

# FINANCIAL MANAGEMENT

For Not-for-Profit Community Organisations



Livingstone  
SHIRE COUNCIL

## NOT-FOR-PROFIT COMMUNITY ORGANISATION DETAILS

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# 1. Introduction

## 1.1 What is Financial Management?

Financial Management is an important practice that any organisation, regardless of its size, status, or structure, should understand and implement. It is the process of planning, organising, controlling, and monitoring financial resources in order to achieve organisational goals and objectives.

Moreover, Financial Management employs a range of principles that guide decision-making and ensures an organisation's resources are utilised efficiently in the pursuit of its strategic direction.

## 1.2 Fundamental Principles of Financial Management

The following principles are considered fundamental to understanding and implementing sound financial management practices within an organisation:

- **Planning**  
It is vital that an organisation have a set of clear objectives aligning to strategic goals in order to guide the process to identify and plan for acquisition of the financial resources required to achieve the desired outcome – this process is most commonly referred to as budgeting.
- **Organising**  
This process builds on the planning undertaken in order to understand what financial resources are required to achieve the organisations strategic goals, and how these financial resources will be utilised, and allows the organisation to establish systems that enable the most efficient management of its finances.
- **Controlling**  
By effectively planning and organising its finances, an organisation is then best positioned to successfully control its financial activities by tracking transactions across accounts, understanding its cash flows, controlling expenditure, and in doing so manage its financial risks.
- **Monitoring**  
Like any management system, frequent and regular review of the practices and activities therein is required to inform any update, amendment, and adaptation

required to ensure the organisation remains on-track to achieve its strategic goals and associated objectives. An organisations finances should be monitor monthly at a minimum to understand longer-term trends, review income and expenditure against budget, and inform further decisions relating to the use of the organisation's finances.

## **2. Relationship to Organisational Processes**

### **2.1 Strategic Planning**

Strategic planning informs the implementation of the principles associated with financial management, and outlines the strategic goals and objectives that guide the systems and processes included in financial management. It is understood that whilst strategic planning strengthens all aspects of an organisation, it has a significant influence on the long-term financial success and sustainability of an organisation.

Hypothetically, although an organisation may have been working hard to fundraise and save operating surplus over a number of years with an intention to purchase a particular item or piece of equipment, this strategic goal and associated objective wasn't documented or agreed to by the organisation. Prior to the item or equipment being purchased, the organisation experienced a change of committee and in the absence of an agreed strategic plan the funds were then utilised for the purchase of something different that may not have held the same strategic value.

With this in mind, if your organisation hasn't yet undertaken the development of a strategic plan, it is strongly recommended to it discuss this process further with the Community Development and Sport and Recreation team.

### **2.2 Marketing and Sponsorship**

Financial management is both influenced by, as well as influences the marketing and sponsorship activities completed by an organisation. Without a sound understanding of its overall financial position through implementation of financial management practices, an organisation is unable understand its capacity to undertake marketing activities, determine its sponsorship needs, nor can it clearly identify the details of sponsorship requests.

For example, it is understood that sponsorship is most often agreed to by supporting businesses when the proposal is clearly identified and the benefit to the supporting business is accurately clarified. Both of these aspects are difficult to achieve without the use of financial management practices when developing a sponsorship or partnership proposal.

The Community Development and Sport and Recreation team can be available to build the capacity and increase the resilience of not-for-profit community organisations across the Shire through supporting the development of these planning processes.

### **2.3 Event Management**

In the same way that financial management influences marketing and sponsorship activities, the principles of financial management should also be applied to event management. The sustainability and effectiveness of an event is directly dependent on the implementation of financial management principles throughout planning and delivery.

An event raising over \$10,000 for a not-for-profit community organisation would be considered a great success, however if the event attracted expenses of \$15,000 the nett financial position of the organisation is a loss of \$5,000. In this scenario the not-for-profit community organisation would, hypothetically, have been better off not holding the event at all.

For further information on Event Management, and its connection to Financial Management please contact the Community Development and Sport and Recreation team.

