of financial assets	<u>(1,293,905)</u>	<u>(3,048,803)</u>
Net cash used by investing activities	<u>(1,296,866)</u>	<u>(3,107,320)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of lease liabilities	(217,560)	(200,589)
Net cash used by financing activities	<u>(217,560)</u>	<u>(200,589)</u>
Net increase/(decrease) in cash and cash equivalents held	(1,616,379)	(3,632,957)
Cash and cash equivalents at beginning of year	5,799,899	9,432,856
Cash and cash equivalents at end of financial year	4,183,520	5,799,899

4

Governance questions to ask about the cash flow statement

- Do we have enough cash to manage our current liabilities? Future liabilities?
 - Is our cash flow relatively stable over time?
 - If there is big variance that we observe what is the story behind it?
- 

BALANCE SHEET

Activity

Balance Sheet

As at 31 August 2021

	31 Aug 2021	31 Aug 2020
Assets		
Bank		
Everyday account	\$355.47	\$355.30
Term Deposit	\$37,214.36	\$36,997.44
Statement account	\$2,308.55	\$5,211.78
Savings account	\$431,249.60	\$359,208.34
Total Bank	\$471,127.98	\$401,742.86
Current Assets		
Accounts Receivable	\$9,075.00	\$65,999.00
Rental bond	\$3,500.00	\$3,500.00
Total Current Assets	\$12,575.00	\$69,499.00
Fixed Assets		
Office Equipment:At Cost	\$14,664.01	\$11,085.47
Office Equipment:Less Accumulated Depreciation	-\$8,347.88	-\$4,327.13
Total Fixed Assets	\$6,316.13	\$6,758.34
Total Assets	\$490,019.11	\$478,000.20
Liabilities		
Current Liabilities		
Accounts Payable	\$4,355.24	\$12,913.37
Employee Clearing Accounts:Superannuation Payable	\$3,960.01	\$0.00
Grants in Advance: Government	\$17,872.00	\$0.00
Grants in Advance: Business	\$12,365.00	\$0.00
Grants in Advance: Grant	\$10,000.00	\$0.00
Grants in Advance: Program	\$23,570.00	\$0.00
GST	-\$623.80	\$21,577.09
Provision: - Annual Leave	\$27,299.82	\$0.00
Provision: - Long Service Leave	\$21,203.00	\$17,170.00
Taxes Owing:PAYG Withholding	\$10,822.00	\$0.00
Total Current Liabilities	\$130,823.27	\$51,660.46
Non-Current Liabilities		
	\$0.00	\$0.00
Total Non-Current Liabilities	\$0.00	\$0.00
Total Liabilities	\$130,823.27	\$51,660.46
Net Assets	\$359,195.84	\$426,339.74
Equity		
Current Year Earnings	\$55,694.36	\$210,206.74
Retained Earnings	\$303,503.28	\$216,133.00
Total Equity	\$359,197.64	\$426,339.74

Where was this on the cash flow statement?

How does that look in relation to the rest of the balance sheet?

Liquidity Ratio (Current Ratio)



$$\frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}} = \text{x \%} \frac{\text{ASSETS THAT CAN BE CONVERTED TO CASH EASILY (within 12 months)}}{\text{WHAT YOUR ORGANISATION OWES OTHERS (inc unspent grants) (within 12 months)}}$$

This ratio highlights your organisation's ability to meet its short-term commitments. A ratio of less than 1.5:1 (150%) is usually cause for action.

If it falls below 1:1 (100%), you have serious issues and should seek advice.
(It could indicate liquidity issues – i.e. an inability to pay debts as they fall due)

If on the other hand you have a very high ratio (e.g. 2.5:1) (250%) you might be able to find more efficient ways of using that cash (e.g. Investment).

So what can you do?

As a board set where you think your risk on this might sit. Do you want to adopt a conservative approach and set it between 2 and 2.5 or do you want to sail closer to the wind at 1.5?

