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Understanding Financial Statements

For Not-For-Profit Organisations

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This workshop is recommended for Board members and Treasurers, CEOs and Managers of Not for Profits, and anyone wanting more information about understanding financial statements and board roles & responsibilities.

Outcomes –

- To understand key terms for not-for-profit organisations
- To understand obligations of board members
- Understand the roles of auditors
- To recognise a Balance Sheet and be able to understand what it means
- To recognise a Profit and Loss (Income and Expenditure) statement and pick out the numbers that are to be reviewed or queried
- To recognise a budget and why to use budgets
- Things to be aware of when reviewing financial reports
- Tax Requirements and concessions – self assessment rules

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CHAPTER 1: KEY TERMS & INFORMATION

Let's do a quick rundown on some of the jargon and requirements for Not for Profits to see where your Not For Profit fits….

Constitution

Your constitution (or rules of the association) is the legal document that outlines all the responsibilities, and how the organisation is to act. Some constitutions have requirements such as advertising the dates for AGM, how to elect new board members, quorums, board member terms allowed, and special requirements for Chairs, Secretaries and Treasurers. It can also mention financial year dates, how many meetings must be held in a year, and who must be signatories on bank accounts.

Changes to a constitution must be lodged and approved by the Department of Mines, Industry Regulation and Safety (the old Department of Commerce) – Consumer Protection area. There is specific not for profit clauses that are required to be in your constitution to allow tax-free status.

All board members should be provided with a copy of the constitution, as they are liable for all that happens in the organisation and need to be aware if they are not following the rules.

Log in and keep your organisation up to date with the Department through the Associations Online website:

https://associations.commerce.wa.gov.au/associations/public/publicHomePage.jspx

Many constitutions are the same because they use the model rules. You can customise your constitution following the guidelines set out in your constitution.

Model rules:

If an association or incorporated association approves the adoption of these model rules as its own rules, section 7(4) or 29(5) of the Act, as appropriate, requires the association or incorporated association to notify the Commissioner of the following information —

- The name of the association;
- The objects or purposes of the association;
- The quorum for a general meeting of members of the association;
- The quorum for a meeting of the management committee of the association;
- If relevant, the period of the first financial year of the association.

For more information and a copy of the model rules:

https://www.commerce.wa.gov.au/publications/model-rules-associations-2016

Record keeping

An incorporated association must keep financial records which:

- Correctly record and explain its transactions and financial position and performance; and
- Enable true and fair financial statements to be prepared.

Financial records must be retained for a period of 7 years.

End of financial year

Some organisations do not have their end of financial year on 30th June. Most do, but some do not. It is important that you check your constitution to find out when your financial year begins and ends.

Annual General Meetings

Most Incorporated bodies are required to hold their AGM within 6 months of the end of financial year, or whatever the constitution says.
The purpose of the AGM is to elect the new board members, advise of any membership rates, elect auditors and present the financial statements and audit report if applicable. Board members and managers should be aware of the requirements of the constitution of the organisation, to ensure that the AGM is held in accordance with all rules.

Financial statements

At the end of the financial year, the organisation is required to prepare and present the financial statements to the members. This is normally presented at the Annual General Meeting, after the financial statements have been audited or reviewed. They must give a true and fair view of the financial position of the Not for Profit, and not be materially inaccurate (misstated).

The financial statements generally consist of four reports, the Profit and Loss report (or income and expenditure statement), the Balance Sheet (or statement of financial position), the Cashflow statement and the Statement of Changes in Equity. All reports work together to show what was done over the past financial year. These reports are explained in the following chapters.

Financial Reporting Requirements

The financial reporting provisions apply to how to present the financial reports and if they require audit or review.

Three tiers of associations

An association is classified into one of three tiers for the purposes of determining its financial reporting obligations:

- Tier 1 - revenue of less than $250,000
- Tier 2 - revenue of $250,000 to $1,000,000
- Tier 3 - revenue of more than $1,000,000

Revenue is income that arises in the course of the ordinary activities of an incorporated association and is to be calculated in accordance with the Australian Accounting Standards.

Examples of revenue include: government and other grants, donations, bequests or legacies, sales of goods or inflows from other fundraising activities, fees and charges for the provision of services, interest earned and dividends.

Tier 1 requirements

The financial statement must give a true and fair view of the association's financial position and performance.

CASH method

The association must include:

- A statement of receipts and payments for the financial year;
- A reconciled statement of the association's bank account balances as at the end of the financial year; and
- A statement of assets and liabilities of the association as at the end of the financial year.

