



Budgeting & Financial Management

Monday 30th May 2022

Presenter: Lisa Jennings - Institute of Community Directors Australia (ICDA)

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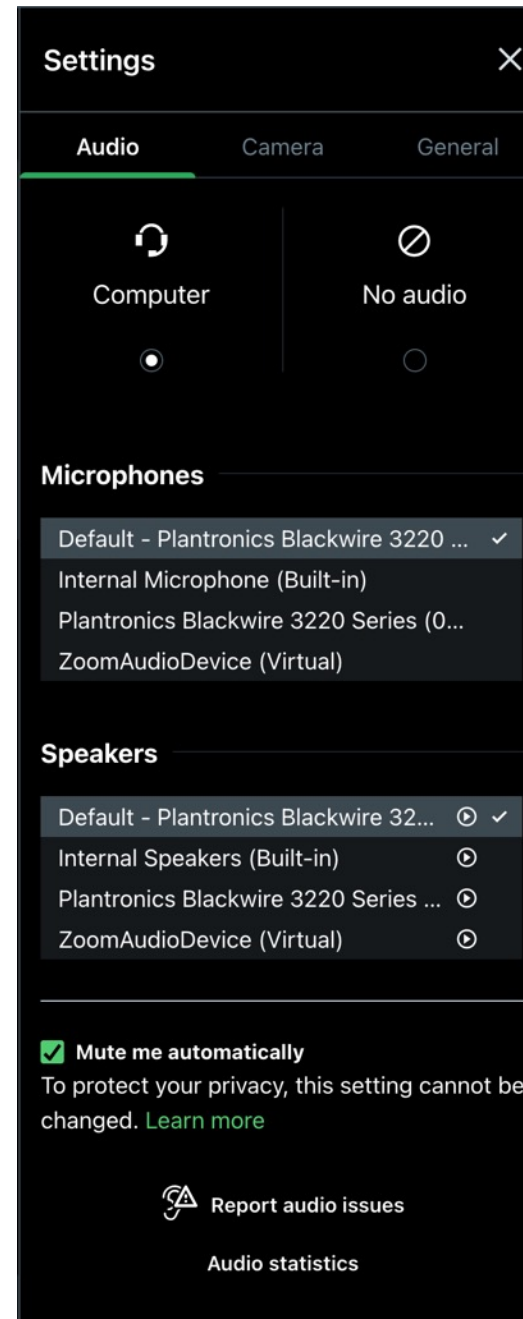
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What we'll cover!

1. Financial Roles and Responsibilities
2. Reading and Understanding Financial Reports
3. Budgeting

1. Financial Roles and Responsibilities

Committees have a responsibility to:

- set the direction of the organisation, through the **strategic & business plans**
- 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**
- require **remedial measures** to be taken where the budget's going astray.

Legal Duties of a Committee

- **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**

What do you need to know and understand?

- A statement of financial performance
- A statement of financial position
- A comparison of budget versus actual
- A forecast to the end of the financial year
- Some commentary on variances and other assumptions
- A cash flow statement
- An up-to-date download of bank account balances

Financial Responsibilities

- Provide a financial framework for planning future activities and operations
- Manage transactions
- Ensure the proper use of funds
- Have in place systems that can produce the reports you need
- Make decisions about the organisation's finances

Financial Roles

Treasurer

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

Secretary

- Keeps and maintains minutes of each meeting – including recording any decisions related to finance

All Committee members

- 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!

What should I know before I make a decision?