CURRENT ASSETS	=	ASSETS THAT CAN BE CONVERTED TO CASH EASILY (within 12 months)
CURRENT LIABILITIES		WHAT YOUR ORGANISATION OWES OTHERS (inc unspent grants) (within 12 months)

Liquidity Ratio Exercise

To find out your liquidity ratio divide current assets by current liabilities

CURRENT ASSETS	471,127	÷
CURRENT LIABILITIES	130,823	

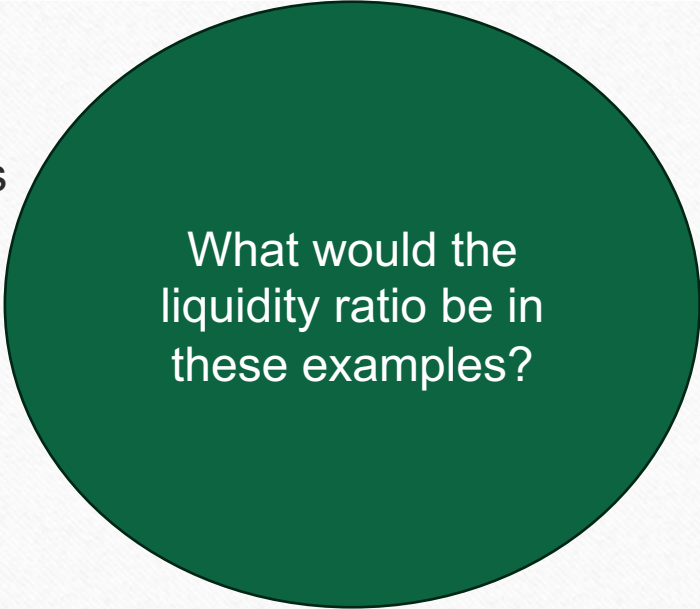
LIQUIDITY RATIO **3.6**

We have enough money!!!

What about if:
 Current Assets: 471,127
 Current Liabilities: 583,000

0.88

We could be in trouble!!!



Liquidity exercise - For each year divide current assets by current liabilities – what's the story?

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

	Note	2022 \$	2021 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	138,611	290,830
Trade and other receivables	4	125,594	159,296
TOTAL CURRENT ASSETS		264,205	450,126
NON-CURRENT ASSETS			
Property, plant and equipment	5	73,925	62,315
Motor Vehicles	5	-	-
TOTAL NON-CURRENT ASSETS		73,925	62,315
TOTAL ASSETS		338,130	512,441
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	6	197,544	251,803
Funding Received in Advance	6	-	56,250
Employee Leave Provisions	6	101,190	81,650
TOTAL CURRENT LIABILITIES		298,734	389,703
TOTAL LIABILITIES		298,734	389,703
NET ASSETS		39,396	122,738
EQUITY			
Retained earnings		39,396	122,738
TOTAL EQUITY		39,396	122,738

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023

	Note	2023 \$	2022 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	3	103,299	138,611
Trade and other receivables	4	95,688	125,594
TOTAL CURRENT ASSETS		198,987	264,205
NON-CURRENT ASSETS			
Property, plant and equipment	5	108,692	73,925
TOTAL NON-CURRENT ASSETS		108,692	73,925
TOTAL ASSETS		307,679	338,130
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	6	185,553	197,544
Employee leave provisions	6	62,503	101,190
TOTAL CURRENT LIABILITIES		248,056	298,734
NON-CURRENT LIABILITIES			
Employee leave provisions	7	18,993	-
TOTAL NON-CURRENT LIABILITIES		18,993	-
TOTAL LIABILITIES		267,049	298,734
NET ASSETS		40,630	39,396
EQUITY			
Retained surplus		40,630	39,396
TOTAL EQUITY		40,630	39,396

