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PRE-RECORDED PRESENTATION

Finance for the NFP Directors

A foundational understanding of a not-for-profit's financial reporting requirements, financial statements and how to assess financial performance. Including

- the major elements of the financial statements;
- assessing financial performance; and
- evaluating solvency

PRE-READING

Northside Community Service case study

- Background of organisation
- Financial statements
- Calculating ratios

Director Tool

What directors should consider before approving financial statements

Observership program: Finance for the NFP director 3


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Acknowledgement
of country

The Bunya Mountains in southern Qld have become an Indigenous tourism site

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MODERATOR



Phil Butler
GAICD
Sector Lead – Not For Profit

Phil Butler is the Not For Profit Sector Leader, for the Australian Institute of Company Directors (AICD).

Phil joined the AICD in 2003 as ACT Manager and has had the opportunity to work closely with boards, CEO's and directors of organisations in the Public and Not for Profit sectors.

Since 2011, he has led AICD's NFP Sector focus. This role is designed to support organisations in the NFP sector to achieve their respective missions through ongoing improvements in governance and to build greater awareness of the contribution of NFP directors and support their ongoing professional development. Examples of this work include the NFP Governance Principles, and the annual NFP Governance and Performance Study research project.

Phil is a Graduate of the Company Directors Course™ and a member of CPA Australia and has completed the AICD's Mastering the Boardroom Program. He has been on a range of boards of NFP and Government organisations and most recently was a director of Alzheimer's Australia ACT (now Dementia Australia ACT).

PRESENTER



Roslyn Jackson
FAICD
Governance Advisor

Roslyn Jackson is a Fellow Chartered Accountant and a Fellow of the Governance Institute of Australia. She has worked in public practice providing taxation advice, as a corporate accountant in the Australian Government, as a CFO for a large NFP and COO for an Australian Government Company and has held numerous director positions.

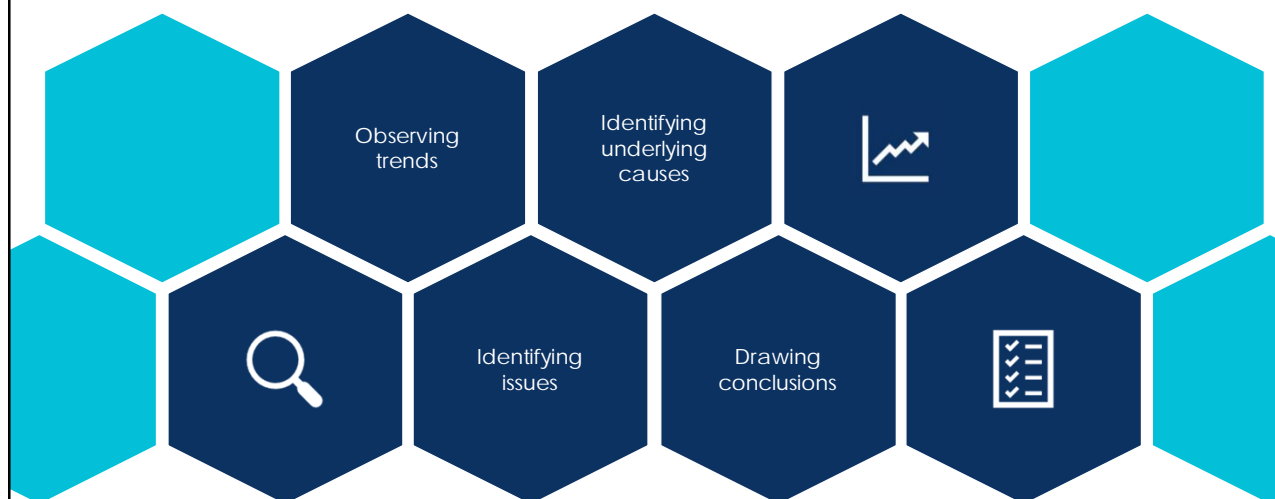
Roslyn has owned and operated a training and consulting company, based in Canberra, for over 25 years. She has developed and facilitated training packages for many businesses; both for profit and not-for-profit, and for the government sector; Australian, state and local government. She has facilitated, written and reviewed courses on behalf of the Australian Institute of Company Directors since 1995, in the areas of finance, governance, risk and strategy.

Roslyn is an experienced non-executive director, having held numerous positions predominantly in the NFP health sector. She has held the chair of several boards and also chaired audit, finance and risk sub-committees. Roslyn is currently a Director of the Canberra Institute of Technology and Aspire4Life Ltd. She is also Chair of the Audit and Risk Committee (ARC) for the National Blood Authority and a member of the ARC for Cancer Australia.

