



Australian Government
Office of the Registrar of
Indigenous Corporations

strong corporations, strong stores, strong communities

Financial analysis of stores registered under the
Corporations (Aboriginal and Torres Strait Islander) Act 2006





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Cover bush foods image courtesy Jaime Plaza/The Royal Botanic Gardens

summary

This report provides an overview of the compliance and financial trends of community stores that are owned by corporations registered under the *Corporations (Aboriginal and Torres Strait Islander) Act 2006* (CATSI Act) from 2005–06 to 2009–10.

As at 30 April 2011, a total of 61 Aboriginal and Torres Strait Islander corporations around Australia provide community store facilities.

The findings show:

- a significant increase in the level of reporting compliance under the CATSI Act
- overall growth in average annual income
- improved liquidity (as shown by an overall rise in the ratio of current assets to current liabilities)
- a rise in the percentage of stores trading profitably.

These findings are consistent with a recent report by the Department of Families, Housing, Community Services and Indigenous Affairs into stores licensing in the Northern Territory. The *Evaluation of the community stores licensing program* report was produced by the Cultural & Indigenous Research Centre Australia and released by Minister Macklin on 24 May 2011.

The report identifies that increased financial transparency under the CATSI Act has had a positive impact on the eradication of poor financial management practices of community stores.¹

¹ *Evaluation of the community stores licensing program* (final report), section: 2.3, p. 9.



what is a community store?

Community stores include general stores, roadhouses and takeaway shops. They provide fresh food and drink, however they may also provide a range of household goods and services that may include grocery items, white goods, general merchandise and fuel.

In remote Aboriginal and Torres Strait Islander communities they are often the only source of essential items and services. Without them, many communities would not have access to general everyday goods or an adequate range of fresh, reasonably priced food.

The House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs' inquiry into community stores in remote Aboriginal and Torres Strait Islander communities produced a report called *Everybody's business: remote Aboriginal and Torres Strait community stores*. It was tabled in Parliament in November 2009.

The report stated, 'It was evident to the Committee that the community stores function as much more than a shop. As well as being the primary vehicle to ensure access to affordable and nutritious food supply, it is the place where people meet to socialise and to conduct business.'²

The report also identified that, at the time of the 2006 Australian census, there were 175 community stores operating in remote Aboriginal and Torres Strait Islander communities. These fell under three main store models—community owned, government owned and privately owned.

While the report did not identify specific numbers of community stores that operated under each model, it stated that most Aboriginal and Torres Strait Islander communities 'prefer to retain ownership of the store even if the store becomes unprofitable and requires external assistance. The community store plays an important role in keeping the community informed and working cooperatively with each other. A well run store usually equates with a well run store committee.'³

community stores and corporations

The CATSI Act is Commonwealth legislation that delivers modern corporate governance standards and is supported by extensive training and public education services by the Registrar of Indigenous Corporations.

As at 30 April 2011, there were 2304 Aboriginal and Torres Strait Islander corporations around the country registered under this legislation. A total of 61 corporations own 66 community stores. Of these, 37 corporations are located in the Northern Territory, 17 in Western Australia, and seven in South Australia.

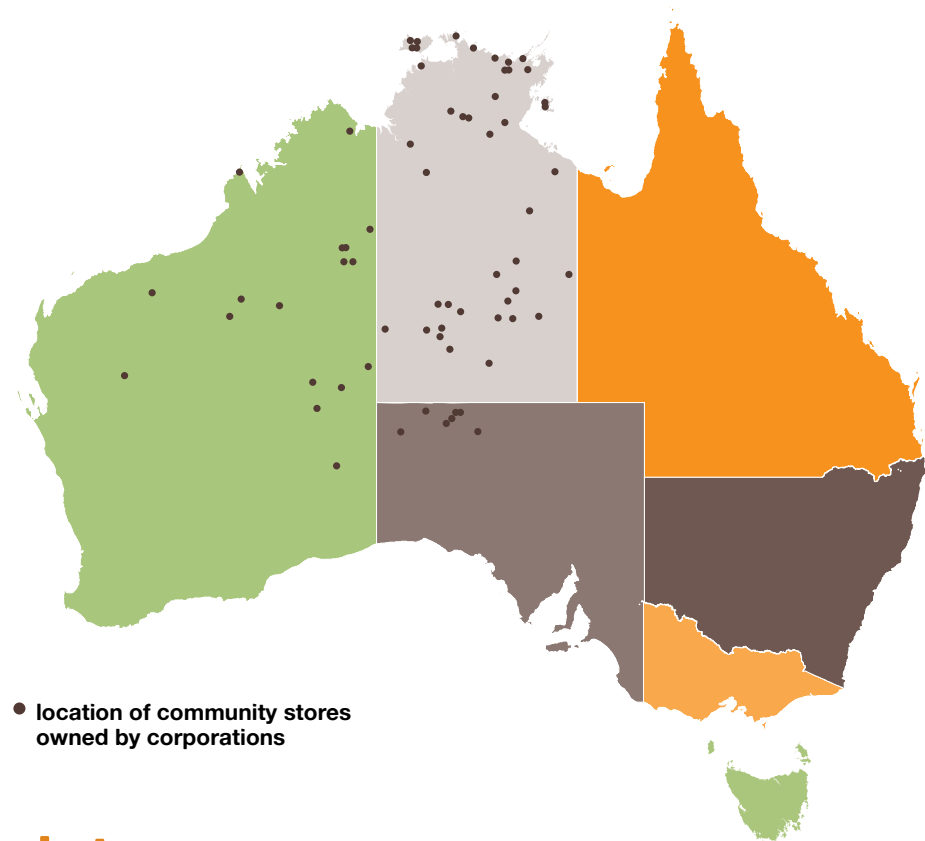
Many Aboriginal and Torres Strait Islander corporations that operate community stores also provide a range of other services to their communities, such as employment programs, housing, and land and resource management. Examples of these corporations include the Bawinanga Aboriginal Corporation, and Groote Eylandt and Bickerton Island Enterprises Aboriginal Corporation. These corporations' community stores represent a small percentage of their total operations.

Aboriginal and Torres Strait Islander-owned community stores in the Northern Territory are also subject to the licensing requirements under the *Northern Territory National Emergency Response Act 2007* (NTNER Act).

² *Everybody's business: remote Aboriginal and Torres Strait community stores*, p. vii.

