



# Not-for-profit accounting & reporting issues

Part 1

16 March 2021

# Your facilitators are...

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**Julie Locke**



**Stephen Isaac**



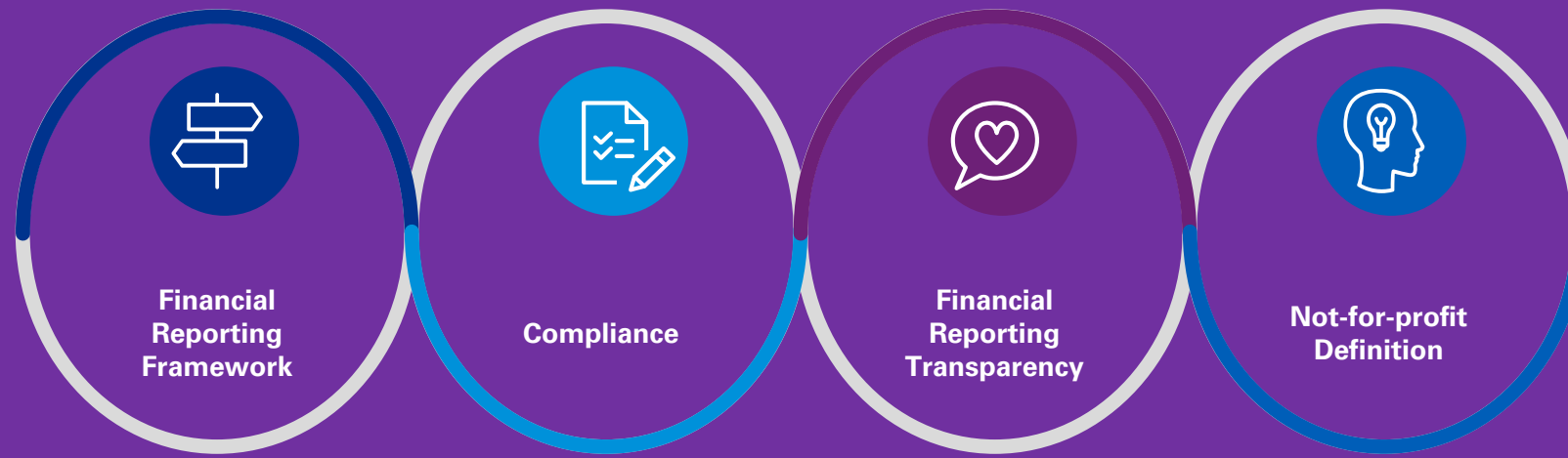
**Shara Learmonth**



**Catherine Dean**



# Not-for-profit accounting & reporting context





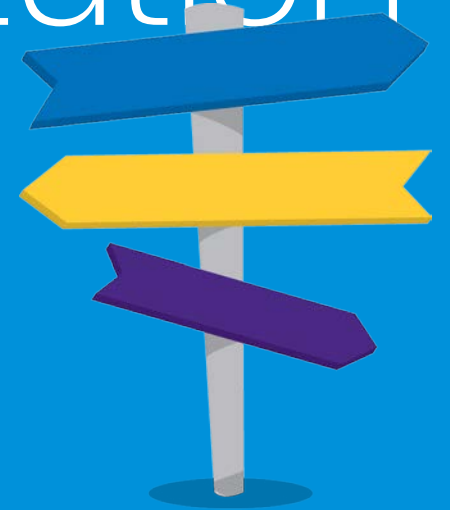
# Agenda

- **Income recognition – Practical implementation issues**
- **Transparency in financial reporting**
- **Tax and regulatory issues**
- **Wrap up**