ACCRUAL method

The association must include:

- A statement of income and expenditure for the financial year; and
- A balance sheet as at the end of the financial year.

There is no requirement under the new law for tier 1 associations to undertake a review or audit of their accounts. This being said, if the association's own rules state that a review/audit is required or the members request that one be completed the committee should ensure that the appropriate arrangements are made. In some cases, the Commissioner may direct a tier 1 association to undertake a review or audit.

Tier 2 requirements

The financial report must give a true and fair view of the association's financial position and performance and comply with Australian Accounting Standards.

The association must include:

- The financial statements for the year, as required by Australian Accounting Standards;
- Notes to the financial statements that are required by the Australian Accounting Standards; and
- A management committee declaration stating whether the association is able to pay its debts as and when they become due and payable and whether the prepared financial statements and notes comply with the requirements of the Associations Incorporation Act.

The association must have the financial statements independently reviewed and submit a copy of the reviewer's report to the members at the Annual General Meeting. (However, if the rules or the members, by special resolution, request an audit or the Commissioner directs an audit then an independent auditor's report should be provided to members at the Annual General Meeting).

Tier 3 requirements

The financial report must give a true and fair view of the association's financial position and performance and comply with Australian Accounting Standards.

The association must include:

- The financial statements for the year, as required by Australian Accounting Standards;
- Notes to the financial statements that are required by the Australian Accounting Standards; and
- A management committee declaration stating whether the association is able to pay its debts when they become due and whether the prepared financial statements and notes comply with the requirements of the Associations Incorporation Act.

The association must have the financial statements independently audited and submit a copy of the auditor's report to the members at the Annual General Meeting.

ACNC – Australian Charities and Not-For-Profits Commission

All charities (but not all Not For Profits) are required to be registered with the ACNC. The ACNC requires each not for profit and charity that is registered to keep the register updated, with details of responsible people (normally the board, CEO and other prominent positions), by submitting an Annual Information Statement including financial information and changes to constitutions, etc.

The ACNC also uses the three different charity size categories based on. Your Annual Information Statement questions and other obligations vary depending on your charity's size.

Ensure you have the information you need to fill in your Annual Information Statement properly:

- Small charities: annual revenue is less than $250,000
    - The Annual Information Statement includes basic financial questions, and
    - You can choose to submit a financial report, but this is not required.
- Medium charities: annual revenue is $250,000 or more but less than $1 million
    - The Annual Information Statement includes financial questions, and
    - You must submit a financial report that is either reviewed or audited.
- Large charities: annual revenue is $1 million or more
    - The Annual Information Statement includes financial questions, and
    - You must submit a financial report that is audited.

For more info: https://www.acnc.gov.au/

Payroll

Single Touch Reporting for payroll means that you are required to lodge payroll information to the ATO on payday for employees. All organisations paying staff are required to use payroll software to report this.
Superannuation is to be paid for staff at least quarterly, and PAYG Withholding is due for payment on BAS forms as per registration (monthly or quarterly).
At the End of Year the Payroll Finalisation submission is due on 14th July, which reports the end of year data for the employee to process their tax return.

ABNs and GST

ABN (Australian Business Number) – each business is required to have an ABN, which is a unique 11-digit number. If you deal with a person who does not have an ABN, you are required to have them fill out a form "Statement by Supplier", which outlines the reasons why they do not have an ABN. If you do not hold this form, and have not been supplied an ABN, you are required to withhold 45% of the invoice. You can have an ABN without being registered for GST.

Many goods and services have GST, which is 10% on top of the price of the goods and services. It is a requirement that if you advertise your services, that you promote the GST inclusive price, under the Fair trading laws. For most businesses, roughly 95% of all suppliers' invoices will have GST on them. If you are a not for profit organisation, you are not required to be registered for GST until your turnover (income) reaches $150,000. However, if you are applying for some grant funding (eg LotteryWest), you may be required to be registered for GST in order to access more funding opportunities.

When checking how much GST is included in an invoice, you divide the total invoice by 11. This will give you the GST amount.

If you are registered for GST, you are required to lodge Business Activity Statements (BAS). If you are registered for GST voluntarily (ie as a not for profit, your turnover is under $150,000) you can elect to lodge your BAS annually. For all other small businesses, you are required to lodge your BAS at least quarterly.

Also, on your BAS you may be required to pay PAYG Withholding if you have employees. This can be paid quarterly or monthly, depending on how many employees you have.

Keep your committee details up to date with the ATO via the Australian Business Register: www.abr.gov.au. Use https://abr.business.gov.au/ to find ABNs.

