

Finances

Good governance is the effective and efficient running of an organisation so that it remains a viable operation, true to its Mission and Goals. Being a viable organisation includes making sure you have the resources to carry out the stated purpose. Financial viability is a legal requirement of any constituted organisation, and a thorough understanding of the financial operations of the organisation is required by all committee members.

Remember that ignorance is no excuse: if you are unsure, ask. If you are unskilled or unfamiliar in reading and understanding financial reports, request some training. All committee members are responsible for ensuring the organisation's financial health, not just the Treasurer.

Many organisations appoint finance committees, or sub-committees, to help the Treasurer. 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.

The budget

A budget provides the organisation with:

- An estimate, before the time period begins, of what the organisation will financially achieve. It should highlight opportunities and any difficulties that may occur.
- A forecast of the organisation's expected income and expenses for a given period of time (usually a year, or the length of a project).
- Set targets and timelines for the work that needs to be done.
- A tool with which to obtain funds for the work that needs to be done in your organisation.

The entire Committee of Management has ultimate responsibility for overseeing the budget for the organisation and for ensuring that the organisation operates within a responsible, sustainable financial framework.

The budget should be flexible enough to respond to unforeseen events, including possible reductions in the cash flow. The annual operating budget must therefore be monitored and reviewed regularly.



The committee should conduct a budget-planning process each year as part of its annual business planning. It is the responsibility of the Treasurer to prepare all budgets and to review budgets in consultation with the Committee of Management or Finance Subcommittee.

8 Steps to Developing a Budget:

1. Look at last year's income
2. Look at the timing of last year's income
3. Ask: 'What is likely to happen this year?'
4. Work out this year's overall figures
5. Allocate the anticipated income in the budget month by month
6. Follow the above steps for expenditure
7. Discuss the options
8. Present the budget for sign-off to the committee

Recording and reporting

For any size organisation the person putting the reports together should have the expertise, or be trained, and be able to communicate the information effectively. The day-to-day management of the finances can be done by paid staff, the Coordinator or bookkeeper, or by the Treasurer.

There are a number of ways to report on the finances of the organisation to ensure that everyone can understand the information:

- Tables
- A written summary
- Pictorially (e.g. pie graph)
- Verbally

At each committee meeting the Treasurer/ Finance Committee should provide:

- Bank Reconciliation
- Cash Flow Statement
- Statement of Financial Position (also called a Balance Sheet)
- Statement of Financial Performance (also called a Profit and Loss Statement or an Income and Expenditure Statement)

The bank reconciliation

A bank reconciliation is a report that explains the differences between the bank statement balance and the organisation's cash balance. Your bank statement may not equal your cash records because of timing differences, un-presented cheques, and other information not in your cash records, such as interest paid or received. By checking off the records of payments you have made against the statement received from your bank, you will come to an exact amount for any particular moment in time.

Cash flow statement (sometimes called a cash budget)

A cash flow statement is a numerical picture of your predicted flow of funds for a particular period, usually month by month for the year ahead. It allows you to predict what cash you think will come in and how much will go out over that period. As an extension of your budget it should be done at the same time as you prepare your budget for the year ahead.

The cash is recorded as it comes in and as it goes out, not when the financial commitment is made (e.g. when grants are promised, invoices sent or supplies ordered). The forecast is drafted so that the actual figures can be inserted next to the forecasted figures. This will allow you to analyse the data quickly to identify

any significant variations.

This is commonly represented to the committee in the form of a table to enable easy understanding of where the organisation is financially at any particular time. This table would show: Estimated Income and Expenditure, Total Budget, Projected Monthly Total, Actual Monthly Total, and the Variance (between projected and actuals).

The balance sheet

- **Liabilities** are all the moneys that the organisation owes or has already committed
- **Assets** are all that the organisation is owed, all its cash and all that is owned and could expect to sell if needed
- **Net worth** = Assets – (minus) Liabilities

Statement of Financial Performance (also called a Profit and Loss statement)

A Statement of Financial Performance is a measurement of the organisation's Income and Expenditure over a given period of time. Along with the Balance Sheet, it should be regularly presented at Committee of Management meetings.

TOOLS AND RESOURCES

PILCHConnect – Financial Reporting

<http://www.pilch.org.au/reporting/>

Outlines financial reporting responsibilities, duties, roles and record keeping requirements for community organisations, in particular incorporated associations and companies limited by guarantee.

Not For Profit Compliance Support Centre - Managing finances

<http://www.nfpcompliance.vic.gov.au/managing-your-finances>

Information and links to help Victorian not-for-profits understand the legal aspects of financial management for their organisation

Our Community – Financial Help Sheets and Resources

http://www.ourcommunity.com.au/financial/financial_article.jsp?articleId=2205

Info and fact sheets including guides for community organisation treasurers, boards and committees, guides to understanding finances and sample financial policies and procedures.