



Not-for-Profit Finance Week 2020.

3-7 August 2020

Questions your board should be asking about the finances

with

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Institute of Community Directors Australia (ICDA)
Michelle Eddy, Director of Finance, Our Community



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Where not-for-profits go for help

CommonwealthBank



Asking questions

We encourage you to ask questions and will answer as many as we can during today's webinar.

How to ask a question:

1. Go to the Control Panel on the right-hand side of your screen
2. Scroll down to the 'Questions' tab under 'Polls' and click the arrow to expand the text box
3. Type your question and click 'Send'



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Lisa Jennings



Michelle Eddy

Today's Session:

- Asking the right questions (and asking for the right reports!)
- Reading, understanding and acting upon financial papers
- Building financial matters into decision-making processes
- Participating in financial decision-making

Legal duties

- Duty to act bona fide in the best interests of the company
- **Duty to exercise powers for proper purposes**
- Duty to retain discretion
- Duty to avoid conflict of interest
- Improper use of position in the company
- Use of confidential information
- Related-party transactions
- **Payments to directors**
- **Duty of care, skill and diligence**
- **Duty to prevent insolvent trading**

What should I know before I make a decision?

Individually and collectively the board is responsible for the financial decisions of the organisation. The board acts as one legal entity (cannot be warring factions! – based on a vote).

Therefore – the simplest way to take care of yourself and your NFP is to “Ask questions...and then ensure that you are satisfied with the response”

Trust and validate!

As a general rule the following should be what you see well before you are asked to vote on a key decision

Background:				
What is the issue we are trying to decide?				
Is this timeframe dependent?				
What are the options available (including no decision)?				
What are the benefits and costs of each option? Does it support our mission?	Option	Benefit	Cost	Comment
	A			
	B			
	C			
	D			
How do we get information (data) to assist us in the decision?				
Who have we consulted?				
What are the criteria to decide? (Financial, planned, social, cultural)				
What are the risks and how do we mitigate? (finance, operation, reputation, stakeholder)				
Has plan been budgeted?				
What are the social benefits to our organisation/members				
What are the cultural benefits to our organisation/members?				
Who wins/loses from this decision?				
How and Who will communicate this decision to stakeholders?				
How will we review/ measure success of the decision?				

Australian Securities and Investments Commission v Healey [\[2011\] FCA 717](#)

His Honour held that:

Directors cannot substitute reliance upon the advice of management for their own attention and examination of an important matter that falls specifically within the Board's responsibilities as with the reporting obligations. The Act places upon the Board and each director the specific task of approving the financial statements. Consequently, each member of the board was charged with the responsibility of attending to and focusing on these accounts and, under these circumstances, could not delegate or 'abdicate' that responsibility to others.

- [124] In my view, the objective duty of competence requires that the directors **have the ability to read and understand the financial statements**, including the understanding that financial statements classify assets and liabilities as **current and non-current**, and what those concepts mean. This classification is relevant to the assessment of solvency and liquidity. Equally, a director should have an understanding of the need to disclose certain events post balance sheet date.
- Do you know:
 - Major accounting terms - Current Assets; Current Liabilities?
 - How to tell if you are solvent
 - How you maintain funding - how do you keep afloat?
 - What are areas where finances are likely to fail?

Centro: some thoughts

While it's about finance, it's not about finance

Key items for us to consider:

1. Know what you can and can't delegate
2. Understand basic finance and strategy
3. Examine your decision process
4. Participate in the decision-making
5. Review your information flows

How much is too much?

[198] The papers provided to the Board each month were **voluminous**. However, it is to be recalled that this is a matter that is **within the power of the Board to control**. It is the Board's responsibility to determine the information it requires or does not require. The papers usually comprised around **450 pages**. They were divided into three sections.