	Financial Position/ Balance Sheet	Profit & Loss	Cash Flow
Timing	For a point in time	For a period	For a period
Useful for	<ul style="list-style-type: none"> • Ability to repay current liabilities • Are your assets tied to liabilities? • Trends • Liquidity 	<ul style="list-style-type: none"> • How much you have earned • Fluctuations in the period • Making or losing money? • Budget planning & tracking 	<ul style="list-style-type: none"> • Cash management • Ascertain liquidity & profitability • Meeting day to day payments • Where the cash comes from
Limitations	<ul style="list-style-type: none"> • Historical • Doesn't accurately reflect fluctuations • Some values are estimated 	<ul style="list-style-type: none"> • Delayed reflection of values • Does not reflect assets (like land) • Doesn't reflect the organisation's abilities 	<ul style="list-style-type: none"> • Strong cash flow can be confused as sustainable operations • Cash flow is not net income • It might not be your cash.....

Financial plans and reports: How do they work together?

<p>No financial plan or strategy: You have a good understanding of your financial position for the year, but no plans for the future, which may lead to insolvency.</p>	<p>No budget: You have a high level financial plan, but without a practical operational budget and with nothing to compare income and expenses against, it's difficult to monitor your plan.</p>	<p>No profit and loss statement (budget vs actuals): You have good plans for the future and for day to day operations, but you have no idea how you are tracking against your budget. This makes monitoring your finances difficult.</p>	<p>No balance sheet: You have a high level plan for the future and a good understanding of operational income and expenses, but you have no high level understanding of your long term assets and liabilities and how they will affect your financial strategy.</p>	<p>No cash flow statements: You have a great understanding of your financial position now and a good plan for the future to ensure solvency, but you are unable to track the flow of cash in and out, which may lead to problems with short term liabilities such as bills and loans.</p>
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Breakout Activity – Board papers

1. Which report explains how you are tracking compared to your budget? Profit and Loss
2. Can you identify any major variances (differences) in the actuals compared with the budget?
3. What questions can you ask about these variances?
4. Which report outlines your current position in terms of assets and liabilities? Balance Sheet
5. How is the current equity position?
6. Why are the “grants in advance” listed as liabilities?
7. How do you expect the “grants in advance” figure to change in the next report and why?
8. How much money do you owe to others (external) and how much money are you owed by others? How can you tell?
9. Which report tells you how much cash has come in and out of the organisation over a period of time? Cash Flow Statement
10. Is the organisation at risk of insolvency? How do you know?

Budget vs Actual Jan - August 21

Account+A4:X88A1A4:X91A	Jan-Aug 2021	Budget Jan Dec 21	Unspent Budget	Earned/ Spent %
Income				
Workshop Registrations	933		933	
Programs	135,000	54,478	80,522	247.81%
Management	5,000	5,000	0	100.00%
New Money	4,500	0	4,500	0.00%
Grants	0	0	0	0.00%
Other Income	7,650	10,000	(2,350)	76.50%
Partnerships	13,350	30,000	(16,650)	44.50%
Sponsorship	25,800	60,000	(34,200)	43.00%
Government grant	357,328	536,000	(178,672)	66.67%
Workshops	47,115	30,000	17,115	157.05%
Interest Received	369		369	0.00%
Total Income	597,045	725,478	(128,433)	82.30%
Operating Expenses				
Salaries				
Total Salaries	324,248	499,207	174,959	64.95%
Employment Oncosts				
Total Employment Oncosts	56,662	88,596	31,934	63.96%
Accommodation				
Accommodation:Insurance	1,260	3,000	1,740	42.01%
Accommodation:Rent	28,315	42,000	13,685	67.42%
Total Accommodation	29,575	45,000	15,425	65.72%
Administration				
Total Administration	10,892	28,500	17,608	38.22%
Communications				
Total Communications	37,795	26,500	(11,295)	142.62%
Facilities and Equipment				
Total Facilities and Equipme	3,084	6,000	2,916	51.41%
Project Costs				
Total Project Costs	7,572	44,000	36,428	17.21%
Sector Development				
Total Sector Development	167	6,000	5,833	2.78%
Total Operating Expenses	469,997	743,803	273,806	63.19%
Net Profit	127,048	(18,325)	(145,373)	

