Pathways Courses: RESOURCE BOOKLET

Financial Management

Contents

About this course

This course is designed for station managers, directors or management committee members of community radio stations who are responsible for managing station finance, or are responsible for overseeing the organisation's finances.

While it is not an accounting course, it is a course about financial management for people who don't have an accounting background.

Before you begin it makes sense to gather as many of the following documents from your station that you can.

These include:

- Profit and Loss Statement
- Cashflow statement
- Budget
- Annual report
- Asset register
- Balance Sheet
- Cash Flow forecast
- Debtors and creditors reports
- Financial policies and procedures

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What is Financial Management?

Financial management refers to the way in which we keep track of the money that comes into and goes out of an organisation. It's also about planning the best approach to managing the finances and making sure that there is always enough funds to pay accounts and operating expenses.

It seems pretty straight-forward until someone with an accounting degree starts talking about it. That's because the finance industry uses some terms you may not be familiar with. Here are some of the most common ones.

Profit and Loss (P&L) statement

This is a report of your income and expenditure as invoiced for a specific period of time e.g. a month, a quarter or a year. This applies to both invoices received and invoices sent out and the invoices may, or may not be, actually paid.

Cash flow statement

This is a report of actual income and expenditure and is often done on a monthly basis and builds a picture of the flow of the cash balance across the financial year. Monitoring cash flow helps to ensure that an organisation will have sufficient funds in its bank account to meet costs and accounts as and when they fall due. A summary cash flow statement is also included in annual accounts.

Balance Sheet

The balance sheet is the total picture of a company's financial position at a given point in time, eg 30 June. It lists all finances including the cash balance, reserves and the value of all assets and liabilities.

Cash flow projection

This is a forecast of when a company expects to receive cash or payments and when payments need to be made. Projections are done for a period of time, generally on a monthly basis, for a period of 6 months or a year .The aim of doing a cash flow projection is to make sure the station will have enough money to pay all expenses when they fall due and cash flow projections should be regularly reviewed.

Budget

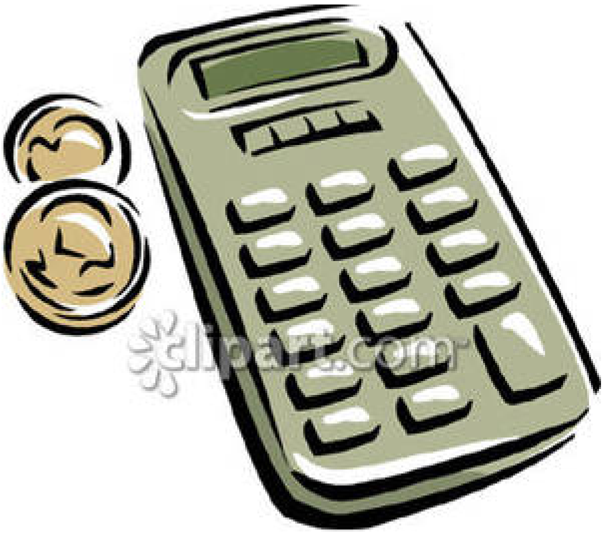
A budget is a financial planning and management tool. It is a list of anticipated income and expenditure over a period of time, usually a year. Budgets may predict a surplus (income exceeds expenditure) or a deficit (expenditure exceeds income).

Assets

Current assets (or Liquid Assets) are those that a business could expect to realise in cash, sell or consume during the current year, e.g. cash, short-term investments.

Non current assets (Non Liquid Assets)

Represents assets that are 'long-term' assets such as property and equipment.



Intangible assets

Represents assets that are non- physical in nature, e.g. copyright, intellectual property.

Liabilities:

Expenditure or loans that a person or company has committed to and must be paid for.

Capital:

Money and property that a person or company uses to transact business.

Reserves:

Funds that have been set aside for special purposes or to cover contingencies, or general financial reserves to ensure the financial stability of an organisation and its capacity to deal with unexpected changes in income or expenditure.

Debtors:

People or orgnisations that owe you money.

Creditors:

People you owe money to.

Depreciation:

The write off of a portion of a fixed asset's value in a financial period and included in the full Profit and Loss statement and the Balance Sheet. Depreciation represents a decrease in the value of an item over time due to wear and tear and is usually applied as a percentage of the item's value each year.

Amortisation

The process by which the value of an asset is gradually reduced over a period of time (based on its expected lifespan).

Accrual accounting:

In accrual accounting, revenue is recognised when it is earned rather than when it is received, and expenses are recognised when they are incurred, rather than when they are paid. So if you buy an item using your credit card, you would record the date you bought the item, rather than the date you paid your credit card bill. Similarly your income is recorded when an invoice is raised by your station, not when it is paid. Accrual accounting is generally preferable because it gives a clearer picture of your station's overall medium-term financial status.

With **cash accounting**, you record entries according to the date you paid someone or someone paid you. So if you invoice someone, you record the date you receive the money, rather than the date you sent the invoice. At its simplest, cash accounting uses the receipt book and bank deposit details to track income and the cheque book to track expenditure.

Both approaches are used by small organisations and the important thing is to be consistent in how financial transactions are recorded and monitored.

Owners Equity:

The net worth of a business or organisation All assets less all liabilities equals the net worth or equity.

Audited Accounts

An organisations Audited Accounts for the full financial year will include a Balance Sheet, summary cashflow statement, details of all assets and liabilities and usually an annual Profit and Loss Statement.

Why good financial management is important for Community radio stations

Good financial management at your radio station ensures that there are adequate funds and resources to meet the station's objectives, remain solvent, continue to support the community and provide a broadcasting service.

Not-for-profit organisations are not permitted to distribute any profit, and are not a 'profit making' exercise. However, it is necessary to aim to generate a small financial surplus to ensure that the station is sustainable in the long-term – ie that there is enough money coming in to keep the station going, remain financially stable and upgrade equipment and facilities from time to time.

