



Not-for-Profit Finance Week 2020.

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The Not-for-Profit Balance Sheet

with

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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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The Not-for-profit Balance Sheet: A resource for Directors and CEOs



Agenda

How to use this resource

Section 1: The Balance Sheet

Section 2: Cash

Section 3: Asset Replacement

Section 4: Cash Flow Budgeting and Financial Planning



Thank you...

- CommBank
- Sector input
- My colleague: Dr Dane Etheridge at Curtin University



How to use this resource

1. Not advice
2. Audience
3. Accrual accounting
4. Cash accounting
5. Focus questions
6. Glossary

Get advice



What the resource does...

1. Describes the purpose, nature and governance of the balance sheet
2. Focused on those untrained in accounting
3. Suggests some key focus questions

A starting point...



The structure of the resource...

Section 1 – The Balance sheet

Section 2 – Cash

Section 3 – Asset replacement decisions

Section 4 – Financial planning



What does it tell us?

- The management balance sheet v the reporting balance sheet
- Timing: current v non-current
- Sustainability



What is the balance sheet?

Category	Element	Timing	Examples
Assets	Current Assets	Within 12 months	Cash, Debtors
Assets	Non-current	After 12 months	Building, Motor Vehicle
Assets	Accounting Estimates	As needed	Depreciation represents an estimate of the reduction in value of an asset over time. It is only an estimate because we do not know exactly how long a particular asset will serve the organisation but we do need to account for its reduction in value as it is part of the cost base of the operations.
Liabilities	Current Liabilities	Within 12 months	Creditors, Employee Annual and other Leave including Long Service Leave that will be paid within twelve months because it is due.
Liabilities	Non-current	After 12 months	Loans, Employee Long Service Leave due for payment sometime after the expiry of the next twelve months.
Liabilities	Accounting Estimates	As needed	Employee leave entitlements



Sustainability

- More current assets than current liabilities
- More non-current assets than non-current liabilities
- Profit

Timing...

Noncash Items: Prepayments and Income in Advance



Accounting estimates

- Estimates need to be made relating predominantly to future expenditure
- Long Service Leave, Annual Leave
- Depreciation

Risk: balance sheet not disclosing full potential costs

Report leave balances to the board



Balance sheet issues

- Valuation
- Timing
- Completeness

**Risk: balance sheet not disclosing full liabilities
or assets...**

Not across sustainability issues over time



Balance sheet issues

- Administered assets
- Controlled assets

Risk: Miscalculate solvency

Misuse assets

Split controlled and administered assets for better reporting



Understanding your balance sheet

- Ratio analysis:
 - Identify areas for further interest
 - Only a pointer: may miss areas of concern
 - Commonly used ratios
 - Ad hoc ratios

Decision points: ratio targets



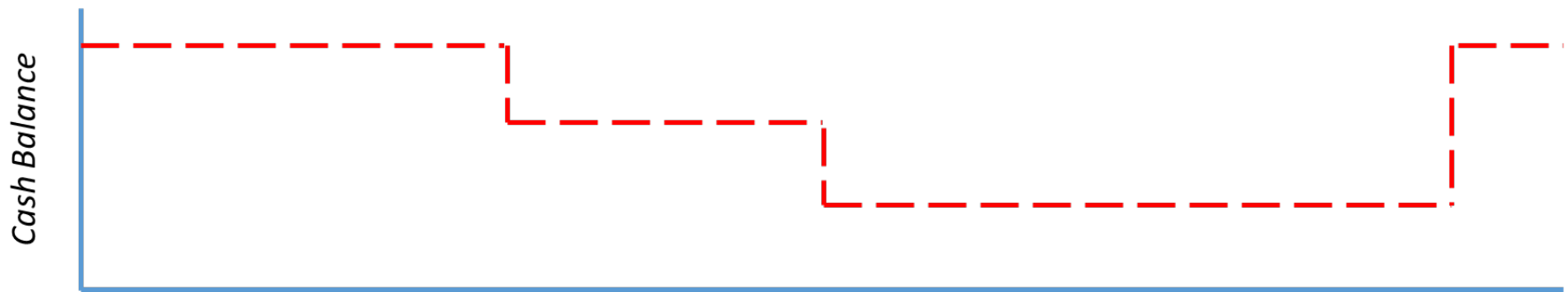
Balance sheet risks and governance

Element	Risk	Governance
Cash	Cannot meet outgoings	Quick ratio Cash flow budget
Debtors	Debtors do not pay	Ratio analysis Aged debtors report Cash flow budget
Inventory	Stock no longer saleable; valuation incorrect	Stock turnover ratio Cash flow budget
Creditors	Understated; not being paid	Creditors average payment Aged creditors report
PAYG/BAS	ATO not receiving payments	Regular review of Integrated Client Account Cash flow budget
Employee entitlements		



Section 2: Cash

Working Capital



Cash

- Target cash levels - reserves
- Report outcomes
- Profitability issues

Current cash flow needs: solvency

Replace assets: sustainability

Invest in organisation: sustainability

Cash is king



Section 3: Asset Replacement

- Part of the financial planning process
- Short-, medium- and longer-term horizons
- Where does the cash come from?