[229] In relation to this submission relating to the extent of the papers, I also make the following observations. A board can control the information it receives. **If there was an information overload, it could have been prevented.**

Aims of sound financial management

The aims of sound financial management are to ensure that your organisation:

- ✓ Can meet all of its financial obligations
- ✓ Is prudent and has processes to protect against fraud
- ✓ Complies with all relevant legislation
- ✓ Is professionally managed and directed

This will assist your organisation to be recognised through your community as one that is worth supporting and belonging to. You are also contributing to your organisation's ability to survive.

How do I keep track?

At every meeting the treasurer reports on the finances. You should get:

- A statement of financial performance, or profit and loss
- A statement of financial position, or balance sheet
- A comparison of budget versus actual
- A forecast to the end of the financial year
- Some commentary on variances and other assumptions
- A cash flow statement
- An up-to-date download of the current bank account balances

You should also ensure that someone apart from the treasurer has verified that the bank accounts actually reflect what the treasurer is reporting.

Key financial reports

Balance sheet – shows the financial position at a point in time

Profit and loss statement – shows performance over a period of time by matching revenue earned with expenses incurred for that period. Shows profitability.

Statement of cash flow – shows the sources and uses of cash during the period

Budget – your organisation's financial plan.

The Balance Sheet

The balance sheet tells you the value (worth) of an organisation.

Shows:

Everything you control (**assets**)

External commitments/ what you owe (**liabilities**)

What you own outright (**equity**)

Point in time snapshot of the financial position

Are we being as efficient as we could be?

Must balance using the equation: **Equity = Assets - Liability**

Mary Poppins Therapy Centre
ABN 123 345 567
Statement of Financial Position (Balance Sheet):
As at 30 June 2020

ASSETS	2020	2019
CURRENT ASSETS		
Cash & Cash Equivalents	\$116,363	\$147,926
Trade & Other receivables	\$6,730	\$5,399
Other current assets	\$34,005	\$162,917
TOTAL CURRENT ASSETS	\$157,098	\$316,242
NON-CURRENT ASSETS		
Property, plant & equipment (at cost)	\$609,861	\$658,987
TOTAL NON-CURRENT ASSETS	\$609,861	\$658,987
TOTAL ASSETS	\$766,959	\$975,229
LIABILITIES		
CURRENT LIABILITES		
Trade, accruals & other payables	\$3,987	\$4,121
Borrowings	\$4,150	\$2,002
TOTAL CURRENT LIABILITIES	\$8,137	\$6,123
NON-CURRENT LIABILITIES		
Bank loan	\$515,090	\$519,867
TOTAL LIABILITIES	\$523,227	\$525,990
EQUITY (retained earnings)	\$243,732	\$449,239

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Red Flags on the Balance Sheet



- Majority of assets are intangible**
- Current liabilities are greater than current assets**
- Equity is in the negative**
- Accrued expenses are huge**
- Accounts payable are excessive**

Profit and Loss Statement

The Profit and Loss Statement is sometimes called the Statement of Financial Performance, or even an income statement. It shows how much the organisation has earned (or lost) over a period (typically the month, quarter or year)

The idea behind a Profit and Loss statement is to calculate the net profit (surplus) made or the net loss (deficit) suffered over a particular period.

Net profit or loss is calculated as follows:

Net Profit = Revenue (Income) – Expenses

Net Loss = Expenses – Revenue (Income)

Mary Poppins Therapy Centre
ABN 123 345 567
Statement of Profit and Loss
As at 30 June 2020

	Notes	2020	2019
REVENUE			
Donations	1	\$11,200	\$21,679
Government Grants		\$103,000	\$103,000
Membership		\$14,222	\$13,385
Crowd Funding		\$4,446	\$-
Investment income	2	\$2,395	\$2,902
Sponsorship	3	\$19,396	\$30,921
Goods and services	4	\$8,090	\$128,001
Interest and sundries	5	\$1,350	\$1,350
TOTAL INCOME		\$164,099	301,238
EXPENSES			
Equipment		\$-	(\$4,984)
Employee expenses		(\$84,350)	(\$110,386)
Administration costs	6	(\$15,132)	(\$9,879)
Insurance		(\$5,060)	(\$4,090)
Gas, Electricity etc.		(\$1,291)	(\$8,285)
Computer costs	7	(\$12,033)	\$-
Video & website	8	(\$35,000)	\$-
Transport & accommodation		(\$398)	(\$17,087)
Sundries	9	(\$2345)	(\$1,449)
TOTAL EXPENSES		(\$155,609)	(\$154,711)
DEFICIT/ SURPLUS			

