



April 2016 Newsletter

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Workshop: Tier 3 – DIY

Bring your stuff and put together your Tier 3-compliant report in this workshop. We'll talk you through the non-financial stuff and what to look out for in the financial information. This workshop will run again in August and (if demand) February 2017. We also strongly recommend the **Cash Flow Statement workshop** (see below) for Tier 3 DIYers. For more information and booking click [here](#).

Tuesday, 17 May 2016, 10 am – 1 pm

Workshop: The Cash Flow Statement

The Cash Flow Statement is a new requirement for all Tiers in the new Charity reporting system – it has only rarely been produced in the past. This workshop explains the requirements, where to find the information in your accounting software, and how to create it if you only have accrual-based information. For more information and booking click [here](#).

Tuesday, 3 May 2016, 10 – 12 pm

This Issue

Social Enterprise – Is the NFP sector the place for it?

Workshops in your area – CCA is doing more and more outside Christchurch.

Making Tracks with Grants – There's no alternative to good grant tracking.

The Road to 2016 – Outputs and Outcomes: another try to explain them.

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Ready to Enterprise Socially?

Despite 'social enterprise' being a bit of a buzzword in the not-for-profit sector very few such initiatives seem to have sprung up. Small community groups feel they are under pressure from funders to look for business activities to complement their income and get off the funding drip, but seem quite lost how to go about it. There has been a bit of re-labelling going on in some organisation's accounts, but usually no actual structured effort is made to engage in new revenue-generating activity

I don't think the not-for-profit sector is actually the best place for social enterprise. There are lots of small business operators who run their business both to make a living but also to make the world a slightly better place. If you are looking to do something for the community while also trying to make some money you would not choose a not-for-profit structure to do so – you'd set up a business.

The not-for-profit sector, especially the health and social agencies, are really too weighed down by compliance, policy, 'best practice' considerations and committee-based decision-making to be able to successfully engage in profit-generating activities, which require the ability to react quickly to opportunities and trends, a certain amount of risk-taking, and a much less conservative attitude to cash flow and cash reserves than would sit easily with major funders.

This is not the sector's fault. Those that fund social and health initiatives are risk-averse and often publicly accountable. To part with significant funds they ask for those safeguards that have the side-effect of slowing an organisation down and often stifling an innovative attitude. After all, the media are always lurking in the background waiting for an opportunity to catch government out in mismanaging taxpayer funds.

Auditors, too, are fostering an environment of high compliance and high control over assets. Occasionally I read the unhelpful clause in an auditor's report that the 'continuing existence of the organisation depends on ongoing funder support'. There are uncertainties in any enterprise, for-profit or not-for-profit. By pointing this out the auditor is conveying the image that the organisation is constantly teetering on the financial edge and needs to be extra careful with its spending, even though the inherent risk of a not-for-profit is probably quite a bit smaller than for a comparable business of the same size.

Even where a not-for-profit has a successful business initiative on the side there is a danger that a competitive advantage is being created using philanthropic funds, public donations or volunteer labour that puts someone else out of business, or stops them from getting into it in the first place. This is true, for example, for community-run cafes or second-hand shops, which are in direct competition with owner-operated businesses who do not have access to free labour or funds.

I think the key strength of the not-for-profit sector is people that are not primarily motivated by money, who do stuff for entirely altruistic purposes. I think this strength should be fostered, and we need to be careful not to undermine it.

Harald

Workshops outside of Christchurch

CCA is working with a number of different agencies at the moment to be able to offer workshops in other parts of the South Island later this year. These will usually be full-day or half-day workshops on the weekend covering topics such as grant accounting, bookkeeping, charity reporting, GST, understanding financial statements etc.

At the moment we are looking at the following locations:

- Kaikoura
- Greymouth and/or Westport
- Ashburton
- Timaru
- Tekapo

Let us know if you are interested in attending one of these, or if you want a CCA workshop in your area.