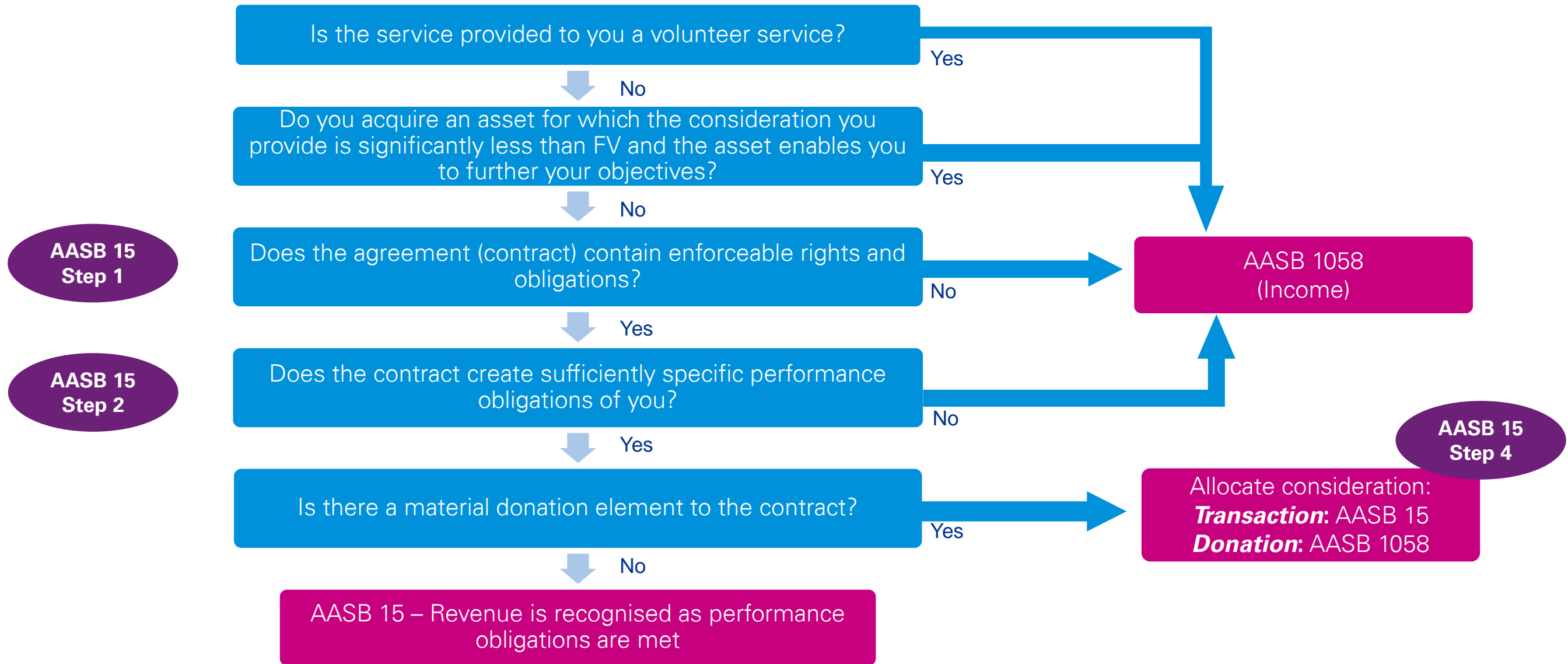




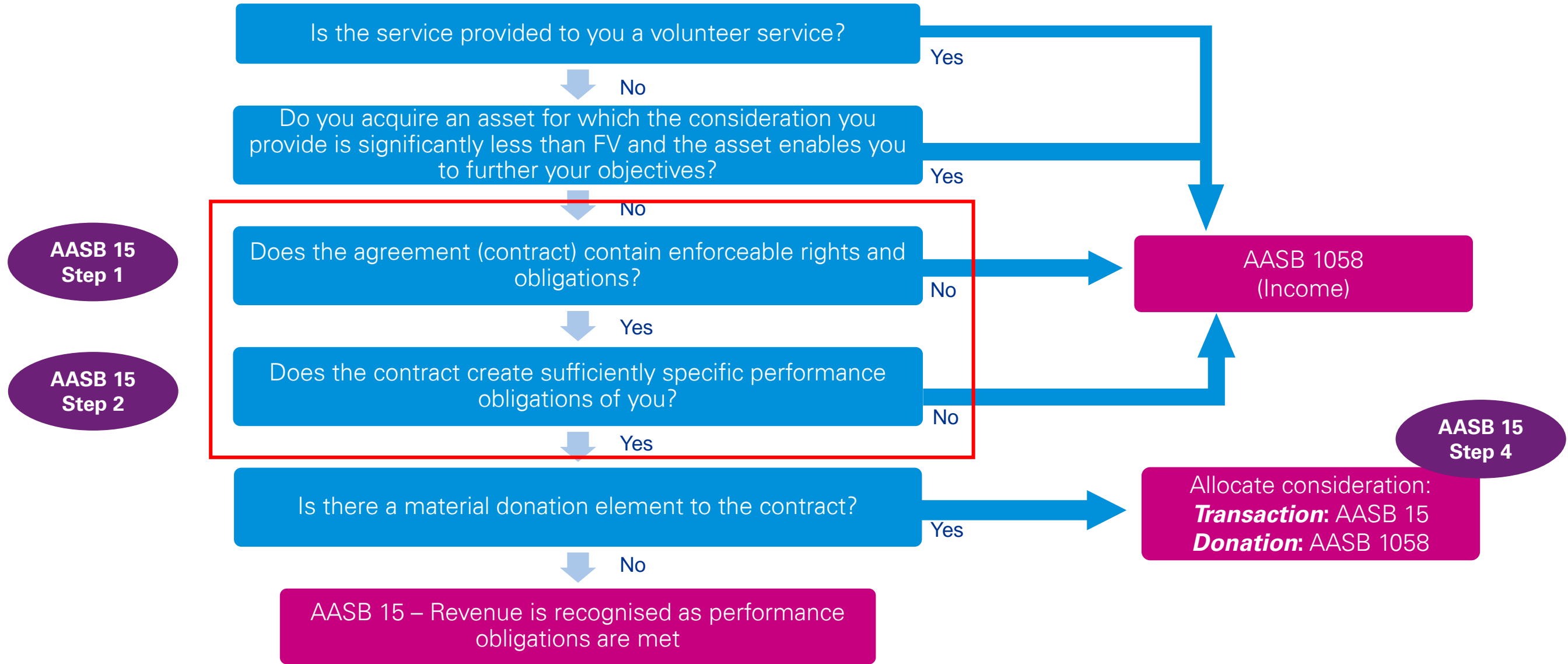
# Income recognition - practical implementation issues



