FINANCIAL REPORTING POLICY

Policy number	FINPOL021	Version	V.020317
Drafted by	J Rakadrudru	Approved by Board on	
Responsible person	J Rakadrudru	Scheduled review date	31/01/2020

Policy Financial statements will be prepared in a timely manner at the end of each month to document the financial position of the organisation for stakeholders.

Definitions The ***Statement of Income and Expenditure*** is a financial report measuring the surplus (profit) or deficit (loss) of the organisation over a period of time. This is done by comparing the organisation's income against its expenses over a period of time. It is sometimes called a *Statement of Financial Activity.*

The ***Balance Sheet*** is a financial report listing, at a point in time, what the organisation owns (*Assets*) on one side and what it owes (*Liabilities and Equity*) on the other side. It is sometimes called a *Statement of Financial Position.*

Statement of Income and Expenditure

- Data for the Statement of Income and Expenditure is drawn from income and accounts in the organisations financial records, e.g. Cash Book.

- A surplus or deficit represents the difference between income and expenditure. If the income is greater than the expenditure for a given period, the difference is a surplus. If the expenditure is greater than the income for that period, the difference is a deficit.

Balance Sheet

- The *Balance Sheet* comprises assets, liability and equity.

- Assets are normally classified as:
  - Current assets, e.g. Bank, Accounts Receivable
  - Non-current assets, e.g. Long-term investments, Property, Plant and Equipment

- Where depreciation is recorded as an expense, the following account is normally shown as a reduction of the relevant asset:
  - Accumulated Depreciation

- Liabilities are normally classified as:
  - Current liabilities, e.g. Accounts Payable.
  - Non-current liabilities, e.g. Long Service Leave

Equity represents the accumulated surplus or deficit since the inception of the organisation. This is often called "Members' Funds" or "Members' Equity".

Procedures

Budgets, cash flow forecasts and monthly financial reports are used to plan and monitor the financial position of the organisation.

These important financial tools can be prepared manually or much more commonly are prepared through a computer software package. However, regardless of how they are prepared, the principles to consider when preparing them are the same.

Budgets

A budget is a way of thinking ahead financially. It predicts the expenses you expect to incur and the income you plan to bring in. Budgeting is simply the process of planning your organisation's finances for a specific period, usually 12 months. It is intended to minimise the risk of being faced with nasty surprises and to provide a baseline for financing your service activities.

- The process of preparing the organisation's budget should involve everybody who's going to be affected by it.
- The program staff must work closely with the administrative staff and the Manager right from the beginning of the budget cycle.
- Begin by reviewing previous year's budget in comparison with your actual results in that year as per the financial statements.
- What can be learnt from how the estimates for last year's operations went?
- Did the running costs drift up?
- Are there any surprise costs that were not budgeted for in the previous year?
- Check the strategic plan and business plan against the reality of the budget.
- Did the budget allow for the achievement of objectives comfortably? Was there scope for savings? Are there any changes that could have reduced costs?
- Do these year's plans include any new activities that are expected to yield increased costs?
- Consider each item against last year's. Consider external changes that would alter this such as new tax laws, rising prices, changed practices.

Laying out the budget

1. What are the things you spend your money on? (Expenditure)

   The standard major expenditure items are:

   Salaries, equipment, rent, electricity/gas, telephone, stationery, photocopying/printing, insurance, advertising, travel, sundries (anything that doesn't fit under the other headings). Put in separate line items where they represent significant sums.

2. How do you bring money into the organisation? (Income)

   The standard major income items are:

   Grants, donations, charges for services, and memberships. Add your own special categories to these.

   A surplus or deficit represents the difference between projected income and expenditure. If the income is greater than the expenditure for a given period, the difference is a **surplus**. If the expenditure is greater than the income for that period, the difference is a **deficit**.

