

**A R C H**

**NSW CO-OPERATIVE  
HOUSING**

CREATING  
SUSTAINABLE COMMUNITIES

**2003**

**MONEY MATTERS**

# Money Matters

## Financial Management Manual

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### Disclaimer

This manual is designed to provide general information on financial management, the GST and on business skills, practices and processes necessary to operate a housing co-operative in NSW. Because business and operating circumstances can vary greatly, the material is not designed to provide specific GST or business advice for particular circumstances. Also, because aspects of the GST are complex and detailed, the material is not designed to comprehensively cover all aspects of the GST as it applies to small and medium enterprises and housing co-operatives. Further, the laws implementing GST, and rulings and decisions under those laws may change.

Before you rely on this material for any important matter for your organisation, you should:

- ❖ Make your own enquiries about whether the material is relevant and still current, and whether it deals accurately and completely with that particular matter; and
- ❖ As appropriate, seek your own professional advice relevant to that particular matter.

This material is provided on the understanding that neither ARCH, IPM or their personnel, nor any other organisation or person involved in developing or delivering this manual, is thereby engaged in providing professional advice for a particular purpose.

These limitations and warnings also apply to information based on this material presented at any seminars or workshops provided through ARCH.

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# About this manual

This manual sets out the main issues of Financial Management for Co-operatives under the NSW Co-operative Housing Program. The manual is organised in **SIX** main sections:

*SECTION 1:*

Introduction to Financial Management

*SECTION 2:*

Setting Up Your Co-op's Financial Management System

*SECTION 3:*

Operating Your Co-op's Financial Management System

*SECTION 3A:*

Working with the GST and Tax Reform

*SECTION 4:*

Glossary of Accounting Terms

*SECTION 5:*

National Accounting Framework and Reporting Proforma

*SECTION 6:*

Other Samples/Examples

*SECTION 6A:*

GST Samples/Examples and Reference

## Learning About Financial Management

This manual is NOT a self-teaching guide and is intended as an information and reference document only for Boards and Co-op members. For those needing training ARCH offers three modules on financial management on a regular basis.

## Training Modules

ARCH's financial training is delivered in three Modules. Module A is covered in Section 2 of this manual. Module B is covered in Section 3.

Module C deals with GST and Tax reform and relates to sections 3A and 6A of this Manual. An optional introductory training module relates to Section 1.

The training modules are offered by ARCH on a needs basis. Modules can only be done in sequential order. That means





participants can only attend Module B after completing Module A. Module C must follow Module B.

Each module is available in either half day sessions (2.5 to 3 hours) or in the evening.



## Symbols Used

The following symbols are used to help you quickly identify sections of the Manual that can be immediately referred to:






Each section of the Manual identifies:

-  What the National Accounting Framework says.
-  What the Draft NSW Co-operative Housing Program Operational Guidelines September 1998 says.
-  What the National Community Housing Standards says.
-  What the NSW Co-ops Act says

In the Manual there are also:

-  a number of checklists. Even if you are an experienced co-op member please use these checklists.
-  updated model policies in each section. Use or adapt them for your bylaws to suit your co-op.

We use five more symbols throughout the Manual.

-  is a symbol for a sample letter or pro forma.
-  is the symbol for a “Model policy”.
-  is the symbol for ‘Good Practice’.
-  Notes.
-  Reporting to OCH.

## Acknowledgments

This manual draws on some general material from *The Finances, Accounting & Bookkeeping Manual* 2<sup>nd</sup> edition, published by the New South Wales Council of Social Services (NCOSS) and the *Community Services Guide to GST* (Vol 1 & 2) also published by NCOSS. These are also a useful reference texts for Co-ops.

Some material is also drawn from a range of Australian Taxation Office and GST Start-Up Office sources and from the NSW Federation of Housing Associations.

The last addendum offers Guidelines from the Office of Community Housing's Financial Auditing Unit.

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## Version of Manual & Referral Documents

References in the manual to the NSW Co-operative Housing Operational Guidelines draw on the September 1998 draft. The Manual is also written with reference to the National Community Housing Standards, NSW Manual, 2<sup>nd</sup> Draft, August 1997.

GST and broader Tax Reform information is generally current as at 1 July 2000, any exceptions to this are indicated where they appear.

The date at the bottom of the page is the version reference for the manual and any single page updates.

# Section 1

## Introduction To Financial Management

## Reasons for Effective Financial Management:

There are many good reasons why a Co-op should apply effective Financial Management techniques, to:

- ❖ Enable a Co-op to use its resources to best advantage
- ❖ Ensure public funds are used in ways consistent with their purpose
- ❖ Keep the Co-op financially viable and able to pay its debts as and when they fall due (solvent)
- ❖ Ensure tenant funds are used for their intended purpose
- ❖ Provide checks and balances on those holding responsible positions within the Co-op
- ❖ Ensure a Co-op meets its statutory and reporting obligations
- ❖ Ensure funds are collected correctly and applied fairly

Financial records, monitoring and reporting are just some of the ways we can achieve these outcomes using Financial Management.