# What to apply: AASB 15 or AASB 1058?



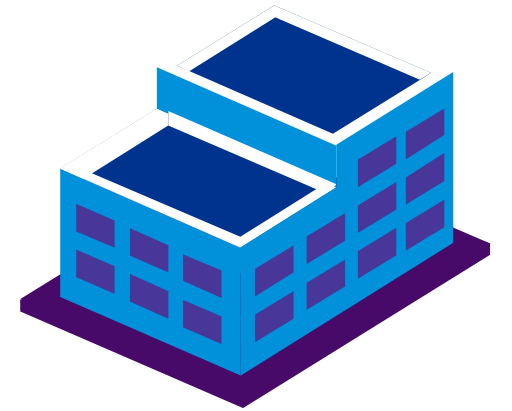
# What to apply: AASB 15 or AASB 1058?



# Enforceable and sufficiently specific - Example

Artful Arts Council receives a \$2 million donation

- Donation will partially fund construction of new art gallery
- Art gallery to be used by Artful Arts Council in achieving its objectives
- Donation refundable if not used for the purposes expressed in the agreement
- Donor promised a plaque to acknowledge contribution that will hang somewhere within building, for 10 years



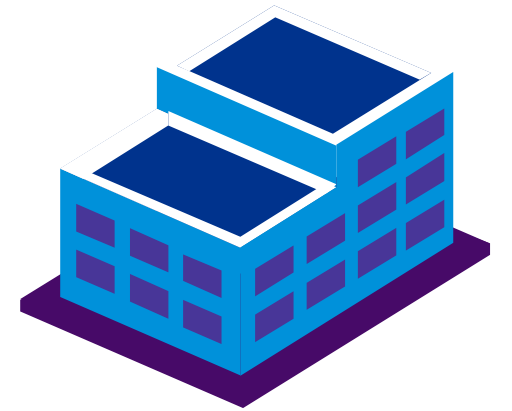
**Q: Is there a sufficiently specific performance obligation relating to providing the plaque?**



# Enforceable and sufficiently specific - Example

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- Donor promised a plaque to acknowledge contribution that will hang somewhere within building, for 10 years



**Q: Is there a sufficiently specific performance obligation relating to providing the plaque?**

- What would happen if the plaque is not hung for the promised 10 year period?
- What value would be attributed to hanging of the plaque?

# Enforceable and sufficiently specific



## What if...

- Corporate entity provided the donation

- Naming rights of the new gallery were given to the corporate as recognition instead of a plaque

- Donor is given free tickets to future exhibitions

# Deductible Gift Recipient (DGR) status - income accounting

A deductible gift recipient (DGR) is an entity or fund that can receive tax deductible gifts and contributions (i.e. donor may claim a tax deduction).

Broadly speaking:

- A gift is a donation of money or property made voluntarily with no material benefit to the donor. It must fall within the ATO definition of a 'gift type'.
- If you receive a material benefit – that is if the donor receives something which has a monetary value from the DGR in return for their donation – the donation is called a contribution.



# Deductible Gift Recipient (DGR) status - income accounting



\$100 Cash donation to be used as NFP determines – tax deduction for donor



\$300 Fundraising dinner ticket – partial tax deduction for donor



\$1,000 Sponsorship of the fundraising dinner – corporate expense to sponsor

# Deductible Gift Recipient (DGR) status - income accounting



\$100 Cash donation to be used as NFP determines – tax deduction for donor

Enforceable?

x



AASB 1058 – income immediately



\$300 Fundraising dinner ticket – partial tax deduction for donor

Enforceable?

✓



Sufficiently specific?

x / ✓

AASB 15/ 1058 – allocation consideration



\$1,000 Sponsorship of the fundraising dinner – corporate expense to sponsor

Enforceable?