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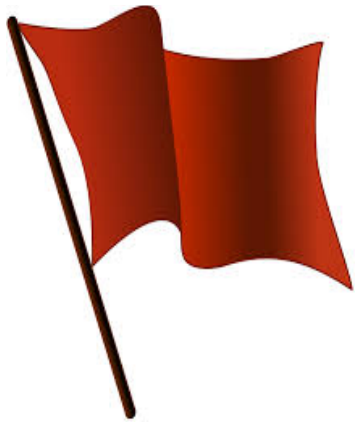
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DEFICIT/ SURPLUS		\$8,490	\$146,527

Questions to ask about the Profit and Loss Statement

- Is the revenue sustainable?
- Do we have policies around acceptable fluctuations and investment?
- What is in the “other” category?
- How are we tracking against comparative periods
- What trends can we see?

Red Flags on the P & L



Increased expenditure without increased income

“One-off” income

Unexplained or high expenses

Insufficient breakdown of income or expenses

Cash Flow Statement

A retrospective look at where cash has come from and gone to over a set period.

- Records all transfers of **cash** and **cash equivalents**
- 3 sections: operating activities, investing activities, and financing activities
- **Cash** is all physical cash on hand and balances in bank accounts
- **Cash equivalents** are short term, highly liquid investments that are easily converted to known amounts of cash with little risk of a change in value

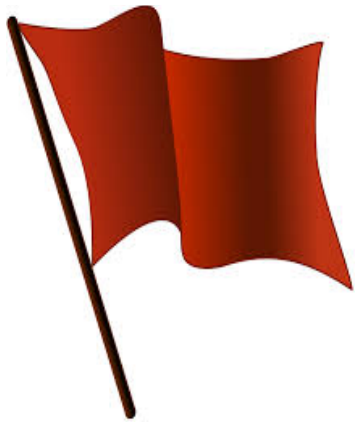
Sample Statement of Cash Flow: BigCharity Inc.

	2014	2013
	\$'000	\$'000
Cash flow from operating activities		
Receipts from customers	30,150	27,130
Payments to suppliers and employees	-27,600	-25,040
Dividends received	100	250
Interest and bill discounts received	300	270
Borrowing costs	-270	-240
Income taxes paid	-900	-810
Proceeds from court settlement	180	
Net cash provided by operating activities	1,960	1,560
Cash flow from investing activities		
Payment for subsidiary X, net of cash acquired	-550	
Payments for property, plant and equipment	-350	-1,200
Proceeds from sale of property, plant and equipment	20	10
Net cash used in investing activities	-880	-1,190
Cash flow from financing activities		
Proceeds from issue of shares	300	200
Proceeds from borrowings	200	240
Repayment of borrowings	-90	-80
Distributions paid	-1,200	-1,080
Exchange rate changes	-40	-30
Net cash used in financing activities	-830	-750
Cash at the beginning of the financial year	120	500
Cash at the end of the financial year	370	120
Notes to the Statement of Cash Flow		
Reconciliation of Cash		
For the purposes of the Statement of Cash Flow, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the Statement of Cash Flow is reconciled to the related items in the balance sheet as follows:		
Cash	40	25
Deposits at call	530	180
Bank overdraft	-200	-85
	370	120

Questions to ask about the Cash Flow Statement

- How is cash generated and spent for the period?
- Do operating activities generate a cash flow surplus?
- Are we relying on investments and financing to cover shortfalls?
- What are the organisation's cash equivalents?