GST Reporting Methods

Businesses with an annual turnover of less than $10,000,000 have the option of reporting GST on cash or on an accrual basis. Businesses whose turnover exceed $10,000,000 must report on an accrual basis.

Cash vs Accrual

Businesses are either registered on cash or on an accrual basis.
Many businesses have a combination of both cash and credit (on account) sales, and cash and credit purchases (credit purchases are usually associated with purchasing stocks and supplies, and utilities).

So what is the difference? The difference is in the timing of when the business has to pay its GST liability to the Australian Taxation Office (ATO).

- For Cash Registered businesses, GST that has physically been collected less any GST that has been physically paid out, is reportable to the ATO *(ie it excludes GST on Credit Sales and Credit Purchases that have not yet been paid.)*
- For Accrual Registered businesses, GST is reportable to the ATO at the point of invoicing, regardless of whether it has been physically collected or paid.

It is important to know which method of GST registration you are on so that you can report the GST in the correct manner.

Bank Reconciliations

A bank reconciliation is a process that is used to match your bank statements with your record keeping. The main formula for the bank reconciliation is as follows:

Balance as Per Bank Statement:	$
Add Deposits not yet cleared:	$
Fewer Cheques written not yet presented:	$
Equals the Bank Balance in your books:	$

It is very important that the bank account is reconciled regularly to ensure that your data is entered into your bookkeeping program correctly and you have not missed entering data. Reconcile all accounts that you receive statements for – bank accounts, loans, credit cards, as well as petty cash.

CHAPTER 2: THE ROLES OF AUDITORS

The auditor will review your Financial Reports to give their opinion on whether the financial reports give a "True and Fair View" and are presented in accordance with accounting standards and are not "Materially Misstated". It is recommended that you have the bookkeeper prepare the financial reports, with an accountant reviewing the reports before the auditor starts the review.

The benefit to this is that your audit fees may reduce if the accountant review is prepared first. Accountants are generally aware of the Accounting Standards that are required to be met for Not-For-Profit organisations, and can help present the reports in a format that is easy for the auditor to audit.

The auditor is required to be an independent person who can check that the financial statements do not show any material errors, that they comply with the law, and show any disclosures to members of all material issues to the organisation. Your constitution will outline whether you are required to have a registered auditor or just an independent person review your financial statements.

The auditor will not guarantee that the financial statements are completely accurate, but rather, will express an opinion about the financial report. They will rarely look at 100% of the transactions.

What does material mean? Auditors use a series of calculations to see whether something is material. For example, if the organisation has income of $100,000, the "materiality" at which they will review and pick transactions will be 5%, or $5,000. If there are minor transactional errors of $40, then the auditor will not consider this to be material, and will not require the financial report to be changed. They may write in the management letter, and advise the board or management that the error has occurred, but it will not impact the financial report.

CHAPTER 3: OBLIGATIONS OF BOARD MEMBERS

Duties

Board members are required to have a broad understanding of everything in the organisation, so that they can make informed decisions on behalf of their members.
If committees are formed, board members are not to discharge their duties to the committee.

Fundamental duties of directors include:

- the duty to act honestly
- the duty to act with care and diligence
- the duty to avoid a conflict of interest in the position of a director and/or any interest that a director may have
- to not misuse information obtained by directors
- duty to keep books and records
- duty to review financial reports (see chapter 10 – Reviewing Financial Reports)
- duty to review solvency (see chapter 11 – Reviewing Solvency)

All board members are equally responsible for the financial responsibilities of the board. It will not be the treasurer alone who will be liable if the organisation trades insolvently, so it is in the interest of all board members to ensure that records are being kept and bills are being paid, and money is being collected in on a regular basis.

Even though you may be sitting on a management committee of an incorporated body, in the eyes of the law, you are still seen to be a director and must uphold these duties.

In some situations, a manager may be acting as a board member, to help in the decision making of the entity, and may be liable for these duties also.
For more information about Directors Duties, go to the Australian Institute of Company Directors https://www.aicd.com.au/tools-and-resources/nfp-resource-centre.html
or
https://asic.gov.au/for-business/running-a-company/company-officeholder-duties/

Director ID

All directors are required to apply for and supply their Director ID. If your not for profit is an Aboriginal Corporation registered with ORIC,or a registered company (eg it has a Ltd or Pty Ltd in the name), you will need to apply for a Director ID before you sit on the board.