- Individually and collectively the Committee is responsible for the financial decisions of the organisation. The Committee acts as one legal entity
- Therefore – the simplest way to take care of yourself and your organisation is to “Ask questions...and then ensure that you are satisfied with the response”
- Trust and validate!
- As a general rule the following should be what you see well before you are asked to vote on a key decision

Background:				
What is the issue we are trying to decide?				
Is this timeframe dependent?				
What are the options available (including no decision)?				
What are the benefits and costs of each option? Does it support our mission?	Option	Benefit	Cost	Comment
	A			
	B			
	C			
	D			
How do we get information (data) to assist us in the decision?				
Who have we consulted?				
What are the criteria to decide? (Financial, planned, social, cultural)				
What are the risks and how do we mitigate? (finance, operation, reputation, stakeholder)				
Has plan been budgeted?				
What are the social benefits to our organisation/members				
What are the cultural benefits to our organisation/members?				
Who wins/loses from this decision?				
How and Who will communicate this decision to stakeholders?				
How will we review/ measure success of the decision?				

2. Reading and Understanding Financial Reports

At every meeting the treasurer reports on the finances. You should get:

- A statement of financial performance (the profit and loss statement)
- A statement of financial position (the balance sheet)
- A comparison of budget versus actual expenses
- A forecast to the end of the financial year
- Some commentary on variances and other assumptions (i.e. explanatory notes)
- A cash flow statement (Records all transfers of cash and cash equivalents)
- An up-to-date download of the current bank account balances

You should also ensure that someone apart from the treasurer has verified that the bank accounts actually reflect what the treasurer is reporting.

Key financial reports

1. Statement of Financial Performance
[aka Profit & Loss Statement]

*Including a comparison of budgeted
versus actual
performance, and a forecast to the end
of the financial year*

2. Statement of Financial Position
[aka The Balance Sheet]

3. Cashflow Statement



The Balance Sheet

The balance sheet tells you the value (worth) of an organisation.

Shows:

- Everything you control/own (your assets)
- External commitments/what you owe (your liabilities)
- What you own outright (equity)
- Point in time snapshot of the financial position
- Are we being as efficient as we could be?
- Must balance using the equation: $\text{Equity} = \text{Assets} - \text{Liability}$

The 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.

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

Mary Poppins Therapy Centre
ABN 123 345 567
Statement of Financial Position (Balance Sheet):
As at 30 June 2020

ASSETS	2020	2019
CURRENT ASSETS		
Cash & Cash Equivalents	\$116,363	\$147,926
Trade & Other receivables	\$6,730	\$5,399
Other current assets	\$34,005	\$162,917
TOTAL CURRENT ASSETS	\$157,098	\$316,242
NON-CURRENT ASSETS		
Property, plant & equipment (at cost)	\$609,861	\$658,987
TOTAL NON-CURRENT ASSETS	\$609,861	\$658,987
TOTAL ASSETS	\$766,959	\$975,229
LIABILITIES		
CURRENT LIABILITIES		
Trade, accruals & other payables	\$3,987	\$4,121
Borrowings	\$4,150	\$2,002
TOTAL CURRENT LIABILITIES	\$8,137	\$6,123
NON-CURRENT LIABILITIES		
Bank loan	\$515,090	\$519,867
TOTAL LIABILITIES	\$523,227	\$525,990
EQUITY (retained earnings)	\$243,732	\$449,239

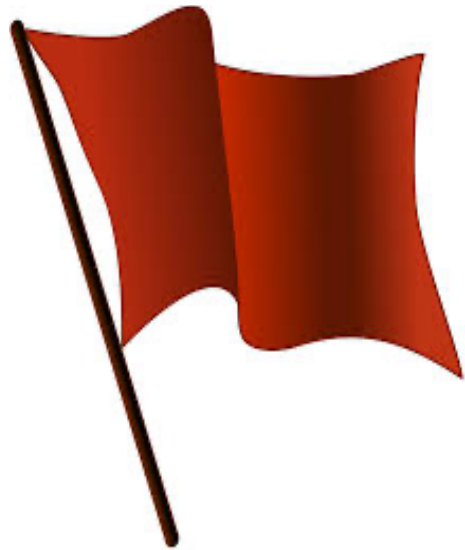
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Red Flags on the Balance Sheet



- Majority of assets are intangible
- Current liabilities are greater than current assets
- Equity is in the negative
- Accrued expenses are huge
- Accounts payable are excessive

Profit and Loss Statement

The Profit and Loss Statement is sometimes called the Statement of Financial Performance, or even an income statement. It shows how much the organisation has earned (or lost) over a period (typically the month, quarter or year)

The idea behind a Profit and Loss statement is to calculate the net profit (surplus) made or the net loss (deficit) suffered over a particular period.