✓

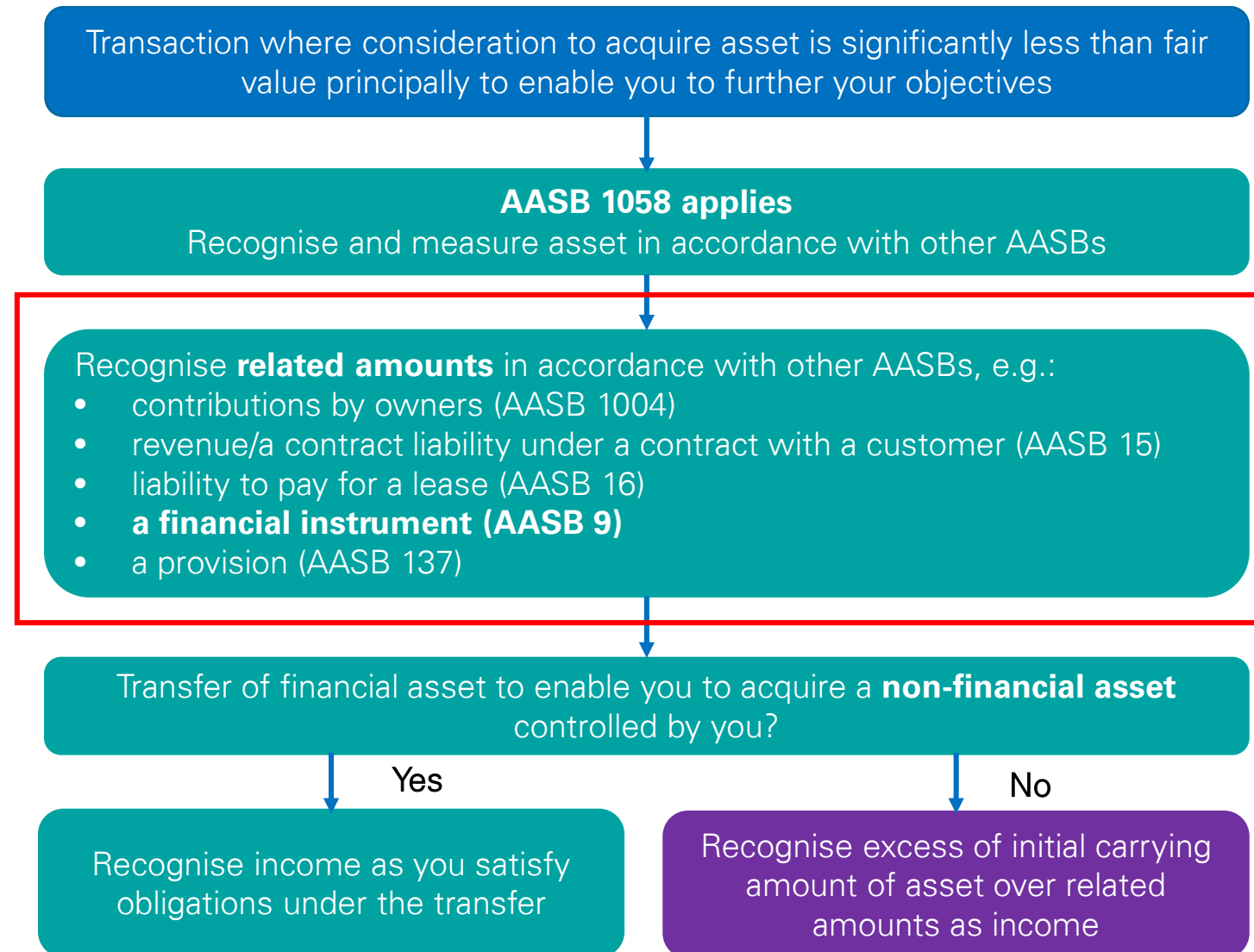


Sufficiently specific?

✓

AASB 15 – over-time or point-in-time

# AASB 1058: Recognition of a financial liability



# AASB 1058: Recognition of a financial liability - Example

- Foundation supports domestic violence victims
- Foundation raises money that is given to specific charitable organisations providing services directly to victims of domestic violence
- Agreement between donor and Foundation:
  - Funding use – capital expenditure on accommodation facility for victims of domestic violence. No connection to Foundation
  - Donor will provide cash on 1 April 2021
  - Funding amount of \$5 million
  - 5% may be retained for administration costs

**Q: Should the \$5 million donation be recognised as a financial liability on 1 April 2021?**

# AASB 1058: Recognition of a financial liability - Example

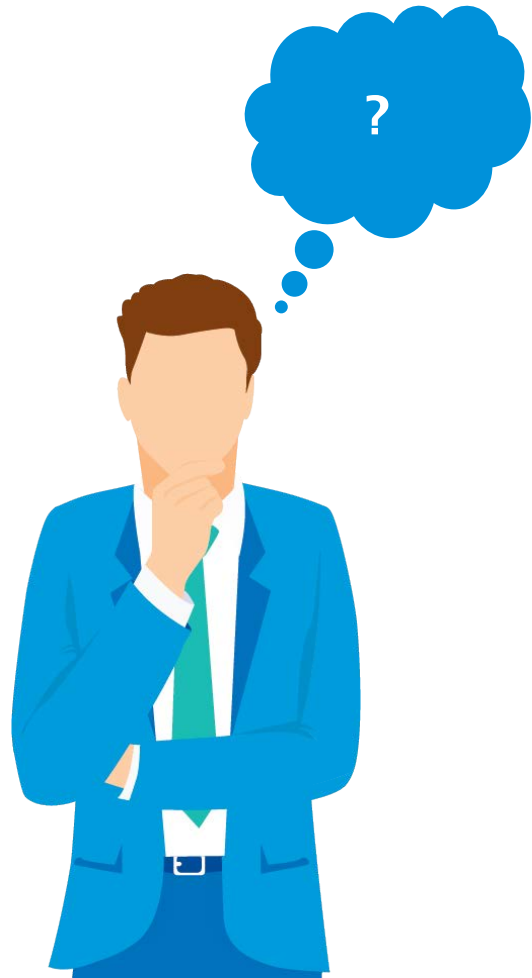
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**Q: Should the \$5 million donation be recognised as a financial liability on 1 April 2021?**