Cash flow can be a problem in many stations and with good financial management you should be able to forecast well ahead of time when you might have lean months where the budget is tight. Whenever possible, stations should aim to build up a small financial reserve to be able to deal with unexpected changes in income or expenditure.

Understanding your station's financial position is important for the overall success of the station. Good financial systems will assist in managing and monitoring the situation. This starts with good recordkeeping and financial reporting that everyone understands.

Good recordkeeping also allows you to look back over a period of time at the station's financial performance, and allows you to make better decisions for the future and budget more effectively.

Too often, members of Boards or Management Committees look at the financial reports without being completely clear about what the figures actually mean.

So the best place to start is with the financial reporting itself.

Understanding Financial Statements

Financial statements are like a snapshot of the whole of the station's operations and activities. If you know how to read a financial statement you can see the strengths and weaknesses of an organisation immediately.

The three most important annual financial statements you will see at the station are:

The Balance Sheet - this is a statement of the station's full financial position.

The Income and Expenditure or Profit & Loss (P&L) Statement - this is the most common report you will see at Board meetings. It shows all financial transactions as invoiced.

Cash Flow Statement – this statement gives you the actually flow of money coming in and going out of the organisation. Since many orgnisations use accrual systems of accounting, the cash flow gives us the information on how many invoices have actually been paid.

Let's try and make sense of all of these statements.

Balance Sheet
as at 30 June 2008

	Note	2016	2015
ACCUMULATED FUNDS-			
Balance brought forward		65,735	51,637
(Deficit/Surplus for the Year		12,778	14,098
		78,513	65,735
Represented By:			
CURRENT Assets			
Prepayments		390	7371
Other receivables		6110	31262
Cash at Bank		24,000	22,000
		30500	60633
NON-CURRENT ASSETS			
Fixed Assets		116,068	133,027
TOTAL ASSETS		146,568	193,660
CURRENT LIABILITIES			
Creditors and Accrued Expenses		40,555	40,011
TOTAL CURRENT LIABILITIES		40,555	40,011
NET ASSETS		106,013	153,649

Balance Sheet

The Balance Sheet provides a full picture of the financial position of an organisation at a given moment (usually the end of the month or the full financial year). It lists in detail the various assets that the organisation owns, its liabilities and the value of the organisation’s equity (or the net worth of the organisation).

Accumulated funds show the surplus or loss of the previous financial year along with the surplus or loss of the current financial year.

Assets can include cash, investments, any property or buildings the station owns, equipment or furniture as well money which is owed from other organisations.

Remember current assets are the assets which can be cashed in quickly – eg cash in banks or money owed while non-current assets are more likely to be buildings and equipment.

Liabilities can include unpaid accounts and funds acquired to support the organisation's operations including loans, overdrafts and other credit used to fund activities of the organisation.

You can see that the Balance Sheet is reporting more than the previous year's activities. This is where the whole financial position of the station is represented.

Profit and Loss or Income and Expenditure Statement

The income and expenditure statement is sometimes called a profit and loss (P&L) statement. Basically, it is a summary of the station's income and expenses as invoiced over a specific period of time. It is usually prepared at regular intervals throughout the year but this example is for year-end.

Annual Profit and Loss Statement		
INCOME		
	2016	**2015**
Membership Fees	**4,300**	**3,900**
Broadcasting Fees	**1,109**	**3,894**
Sponsorship	**35,135**	**17,400**
CBF Ethnic Grant	**45,856**	**42,331**
CBF Indigenous grant		**1,105**
CBF Development Grant	**1,000**	**3,000**
CBF Training Grant	**6,000**	**1,500**
Donations	**32,550**	**24,000**
Transmission Grant	**23,000**	**23,000**
other grants	**13,800**	**38,850**
Interest	**29,000**	**14,000**
Miscellaneous revenue	**2,564**	**4,700**
Total	**194,314**	**177,680**
EXPENDITURE		
Accounting Fees	**900**	**900**
Advertising and promotion	**989**	**1,495**
Bank charges	**123**	**75**
Conferences	**2,100**	**2,000**
Consultants Fee	**6054**	**5793**
Debts written off	**535**	
Depreciation	**10,000**	**10,000**
Grant expenses	**23,980**	**16,715**
Insurance	**2,318**	**2,368**
IT & internet expenses	**2,110**	**863**
Licences	**3,638**	**3,265**
Maintenance	**4,598**	**3,336**
Minor Equipment	**1,154**	**830**
Miscellaneous	**3,335**	**3,162**
Transmitter site rental	**22,586**	**36,290**
Postage	**400**	**450**
Rent	**8,137**	**7,566**
Salaries	**62,480**	**55,000**
Subscriptions	**3,330**	**1,772**
Telephone	**3,103**	**3,339**
Training	**5,700**	**2,056**
TOTAL	**181,536**	**163,582**
Deficit/surplus for the year	**12,778**	**14,098**

Cash Flow Statement

The statement of cash flows is a summary of the money actually coming in and flowing out of the station over a specific period of time. It should not be confused with a Cash Flow Forecast that breaks your budget up across the year and shows you how much income or expenditure is expected to come in or go out on a monthly basis.

For year ending 2014	Notes	2014 $'000	2013 $'000
Operating services			
Receipts from:			
Donations and appeals		13,199	12,750
Bequests		9,378	7,258
Government grants		28,829	26,628
Client contributions		3,958	4,150
Sale of goods		56,994	57,445
Dividend income		822	234
Interest income		4,795	3,927
Other income		1,586	2,219
Payments to clients, suppliers and employees		(109,881)	(109,112)
Net cash provided by operating activities	19	**9,680**	**5,499**
Investing activities			
Purchase of property, plant and equipment		(19,126)	(24,836)
Proceeds from disposals of property, plant and equipment		17,876	13,387
Purchase of AFS investments		(143)	-
Proceeds from disposals of AFS investments		3,000	-
Net cash provided by / (used in) investing activities		**1,607**	**(11,449)**
Financing activities			
Proceeds from bank loans		-	-
Repayment of bank loans		-	-
Net cash from / (used in) financing activities		**-**	**-**
Net change in cash and cash equivalents		11,287	(5,950)
Cash and cash equivalents, beginning of year		90,182	96,132
Cash and cash equivalents, end of year	6	**101,469**	**90,182**

Ideally, a manager or treasurer will monitor both cash flow and Profit and Loss (P&L) on a monthly basis and a Board or management committee would review financial reports either monthly or on a minimum of a quarterly basis.

