

Association Finances

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What this session will cover

1. What accounting principles need to be understood e.g. what is a Balance Sheet?
2. Why you must use an accounting software package rather than spreadsheets
3. Advantages of Activity Based Costing, otherwise known as Cost Centres
4. Putting together a logical Budget - and tips for engaging your Board/Committee
5. Reports you need to provide to the Board/Committee - and why they don't need all the details
6. Who should do the finances? Volunteers? Bookkeeper? Treasurer? Expert?



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1.1 Not-for-Profit is misleading

- The term “not-for-profit” is a misnomer
- We are “not-for-loss” as well
- USA term “nonprofit” is worse
- Associations & charities can and must make profits (sometimes called surpluses)
- There can be no distribution or dividend to members as members



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1.2 Always start with Balance Sheet

ASSETS		FINANCE & AUDIT SUB-COMMITTEE ASKS
Bank	\$100,000	Show reconciled statement. Who are signatories?
Monies owed to Association	\$50,000	Is that all we owe?
LIABILITIES		
Loan	(\$50,000)	What are terms of repayment?
Invoices not yet paid	(\$20,000)	Is that all we owe?
= ASSETS less LIABILITIES	\$80,000	
EQUITY		
Opening Balance	\$30,000	Does this equal the year end external audit?
Current Year Earnings	\$50,000	Is this the same as P&L shows?
= NET WORTH	\$80,000	



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1.3 Use the equity formula

YES ☺

ASSETS	\$150,000
Less LIABILITIES	\$70,000
NET ASSETS	\$80,000
EQUITY	\$80,000

NOT ☹

ASSETS	\$150,000
LIABILITIES	\$70,000
Plus EQUITY	\$80,000
FUNDS	\$150,000



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1.4 Some accounting basics

- Start with Balance Sheet: “financial snapshot” of the organisation **at a point in time** and index to reports
- 1st formula is Assets less Liabilities = Equity
- Equity means “what we are worth”
- Simplified, equity gets accumulated by adding up all the profits over the years
- 2nd formula is Income less Expenses = Profit/(Loss)
- Profit and Loss Statement shows Income less Expenditure = Profit (or Loss) **over a certain period** [usually “year to date”] ... P&L should be called I&E!



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1.5 Equity is accumulated profits

	Year 1	Year 2	Year 3	Year 4	Year 5
Income	\$100,000	\$150,000	\$200,000	\$300,000	\$200,000
Expenditure	(\$80,000)	(\$100,000)	(\$200,000)	(\$340,000)	(\$150,000)
= Profit/(Loss)	\$20,000	\$50,000	\$0	(\$40,000)	\$50,000
EQUITY is Accumulated Profits	\$20,000	\$70,000	\$70,000	\$30,000	\$80,000



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2. Accounting software packages

- You must use good accounting systems!
- Use accounting software eg. MYOB or online
- Know how to use your accounting software!
- Get clear and relevant reports out on time
- Excel spreadsheets are not designed to produce the reports that you need and to allow reconciliation
- Reconciliation is confirming transactions to other documents



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3.1 Advantages of “Activity Based Costing”

- Regular P&Ls look at the TYPE of income or expenditure
- Activity based costing looks at the REASONS the money has been earned or spent
- Use Activity Based Costing (“cost centres”)
- It is an extra - sometimes better - look at profit
- Salaries need to be allocated to activities



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3.2 Standard P&L

PROFIT & LOSS	
INC - Members	\$60,000
INC - Regos	\$100,000
INC - Corporate	\$40,000
EXP - Salaries	(\$50,000)
EXP - Catering	(\$50,000)
EXP - Printing	(\$50,000)
PROFIT	\$50,000



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3.2 Compared to Activity Based Costing

PROFIT & LOSS	
INC - Members	\$60,000
INC - Regos	\$100,000
INC - Corporate	\$40,000
EXP - Salaries	(\$50,000)
EXP - Catering	(\$50,000)
EXP - Printing	(\$50,000)
PROFIT	\$50,000

ACTIVITY BASED	COSTING
Membership	\$50,000
Conference	\$70,000
Magazine	(\$10,000)
Board	(\$20,000)
Admin	(\$40,000)
PROFIT	\$50,000



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3.3 More on Activity Based Costing

- In MYOB (as an example), the person entering the transaction to state TWO things:
 - The account code (registration, subscription, airfare, etc) which is the TYPE of income or expense
 - The Job Code (annual conference, Adelaide Christmas drinks, annual renewal)
- Directors on the Board love this information and, if done correctly, they say “aha, now I understand”



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4.1 Budgets = your profitability plan

- Giving credit to Governments of all political persuasions, they pay attention to the Budgets
- Associations start with annual Strategic Planning Day
- *Without knowing plans first, how can you budget?*
- Develop “activity based costing” budget from Plans
- Make it clear what the budget is and **don’t change the original budget figure**, or budgets will be ignored
- Yes, **projections (or forecast)** should be made throughout the year to avoid unpleasant surprises