Grant Tracking (again)

Grant tracking has been covered a few times in this newsletter already, and it can be fairly complex both in terms of bookkeeping and accounting. No wonder a lot of mistakes creep in.

Grant tracking means that, if a funder requested, you would be able to show exactly what the grant was spent on. If you are getting a lot of different grants there is a danger that the same expense item is used for accountability for more than one grant if this is not done properly. Some funders require you to have a tracking system as a condition of accepting their grant.

We still see quite a few organisations who do not have a tracking system in place. When asked about the amount of grant money not yet spent we then get a variety of different answers. Some say it must be their entire bank balance, others say there is none left unspent, yet others say it does not matter what the figure is because they can always find the receipts to prove that it was spent. This sort of guesswork is most likely a breach of at least some of the grant agreements you would have made with funders.

Under the new accounting rules, registered Charities **must** disclose this figure accurately. Even if you are not a Charity, an auditor can no longer accept a cash-based figure only from a not-for-profit entity as there no longer is a relevant accounting standard allowing this.

Occasionally we see a system where expenditure from grants is put against the grant income account in the cashbook or accounting software, meaning that income and expenditure cancel each other out in the reports as though they had never occurred. This may tell the organisation when a grant is fully spent, but it no longer enables accurate reports on how much money was received and spent by the organisation. Grant tracking must be a *separate* system from income/expenditure tracking.

GST errors are also not uncommon here. For example a GST-registered organisation got a quote for a new computer of, say, \$1,500. They then asked for, and received, a grant over that amount. Since the GST on the computer (\$196) can be claimed back, but the grant does not attract GST the organisation now made a \$196 'surplus' from this grant, which probably needs to be refunded!

The only way we know to do grant tracking properly is to allocate each (GST-exclusive!) expenditure item to an expenditure category **and** a grant. For example an expenditure item may be in the category 'rent' and came out of the grant 'Rata Foundation'. These two items must be tracked in the same line to avoid double-counting, but the income/expenditure categories and the grant tracking are separate columns.

Grant tracking can be set up in most accounting softwares or CCA's Accounting 4.0. Please ask us for help if you are unsure how to do this.

The Road to 2016

Monthly feature to prepare for the new Financial Reporting Standards for Charities.

The Mystery of Outputs and Outcomes

We've been seeing a lot of blank faces in our workshops and elsewhere when we ask about an organisation's outputs and outcomes – now mandatory disclosures for Tier 3 entities, and Tier 4 ones have to at least include outputs. While 'outputs' is usually understood quickly as something with a number in it, the difference to an 'outcome' eludes many.

To get a handle on this it is useful to think about the difference between 'effectiveness' and 'efficiency'. How much you have done (your 'outputs') in proportion of how much resources you had is 'efficiency'.

'Effectiveness' is whether those outputs have hit the mark. For example, you may offer a free counselling service for middle-aged males to fight the high rates of depression in this segment of society. 'Efficiency' is easy to measure: it is the number of counselling sessions you have provided (or number of clients you have seen) in relation to the funds you have spent on doing this. 'Effectiveness', however, is about whether you have been successful in reducing depression rates – this is the 'outcome' of your service in this case.

Environmental groups may have very precise aims, such as an improvement in water quality of a particular waterway, an increase in bird species, or the re-vegetation of an area. An output may be how many trees were planted and the related outcome would be how many survived after a number of years, or the area which so far has been planted. Or, if the tree planting was the method to attract birds, then an increase in bird sightings would be the outcome for the output of tree planting. Both measures, here, would involve numbers.

But often it is very hard and sometimes impossible to measure outcomes (and therefore effectiveness) reliably, even though it is by far the more important indicator for social, health or similar groups. Bums on seats (outputs/efficiency) are easy enough to measure, but whether those outputs have made any difference is another matter entirely. Even if there are improvements they may or may not be a result of what you have done. For many organisations it is best to offer only some qualitative indicators in this section, such as examples of feedback gathered.