³ *ibid.*, p.13.

figure 1: community stores owned by corporations, by state and territory, as at 30 April 2011



data

The data in this report comes from audited financial reports lodged with the Registrar of Indigenous Corporations by Aboriginal and Torres Strait Islander corporations. The accuracy of the data relies on the quality of the information lodged.

Averages have been calculated by using the number of corporations that have provided financial information for a particular financial year. The number of corporations that provided this information can be found as part of graphs 3 and 5. Those that did not submit, or were not required to provide, this information have been excluded from the analysis to ensure that financial information and averages remain accurate.

The Arnhem Land Progress Aboriginal Corporation (ALPA) is a large corporation that owns five community stores and manages a number of others. In November 2008 ALPA transitioned to the CATSI Act. Due to its considerable income, sales revenue and gross profit, the corporation has a significant impact on the financial trends of corporations that own community stores. As a result, analysis in tables and graphs in this report also includes analysis without ALPA's figures. This is to illustrate the gains made by other corporations.

In parts of this report the financial performance of the community stores sector has been compared against Woolworths Limited. Woolworths Limited sells similar goods to many community stores but obviously operates in a different sector of the market. The comparison is illustrative only and is not intended to indicate that community stores should be benchmarked against Woolworths Limited.

reporting compliance

Under the CATSI Act, corporations are required to lodge reports with the Registrar of Indigenous Corporations each year. Depending on registered size—small, medium or large—a corporation may be required to lodge a general report, directors' report and audited financial statements.

table 1: reporting requirements

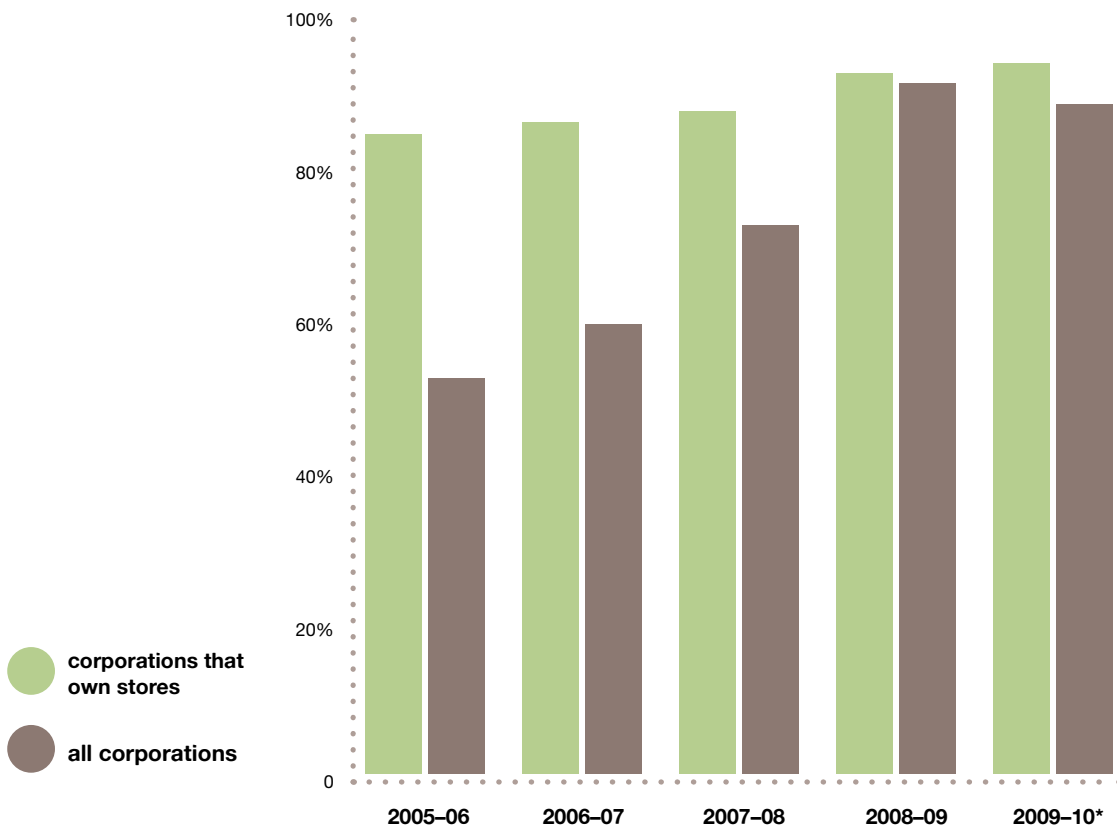
size and income of corporation	report required
Small corporations with a consolidated gross operating income of less than \$100,000.	1. General report only
Small corporations with a consolidated gross operating income of \$100,000 or more and less than \$5 million. Medium corporations with a consolidated gross operating income of less than \$5 million.	1. General report 2. Financial report and audit report or financial report based on reports to government funders (if eligible)
Large corporations or any corporation with a consolidated gross operating income of \$5 million or more.	1. General report 2. Financial report 3. Audit report 4. Directors' report

Reporting compliance for corporations that own community stores has steadily improved—see graph 1 and table 2 on the following pages. Reporting compliance for all Aboriginal and Torres Strait Islander corporations has steadily increased from 24 per cent in 2002–03 to 92 per cent in 2008–09. This increase is largely due to compliance programs, support services and, if necessary, enforcement activity initiated by the Registrar of Indigenous Corporations from 2007.

Corporations registered under the CATSI Act can access a range of specialised support services offered by the Registrar of Indigenous Corporations. This support includes face-to-face assistance and education to corporations on how to prepare and lodge reports.



graph 1: reporting compliance for corporations that own community stores and all corporations



Note: *Compliance for 2005-06 through to 2008-09 is as at 30 June where 2009-10 is as at 30 April 2011.

table 2: reporting compliance for corporations that own community stores and all corporations

	corporations that own community stores			all corporations
	number of corporations	number compliant	percentage compliant	percentage compliant
2005–06	42	36	85.7%	52.0%
2006–07	44	39	88.6%	59.1%
2007–08	46	41	89.1%	72.1%
2008–09	52	49	94.2%	92.2%
2009–10*	61	58	95.1%	87.7%

Note: *Compliance for 2005–06 through to 2008–09 is as at 30 June where 2009–10 is as at 30 April 2011.

