

**Not-for-Profit
Sector Banking**

Damn Good Advice for Board Members

Twenty-five questions a not-for-profit board member needs to ask about the finances.



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CommonwealthBank

Damn Good Advice for Board Members: Twenty-five questions a not-for-profit board member needs to ask about the finances.

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Damn Good Advice for Board Members

Twenty-five questions a not-for-profit board member needs to ask about the finances.

CommunitySmart

This book is part of CommunitySmart, a national financial literacy program developed by Commonwealth Bank Not-for-Profit Sector Banking and the Institute for Community Directors Australia (part of the Our Community group of enterprises).

Good governance and strong financial management are essential to the strength and sustainability of every one of our nation's 600,000 not-for-profit groups and schools.

Through CommunitySmart, we're working to help strengthen not-for-profit sector governance and financial management by providing practical advice for not-for-profit organisations, their staff, board members and volunteers.



A note on language: When we say “board” in this guide, we mean “board” or “council” or “committee of management”. See page 76 for more explanations about language.

Congratulations and thanks for being a board member.

We're very pleased to meet you. You're a lovely person, a servant to the community, and a boon to humanity. Without you and people like you, the world, and Australia, and your state, and your town would be much less attractive places to live in.

You're one in a million. Well, that's not entirely true – there are actually a couple of million board members across Australia, serving on the boards of about 600,000 not-for-profit organisations, so that makes you about one in 10 and ensures that you'll have plenty of congenial company.

You're putting in your time, and your smarts, and your enthusiasm. We're putting in some of the financial know-how you're going to need if you're going to get the most out of your commitment.

One of the primary responsibilities of a member of a board of a not-for-profit organisation is to keep an eye on the finances. You don't have to produce the financial reports, but you will have to examine and assess this material when it's put in front of you. This handbook tells you how it works, how it all fits together, and what you're looking for. It's designed to help make your job as a board member a little bit easier.

We've kept it simple, and we don't assume any particular competencies other than being able to add up a column of figures. We've kept it general, too. You'll have to adapt our recommendations to your own circumstances, and if you need more detail on particular issues we suggest

you follow up the further information we've made available online at www.communitydirectors.com.au/ICDA/finance/ and www.commbank.com.au/corporate/industries/not-for-profit.html.

Also look for this handbook's companion guide, *Damn Good Advice for Treasurers*, which aims to improve your treasurer's understanding and administration of your organisation's finances.

Both publications are part of CommunitySmart, the national financial literacy program run by Commonwealth Bank Not-for-Profit Sector Banking in partnership with the Institute of Community Directors Australia (part of the Our Community group of enterprises).

CommunitySmart is one example of how we are working to revolutionise banking for not-for-profit organisations, a process that began in earnest in 2008.

More than ten years on, we are proud of the legacy that has been created. Better bank accounts, new financial literacy tools, and greater awareness of the important role of board members are among the benefits that have been produced and sustained.

But there's much more to be done. We look forward to joining with you and our nation's other 600,000 community boards to ensure we get it right.



A handwritten signature in black ink that reads "Julienne Price".

Julienne Price
Head of Schools and Not-for-Profit Sector Banking
Commonwealth Bank



A handwritten signature in black ink that reads "Denis Moriarty".

Denis Moriarty
Group Managing Director
Our Community



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1.

How did I get here?

You're probably on the board because you were elected by your fellow members at an annual general meeting. Some board members, though, join between AGMs to fill vacancies, some are nominated by organisations, some are on the board ex officio, and some are elected by staff or users or other groups.

Anyway, you're on the board because you wanted to be on it and because other people thought you'd do a good job.

You're on the board, too, because Australians think that it's a good idea for people to come together in their communities and run particular not-for-profit enterprises that aren't suitable for government and aren't profitable for business. We value our voluntary sector, and by now it's running an appreciable factor of the country under the direction of people like you.

And it's good for you! Look what you get out of it.

There's a large body of hard evidence that says the way you fit into your community is just as important for your health as anything you do yourself. Exercising is good for you, eating well is good for you, but neither of them is as good for you as having a supportive network of family, friends and colleagues to interact with.

Social integration leads to reduced mortality risks, and to a better state of mental and physical health. Social isolation lowers your immune function; socially

supportive interactions have the opposite effect. Volunteering boosts your health and your sense of wellbeing. Improving someone's financial literacy from low to average increases their psychological wellbeing by 6%, according to research by the UK's Institute of Social and Economic Research (<https://www.iser.essex.ac.uk/research/publications/working-papers/iser/2011-18.pdf>).

People stay healthy if they have confidence in their friends and their work and their lives. Social bonds help us understand the world as coherent and meaningful.

And then there's the satisfaction of achievement, social contact with a great bunch of people, a warm inner glow and a world that's the better for your involvement.

What's not to like?

“

Controlling for your blood chemistry, age, gender, whether or not you jog, and for all other risk factors, your chances of dying over the course of the next year are cut in half by joining one group, and cut to a quarter by joining two groups*.”

* R Putnam, "Social Capital Measurement and Consequences", Canadian Journal of Policy Research 2(1):41-51, 2001

2.

Where can I get the information I need?

And how are you going to get on top of what you need to know?

As a board, you have total control over the whole shebang. You can see anything, stop anything, and instruct anybody anywhere in the organisation. Any question you ask has to be answered right away. You're the boss.

As an individual board member, on the other hand, you've got very little clout at all. You can't order anybody to do anything. You can't look at any documents or interrogate any staff. You're not supposed to have any official dealings with the staff at all unless you've gone through proper channels – through the chair to the CEO and on down.

You can see why this is. An office where any board member, or any number of board members, could walk in at any time and demand to see the papers would have a difficult time keeping staff. The board is supposed to govern, not to manage, and the CEO's job is hard enough as it is.

You're supposed to keep your distance. This doesn't often matter. Most of the time things go on steadily and there's no call to probe. If there are problems, they'll show up in the regular reports from the treasurer. Where there are difficulties, most of the time the board is united on the need to deal with them, and any questions you might have will be shared by others around the table.

You just have to know the rules, written and unwritten.

Specifically, your group should have given you some reading material:

- The mission statement
- The constitution/rules
- The board standing orders (meeting rules; see page 12 for a sample)
- The strategic plan



- The policy manual
- The current year-to-date budget
- The most recent annual report
- Biographical information about board members and (if appropriate) staff
- The meeting schedule and calendar of upcoming events
- An introduction to the group's operational and committee structure
- Information about the board and board members' roles and responsibilities
- Any necessary background information about the group
- This book.

And should also have given you:

- A mentor to guide you through the early stages
- An hour or so with the chair, the CEO, or both to bring you up to speed on what's happening that isn't written down.

If you haven't been given these things, ask for them.

With all that under your belt you should have a good idea of where the organisation stands and what its challenges are, and you should be ready to make your own suggestions.

Sample standing orders

Executive summary

Members may speak to any motion only when granted the right to speak by the chair.

The chair shall grant priority to members who express an intention to move dissent with a decision of the chair.

In speaking to any motion or amendment, members are to confine their remarks strictly to such motion or amendment, and shall not introduce irrelevant matters or indulge in needless repetition. In this matter, the chair's ruling is final and not open to challenge.

Motions

Any proposal put before the board to be voted on:

- Must be in writing
- Must be moved by one member of the board and seconded by another member.

Any motion may be discussed by members until the time allotted by the Chair has expired, at which time a vote shall be taken on the motion.

Amendments to the motion

Any member may move (in writing) an amendment to the motion. The amendment shall be voted on before the vote on the substantive motion. If the amendment is carried, the amended motion becomes the motion.

No more than two amendments shall be moved to any motion. No amendments can be moved to an amendment.

Voting

The Chair must receive and put to a vote any properly seconded motion moved by any member of the board, including motions dissenting from decisions by the Chair.

The mode of voting (e.g. show of hands, ballot) shall be as determined by the board from time to time.

Members of the board may vote for any motion or may abstain. A motion shall be declared carried if a plurality of members present (that is, a majority of members present and voting) vote in its favour. In the event of an equality of votes for and against a motion, the chair shall have no casting vote.

Minutes

Minutes of any meeting of the board shall be circulated to all members before the scheduled date of the next meeting. The minutes shall record:

- The date, time and venue of the meeting
- The names of those members and officers present
- The name of the chairperson
- Any apologies tendered
- Any failure of a quorum
- A list of items considered
- Any resolutions pertaining to those items
- Details of any declarations of pecuniary interest.

Any other matters may be recorded at the discretion of the chair.

Members' interests

No members shall vote on or take part in the discussion of any matter at any meeting where they, directly or indirectly, have any pecuniary interest as defined in law, other than an interest in common with the public, or with the clients of the organisation, or with the staff of the organisation.

Every member present when any matter is raised on which they directly or indirectly have a pecuniary interest, apart from any interest in common with the public, is under a duty to fully declare any such interest to the meeting. This disclosure, and any subsequent abstention of such member from discussion and voting on the item, are to be recorded in the minutes.

Amendment of standing orders

The board may amend these standing orders at any time either permanently or for a specified period.

Other matters

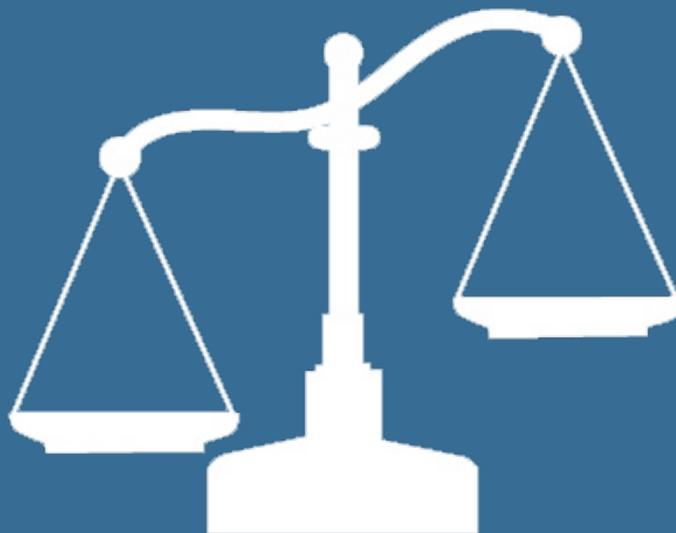
The chair is to decide all questions where these standing orders make no provision or insufficient provision.

In reaching its decisions the chair is to take account of, but not to be bound by, Robert's Rules of Order (www.rulesonline.com).

3.

What does the law say?

Some financial manuals open with a chapter on the legal obligations of not-for-profit board members, setting out the provisions of the various Incorporation Acts and the responsibilities of the board members – to ensure, say, that the organisation reports to the relevant authority every year.



This is like a driving instructor telling you what the speed limit is, because that's in the legislation, but not telling you where the clutch is or what the brake pedal does. Really, the law is the least of your problems, and if you do the rest of it right you won't have any difficulties. In general, the law that applies to boards doesn't tell you to do anything that isn't bleedingly obvious. (Even so, we've provided pointers to the relevant legislation on the opposite page.)