Red Flags on the Statement of Cash Flows



- Negative cash flow from operating activities
- Reliance on selling assets (cash from investments) or increased borrowings for cash
- Large decrease in cash flow from comparative year

Other statements

You also need to have someone looking at:

- **Aged creditors** – how long do we take to pay debts?
- **Aged debtors** – how long do we take to get paid money we are owed?
- **Cash flow projection** – what payments and receipts are coming up in the next couple of months?
- **Variance report** – budget versus actual

Template Variance Report

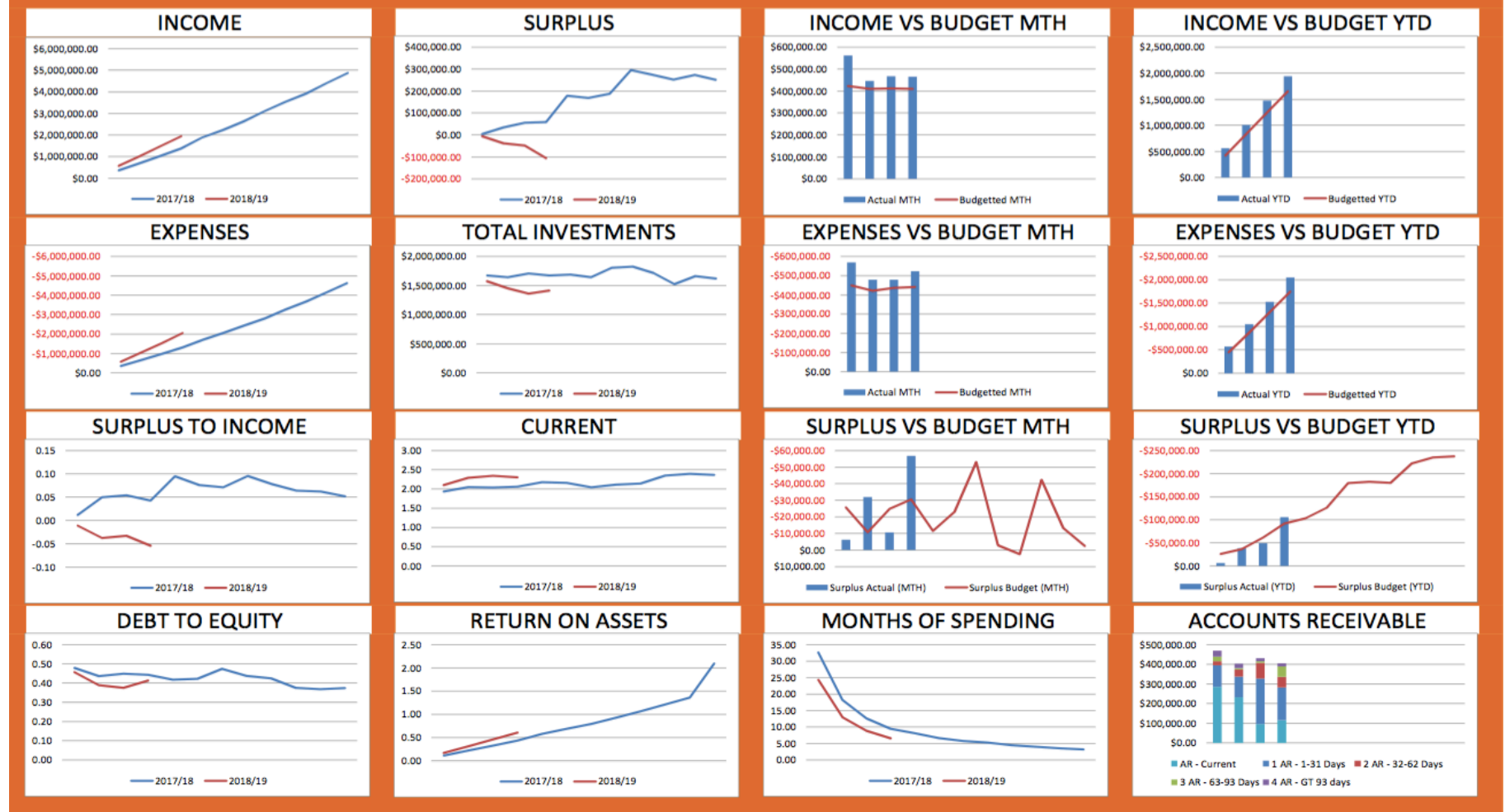
<u>Sep-17</u>	<u>Sep-17</u>	<u>Sep-17</u>	<u>YTD</u>	<u>YTD</u>	<u>YTD</u>	<u>Notes</u>
Actual	Bud	%Var	Actual	Bu	%Var	

