Financial Governance for Not For Profit Organisations (NFPs)

Organisations operating in the social sector are established with the aim of enhancing life in some way e.g. providing food and shelter for the homeless, delivering disability services, running a sporting club or arts association.

To be able to do this efficiently and in a sustainable way, there needs to be an understanding of the regulatory framework that the organisation works within as well as the financial position of the organisation. Consequently it is critical for anyone involved in decision making in either a board or management capacity within the NFP to understand their role and obligations.

In this webinar we look three main areas of financial governance for NFPs:

1. Compliance
2. Record Keeping
3. Financial Statements

**Compliance**

Strong effective financial governance starts with keeping good records. They need to be accurate, timely and understandable and allow accurate Financial Statements to be produced and audited in order to fulfil regulatory requirements.

Having good records and understanding the financial position on an NFP puts the organisation in the best position possible to achieve its core social purpose.

With regards to compliance, the NFP sector and organisations that operate within in are governed by several bodies: the key ones are the Australian Taxation Office (ATO), the Australian Securities and Investments Commission (ASIC) and the Australian Charities and Not-for-profits Commission (ACNC).

**Record Keeping**

There are several types of records an NFP needs to maintain including:

- **Cash Records.** This is a record of all incoming and outgoing money. It covers the who to, who from, how much, what for and when of every payment received or made.

- **Asset Register.** This records all vehicles, equipment, furniture and more. It details what the item is, when it was purchased, how much it cost and where it’s located.
Financial Statements

An accountant prepares the financial statements needed for taxation and auditing purposes. Whilst these statements are important for regulatory purposes, they are also a valuable representation of an NFP’s financial performance and position. This information is vital as it indicates whether an NFP is financially sustainable. Two of the most important financial statements are:

- **Balance Sheet.** This is a ‘snapshot’ taken at a single point in time, commonly at the end of the financial year. It records the assets the organisation owns, and the liabilities and equity used to pay for those assets.
- **Profit and Loss Statement.** Also known as the Income Statement or Statement of Financial Performance. This records the income that an organisation has collected, the expenses they’ve incurred and the surplus or deficit generated over a specific period of time, generally a financial year.

The Financial Operating Cycle

This is a model that illustrates how the financial operations of an organisation work. It shows how an organisation sources and uses its financial resources to generate income and provide its service. It also shows that when a surplus is achieved then this is retained by the organisation and used to either reduce debt or increase assets.

![Financial Operating Cycle Diagram]

2 uses of Surplus
1. Reinvest in Assets
2. Reduce debt

Efficient management of the Financial Operating Cycle enhances an organisation’s ability to be self-sustaining and to continue to provide its services to the community.

*Any information provided is of a general nature. Before making any decisions please ensure you seek appropriate professional advice to ensure it is appropriate to you.*