Like all members of the board, you've been entrusted with the responsibility to look after the organisation. The trust you've accepted – what's called a fiduciary relationship – means you have a number of duties. There's no need to get too technical about these. In brief, you have to act in good faith and with due care and diligence. You have to do what you'd expect of anybody else – do the work, know the rules, don't take things for granted, ask questions if you don't understand something.

You have to act in the best interests of the organisation (which might cause issues if you're there to represent a user group or club). You can't trade while insolvent (that means the organisation needs to be able to settle its debts when they fall due).

Most particularly, if there's any possible conflict of interest you have to step out of the loop. Coverage of conflict of interest varies slightly from state to state, and you should check the rules in your jurisdiction. But the basic principle is that you can't take advantage of your position on the board.

This doesn't mean you can't have financial dealings with the organisation, but it does mean that any dealings

have to be at arm's length. While the exact provisions differ from state to state – see the table of legislation and regulation opposite – there's a general movement towards a situation where you can have any relationship at all with your group so long as it's disclosed, it's in the interests of the organisation, and it's at arm's length.

You can't decide to pay yourself money, but the rest of the board can. You have to notify your colleagues when a conflict comes up, and once you've done that you can't speak about the motion and you may have to leave the room while the issue's being discussed. The board can exercise their own judgement and approve it, though, and that's perfectly fine.

You need to avoid not only bias but the appearance of bias. You need to be able to show that the transaction is in the best interests of the organisation. Ideally, there'll be a tender process against clear criteria (which have also been set without your input). There must be transparency, and any member of the organisation should be able to check on the situation. Where there are any related party dealings, for example, or where one of the board might conceivably be seen to gain from the group's decisions, disclose the issue before the media can distort it; put it online, tag it in the annual report, and explain why you all took the decision you did.

If that all sounds scary and confusing, be reassured. The requirements of board membership and being a treasurer are largely common sense and common decency. If you're doing a conscientious job to the best of your ability you're very, very unlikely to get tripped up by the law.

The law from state to state

	The Associations Act	The Regulations
Australian Capital Territory	Associations Incorporation Act 1991	Associations Incorporation Regulation 1991
New South Wales	Associations Incorporation Act 2009	Associations Incorporation Regulation 2010
Northern Territory	Associations Act 2003	Associations Regulation Associations (Model Constitution) Regulation
Queensland	Associations Incorporation Act 1981	Associations Incorporation Regulation 1999
South Australia	Associations Incorporation Act 1985	Associations Incorporation Regulations 2008
Tasmania	Associations Incorporation Act 1964	Associations Incorporation Regulations 2007 Associations Incorporation (Model Rules) Regulations 2007
Victoria	Associations Incorporation Reform Act 2012	Associations Incorporation Reform Regulations 2012
Western Australia	Associations Incorporation Act 2015	Associations Incorporation Regulations 1988

4.

What am I here for?

Overseeing the finances may not be the most important task you have as a board member, but that doesn't mean you can bleep over it or pass the parcel to someone else.

In this area, the law has it about right. Every board member has undivided responsibility for what happens. Yes, you're entitled to take the treasurer's word for things rather than going through all the paperwork yourself, up to a point. But that point isn't very far down the track.

You have to know what a reasonable person would want to know – which depends on the circumstances. If all your organisation's financial dealings are simple and straightforward you can get by with the basics. If you're contemplating complicated exchange schemes with overseas property implications then you have to know quite a lot about that.

Ignorance of the accounts is no excuse. You're obliged to know enough about finance to know what the financial statements are telling you, and to see where

there are inconsistencies, errors or warning signs. You're obliged to ask questions if there are gaps. You're obliged to handle the organisation's money with as much care and attention as if it were your own, and everybody else will expect you to handle the money with as much dedication to duty as if it were theirs.

If you don't understand how the finances work, you'll be at risk of getting caught up if anything goes wrong. That doesn't happen often, though, and it's not the most important reason why you need to sharpen your knowledge on how finance works.

You're on the board, first and foremost, to pursue the organisation's mission. You want to promote a cause you think is important, and your main job is to find out how that can be done and then ensure that it happens.

After that, you have a role as a representative of the public. Australia has made a deal with the not-for-profit sector. In general terms, everybody agrees that not-for-profits do things that need to be done. Consequently, the system gives not-for-profits various privileges – tax breaks of one kind or another, the ability to ask the public for money, general trust – but in return the system expects that at least some members of the public have an oversight role.

So there you are – representing the public, speaking for the other 23 million or so of us, keeping an eye on things on our behalf. If something slips out of line, you're supposed to say, "Hang on, isn't that illegal/immoral/unwise/unconstitutional/inconsistent with our mission statement?" The board/chair/CEO then says, "Ooh, sorry, hadn't noticed that" and the organisation's back on track.

You're promoting the cause, and you're representing the public. Bringing the two together, you have a fiscal responsibility to see that the organisation's assets are preserved rather than misdirected or frittered away. Here, however, is where the not-for-profit bit comes in.

If you were on the board of a for-profit company you'd be bound to maximise shareholder value. You'd be insisting on everyone taking the decisions that increased profit and raised share price. As a not-for-profit you have much wider and fuzzier responsibilities. It's perfectly possible for a not-for-profit to lose money every year – by simply giving it away in large quantities, for example – and be doing exactly what it's supposed to do. You're committed to an ideal, not to a bottom line.

So there's a line you have to tread between fussing about the money at the cost of the mission and pushing the mission into areas that the organisation's finances won't support. That's why you're on the board: to use your best judgement. Or, putting it another way, you're there to govern.

**Mission:
maximise
human
happiness.**

5.

What do we have to work with?

Finance is a vital part of delivering your organisation's services, and you can't discuss strategic directions without understanding the calculations that underpin them. Those numbers paint a picture of your situation that's as significant as your other performance measures, and one that's less likely to be distorted by hope or pride or vanity.

Just as a kick-off, you have to know how people record and discuss financial matters. You have to understand the fundamentals of accounting, beginning with the financial statements that are going to appear in front of you.

You have to realise what the accounts are trying to tell you.

The first thing you need to know is what the organisation has and what it owes – its assets and liabilities, and what's left when these are balanced up. For these, you look at the latest balance sheet – what is sometimes called the statement of financial position.

Assets may include short-term assets (such as bank deposits) and long-term assets (such as property). You can use short-term assets to pay debts as they come to hand, but you may have a problem selling property in a hurry.

Liabilities may include short-term liabilities that have to be paid right away (such as unpaid bills) and long-term liabilities that don't have to be paid for a while (bank loans, say).

The bottom line is your net assets.



The statement of financial position is a snapshot of your organisation's finances at a particular point in time. That's where you're starting from. From now on, every transaction that takes place makes you better off or worse off, and you have to track the changes.

In the sample statement on the following page you can see that the organisation has built up its reserves again after a fall in the previous year and now can now cover its expenses for six months even if all its fundraising falls into a hole at once. That's a reasonable buffer.

Note the large provision for long service leave. Always be sure that you can cover your legal and contractual liabilities.

Sample Statement of Financial Position (Balance Sheet):

Mary Poppins Therapy Centre, July 2019

	30/6/2018	30/6/2019
ASSETS		
Cash at bank	116,363	147,926
Funds on hand	189	233
Debtors	6,730	5,539
Equipment (at cost)	134,005	162,917
Less: Provision for depreciation	98,057	101,613
Written down value	35,948	61,304
TOTAL ASSETS	159,230	215,002
LIABILITIES		
Creditors and accruals	3,987	4,121
Provision for long service leave	43,695	48,123
TOTAL LIABILITIES	47,682	52,244
NET ASSETS	111,548	162,758
GENERAL FUNDS		
Balance 30 June	140,534	131,195
Surplus/deficit	-28,986	31,563
BALANCE	111,548	162,758

6.

How are we going?

To keep track of incomings and outgoings you turn to the profit and loss statement of financial performance (sometimes called the statement of financial performance), which records how and why the figures change.

To understand a statement of financial performance, you'll need to know roughly what falls under each heading in income and expenditure. You'll need to compare actual spending with the budget that's been approved by the board. You'll need to check whether income is living up to expectations.

And you'll need to look at the bottom line and work out what effect that period has had on your net assets.

In the sample statement on the following page you can see that the organisation has recovered from a small but worrying deficit in the previous year to post a respectable surplus, largely a result of a tripling of sponsorships and an increase in government grants. Salaries have gone up substantially, so the increase in income will have to be maintained (spending on equipment has also surged, but that's easier to reduce at short notice).

Sample Statement of Financial Performance

(Income/Expenditure): Mary Poppins Therapy Centre

	Actual 2017-18	Actual 2018-19
Grants – foundations	71,000	116,500
Seminars and consulting	36,885	38,219
Donations	51,831	55,257
Therapy camp	24,940	25,203
Tea party donations	14,227	22,480
Membership	2,933	2,833
Sponsorship	15,000	53,500
Earned income	11,329	19,663
Interest and sundries	4,934	2,683
TOTAL INCOME	233,079	336,338
Renaming project launch	3,889	0
Equipment	3,328	41,489
Depreciation on office equipment	3,124	3,556
Rent	24,728	24,728
Salaries, superannuation and Workcover	153,089	196,036
Camp expenses	14,239	11,541
Computer costs	616	600
Gas, electricity e.t.c.	1,809	2,515
Insurance	5,847	5,071
Photocopies/printing/stationery	2,783	2,955
Postage/freight	547	295
Telephone and internet	2,640	2,471
Travel	11,159	5,875
Video and website	29,888	2,142
Staff training	1,100	1,504
Sundries	3,277	3,998
TOTAL EXPENDITURE	262,063	304,776
DEFICIT/SURPLUS	-28,984	31,562

7.

That's all the statements, right?

Not quite.

A statement of cash flow is designed to tell you what you're doing with your short-term money, i.e. your cash and short-term financial instruments such as term deposits. It informs you of what's going on with your investments, your borrowings, your creditors, your bonds, and your capital expenditures.

However, a cash flow statement isn't compulsory for all not-for-profits, and if you're on the board of a smaller group you may never have to peruse one. If your organisation hasn't got much in the way of investments or property and hasn't issued any bonds you probably won't need to bother.

In the sample statement on the following page, a multi-million-dollar charity is running a profit on its operating activities but has spent money on other property (under Investing Activities) and is doing complicated social investment things with shares (under Financing Activities) that together swallow most of that profit.

Someone also has to keep track of your operating cash flow – the day-to-day ebb and flow of cash that pays your bills. All not-for-profit organisations need to manage their cash flow so they have enough money on hand to pay the bills when they come in. Timing is critical. If you run out of cash at the wrong time and you can't make arrangements to cover the shortfall you may end up in trouble over something as trivial as paying your phone account.

If you're not in control of your cash flow, minor problems can escalate. You could have to lay off staff or, in the worst-case scenario, wind up your organisation. Even basically profitable organisations can go under (and have gone under) because of cash flow problems.

