

Financial terminology



A good understanding of financial terminology will help when you take on a leadership role in a club. Make sure that the entire committee is familiar with these terms, not just the treasurer, so that you're all on the same page when you talk about money.

Not-for-profit (NFP)

Not-for-profit clubs provide services to the community and do not operate for the purpose of making a profit *for members*. All profits must go back into the services the club provides and must not be distributed to members, even if the organisation winds up.

'Not-for-profit' is not the same as 'no-profit'!

Any profit made is reinvested in the club, not paid out to members like dividends. This reinvestment could include the accumulation of funds in a bank account to secure your financial sustainability, or for reinvestment at a future date (for example saving for large projects like infrastructure upgrades or a co-contribution towards a significant grant).

Australian Business Number (ABN)

An Australian Business Number, or ABN, is simply an identifier. An ABN confirms that an organisation is conducting business in Australia.

Having an ABN is separate from being Registered for GST.

Business Activity Statement (BAS)

The BAS is a form used by businesses to report and pay their GST, Pay as You Go (PAYG) income tax instalments if they pay staff, and other tax obligations to the Australian Taxation Office (ATO). If your club is registered for GST, you will need to submit a monthly or quarterly BAS. You may need to remit additional GST if your sales collected more GST than you paid on your purchases, or receive a refund if you paid more GST on your purchases than you collected from your sales.

Goods and Services Tax (GST)

GST is the Goods and Services Tax. It applies to goods or services sold in Australia.

The registration threshold for not-for-profit clubs is much higher than it is for for-profit businesses.

The GST registration threshold for not-for-profit organisations in Australia is \$150,000 (which is double the threshold for a for-profit business).

Why would a club register for GST? If your club is below the turnover threshold, you may still consider registering for GST for the following reasons:

- **Receiving GST credits** - GST registered businesses can claim input tax credits for the GST they pay on goods and services purchased for their activities
- **Enhancing credibility** - being GST registered can be a signal for stakeholders that the club is operating on a formal and transparent basis
- **Assisting with grants** - grants themselves are typically taxable supplies and are therefore subject to GST. If your club is not registered for GST, under some grant programs you will have to cover the GST component of your funded project

If you need more information about the GST, check out the not-for-profit portal on the ATO website ato.gov.au



Income or revenue

Income or revenue is the money your club earns through its operations. This would include things like:

- Membership fees
- Event ticket sales
- Fundraising
- Food and drink sales
- Grants

Expenses or expenditure

Your expenses or expenditure includes all of the money you spend running your club. This would include:

- Affiliation fees
- Equipment purchases
- Maintenance costs
- Staff wages
- Stock (like the food and drink that you purchase to sell)
- Insurances
- Accounting and audit fees
- Coaching costs

Profit or Loss

When you subtract the total of all your expenditure from the total of all your income, if you're left with a positive number, this is a profit, sometimes called a surplus.

If you get a negative number, then it is called a loss.

Remember that not-for-profit doesn't mean that you can't make a profit. You can't achieve big goals for club if you're always running at a loss.

Profit and Loss Statement (P&L)

The P&L provides a summary of the club's revenues and expenses over a specific period, as well as whether the 'bottom line' (the end figure when expenses are subtracted from income) shows a profit or a loss. It provides an overview of the club's profitability by summarising income sources and expenditure items, allowing members to evaluate the financial health and performance of the club.

Assets

Assets are all of the things that your club owns that will be used to generate income. This includes money in the bank, your equipment and your facilities.

Assets are divided into two categories - **current** and **non-current**. **Current assets** include cash and other assets that can be converted into cash within a year. They include cash, inventory (stock that you will sell) and accounts receivable (money owed to your club, such as outstanding fees).

Non-current assets include assets that the club plans to keep for more than one year, such as property, equipment and long-term investments like term deposits.

Liabilities

Liabilities are all of the money that the club owes - your debts.

Like assets, liabilities are also divided into **current** and **non-current**. **Current liabilities** are debts that the club expects to pay off within one year (e.g. bills due for payment), while **non-current liabilities** are debts that will take more than a year to repay (e.g. long-term loans, bonds and leases).

Members' Equity

Equity represents the current financial value of the club. It is what is left over after liabilities are subtracted from assets.

Balance Sheet

The Balance Sheet provides a snapshot of the club's financial position at a specific point in time. It lists the club's assets, liabilities and members' equity. It always balances, because assets will be equal to liabilities plus members' equity.

Because $\text{Assets} = \text{Liabilities} + \text{Members' Equity}$, if your club's assets increase, so will the overall financial stake that members have in the club. If liabilities increase, that financial stake decreases.



Cash Flow Statement

The Cash Flow Statement shows the club's inflows and outflows of cash during a specific period of time, such as a month or a year. It includes **operating** activities (such as revenue and expenses), **investing** activities (such as purchasing or selling assets), and **financing** activities (such as borrowing or repaying loans). The statement shows the net increase or decrease in cash during the period.

Solvency

Solvency, or being solvent, means having enough money to pay the club's debts (invoices) as and when they fall due.

Income tax exemption

NFP sport and recreation clubs can self-assess their income tax status to determine if they are income tax exempt and not required to pay income tax in its own right.

Most grassroots sport and recreation clubs are income tax exempt. For more information, check out the not-for-profit portal on the ATO website ato.gov.au

Audit

An audit is a thorough examination of the club's financial records and processes to ensure accuracy, compliance and transparency in financial reporting. Conducted by a qualified, independent auditor, your annual audit report and audited financial statements (i.e. your P&L Statement, Balance Sheet and Cash Flow Statement) are to be presented to members for review and adoption at your AGM.

Budget

A budget is a financial plan that outlines projected income and expenses for a specific period, usually the next financial year. It helps the club manage its money by creating a likely picture of where it will earn money and how much, and where it will spend money.

Monitoring actual financial performance against the budget at management committee meetings gives a clearer picture of your financial performance than looking at your income and expenditure alone and it helps you make informed financial decisions.

Accountability

Accountability relates to the obligation of the management committee to justify and explain its decisions and actions to club members and other stakeholders. While tasks can be delegated, accountability cannot. The committee is collectively answerable for the club's financial position and overall functioning, illustrating the importance of transparent, informed decision-making.

Responsibility

Responsibility refers to the tasks and duties delegated to individuals or groups, such as the treasurer managing day-to-day bookkeeping or data entry. It can be shared or delegated among club members or committees.

For clarity, it helps to think of it this way; the management committee can delegate responsibility, but it can't delegate accountability.