Balance Sheet

As at 31 August 2021

31 Aug 2021 31 Aug 2020

Assets

Bank		
Everyday account	\$355.47	\$355.30
Term Deposit	\$37,214.36	\$36,967.44
Statement account	\$2,308.55	\$5,211.78
Savings account	\$431,249.60	\$359,208.34
Total Bank	\$471,127.98	\$401,742.86

Current Assets

Accounts Receivable	\$9,075.00	\$65,999.00
Rental bond	\$3,500.00	\$3,500.00
Total Current Assets	\$12,575.00	\$69,499.00

Fixed Assets

Office Equipment:At Cost	\$14,664.01	\$11,085.47
Office Equipment:Less Accumulated Depreciation	-\$8,347.88	-\$4,327.13
Total Fixed Assets	\$6,316.13	\$6,758.34

Total Assets	\$490,019.11	\$478,000.20
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Liabilities

Current Liabilities

Accounts Payable	\$4,355.24	\$12,913.37
Employee Clearing Accounts:Superannuation Payable	\$3,960.01	\$0.00
Grants in Advance: Government	\$17,872.00	\$0.00
Grants in Advance: Business	\$12,365.00	\$0.00
Grants in Advance: Grant	\$10,000.00	\$0.00
Grants in Advance: Program	\$23,570.00	\$0.00
GST	-\$623.80	\$21,577.09
Provision: - Annual Leave	\$27,299.82	\$0.00
Provision: - Long Service Leave	\$21,203.00	\$17,170.00
Taxes Owing:PAYG Withholding	\$10,822.00	\$0.00
Total Current Liabilities	\$130,823.27	\$51,660.46

Non-Current Liabilities

Wages Payable - Payroll	-\$1.80	\$0.00
Total Non-Current Liabilities	-\$1.80	\$0.00

Total Liabilities	\$130,821.47	\$51,660.46
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Net Assets	\$359,197.64	\$426,339.74
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Equity

Current Year Earnings	\$55,694.36	\$210,206.74
Retained Earnings	\$303,503.28	\$216,133.00
Total Equity	\$359,197.64	\$426,339.74

Statement of Cash Flows

For the month ended 31 August 2021

AUG 2021

Operating Activities

Receipts from customers	58,216.80
Payments to suppliers and employees	(65,912.21)
Cash receipts from other operating activities	(12,267.34)
Net Cash Flows from Operating Activities	(19,962.75)

Financing Activities

Other cash items from financing activities	(65,679.70)
Net Cash Flows from Financing Activities	(65,679.70)

Net Cash Flows

(85,642.45)

Cash and Cash Equivalents

Cash and cash equivalents at beginning of period	556,770.43
Net change in cash for period	(85,642.45)
Cash and cash equivalents at end of period	471,127.98

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.

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?)*

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 **operational 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

- 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**

- Corporations Act 2001 (Cth)
- Associations Incorporation Reform Act 2012 (Vic)

His Honour held that:

Directors cannot substitute reliance upon the advice of management for their own attention and examination of an important matter that falls specifically within the Board's responsibilities as with the reporting obligations. The Act places upon the Board and each director the specific task of approving the financial statements. Consequently, each member of the board was charged with the responsibility of attending to and focusing on these accounts and, under these circumstances, could not delegate or 'abdicate' that responsibility to others.

Australian Securities and Investments Commission v Healey [\[2011\] FCA 717](#)

How much is too much?

- [198] The papers provided to the Board each month were **voluminous**. However, it is to be recalled that this is a matter that is **within the power of the Board to control**. It is the Board's responsibility to determine the information it requires or does not require. The papers usually comprised around **450 pages**. They were divided into three sections.
- [229] In relation to this submission relating to the extent of the papers, I also make the following observations. A board can control the information it receives. **If there was an information overload, it could have been prevented.**

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/Public officer:

- Keeps and maintains minutes of each meeting – including recording any financial decisions
- Ensures compliance with appropriate regulators and legislation.