Check that your treasurer has a cash flow budget for the coming year that estimates when money is coming in and going out and ensures that the two can match up every month without any embarrassing gaps.

Sample Statement of Cash Flow

BigCharity Inc.

	2018	2019
Cash flow from operating activities		
Receipts from customers	27,130	30,150
Payments to suppliers and employees	-25,040	-27,600
Dividends received	250	100
Interest and bill discounts received	270	300
Borrowing costs	-240	-270
Income taxes paid	-810	-900
Proceeds from court settlement		180
Net cash provided by operating activities	1,560	1,960
Cash flow from investing activities		
Payment for subsidiary X, net of cash acquired		-550
Payments for property, plant and equipment	-1,200	-350
Proceeds from sale of property, plant and equipment	10	20
Net cash used in investing activities	-1,190	-880
Cash flow from financing activities		
Proceeds from issue of shares	200	300
Proceeds from borrowings	240	200
Repayment of borrowings	-80	-90
Distributions paid	-1,080	-1,200
Exchange rate changes	-30	-40
Net cash used in financing activities	-750	-830
Cash at the beginning of the financial year	500	120
Cash at the end of the financial year	120	370
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	25	40
Deposits at call	180	530
Bank overdraft	-85	-200
	120	370

8.

How do I keep track?

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

- A statement of financial performance, or profit and loss (see pages 21–22)
- A statement of financial position, or balance sheet (see pages 19–20)
- A comparison of budget versus actual (see page 27)
- 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 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.

The treasurer's report contains the details of any material change in your organisation's situation. Are the budget assumptions holding up? How does the balance

sheet compare with what the budget predicted for this stage of the year? What's the explanation for any significant discrepancies?

On page 27, for example, is the financial performance report a treasurer might make at the December meeting, bringing the figures up to the end of November.

You have to look over these reports carefully, and understand what they mean. If you don't understand, ask questions until you do. If you have any concerns, ask more questions. If you're not satisfied, send the treasurer back to get the answers for the next meeting, or move a motion to change things.

Don't sweat the small stuff, though. No board wants long discussions of minor variations on trivial amounts.

Trap for young players

And just when you think you've got on top of all these numbers, there's another catch. The figures in these accounts can mean different things depending on what accounting system the treasurer's using.

Cash accounting

Cash accounting is the simplest form of bookkeeping, and most small organisations use it. It works on the basis of tracking dollars in and dollars out as if they were actual crumpled notes. If on Monday someone pays you \$100 you enter it in the book as income under Monday's date. If on Tuesday you pay someone \$100 you enter it in the book as expenditure under Tuesday's date.

Accrual accounting

Accrual accounting, as opposed to cash accounting, recognises income only when it's been earned, and scores expenditures when they're incurred rather than when they're actually paid. If your organisation is paid \$100,000, you record it as income in the accounts not when you receive the cheque but only later when you've provided the services you're charging for. You debit the accounts on the date you write cheques – the day you actually promise to pay people – not the often much later date after they've got their mail, taken your cheques down to their bank, waited five business days, and seen the money drop out of your account into theirs.

Which method is best?

Small organisations can get by with cash accounting, but most large organisations that deliver services in return for payment (by clients, governments, or grantmakers) use accrual accounting, because it presents a more accurate picture of your situation, taking into account forward commitments as well as cash on hand.

Either form of accounting is perfectly okay provided that you know what you're doing, but you do need to know which you're using and the implications of that choice. Your treasurer won't necessarily think to tell you, so you may need to ask.

Sample Treasurer's Report

Mary Poppins Therapy Centre, 2018-2019

	Actual	Budget	Actual to Nov	Budget to Nov
Grants – government	0	5,000	5,000	5,000
Grants – foundations	116,500	125,000	50,000 ¹	75,000
Seminars and consulting	38,219	40,000	23,342	20,000
Donations	55,257	55,000	12,000	14,000
Therapy camp	25,203	28,000	2,438	0
Tea party donations	22,480	22,000	3,321	2,000
Membership	2,833	3,000	2,675	2,520
Sponsorship	53,500	55,000	33,000 ²	30,000
Interest	2,664	3,200	678	800
Earned income	19,663	25,000	13,209	12,500
Sundries	19	0	55	0
Total Income	336,338	361,200	145,718	161,820
AGM costs	916	1,000	878	1,000
Communication equipment	12,577	15,000	11,333	10,000
Office equipment	28,912	18,000	4,458	6,000
Rent	24,728	24,728	10,303	10,303
Salaries	177,131	222,000	93,431	92,500
Superannuation	15,942	24,420	10,277	10,175
Workcover	2,963	1,800	300	750
Camp expenses	11,541	12,000	4,453	4,000
Cleaning	499	500	200	208
Computer costs	600	1,200	685	500
Gas, electricity e.t.c.	2,515	2,500	856	1,042
Insurance	5,071	5,500	4,800 ³	2,292
Photocopying/printing/stationery	2,955	3,000	1,324	1,250
Postage/freight	295	300	88	125
Telephone and Internet	2,471	2,600	1,134	1,083
Repairs and maintenance	152	200	76	83
Travel	5,875	6,000	2,756	2,500
Web page design and maintenance	2,142	2,200	1,000	917
Staff training	1,504	1,500	845	625
Bank fees	124	150	47	63
Other expenditure	5,863	6,300	2,764	2,625
Total Expenditure	304,776	350,898	152,008	148,041
Deficit/Surplus	31,562	10,302	-6,290	13,779

1. The Syndactyly Foundation grant payment was not received until December.
2. Additional funding has been obtained from the Chocolate Frosted Sugar Bombs partnership.
3. A new board member indemnity policy has been taken out.

9.

How does each area measure up?

As well as the organisation-wide overview you get from the statement of financial performance, you'll also need to know what's going on financially in each separate area of the organisation. You'll want to know whether your shop or your special event is making money or not, for example.

Examining areas separately this way enables you to see whether one of your projects is losing money even though you're in overall surplus. This doesn't mean you should close it down – you're a not-for-profit, and cross-subsidy might well be within your goals – but it's something you should be aware of.

Note, too, that exercises like this don't really make sense unless you budget for each project as you would for a tender or a grants submission – that is, unless you include a fair share of the central administrative costs

within individual project costs. It's easy for a project to make an accounting profit if it doesn't have to pay for all the back-office overhead, so pass it around – either pro rata or, if you can manage it, by actual costs.

If you have money that's tied to particular projects, it's especially important to have a project-by-project, or section-by-section, breakdown. It may be the case, for example, that the Goodworks project grant shown in the example on page 30 is tied to that project and can't simply be picked up and used to plug gaps in other



parts of the organisation. In this case, you don't have a surplus of \$21,602. Rather, you have a surplus of \$52,289 in the Goodworks account and a separate and distinct deficit of \$30,687 in the general account (including fundraisers), which is much more tricky.

This breakdown isn't part of the material included in the annual report to members, and it isn't necessarily provided by all treasurers to all boards. If your treasurer doesn't provide it, you still need to check at intervals where money is coming in and going out across your organisation. You need to know which sections are

self-financing and which aren't.

In the sample statement on the next page, you can see that the Mary Poppins Therapy Centre's annual therapy camp raises less and has a lower ratio of cost to profit than its other fundraising event. This is not a condemnation, but it's a point to consider. Note, too, that without the Goodworks project the organisation would be in deficit.

Sample Project Budget

Mary Poppins Therapy Centre

Actual 2018-19	Core Operations	Goodworks Funded Project	Therapy camp	Fundraising event	Total
Grants – government	0				0
Grants – foundations	16,500	100,000			116,500
Seminars and 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, electricity 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 and Internet	2,471	735			3,206
Travel	5,875	1,747			7,622
Web page design and 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

10.

How efficient are we?

So what are the documents you've looked at so far trying to tell you?

You're not there to give points for neatness. You're supposed to build on the information that comes out of the documents and to guide the organisation's strategy accordingly.

Your first concern, of course, is going to be the bottom line. Are you generating enough income to cover the work you need to do? Are you losing money, or are you making a profit? If you're losing money, do you have the reserves to cover it?

Once you're satisfied that you're going to survive this financial year, you'll want to interrogate the figures in greater detail, asking questions about how efficient you are, how effective you are, how profitable you are, and

how much of the income goes on different aspects of the business.

One of the questions you on the board need to ask yourselves, for example, is how much it costs to back up your mission. How much of your budget goes on administration, and how much on client contact hours?

Admin isn't a luxury or a drag on your real work. It's an essential and unavoidable part of the work you do. Without someone to organise the salaries and the paperclips and the billing and the banking, you couldn't exist and nobody would benefit from anything.

The more difficult your task is, the more likely it is that you'll need to put money into support services.

Your aim here isn't to minimise your admin costs. You're trying to reach the lowest cost that still allows you to maximise your impact. That level varies from organisation to organisation, depending on circumstances; there's no rule that says it has to be 10% or 20%, or even 40%.

You may have trouble holding the line on this. The general public (which isn't always entirely logical, in the mass) tends to get agitated when they hear that some part of the money they've donated is going to administration, and when they're agitated they tend to give less. Paperclips may be vital to your work, but they're not nearly as photogenic as abandoned puppies.

Some charities pander to this tendency by advertising such things as "Every dollar you give is spent on the children" – which means, of course, not that they don't have admin costs but that their very real administrative costs are paid for out of investment income or government grants. It's misleading, and it creates unreal expectations in donors.

You're better off telling people how you spend your money and defending your decisions.

“

**Paperclips
may be vital
to your work,
but they're
not nearly as
photogenic
as abandoned
puppies. ”**

Sample Overhead Costs

Mary Poppins Therapy Centre

	Administration	Client Services
AGM costs	916	
Therapy equipment		12,577
Office equipment	28,912	
Depreciation on office equipment	3,556	
Rent	6,182	18,546
Salaries	35,426	141,705
Superannuation	3,188	12,754
Workcover	593	2,370
Camp expenses		11,541
Cleaning	499	
Computer costs	600	
Gas, electricity e.t.c.	629	1,886
Insurance	5,071	
Printing and stationery	2,055	900
Postage and freight	295	
Security	811	
Subscriptions	548	
Telephone and internet	2,471	
Repairs and maintenance	152	
Travel	5,875	
Staff amenities	185	
Videotaping	0	
Web page design and maintenance	2,142	
Staff training	1,504	
Bank fees	124	
Sundries	763	
Total expenditure	102,497	202,279
Percentage	34%	66%

11.

How effective are we?

Knowing how much you spend on administration doesn't tell you all you need to know about how you're managing your mission. You also need to know how much it costs you to do each task, and whether you could do it for less.

If you were a for-profit company – the National Widget Co, for example – you'd ask how much each widget cost. With not-for-profits it's more complicated to measure your output, but that doesn't mean you shouldn't try. Could you be doing more with the same resources?