Net profit or loss is calculated as follows:

Net Profit = Revenue (Income) – Expenses

Net Loss = Expenses – Revenue (Income)

The Profit and Loss Statement

Definition:

A 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)

Mary Poppins Therapy Centre
ABN 123 345 567
Statement of Profit and Loss
As at 30 June 2020

	Notes	2020	2019
REVENUE			
Donations	1	\$11,200	\$21,679
Government Grants		\$103,000	\$103,000
Membership		\$14,222	\$13,385
Crowd Funding		\$4,446	\$-
Investment income	2	\$2,395	\$2,902
Sponsorship	3	\$19,396	\$30,921
Goods and services	4	\$8,090	\$128,001
Interest and sundries	5	\$1,350	\$1,350
TOTAL INCOME		\$164,099	301,238
EXPENSES			
Equipment		\$-	(\$4,984)
Employee expenses		(\$84,350)	(\$110,386)
Administration costs	6	(\$15,132)	(\$9,879)
Insurance		(\$5,060)	(\$4,090)
Gas, Electricity etc.		(\$1,291)	(\$8,285)
Computer costs	7	(\$12,033)	\$-
Video & website	8	(\$35,000)	\$-
Transport & accommodation		(\$398)	(\$17,087)
Sundries	9	(\$2345)	(\$1,449)
TOTAL EXPENSES		(\$155,609)	(\$154,711)
DEFICIT/ SURPLUS			

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TOTAL EXPENSES		(\$155,609)	(\$154,711)
DEFICIT/ SURPLUS		\$8,490	\$146,527

Questions to ask about the Profit and Loss Statement

- Is the revenue sustainable?
- Do we have policies around acceptable fluctuations and investment?
- What is in the “other” category?
- How are we tracking against comparative periods
- What trends can we see?

Cash Flow Statement

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

- Records all transfers of cash and cash equivalents
- 3 sections: operating activities, investing activities, and financing activities
- 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

Sample Statement of Cash Flow: BigCharity Inc.

	2014	2013
	£'000	£'000
Cash flow from operating activities		
Receipts from customers	30,150	27,130
Payments to suppliers and employees	-27,600	-25,040
Dividends received	100	250
Interest and bill discounts received	300	270
Borrowing costs	-270	-240
Income taxes paid	-900	-810
Proceeds from court settlement	180	
Net cash provided by operating activities	1,960	1,560
Cash flow from investing activities		
Payment for subsidiary X, net of cash acquired	-550	
Payments for property, plant and equipment	-350	-1,200
Proceeds from sale of property, plant and equipment	20	10
Net cash used in investing activities	-880	-1,190
Cash flow from financing activities		
Proceeds from issue of shares	300	200
Proceeds from borrowings	200	240
Repayment of borrowings	-90	-80
Distributions paid	-1,200	-1,080
Exchange rate changes	-40	-30
Net cash used in financing activities	-830	-750
Cash at the beginning of the financial year	120	500
Cash at the end of the financial year	370	120
Notes to the Statement of Cash Flow		
Reconciliation of Cash		
For the purposes of the Statement of Cash Flow, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flow is reconciled to the related items in the balance sheet as follows:		
Cash	40	25
Deposits at call	530	180
Bank overdraft	-200	-85
	370	120

Questions to ask about the Cash Flow Statement

- How is cash generated and spent for the period?
- Do operating activities generate a cash flow surplus?
- Are we relying on investments and financing to cover shortfalls?
- What are the organisation's cash equivalents?