5-year horizon



Replacement Principle	Risk	Governance
Unserviceable	Asset can no longer be used and sustainability negatively impacted	Establish serviceability minimum (e.g. maximum number of kilometres travelled by a motor vehicle asset; maximum age of a building)
Unreliability	Unexpected and sudden reduction in utility of asset causing lost capacity; impact heightened when unpredicted failure occurs	Establish age limits to assets and policy frameworks for assessment and/or replacement upon that age being reached
Loss of Accreditation	Asset no longer meets the minimum requirements of a service funder and is no longer able to be deployed in service delivery	Maintain accreditation assessments for all assessable assets (e.g. aged care facilities) and report to the board all prospective changes to accreditation requirements including timing
Loss of Applicability	Changes in funder policy and reporting frameworks or delivery modes cause assets currently deployed to no longer meet requirements	Maintain close monitoring of policy changes and potential impacts via industry peak bodies and funder agencies
High Risk Assets	Failure of these assets will impact health and safety of staff and/or clients	Maintain these assets in accordance with manufacturer guidelines on maintenance and replacement, and ensure they meet clinical and other relevant minimum standards

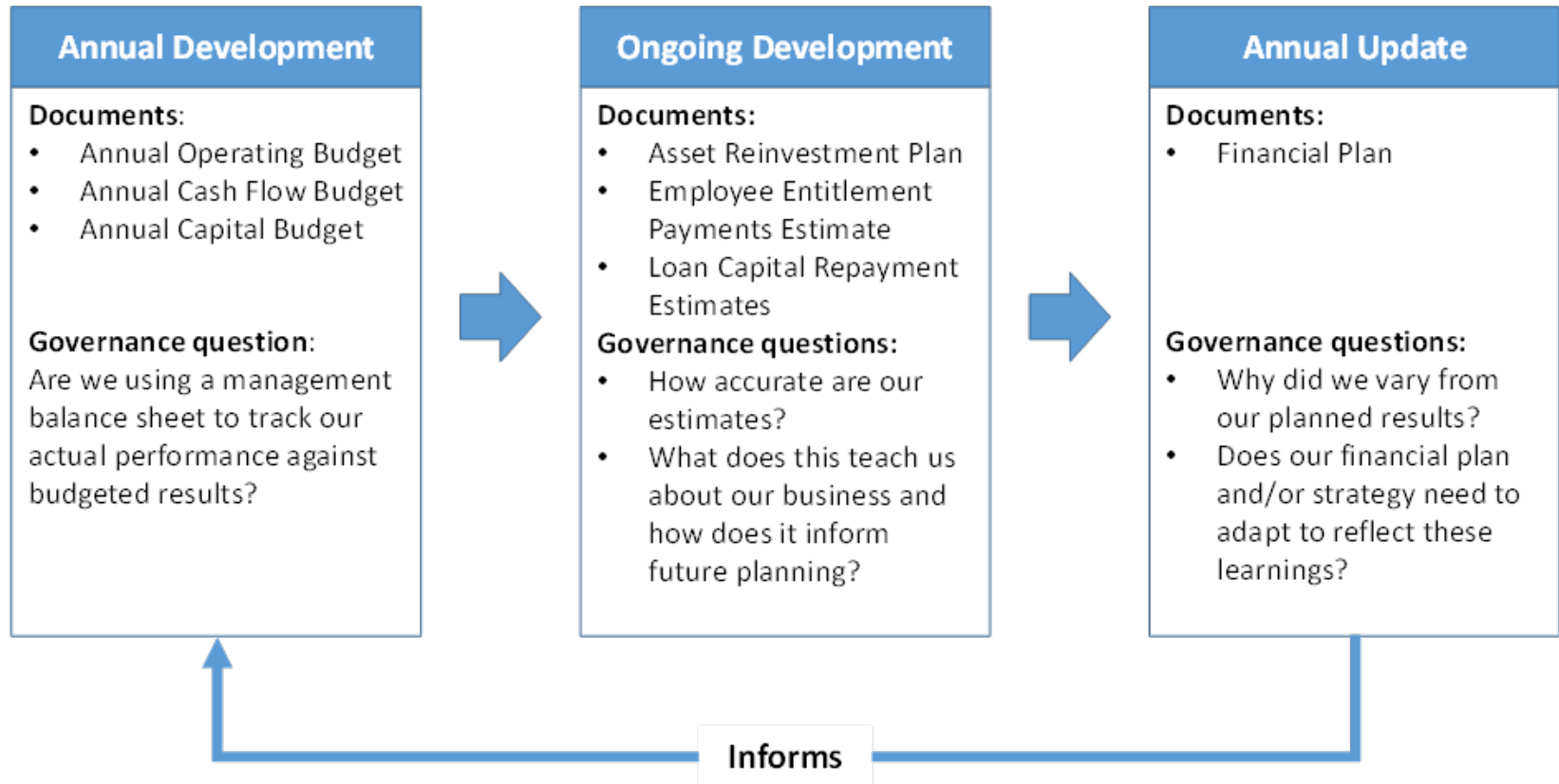


Part 4: Cash Flow Budgeting and Financial Planning

- Budgeting is well-established
- Financial planning less so
- 3 – 5 year horizon minimum



Components of Financial Plans



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<http://www.research.uwa.edu.au/not-for-profits-uwa>

Links and resources

Not-for-Profit Finance Week:

ourcommunity.com.au/NFPFinanceWeek2020

2020 NFP Treasurers Awards:

ourcommunity.com.au/NFPTreasurersAwards2020

Damn Good Advice for Chairs:

ourcommunity.com.au/chairsguide

#SaveOurSector:

communitydirectors.com.au/save-our-sector