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NFP News

June 2015

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Welcome to the first edition "NFP News" – our Not for Profit Newsletter.

Our intention with this newsletter is to raise issues, provide help and generate discussion that will hopefully assist you to improve your governance processes, see you well-prepared for audit and avoid last minute problems for all of us!

Please take the opportunity to discuss any of the issues raised while we are out to see you at our on-site visits or of course give us a call!

Governance

Final warning to 6000 charities

The Australian Charities and Not-for-profits Commission (ACNC) has announced that 6000 'double defaulter' charities are at risk of losing registration and access to Commonwealth tax concessions for failing to meet their reporting obligations for two consecutive years. The announcement follows the revocation at the end of March of over 1300 double defaulter charities.

About 3000 registered charities have already received notices informing them that they will lose their status for failing to report for two consecutive years. A further 3000 charities were issued in April with notices.

About 1000 of them have retained their registrations by submitting overdue 2013 and 2014 annual information statements. However, in May the ACNC revoked the statuses of 1831 charities.

Liability limited by a scheme approved under Professional Standards Legislation

About 2000 are still at risk of being revoked, and if they wish to remain registered they must submit outstanding AISs.

Charities that have received a notice can clearly avoid revocation by reporting. They have 28 days from the date of the notice to lodge reports, and they can submit their 2013 and 2014 AISs by logging into their portal at charity.acnc.gov.au.

For help and support, charities can contact the ACNC on 13 ACNC (13 22 62) or email advice@acnc.gov.au. For the full list of charities facing revocation, visit acnc.gov.au/doubledefaulters.

Since December 2012, the ACNC has removed or revoked more than 7000 charities as part of its efforts to clean up the register and provide the public access to a reliable and accurate inventory.

Ensure that your charity is not on the double-defaulters list. Lodge your AIS within the required time frame.

More than 1300 complaints about charities

The ACNC has received more than 1300 complaints about charities, a new report has revealed. *Charity Compliance Report: December 2012 – December 2014 and Beyond* found that since the establishment of the ACNC it has received on average 12 complaints a week.

The good news for charities is that the majority of them were able to be resolved without proceeding to a formal investigation. Bad news for charity stakeholders was that of 521 complaints assessed by the ACNC's compliance team, 96 became the subject of an investigation.

The report also found:

- Charities subject to ACNC compliance cases controlled over $100 million in assets
- Nine charities had their charity status revoked as a result of investigations
- Most complaints (67 per cent) came from the public, followed by other government agencies (18 per cent)
- 26 per cent were about large charities – those with revenue greater than $1 million – when big charities make up only 17 per cent of registrations, and
- 26 per cent of complaints were about public companies, even though they make up only 12 per cent of registered charities.

The most common complaints from the public were:

- Charitable resources were allegedly being used inappropriately
- Possible financial mismanagement or fraud was occurring
- The charities appeared to lack transparency and accountability
- Charities were harming their beneficiaries, and
- Some charities and fundraisers appeared to be shams.

Where there is evidence of serious mismanagement or misappropriation, a serious, persistent or deliberate breach of the ACNC Act, or where vulnerable people or significant charitable assets are at risk, the ACNC will act firmly and quickly.

See what lessons can be learnt from the report and apply to your circumstances. Include as an agenda item for a future board meeting.

Review of 2014 AISs and common errors

The ACNC has started reviewing 2014 AISs and financial reports for medium and large charities to identify material errors and anomalies. The review aims to:

- Help the ACNC to improve its service, support and guidance
- Help improve the quality of the data and information about charities on the register, and
- Give charities the opportunity to explain and correct any material errors.

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The commission will be contacting charities that it believes have possibly made material errors, advising them on how to explain or correct them. Small charities will have 60 days to contact the commission and explain or correct the error. Medium and large charities will have 28 days.