Income

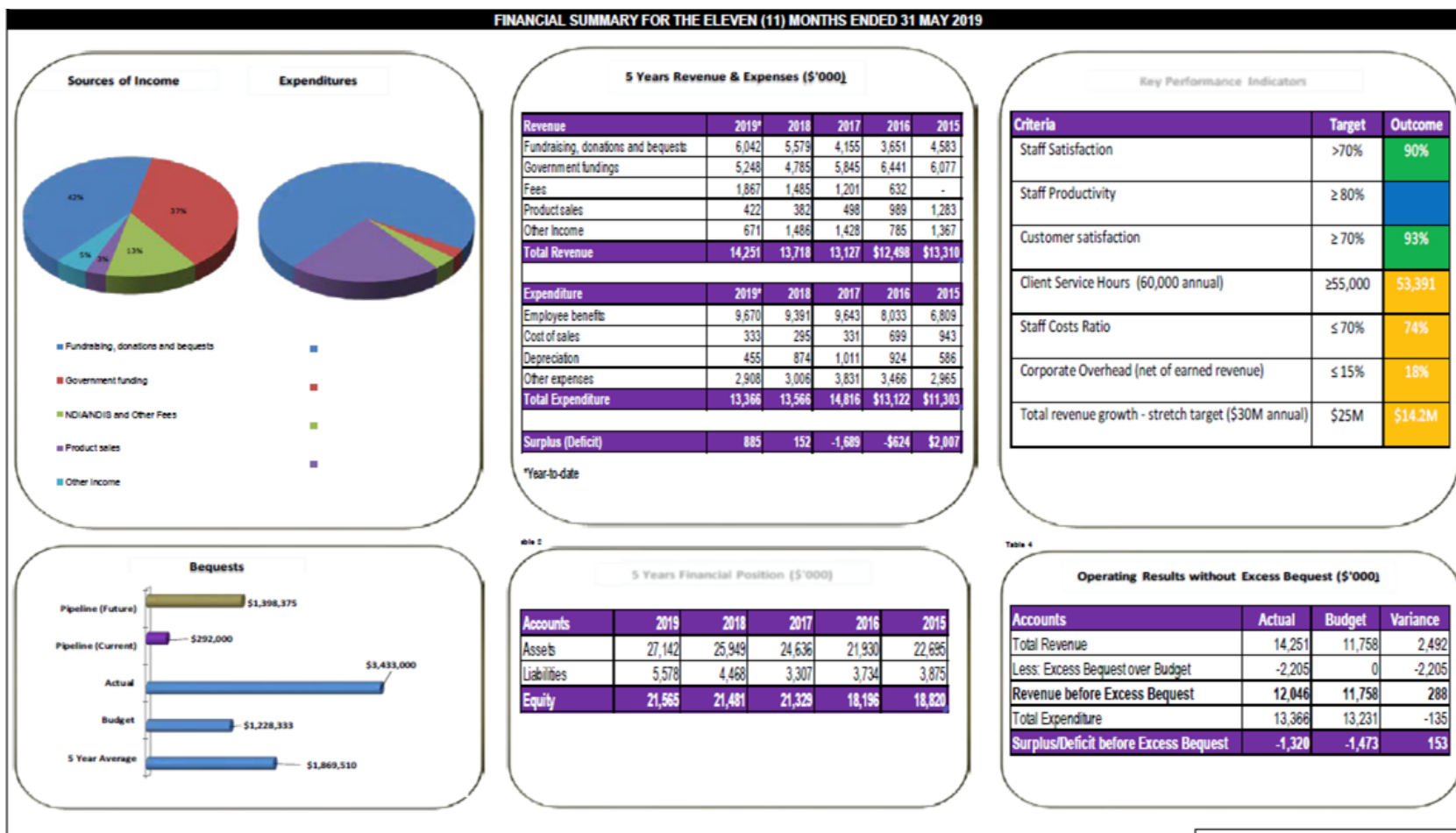
Govt Annual Funding

Fedl Govt -	2,000	1,000	100%		2,000	3,200	-38%	delayed payment - now due Oct 1
State Government	950	1,000	-5%		950	3,000	-68%	delayed payment - now due Oct 21
Local Government	950	1,000	-5%		950	2,500	-62%	grant delayed
Other Grants	1,020	1,000	2%		1,020	1,000	2%	
<i>Total Grants Income</i>	4,920	4,000	23%		4,920	9,700	-49%	

BOARD FINANCE DASHBOARD EXAMPLE



BOARD FINANCE DASHBOARD EXAMPLE 2



Reporting – how software can help

Management Report Pack:

- **Statement of Financial Position (Balance Sheet)**
- **Statement of Financial Performance (Profit & Loss Statement)**
- **Statement of Cash Flows**
- **Aged Receivables**
- **Aged Payables**

MYOB Essentials	MYOB AccountRight	Xero	Quickbooks Online
<ul style="list-style-type: none"> - Very simple and easy to use -Designed for the non-accountant - Easy and simple reporting options but lacking functionality due to it's simplicity (ie. No month by month comparison of P&L) - Can add budget and generate variance report 	<ul style="list-style-type: none"> - More complex than Essentials and QBO but also more functionality - Extensive reporting with the ability for some customisation but not as much flexibility as Xero - No Dashboard - Strong project management and job costing features -Easily reports on Sales/Purchases by customer/supplier - Can use on and offline - Can add budget and track and report on account and job/department variances 	<ul style="list-style-type: none"> - Easy to use with 'user experience' in mind - Excellent reporting features and flexibility to customise pretty much any report - Has a Dashboard - lots of 3rd party app integrations - Can create or upload budgets and track per account and tracking category 	<ul style="list-style-type: none"> -Easy to use without being too confusing for non-accountants - Good functionality, features and app integrations - Has a Dashboard - Good range of standard reports but lacks customisation -Easily reports on Sales/Purchases by customer/supplier - Can add budget and track and report on account and job/department variances