 Who receives the funding?	→	Foundation to decide
 Timing of payment(s) by Foundation?	→	Foundation to decide
 Amount(s) of payments?	→	Foundation to decide



# AASB 1058: Recognition of a financial liability



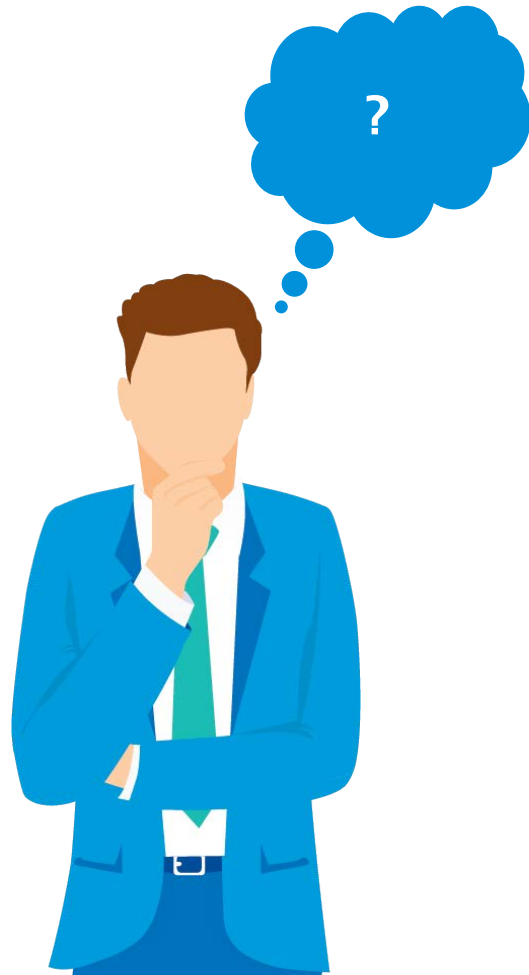
## What if...

- Recipients of funding from Foundation had to meet certain, specific, objective criteria set out in the agreement
- Funding was required to be provided to first applicant that met the criteria
- Specific amounts and dates for disbursement of funding to recipients set out in the agreement

# AASB 1058: Recognition of a financial liability

**Broader impact:  
Income statement  
"collapse"**

## What if...



- Recipients of funding from Foundation had to meet certain, specific criteria set out in the agreement

- Funding was required to be provided to first applicant that met the criteria

- Specific amounts and dates for disbursement of funding to recipients set out in the agreement



# Transparency in financial reporting



# Transparency in financial reporting

## The trends today...



- Global push for more transparency in reporting



- Acceptance that the financial statements alone do not provide enough information to determine performance



- The global uptake of Integrated Reporting <IR> has been growing, as a means to help organisations better communicate the value they create and to demonstrate how they are set up to be sustainable in the long term

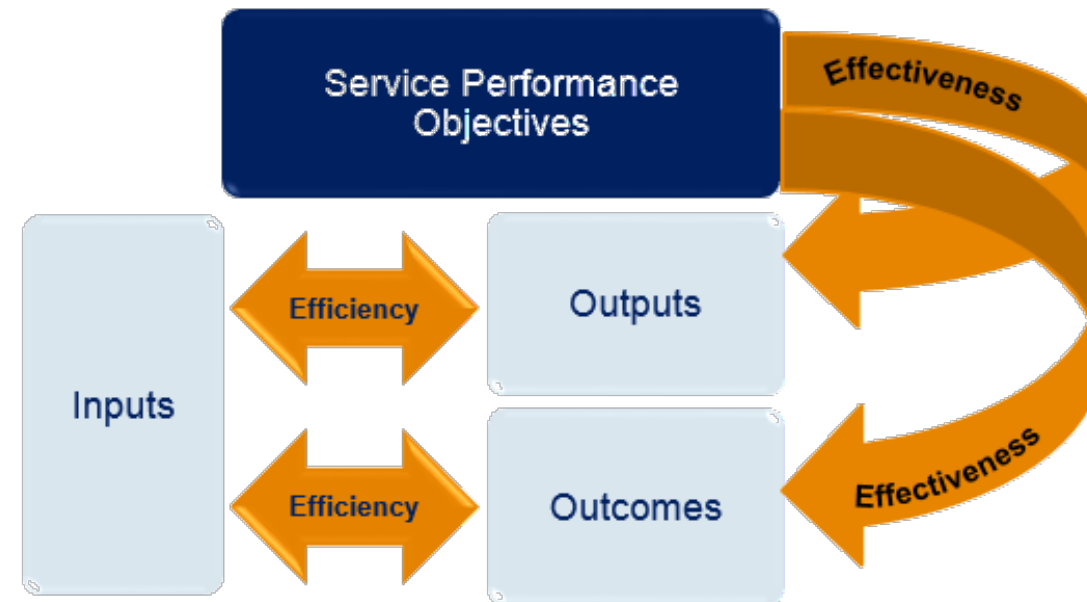
# Local developments in reporting

## Key developments

- New definition of a NFP entity
- NFP Financial Reporting Framework
- Restarting the Service Performance Reporting (ED 270) project