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

Given the dynamics of a board meeting, make sure you:



Understand your decision process as a whole;

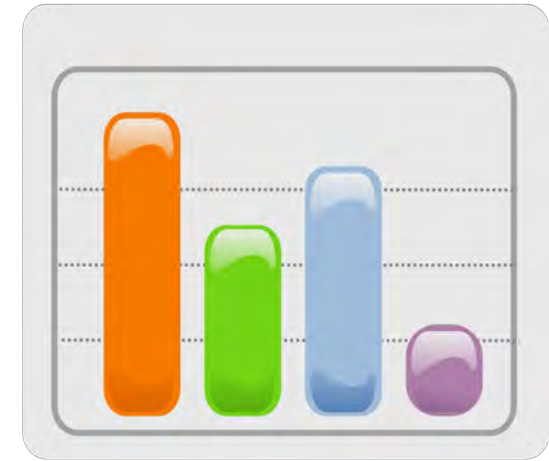


Ensure those who know about topics are well prepared for the meeting;

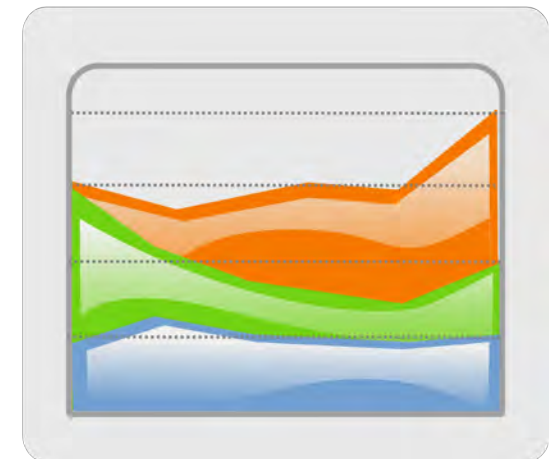
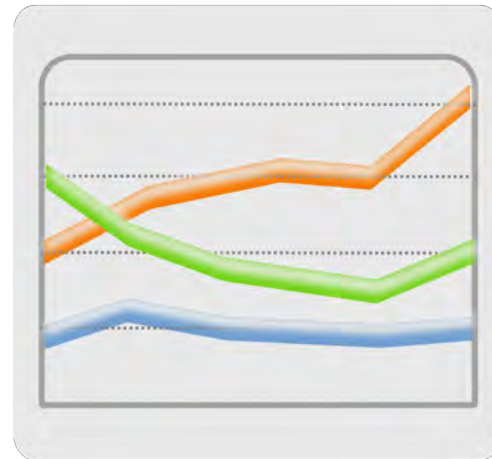


Encourage those who know least about topics to speak up at the board meetings.

Think about how you can make the financial story of your organisation accessible for all board members to understand.



Does your board use any graphs or tables to support the financial reports?



OVERSIGHT AND MONITORING

- Financial Ratios
 - Core Funding Reliance Ratio
 - Liquidity Ratio
 - Survival D-Day Ratio
- Income (Revenue) and Spending (Expenditure) Risks
- Insolvent Trading
- Financial Audits
- Contracts and MOUs



Core Funding Reliance Ratio



This ratio highlights how reliant you are on your most significant sources of funds
Look at your biggest funder, or your 2 biggest. What proportion are they of the total?

- A third? ($1:3$ or $1/3 = 33\%$) That's probably fine.
- A half? ($1:2$ or $1/2 = 50\%$) It's not optimum.
- Is it two-thirds? ($2:3$ or $2/3 = 67\%$) It's a possible concern.

So what can you do?

As a board you would start to measure this and aim to reduce it over 3 years by x%. You could try and find other funders, increase donations, find sponsors.