When an organisation has a tight financial budget, and little or no financial reserves, it is very important to monitor financial reports on a monthly basis to make sure the organisation is within budget and to be able see early warning signs of financial trouble.

Three signals that can indicate the potential for an organisation to fail financially are:

•Cash receipts are less than cash payments – there is a negative cash flow balance that is not predicted in the budget or cash flow forecasts

•Profit & Loss statements indicate there is a deficit – there is more money going out than there is coming in on an ongoing basis. If there are not enough financial reserves to cover the amount of the deficit then income must be increased or expenditure must be reduced.

•Regular financial reports are not being produced or monitored and the organisation is not clear about its financial position – steps should be taken to re-establish regular reports and monitoring as quickly as possible.

Resources needed for good financial management

For good financial management you need to invest in people and financial software and systems.

The key people you need are:

An accountant or bookkeeper; this person maintains the financial records of the station ensuring that all income and expenditure is checked and recorded accurately and accounts balance against the bank statements.

The treasurer is usually a member of the Board of Directors or Management Committee who oversees the financial management processes and reports. They are also sometimes one of the signatories on the station bank account. They work closely with the Station Manager or staff (if there are paid staff) to create budgets and monitor finance and accounts.

An auditor is a qualified person in accounting who has no relationship with the station other than to be the auditor. They bring an independent pair of eyes to examine the accounts and make sure everything is being recorded correctly, and produce the audited accounts that are presented at the station's Annual General Meeting (AGM) each year.

Financial Management Systems

Accounting records used to be maintained manually but most organisations now use a computerised accounting system. Most stations will have some form of accounting software such as MYOB or Quickbooks. In more recent years, not-for-profits have also started using another accounts system by Calxa because its reports are easy to read and suited to not-for-profit's needs.

It is also important to have a system of filing for all receipts and invoices. This could be electronic but very often they continue to be paper records. It is common practice to file receipts and invoices by date.

You will need a system of bank accounts or at least one main account. The account usually requires the signature of more than one person. This ensures that risks are minimised for expenditure in not-fot-profit organisations. If you are given the authority to sign it is important that you understand that means you must check each payment before you authorise its processing.

Merchant facilities are becoming more common as stations encourage donations online, online payments and establish online shops for merchandise or membership and subscription. Paypal and other credit facilities are now common at stations.

Some stations also use Kickstarter accounts for donations online. This isn't as suitable for regular accounts but has been used effectively by stations for radiothon type fundraisers.

Hear about how stations have used Kickstarter campaigns online by checking out the CMTO CBAA webinar on Kickstarter campaigns on the CMTO's Vimeo channel.

All accounts systems perform much the same function and some people will prefer one system over another. Some systems have better report functions than others, and the important thing is that it suits your station requirements, and the person recording accounts transactions understands how the system works.

Recordkeeping and more - the work of the bookkeeper

There is one important rule here: don’t let your financial records pile up in baskets and go unfiled.

Setting up a regular number of hours each week or fortnight to process payments and file all receipts and invoices is essential. This is especially the case in a station where there are lots of regular transactions including wages.

At its simplest you will need a couple of folders each year to keep all your paper records. Once something is processed electronically it should be filed. Most systems will file payments and receipts in order of date so you can easily check a record if you need to.

Depending on the number of transactions your station has or the amount of cash that comes into the premises, you will need to do the following regularly:

1. Banking
2. Chasing debts owed to you
3. Raising and sending invoices
4. Filing invoices and receipts
5. Reconciling petty cash
6. Paying wages
7. Providing information to staff or project managers about individual projects and budgets (if applicable)
8. Compiling monthly and quarterly reports
9. Reconciling the accounts against the bank statements.
10. Preparing financial reports for the Board or management committee.

TIPS FOR IMPROVING DEBTOR COLLECTIONS

Send out invoices as soon as work is completed, not at the end of the week or month.

Provide incentives for early payment – this may suit some organisations and not others and will depend on the services provided or the value of payments.

Make it easy to pay – direct credit arrangements, EFTPOS, BPay, or credit card.

Where commission is paid to sales staff, pay commission on the amounts collected, rather than on the total sales amount booked.

Run regular reports to identify when payments are due and produce regular aged debtors (or sometimes called aged receivables) reports.

Identify slow paying customers and make contact early to discuss any issues – faulty goods, inadequate service, or inability to pay etc.

Budget and forecasting

Budgeting and forecasting are the future financial plan of the station and play an important role in maintaining financial stability and establishing reserves for station improvements or equipment.

Often budgets are developed after a process of strategic planning or review so that priorities are clear and with a close look at annual operational plans. If you don't make these connections, you may find that that the budget and financial planning are not consistent with the station's vision or goals.

With a budget you can then forecast the future health of the station. Forecasting is when you review actual outcomes against budget and make adjustments. For example, forecasting will allow you to predict that by the end of the year your electricity will have cost four times the amount you had budgeted for. You are then able to allocate more funds (usually by taking them from elsewhere) to ensure that you don't overspend.

Once you have a budget:

- you are able to monitor the financial performance of the station closely.
- you can make plans over a number of years
- you can avoid shortfalls or financial problems before they happen
- you can authorise financial delegations to staff with budgets to guide them

How many budgets do you need?

An organisation should have an overall annual budget that includes all areas of operation and is prepared in advance of the start of the financial year.