One of the many benefits of improved compliance rates is the greater accuracy and reliability of the Register of Aboriginal and Torres Strait Islander Corporations. Improved compliance rates also raise the quality of information and analysis in ORIC's research. In turn this research may be used to influence the regulation of, and support for, Aboriginal and Torres Strait Islander corporations.

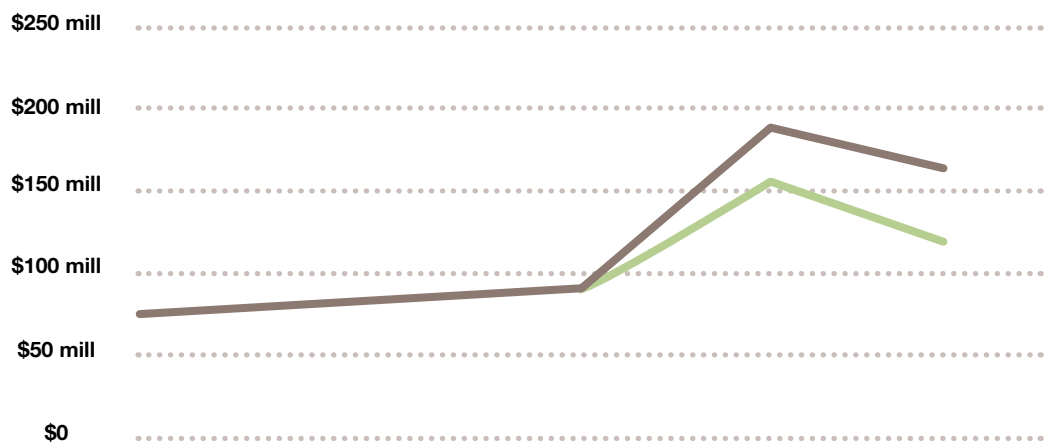
Compliance with reporting requirements promotes greater transparency in corporate activities. It also contributes to members, communities, creditors, investors and government agencies having greater confidence in the governance practices of registered corporations.



income

In this report 'income' means total revenue from all activities reported by corporations in their audited financial statements. Total income, rather than store income, is used so as to demonstrate the overall financial performance of corporations that own community stores.

graph 2: total income generated by corporations that own community stores



- total income
- total income (excluding ALPA*)

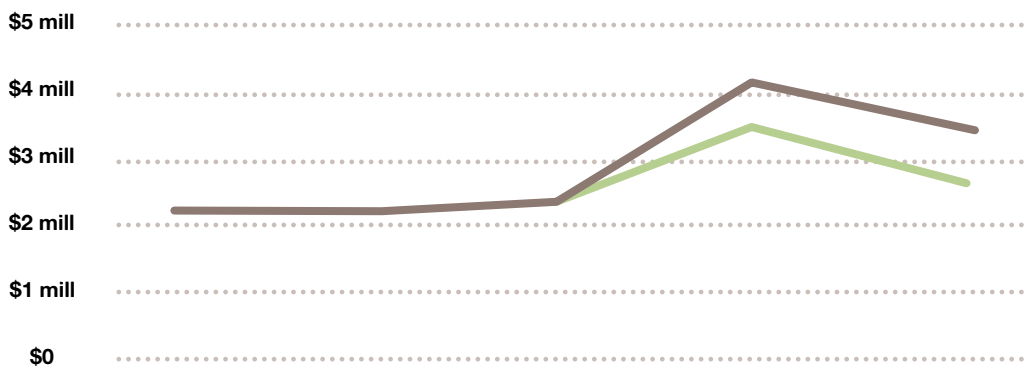
Note: *ALPA transitioned to the CATSI Act in November 2008.

ALPA's transition to the CATSI Act and a large injection of royalty payments to a second corporation partially accounts for the spike in income reported by corporations for 2008-09.

The downward turn in total income during 2009-10 is largely due to the royalty payments to that second corporation falling markedly, from \$46.8 million in 2008-09 to \$23.9 million in 2009-10.

Analysis shows similar trends in average income across the same period—see graph 3.

graph 3: average income generated by corporations that own community stores



- average income**
 no. of corporations used to calculate average

- average income (excluding ALPA*)**
 no. of corporations used to calculate average

	2005-06	2006-07	2007-08	2008-09	2009-10
average income	\$2,016,918	\$2,015,377	\$2,327,484	\$4,101,866	\$3,686,313
no. of corporations used to calculate average	38	40	40	47	45
average income (excluding ALPA*)				\$3,306,801	\$2,794,600
no. of corporations used to calculate average				46	44

Note: Averages have been calculated by using the number of corporations that have provided information about income for a particular year. Some corporations that are compliant are not required to submit financial reports. For more explanation see page 3 and the table of reporting requirements on page 4.

*ALPA transitioned to the CATSI Act in November 2008.