Accrual Accounting V Cash Accounting

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

Accrual accounting: This method focuses on anticipated revenue and expenses. Revenue 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.

Example: If you receive an annual 'website maintenance' bill for \$1,200 in March 2021, then:

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

Red Flags on the Statement of Cash Flows



- Negative cash flow from operating activities
- Reliance on selling assets (cash from investments) or increased borrowings for cash
- Large decrease in cash flow from comparative year

3. Preparing the Budget

Definition:

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

Hints for developing a budget:

- Gather past financial performance if you have it
- Break your information into categories:
 - Revenues/income and 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



How do we develop our budget?

This is one of the main areas we see organisations getting in trouble and it's because their budget is not linked to their strategic and business plan – one of the key questions for committee members is to ask –

Is our budget linked to our plans and how?

Tips for developing a budget

Place all of these into a spreadsheet into the months in which they fall

Undertake some 'what if' scenario planning

what if we need another staff member what will happen?

what if we lose a grant?

How does this impact? What can we do now?

Produce best case; worst case and most expected case budget for discussion

Check with your Treasurer and/or Accountant

Have budget signed off and minuted as accepted before implementing

Asset Register

The asset register is a place for your organisation to record the details of all assets acquired and owned. This register will help keep track of your association's assets and will also be needed at audit time.

You need to include details such as the date of acquisition, cost, depreciation, location (if applicable) and disposal of assets.

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

The Budget Calendar

- Generally budgets are done based on the tax year - July 1st – June 30th
- Keep in mind cash flow projection – what payments and receipts are coming up in the next couple of months?
- Look at any variance reports – budget versus actual

Laying out the budget

You also need to have someone looking at:

- Generally budgets are done based on the tax year (July 1st – June 30th)
- Income
- Expenditure
- Plans

3. Example Budget - Pleasantville Community House			
Expenditure	Last year	This year (Year to Date)	Next year (Budget) Prediction
Salaries	38,000	35,000	39,500
Equipment	3,000	4,300	4,000
Rent	7,000	7,600	8,200
Electricity/Gas	987	897	1020
Telephone	435	387	465
Stationery	234	200	250
Photocopying/Printing	700	765	760
Advertising	456	478	450
Mail	345	545	475
Travel	1,200	1,100	1,400
Sundries	456	678	750
Total	52,813	51,950	57,270
Income			
Grants	4,000	12,000	5,000
Donations	6,000	5,000	8,000
Sales	380	1,500	450
Memberships	45,000	30,000	40,000
Special fund-raising events	1,200	1,500	2,750
Sundries	1,500	750	750
Total	58,080	50,750	56,950

Budget balancing

It's also a good idea to have someone looking at:

- If the budget is on track
- Regular reports
- Actual expenditure v Budgeted
- Plans

Budget Monitoring

You also need to have someone looking at:

- When is it appropriate to change the budget?
- Who decides on when to make changes?

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’.**”

Upcoming sessions:

- Thursday 2 June - Social Media (webinar) 6-7pm
- Saturday 11 June - All Day Face to Face workshop in Dysart

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/knowning-when-your-groups-finances-may-be-ailing>

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

**Not-for-Profit
Sector Banking**

Damn Good Advice for Treasurers

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





QUESTIONS

A wide-angle landscape photograph capturing a sunset or sunrise over a mountainous region. The sky is filled with soft, horizontal bands of color, transitioning from a pale yellow near the horizon to a deep, muted orange and then a soft pinkish-purple at the top. Below the horizon, the landscape is dominated by dark, silhouetted mountain ranges. The mountains in the foreground are dark and detailed, showing rocky textures and forested slopes. In the distance, the mountain ranges become increasingly hazy and blue, creating a sense of depth and atmospheric perspective. The overall mood is serene and peaceful.

Thank you!