#### **NOTES**

## **2.4 Grants and Funding**

Through implementing financial management practices, an organisation is more easily able to demonstrate its financial position and longer-term sustainability, and is also able to more clearly demonstrate its capacity to effectively manage funding. Applying financial management practices in its every day operation also ensures the systems and processes incorporated in receiving, expending, and acquitting grants and funding are already well established and understood across the organisation.

The implementation of financial management principles enables an organisation to submit strong applications for funding that are more likely to be approved, it also ensures delivery and acquittal of the funded project or programme can be undertaken efficiently.

If your organisation would like to know more about apply for grants and funding please contact the Community Development and Sport and Recreation team.

## **3. Implementation of Fundamental Principles**

### **3.1 Budgeting**

One of the most basic tools that supports the implementation of financial management principles is budgeting. Budgeting is the process of reviewing and forecasting operational and capital income and expense over a set period in order to develop a plan to guide and inform systems and processes that organise, control, and monitor an organisation's finances. Budgeting allows an organisation to itemise its activities along with the requisite financial resources to understand the income and expenditure associated with achieving its strategic goals and associated objectives.

Budgeting looks into the future and requires an organisation to plan its activities in order to understand the financial resources expected to be required to complete those activities. Budgeting then enables an organisation to identify surplus or deficits associated with its operation and subsequently informs the relevant activities to either increase income or reduce expenditure. As well as aligning with the financial management principle of planning, budgeting also provides a platform that enables an

organisation to organise, control, and monitor its finances through a range of systems and processes, these can include:

- Monthly reviews;
- Managing general accounts, term deposits, shares, or other investments;
- Considering, establishing, and servicing loans;
- Assessment of business cases and pursuit of projects; or
- Determining need for and purpose of additional income streams.

### **3.2 Profit and Loss Statements**

In addition to the budgeting process, another basic tool that is utilised within financial management principles is profit and loss statements. While budget are set for a specific period and demonstrate forecast income and expenditure, profit and loss statements provide actual income and expenditure information, normally over a period of a month. Monthly profit and loss statements enable an organisation to control and monitor its finances by tracking the source of income, as well as how funds have been expended.

Profit and loss statements also allow an organisation to make amendments and adapt the way it organises its funds based on actual income and expenditure data. This process helps refine how accounts are accessed and informs the types of accounts that can be established to maximise returns from cash holdings. Profit and loss statements also provide information that enables an organisation to monitor budgeted and unbudgeted income or expenditure and review associated details to pursue as required.

#### **NOTES**



### **3.3 Cash Flow**

Understanding cash flow and its relationship to other systems and processes involved in financial management is important for an organisation. Cash flow describes to amount of funds coming into and out of an organisation, and how these amounts influence the organisations overall financial position. In its simplest form, applying an understanding of cash flow enables an organisation to maintain financial growth whilst undertaking the required operational activities.

To ensure cash flow can be considered during the budgeting process, and throughout frequent and regular financial reviews, an organisation should consider the previous financial year's profit and loss statements detail actual income and expenditure by month, and make educated assumptions on timing surrounding receipt of income throughout the next financial year, as well as anticipated expenditure timing. In completing this process an organisation can ensure its income at any one period remains greater than its expenditure, or that future peak expenditure periods can be prepared for by earlier increases in income – in turn maintaining financial growth.

### **3.4 Asset Register**

Another simple but useful tool for not-for-profit community organisation to employ in implementing financial management principles is an asset register. An asset register is a list of assets owned by the organisation and can includes details such as:

- Identification Number;
- Description;
- Serial Number;
- Date of Purchase;
- Purchase Cost;
- Expected Lifespan;
- Depreciation Rate; and
- Replacement Cost.

An asset register is useful in tracking assets and their use and can guide the disposal of unused assets, or inform the need for purchase of additional assets. An asset register is also useful in ensuring all assets can be accounted for and should be regularly reviewed and updated as required. Asset registers are effective in providing

details surrounding depreciation and renewal costs and assist in forecasting future costs to be incorporated into the budget process. Asset registers are also useful in demonstrating proof of ownership in the unfortunate event of theft and / or damage that may result in an insurance claim.