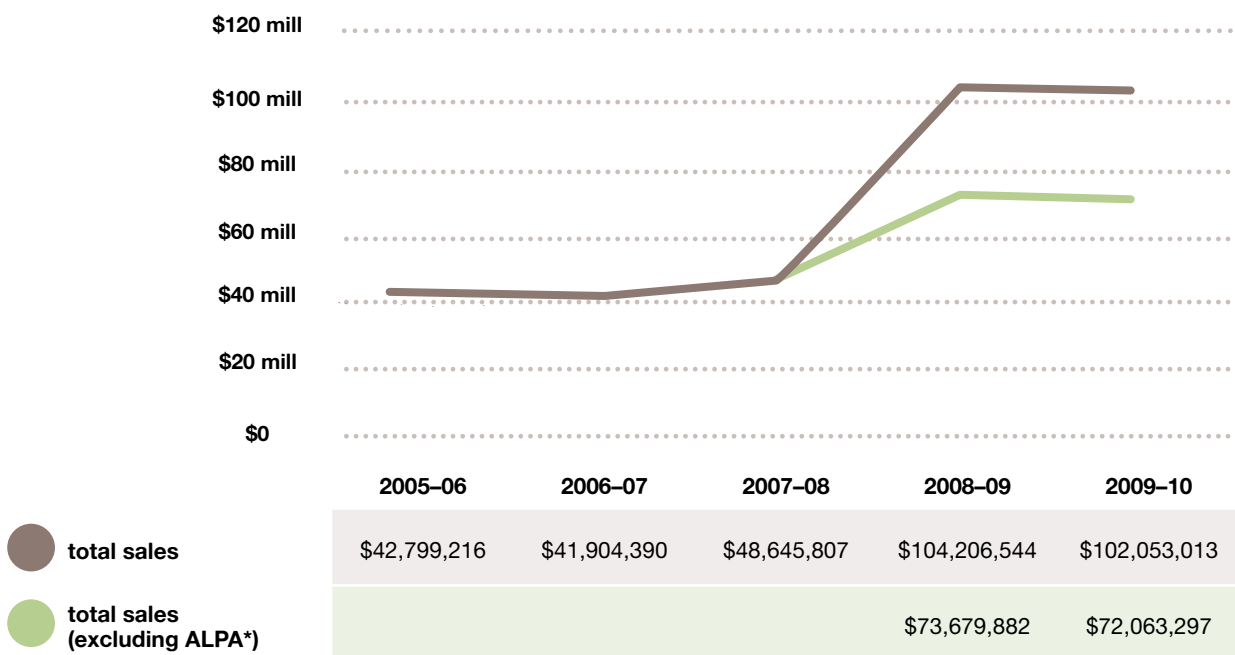


community store sales

For the purposes of the analysis in this report, 'sales' is the revenue received from the sale of items from the community store enterprise of corporations registered under the CATSI Act.

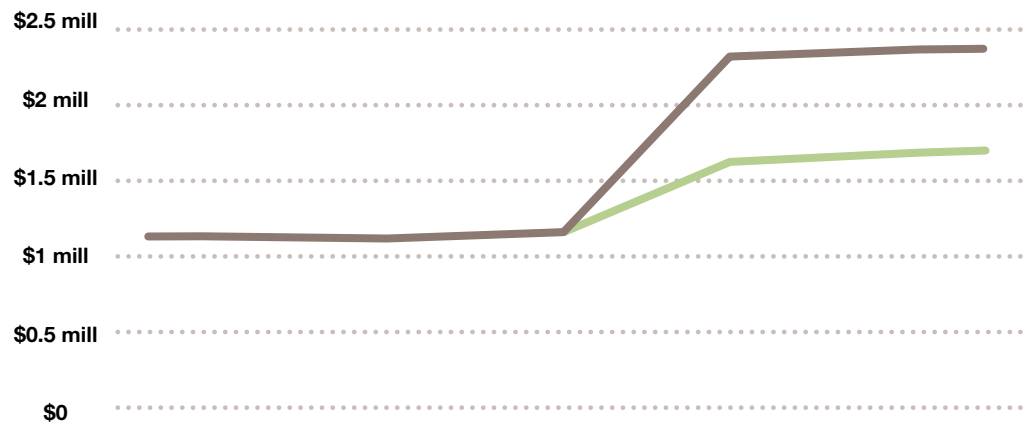
As graphs 4 and 5 show, total and average sales in community stores continue to increase. This also reflects the demand for essential items by local Aboriginal and Torres Strait Islander communities.

graph 4: total sales in community stores



Note: *ALPA transitioned to the CATSI Act in November 2008.

graph 5: average sales in community stores



average sales revenue

no. of corporations used to calculate average

average sales revenue (excluding ALPA*)

no. of corporations used to calculate average

	2005-06	2006-07	2007-08	2008-09	2009-10
average sales revenue	\$1,188,867	\$1,102,747	\$1,186,483	\$2,315,701	\$2,373,326
no. of corporations used to calculate average	36	38	41	45	43
average sales revenue (excluding ALPA*)				\$1,674,543	\$1,715,793
no. of corporations used to calculate average				44	42

Note: Averages have been calculated by using the number of corporations that have provided information about sales revenue for a particular year. Some corporations that are compliant are not required to submit financial reports. For more explanation see page 3 and the table of reporting requirements on page 4.

*ALPA transitioned to the CATSI Act in November 2008.



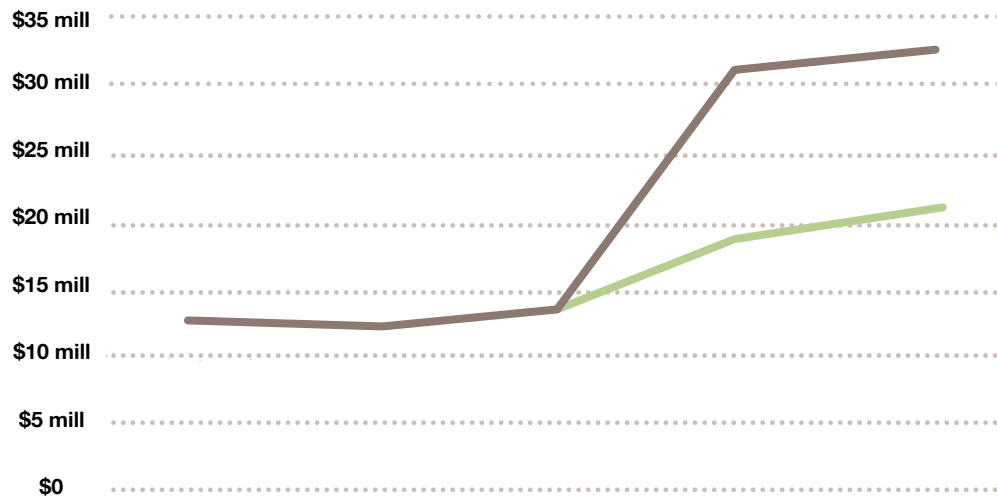
gross profit from community store sales

'Gross profit' is what remains from sales after a community store enterprise pays out the cost of goods sold. In this report gross profit is calculated by subtracting the cost of goods sold by the community store enterprise of corporations from the total sales figure. It can be simply expressed as:

gross profit = sales – cost of goods sold

Total gross profit has continued to increase across community stores owned by corporations, as graph 6 below shows.

graph 6: rise in gross profit across community stores owned by corporations



- total gross profit
- total gross profit (excluding ALPA*)

Note: *ALPA transitioned to the CATSI Act in November 2008.

