Environmental Groups and Money – What You Need to Know.

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26 October 2017

Content

- Financial Statements:
  - What they are and what they tell you
  - Meaningful accounts
- Accrual/Cash Accounting
  - Grants: accrual or cash?
- Budgets and ongoing reports
- Internal Controls
- Ideas for questions to ask

Christchurch Community Accounting

CCA

- Affordable access to accounting services for NFPs
- Training/education of NFPs in accounting, admin, financial management etc.
- About 310 clients (August 2017)

Christchurch Community Accounting

CCA

- Third-Party funding provides about 45% of our cash (down from 70% in 2013)
- ‘Social’ fee structure.
- Surplus from work with larger (and out-of-area) groups is applied to smaller groups.

Christchurch Community Accounting

CCA

We believe it is vital that managers/ committee members have a sound understanding of financial matters.

- Ability to create useful and timely financial reports.
- Enough financial literacy for sound decision-making.

Why do you need financial systems?

- Without the ability to generate reliable financial information, and the financial literacy to understand this information, an organization **will not survive** in the long term.
- Many organisations have **legal or contractual obligations** to maintain accurate records and produce annual financial reports.
- Most environmental groups have **moral obligations** to spend certain monies in a certain way.
- While fraud is not common, when it does occur it has high impact on the organization or project. Good financial systems should protect you from the big stuff.

Internal needs vs external reporting.

- Your accounting system should primarily meet your **internal needs for information** for good decision-making.
- External stakeholders may have information needs as well. Examples of **external stakeholders** are:
  - The general public
  - Funders
  - Donors
  - Parent or affiliated bodies
- The funds of environmental groups are often **highly 'tagged'** according to where they came from.
- It is **easy to lose sight of your organization's overall financial health** when dealing with external accountabilities.

Financial Management

- An environmental not-for-profit usually has some public accountability due to generating income through non-exchange transactions.
- **Non-exchange transactions** are those where no goods or services are received for a payment, such as donations or third-party funding.
- Some exchange transactions may also be marketed with an environmental focus.
- This creates an obligation for some transparency, good record-keeping, and safeguarding of money (internal controls).

Financial Management

- The key tool for financial accountability is a separation of governance and day-to-day management.
- In business, a single person can be a shareholder, director and employee of the same company, because a business is not accountable for how they spend their money or how they generate income.
- In donation-driven not-for-profits, oversight in the form of a Board or Committee is required.
- Boards and Committees can give wide authority to their manager, but they remain ultimately accountable and responsible.

Tax and Reporting Issues

- By default, **all entities are taxable**, regardless of legal form.
- Many not-for-profit entities **register as Charities** to avoid income tax liability.
- Charity registration now comes with complicated and time-consuming **financial reporting requirements**, and it is a one-way street.
- There is no other specific tax exemption for environmental organisations.
- However, **acknowledgement by IRD as a not-for-profit** will usually exempt you from filing Income Tax Returns.
- This option should be explored first.

Financial Position and Activity

- For sound decision-making, every organization needs information about:
  - Its **financial activity** in the recent past.
  - Its current (or very recent) **financial position**

Financial Activity

- Aka: Profit & Loss, Statement of Financial Performance, Statement of Funding, Income Statement, Statement of Receipts and Payments …
- Provides information about:
  - Have you **made ends meet** in the period you are looking at?
  - What you **spent the money on** that you received.
  - **Trends** in income and expenditure.
- A **surplus** means you have not spent all money that you have received in that period and save some for the future.
- A **deficit** means you have applied some of your past surpluses in this period.

Income	Note	2017 $
Subscription - Forest & Bird		329,127
- Kiwi Conservation Club		53,747
Donations - General		3,982,826
Appeals		361,867
Grants	6	1,052,511
Corporate / Sponsorship	7	241,895
Other Operating Income		468,856
Bequests	5	915,953
Ruapehu Lodge Income		47,032
TOTAL OPERATING INCOME		7,453,814
<u>Less Cost of Raising Income</u>		
Cost of Raising Income		2,299,207
Total Operating Costs - Raising Income	9	607,186
TOTAL COST OF RAISING OPERATING INCOME		2,906,393
GROSS SURPLUS		**4,547,421**
Expenditure		
Conservation - Expenditure		
Securing Nature Beyond Public Protected Areas		1,024,340
Bringing Nature Back to Town		114,935
Supporting & Expanding Protected Areas		275,426
An Ecologically Sustainable Economy		82,058
International		144,662
KCC		100,803
Branch Support		38,730
Total Operating Costs - Conservation	9	1,758,752
Donations		144,645
Other Branch Operation Expenditure		161,679
TOTAL COST OF CONSERVATION		3,846,030
Conservation Support - Expenditure		
Marketing & Communications		139,899
Governance		206,629
Planning and Reporting		74,328
Total Operating Costs - Conservation Support	9	1,117,565
TOTAL COST OF CONSERVATION SUPPORT		1,538,422
TOTAL EXPENDITURE	8	5,384,452
Surplus / (Deficit) for the year before Other Income and Expenditure		**(837,031)**

Financial Position

- Aka: Balance Sheet, Statement of Resources and Commitments, Statement of Assets and Liabilities.
- Provides information about:
  - Your **financial health**. Are you comfortable or teetering on the edge?
  - The amount and type of your **reserves**: how much do you have in slosh funds, what else do you own?
  - The amount and type of your financial **commitments**.

