

Financial Management

Appropriate management of your finances is essential for the survival of your organisation.

By keeping a record of incomings and outgoings and having set policies in place, you know exactly where you stand financially. This is vital for both the every day functions of your group and also when applying for funding and grants.

If you are incorporated and/or registered with the Charities Commission you also have a legal obligation to file your annual financial statements.

By staying on top of your financial record keeping your group will maintain a professional image and it will make it easier to plan for the future.

GENERAL

Some good policies and procedures are essential for cash receipting and making payments:

- write receipts for cash received (donations, membership fees etc);
- bank cash as soon as possible after it is received;
- bank all money received (don't use it to pay for things);
- pay for all purchases by cheque or direct debit (except small petty cash items);
- have a system for approving payments - e.g. approved and minuted at committee meetings;
- have designated cheque signatories and two signatures on every cheque;
- have a system for filing invoices;
- if you have a petty cash system for small payments then have procedures to balance and reimburse it (see example below);
- present regular financial reports to committee meetings;
- use bank statements to validate financial reports.

RECORD KEEPING

PETTY CASH SYSTEM

1. Write out a cheque for cash and record on the cheque butt as "petty cash".
2. Keep receipts for all purchases and record in a petty cash book.
3. When petty cash is getting low, write a cheque for the amount you have spent, which will then bring it back to the original amount.

For Example

01.02.2011	Opening Balance			\$50.00
03.02.2011	Coffee		\$9.50	\$40.50
05.02.2011	Parking		\$6.00	\$34.50
10.02.2011	Milk		\$4.00	\$30.50
15.02.2011	Postage/Envelopes		\$15.60	\$14.90
17.02.2011	Parking		\$6.00	\$8.90
19.02.2011	Coffee		\$4.50	\$4.40
20.02.2011	Cheque 1062	\$45.60		\$50.00

CASH BOOK ACCOUNTING VS COMPUTERISED SYSTEMS

The system you choose to use will depend on the size and needs of your organisation. For smaller organisations a manual or cash book system will be sufficient – you can either keep a cash book or a spreadsheet to record receipts and payments.

See Information Sheet 5a for a sample cash book page.

For larger organisations a computerised system may be more appropriate. There are lots of different options available such as: **MYOB, XERO MoneyWorks**

Make sure you talk to your local retailer to find the one that will be the most user friendly for you. Most systems also have free trials that you can take advantage of.

FINANCIAL REPORTING

Financial reporting should be done on a monthly basis (as per the monthly cash book page in Information Sheet 5a).

YEAR END REQUIREMENTS

You will need to produce the following reports at the end of the financial year:

1. Statement of Financial Performance (Profit & Loss)

This is a statement of revenue and expenditure over a certain period of time. By subtracting the expenditure from the revenue this will then show either your "net profit" or "net loss".

2. Statement of Financial Position (Balance Sheet)

This is a list of all the current assets and liabilities of the organisation, which will then show your current financial position - i.e. if your liabilities are more than your assets then this is not a healthy financial position for your organisation.

See Information Sheet 5b for a sample balance sheet.

FINANCIAL TERMS

Assets

What the organisation owns or monies owed to it – cash, equipment, accounts receivable.

Liabilities

What the organisation owes – overdraft, loans, creditors. Any unbanked cheques you have written.

Expenses

Costs to run the organisation – power, phone, wages.

Income/Revenue

Earnings – grants, subs, membership fees.

Information prepared by



AUDITING

There are four different levels of audit:

1. Full audit by a Chartered Accountant. This level of audit is extensive and can be expensive – but it is not usually needed for small/medium sized organisations.
2. Audit by an accountant without a practising certificate – i.e. a retired accountant or an accounts technician.
3. "Review" of accounts by a qualified accountant – less than a full audit and not as costly.
4. Independent verification of accounts by someone outside of the group who has knowledge of accounting (e.g. a bank manager). This is required by some funders.

The level of audit will depend on the size of your organisation, and your organisation rules (which may stipulate a certain level of audit).

Most community organisations should not require a level 1 audit, but if your rules stipulate that this is the level of auditing you will use, you will have to follow your rules. If your rules prescribe a level 1 audit you may consider changing them to prescribe a level 2 or level 3 audit. You can check the Community Net website (www.community.net.nz) for more information on what level would best suit your organisation.

If you are applying for public funding, the funder may insist on a certain auditing level, and this sometimes depends on the amount you are applying for.

If you are a registered charity with the Charities Commission you will need to provide a review of your accounts (level 3) with your annual return.

For more information on the Charities Commission see Information Sheet 7.

LINKS / WHERE TO GO FOR MORE INFORMATION:

www.community.net.nz/how-toguides/crk/

www.ird.govt.nz (for some useful guides on tax & financial matters)

www.companies.govt.nz (for annual returns etc)

For more information or help you can also contact your local Community Development Planner at Venture Southland:
143 Spey Street, Invercargill
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