If your Not For Profit is a non-incorporated association, or an incorporated association registered under your State, then you are not required to have a Director ID.

https://www.abrs.gov.au/director-identification-number

Inductions

It is recommended that your organisation have a starter pack for new board members, which includes key responsibilities of each member, outlining:

- meeting dates and times,
- number of meetings required to attend,
- what is expected of them in respect to answering queries and the time involved, and any specific duties,
- a confidentiality agreement (if applicable),
- a copy of the constitution,
- and copies of the previous board meetings and AGM minutes.

Your first board meeting as a new board should also cover key responsibilities and sharing of specific information about the organisation, such as

- types of funding received
- membership income
- duties of committee members and paid staff
- expectations for meeting attendance & apologies
- setting dates for meetings
- meeting agendas including rolling agenda items

It may be worth having an annual agenda for the board meetings so that each board meeting drills into certain aspects of the organisation. Some suggestions could be:

MONTH	**ROLLING AGENDA ITEM**
May / June	review upcoming financial year budget
July / August	review risks & succession plans
September / October	new board member inductions and board expectations
November / December	review upcoming Christmas season – business requirements (cashflow, staffing, etc)
January / February	review 6 months of financials and set goals for the year
March / April	funding review and opportunities

It is recommended that Board papers are sent to the board in advance of the meeting, so that pre-reading can be done and the time for the meeting is taken up asking and answering questions, rather than reading information.

CHAPTER 4: THE BALANCE SHEET

The balance sheet provides a snapshot in time of an organisation. It is often referred to as the Statement of Financial Position and is generally a backward glance at the business, that is, how it looked at a particular date.

The Balance Sheet shows the balances of the Assets, Liabilities and Equity of the organisation.
Assets – Liabilities = Equity

Assets are things that an organisation owns. Some examples of assets, are cash at bank, accounts receivable (debtors), plant and equipment, land and buildings and motor vehicles. Some organisations will have all of these assets and some may only have a few.

Liabilities are things that the organisation owes to others. Some examples include Accounts Payable (Creditors), GST, PAYG, Superannuation, bank loans, hire purchase loans and chattel mortgages.

Equity is the difference between the assets of the company and the liabilities of the company. It indicates that if you closed the organisation down on the date of the balance sheet, you would have the amount left over that is in equity. The higher this number is, the better off your organisation is. Another term for Equity is your Net Worth.

In your Equity section is Retained Earnings and Current Year Earnings. This is the cumulative value of your business's profits and losses over all of the years it has been operating. It is generally not cash, but rather the funds used previously to help build your assets.

Sample Organisation	
Balance Sheet	
As of December 2023	
Assets	
Current Assets	
Cash On Hand	
Cheque Account	$9,412.00
Reserve Saver Account	$10,000.00
Total Cash On Hand	**$19,412.00**
Accounts Receivable	$90,000.00
Total Current Assets	**$109,412.00**
Property & Equipment	
Motor Vehicles	
Motor Vehicles at Cost	$20,000.00
Motor Vehicles Accum Dep	($4,000.00)
Total Motor Vehicles	**$16,000.00**
Furniture & Fixtures	
Furniture & Fixtures at Cost	$14,090.91
Furniture & Fixtures Accum Dep	($2,818.00)
Total Furniture & Fixtures	**$11,272.91**
Total Property & Equipment	**$27,272.91**
Total Assets	**$136,684.91**
Liabilities	
Current Liabilities	
Trade Creditors	$2,089.00
GST Liabilities	
GST Collected	$21,818.18
GST Paid	($10,697.91)
Total GST Liabilities	**$11,120.27**
Payroll Liabilities	
PAYG Withholding Payable	$7,000.00
Superannuation Payable	$1,980.00
Total Payroll Liabilities	**$8,980.00**
Total Current Liabilities	**$22,189.27**
Total Liabilities	**$22,189.27**
Net Assets	**$114,495.64**
Equity	
Current Year Surplus/Deficit	$114,495.64
Total Equity	**$114,495.64**

Build your proof: Reconcile your accounts

The first thing that auditors and accountants look for is that your accounts have been reconciled. This means that each item on your Balance Sheet has been checked, and can be proved in some way. Some of your Balance Sheet accounts can be proved by external parties, such as bank statements, loans and invoices of assets purchased. Other things can be proved from within your systems. For example, if you use MYOB or Xero, then you can prove your Accounts Payable and Account Receivables by running and checking the reports on a regular basis.