Your station may also have several sub-budgets depending on how many “jobs” there are being done. “Jobs” in accounting terms are separate cost centres which can be combined. If your station has received a grant for a specific project that involves a number of transactions (eg paying wages or expenses) then a separate project budget is important. You will have probably developed the project budget at the time of a grant application and any grant undertaking usually requires you to keep to the proposed budget. There might also be a separate budget for a fundraising event or an upgrade to station facilities.

Jobs can be consolidated to give a picture of the combined accounts but if you are really wanting to see what’s going on at the station you will need to also look at the various projects as separate budget reports.

Remember that good budgeting requires:

- Preparation against the strategic goals of the station.
- Timelines which match up to your reporting year (either calendar or financial)
- Referring to previous financial year figures to make sure the budget is realistic
- Frequent comparisons between actuals and budgets throughout the year or for a specific project
- The possibility of amending the budget if required.

Preparing Annual Budgets

When preparing a budget, there are a number of things to consider.

Ideally, you should always budget to make some level of surplus (which can be added to your reserves for special projects, upgrades and to maintain financial stability). If not, budget to aim to break even by the end of the year.

Sometimes it is a difficult financial situation, or there are some financial reserves that need to be used to operate, and you may have to budget for a deficit. If you think you're heading into a situation where you'll be operating at a loss, discuss options with your Board or Management Committee and with your accountant. The aim in this situation is to plan ahead so that the deficit only applies for a specified period. This could be one or two years, but make sure the period of time is realistic and agreed to by the Board, and budget to return to a small surplus as soon as possible.

However, in framing the budget bottom line, it is very important to be as accurate as possible. Do not put a positive spin on your budget (that is, forecast a unrealistic surplus) when it's more likely that, given the previous year's peformance, there may be a deficit. This would be highly misleading information to provide the Board or Management Committee.

The budget for the overall operations of the station will be more accurate if you also budget separately for special events. For example, the line item for income from events for the whole year will be more accurate if you've carefully considered each event separately. Similarly, your forecast regarding how much money will be spent on printing or organisation for events will be more accurate if you've considered each event separately.

A budget allowance should be also made for the purchase or replacement of office or studio equipment of any substantial cost that is anticipated to be required in the coming year. This represents capital expenditure.

You can't escape the consequences of what has happened in the previous year! As you move into each new financial year, you take with you the state of play at the end of the year just finished. The factors involved are:

- the annual surplus/deficit
- any major outstanding debts or monies owed to the station
- liabilities in the form of monies set aside for specific purposes (eg. unused annual leave, long service leave).

There are two main ways to tackle the process of budgeting:

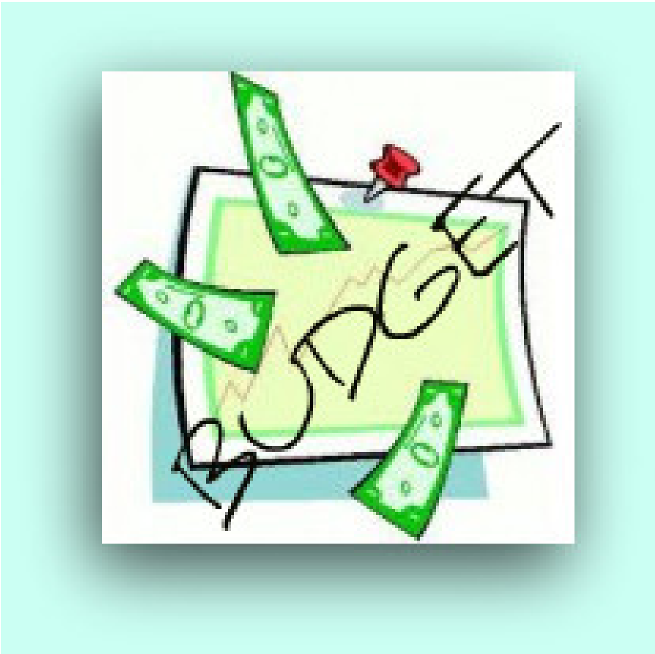
- <u>incremental</u>: this is where you simply take the previous budget and make a percentage increase to each of the items, to account for inflation or adjust amounts for any item where you know for sure that changes are going to occur. For example, this year, the station spent a lot of money on advertising because of a special event, but you know it won't need to spend that amount on advertising next year. The disadvantage of this approach is that you aren't looking critically at everything in your financial operations – you're assuming you got it right this year and that next year will be more or less the same.

- <u>zero-based</u>: this is where you start from scratch and work everything out as though you are starting the operations anew. The disadvantage of this approach is that it's very time consuming.

As so often happens in life, the middle road is the best way to follow – use past experience as your guide, but be open to new ideas and review each line item of the budget. Ask yourself questions for each category - are there different circumstances this year to last year or are there different operational requirements this year. You wouldn't want to miss out on a new income stream because you didn't think beyond current sources of income.

Be as specific as possible when listing items - avoid items such as 'miscellaneous' income and expenditure – you can always find some other way of categorising an item.

DON'T list 'petty cash' as an expense in your budget. Petty cash should always be reconciled and entered against the appropriate line item in your accounts eg. postage, taxis, catering.



Contingency planning

Setting a budget also means dealing with unpredictability. Not everything goes to plan, so an important step in the budgeting process is to plan for contingencies.

One way of dealing with this is to include a line item in the expenses section of the budget called 'Contingencies'. If you do this, don't make the figure too large, otherwise you will be tempted to record unexpected expenditure on other line items under 'contingencies'. If you've underestimated expenditure on maintenance, for example, show it in your financial records as maintenance costs rather than hiding it in 'contingencies'. If you're up front about an overrun in maintenance costs, it's there as a reminder when you're preparing next year's budget. It is preferable to think through which line items in the budget might be affected if things don't go according to plan and then increase or decrease expenditure in those line items.