Example of a budget build-up

Income	Last year	This year	Next year (budget)
Grants			
Membership subscriptions			
Interest on investments			
Sales			
Donations			
Fundraising			
Subtotal Income			
Expenditure			
Salaries and wages			
Rent			
Client support services			
Telephone			
Computer expenses			
Postage			
Subtotal Expenditure			
Projected surplus (deficit)			

You can have one budget for the whole organisation, with headings like the ones given above, or you can have separate budgets for each section or each project and a combined budget to sum them up. Combined budgets are simpler to run, but you can overlook trouble developing in a particular area if the actual financial results are spread across the whole organisation.

Cash flow forecasts

Cash flow forecasts help you plan the likely timing of your receipts and payments over the year. Once this information is projected, you will then be able to compare your actual receipts and payments with these forecasts and it will help you to ensure you have enough money to pay the bills. These bills include the day-to-day running expenses, such as salaries and superannuation, as well as large sums predicted and planned for in your annual budget.

A cash flow forecast usually has the following characteristics:

- It is a picture of your predicted flow of funds for a particular period, usually month by month for the year ahead.
- It allows you to predict what cash you think will come in and go out, as well as the timing of those receipts and payments.
- It is an extension of your budget and you should prepare it as soon as your budget for the year has been finalised and approved.

The easiest way to develop a cash flow forecast is to start with previous budgets and actual cash receipts and payments as per your cash books. Your cash flow forecast must also include estimated bank balances for easy comparison with your actual bank balances. The closing balance for each period is the opening balance for the next period.

Common elements of a cash-flow forecast are:

- Cash in – grants, sale of goods and services, subscriptions, return on investments, donations, fund raising activities, sale of assets and tax refunds.
- Cash out – operating activities, such as staff salaries and on-costs, telephone bills, power bills, rental, travel, stationery, printing and copying, postage, tax, equipment and special project costs.

Example of a month by month cash flow forecast

Estimated income	Total budget	Month		
		January	February	March - December
Grants	120,000	30,000		
Membership subscriptions	1,000	-	200	200
Interest on investments	1,000	100	100	100
Sales	5,000	500	200	300
Donations	1,000	-	100	100
Fundraising	1,000			
Total income	129,000	30,600	600	700
Estimated expenses				
Salaries and wages	96,000	8,000	8,000	8,000
Rent	12,000	1,000	1,000	1,000
Client support services	11,000	1,200	2,000	1,000
Telephone	4,000	200	300	400
Computer expenses	3,000	500	200	500
Postage	2,500	200	150	300
Total expenses	128,500	11,100	11,650	11,200
Surplus/(Deficit)	500	29,500	(11,050)	(10,500)
Opening balance (Bank a/c)	12,500	13,000	42,500	31,450
Closing balance (Bank a/c)	13,000	42,500	31,450	20,950

Financial reports

The Treasurer of the organisation should present the monthly financial reports to the Management Committee each month. It is good practice to provide these reports to at least the President/Chairperson prior to the meeting to allow him or her to read and understand them before they are presented to the rest of the Committee.

The report provides a snapshot of the organisation's actual financial position in comparison to what was budgeted at that particular point in time. The Treasurer needs to highlight any significant matters (variances or differences between actual and budget) to draw the Management Committee's attention to these issues.

The financial report should include:

1. The Profit and Loss Statement
2. The Balance Sheet Statement
3. The Budget Variance Report
4. The Cashflow Statement (Optional)
5. Working Papers (Account Reconciliations; File Copy)

Although the financial reports are usually combined for the whole organisation, in some cases the organisation may wish to present separate reports for specific program areas funded from different funding bodies. Following is an example of a monthly financial report.

Financial Report for Month Ending

Budget for year		This month		Year to date		
		Actual	**Budget**	**Actual**	**Budget**	**Variance**
	Income					
	Tithes & Offering					
	Sales					
	Interest on investments					
	Grants					
	Donations					
	Fundraising					
	Subtotal income					
	Expenditure					
	Allowances					
	Lease					
	Client support services					
	Telephone					
	Computer expenses					
	Postage					
	Subtotal Expenditure					
	Surplus/(Deficit)					

Authorisation

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Chairman Date