

# 10 tips for association finances

By John Peacock, CEO, Associations Forum



## 1 Avoid using the term “not-for-profit”.

Associations should make a surplus. Without surpluses, associations would not be sustainable or financially viable - so why should associations confuse themselves and others by hinting that they may not wish to make a profit? Associations are widely understood to be “mission-driven” and to have members, not owners. No other sector describes itself by saying what it is not.

## 2 Tell staff as much, or more, about the finances as the Board.

Most associations are transparent about the finances. If an association has staff, spend time with them discussing and explaining the finances. CEOs and staff will respond with results if they are empowered with knowledge about the current finances and budgeted targets. The Board needs to concentrate on the big picture and achievement of targets, not the details.

## 3 Always start with the balance sheet.

The balance sheet is the key financial statement. It is a snapshot of the finances at a point in time and explains the current overall financial picture - and how equity is represented between assets and liabilities. Although few may admit it, there is insufficient understanding of how a balance sheet works. Associations need to understand and plan how their balance sheet should look.

## 4 Use activity-based costing.

Each financial transaction should be assigned to both (1) income and expenditure type and to (2) the project or reason for the income and expenditure. The system of activity-based costing (sometimes called job costing) allows associations to better understand the financial implications of key areas such as membership, events or advocacy. Without this information, Boards and staff don't get the full picture.

## 5 Prepare accurate and modern financial statements.

Technology and accounting software such as MYOB and Xero have made bookkeeping very easy. Associations should have clear and timely financial reports for presentation to the Board and staff every quarter. Ideally associations should present three quarterly financial reports: balance sheet, profit and loss and activity-based cost summary - all with the same matching year-to-date profit or loss.

## 6 Manage the funds as if they were your own.

Some established associations have plenty of money yet do not look diligently at cash management and investments. We know instances of associations having hundreds of thousands of dollars in low interest bank accounts. As stewards of the association's funds, directors should be asking “what would the members think?” to make them manage funds correctly.

## 7 Allocate staff costs to specific projects, not overhead.

Whilst not needing to complete detailed job timesheets, association employees can make a monthly allocation of their time, and hence their employment costs, to the projects or activities on which they are working. For example, if a CEO spends 25% of his or her time on the annual conference, this cost should be directly charged to that event. Otherwise the finances are misleading.

## 8 Have a Finance and Internal Audit Committee.

This group of three people, which should not include the President/Chair, CEO or Finance Manager, must be watchful for fraud. In a staffed association, the position of Treasurer should be replaced with Chair of the Finance and Internal Audit Committee. Consider adding the word ‘internal’ to distinguish this committee from the external audit role.

## 9 Don't involve the Board in approving each transaction.

If the association has capable management-level staff, two or three staff should authorise invoices for payment and process the transactions. As cheques are virtually gone, use this change opportunity to remove the role of directors from involvement in routine financial transactions to one of oversight.

## 10 Benchmark your association's finances.

Associations should compare their finances to their peers. Without this information, an association will operate in isolation. Members may ask about accumulated equity and other matters at an AGM, so be prepared by knowing where your association stands. Valuable benchmarking figures are available by participation in the Associations Forum Financial Benchmarking Project.

Associations Forum is able to give general advice and financial training to associations. Please contact **Kathy Nguyen** on [kathy@associations.net.au](mailto:kathy@associations.net.au)