How do we develop our budget?

The board has to approve the budget, every year.....and that needs to get minuted (before the new financial year starts)

This isn't just a formality.

It should be detailed enough to ensure you're sustainable but top level enough for you not to be delving into the photocopying costs (within reason)

How do we develop our budget?

This is one of the main areas we see organisations getting in trouble ..and it's because their budget is not linked to their strategic and business plan – one of the key questions for board members is to ask –

Is our budget linked to our plans and how?

Insolvent trading

“For many incorporated associations, ‘insolvency’ may occur due to it being ‘technically’ without the capacity to pay its debts for a short period of time prior to receiving an injection of capital in the form of a grant, for example.

“... It goes too far to say that insolvency exists merely because there is an insufficiency of funds at a particular point in time. This circumstance may exist merely due to a temporary lack of liquidity, whereas insolvency is confirmed if the insufficiency represents an **‘endemic shortage of working capital’.**”

Makinson d’Apice Lawyers

Questions?

Thank you for joining us

Please complete the short survey that pops up as you leave this webinar. Your feedback will help make future webinars even better ...

NFP FINANCE WEEK 2020: Remaining Webinars

Tuesday: Not-for-Profit Outlook panel session

Wednesday: NFP Balance Sheet

Thursday: Economic Update – the road ahead

Friday: Rethinking success with Innovation and Design Thinking

Register at ourcommunity.com.au/nfpfinanceweek2020