Our two sessions cover:



Analysing financial performance



Key financial ratios



CURRENT RATIO

$$\frac{\text{Current assets}}{\text{Current liabilities}}$$



DEBT TO ASSETS

$$\frac{\text{Total liabilities}}{\text{Total assets}} \times 100$$



SURPLUS MARGIN

$$\frac{\text{Surplus}}{\text{Total revenue}} \times 100$$

NORTHSIDE COMMUNITY SERVICES

Analysis of balance sheet

1. Review totals of assets and liabilities

- Current assets > Current liabilities
- Total assets > Total liabilities

Assets	2018	2019	2020	2021	2022
Current assets	\$	\$	\$	\$	\$
Cash and cash equivalents	904,823	875,153	1,181,485	2,423,368	2,331,501
Trade receivables	175,719	231,585	41,368	135,138	98,442
Less: allowance for impairment	(19,057)	(16,907)	(19,811)	(33,006)	(23,433)
Other receivables	87,031	97,339	728,107	361,520	300,284
Prepayments	42,524	48,508	14,617	54,233	-
Total current assets	1,191,040	1,235,678	1,945,766	2,941,253	2,706,794
Non-current assets					
Property, plant & equipment	6,342,328	6,379,193	6,062,585	10,551,689	10,462,478
Intangible assets	14,004	12,505	24,395	65,874	80,535
Right of use assets	-	-	138,330	147,712	54,274
Total non-current assets	6,356,332	6,391,698	6,225,310	10,765,275	10,597,287
Total assets	7,547,372	7,627,376	8,171,076	13,706,528	13,304,081
Liabilities					
Current liabilities					
Trade creditors	206,141	94,729	46,529	43,789	303,518
Other payables & accrued exp.	666,799	748,011	575,882	1,220,086	587,246
Unearned revenue	484,848	680,628	1,158,591	1,951,226	1,256,546
Provisions	469,367	486,335	526,126	584,512	473,267
Borrowings	63,741	36,973	44,530	32,044	-
Lease liabilities	-	43,582	60,601	81,752	86,352
Total current liabilities	1,890,896	2,090,258	2,412,259	3,913,409	2,706,929
Non-current liabilities					
Borrowings	359,484	312,739	240,422	-	-
Lease Liabilities	-	111,354	94,089	98,758	-
Total non-current liabilities	359,484	424,093	334,511	98,758	-
Total liabilities	2,250,380	2,514,351	2,746,770	4,012,167	2,706,929
Net assets	5,296,992	5,113,025	5,424,306	9,694,361	10,597,152
Equity					
Retained earnings	2,006,177	1,822,210	2,133,491	1,855,001	2,757,792
Revaluation reserve	3,290,815	3,290,815	3,290,815	7,839,360	7,839,360
Total Equity	5,296,992	5,113,025	5,424,306	9,694,361	10,597,152

NORTHSIDE COMMUNITY SERVICES

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 - a) Were you expecting these?
 - b) Trending over time

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 - a) Were you expecting these?
 - b) Trending over time
3. Has total equity grown across the year?
 - a) Is the level of equity enough?
 - b) Are there any assets that can't be sold to help pay the liabilities?
 - c) What happens to the coverage if the property, plant and equipment can't be sold?

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NORTHSIDE COMMUNITY SERVICES

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- Identify changes in account balances
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 - Trending over time
- Has total equity grown across the year?
 - Is the level of equity enough?
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 - What happens to the coverage if the property, plant and equipment can't be sold?
- Were there any changes to the accounting standards that will impact the financial statements?

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NORTHSIDE COMMUNITY SERVICES

Analysis of balance sheet

- Short term coverage
 - Working capital = current assets - current liabilities

2018	2019	2020	2021	2022
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- 1,890,896	- 2,090,258	- 2,412,259	- 3,913,409	- 2,706,929
(699,856)	(854,580)	(466,493)	(972,156)	(135)

- Current ratio = current assets / current liabilities

Ratio	2018	2019	2020	2021	2022
Current	0.632	0.59	0.81	0.75	1.00

Assets	2018	2019	2020	2021	2022
Current assets	\$	\$	\$	\$	\$
Cash and cash equivalents	904,823	875,153	1,181,485	2,423,368	2,331,501
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NORTHSIDE COMMUNITY SERVICES

Analysis of balance sheet

1. Short term coverage

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- b) Current ratio = current assets / current liabilities