## Service Performance Reporting (ED 270)

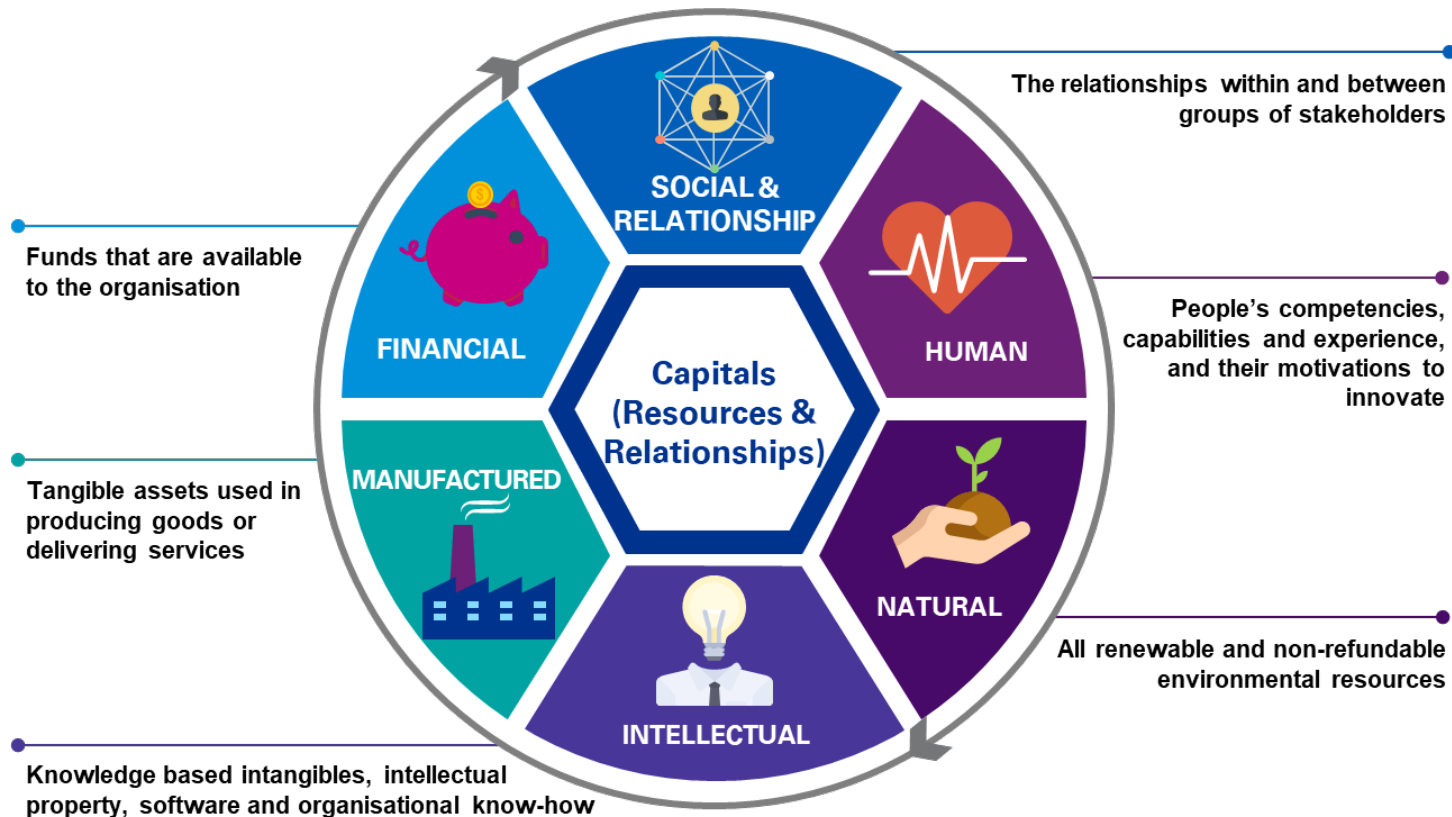
- **Objective:** To close the performance reporting gap by establishing principles and requirements for not-for-profit entities to report service performance information that is useful for accountability and decision-making purposes



# Preparing for the future

## Leveraging principles of <IR> to tell your story

### The Capitals Concept



### Camp Quality Integrated Report



#### Our Reporting Approach

Our 2019 Integrated Report aims to demonstrate how we applied the principals of integrated thinking across all our activities as an organisation in 2019. It highlights how we deliver sustainable value for those we are here to support.

The primary purpose of this report is to demonstrate to all our stakeholders what resources we have used, how we have interacted with the external environment and what capital we have mobilised to create value within the community.