Another community
organisation
ABN 765 432 111

Budget vs actuals
(Profit and Loss Statement)

For the periods:
Jan – Aug 2021 Actuals
Jan – Dec 2021 Budget

Account	Jan-Aug 2022	Budget Jan Dec 22	Unspent Budget	Earned/ Spent %
Income				
Workshop Registrations	933		933	
Programs	135,000	54,478	80,522	247.81%
Management	5,000	5,000	0	100.00%
New Money	4,500	0	4,500	0.00%
Grants	0	0	0	0.00%
Other Income	7,650	10,000	(2,350)	76.50%
Partnerships	13,350	30,000	(16,650)	44.50%
Sponsorship	25,800	60,000	(34,200)	43.00%
Government grant	357,328	536,000	(178,672)	66.67%
Workshops	47,115	30,000	17,115	157.05%
Interest Received	369		369	0.00%
Total Income	597,045	725,478	(128,433)	82.30%
Operating Expenses				
Salaries				
Total Salaries	324,248	499,207	174,959	64.95%
Employment Oncosts				
Total Employment Oncosts	56,662	88,596	31,934	63.96%
Accommodation				
Accommodation:Insurance	1,260	3,000	1,740	42.01%
Accommodation:Rent	28,315	42,000	13,685	67.42%
Total Accommodation	29,575	45,000	15,425	65.72%
Administration				
Total Administration	10,892	28,500	17,608	38.22%
Communications				
Total Communications	37,795	26,500	(11,295)	142.62%
Facilities and Equipment				
Total Facilities and Equipme	3,084	6,000	2,916	51.41%
Project Costs				
Total Project Costs	7,572	44,000	36,428	17.21%
Sector Development				
Total Sector Development	167	6,000	5,833	2.78%
Total Operating Expenses	469,997	743,803	273,806	63.19%
Net Profit	127,048	(18,325)	(145,373)	

Liquidity Ratio (Current Ratio)



$$\frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}} = \text{x \%} \frac{\text{ASSETS THAT CAN BE CONVERTED TO CASH EASILY (within 12 months)}}{\text{WHAT YOUR ORGANISATION OWES OTHERS (inc unspent grants) (within 12 months)}}$$

This ratio highlights your organisation's ability to meet its short-term commitments. A ratio of less than 1.5:1 (150%) is usually cause for action.

If it falls below 1:1 (100%), you have serious issues and should seek advice.
(It could indicate liquidity issues – i.e. an inability to pay debts as they fall due)

If on the other hand you have a very high ratio (e.g. 2.5:1) (250%) you might be able to find more efficient ways of using that cash (e.g. Investment).

So what can you do?

As a board set where you think your risk on this might sit. Do you want to adopt a conservative approach and set it between 2 and 2.5 or do you want to sail closer to the wind at 1.5?

Survival (D-day) Calculation



Assume today all income stops and you can only draw on your reserves

(FUNDING = \$0) + RESERVES - FORWARD COMMITMENTS = HOW LONG CAN YOU LAST

This indicator is used to demonstrate to the board how long you could last in a cash crisis (e.g. All of your funding stops). However unlikely this situation it gives the board an indication of how long they have to source new income

So, what can you do?

As a board set where you think your risk on this might sit. Do you want to adopt a conservative approach and ensure you commit 12 months of cover into reserves or do you want to sail closer to the wind at 3 months.

Some typical Income (Revenue) Risks:

- Stability of revenue from primary sources
- Predictability of pledges/bequests
- Reliability of government grants and contracts
- Level of dependence on one or two major donors
- Funders policies/actions on overheads and annual support
- Economic health of the community
- Timing of funding commitments to agencies (advance or arrears?)
- Publicity that could adversely affect current or future revenues
- Regulatory/Policy changes



Some typical Spending (Expenses) Risks:

- The extent to which economic downturns or other types of events may effect demand for services, either up or down
- The extent of funding commitments made for longer than one year
- Amount of unsecured debt you carry (what's your debtor policy?)
- Long-term leases (get out clauses?)
- Level of dependency of programs on stable, individual funding streams
- Ability to downsize operations quickly and meet employee commitments



Insolvent trading

“For many incorporated associations, ‘insolvency’ may occur due to it being ‘technically’ without the capacity to pay its debts for a short period of time prior to receiving an injection of capital in the form of a grant, for example.