Sample Organisation

Receivables Reconciliation
[Summary]
31/12/2023

Name	Total Due	0 - 30	31 - 60	61 - 90	90+
Funding Body 1	$90,000.00	$90,000.00	$0.00	$0.00	$0.00
Total:	$90,000.00	$90,000.00	$0.00	$0.00	$0.00
Ageing Percent:		$1.00	$0.00	$0.00	$0.00
Receivables Account:	$90,000.00				
Out of Balance Amount:	$0.00				

Sample Organisation

Payables Reconciliation
[Summary]
31/12/2023

Name	Total Due	0 - 30	31 - 60	61 - 90	90+
Coles	$1,134.00	$1,134.00	$0.00	$0.00	$0.00
Horizon Power	$450.00	$450.00	$0.00	$0.00	$0.00
Telstra	$505.00	$505.00	$0.00	$0.00	$0.00
Total:	$2,089.00	$2,089.00	$0.00	$0.00	$0.00
Ageing Percent:		$1.00	$0.00	$0.00	$0.00
Payables Account:	$2,089.00				
Out of Balance Amount:	$0.00				

It is recommended that your accounts are reconciled on a regular basis. This depends on the number of transactions that the business has, as to whether you reconcile weekly, monthly or quarterly. The more often it is done, the easier it is to do.

Short term vs long term assets

Your short term assets are those things that can quickly and easily be converted to cash, such as Accounts receivable, shares and stock. If you are going to look for funding from a bank, they will look at the ratios of your assets and liabilities, especially short to long term.

Long Term assets are the things that you own that will last for a number of years and are those things that may take longer to sell, such as Land and Buildings. Many not-for-profit organisations have computers, and office furniture and these are long term assets. Your accountant will generally prepare a depreciation report, and this will show the written down value (the cost of the item fewer depreciation claims), as an estimate of the market value of your assets.

Short term debts are things like creditors and the ATO, superannuation and employee entitlements (such as holiday pay).

Long term liabilities include loans and other amounts owed that are not due for payment for more than 12 months.

One ratio that is good to review the liquidity of an organisation (how well it can pay its debts) is the current ratio.
Take your total current assets, and divide by the total current liabilities. If this number is more than 1, then your current ratio is a healthy number. If it is less than 1, you have more bills to pay than cash and may be experiencing some cashflow difficulties.

CHAPTER 5: THE PROFIT AND LOSS STATEMENT

Your Profit and Loss Statement shows a list of all income and all expenses.

If you are running accounting software such as MYOB or Xero, then you should be entering in all of your invoices as soon as they are raised, and the bills when they come in, and then tracking payment dates for each. This is accounting for the accruals method. These numbers reflect invoices that have been sent out and not yet paid (Accounts Receivable) and bills that have been received from others that you have not yet paid (Accounts Payable). These affect your profit and loss statements, as you are accounting for this money even though you do not have the money yet. This is the preferred method of accounting for your organisation.

Sample Organisation Profit & Loss Statement July 2023 through December 2023	
Income	
Activities Income	$218,181.82
Total Income	**$218,181.82**
Cost of Sales	
Gross Profit	**$218,181.82**
Expenses	
Supplies	$69,897.27
Depreciation	$6,818.00
Legal & Accounting	$1,363.64
Maintenance	$681.82
Employment Expenses	
Staff Amenities	$77.27
Superannuation	$1,980.00
Wages & Salaries	$22,000.00
Total Employment Expenses	**$24,057.27**
Telephone	$459.09
Services	
Electricity	$409.09
Total Expenses	**$103,686.18**
Operating Profit	**$114,495.64**
Other Income	
Other Expenses	
Net Surplus / (Deficit)	**$114,495.64**

The other way to report is accounting on a cash basis. This is more simplistic and is used for smaller organisations that run a cashbook and do not have accounts receivable or accounts payable. Cash accounting shows the actual cash transactions for a business and does not show outstanding amounts. Compare the sale of two profit and loss reports – one on a cash basis and the other on an accruals basis.

Sample Organisation	
Profit & Loss [Cash] July 2023 through December 2023	
Income	
Activities Income	$136,363.64
Total Income	**$136,363.64**
Cost of Sales	
Total Cost of Sales	$0.00
Gross Profit	**$136,363.64**
Expenses	
Supplies	$69,625.45
Depreciation	$6,818.00
Legal & Accounting	$1,363.64
Employment Expenses	
Superannuation	$1,980.00
Wages & Salaries	$22,000.00
Total Employment Expenses	**$23,980.00**
Total Expenses	**$101,787.09**
Operating Profit	**$34,576.55**
Other Income	
Other Expenses	
Net Profit (Loss)	**$34,576.55**

The timing of the payments of the invoices is very important when understanding the profit and loss statement. In order to fully understand the organisation's profit performance, you should read it in tandem with the Balance Sheet.