Ratio	2018	2019	2020	2021	2022
Current	0.632	0.59	0.81	0.75	1.00

Current & quick ratios

- Standard benchmark is > 1.50:1
- The lower the number the higher the risk of insolvency

Issues with the ratio:

- Calculated at a point in time, so understand pattern of change across the year
- Does not look at how liquid the assets are
- Does not look at when the debts have to be paid

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NORTHSIDE COMMUNITY SERVICES

Analysis of balance sheet

2. Total coverage

- a) Debt to assets = (total liabilities/total assets) x 100

Ratio	2018	2019	2020	2021	2022
Debt to assets	29.8%	33.0%	33.6%	29.3%	20.3%

Debt to assets ratio

- The lower the number the lower the risk of insolvency.
- It has all the same issues as the current ratio.

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NORTHSIDE COMMUNITY SERVICES

Analysis of balance sheet

3. Level of debt / gearing

a) Cost of borrowings

b) Debt to equity ratio = total liabilities / total equity

Ratio	2018	2019	2020	2021	2022
Debt to equity	0.42	0.49	0.51	0.41	0.26

Debt to Equity

>1 = using more liabilities to fund the business
- (highly geared)

<1 = using more equity to fund the business
- (lowly geared)

Assets	2018	2019	2020	2021	2022
Current assets	\$	\$	\$	\$	\$
Cash and cash equivalents	904,823	875,153	1,181,485	2,423,368	2,331,501
Trade receivables	175,719	231,585	41,368	135,138	98,442
Less: allowance for impairment	(19,057)	(16,907)	(19,811)	(33,006)	(23,433)
Other receivables	87,031	97,339	728,107	361,520	300,284
Prepayments	42,524	48,508	14,617	54,233	-
Total current assets	1,191,040	1,235,678	1,945,766	2,941,253	2,706,794
Non-current assets					
Property, plant & equipment	6,342,328	6,379,193	6,062,585	10,551,689	10,462,478
Intangible assets	14,004	12,505	24,395	65,874	80,535
Right of use assets	-	-	138,330	147,712	54,274
Total non-current assets	6,356,332	6,391,698	6,225,310	10,765,275	10,597,287
Total assets	7,547,372	7,627,376	8,171,076	13,706,528	13,304,081
Liabilities					
Current liabilities					
Trade creditors	206,141	94,729	46,529	43,789	303,518
Other payables & accrued exp.	666,799	748,011	575,882	1,220,086	587,246
Unearned revenue	484,848	680,628	1,158,591	1,951,226	1,256,546
Provisions	469,367	486,335	526,126	584,512	473,267
Borrowings	63,741	36,973	44,530	32,044	-
Lease liabilities	-	43,582	60,601	81,752	86,352
Total current liabilities	1,890,896	2,090,258	2,412,259	3,913,409	2,706,929
Non-current liabilities					
Borrowings	359,484	312,739	240,422	-	-
Lease Liabilities	-	111,354	94,089	98,758	-
Total non-current liabilities	359,484	424,093	334,511	98,758	-
Total liabilities	2,250,380	2,514,351	2,746,770	4,012,167	2,706,929
Net assets	5,296,992	5,113,025	5,424,306	9,694,361	10,597,152
Equity					
Retained earnings	2,006,177	1,822,210	2,133,491	1,855,001	2,757,792
Revaluation reserve	3,290,815	3,290,815	3,290,815	7,839,360	7,839,360
Total Equity	5,296,992	5,113,025	5,424,306	9,694,361	10,597,152

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Managing cash

Days' receivables and days' payables

	Not Overdue	30+ days	60+ days	90+ days	120+ days	TOTAL
Days' receivables						
Amount owing	20,988	23,670	31,680	0	58,500	135,138
Spread	69	93	69	0	128	665
Days' payables						
Amount owing	30,989	0	0	12,800	0	43,789
Spread	23	0	0	1	0	24

Note: Spread is not a percentage, it is the number of customers or suppliers that fall into that category

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NORTHSIDE COMMUNITY SERVICES

Analysis of income statement

Compliance:

1. Revenue recognition
2. Accrual accounting adjustments
3. Donations and volunteers

Performance:

1. Increasing revenue over time
2. Maximising size – economies of scale
3. Increasing surpluses over time
4. Achieving outcomes efficiently

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Northside Community Services Ltd Statement of Comprehensive Income for the year ended 30 June