Some charities have:

- Identified themselves as the wrong size
- Failed to attach an audit or review report to the financial statements (even though they have identified as either medium or large)
- Failed to reference compliance with the ACNC Act in the audit or review report, or the responsible-persons declaration
- Displayed inconsistencies between the financial information in their 2014 AIS and their financial report, including submitting the wrong financial report (a reviewed report when they have identified as large)
- Incorrectly identified themselves as a basic religious charity, and
- Identified themselves as having been active during the 2014 reporting period but have nominated zero dollars in the financial-information section of the 2014 AIS.

Check your 2014 AIS and financial reports before they are submitted – and even after they are submitted.

NFP Expert Advice Exchange Launched

The NSW Government, through the Office of Social Impact Investment, has launched an initiative to connect social sector entities with pro bono expert advice from professional services firms. The Expert Advice Exchange (EAX) platform connects NFP entities with pro bono advice from 23 law firms, professional services firms and financial institutions.

The experts will provide advice in:

- Procurement and tendering
- Business case development
- Governance
- Program design and evaluation, and
- Business planning and strategy

The EAX is designed to help NFPs and social entities participate in new ways of funding social services in NSW, like outcomes-based contracts and social impact investment. Eligible entities will be matched and referred to a participating firm that can provide the support needed. The panel will also recommend the number of hours of engagement.

The first round of applications will be announced in late July, with two more application rounds to be held later this year. Download application form and return it to the Office of Social Impact Investment by 17 June 2015. A panel will assess applications against eligibility criteria outlined in the EAX brochure.

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ACNC activities

Financial information posted on register

The finances of more than 23,000 registered charities have been made available to the public for the first time. Publishing charities' financial information on the charity register increases transparency, the ACNC believes.

Charities of all sizes were required to provide financial information as part of their 2014 AISs. Medium and large charities were also required to submit reviewed or audited financial reports.

Members of the public can access the information on the register, which is a free, searchable, online database.

To date, the register has received more than half-a-million views, highlighting its usefulness and popularity, especially for donors, who are able to discover if a charity is indeed registered, find out what it does, where it operates, the people who run it, the rules it needs to follow, and, now, its financial information.

The ACNC has also published a new factsheet on interpreting the financial information. The factsheet, available at acnc.gov.au/understandingfinancialinfo, discusses the financial elements collected, the factors to consider when interpreting them, and why the ACNC collects and publishes the information.

Comparing charities' financial information will be of interest to some donors and members of the public.

To search the register, visit acnc.gov.au/findacharity.

Queensland-based charity status revoked

The ACNC revoked the registration of Get Rid of Sids Project Inc following a review into the organisation's operations and activities. The entity is an association incorporated under the *Associations Incorporation Act 1981* (Qld) that had deductible-gift-recipient status and had received tax concessions since its establishment in 2010.

Get Rid of Sids Project Inc's revocation was effective from 1 April. The charity was given 60 days to lodge an objection.

The ACNC said that it was committed to protecting public trust and confidence in the sector, which includes revoking the charity status of entities that are not operating in accordance with the ACNC Act and regulations. Charities should take care that they are established for charitable purposes and for the benefit of the public.

The commission revoked Get Rid of Sids Project's registration under 35-10 (1) (a) of the *Australian Charities and Not-for-profits Commission Act 2012* (ACNC Act). The ACNC is prevented by secrecy provisions in the Act from disclosing the details of the case. Under the Act, decisions to use formal powers must be published on the ACNC register.

Aboriginal and Torres Strait Islander-controlled charities

The ACNC has published a resource page for Aboriginal and Torres Strait Islander-controlled charities at acnc.gov.au/indigenous. It details the commission's commitment to working with Aboriginal and Torres Strait Islander communities, how to access its Aboriginal liaison officers, detailed guidance for corporations regulated by the Office of the Registrar of Indigenous Corporations, links to tools and resources on indigenous governance, and links to other relevant agencies and organisations.

Governing-document template for religious charities

Charities must provide a copy of their governing document to the ACNC – it must also be included in its AIS. Governing documents formalise purposes, activities and organisational processes. They are sometimes called rules, constitutions or trust deeds.