#### Identified Value Enablers

We have maintained and held true to the four key Value Enablers that we identified as being critical to our business since the adoption of the Integrated Reporting approach in 2017.

#### Camp Quality's Value Enablers:

##### Social & Relationship Capital

Social & Relationship Capital measures the value of the relationships we have built both within our organisation as well as between our organisation and external stakeholders: with our families, donors, suppliers and partners, as well as the wider community.

##### Intellectual Capital

The value of our paid employees and volunteers' knowledge and any proprietary information that provides Camp Quality with an advantage when delivering services or securing financial or in-kind support.

##### Human Capital

The skills, education, capacity and attributes of the Camp Quality team; both paid employees and volunteers, who are critical in driving our business and delivering our services and programs.

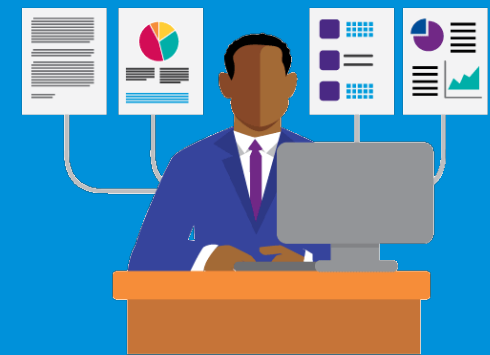
##### Financial Capital

The income and financial resources we access to provide, and further develop, our programs and services.

<https://www.campquality.org.au/Portals/0/files/annual-reports/2019-Integrated-Report.pdf?ver=2021-02-04-052412-167>



# Tax and regulatory issues



# Tax Update for Not-for-profits

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- Trends in the charities sector

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- The 'in Australia' test - a refresher

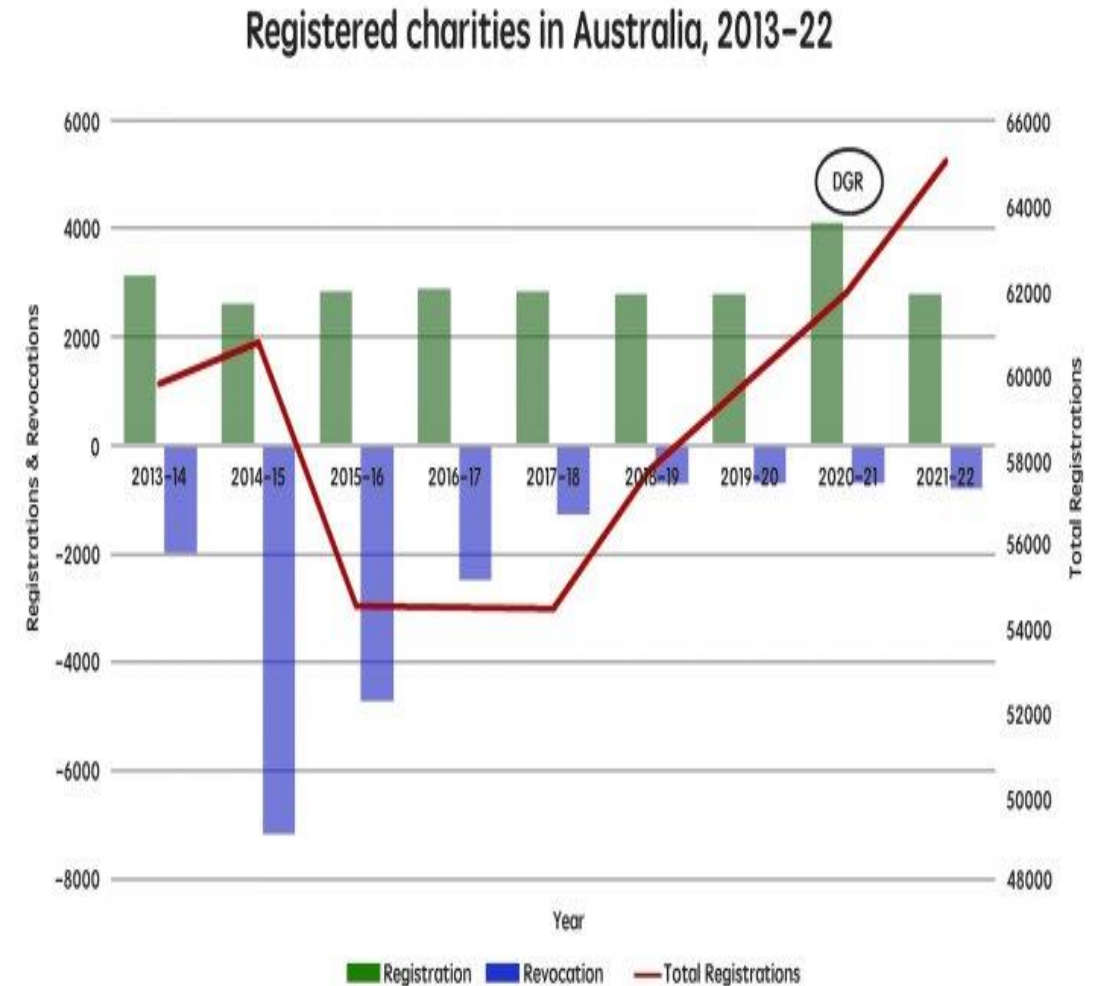
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- ACNC compliance - charity governance and charity health checks