The Mary Poppins Therapy Centre could increase its production by providing services to more children, or better services to the same number of children, or both, and a lot depends on the units of measurement you use. Any measurement, though, will tell you something. If costs per child are higher this year, is that explained by higher quality services? You'd better ask someone. Is there a problem with salary creep, or falling client numbers, or tax changes? The CEO should be able to tell you.

When you know how much each piece costs, you can find out the marginal cost of every additional unit. The Mary Poppins Therapy Centre spends \$304,776 on treating 298 children, or \$1,023 per head, but it probably wouldn't cost \$1,023 more to get that up to 299. The marginal cost may well be zero. Add another 20 children, though, and you'd have to hire new therapy staff, so the marginal cost of the 21st child might well be \$50,000 or more.

You need to know both the average cost and the marginal cost if you're to make informed decisions.

Sample Statement of Average Cost Per Client

Mary Poppins Therapy Centre

	Expenditure (\$)	Client numbers	Cost per client (\$)
2017-18	262,064	227	1,152
2018-19	304,776	298	1,023



12.

What's our profit margin?

The treasurer of a rural community group was anxious to talk about his problems. “Our fundraising went so well this year, I’ll tell you, that it put me in a real pickle,” he said. “We’re a non-profit, of course, and we’d got enough in to cover our expenses by the end of May. I had to work like the devil, I don’t mind saying, to work it so that we didn’t have any income in June or July.”

He was approximately as wrong wrong wrong wrong as it is possible to be.

Not-for-profit organisations sometimes get a little shy talking about profit. Remember, not-for-profit just means profit isn’t your whole purpose – it doesn’t mean you can’t make one, or that you shouldn’t. A positive difference between income and expenditure is a good thing. It helps you build up a reserve for bad times, or buy capital items, or service a debt.

The Mary Poppins Therapy Centre, for example, had a surplus in 2018-19 of \$31,563, or 9%, a creditable turnaround from the previous year, in which it lost \$28,986, or 12%.

Which isn’t to say that it’s always a bad thing to run a deficit, if it’s absolutely essential to the fulfilment of the mission. It’s a big decision, though, and not one to take lightly. Other things being equal, more is better than less.

Sample Calculation of Profit Margin

Mary Poppins Therapy Centre

	Income (\$)	Surplus/deficit (\$)	%
2017-18	233,078	-28,986	-12%
2018-19	336,339	31,563	9%



13.

What's the cost of our fundraising?

Raising funds generally costs money, and raising more funds costs more money still.

If you're rattling tins in front of shoppers, or organising special events, or mailing out flyers to prospective donors, you have to pay for tins and hire halls and pay for postage. If you're just running small fundraisers you may be able to cover most of the staffing with your own volunteers, but if you're going large you'll hit a transition point where you have to rely on paid staff and costs go up abruptly.

There are some fundraisers, too, where you have to invest money in the hopes of a longer-term return. If you're mailing out flyers to cold lists (lists of people with no connection to your group) then your expected return will be one or two percent and you will probably lose

money. You will, however, have a list of people who did give money, and may give money again; and if you keep on mailing out flyers to them, then most likely your success rate will slowly go up. If you mount a drive asking people for bequests – something every group should consider – then the payoff timeline is much longer still.

For this reason, it's not possible to set a one-size-fits-all fundraising cost percentage that all groups should aim for. It all depends on your fundraising strategy.

This doesn't give you carte blanche, however. If you're spending a high proportion of your fundraising income

on fundraising costs, you need to be prepared to explain this and defend it, and you'd better have a good story because the public really, really hates fund raising, particularly when it involves paid fundraising agencies. This attitude may be unfair, but it's very real.

Fundraising legislation

It's not just the public you have to worry about, either. The other reason to keep an eye on the ratio of fundraising income to expenses is that several states have legislation that refers to it.

NSW

In New South Wales, "An authorised fundraiser conducting a fundraising appeal for donations only (that is, without any associated supply of goods or services) must take all reasonable steps to ensure that the expenses payable in respect of the appeal do not exceed 50 per cent of the gross income obtained. An authorised fundraiser conducting a fundraising appeal with associated supply of goods or services must take all reasonable steps to ensure that the expenses payable in respect of the appeal do not exceed a fair and reasonable proportion of the gross income obtained." (For more information, see http://www.fairtrading.nsw.gov.au/__data/assets/pdf_file/0008/371285/Fundraising_authority_conditions.pdf). That is to say, there isn't any automatic check - the state will take an interest only in particularly flagrant cases. The words "all reasonable steps" and "fair and reasonable" give you some latitude; if you can explain variations from the norm to your board then you can probably satisfy the state.

Victoria

Victoria says, "If you estimate less than 50% of fundraising proceeds will be distributed to beneficiaries, your registration will be subject to a public disclosure condition, which will apply to all fundraising activities it conducts."

And if you estimate that less than 35% of fundraising proceeds will be distributed to the beneficiaries, the regulator will ask you to "show cause" why you should be registered.

For details, see www.consumer.vic.gov.au/clubs-and-not-for-profits/fundraisers/registration.

More information

More information on the fundraising legislation applicable in each state can be found at www.fundingcentre.com.au/help/fundraising-legislation.

In some states, some particular forms of fundraising (e.g. bingo, major art unions, raffles) are subject to particular legislation or regulations, and it's important to check these separately.

14.

How do we handle the annual budget?

The board has to approve the budget, every year.

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

Budgeting is simply 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. Ideally, it's the first year of your business plan, expressed with more precision.

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.

The budget team will review records of revenue and income (membership, sales, grants, fundraising, consultancy, interest), look at records of expenditure (rent, wages, telecommunications), guess at likely increases or decreases in the year ahead, study the timing of costs and payments, and run some scenarios.

No matter how many people have pored over the numbers already, you have to look at the budget with a fresh eye when it comes to you. Don't just assume that now it must be okay.

Ask yourself:

Does anything need explaining? Does the budget involve any accounting concepts that you don't understand?

Does anything need justifying? Are there any sharp variations on last year's figures that aren't footnoted?

Does anything need correcting? Don't assume that everybody's got all the sums right. Do some quick and dirty additions to check that the columns and rows add up.

You can't assume that the board won't want to suggest changes. Therefore the draft budget must come to the board in good time for the board to make changes – at least two meetings before the end of the financial year. If it comes up at the last meeting of the financial year, you've got no alternative but to accept it (or face going into the next year with no approval to spend anything).

“

No matter how many people have pored over the numbers already, you have to look at the budget with a fresh eye when it comes to you. Don't just assume that now it must be okay. ”

Sample Annual Budget

Mary Poppins Therapy Centre, 2018-19

	Actual	Budget
Grants – government	0	5,000
Grants – foundations	116,500	125,000
Seminars and consulting	38,219	40,000
Donations	55,257	55,000
Therapy camp	25,203	28,000
Tea party donations	22,480	22,000
Membership	2,833	3,000
Sponsorship	53,500	55,000
Interest	2,664	3,200
Earned income	19,663	25,000
Sundries	19	0
Total Income	336,338	361,200
AGM costs	916	1,000
Communication equipment	12,577	15,000
Office equipment	28,912	18,000
Rent	24,728	24,728
Salaries	177,131	222,000
Superannuation	15,942	24,420
Workcover	2,963	1,800
Camp expenses	11,541	12,000
Cleaning	499	500
Computer Costs	600	1,200
Gas, electricity e.t.c.	2,515	2,500
Insurance	5,071	5,500
Photocopying/printing/stationery	2,955	3,000
Postage/freight	295	300
Telephone and Internet	2,471	2,600
Repairs and maintenance	152	200
Travel	5,875	6,000
Web page design and maintenance	2,142	2,200
Staff training	1,504	1,500
Bank fees	124	150
Other expenditure	5,863	6,300
Total Expenditure	304,776	350,898
Deficit/Surplus	31,562	10,302

15.

Are we doing the right things?

It's possible for an organisation to drift off track and find itself putting the bulk of its efforts into non-core objectives. Board members are supposed to notice this and kick the navigator until you're back on the right course.

It can be difficult, though, when money is involved. Just about all not-for-profits have difficulty paying for overheads, and there's always the temptation to go where the money is even if that's not on your preferred route. Organisations make submissions for grants that aren't quite what they want to be doing, or tender for government contracts that are next door to the work they actually do, or find themselves moving closer to where their sponsors or their donors stand. The aim, of course, is always to continue doing all the good things you're doing now, but with the profit margin that you can rake off the top of your new enterprise. You can charge the grant with a percentage of your admin costs

– rent, utilities, payroll – and come out ahead.

All too often, though, an organisation in this situation finds that the other party has calculated the costing more accurately and that you're losing money on the deal, or at least no more than breaking even. Even if there is some financial transfer, you may well find that the new venture is taking up so much of your attention that it's difficult to maintain your own corner. Projects have costs in the time of the chair, the board and the CEO as well as in paper and printing.

In a new venture, by definition, you're moving slightly outside your area of expertise, and you may take a while to adjust. You may need staff with different skills. You may find yourself falling into traps that the locals know all about but you've yet to learn.

If you're very, very, lucky, you'll find an agency that wants to pay you for what you're doing anyway, but it doesn't happen often. Even if it does, though, you have to remember that the agency's priorities don't include the survival of your organisation. If at the end of the term of the grant a cheaper tender is made by another group, the funding agency wouldn't see anything wrong with taking it. If you've added staff to cover the new project you may find yourself in a hole when the funding is suddenly withdrawn.

As always, this doesn't mean you absolutely mustn't go on forays after loose money. It does mean, though, that the board should think carefully about what it's doing and not proceed unless it's entirely satisfied that all likely risks have been anticipated and that its primary mission will not be compromised.

In procedural terms, the way board members keep the organisation pointed in the right direction is through periodic reviews of the strategic plan. The strategic plan is your organisation's compass, setting out where you want to be in the future to fulfil your objectives and your mission. It's not simply wish fulfilment, though; it must take account of the world you have to work in. That world is constantly changing, and you need to take the strategic plan out and look at it every few years (more often if there's been a major shock to the system).

Sample Strategic Plan: Summary Table

Mary Poppins Therapy Centre, 2018-19

What you want to see	Your specific goals	What this involves
Mission 1 – Widely available excellent communication therapy in Victoria	To increase community awareness to enlarge customer base	Active PR Social media investment Targeted advertising
	To increase therapy resources to meet increased numbers	Employing 2 additional therapists Moving to larger premises
	Increased client support	Employing additional 0.5 admin officer
Mission 2 – More and more educated communication therapists	To offer short course at tertiary institution	Liaising with Fabtown University
	To offer training places to 30 trainees p/a	Liaising with Fabtown University
	To upgrade in-house training programs	Organising courses
Mission 3 – Larger and more reliable communication therapy information base	To set a more accurate estimate of demand	Conducting epidemiological study
	To record best practice	Analysing clinical records
	To develop improved methods	Comparing therapies

You'd regard yourself as successful if you	When will this happen?		
	2017	2018	2019
Increased client base to 10% of Victorian communication therapy target group	6%	8%	10%
Had a total of 8 clinical staff Had offices with 10 rooms	6 clinical staff; 5 rooms	7 clinical staff; 5 rooms	8 clinical staff; 10 rooms
Had total 1.5 admin staff	1.0 admin	1.5 admin	1.5 admin
Negotiated contract with Fabtown University		✓	✓
Negotiated contract with Fabtown University Prepared training materials		✓	✓
Wrote curriculum Prepared training materials	✓	✓	
Employed consultant Conducted study	✓	✓	✓
Designed study Employed research assistant Disseminated findings		✓	✓
Designed study Employed research assistant			✓

16.