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Some charities (for example, small religious congregations), may not have their own governing documents. They use statutes (Acts of Parliament) or canon law (church law) for this purpose. The ACNC has developed a template for a governing document specifically for charities in this situation. The resource allows charities to provide a link to the web address at which their governing document is stored rather than having to scan and upload lengthy volumes of canon law or legislation.

If your charity is a local parish, contact your diocese or other regional or central administrator to make further decisions about governing documents. If you are unsure what needs to be provided to the ACNC in your particular case, you can give the ACNC a call on 13 ACNC (13 22 62) or email the commission on advice@acnc.gov.au.

Health promotion charities – interpretation statement

The ACNC has published a Commissioner's Interpretation Statement on health promotion charities (HPCs) which provides guidance to ACNC staff, charities and the public on the meaning and scope of the charity sub-type of HPCs. The interpretation affects hundreds of registered charities and will assist donors and the wider community to better understand these charities.

HPC developed as a tax category and is now a charity subtype described in the ACNC Act as 'an institution whose principal activity is to promote the prevention or the control of diseases in human beings'. Status as a HPC can affect access to additional tax concessions.

The interpretation explains how the ACNC will determine what is a disease in human beings and what is a principal activity compared to other activities, fundraising, prevention and control of diseases.

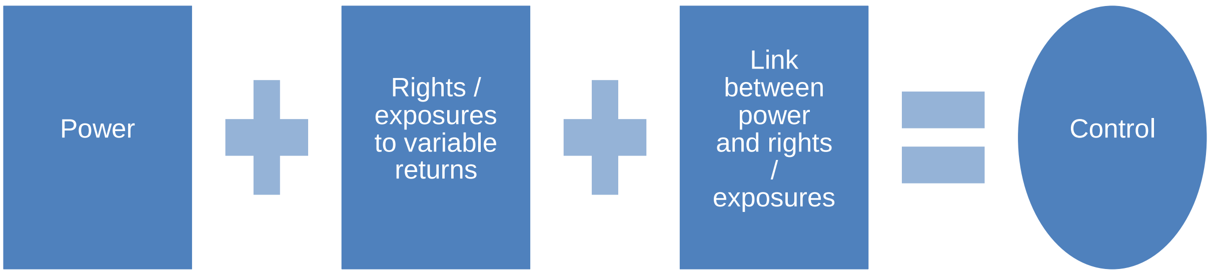
Charities that are currently considered HPCs or those wishing to obtain that subtype should review the interpretation.

Financial reporting insights

Consolidation suite of AASB for 30 June 2015

The major challenge for not-for-profit (NFP) entities for the 2015 reporting period will be the implementation of a consolidation suite of standards (AASB 10 – 12), which may cause the composition of a group to change as more entities are deemed to be subsidiaries and need to be consolidated.

If an entity controls another, then the controlled entity is a subsidiary and must be consolidated. The definition of control within AASB 10 *Consolidated Financial Statements* contains three key elements and can be summarised as follows:



AASB 10 Appendix E provides guidance to help NFP entities in interpreting the 'control' definition as well as some illustrative examples. Let's take a look at each component of the definition.

In assessing *power* in the NFP sector, an investor would have power over an investee when the investor can require the investee to deploy its assets or incur liabilities in a way that affects returns to the investor, that is, provides power over the relevant activities. An ownership interest is not required.

Rights that might give an investor power include the right to give policy directions, to approve or veto operating budgets, or the right to direct the entity's governing body.

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The rights that provide power must be substantive, that is, the investor has the practical ability to exercise them regardless of whether or not they would be exercised.

The term '*returns*' is very profit-oriented, however the guidance explains that it encompasses financial, non-financial, direct and indirect benefits, whether positive or negative, and includes the achievement or furtherance of an investor's objectives.

We would expect that most returns in the not-for-profit sector would be non-financial.

For control to be present, there needs to be a *link* between the power and rights or exposures to variable returns, that is, the investor can affect the return it gets because of the power it holds.