Similarly, you need to look at income in the same way. For example, if a grant you're expecting doesn't eventuate, what impact will that have on the overall budget? If you've created a separate budget for the project's income and expenditure it will have less impact because your overall operating budget isn't affected. However, if you've allocated 15% of the project funds as income to help cover overall administrative costs at the station, you need a Plan B to accommodate the possibility of the grant not being received and Plan B is likely to involve cutting expenditure somewhere else.

In summary, the safest course of action with regard to budgeting is to:

Use a combination of incremental and zero-based approaches to budgeting (see notes for previous topic).

Do separate budgets for core operations and external grant projects (not doing this has been the downfall of many organisations).

Keep any line item for expenditure on 'contingencies' low.

Do two budgets - a 'best case' and a 'worst case' if there are too many unknowns with regard to income. Your Board needs to know as much as possible about potential income and expenditure if they are to make responsible financial decisions. As a manager, you too need to be realistic, since you're the one who has to oversee the finances on a day-today basis.

Monitoring and Managing Your Station's Finances

Once you have developed a budget it should be enetered into your accounting software. This makes it possible to create reports which compare the actual expenditure and income against revenue and expenditure in the budget figures. It also lets you see how well you are performing against your income targets.

The budget to actual figures should be reviewed on a regular basis each month to track your financial position and as a minimum on a quarterly basis. Regular review means you will be able to see any difficulties arising at an early stage and make adjustments if required.

There are several different formats of reports and you should talk with your accountant and auditor who can advise you on the ones you need.

There are some examples of reports on the following pages:

Budget Summary (with Unspent Budget) — Not-for-Profit Inc.

PO Box 2341

Townsville QLD 4810

Month: Sep 2014

120C, 120L, 120Q, 130L, 130Q, 200L, 200Q

Forecast: Initial Budget Version

Account tree: DOHA Grant Acquittal

Account types: Income, Cost of Sales, Expense, Other Income

Accounts are highlighted on $200 variance.

	Sep 2014 Actuals	Sep 2014 Budgets	Variance	Jul 2014 - Sep 2014 (YTD)Actuals	Jul 2014 - Sep 2014 (YTD)Budgets	Variance	Budget Annual Total	Unspent /Unearned Budget	Spent (%)
100 · Training Services (5 out of 5 project(s) selected)									
Income									
Program Funds	82,680	80,340	2,340	250,380	241,020	9,360	964,080	713,700	26%
Program Funds	82,680	80,340	2,340	250,380	241,020	9,360	964,080	713,700	26%
Total Income	**82,680**	**80,340**	**2,340**	**250,380**	**241,020**	**9,360**	**964,080**	**713,700**	**26%**
Gross Profit	**82,680**	**80,340**	**2,340**	**250,380**	**241,020**	**9,360**	**964,080**	**713,700**	**26%**
Expenses									
Administration	6,360	6,198	(162)	19,260	18,594	(666)	74,376	55,116	26%
Motor Vehicle Expenses	1,542	1,503	(39)	4,669	4,508	(161)	18,031	13,361	26%
Rent/Occupancy Expenses	289	282	(7)	875	845	(30)	3,381	2,505	26%
Other Administration Expenses	4,529	4,414	(115)	13,715	13,241	(474)	52,965	39,249	26%
Salaries and Wages (non-Board)	74,942	73,033	(1,909)	226,946	219,098	(7,848)	876,393	649,447	26%
Salaries and Wages (non-Board)	74,942	73,033	(1,909)	226,946	219,098	(7,848)	876,393	649,447	26%
Program Delivery Expenses	159	155	(4)	482	465	(17)	1,859	1,378	26%
Meetings and Events	159	155	(4)	482	465	(17)	1,859	1,378	26%
Total Expense	**81,461**	**79,386**	**(2,075)**	**246,687**	**238,157**	**(8,530)**	**952,628**	**705,941**	**26%**
Operating Profit	**1,219**	**954**	**265**	**3,693**	**2,863**	**830**	**11,452**	**7,759**	**32%**
Net Profit	**1,219**	**954**	**265**	**3,693**	**2,863**	**830**	**11,452**	**7,759**	**32%**

Budget Analysis

XYZFM	Monthly Actual	Monthly Budget	YTD Actual	YTD Budget	Variance	Annual Budget
Income						
Sponsorship	$450	1,500	7,000	10,500	-3,500	$18,000
Membership	$100	250	1,500	1,750	-250	$3,000
Donations	$200	66.66	350	466.66	-116.66	$800
On Air Fees	$350	458.33	4,000	3,208.33	791.67	$5,500
Miscellaneous Fees	$700	833.33	6,000	5,833.33	166.67	$10,000
Total Income	$1,800	3,108	18,850	21,758.33	-2908.33	$37,300
Expenses						
Accountancy	$250	$275	$2,200	$1,925	-$275	$3,300
Advertising and Promotion	$100	$41.66	$200	$291.62	$91.62	$500
Bank Fees and Charges	$150	$16.66	$150	$116.62	-$33.38	$200
CDs	$30	$25	$50	$175	$125	$300
Commissions	$100	$333.33	$2,200	$2,333.31	$133.31	$4,000
Depreciation - Other	$167	$166.66	$1,166.62	$1,166.62	$0.00	$2,000
Electricity	$320	$75.00	$600	$525.00	-$75.00	$900
Insurance	$375	$375	$2,625	$2,625	$0	$4,500
Internet Costs	$38	$37.50	$262.50	$262.50	$0.00	$450
Postage	$10	$37.50	$150.00	$262.50	$112.50	$450
Printing and Stationery	$35	$166.66	$900	$1,166.62	$266.62	$2,000
Rent on land and Buildings	$250	$250	$1,750	$1,750	$0	$3,000
Repairs and Maintenance	$100	$333.33	$600	$2,333.31	$1,733.31	$4,000
Staff Amenities	$20	$37.50	$120	$262.50	$142.50	$450
Subscriptions	$333	$333.33	$2,333.31	$2,333.31	$0.00	$4,000
Telephone	$250	$166.66	$1,204	$1,166.62	-$37.38	$2,000
Total Expenses	$2,527	$2,671	$16,511	$18,696	$2,184	$32,050
Surplus	-$727					$5,250

Managing financial risk

Taking steps to minimise financial risk runs through every aspect of financial management – from planning, budgeting and daily financial operations to monitoring and evaluating the station's financial management processes.