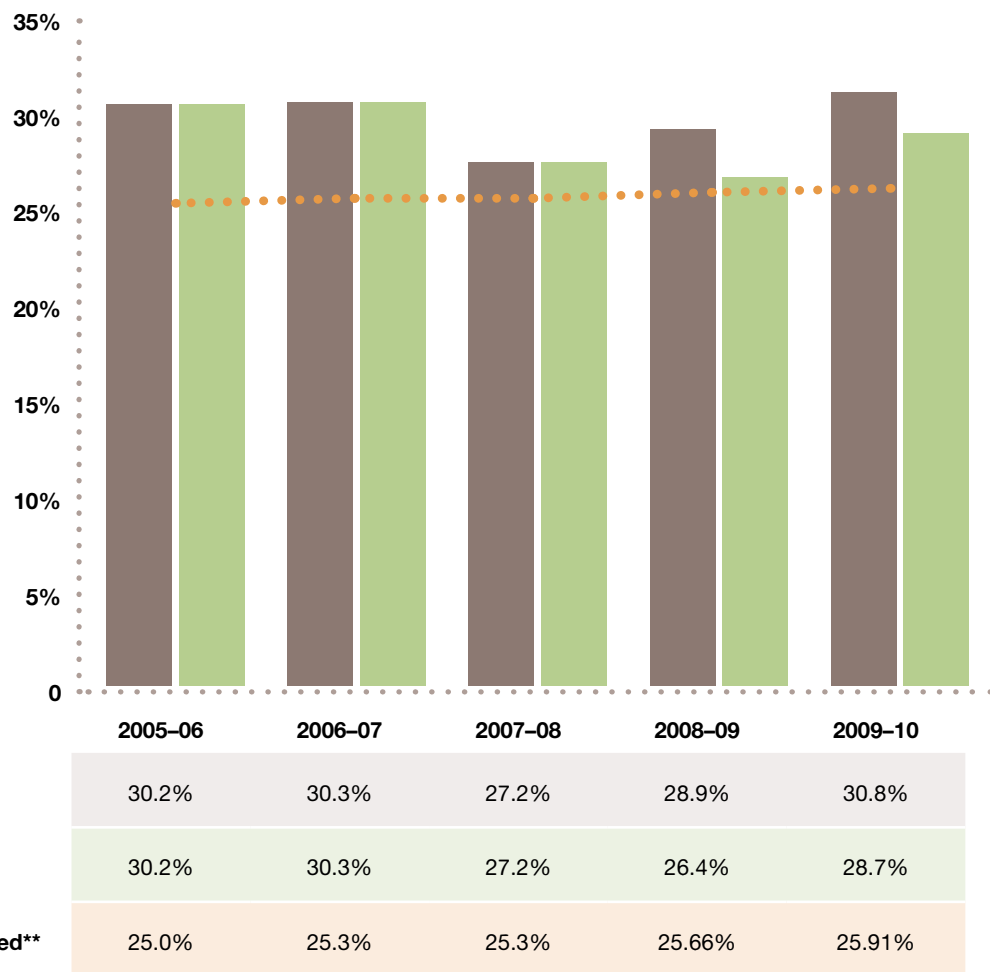
'Gross profit margin' is the gross profit on each dollar of sales earned before taking into account operating expenses. It shows the proportion of revenue left after the cost of goods sold has been paid. It is expressed as a percentage. Gross profit margins can be used to compare the profitability of companies in the same industry.

The formula is:

gross profit margin = (sales – cost of goods sold) ÷ sales x 100

As illustrated in graph 7, community stores owned by corporations registered under the CATSI Act have continued to report solid gross profit margins throughout the sample period. This compares favourably with gross profit margins recorded by Woolworths Limited, which operates in the mainstream grocery market. The gross profit margin for Woolworths Limited includes sales from all parts of its business as per publicly available financial information. Once again the Woolworths Limited figures are illustrative only and are not intended as a benchmark for the community stores sector.

graph 7: gross profit margins in corporations that own community stores



Note: *ALPA transitioned to the CATSI Act in November 2008.

**Sourced from the Woolworths Limited *Annual report 2008*, Woolworths Limited *Annual report 2010* and www.woolworthslimited.com.au.

current ratio

The current ratio is widely used to measure the short-term liquidity of a corporation. It is also known as the working capital ratio as it is also a measure of the working capital position of a corporation.

It is calculated as:

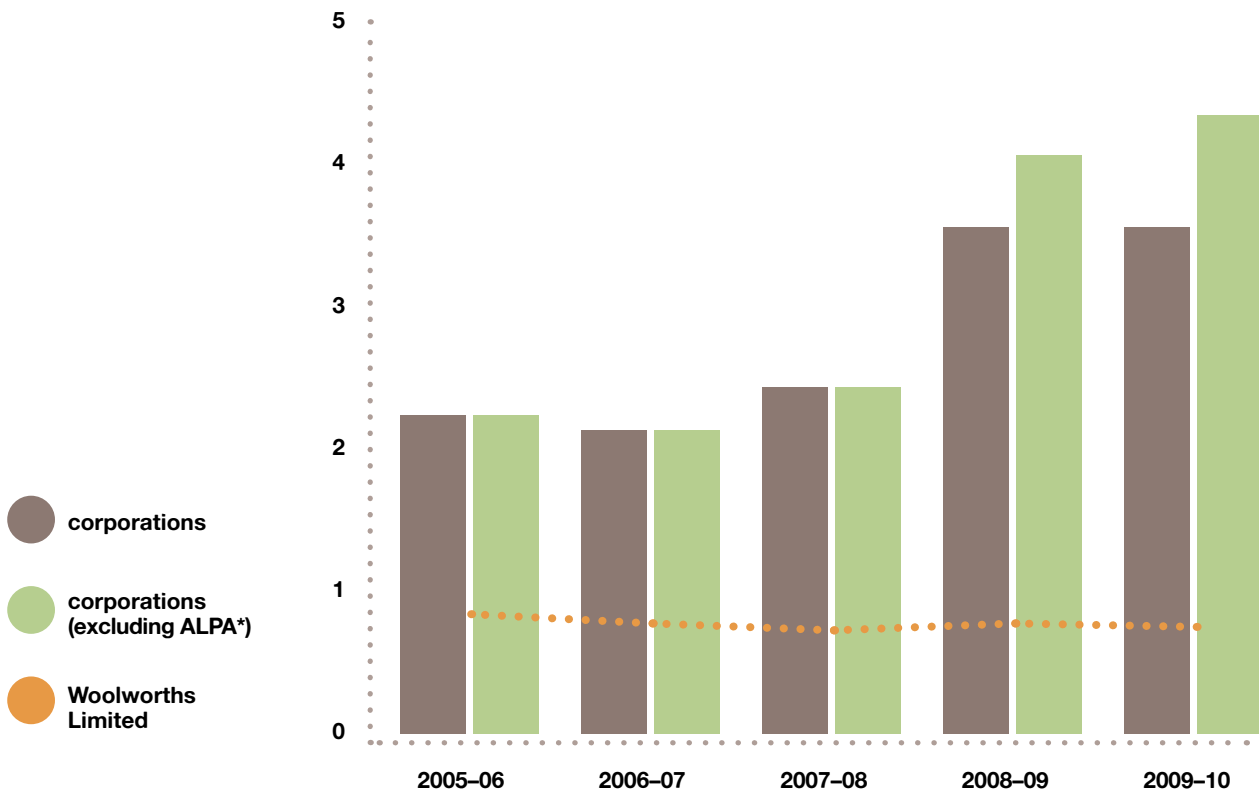
current ratio = current assets ÷ current liabilities