Are we going to go broke?

Most of the budgeting process is guessing, and sometimes you guess wrongly.

An educated guess, where you look at past budgets and comparable fundraisers and project changes, is better than an unthinking wild stab. There should be some reasoning to justify every figure in the budget, and one of the jobs of a board member is to get the treasurer to defend his or her reasoning.

There really aren't any guarantees, though. You can lose your grant, your best donors may find a hotter cause, clients sometimes turn on their collective heel and go to a different agency, your fete could be rained out.

This can be a real – a terminal – problem. Uncertainty has its costs. Nearly 800,000 of the small businesses in Australia in 2005 weren't around four years later – that's a 40% failure rate. They were run by business people specifically to make money and were at least trying to be businesslike. No pressure, mind.

So what do you have to do to stop this from happening?

Raise more money, of course (we'll come to that later), but also be cautious. Ensure that in your budgeting you're pessimistic about income and expenditure projections. If you're projecting additional spending, don't automatically write in a higher projected income so that the budget balances – discuss how difficult it's

going to be to raise that money. Do you have the volunteers to staff that project? Are they keen enough, skilled enough, pushy enough? What's your geographical reach?

Even if you're successful in raising short-term funding, don't lock yourself into long-term expenditure. Run some scenarios on what would happen if you lost any of your main funding pillars. Is there any room for retrenchment? Are your staff contracted until the end of the grant, or for a fixed time, or permanently? How long would it take for you to change your practices to shed costs?

In procedural terms, your chance to probe these issues in detail comes when you're researching your business plan. Your business plan puts meat on the skeleton of your strategic plan, spelling out how you'll get from where you are at the moment to where you want to be in the glorious future.

A business plan looks ahead three or five years. Refresh it regularly by feeding in actual figures and modifying your projections based on actual experience.



Sample Business Plan Outline

Executive summary

Who are you, and what's your big idea? Include a snapshot of your financial position.

Your business and your service

Mission statement: what are your aims? What do you aim to achieve in the short, medium and long-term (e.g. in one, three and five-plus years)?

Your organisation and your people: people are your most valuable resource. Describe your staff, partners, volunteers and board, skills, assets, funders, and donations.

Your premises and your resources: what do you have to work with?

The market

Why do you want to do this? What's the need you're filling? Give the context for your project.

Risk/opportunity: why now? Why here? Why you?

Clients/customers/users: who they are, and why do they need what you're offering?

Competition: who else is doing it? Nobody's going to give you money to copy what's being done already. Describe who else is offering a similar service, and say why you're different.

Strategic alliances: who can help you? Note also that some competitors may double as partners.

Service delivery

How do you plan to do it?

Marketing and promotion

How are people going to know you exist? How are you going to make them want what you offer?

Financial and capital requirements

What are you going to need? How much will it all cost? Separate capital costs (assets you need to buy) from revenue costs (running costs).

Sales and financial summary: lay out your pricing policy and projections. Forecast how much income you expect to generate, and set out your plans for raising the shortfall.

Existing funding

How much you have raised already from other sources, in kind or in cash?

17.

Are we managing our money carefully?

Fraud in not-for-profits isn't common. It's more common than you'd think, though, just because much community sector fraud goes unreported. Organisations that have been caught out don't generally want to spread the news around in case it affects next year's donations.

Someone in the organisation has to be on top of the figures in detail, invoice by invoice, bill by bill, asking at every point whether transactions are consistent with the budget and with good management practice. In most cases, that person should be the CEO. It's unreasonable to impose this burden on a volunteer.

That doesn't mean, though, that the board can walk away from its responsibilities in this area. The board needs to monitor the CEO's performance via measures set in place when it hired them. You need to be sure that the CEO is onto it – and the treasurer, in particular, is the board's first line of defence.

In some ways, not-for-profits are more vulnerable to fraud than commercial businesses, because they are inclined to see their staff as a band of enthusiasts serving a common cause rather than economic units out for what they can get and held back from embezzlement only by unremitting supervision. And that's good. Trust everyone, says the proverb, but cut the cards.

Ideally, your procedures will make it irrelevant whether the staff are self-sacrificing altruists or pokie-addicted wastrels; they won't be able to disturb the even passage of the accounts whichever way they hang. If you want to be able to trust people, don't tempt them.

Financial controls are mission-critical – get them wrong and they can bring down the whole structure. You can't just take the treasurer's word, or the CEO's, that things are going swimmingly. You need to satisfy yourself, in detail, that proper policies and procedures are in place. You have to be satisfied that the treasurer and the CEO appreciate the importance of implementing those procedures rigorously. You must ask the treasurer for regular reports.

Financial controls

Cash handling

Don't let the same person take in the cash, process it, record it, and do the bank reconciliation.

Record all cash receipts (including donations) when you receive them.

Deposit all cheques into the organisation's bank account.

Give receipts for every cash donation.

If you're dealing with a lot of sales, cash registers are a good way of ensuring that every sale is recorded.

If you've got a cash register, treat it as an unlocked safe and keep people away from it.

If you've got a cash register, have it reconciled regularly (by a different person from the one who uses it for sales).

Keep donations in a locked box until they're taken to the bank. Have them taken to the bank as often as possible (by a different person from the one who received the money).

Check receipts against bank deposit slips.

Have the bank reconciliations done by a different person from the person who originally received the cash, the person who processed it, and the person who recorded it. (This is much the same as the first point, but it's worth repeating).

Staffing

Have a screening policy for your employees and volunteers.

Verify that they did work where they say they did.

Get explanations for any large gaps in employment.

If they're working with money, run a police check.

Verify their qualifications.

Check their references.

Make sure supervisors take seriously their duty to scrutinise the documents that pass in front of them – purchase orders that need approval, for example.

Checks

Reconcile bank accounts against cheques, and invoices against assets, and follow up any discrepancies.

Organise spot checks on outgoing invoices, cash payments, and cash receipts.

Access

Restrict access to premises, cash registers, computer systems and safes to employees who require access to perform their job.

Set in place a data system that records when items have been altered.

Consider camera surveillance after hours.

Other financial controls

See the Our Community Policy Bank (www.ourcommunity.com.au/boards/boards_article.jsp?articleId=1453) for more financial control policies.

18.

What's our fundraising strategy?

Many of the wonderful people who serve on not-for-profit boards are ambivalent about money. Because we're not in it for the money, we look down on money and on the process of getting it. We think of asking people for money as like going to the toilet – a necessary part of life, doubtless, but hardly enjoyable, and certainly nothing you want other people to know about.

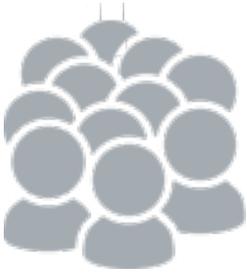
It's an attitude that makes it hard to ask for money, hard to press people for money, and hard to recruit people to raise money. More than that, it's wrong.

Fundraising is about identifying new potential allies, inviting them to join your ranks, and asking them to invest in your work. It's about building relationships with people and accumulating power and political clout for your organisation. Then it's about building infrastructure so your organisation is able to accomplish its program goals. And ultimately, fundraising is about fostering change that no individual could possibly accomplish without the muscle – and money – of an organisation.

Your problem isn't that you haven't got the money; the problem is that you haven't convinced enough people you're doing important work. Money is only a way of keeping score.

Certainly, the CEO and board chair should be providing fundraising leadership. It should be part of the organisation's culture, though, that everyone understands fundraising is an integral part of the organisation's mission. All board members and all staff must participate in fundraising, and must be held accountable for following through on their commitments.

You're looking for a strategy that is all the following things:



Diverse

To survive and thrive in a changing world, you have to have many strings to your bow, many legs to your stool, and many irons in your fire. A good fundraising plan rests on six pillars: donations; grants; business partnerships; membership/alumni/friends; special events; and earned income. No organisation should be so dependent on a single funding source as to be unable to function without it.



Flexible

Be ready to shift resources across your fundraising methods, just in case one method goes down. Explore new possibilities while you have a reserve to fund your preliminary work; don't wait and take this on when things are going badly and you're in panic mode.



Appropriate

Analyse your strengths and weaknesses, your resources and your options, and cut your coat according to your cloth. For example, if you have a large but uncommitted membership base, then emphasise membership income and go for business partnerships. If you have a small but really keen membership, leverage that by using members as volunteers for special events.



Ethical

Work out in advance who you won't take money from. Will you form commercial partnerships with gaming or tobacco companies? Be clear about which fundraising methods are acceptable – is door-knocking okay? Raffles? Tin-rattling? Spend the money you raise on what you told donors you'd spend it on; don't misrepresent yourself.

You want detailed answers in all these areas, which means there's not going to be time to thrash it all out in a normal board meeting. The board has to nominate a fundraising coordinator, and may want to set up a fundraising subcommittee, to draw up a fundraising plan to slot into your business plan under your strategic plan.

Sample Fundraising Plan

The Mary Poppins Therapy Centre provides therapy services each year to more than 220 young people with communication disorders. We currently have 150 members.

In the next 24 months, we intend to expand our services through the opening of a second therapy venue in the western suburbs.

These activities will need to be funded from new fundraising activities, which will require us to become better known and more organised in our fundraising activities.

Objectives

- To generate extra funds of \$80,000 by April 2020
- To increase the group's membership by 150 by April 2020
- To raise the group's public profile and to increase public awareness of the group's activities.