## 4. Financial Policies and Procedures

### 4.1 Financial Delegations

It is important for an organisation to set and adhere to financial delegations to ensure the only authorised positions have access to financial resources. By implementing financial delegations that outline which positions can access particular financial resources all representatives of the organisation can be aware of standard procedures. This also ensures that any irregular or unauthorised access to financial resources can be more easily identified, reported, and actioned.

Financial delegations can also be helpful in organising the organisation's finances to ensure that authorised positions can access financial resources as required through the most efficient avenues. For example, the canteen convenor may be issued a bank card attached to a specific account with a specific spend limit – in this way, there is no need for petty cash or reimbursements, and all transactions are tracked on the statement.

#### **NOTES**

## 4.2 Procedures

In addition to establishing financial delegations that outline which authorised positions can access financial resources as well as the limit of their access, organisations should also establish procedures that clarify positions approved to complete specific actions, and detail the relevant process associated. For example, a Procurement Procedure adopted by an organisation would outline that a minimum of two (2) quotes is required to inform the purchasing process and that purchases over \$1,000 must be approved by the Treasurer.

Types of financial procedures that may benefit not-for-profit community organisations include:

- Procurement;
- Unbudgeted Expenditure;
- Reimbursement of Volunteer's Expenses;
- Asset Disposal; or
- Recruitment and Employment.

## 5. Terms and Definitions

The following list outlines frequently used terms and their respective general definition:

- Income – funds received by an organisation;
- Expenditure – the amount of funds spent by an organisation;
- Profit – a financial gain resulting from greater income than expenditure;
- Loss – a financial loss resulting from greater expenditure than income;
- Budget – an estimate of income and expenditure for a set period of time;
- Asset – a thing of use or value;
- Delegation – a reduction in the value of an asset over time; and
- Procedure – an established and documented way of completing tasks.

## 6. Examples

### 6.1 Simple Budget

Department 'A' - Expenditure						
Line	Activity Description	Last Year's Budget	Last Year's Actual	This Year's Budget	Cash Flow Phasing	Notes
1	Affiliation Fees	\$1,000.00	\$1,200.00	\$1,500.00	February Only	Fees to increase
2	Canteen Purchases	\$3,000.00	\$2,800.00	\$3,000.00	Monthly	Unchanged
Department 'B' – Expenditure						
1	Playing Equipment	\$3,000.00	\$3,800.00	\$4,000.00	February / March	Addition required for juniors
2	Uniforms	\$1,000.00	\$1,050.00	\$1,000.00	September / October	Incorporate new colours
<b>TOTAL EXPENDITURE</b>			<b>\$8,850.00</b>	<b>\$9,500.00</b>		
Organisation 'ABC' – Income						
Line	Activity Description	Last Year's Budget	Last Year's Actual	This Year's Budget	Cash Flow Phasing	Notes
1	Members Fees	\$2,500.00	\$2,300.00	\$2,500.00	August	Unchanged
2	Grants	\$1,500.00	\$2,000.00	\$2,500.00	Monthly	Recurring grant
3	Sponsorship	\$4,000.00	\$3,500.00	\$4,500.00	January / February	2 proposed, 1 secured
<b>TOTAL INCOME</b>			<b>\$7,800.00</b>	<b>\$9,500.00</b>		
<b>NETT BUDGET POSITION</b>			<b>-\$1,050.00</b>	<b>\$0.00</b>		

## 6.2 Asset Register

<b>ID</b>	<b>Description</b>	<b>Serial No.</b>	<b>Date</b>	<b>Cost</b>	<b>Lifespan</b>	<b>Depreciation Rate</b>	<b>Replacement Cost</b>
1	Sprayer	Y78-01	12/11/18	\$30.00	5 years	\$4.00	\$50.00
2	Pump / Compressor	P1256363	14/07/18	\$380.00	7 years	\$50.00	\$450.00
3	Fridge	BVA-08	12/04/19	\$2,200.00	4 years	\$500.00	\$2,500.00
4	Freezer	12-FT-1WSD	12/04/19	\$1,300.00	4 years	\$300.00	\$1,500.00
5	Projector	D6745FT	25/08/19	\$980.00	5 years	\$180.00	\$1,000.00
6	Laptop	26753 46546-G	12/08/19	\$2,650.00	2 years	\$1,000.00	\$2,800.00