		$
Equity		
Member Funds		8,867,349
Branch Reserves	11	8,378
National Office Reserves	11	5,623,356
		14,499,083
Current Liabilities		
Bank Overdraft		137,714
Accounts Payable	12	697,658
Income Received in Advance	13	183,681
Rental Income Received in Advance	14	122,997
Deferred Income	15	564,124
		1,706,175
Non Current Liabilities		
Restricted Funds	16	726,359
TOTAL MEMBERS FUNDS & LIABILITIES		**16,931,616**
Current Assets		
Cash & Cash Equivalents		267,445
Deposits (On Call)		1,129,038
Investments - Term Deposits		3,028,390
Investments - GAMMA Foundation	10	5,012,329
Receivable (from exchange transactions)	17	380,530
Inventory		14,914
		9,832,646
Non Current Assets		
Shares and Other Securities		879,253
Investments - Endowment Fund		3,128,864
Restricted Funds	16	726,359
		4,734,476
Property Plant & Equipment	18	2,267,217
Intangible Assets	19	97,277
TOTAL ASSETS		**16,931,616**

Pots of Money

- Much of the cash a group holds may be ‘tagged’, i.e. set aside for specific purposes.
- Keeping track of such tagged funds is an **additional** function to your accounting system. It does not mix well with your ‘normal’ accounts.
- It is **not** a good idea to open a separate bank account for each pot of money:
  - Extra bank accounts add time effort to accounting and bookkeeping.
  - If the organisation is GST-registered or pays wages, keeping the bank accounts to the right balance becomes very complex.

Pots of Money

- Some funds are internally tagged, some are externally tagged. Only externally tagged ones represent a liability in an accounting sense.
- **Externally tagged funds** are given by third parties for a specific purpose. The organisation is accountable to that third party (funder) in one of two ways:
  - **Expenditure accountability**: organisation must be able to prove it spent the money on the purpose it was given for.
  - **Output/Outcome accountability**: organisation must delivered agrees outcomes/outputs, regardless of cost.

Christchurch Community Accounting

External Tagging

- Funds with **expenditure accountability** are a liability until fully spent. The organisation **cannot** make a surplus from these.
- Funds with **output accountability** are a liability in proportion to outputs not yet delivered. The organisation **can** make a surplus from these – but also a deficit.
- These are **legal** or **contractual** obligations, and you can be sued for not meeting them.

Internal Tagging

- An organisation may ask the public or members for donations for a specific purpose, may have received a bequest where the deceased has expressed preferences for expenditure, or similar.
- These are **moral** obligations that are not legally enforceable. Any liability would be criminal (dishonesty).
- An organisation's special purpose funds may be a mix of externally and internally tagged ones.

Money Pots

- Example:

An organisation is doing pest control in a reserve. It received a grant from DOC for doing so but also had a fundraising drive. Further, the organisation is building its own traps which it manages to sell on to other groups with a profit, and decides that these funds should also go into pest control.

DOC money: externally tagged, must be repaid if outputs not met.
Fundraising: internally tagged, no legal obligation to repay, but moral obligation to use as specified.
Trap Profit: internally tagged by choice only.

Project Statement of Funding

Trapping Project

Opening Balance 1/4/2016: $ 1,066

Income	
DOC Funding	$ 25,000
Public Donations Received	$ 3,600
Trap Sales (Surplus)	$ 1,824
	$ 30,424
Expenditure	
Trappers	$ 25,000
Trap Purchases (own use)	$ 4,000
Overheads	$ 1,006
	$ 30,006

Closing Balance 31/3/2017: $ 1,484

Financial Management

- A project should have a budget. Expenditure against this budget should be monitored, because:
    - Assumptions may have been wrong, too optimistic/pessimistic. More funds may need to be raised.
    - Budget monitoring is an effective internal control procedure (fraud prevention)
    - You want to have good data for future projects.

Audit

- An Audit (or review) is a form of professional assurance that a financial report is accurate.
- It makes no judgment call on whether expenditure was reasonable, or whether the organisation is financially healthy, and cannot usually detect minor incidences of fraud.
- An audit is most useful in a situation where a manager or CEO has been given mostly a ‘free hand’. Auditors can provide assurance to committees or Boards that a financial report is free from significant misstatements.
- External parties (funders) may also want assurance that the organisation is in the financial position it claims to be.