Total current assets and liabilities of corporations, rather than store current assets and liabilities, are used so as to demonstrate the overall short-term financial position of those corporations that own community stores.

Where a corporation has current assets at more than twice its current liabilities (>2:1), the corporation is generally considered to have strong short-term financial strength.




Graph 8 and table 3 show the continued improvement in the current ratio of corporations that own community stores. Woolworths Limited is included in both to provide an inter-industry comparison. Generally larger businesses, such as Woolworths Limited and ALPA, can maintain lower current ratios than smaller businesses.

graph 8: current ratio of corporations that own community stores



Note: *ALPA transitioned to the CATSI Act in November 2008.

table 3: current ratio of corporations that own community stores

	2005-06	2006-07	2007-08	2008-09	2009-10
 corporations	2.2:1	2.1:1	2.3:1	3.5:1	3.5:1
 corporations (excluding ALPA*)	2.2:1	2.1:1	2.3:1	4.1:1	4.2:1
 Woolworths Limited**	0.84:1	0.76:1	0.70:1	0.76:1	0.73:1

Note: *ALPA transitioned to the CATSI Act in November 2008.

**Source: <http://investing.businessweek.com/research/stocks/financials/ratios.asp?ticker=WOW:AU>

While Woolworths Limited has a lower current ratio reports demonstrate that it holds significant non-current assets in the form of land and commercial properties.



community stores operating with a trading loss

In this report 'trading loss' means a loss in the trading account which arises when the cost of sales exceeds total sales revenue.

During 2008–09 and 2009–10 there has been a reduction in the percentage of community store enterprises reporting a trading loss. This could be indicative of the strength of community stores transferring to the CATSI Act as well as improvements in the financial performance of community stores across the sector.

table 4: corporations that own community stores operating with a trading loss

	2005–06	2006–07	2007–08	2008–09	2009–10
number of community stores operating with a trading loss	1	1	3	3	2
percentage of community stores operating with a trading loss	2.8%	2.6%	7.3%	6.7%	4.7%

Note: There was an increase in stores reporting a loss from 2007–08. This trend coincides with increased requirements for financial transparency applied under the CATSI Act.

In some Aboriginal and Torres Strait Islander communities a store is a community service rather than a profit-making business. During 2008–09 and 2009–10 the operational costs of one community store were subsidised by other corporation business activities, including the receipt of substantial royalty funds. It is worth noting that this economic gain from royalties appears to be used to provide social welfare for the entire community through lower prices and demonstrates the important role corporations registered under the CATSI Act play in communities.

community stores in the Northern Territory

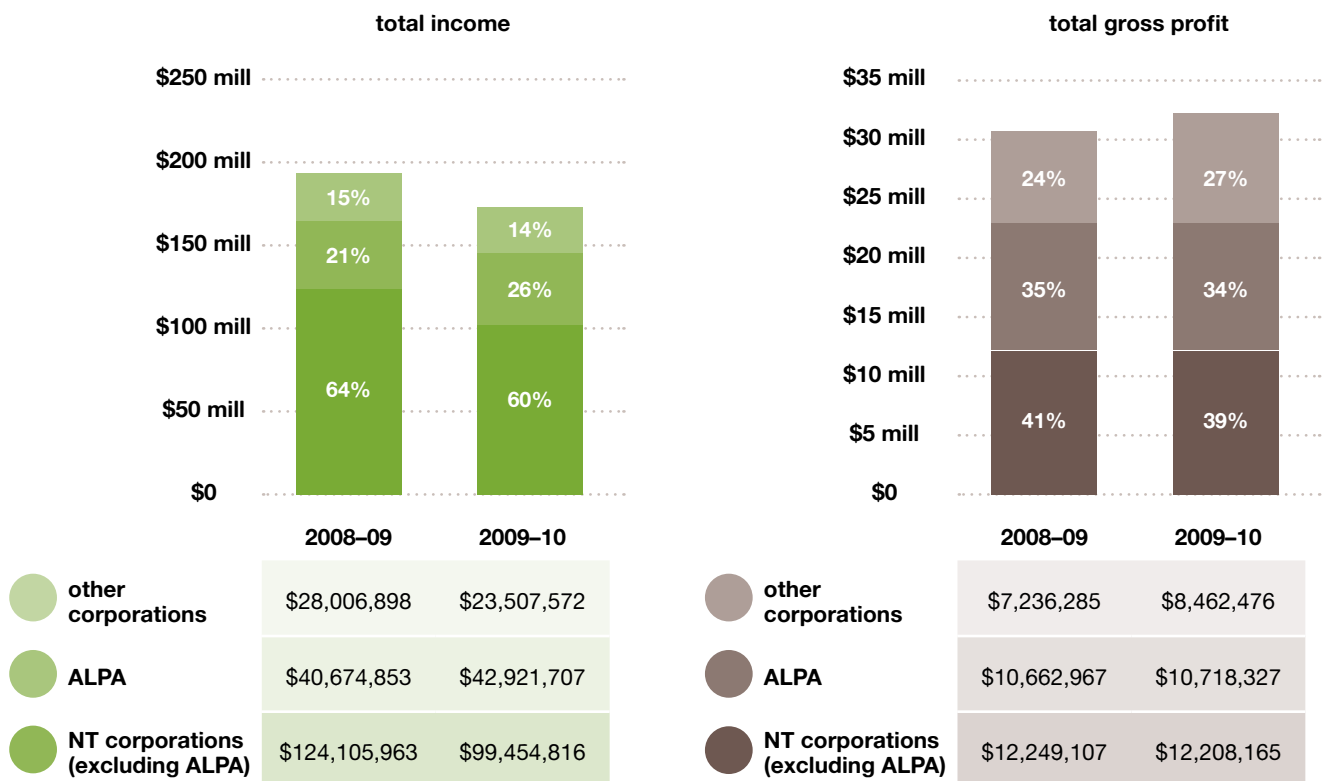
It is a requirement in the Northern Territory for community stores in prescribed areas to hold licences under the *Northern Territory National Emergency Response Act 2007* (NTNER Act). As at 30 April 2011, there were 37 corporations registered under the CATSI Act that owned community stores in the Northern Territory. These corporations own 42 stores that are licensed. This equates to 60.7 per cent of all corporations that own community stores.