Strategies

- To source external funds via a strategic and focused grants program
- To develop a list of supporters
- To launch an appeal for funds
- To better develop the fundraising capabilities of our group
- To raise public awareness and the public profile of our community group by developing better communications programs (both internal and external)

Indicators of success

- \$40,000 raised for our new projects
- Mailing list of supporters
- 30 more members
- Regular articles or mentions about our group in the local media

Activities

Activity	Responsibility	Due	Status
Organisation and administration.			
Set up fundraising committee and coordinator.	Board chair		
Finalise goals and objectives of fundraising plan (with sub-goals for each element).	Fundraising coordinator		
Develop and prioritise our proposed activities.	Fundraising committee		
Evaluate the opportunity for tax deductibility status for donations and grant submissions.	Treasurer		
Sourcing funds via a grants program.			
Identify grants coordinator (person who will be responsible for ensuring grant applications are submitted on time) and grantwriters.	Fundraising committee		
List all of the people in the community that benefit from our activities so we can expand the categories for which we can apply for grants funding.	Grants coordinator (with input)		
Identify potential list of grant opportunities for the year – federal, state, local government, philanthropic foundations.	Grants coordinator		Done
Research the directions, values, preferences, and requirements of target grantmakers, and adjust projects as necessary.	Grants coordinator		
Contact potential grant providers and discuss project before putting in application to ensure it meets the guidelines.	Grants coordinator		
Develop project plan, project budget, project partners, e.t.c. for the new venue.	Board		
Apply for at least three grants.	Grants coordinator		
Maintain a grant register to monitor progress on each grant application.	Grants coordinator		
Ensure that processes are in place to monitor that grants are discharged as per the legal requirements.	Treasurer		
Building supporter and donor base.			
Establish a database of supporters' contact details and mechanism for updating.	Membership coordinator		
Run brainstorming session to identify names of potential supporters.	Fundraising committee		
Develop mechanism for membership recruitment.	Membership coordinator		
Review the membership sign-up process and volunteering opportunities.	Membership coordinator		
Raising the group's profile.			
Review written communications (brochure, internet).	Newsletter editor		
Ensure newsletter is produced on a quarterly basis and sent out in hard copy and by email.	Newsletter editor		
Assign a committee member to act as a media person to liaise with the local media.	Committee chair		
Draw up a media contact list; send media kit.	Fundraising coordinator		
Developing fundraising capability.			
Develop online donations functionality (free service with www.givenow.com.au).			
Fundraising coordinator.			
Assign committee members to approach potential major donors.	Committee chair		
Write appeals literature for mail and email appeal to regular donors.	Fundraising coordinator		
Apply to regulator for fundraising licence.	Fundraising coordinator		
Seeking commercial support.			
Approach compatible business for partnership.	Fundraising coordinator		

19.

Should I give?

In Australia, there's a prevailing attitude that board members are giving their time and don't need to give their money. The situation in the United States is very different – before you join a board there you'll be informed of what will be expected of you financially, and your contribution will be checked.

It's not just for the money it brings in directly – though this is not to be sneezed at – but for the change it makes in board members' attitudes to approaching other people for donations. Board members who do not make contributions themselves, the view goes, will have difficulty asking others to contribute. Why should anyone else believe your pitch if you don't?

Your case, after all, is that gifts to the organisation aren't simply sacrifices for which everybody has to be grateful; they're investments in achieving shared goals that bring mutual benefits. Simply put, you're better off giving. It's perfectly true, but you still have to sound sincere when you say so, and there's a good test of your sincerity: did you give?

The board is responsible for providing fundraising leadership. You have to demonstrate the importance of fundraising to the whole organisation, and you have to be able to inspire other fundraisers. This means each member of the board must individually accept their key role in fundraising. In Australia, financial contributions may not be so important as in the US, but board members must still be able to provide their time, expertise, contacts and influence to the cause.

So give – if you can – and ask your friends to give too.

Fundraising experts say that when you ask someone you know – and who knows what your organisation does – for money, the odds are better than 10% that they'll give something. The odds are even higher if you have a well-researched prospects list.

People don't like asking for things directly. We've all had strong social sanctions against asking for money inserted in our psyches. Remember:

- You're not spending the money on yourself; you're spending the money on other people.
- You're not asking for money without strings; you ask for money with involvement.
- You're not selling your failure; you're selling your success.

You're sold on your cause. Analyse the reasons why, then try to bottle them and pass them on to your friends.

Board member fundraising checklist

This checklist assesses your involvement in fundraising, and can help you realise other ways to contribute.

General

I understand the fundraising plan and the fundraising program.

I fully understand and endorse the case for why people should contribute.

I make an annual contribution which is meaningful (according to my own definition) – without having to be asked more than once.

Prospect development

I give the names and addresses of individuals and businesses to be added to the mailing list.

I assist staff in identifying and evaluating prospects, individuals, corporations and foundations.

Cultivation and acknowledgement

I help to cultivate major donor prospects.

I make introductions for others to make a solicitation visit.

Direct mail

I write personal notes on annual appeal letters.

I assist with solicitation and other mailings.

I write personal notes on follow-up and acknowledgement letters.

Special events

I assist at special events.

I host special events at my home.

I serve on special event planning committees.

Solicitation visits

I accompany others to talk to prospective donors.

I visit prospective donors myself.

Sources of prospective donors

This list covers donors (people who give you money because they like you) rather than funders (people or organisations who give you money to do things).

The board and committees

Have all board members been asked to contribute? Get the board and committees to brainstorm for prospect names. Who do they know who's well off and would be influenced by their opinion?

The members

Your members support the organisation enough to take out membership; do they have the capacity or the desire to make further donations? Invite them to submit names of people they know who may be interested. Go viral!

Previous donors to your organisation

They're proven hits, and they should be the first stop for the new round of asks. You've got a far, far better chance of a donation from someone who has donated before than from someone you have to convince from scratch about why your organisation deserves support.

The clients

Do any of the people in your target group represent good prospects? Who are the families you have assisted? Which former clients would be happy to act as your champions?

The staff

Don't overlook signing up staff members as regular contributors. They've shown a willingness to support your group, and some may be keen to contribute beyond their own weekly work.

Donors to other organisations in the area

Look at other organisations' annual reports, honour boards, press releases, pew plaques and so on, and see whether there's someone on your board who knows them.

People with links to the area or the community

Who is a local large landowner, or runs a big local business? Whose father came from the town?

People with interests close to yours

Leaf through Who's Who in Australia, or check out the people interviewed in the financial press.

Businesses with links to the area or the issue

Consider companies that have their offices here, or sell product here, or serve industries that do.

Local retirees

Even if they haven't been involved yet, they may have time or money free for an organisation that can offer them a cause to support. And a good reason to support it.

Local new widows and widowers

People who have new space in their lives and may be open to new challenges. Naturally, great sensitivity is required here.

Local service organisations

Go to Rotary (<http://rotaryaustralia.org.au/>), Lions (www.lionsclubs.org.au) or Apex (www.apex.org.au).

20.

Where do we invest?

As an individual, you may be a risk-taker and a daredevil, someone who goes swimming without sun protection, a practitioner of extreme skateboarding, willing to risk your fortune on the turn of a card.

Fine – it takes all sorts. But when you're considering investments as a board member of a not-for-profit, you should be prudent, even conservative. You're supposed to prioritise preserving the value of the organisation's assets ahead of bringing in maximum income.

This doesn't mean you have to keep your funds in the form of banknotes in a mattress, or even in bank deposits. One component of prudence is diversification; if you have your money in a number of different investment vehicles it's less likely that you'll be wiped out by a single catastrophe. What this means in practice depends, of course, on how much money you have. Splitting \$50,000 into half a dozen funds is fiddly and can lose you interest, but if your financial assets are in the six figures you'd better consider some variety.

As a board member, you're not going to be asked about individual investments – that's the job of the treasurer, the finance committee (if you have one) and the CEO. You do need, however, to set the level of risk that you're comfortable with as a board, and you'll then need to review your portfolio occasionally to see that the treasurer is keeping to the strategy that's been agreed. Any significant change to that strategy then needs to be specifically approved by the board.

Risk isn't everything, either. If you're considering possible investments, you'll notice that shares in tobacco companies, and poker machine companies, and armaments manufacturers, and liquor stores all seem to pay good dividends. Many people, though, and many groups, look also at the evidence of considerable

harm done by smoking, and poker machines, and guns, and alcohol. That's one example of the possible conflict between financial prudence and social responsibility. You're obliged to maximise your organisation's financial return; are you obliged to invest in tobacco?

The simple answer is no.

If you want to be evasive, you can fall back on the argument that what you gain in income you're likely to lose in reputation. People look unkindly on not-for-profits that they think are being greedy and antisocial, and that may well show up in your donations.

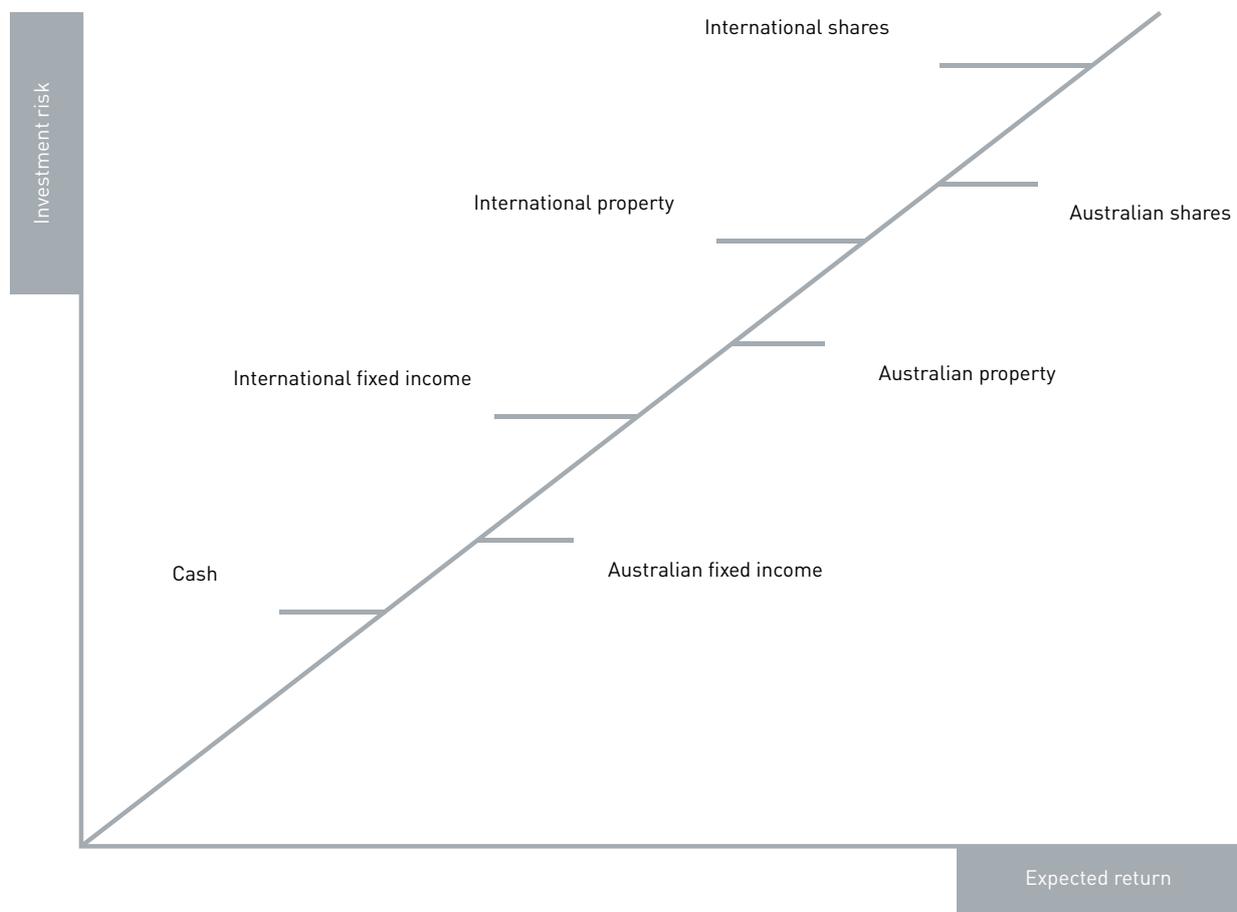
More generally, though, there's an increasing acceptance that the long-term sustainability of the country and the companies and associations within it

depends on those companies not trashing society and the environment. Corporate social responsibility now pushes us all to report on what we're doing not simply on the financial front but also in the areas of society and the environment.