	2018	2019	2020	2021	2022
	\$	\$	\$	\$	\$
Revenue					
Government grants	3,824,072	3,648,763	3,932,409	4,569,806	5,337,563
Other operational revenue	6,411,138	7,194,000	5,874,191	7,642,783	8,442,287
Other income	15,458	4,982	2,079,292	960,252	2,482
Total revenue	10,250,668	10,847,745	11,885,892	13,172,841	13,782,332
Expenses					
Employee expenses	8,303,901	9,020,705	9,584,575	10,951,675	9,551,776
Service delivery expenses	361,627	378,591	395,078	493,341	576,116
Consultants / contractors	438,318	277,030	270,497	425,227	611,512
Occupancy expenses	604,884	717,377	673,390	798,631	1,318,164
Depreciation and amortisation	175,278	185,624	214,665	226,332	288,414
Finance expenses	21,234	20,290	13,712	14,181	3,604
Other expenses	406,411	432,095	422,694	541,944	529,955
Total expenses	10,311,653	11,031,712	11,574,611	13,451,331	12,879,541
Surplus/ (Deficit) before income tax	(60,985)	(183,967)	311,281	(278,490)	902,791
Other Comprehensive Income					
Revaluation of land and buildings	2,317,949	-	-	4,548,545	-
Total comprehensive income for the year	2,256,964	(183,967)	311,281	4,270,055	902,791

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NORTHSIDE COMMUNITY SERVICES

Analysis of income statement

4. Surplus or Deficit margin = (surplus or deficit / total income) x 100

Ratio	2018	2019	2020	2021	2022
Surplus or Deficit margin	(0.59%)	(1.70%)	2.62%	(2.11%)	6.55%

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Northside Community Services Ltd Statement of Comprehensive Income for the year ended 30 June

	2018	2019	2020	2021	2022
	\$	\$	\$	\$	\$
Revenue					
Government grants	3,824,072	3,648,763	3,932,409	4,569,806	5,337,563
Other operational revenue	6,411,138	7,194,000	5,874,191	7,642,783	8,442,287
Other income	15,458	4,982	2,079,292	960,252	2,482
Total revenue	10,250,668	10,847,745	11,885,892	13,172,841	13,782,332
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NORTHSIDE COMMUNITY SERVICES

Analysis of cash flow statement

Insolvency tests:

1. Is there a positive net cash flow from normal operating activities?
2. Are receipts from customers > payments to suppliers and employees?
3. Are cash profits > accounting profits?
4. Was there enough cash generated from normal operating activities to cover:
 - a) Payments for assets (PP&E) plus
 - b) Payments for leases?

Northside Community Services	2018	2019	2020	2021	2022
Cash flows from operating activities	\$	\$	\$	\$	\$
Grant, fees & other receipts from customers	10,578,947	11,383,300	12,397,462	14,764,151	14,519,492
Payments to supplies & employees	(10,349,529)	(11,256,779)	(11,964,922)	(13,094,527)	(14,395,632)
Interest received	5,824	3,736	787	598	2,462
Finance costs	(21,234)	(20,290)	(13,712)	(14,181)	(3,604)
Net cash from operating activities	214,008	109,967	419,615	1,656,041	122,718
Cash flows from investing activities					
Proceeds from sale of plant & equipment	-	592	-	30,682	-
Purchase of property, plant & equipment	(55,862)	(51,478)	(48,276)	(217,752)	(87,727)
Purchase of intangibles	-	-	-	-	(32,700)
Net cash from investing activities	(55,862)	(50,886)	(48,276)	(187,070)	(120,427)
Cash flows from financing activities					
Repayment of borrowings	(144,759)	(88,751)	(118,042)	(331,195)	(32,044)
Increase in lease commitments	-	-	53,035	104,107	-
Repayment of lease liability	-	-	-	-	(62,114)
Net cash from financing activities	(144,759)	(88,751)	(65,007)	(227,088)	(94,158)
Net cash flow for the year	13,387	(29,670)	306,332	1,241,883	(91,867)
Cash at beginning of year	891,435	904,823	875,153	1,181,485	2,423,368
Cash at end of year	904,823	875,153	1,181,485	2,423,368	2,331,501

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Can anyone suggest other ratios that may be relevant for not-for-profit organisations?

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Key performance indicators

FINANCIAL MEASURES THAT MAY BE USEFUL FOR NFPS TO INCLUDE

- income received, by category
- achievement of desired surplus
- variances above an absolute or per cent amount
- timeliness and accuracy of management accounts

CONSIDER HOW FINANCIAL MEASURES INTERACT WITH OTHER KPIS TO BUILD A FULL PICTURE

- operations
- brand recognition, as a driver of donations received
- membership numbers as a driver of subscription income

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What three things will you take away
from our discussions today?