During 2008–09 and 2009–10 the Northern Territory corporations generated a large proportion of the total income of all corporations that own community stores. Northern Territory community stores owned by corporations were also responsible for a large proportion of total gross profit.

On 24 May 2011 the Hon. Jenny Macklin, MP, Minister for Families, Housing, Community Services and Indigenous Affairs, released a report into store licensing in the Northern Territory. The report (*Evaluation of the community stores licensing program*) was prepared by the Cultural & Indigenous Research Centre Australia (CIRCA). The report notes that community stores that have transferred to the CATSI Act:

- increase financial transparency due to reporting requirements
- are provided with corporate governance training by the Registrar of Indigenous Corporations
- are better supported and regulated than associations registered under the *Associations Act* (NT).

graph 9: total income of corporations that own community stores and total gross profit of community stores owned by corporations—Northern Territory compared to others



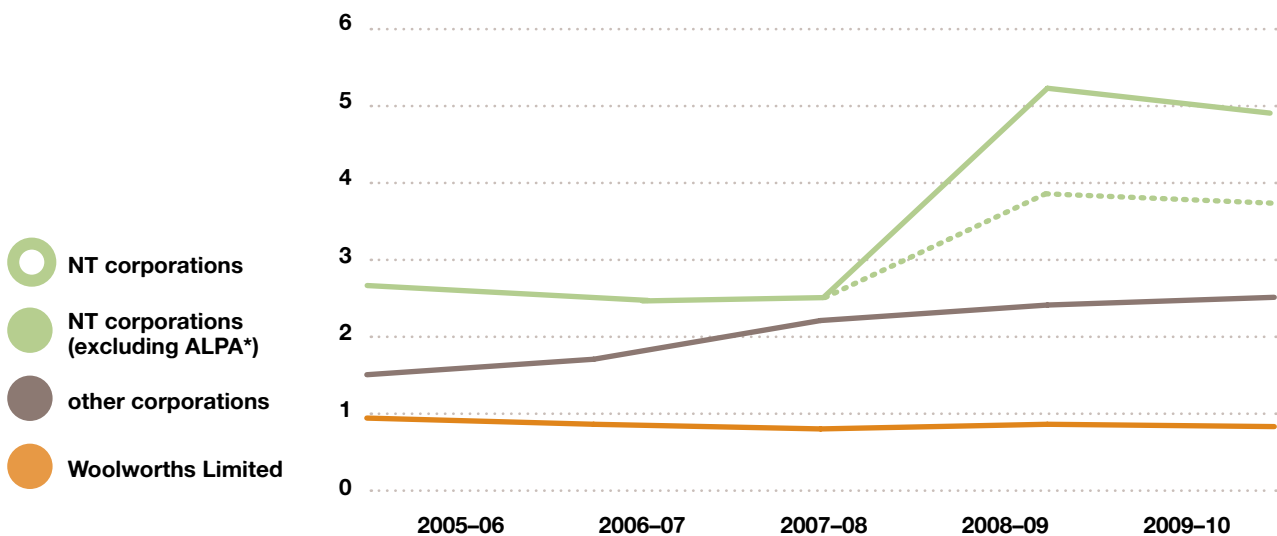
Corporations that own stores in the Northern Territory demonstrate a higher average current ratio than those located in other states. They also sit above Woolworths Limited—see table 5 and graph 10. This suggests improved financial strength in part due to a larger average size and the ability to generate greater sales revenue.

table 5: current ratio of corporations that own community stores—Northern Territory compared to others

	2005–06	2006–07	2007–08	2008–09	2009–10
○ NT corporations	2.7:1	2.5:1	2.5:1	3.9:1	3.8:1
● NT corporations (excluding ALPA*)	2.7:1	2.5:1	2.5:1	5.1:1	4.9:1
● other corporations	1.4:1	1.6:1	2.1:1	2.3:1	2.4:1
● Woolworths Limited	0.84:1	0.76:1	0.70:1	0.76:1	0.73:1

Note: *ALPA transitioned to the CATSI Act in November 2008.

graph 10: current ratio of corporations that own community stores—Northern Territory compared to others



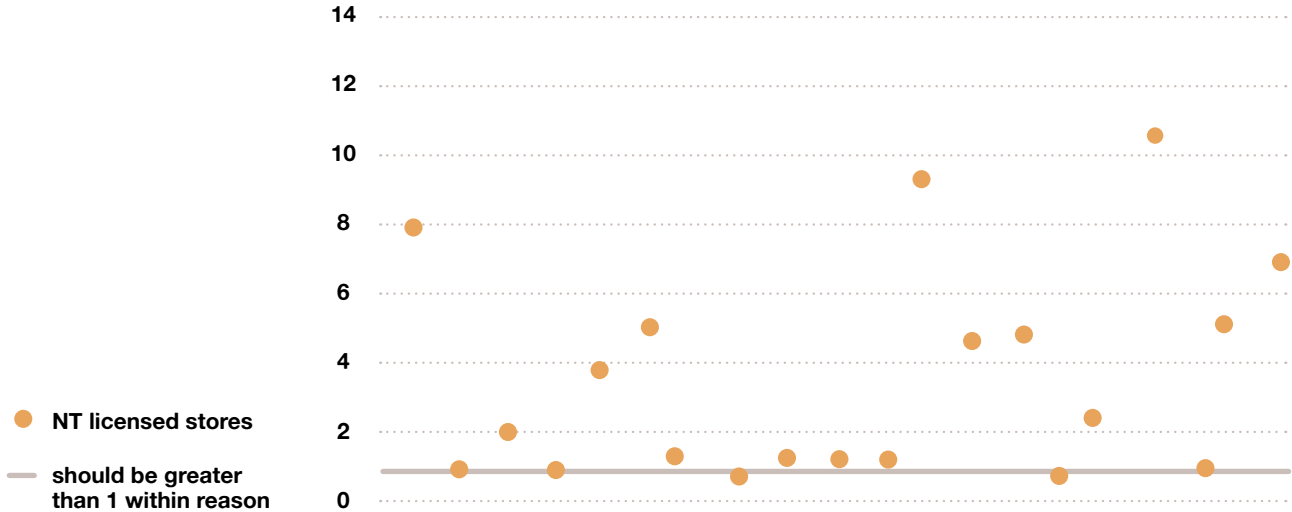
Note: *ALPA transitioned to the CATSI Act in November 2008.