## → Good Practice in Financial Management

The basics of Good Practice in financial management are summarised as follows:

- ❖ **Bookkeeping** practices which **record** the organisation's financial dealings **clearly and accurately**
- ❖ **Budgeting** practices that **enable effective monitoring** of the Co-op's financial situation
- ❖ Reporting procedures that give the information necessary for the Co-op to control and manage the finances well and meet its external reporting obligations
- ❖ **Financial policies and practices** that ensure the Co-op **meets the highest standards of financial probity**, accountability and reporting to funding bodies, Co-op members and peers

## Who Needs to know About Financial Management?

All Co-op members should at least learn to read and understand the Financial Reports of their Co-op. It is **not** good practice simply to leave these matters up to the Treasurer. A Co-op should also be training up other members to take on the Treasurer's role in later years. This helps share the workload, up-skill members and ensure that the Co-op's affairs are dealt with correctly and honestly over time.

The good news is you don't need to be an expert on bookkeeping to understand and ask good questions about Financial Reports. Bookkeeping is a specialised skill needed to properly manage the Administrative Procedures related to Financial Management but as you will see in this manual, Financial Management is a much bigger picture than bookkeeping.

It is a good idea to have at least one Co-op member at all times who has done a bookkeeping course - this may have training budget implications.

## Co-op Obligations (Standards):

Public housing programs and the Co-operative housing movement are evolving all the time. The trend is for more uniform standards and reporting from Co-ops. These and the agreements Co-ops enter into for housing and funds, will influence Co-op Financial Management policies, practices and obligations.

The minimum Co-ops should be aware of is the Legislation, Guidelines, Standards, and Reports which influence the Financial Reporting and Financial Management systems requirements of NSW Housing Co-ops. These are:

- ❖ NSW Co-operatives Act 1992 (including amendments and regulations)
- ❖ National Community Housing Standards, NSW Manual
- ❖ NSW Co-operative Housing Program, Operational Guidelines
- ❖ National Accounting Framework for Community Housing Providers, adapted by the Office of Community Housing (Department of Housing)
- ❖ National Accounting Framework for Community Housing Final Report (July, 1996, Coopers & Lybrand)
- ❖ A New Tax System (ANTS) Legislation and Regulations from 1999 onwards.

In NSW, Housing Co-ops should report with audited financial information on an annual basis to:

- ❖ The Registry of Co-operatives
- ❖ The Office of Community Housing (OCH)
- ❖ The Association to Resources Co-operative Housing (ARCH – optional, but could be of value for learning purposes )

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Other reporting to the Australian Taxation Office (ATO) for GST purposes may also be required more frequently (eg quarterly) – this will depend on a Co-op's particular circumstances and is *discussed in more detail in Section 3A and Section 6A.*

## The 4 Pillars of a Financial Management System

There are 4 strands or 'pillars' of an effective Financial Management system. These are:

### 1. Planning

For example: Preparing Budgets

### 2. Implementing Administrative Procedures

For example: Issuing receipts for rent received and bookkeeping

### 3. Delegating - Who Does What When

This is about delegating certain levels of authority to Co-op members (and committees) and deciding when certain tasks should be done.

**'Who, What, When' (Delegation) example:** The Co-op's Board may decide to delegate the approving of payments up to a certain amount to say the Board Chair and Treasurer. They may have a spending limit agreed to in advance and may be restricted by the size of the budget allowed for each expense item. Payment approvals may be done, for example, on the second Monday of every month so approval and cheque signing can be done efficiently.

### 4. Maintaining Financial Controls

Financial Controls are ways for the Co-op's Board and members to keep tabs on how money is being used. For example, in the 'Who, What, When' example above the Treasurer would typically give a monthly report to the Board to show how funds were coming in and going out of the Co-op and how this compares with the planned budget for the month and for the year so far.

## Key Terms Checklist:

The following terms are frequently used in Financial Management. You will become more familiar with them as you work through this manual and the financial affairs of your organisation. *For ready reference, the Glossary in Section 4 gives a description of these and other financial terms.*

<b>Asset</b>	<b>Break even point</b>
<b>Liability</b>	<b>Prepayment</b>
<b>Accountability</b>	<b>Depreciation</b>
<b>Probity</b>	<b>Cash &amp; Accrual basis of accounting</b>
<b>Audit</b>	<b>Reserves</b>
<b>Transaction</b>	<b>Bank Reconciliation</b>
<b>Bookkeeping</b>	<b>In Kind</b>
<b>Income &amp; Expenditure</b>	<b>Projection/ forecast</b>
<b>Surplus/Deficit</b>	<b>Budget</b>

## ⊗ National Accounting Framework

The Office of Community Housing advises that:

“The national accounting framework is a standardised approach to accounting for financial and asset performance in community housing. ***It is best practice in contemporary financial management and reporting.***”

The framework was developed by Coopers and Lybrand for the Department of Social Security in 1996, in consultation with the community housing sector and government stakeholders. In New South Wales, this included the Association to Resource Co-operative Housing, Dunroamin Co-operative, Mangaletta Co-operative (now known as Ngawli), Illawara Community Housing Trust Ltd and the Office of Housing Policy.

The national accounting framework ***applies the principles of accrual accounting.*** As a result, some of the accounts *must* be adjusted on the last day of the accounting period to provide for proper recognition of incomes earned and expenses incurred during the period. Adjusting entries are also necessary to achieve an accurate reporting of asset and liability balances on the last day of the accounting period.

***A typical accounting period in the community housing sector is one month.*** This allows for management committees to understand the nature of financial and asset performance for each management meeting. Note, that this is separate to the need to prepare cash flow statements which allow management committees to understand the solvency of an organisation.”

## \* Model Policy on Co-op Financial Management Systems

The Co-op will develop and use efficient financial systems to support effective management and accountability. The Co-op will comply with the National Accounting Framework for financial management in community housing.