Profit is Not Cash

I have never seen a bank account that matches a profit and loss statement.

Reasons why:

- Cash is used to pay off existing liabilities
- Cash is used to pay for new assets
- Timing differences – waiting for invoice payments or bills to be paid
- GST – Profit and loss is excluding GST but the bank account includes GST

There are many variables that change your bank account, that do not always affect your profit and loss statement. Such things include (but are not limited to): depreciation, interest paid on loans, accounts payable and accounts receivable. Also, when you buy a new car, if you pay cash, then this does not impact your profit and loss statement, it impacts your balance sheet. Alternatively, if you arrange finance for a new car, then the payments of the loan will come out of your bank, but the profit and loss is only impacted by the interest you pay, not the whole repayment.

Can my Not for Profit make a Profit?

Yes! It's a common myth that Not For Profits are not allowed to make profit. This thinking creates issues within committees and also can lead to some bad spending decisions that leave the organisation without adequate cashflow. We now phrase Not for Profits as "Profit For Purpose" entities.

You do want your not for profit to make a profit so that it can buy new assets, and last longer than the original funding will last. By setting up systems in order to make sure that you can make a profit in the organisation, you are setting the organisation up for success.

You can then allocate the profits that you make to the purpose of your organisation – doing good things.

Cash Management

It is important to have systems in place to manage cashflow properly. Whilst accountants will tell you that you can see your full position from running all of the reports we have just been through, this is tedious and can be delayed depending on who is doing the record keeping. Allocating funds to bank accounts based on their purpose (ie GST and Employee Taxes, Grant funding, Operational Expenses, etc) the committee can easily monitor the usage of funds and act quickly if situations change.

Two people to sign off on bank transactions is another way to protect cash.

CHAPTER 6: CASH FLOW STATEMENTS

A cash flow statement shows the flow of cash throughout the organisation for the financial year. It classifies the types of expenditure into Operating, Financing, and Investing activities.

Operating activities include money coming in from members and activities, and paying everyday bills, in order to run the business.

Financing activities relate to paying off loans or receiving proceeds of loans.

Investing activities are the cash used to pay for new items of equipment or investments such as shares or land and buildings.

The Cashflow Statement is a very high-level summary of where the cash in the organisation was allocated throughout the year.

CHAPTER 7: CHANGES IN EQUITY

Equity is reported on the Balance Sheet. Any changes are reported in more detail, to explain to members where the changes came from.

The Changes in Equity report for many small not for profits will show a change in equity as the total profit or loss for the year, and this will match up with the Profit and Loss statement.

Other Changes may include:

- Revaluation of assets
- Reserves
- Other non-cash valuation adjustments

CHAPTER 8: BUDGETS

Budgets are an important part of running a not for profit organisation. It is important to forecast accurately how much you are spending on supplies, wages, utilities and services. It is also important to know when the timing of the money is coming in and out so that you are not caught short.

How to set a budget – and is it a cashflow budget, or is it a P&L budget?
As mentioned in the previous chapter, the cash flows of a business can be different to the profit and loss reports. The main reason for this is the timing of payments and receipts, the repayments of borrowings, and the purchase of assets.
For example, if you send out invoices on the first of the month, and the funding body pays after 90 days, then your Profit and Loss will show income 3 months before it is paid. The cashflow forecast would be a better reflection of a budget for your organisation.

Analyse your budgets regularly. It is important to set a budget and then review it regularly. This should be on the agenda of each of your board meetings. Tracking where your budgets can be useful in situations where you are tight on funds, or where you are required to acquit funding and you want to spend it all.

It can also set the boundaries for spending limits for management and can be referred to in Delegation of Authority documents, which may allow managers to spend up to the budgeted amount, with Board Approval for anything spent above the budgeted amounts.

A budget will also be required when applying for funding – funders want to see what you will be spending their money on, and how you will account for it.

Budgets are traditionally spreadsheet based – knowing what is coming in and then going out to get to a $0 figure at the end.

One way to better manage your cashflow and spending, is to use different bank accounts, using the Profit First method (or the Profit for Purpose method). By splitting up your known costs (such as salaries, taxes, utilities and other fixed costs) from your variable costs (such as resources and materials) the board as well as the team can see in the bank balances what is left for each purpose. We also recommend to hold some funds aside from each money making venture to help save for the future requirements of the Not For Profit.