CIRCA's *Evaluation of the community stores licensing program* report found that the majority of licensed stores in the Northern Territory reported a current ratio equal to or greater than the recommended minimum ratio of 1:1.⁴

While only providing analysis on a sample of 20 community stores, the CIRCA report demonstrates that approximately 80 per cent of community stores exceeded the baseline of 1:1—see graph 11.

⁴ *Evaluation of the community stores licensing program* (final report), section: 3.5, p. 22.

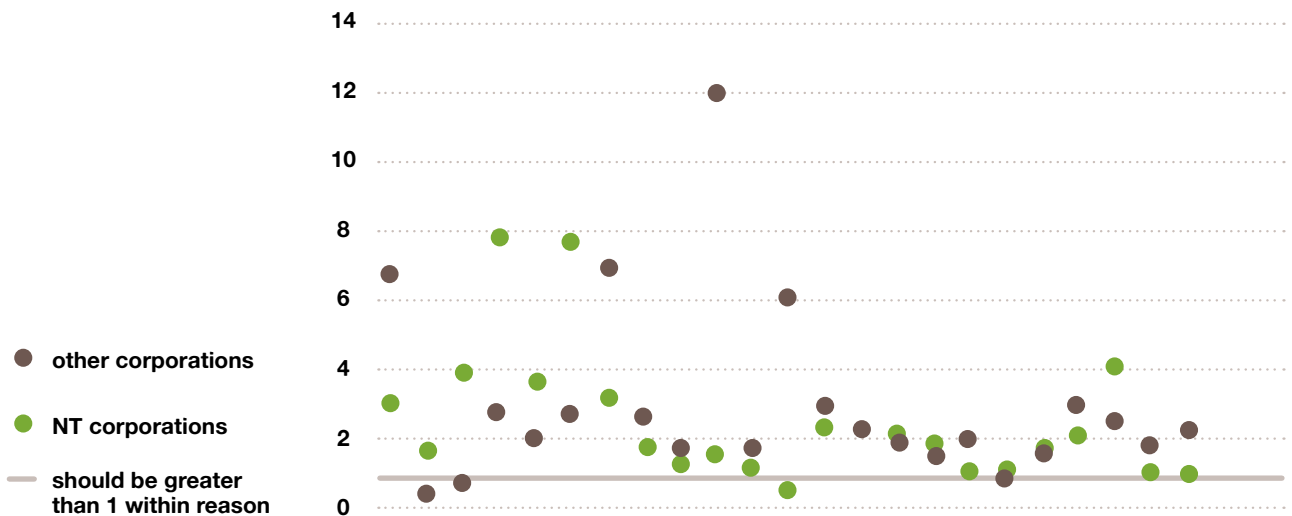
graph 11: current ratios of a sample of community stores licensed under the NTNER Act (CIRCA report 2011)



Note: Extracted from CIRCA's *Evaluation of the community stores licensing program* (final report), section: 3.5, p. 24. The current ratio is for July to December 2010. The report included stores incorporated under the CATSI Act, Associations Act (NT) and the Corporations Act 2001.

Analysis of the current ratio of corporations registered under the CATSI Act that own community stores shows that these corporations have liquidity levels more favourable than those noted in the *Evaluation of community stores licensing program*. Assessment of the current ratios of these corporations demonstrates that approximately 90 per cent reported liquidity levels higher than the baseline of 1:1—see graph 12.

graph 12: current ratios of corporations registered under the CATSI Act that own community stores



Note: As at 30 April 2011, there were 61 corporations registered under the CATSI Act that owned community stores. The current ratio for 45 of these during 2009–10 are plotted in this graph. Of those excluded, 13 were not required to provide audited financial statements for the period and three were yet to lodge their financial information.

support services

The Registrar of Indigenous Corporations has a strong commitment to providing corporate governance training. Representatives from all corporations registered under the CATSI Act are encouraged to participate in the Registrar's three-day Introduction to Corporate Governance training program. This program focuses on improving the skills, governance and management of corporations by building the capacity of members, directors and key staff.

In the Northern Territory, the Registrar of Indigenous Corporations delivered a program of three-day Building Strong Stores workshops which were aimed at assisting Aboriginal and Torres Strait Islander leaders to run profitable and viable community stores. This was delivered in partnership with the Department of Families, Housing, Community Services and Indigenous Affairs to community stores which are licensed under the NTNER Act. Community stores did not need to be registered under the CATSI Act to be eligible for this program.

In addition to training, the Registrar of Indigenous Corporations also provides a range of other services including:

- Complaints and dispute management services
- LawHelp—a scheme which can provide access to pro-bono legal assistance
- ORIC Recruitment Assistance (ORA)—a service which helps corporations build capacity by recruiting and keeping suitably skilled and experienced staff.



conclusion

The financial trends identified in this report highlight the ongoing improvements made by corporations registered under the CATSI Act that provide community store services. Corporations have demonstrated:

- high levels of compliance
- increased transparency of financial management and governance practices
- improved financial performance.

These findings reflect those identified in the *Evaluation of the community stores licensing program* report, particularly that, in some cases, increased financial transparency has had a positive impact on the elimination of poor financial management practices.⁵

⁵ *Evaluation of the community stores licensing program* (final report), section: 3.5, p. 25.