Risk management identifies what could go wrong and the financial impact this would have on the station's operations, and then devising strategies to minimise the impact the risk would have if it materialised.

Potential risks could be:

- a drop in sponsorship revenue
- a drop in the number of subscribers or members
- slow payers and bad debts
- falling behind on completing projects, which impacts on cash flow and jeopardises the chance of obtaining a grant from that funding source in the future
- relying on loans to maintain cash flow
- poor cash flow forecasting
- inefficient record-keeping
- fraud or theft by employees or volunteers
- loss or damage to property damage through fire or robbery
- equipment failure
- conflict of interest eg. a board or staff member standing to gain financially from involvement in an aspect of the station's operations.
- Lack of financial management skills of staff and directors

A strategy for minimising risk in relation to loss or damage to property damage through fire or robbery, is to have adequate insurance cover. Strategies for minimising the risk of relying on loans to maintain cash flow could include placing greater emphasis on doing a cash budget each year and setting a limit on how far the station is prepared to go into debt.

Employer responsibilities

One of the most important parts of managing finances is the payment to staff and external contractors. There are issues of compliance and all records of payments must be kept rigorously.

Your obligations include:

- registering for pay as you go (PAYG) withholding tax
- withholding amounts from salary and wages and pay the withheld amounts to the ATO when you lodge your monthly or quarterly BAS returns
- contributing to your employees' superannuation
- having workplace injury insurance cover
- complying with payroll and fringe benefits tax requirements.

PAYG

The amount to be withheld from an employee's pay depends on the amount they are paid and whether they have given you their tax file number (TFN). The Tax Office publishes tax tables that list the amounts to withhold from weekly, fortnightly and monthly pays. These are available from the Tax Office by phoning 1300 130 248 and free from most newsagents.

You are also required to give each employee an annual payment summary of the amount paid and the tax withheld from them during the year. They need this to complete their personal income tax return. You also need to provide an annual report to the Tax Office detailing withheld amounts.

Contractors

If you pay individual contractors for services, eg. Technical support, cleaner, IT consultant, web designer, graphic designer, ask them to include their ABN on invoices. If they don't, you are required to withhold an amount from the payment and send this to the Tax Office as you do with payments withheld from employees. The withholding rate for 'no ABN quoted' is 48.5%. You are also required to give contractors an annual payment summary for their personal tax purposes.

Superannuation Guarantee

Under the superannuation guarantee legislation, you must pay an amount equal to 9%[1] of an employee's salary into a superannuation fund of the employee's choice. There are some exceptions to this requirement, which are detailed in the ATO booklet, *Tax basics for non-profit organisations*.

Fringe benefits tax (FBT)

Fringe benefits are rights, privileges or services provided to an employee by an employer. One of the most common fringe benefits is a car, which generally becomes a fringe benefit when it is owned or leased by an employer and made available for the private use of an employee. If the employer's car is garaged at an employee's house, it is treated as having been made available for private use.

Some benefits are exempt from FBT – these include:

- laptop computers (one per FBT year per employee)
- mobile phones primarily used in employment
- most minor benefits valued at less than $100
- some taxi travel.

If you provide fringe benefits to employees, you could be subject to fringe benefits tax (FBT). Some fringe benefits are exempt from FBT and most non-government income tax exempt organisations will qualify for a rebate (subject to capping) if they have to pay FBT. Employers must assess their own liability for FBT annually. This can be complicated, so do it in consultation with the accountant to avoid any nasty surprises from the Tax Office.

Workers compensation insurance

You must have a workplace injury insurance policy if you pay over a certain amount each year in remuneration (this includes wages, benefits and superannuation). Contact the WorkCover agency in your state or territory for information on how to take out cover.

Payroll tax

Payroll tax is a state (as opposed to federal) tax and is generally payable by an employer on salary and wages paid to employees working in Australia. The rate of payroll tax varies from three to six percent of salary and wages, depending on in which state the employee is performing their duties in. Consult your accountant regarding your payroll tax obligations as payroll tax only applies above a relatively high payroll level and varies from state to state.

Complying with Australian Tax Office (ATO) requirements: GST and income tax

The Goods and Services Tax (GST) is a broad-based tax of 10% on most goods, services and other items sold or consumed in Australia. Everyone pays GST when they purchase something which is subject to GST.

Businesses that are registered for GST also collect it. They can then offset the GST they pay when purchasing goods and services against the value of the GST they have collected by supplying goods and services. If a commercial business has a turnover of more than $50,000 a year, it must register for GST. The threshold for non-profit organisations is $150,000. So, if your station's turnover is less than $150,000 you are not required to register for GST, but you can choose to if you want to.

If your station is registered for GST, you must complete quarterly or annual Business Activity Statement (BAS) returns. The frequency with which you submit BAS returns depends on your income. You can register with the **Australian Tax Office** (ATO) to complete BAS returns online or they can be submitted in paper form either by you or your accountant. The necessary forms are provided by the Tax Office. If the amount of GST you have paid on purchases is less than the amount of GST you have collected from sales, you pay the difference to the ATO when you lodge your BAS, along with any other payments such as PAYG tax withheld for employees. All standard accounting software packages incorporate GST record-keeping, so it's easy to generate reports calculating GST payments/refunds due with each BAS. It's important to complete your BAS statements on time – otherwise you'll find yourself facing a late fee.