Economic, social and environmental outcomes: that's the triple bottom line. You'll sometimes have to balance one against the other, using your best judgement. But you're in the business of doing as much good as possible and as little harm, and you don't even want the two scales to be very closely balanced.

As you are taking this broad view, you should probably consider your economic, social and environmental impact as part of your policy making, emphasise it in your work culture, and feature it in your annual report.

Investment risk versus expected return



21.

What should we pay the CEO?

You can delegate a lot of things to the CEO, but having them set their own pay level isn't one of them.

One of the primary duties of the board is acting as a boss to the CEO, so at regular intervals you have to assess the CEO's performance, and at irregular intervals you have to hire a new one to replace the old one. When you hire a new CEO, you have to work out what they'll be paid.

The not-for-profit sector is almost infinitely variable in terms of size, income, attitude and complexity, and there aren't any one-size-fits-all (or even any read-it-off-a-table) answers. You have to take into account the market, what you think is fair, and what the award, if any, says.

"The market" means you need to consider:

- What comparable not-for-profit CEOs are paid
- What comparable for-profit CEOs are paid (which is likely to be more).

How do you find out what other organisations pay? You may be able to get some idea by using your networks and asking around, but it'll be patchy. If you really want to know, you may have to pay one of the commercial companies that specialise in these matters.

"What you think is fair" means you need to consider:

- What qualifications are called for
- What experience is called for
- What the last CEO got
- What other senior staff get
- The size of the organisation.

There are two ways to get this wrong: pay too much, or too little. If you pay too little, it's more or less self-



correcting – you'll get no suitable candidates and will have to start over. If you want to guard against paying too much, think about linking some parts of the package to performance indicators, so that the person doesn't get the full benefits unless they take the organisation forward.

Many not-for-profits offer other benefits such as particularly flexible working conditions or job-sharing arrangements to set themselves apart from workplaces in the commercial sector.

As a not-for-profit, you may be able to boost the size of the total package by utilising a tax break called salary sacrifice whereby you pay your candidate less but increase their untaxed fringe benefits. Tax law is tricky and can change rapidly, so check with your accountant.

There's another kind of salary sacrifice, though, that may work against you rather than for you. Don't set a salary that's lower than it should be on the assumption that your candidate should be prepared to make sacrifices for the cause. A volunteer is a volunteer, whereas an employee deserves the going wage. If they're fanatically committed to your cause they can show that by making enormous voluntary donations from their industry-standard salary. Don't exploit the people your enterprise relies on, and don't tempt them to take their talents to the private sector. Working for the greater good should not require a vow of poverty.

22.

What's the worst that can happen?

You can be caught out trading while insolvent.

One of the things – in fact, the thing – your organisation absolutely mustn't do is spend money you haven't got and haven't got any prospect of getting. This is known as trading while insolvent, or stiffing your creditors. You may think that your stakeholders are your clients, or your funders, or your colleagues in the sector. When it really comes down to it, the law believes that the people you really, really owe a duty to are the people you owe money to – your staff, the tax office, people who've paid for services they haven't received.

Insolvent trading is illegal and can attract penalties (though these are rarely applied) – but that's the least of your worries.

As long as you're not proposing to default on your debts the rest of the world will, by and large, let you do what

you like. But once you owe them money you can't pay, all bets are off. They may well decide to come in and take it, hitting the board as individuals.

Hey, you might say, I thought that was why we incorporated – so that we could only be sued as an organisation, not as individuals. Well, yes, but it turns out that there's a catch: that protection applies only if the board hasn't been negligent. If you've been trading while insolvent, that normally means there's been the kind of stuff-up that tends to point to negligence.

It's the responsibility of every board member to ensure that systems are in place to prevent the organisation from trading while insolvent. Any breach of this requirement can create financial risks for you as an individual board member, which is why we're making

sure you're able to read and understand the budget papers at least well enough to know whether the organisation is circling the drain.

This doesn't mean your group can't go into debt. If you've considered the situation in depth at length, you may choose to go into the red for a time provided that you believe (on reasonable grounds) you will be able to pay the bills when they eventually fall due. However, you'd better be really, really sure that the money's going to come in before the deadline. Just hoping does not cut it.

If your organisation is running away down the hill, your responsibility is to swing it into the first turnoff and shut off the engine.

**“
Insolvent trading is illegal and can attract penalties - but that's the least of your worries.”**

23.

What sort of questions should I be asking?

There are two kinds of questions: questions about things you don't understand, and questions about things you do understand.

The first kind covers your progress to financial literacy. Many of these questions about things you don't understand will, we hope, have been answered here. Often, though, you'll need to put the basic principle you've learnt into the context of your own budgets before things become clear.

It's best not to conduct too much of our education in public, and there's generally no need to take up everybody's time with it at the meeting. Buttonhole the treasurer afterwards and get them to walk you through it while everybody else is tucking into their tea and biscuits. (It's always possible, of course, that nobody else on the board understands it either, and they've

simply been nodding sagely in the belief that they were the only ignoramus. The whole team may need some training.) If your treasurer can't seem to pull the accounts together even though you've asked for them in the last three meetings, you need to step in and protect all board members.

The second kind of question comes when you understand how things work and you can see something in the accounts that looks a little odd. If it's just a small thing – the cleaning costs seem to have gone down from \$200 to \$150, say, even though you've opened a new site – check with the treasurer by email. Remember, if you have eight senior people in a meeting,

“

If the treasurer can't satisfy you, you have a duty to bring the question to the board.”

that's a hypothetical cost of something like \$250 per hour, and it's quite easy to consume any potential savings.

Even if your question involves a significant amount of money, check it with the treasurer first just in case you've misunderstood. If the treasurer can't satisfy you, you have a duty to bring the question to the board. If we got \$120,000 in donations last year, why has this year's budget forecast \$200,000? What's changed?

Be polite; perhaps even phrase your question in the form of accusing yourself of stupidity for failing to see what is surely the obvious explanation. Even if you think the new donations figure is desperate handwaving to make the two sides seem to balance, don't say so until you've tested the strength of the treasurer's arguments.

If you're not satisfied, ask the secretary to record your question (and the treasurer's answer) in the minutes.

One problem, to be sure, is that when you ask probing questions, someone may not wish to answer them honestly. The treasurer or the CEO may be putting forward a false picture and presenting a misleading set of figures. This doesn't happen often, of course. It's very

seldom indeed that there's any funny business going on where not-for-profit finances are involved. On the other hand, funny business probably does make up an appreciable fraction of the rare cases where probing questions are justified. So what do you do?

You might think that if the treasurer or the CEO tells you that matters are thus and thus you'd be entitled to believe them. They have access to the underlying paperwork, after all, and you don't. How can you look behind their assurances? That's not the law, though, and that's not really why the members put you there. You're supposed to believe the people who are telling you things only when it's reasonable to do so.

You're much better off if the board has previously done its duty and approved policies and practices that install adequate financial controls (see page 53). Tight financial controls make it much more difficult for anybody to cook the books, and that means you're able to trust the figures.

24.

How can I bring about change?

Part of your job description is to check for anything untoward. A much larger part, though, and one that comes up much more frequently, is to check for stupidity. Most of the time, the really serious question is going to be, “Is this a good idea?”

Nearly everybody means well. The number of rogue treasurers is very, very low. The number of not-for-profits that go wrong and go down, however, is considerably larger. As the old journalistic motto has it, “When you have to choose between a conspiracy and a stuff-up, go for the stuff-up every time.”

You’re on the board to exercise your independent judgement. Quite often, you’ll judge that something has gone badly wrong, or is going badly wrong, or is about to go badly wrong, and that the rest of the board has voted for it. What do you do then?

You don’t have any sort of veto. You can’t just order them to fix it. You have to get the original decision reversed, and a decision of the board can only be reversed by the board. When the others don’t share your concerns, there aren’t any shortcuts or secret passages to get around them. You just have to go back and try harder to persuade them.

It’s easier, of course, if you can get to them before the decision has been made, but the same basic principles apply to any attempt to influence the board to embrace your views. You’ll need skills in rhetoric, people management, financial exposition and social

manipulation, and after practising them for a couple of seasons in this arena you'll find yourself more alert to the subtleties of getting the optimum outcome at work, at home, and in dealings with officialdom.

If you can't change their mind, what do you do? There are two possibilities, and they both apply in different circumstances at different times.

If the issue isn't central, then you bear it, and in public you grin. A board is more effective when it's publicly unified. Under normal circumstances you're supposed to observe board solidarity, and accept that you don't bag the organisation's policy to outsiders even if you have reservations. Taking the wrong course is bad enough; taking the wrong course in a state of disunity is even worse.

There will be times when this isn't enough, and you have to break the façade of unity and organise opposition. What those times are, though, can't be defined in advance. You'll know.

Your next resort is to the micropolitical process. If you've broken from the herd and decided to speak out, make sure that it amounts to something. Can you arrange for the rascals to be voted out? Can you mail your manifesto to the members? Your constitution will generally allow you access to the membership list, with addresses; that's what it's for. Can you chase up some friends and supporters and run a ticket for the next AGM? You may have to wait a few months for the AGM to come round, but if you have a good story you should be able to bring the general will of the members to bear when it counts.

If you can't change their minds then you should note your concern in the minutes and ask that your vote against the decision is recorded. If the matter is critical, be aware that if you stay on the board and it all goes pear-shaped and ends up in court, you may still be liable – even though you voted against the motion. You may have to walk. Take your enthusiasm and your experience to another organisation that isn't as infuriating.

25.

Who can I complain to?

All right, let's take a couple of steps further down the ladder of governance, to organisations that are not just misguided but actively misled.

The chair and the CEO act without authorisation from the board, say, or even contrary to the board's instructions. Meetings are stacked, minutes are doctored, conflicts of interest are indulged. The organisation is withering, or overextending itself, or stumbling, or taking on things outside its remit, and nobody's listening. It says right there in the constitution that they're not to do this, and they're doing it anyway. You'll show them – you'll take it up to the regulator! (See page 74 for a list of regulators.) They approved your constitution, and now they can enforce it.

All across Australia this approach walks right into a closed door. Regulators are not at all eager to intervene in the affairs of the associations they license.