# Some trends in the charities sector

- Over 58,000 charities currently on ACNC register!
- Growing by ~ 4% per annum.
- ACNC only regulates charities – many more not-for-profits in Australia.
- Concerns:
  - duplication
  - competing for donations and funding
- Some trend to consolidation.
- Charities commonly
  - acquiring for-profit companies
  - engaging in commercial activities to further charitable purposesto make up for grants/ funding shortfalls/ diversify revenue.

Source: ACNC 2021



# "In Australia" condition Taxation Ruling TR 2019/6 – requirement for Deductible Gift Recipients and income tax exempt entities

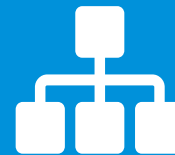
## Conditions



DGR must be 'in Australia' before a gift or contribution is tax deductible

DGRs must be **established and operated** in Australia

DGR condition does not generally require charities to have purposes or beneficiaries in Australia



Division 50 income tax exemption condition – must have **physical presence** in Australia and incur expenditure and pursue objectives **principally** in Australia before income is exempt from tax

'Principally' means mainly or chiefly (>50%)



Registered charity or DGR must have **physical presence** in Australia and incur expenditure and pursue objectives **principally** in Australia to qualify for a refund of franking credits

# Overview of ACNC Charity Governance framework

## Governance framework to ensure charitable registration is maintained









No.	Governance Standard
1	Charities must be not-for-profit and work towards their charitable purpose
2	Charities must take reasonable steps to be accountable to their members
3	Charities must comply with Australian laws
4	Charities must ensure the suitability of Responsible Persons
5	Charities must take reasonable steps to make sure Responsible Persons are subject to, understand and carry out duties set out in the Standard

## October 2020 Federal Budget: ACNC allocated \$2.9 million funding boost for compliance reviews

- Funding over three years.
- Enable ACNC undertake field-based compliance reviews.
- Enable ACNC to provide assurance to public to maintain confidence in sector.

# Charity health check example

Priority Indicators		
High risk 	Medium risk 	Low risk 

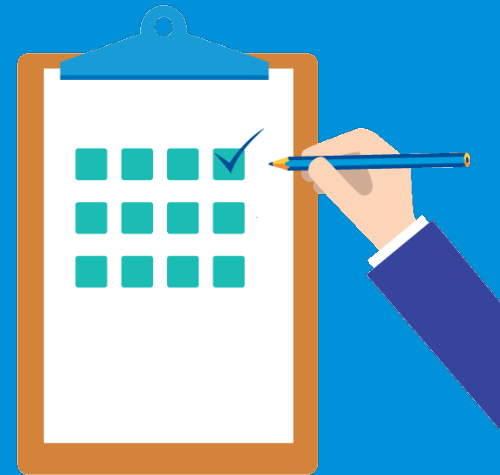
Requirements	Risk rating	Comments
Income Tax Exemption requirements		
'In Australia' requirement		
'Governing Rules' Requirement		
'Income & Assets' Requirement		
DGR Endorsement requirements		
Indirect tax and employment tax obligations		
ACNC Governance Standards		
1. Purpose and not-for-profit nature standard		
2. Accountability to members		
3. Compliance with Australian laws		
4. Suitability of responsible persons		
5. Duties of responsible persons		

# Charity health check: Review of DGR endorsement example

DGR Condition	Satisfied
1.Organisation details - Full name of organisation	✓
2. Australian Business Number	✓
5.Date of endorsement as per ABN Lookup	✓
6.DGR category stated as per ABN Lookup	✓
7.Is your organisations business number correct	✓
8. Does your organisation fall within the DGR category stated in the ATO notice	✓
9. Does your organisation have appropriate winding up and revocation clauses?	✓
10. Is your organisation in Australia	✓
11. Has your organisation correctly issued receipts for gifts and deductible contributions it has received	✗



# Wrap up



# Take-aways

- 1 Use the flow diagram to help determine which income standard to apply.**

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- 2 Consider whether there is a financial liability when you have to pass funds on.**

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- 3 Financial reporting transparency – consider the steps you need to put in place to share how you are performing against your objectives.**

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- 4 Re-check your DGR or income tax exemption status.**

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- 5 Stay up-to-date with the ACNC charity governance standards.**



# Questions

## 20 April 2021 webinar topics

- **Australian accounting standards implementation:**
  - **Income recognition – termination for convenience clauses**
  - **Impairment testing**
- **Financial reporting matters: Going concern & employee entitlements**
- **Operational matters: modern slavery & payment times reporting**
- **Looking ahead: AASB and ACNC current projects**
- **Wrap up**







Thank you



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