Irrespective of whether you are registered for GST, your station should have an Australian Business Number (ABN) – this number is used to identify you in dealings with the Tax Office and other government agencies. The following reasons for a non-profit organisation having an ABN are given on the ATO website (www.ato.gov.au).

A non-profit organisation can use its ABN to:

- apply to the Tax Office for endorsement as a **Deductible Gift Recipient** (DGR) or **Income Tax Exempt Charity** (ITEC)
- register as a pay as you go (PAYG) withholder
- register for goods and services tax (GST) and claim input tax credits
- conduct enquiries with the Tax Office on other taxes, including fringe benefits tax
- deal with investment bodies, and
- interact in future with other government departments, agencies and authorities.

GST and community radio activities

In the following areas, you collect GST and on your BAS you enter revenue from these sources as GST inclusive sales:

Sales of merchandise (T-shirts, pens, CDs, mugs, stubbie holders etc.). Receipts should indicate that the price includes GST.

Sponsorship announcements: you are providing a service to sponsors, so invoices must include GST.

Subscribers: annual subscriptions are subject to GST if subscribers derive a benefit from their subscription, eg. if their subscription entitles them to goodies such as the station magazine, CDs or member-only discounts at stores and station events.

Donations, on the other hand, are GST exempt. Something is a donation or gift if the person giving the donation receives no material benefit. Donations received during radiothons would normally fall into this category, but seek expert advice from your accountant or the ATO before proceeding on this basis. Revenue from donations is entered on your BAS as ‘Other GST-free sales’.

Income tax

Even though your station is a non-profit organisation, it may still be required to pay income tax. There is a self-assessment process for determining whether you belong to any of the following categories of non-profits that are exempt from paying income tax:

- community service organisations
- cultural organisations
- educational organisations
- employment organisations
- friendly societies
- health organisations
- religious organisations
- resource development organisations
- scientific organisations, and
- sporting organisations.

Go through the self-assessment process with your accountant to determine whether the station is exempt from paying income tax. You don't want to be caught out because you fudged answers to questions! If you decide you're exempt, you don't need to advise the Tax Office, but make sure you keep evidence of the self-assessment process and review your status each year to make sure the station is still exempt.

[Insert further reading/research icon] **ATO resources**

The ATO provides a range of free resources to help people understand compliance issues. We recommend that you download *Tax basics for non-profit organisations* and *Income tax guide for non-profit organisations* from **www.ato.gov.au** – select the ‘For non-profit’ from the left navigation, then ‘Guides’ from the drop-down menu.

Even though there is a lot of free information from the ATO, you should check with your accountant to make sure that you are doing everything right in terms of complying with GST requirements.

Managing assets

The assets are all the physical items that the organisation owns, and because they are worth money, they are calculated as part of the value (assets) of the organisation.

Therefore, it’s important to keep track of all your station’s assets so that each year your accountant can note their value in the balance sheet and calculate the depreciation for the annual financial reports. You do this by maintaining an up-to-date assets register, a template for which is on the templates CD you’ve been given (AssetRegister.xls).

You don’t need to record details of every item of equipment the station has purchased; for example, a printer worth $200. Most organisations have an asset value threshold, below which the items are not valued.There are also Federal accounting standards and laws which determine, by cost, what items should be included on assets registers and their rate of depreciation. Check with your accountant to see what he/she regards as the threshold value of items to be included in the organisation’s asset register.

You do need to include leased assets in the register, but not equipment that is rented, because the station will never own it (rental payments are an expense).

The asset register should be checked at least once a year. If you check it more regularly, it becomes part of your overall financial risk management strategy, because you’ll know quickly whether anything has gone missing.

Managing the audit process

Associations are incorporated under State and Territory Associations Incorporation legislation, which is not administered by ASIC, but by the various state authorities. As legislation differs in each state or territory, it is difficult to outline detailed requirements for incorporated associations, but basically an incorporated association needs to keep proper accounting records and, in some states prepare, have audited and lodge financial statements.

If you need an audited statement of the station's finances for your Annual General Meeting (AGM), the deadline for getting the audited statements is usually the date for mailing out AGM papers to members. Make sure you allow enough time for the auditor to complete the task and that he/she knows the deadline for delivering the statement to you.

You may be required under funding agreements, incorporation legislation or your constitution to conduct an audit once a year. Not-for-profit company structures (a company limited by guarantee) are required to submit and annual return and audited accounts to ASIC each year. An audit certifies that the accounts are in order, and gives the final figures on income and expenditure for the financial year. The station may decide when it will have its audit done by setting its own "financial" year. This will generally happen automatically in the process of incorporation, when you will have to nominate the financial year. Most organisations use a standard financial year ie 1 July to 30 June. .

Your audit may need to be done by a practising accountant qualified to certify an audit who is *not* a member of your organisation. It is a good idea to look for someone who is familiar with not-for-profit organisations and government funding. You should use the same auditor each year and changing an auditor can only occur by resolution at the AGM.

Auditors cost money, and their fees are based (partly) on how much work they have to do. The more preparation you do, the easier (and cheaper) their work will be. Preparation of books should include the following:

Filing of all primary records. Shoe boxes full of unfiled receipts and plastic bags of unsorted paper work will cost you money!

All bank reconciliations for the year, completed and accurate (and filed, if not recorded in the cash book).

All orgnisational records such as changes in Directors or office holders.

Once financial records are in order and assembled the auditor will require:

- cash payments and receipts books[2]
- all used cheque stubs, deposit books, transaction reports
- bank statements for the entire year
- copies of your bank reconciliations
- bank statements for any other bank accounts (e.g. high interest accounts)
- copies of all invoices and deposits including any “accruals” and “prepayments”, that is, any large amounts still owed or owing or large bills paid in advance.
- monthly and quarterly financial reports (generally P&L statements)
- copies of any funding advice notifications
- organisational records including Board minutes and staff leave and entitlements (if applicable)

The auditor should be provided with a copy of the current guidelines from any funding body or any other requirements for audited statements.