CHAPTER 9: REVIEWING FINANCIAL REPORTS

Key Questions for directors reviewing Financial Statements include:

- Do the financial statements make sense? Do they present a realistic view of the results, cash flows and state of affairs?
- Have all of the balance sheet accounts been reconciled (proved)?
- Have the external auditors raised any issues?
- Are there any disputes with the ATO, ASIC or the ACCC for which provisioning may be needed?
- Can the company pay all its debts as and when they fall due?
- Does management ensure compliance with relevant government regulations and accounting standards?
- Have directors reviewed the Internal Audit department’s program? Which operations have been evaluated? Were any found to have issues?
- Do any matters need to be disclosed in the Notes?
- Are significant items clearly explained?
- Are related party transactions fully documented?
- Are subsequent events effectively flagged?
- Have there been any changes in accounting policies and who has approved those changes?
- What are the critical accounting estimates and judgments and who has approved them?
- Are the disclosures relating to financial risk management consistent with the board’s understanding of how financial risk is managed?

CHAPTER 10: REVIEWING SOLVENCY

What are the Warning Signs for Insolvency?

Insolvent trading is a serious breach of the *Corporations Act 2001*. Directors (and this includes committee members, board members and officers) can be held liable and face civil and criminal penalties.

Indicators of potential problems include:

- Weak operating cash flows, where the business cannot fund its normal running costs;
- Payments to suppliers and employees are higher than receipts from customers (more money out than in);
- Evidence of a breakdown in internal controls, such as missing paperwork, unorganized desks and misfiled documents;
- Financial reports not provided to the board or provided late;
- Lenders withdrawing support;
- Delaying payments to creditors, including salaries to staff;
- Regularly requesting extensions to due dates for payments;
- Evidence of negligent or incompetent management;
- Lack of risk management planning;
- Internal bookkeeping not up to date e.g. bank reconciliations;
- Incomplete financial records;
- Absence of a business plan;
- Lack of cash flow forecasts or other budgets.

CHAPTER 11: TAX REQUIREMENTS AND CONCESSIONS

Most not-for-profit businesses can self-assess their tax status.

Types of organisations that are exempt from tax include:

- Community service organisations
- Cultural organisations
- Educational organisations
- Employment organisations
- Health organisations
- Resource development organisations
- Scientific organisations
- Sporting organisations

A non-profit organisation is an organisation that is not operating for the profit or gain of its individual members, whether these gains would have been direct or indirect. This applies both while the organisation is operating and when it winds up. Any profit made by the organisation goes back into the operation of the organisation to carry out its purposes and is not distributed to any of its members.

This requirement is to be shown in the Constitution of the organisation.

Some organisations must pass **one of three** tests to be exempt from income tax. The tests are the:

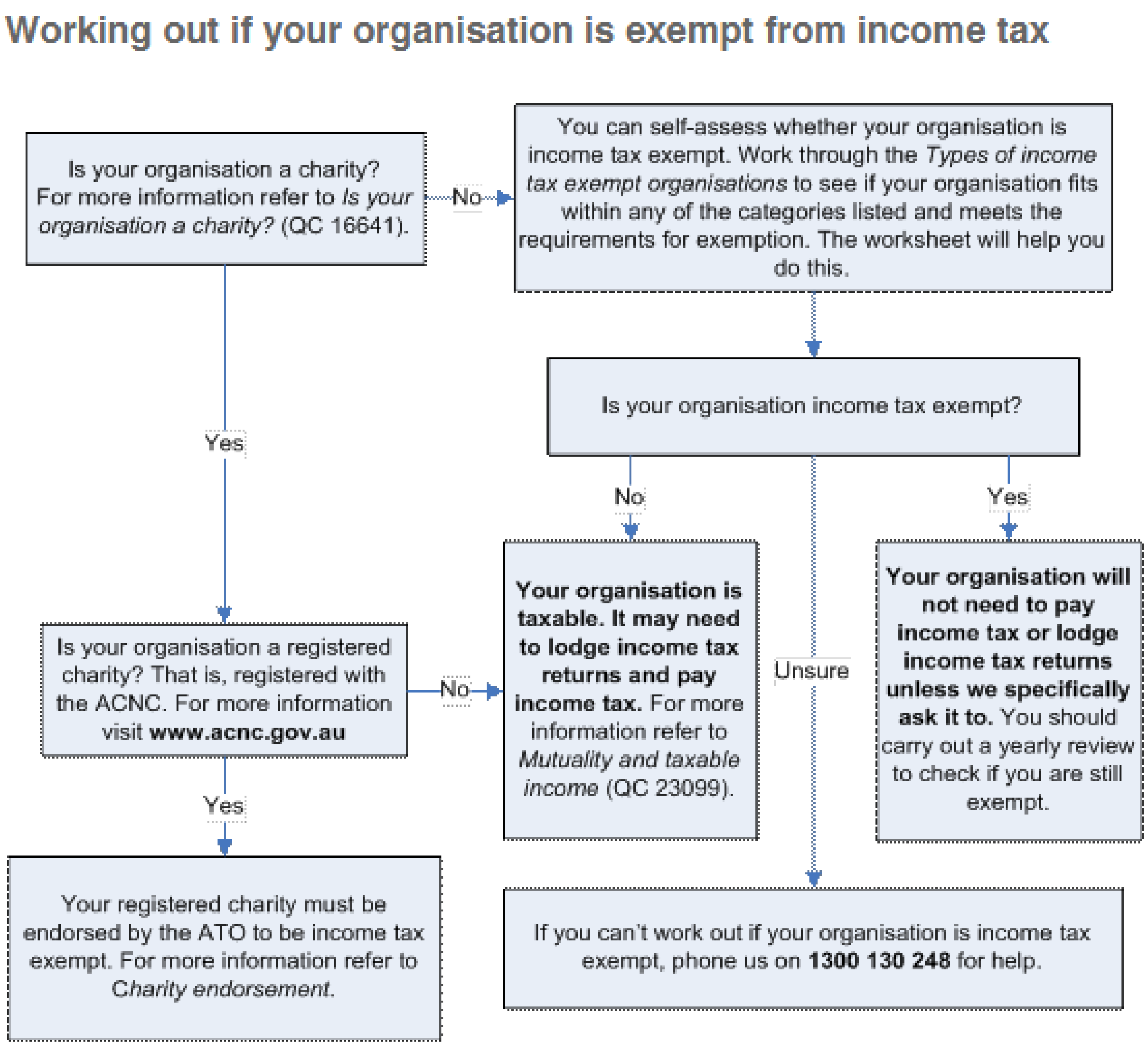
- Physical presence in Australia test
- Deductible Gift Recipient test
- Prescribed by law test.

As well as comply with all of the substantive requirements in its governing rules (constitution), and

Apply its income and assets solely for the purpose for which it is established.

Not for Profit Organisations should review their tax status with the following document and keep it on their records and review it each year.
https://www.ato.gov.au/Non-profit/Your-organisation/In-detail/Income-tax/Income-tax-exemption-and-sporting-clubs/?page=2#To_qualify_for_exemption

Diagram from: https://www.ato.gov.au/Non-profit/Your-organisation/Does-your-not-for-profit-need-to-pay-income-tax-/income-tax-exempt-organisations/



CHAPTER 12: MORE INFORMATION

There are many websites with helpful information for Treasurers and Board members especially those that wish to take their role a step further. Also, there are websites that have templates for business planning.

- If you wish to improve your organisations method of accounting, we can assist you with the right program as well as setup and training as well as compliance specific to your organisation.

- With the correct accounting program in place, we can show how to prepare reports for your Board based on your financial statements.

- If you have an adequate system in place but need guidance in understanding and developing it we can also offer this service.

Find further information on the following websites:
http://www.ourcommunity.com.au

Business & planning templates are available at:
https://www.business.gov.au/New-to-business-essentials/Plan-for-success

ACNC - Charities:

https://www.acnc.gov.au/for-charities

Common Question: where can I find out about grants?
https://www.facebook.com/groups/smallbusinessandgrants
https://www.fundingcentre.com.au/
Contact your local Government to see what funding options are available in your community

About the Presenter:

Jodi Porteous loves sharing her knowledge. As someone who is an experienced board member with small not for profit boards, a qualified CPA, a business improvement specialist and owner of a successful accounting business she totally understands staffing difficulties, budgetary restraints, and the constraints of living and working in remote areas. She has recently changed her focus for Not For Profits and Businesses to help manage cashflows easily.

There's a great deal you can learn with Jodi. Financial and tax areas, MYOB & Xero software, leadership and business improvement. Look out for online courses that you can access through Northwest Accountancy, in particular Elevation Training, which covers all aspects of running a business and a not-for-profit.

Northwest Accountancy is located in Karratha. We pride ourselves on being local, and offering quality service to individuals and businesses around the area. We prepare tax returns, financial statements, help with tax advice, MYOB & Xero setup and training, and give advice on setting up or closing down businesses. We work with auditors to prepare financial statements ready for audit and this keeps audit queries and audit costs down.

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