“... It goes too far to say that insolvency exists merely because there is an insufficiency of funds at a particular point in time. This circumstance may exist merely due to a temporary lack of liquidity, whereas insolvency is confirmed if the insufficiency represents an ‘endemic shortage of working capital’.”



Financial audits

- Provide a thorough analysis of an organisation's financial status
- Fulfills the need for independent evaluation
- Should be performed regularly, as organisational resources allow
- Find auditors who are proficient in not-for-profit matters



Preparing your association's annual financial report



Structure	Focus	Reports to	Considerations
Company Ltd	Not for Profit	ASIC	“Small” companies may not need to lodge.
Charity Company Ltd	Not for Profit	ACNC	Most charities need to report on finances unless registered with ORIC. “Small” charities may not need to lodge.
Indigenous Corporation	Profit/NFP	ORIC	Corporations with a consolidated gross operating income (CGOI) of more than \$100,000.
Incorporated Association	Not for Profit	State regulator/ACNC	Financial reporting to government Not-for-profit Law (nfplaw.org.au)

Contracts and funding obligations

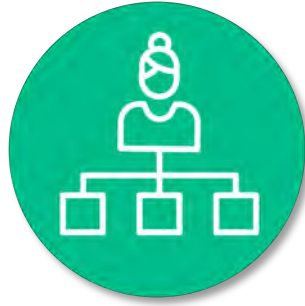
- Contracts, MOUs, instruments, deeds, delegations ...
- How do you protect your organisation – before, during and after entering into a contract?
- Any new or ongoing contracts with significant future implications for the organisation should be reported on by the CEO to the board as often as appropriate.
- It is important to observe relevant procedures for contracts, if only because it is seldom possible to void them after signature.
- Except under special circumstances, any person dealing with your group is entitled to assume that the person claiming to have proper authorisation to conclude a contract is so authorised.

Delegation does NOT absolve you of your responsibility



Systems

What happens when?



Structures

Who does what?



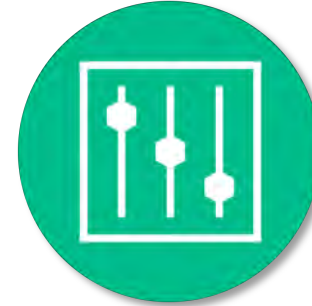
Policies

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?

Final questions for your board

- How effective is your board in fulfilling their function of providing oversight in your organisation's financial processes?
- Do you feel the board is doing all it can to ensure the financial wellbeing of your organisation?



Remember

- ALWAYS keep your financial processes, plans and expectations as simple as you can. Too complex = too hard = won't get done
- And if you find yourself in a hole, stop digging! Call in the experts

ADDITIONAL RESOURCES – Finance



Certified Community Director

Certified Community Director is a seven-unit micro-credential for community board members.

- Unit 1: Governance Foundations
- Unit 2: Understand and cultivate culture through recruitment
- Unit 3: Strategic planning and change management
- Unit 4: Managing your funds
- Unit 5: Effective communication for board members
- Unit 6: Conflict resolution and negotiation techniques for boards
- Unit 7: Finding funds


The entire course is delivered through a learning management system, meaning you can study on your own time and at your own pace.

Complete all seven units to become a Certified Community Director.

Not-for-Profit
Sector Banking

Damn Good Advice for Treasurers

Twenty-five questions a not-for-profit treasurer
needs to ask.



- <https://communitydirectors.com.au/tools-resources/home>
- <https://communitydirectors.com.au/advice-guides/damn-good-advice-for-treasurers>
- <https://communitydirectors.com.au/help-sheets/knowning-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>
- <https://communitydirectors.com.au/raining/certified-community-director>

ICDA Membership



communitydirectors.com.au/membership



Feedback



<https://www.surveymonkey.com/r/2024standardtraining>