The auditor should provide a draft set of accounts to be reviewed by the station and return all financial records and documentation. If you see parts

[2] These can be generated in your accounting software – in MYOB it’s the ‘General ledger (detail)’ report.

that do not look “right”, or the auditor has not laid it out according to your instructions, contact them and discuss it. You can ask for the layout to be altered, and you should always have them explain anything you do not understand.

When you look at your audit, two things will concern you:

- what has been spent under each budget item and whether the auditor’s figures agree with yours - any difference needs to be discussed with the auditor
- how much surplus or deficit you have in real terms at the end of your financial year.

There are three main parts to your audit:

1. the statement of income and expenditure.
2. the balance sheet.
3. the auditor’s declaration that everything is in order.

1) The statement of income and expenditure:

- deals with income and expenditure to all your bank accounts (ie. includes your high interest account)
- only deals with transactions that actually happened in the year being audited
- gives a “balance” at the bottom that tells you the cash surplus or deficit for the year and any equity (including reserves and assets).

This surplus or deficit is usually not the same amount that you have left in the bank (or overdraft if you’ve overspent). Nor is it necessarily the same as the surplus or deficit in your budget for the year. It is the Profit & Loss balance for the full financial year taking into account all liabilities.

It may also have an adjustment for the timing of your funding. If you have received funds during the year for the period of time after the end of the year, your auditor should indicate “funding in advance”. This would happen if -

- you received your next quarter’s cheque before the end of the current quarter (which you hope is the case);
- your financial year is different from your funding year.

2) The balance sheet

This represents the total worth of the organisation. Again, the “balance” is not necessarily the real cash situation of the group, as the value of capital assets and depreciation is included. The easiest way to approach the balance sheet is to think of it as the summary of the organisation’s value and financial position at the end of each financial year.

3) Auditor's certificate

This is the auditor’s declaration that everything is in order.

Fiduciary Responsibilities

Ensuring your organisation abides by its Fiduciary Responsibilities

Fiduciary responsibilities rest with the directors of an organisation. It is the responsibility of directors to act honestly and in good faith and to the best of their ability in the best interests of the organisation or company.

It is also a director's duty to ensure the organisation acts in accordance with the Corporations Law and all other laws governing an organisation opearating in your State or Territory and acts honestly and credibly in all dealings with the organisation and its stakeholders including members.

Given the recent debate about corporate governance and fiduciary duties in the wake of numerous corporate disasters, there is a greater focus on the need for directors of all organisations to carry out their fiduciary duties.

What are some examples of fiduciary responsibilities?

Directors hold a position of trust. They make decisions that affect the future of an organisation. Large amounts of money can be involved with various appointments, grants and contracts, making it vital for directors to act and make decisions that do not suit their own agendas, but are made in good faith and with the primary duty being to the organisation. The community should be confident that a director will act in good faith and always in accordance with the law.

They should also:

not take advantage of their position to further their own needs;

be honest and industrious;

never use information gained through their privileged position to advantage a friend/associate outside the organisation;

provide adequate information to authorised persons or members when requested and not mislead them in any way;

disclose any potential conflict of interest;

act with care and diligence;

maintain confidentiality of information that is only made available to the decision makers;

never knowingly place the organisation in a potentially litigious position; and

ensure all decisions made are to the advantage of the organisation or group, not the individual or any particular interest group.

ensure they act according to the constitution of the organisation.

As a board or committee member am I liable for losses?

Please note: When it comes to being sued, or being held personally liable for some action or lack of action, legal counsel should always be sought. The information below is provided simply as a guide and should not be relied upon as legal advice.

Just like any company, incorporated community groups are subject to the law. These take various forms but there are responsibilities for directors at both commonwealth and state level. If there are breaches of these laws, financial and other penalties can be leveled against the organisation and directors may also be held personally liable.

If community groups or associations register to be incorporated, then there are certain legal advantages providing the group accepts certain legal responsibilities. Incorporation is a system of state or territory government registration. It is voluntary and enables registered groups to be recognised as a separate entity to its members. It therefore offers some protection for those in decision-making roles from any debts or liabilities sustained by the group. Although to be protected as an incorporated association, the organisation must not make a profit for its members – a surplus is allowable but that surplus should not be able to be disbursed to any individual instead this would be held as retained earnings and/or invested back into the organisation.

Incorporation covers the organisation; if an individual member acts illegally or negligently they can still be personally sued for losses and damages.

All organisations need to abide with the relevant legislation of the commonwealth and the state, which include:

occupational health and safety

trade practices

equal opportunity

fair trading

environment protection

What can I do to ensure that we meet our fiduciary responsibilities?

For community groups to ensure they are run legally, responsibly and ethically, they need a clear and defined organisational structure and a clear and defined mission and all Board members need to be clear about their responsibilities.

Board members should be open and accountable and put the needs of the organisation before their own.

To ensure fiduciary responsibilities are met:

- implement guidelines detailing appropriate behaviour for board members and outline penalties for any breaches;
- ensure board members are aware of all relevant commonwealth and state laws that govern the organisation;
- review the board's performance to ensure the group sticks to its mission;
- make sure there is accurate and clear financial reporting - and that your finances are audited each year in accordance with legislative requirements.
- ensure the board has complete information on which to base financial and other decisions.
- set values and ethical guidelines;
- determine long-term goals, and make the board account for changes in strategic direction;
- provide board handovers and training for new board members; and
- try to ensure that there is a broad range of skills at board level.

Being a director does not simply mean abiding by state and commonwealth laws. These days, people are also measured by their ethical standards. Some actions may fall within the law, but that does not necessarily mean they will be accepted as "good" decisions by an organisation or by society in general.

This is why is important to clearly state the organisation's mission and decide very early on what actions the community group will take to achieve its goals. Is money from any source OK? Can any group/person hire your facility and promote their cause on site? There are numerous ethical issues that while not illegal are a major part of deciding if a director is working in the best interests of the organisation.