The regulator might – might – take an interest if you can show that there's been a breach of the Act, but if you look closely at your Act you'll find that just about the

only thing the board is obliged to do is to put in a report once a year. Almost everything else comes not under the Associations Act but under your own constitution, and that's contract law. The government enforces general law, but with contract law it's up to you to take the matter to court yourself – and that's time-consuming, expensive and unpredictable.

Depressing as this may sound, there is an upside. The regulator's reluctance to second-guess the board does give you some leeway in difficult situations. If your constitution has got you into the kind of knot that's difficult to unpick (if, for example, several board members have resigned and you haven't got a quorum to meet and fill the casual vacancies), you can probably take the commonsense approach to fixing things without fearing that anyone's looking over your shoulder.



Your regulator

National

Australian Charities and Not-for-profits Commission
www.acnc.gov.au

Australian Capital Territory

Office of Regulatory Services
www.accesscanberra.act.gov.au/app/answers/detail/a_id/1504/~/incorporated-associations

New South Wales

Office of Fair Trading
www.fairtrading.nsw.gov.au/associations-and-co-operatives

Northern Territory

Department of Business
www.dob.nt.gov.au/gambling-licensing/business/business-licensing/incorporated-associations

Queensland

Office of Fair Trading
www.fairtrading.qld.gov.au/non-profits

South Australia

Consumer and Business Services
www.cbs.sa.gov.au/associations-cooperatives

Tasmania

Consumer Affairs and Fair Trading
www.consumer.tas.gov.au/registrations/incorporated_associations

Victoria

Consumer Affairs Victoria
www.consumer.vic.gov.au/clubs-and-not-for-profits

Western Australia

Department of Commerce
www.commerce.wa.gov.au/consumer-protection

Financial literacy self-assessment quiz

Use this survey to help you as a board member determine your own strengths and weaknesses in this area.

My knowledge	Poor	Fair	Good	Excellent
My knowledge of my financial responsibilities and liabilities as a board member is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My knowledge of the different forms of financial reports is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My knowledge of the assumptions that underlie my organisation's annual budget is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My knowledge of the financial specifics of the organisation's business plan is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My knowledge of the fundamental trends underlying the organisation's income and expenditure is	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My duties	Never	Rarely	Sometimes	Often
I adhere to my financial responsibilities to the best of my abilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I look for ways to update my knowledge of my financial responsibilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I avoid micromanaging financial matters that fall under the sphere of action of the manager	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I decline to take on any other financial responsibilities that conflict with my responsibilities to the organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My commitment	Never	Rarely	Sometimes	Often
I happily use my networks and contacts to help raise funds for my organisation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I have offered to serve on budget sub-committees or assist the treasurer with the preparation of financial papers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
My meeting performance	Never	Rarely	Sometimes	Often
I read the accounts circulated by the treasurer before the meeting, and check the calculations	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I give the treasurer notice of any matters I propose to raise in the meeting	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I seek answers to any questions relating to my organisation's financial position	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I ask for clarification where I do not understand the situation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I continue to seek clarification until I am satisfied with the answers I am given	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I avoid taking up meeting time with long discussions of small sums	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I review the format of the treasurer's report to ensure that all necessary information is included	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If you still have questions, visit Our Community's Community Financial Centre for more information:
www.ourcommunity.com.au/financial/financial_main.jsp

Glossary

The not-for-profit sector has to operate in all Australian states and has to cope with a number of different legal formats. Consequently, there are a number of names for what are functionally much the same thing. Just for ease of reading we've settled on one common set.

When we say	“board”	we mean	“board” or “council” or “committee of management”
When we say	“not-for-profit sector”	we mean	“not-for-profit sector” or “non-profit sector” or “community sector” or “third sector” or “voluntary sector”
When we say	“not-for-profit organisation”	we mean	“Incorporated Association” or “Company Limited by Guarantee” or “Cooperative”
When we say	“board member”	we mean	“board member” or “committee member” or “trustee” or “director”
When we say	“chief executive officer (CEO)”	we mean	“CEO” or “director” or “manager” or “executive officer”
When we say	“clients”	we mean	“clients” or “customers” or “users” or “consumers”

Accrual accounting

Accrual accounting, as opposed to cash accounting, recognises income only when it's been earned, and scores expenditure when it's incurred rather than when it's actually paid. If your organisation is paid \$100,000 you record it as income in the accounts not when you receive the cheque but only later when you've provided the services you're charging for. You debit the accounts on the date you write cheques – the day you actually promise to pay people – not the often much later date after they've got their mail, taken your cheques down to their bank, waited five business days, and seen the money drop out of your account into theirs.

Small organisations can get by with cash accounting, but most large organisations that deliver services in return for payment (by clients, governments or grantmakers) use accrual accounting.

Asset register

Your asset register lists all your organisation's physical assets, including office equipment, motor vehicles, furniture, computers, communications systems and other equipment.

Capital expenditure

Capital expenditure is money you spend on items that will last longer than one year, such as computers, furniture, equipment, cars, land and buildings.

Operating expenditure is treated differently from capital expenditure in the accounts. In a budget, the cost of capital expenditure is spread over the expected life of the asset. The theory is that putting the whole cost into one year's accounts would give a distorted view of your profit and loss, so a depreciation charge is made each year instead.

Cash accounting

Cash accounting is the simplest form of bookkeeping, and most small organisations use it. It works on the basis of tracking the actual dollars in and dollars out as if they were actual crumpled notes. If on Monday someone pays you \$100 you enter it in the book as income under Monday's date. If on Tuesday you pay someone \$100 you enter it in the book as expenditure under Tuesday's date.

Cash accounting is also known as receipts and payments accounting.

Cloud computing

"The cloud" is a network of computers to which your local computer connects via the internet. You can save computer files and other data on the cloud instead of on

your local computer, and you can access those files from other computers by utilising a service such as Dropbox or Box and a username and password.

Creditors

Creditors are people the organisation owes money to – either people you have borrowed money from, or people whose goods or services you have bought but not yet paid for.

Current assets

Current assets are anything the organisation owns that it's planning to turn over within a year. It includes cash in the petty cash tin, cash in the bank, inventory (items in the gift shop, for example), and accounts receivable (money people owe you).

Debtors

Debtors are people who owe your organisation money – either people you have lent money to, or people who have received your goods and services but not yet paid you.

Double-entry bookkeeping

Double-entry bookkeeping is the way the professionals do it. It involves writing everything down twice, as a credit to one account and a debit to another, which means that you have to keep a different account for every purpose. Its advantage is that it makes it easier to catch mistakes or misappropriations, and its disadvantage is that you have to think like an accountant (money in the bank counts as a debit, for example, not a credit).

If you're an accounting professional you'll know all about this, and if you're not you'll probably come up against double entry only insofar as it's the basis of your computer accounting package (which will do its best to hide this from you). We're not going to cover it in any detail here.

Equity

Equity is your organisation's net worth. It is what your organisation would be worth if you cashed up today. It includes accumulated funds and any reserves you've put aside as a backstop.

Intangible assets

Intangibles are such items as goodwill, brand value and franchise rights. They don't feature largely in the accounts of most not-for-profits because they're difficult or impossible to sell to anyone else.

Ledgers

Ledgers include all relevant details of every transaction, including the amount, the date, the receipt number or purchase order (if appropriate), who paid or was paid the money, its purpose, and the account it falls under. You should have a ledger for each account, including assets, liabilities, equity, and income and expenditure, all coming together in the general ledger. You can also have separate ledgers for large projects and fundraising events.

Non-current assets

Anything you're not planning to convert rapidly, or that you couldn't turn into cash in a hurry, is non-current – buildings, equipment, cars or trucks.

Operating expenditure

Operating expenditure is money you use to run your organisation from day to day and includes money for overheads, salaries, supplier bills and maintenance.

Operating expenditure is treated differently in the accounts from capital expenditure. Operating costs are recorded as they happen.

Receipts and payments accounting

Cash accounting is sometimes known as receipts and payments accounting.

Restricted funds

Not-for-profits often have money that they're not free to spend as they wish. They may have received a bequest "to be spent on providing care for little children" and they can't spend that on adults, no matter how much they need it. They may have grants to fund particular programs, and they can't divert those funds to cover deficits in other areas (a grant is not a gift; write that on the back of your hand). Your budget has to be able to bring these funds together for some purposes and separate them for others.

Revenue

Revenue is the total income your organisation receives and includes membership fees, grants, donations, fees, sponsorships, and money from special events and sales of products and services.



CommonwealthBank

About Not-for-Profit Sector Banking

Our purpose is to improve the financial wellbeing of our customers and communities. For more than 100 years, we've been supporting Australian communities including the not-for-profit organisations that help to sustain and strengthen them. Our goal is to help drive efficiencies that will deliver maximum benefit to your cause.

A partnership with a difference

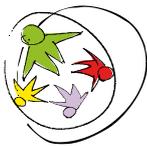
We're focused on continuing to redefine the modern banking relationship with our not-for-profit clients, providing each with the ability to access and leverage resources that would often be beyond their financial reach. These resources include:

- The latest technology and products to help reduce administration, get funds into your organisation faster and stay in real-time control of funds.

- Dedicated Innovation Labs, innovation teams and not-for-profit innovation specialists to support your organisation deliver both new and existing services.
- Think tanks and masterclasses featuring the latest in design thinking methodologies.
- A range of training programs and expert consulting teams including cybersecurity and data analytics.

Specialist bankers

Our national team of not-for-profit sector bankers have been specifically accredited in not-for-profit sector banking, enabling us to work in close partnership with community organisations. We remain focused on deepening our bankers' knowledge and expertise through offering training in the Institute of Community Directors Australia's Diploma of Business (Governance).



ourcommunity.com.au
Where not-for-profits go for help

The Our Community group provides advice, connections, training and easy-to-use tech tools for people and organisations working to build stronger communities. Our partners in that work are not-for-profit organisations and social enterprises; government, philanthropic and corporate grant makers; donors and volunteers; enlightened businesses; and other community builders.

A Certified B Corporation and multi-award-winning social enterprise, Our Community's offerings include:

- **OurCommunity.com.au** – Australia's centre for excellence for the nation's 600,000 not-for-profits and schools: where not-for-profits go for help
- **Institute of Community Directors Australia** – the best-practice governance network for the members of Australian not-for-profit boards, committees and councils, and the senior staff who work alongside them
- **FundingCentre.com.au** – the best place to go to get information on grants and fundraising in Australia
- **GiveNow.com.au** – commission-free online donations for not-for-profits, and philanthropy education and tools for businesses, families and individuals
- **Good Jobs** – Connecting good people with social sector jobs, board vacancies and internships
- **Communities in Control** – Australia's most inspiring annual community sector gathering: thought leadership for the not-for-profit sector
- **Australian Institute of Grants Management** – information, inspiration and education for government, philanthropic and corporate grant makers
- **SmartyGrants** – software and data science for revolutionary grant makers
- **Australian Institute for Corporate Responsibility** – creating and facilitating authentic connections between enlightened businesses and their communities
- **The Innovation Lab** – the engine room for sharing ideas to drive social change



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Where not-for-profits go for help



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