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4.2 Budget tip = Show financial history

- This is a reality check and puts the current situation in context
- What was our equity in 1970? 1980? 1990?
- Equity every year since 2000 should be known and can be stated at AGMs
- Some Boards are stuck in the past when the association was broke
- **Including levels of Income over the years is useful as well, and profit figures over the years**



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4.3 Example of Financial History

1990	1995	2000	2005	2010	2015	2016 Proj'n	
\$500K	\$700K	\$1.0M	\$2.0M	\$3.0M	\$3.2M	\$3.5M	Equity
\$1.0M	\$1.5M	\$2.0M	\$2.2M	\$3.0M	\$3.3M	\$3.5M	Income
\$50K	(\$30K)	\$80K	\$100K	\$200K	\$200K	\$300K	Profit/(Loss)



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4.4 History PLUS Budget

1990	1995	2000	2005	2010	2015	2016 Proj'n	2017 Budget
\$500K	\$700K	\$1.0M	\$2.0M	\$3.0M	\$3.2M	\$3.5M	\$3.8M
\$1.0M	\$1.5M	\$2.0M	\$2.2M	\$3.0M	\$3.3M	\$3.5M	\$4.0M
\$50K	(\$30K)	\$80K	\$100K	\$200K	\$200K	\$300K	\$300K



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4.5 Budgets = smaller budgets added up

	Member ship	Events	Lobby	Communi- cations	Board	Admin	TOTAL
Subs	\$100K						\$100K
Regos		\$200K					\$200K
Print	\$10K	\$10K		\$20K			\$40K
Venue		\$80K					\$80K
Salary	\$10K	\$20K	\$10K	\$10K	\$10K	\$20K	\$80K
PROFIT	\$80K	\$90K	(\$10K)	(\$30K)	(\$10K)	(\$20K)	\$100K



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4.6 Not long tall budgets

Account	\$
ihjfhpij	2341745
gtrghwr	4354355
gererger	5453455
rgtrhju	5675677
zyhjlpf	454553
jp,luluik	773093
gfgbfbf	350509
fgbjkkyu	34058
ythhh	88472
trhjlo	534534
uilo9l	53453
tyjhhtjy	545435
TOTAL	\$466,498



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4.7 Tips for engaging Board/Committees

- Show them the history – make them think about the legacy from *their time* on Board
- Have a Strategic Planning Day to decide on plans – *without having a plan, how can you decide on what to make or spend?*
- Ask the simplest question first: should we make a profit or loss? Then ask them for more
- Dataproject the figures – & change them live!



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5.1 Reports to provide to the Board/Committee

1. Always start with the **Balance Sheet** eg “*are we solvent?*”
 2. Then show them the **P&L**, eg “*we spend most of our money on salaries*”
 3. Then show them the **Jobs Summary** (using Activity Based Costing) eg “*the printed journal is costing us too much money*”
- *There is one figure the same in all 3 reports: the Year to Date (YTD) profit.*



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5.2 Why Boards don't need all the details

- Ideally, associations and charities will have a distinction between governance (by the Board) and management (by the staff)
- Boards should meet every 3 months for a day
- They need to be vigilant and monitor the performance of the charity or association
- *Boards do need to concentrate on the “big picture” so why confuse them with little details?*
- Obviously, NFPs need honesty & transparency



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5.3 Reporting on Finances

1. Keep Board reports simple
2. Activity based costing is valuable
3. Present profit results and balance sheet in broad categories (detail available)
4. Income/expenditure against budget, forecasts, previous year - explain material variances
5. Cash flow forecasts
6. Provide key financial and non-financial indicators e.g. Number of new members, returning donors, member retention



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6.1 Who should do the finances?

- Volunteers? Bookkeeper? Treasurer? Expert?
- Employ appropriate staff:
 - bookkeeper to enter data
 - contractor to help with tricky transactions
 - external auditor to verify
- Like in other matters, use appropriate external financial advice



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6.2 Replace Treasurer with “Finance & Audit Sub-Committee”

- Finances are too important to entrust to one person
- Having a Treasurer means some Directors switch off as they trust their volunteer colleague
- Replace Treasurer with Audit/Finance/Risk sub-committee with minimum of 3
- Include non-Directors on this sub-committee



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6.3 When “two signatories” are necessary – and usually they are not

- Association finances need to be controlled
- Use different accounts at different banks
- Reserves should be ‘locked away’ with 2 signatories in “Investments account”
- Deposits for membership, registrations, sponsor goes into “Deposits account”
- Staff is given “Operating account” to pay bills
- When “Ops A/c” funds low, Board tops it up



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Levels of AF Membership

1. Journal and eNews
2. Free events and member event discounts
3. Benchmarking surveys
4. Policy and advocacy
5. Member advice helpline
6. Local and international networks
7. Board and staff training (Silver and Gold)
8. Governance and constitution review (Silver and Gold)
9. Financial benchmarking (Gold)
10. Strategic planning discount (Gold)



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Thank you!

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