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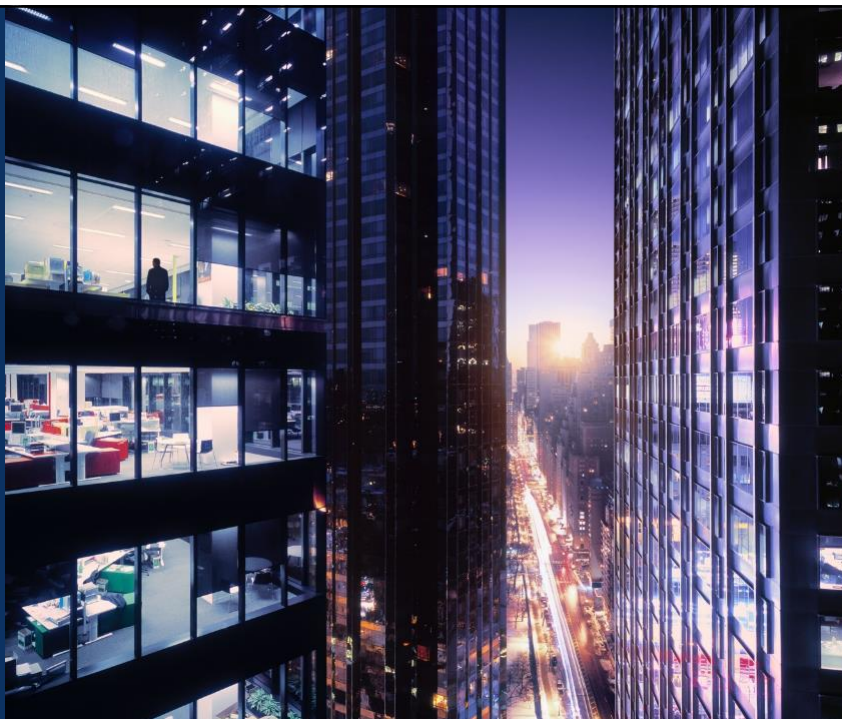
Key messages

- Financial literacy is critical for directors to fulfil their duties
- The financial statements are a narrative of the organisation's performance
- Be aware of insolvency warning signs
- Ask questions and seek advice if still unsure

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Questions?

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AICD resource

Complimentary for members
and non-members

Launch webinar 18 April



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Not-for-profit resources



[Find more here](#)

Director Tool




[Find more here](#)

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Finance Resources

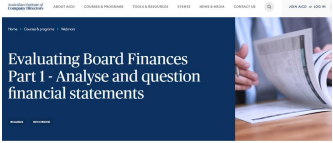
- 1. AICD Director tool - Financial reporting requirements
- 2. AICD Director Tool - Capital raising – [Find out more](#)
- 3. AICD Webinar recording - Turnaround Fundamentals: Board resilience during tough times
- 4. FTI – Article – Why CFOs are focused on working capital and liquidity management – [Find out more](#)
- 5. Cathro Partners – Insolvent Trading & Director’s Role – [Find out more](#)
- 6. AICD Article - How insolvency safe harbour can offer protection
- 7. Cathro & Partners – Safe harbour for financially distressed companies – [Find out more](#)

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WEBINAR RESOURCES

EVALUATING BOARD FINANCES PART 1 - ANALYSE AND QUESTION FINANCIAL STATEMENTS




Using a real based company this webinar will bring to life a company's financial situation through interpreting and analysing their three financial statements. We will use a unique methodology which will enable directors with no financial background to easily apply it to their own situation.

[Buy now](#)

Financial literacy is a skill that few of us are taught, yet when joining a board, we are expected to be able to understand financial concepts, ask probing questions when presented with financial information at board meetings, draw conclusions and make decisions.

[FIND OUT MORE](#)

EVALUATING BOARD FINANCES PART 2 - FINANCIAL RATIOS, TRENDS AND WARNING SIGNS



Following on from Part 1 this webinar will illustrate how financial ratios can be used to assist directors in being able to analyse the financial information, determine trends and identify warning signs for decision making.

[Buy now](#)

Not every board member finds it easy to read and interpret a page full of numbers, including financial ratios, KPIs and spreadsheets, even with the help of financial dashboards that often make it easier to identify trends, warning signs.

[FIND OUT MORE](#)

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What's next?


Strategy for the NFP director pre-recorded presentation has been released and available for viewing.

Strategy for the NFP director live session
Wednesday 16 April 2025 6:00PM (AEDT)

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