Element	NFP context
Control	Financial interest not necessary Its about the relationship
Power	Deploy assets or incur liabilities Providing goods and services to the investor and/or other parties Might arise from legislation
Rights	Policy directions Veto rights over budget No need to have day-to-day responsibility
Exposure	Financial and non-financial Direct and indirect Furtherance of investors objectives

NFP entities that are preparing general-purpose financial statements (either full or reduced disclosure regime) must apply AASB 10 and consolidate controlled entities. Entities preparing special-purpose financial statements are not required to apply AASB 10 and can choose whether or not they wish to prepare consolidated financial statements.

For entities preparing consolidated financial statements for the first time there might be differences between:

- The reporting dates of entities within the newly formed group , and
- Instances where entities within the 'new group' have historically adopted different accounting policies for like transactions (for example, PPE at cost and FV).

Remember, the application of AASB 10 will also require that the assets and liabilities of any 'newly acquired' subsidiary be measured at fair value and goodwill or a discount on acquisition recognised in accordance with AASB 3 *Business Combinations*.

AASB 11 *Joint Arrangements* is included in this suite of standards and makes changes to the accounting for joint arrangements, that is, entities in which two or more parties have joint control.

It is not expected that this will have a significant impact for NFP entities. However, if joint arrangements exist within a group structure then AASB 11 should be reviewed and appropriate adjustments made.

Regardless of whether there are any changes to the accounting for entities in the consolidated group under AASBs 10 and 11, the disclosures included in financial statements will increase due to the requirements of AASB 12 *Disclosure of Interests in Other Entities*. This standard includes all the disclosure requirements for investments in associates, joint arrangements (that is, joint ventures and joint operations), subsidiaries, and unconsolidated structured entities (entities that have been established through an agreement and that an entity provides funding to).

Determination of control and the related disclosures in a NFP context can be challenging, seek professional assistance.

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Corporate-bond discount rates for employee benefits

A sufficiently observable, deep and liquid market in high-quality Australian corporate bonds satisfies accounting requirements, according to '*Discount rates for employee benefit liability valuation',* a report by Milliman Australia. Australian entities must use corporate rather than government bond rates to discount post-employment benefits and other long-term employee liabilities (such as long-service leave) under AASB 119 *Employee Entitlements.*

The Group of 100 (in conjunction with the Actuaries Institute of Australia) commissioned Milliman to research the Australian corporate-bond market. It concluded that Australia's market was deep enough for the purposes of AASB 119's measurement requirements.

Up until now, entities have been using the government bond rate, which is the default measurement under AASB 119 in the absence of a deep market. AASB 119 requires entities (except public-sector not-for-profits) use corporate rates to discount liabilities.

By using the new discount rates rather than the government rate, companies will be able to reduce their employee liabilities and, in most cases, their expense. This change will benefit businesses of all sizes but will have the biggest impact on companies with many employees and those with defined-benefit superannuation funds.

The first set of discount rates will be made available in June 2015 based on May 2015 data. They can be used to prepare accounts for the year ended 30 June. Rates will be announced quarterly, available on both the G100 website (www.group100.com.au) and Milliman Australia's website (http://au.milliman.com).

The changes mean that prospective accounting is required. Don't forget to change your accounting policies.

Changes to recoverable-amount disclosures

AASB 136 *Impairment of Assets* has been amended to require more disclosures for entities that have made an impairment write-down during the year. The recoverable amount of an asset or cash-generating unit must now be disclosed rather than just the impairment loss. NFP entities that make an impairment loss should ensure that the additional disclosure requirements are complied with.

Streamlined financial reporting for non-government schools

The ACNC has announced that non-government schools will not have to provide any financial information direct to the commission for the 2014 and 2015 reporting periods. The ACNC will instead extract the relevant data from Department of Education and Training Financial Questionnaires.

Non-government schools benefit from transitional arrangements, allowing the commission to accept financial reports already provided to the Department of Education and Training. The announcement means that this arrangement will extend to non-government schools' not being required to complete financial questions in 2014 and 2015 AISs.

Importantly, the ACNC intends to pursue longer-term arrangements. The commissioner intends to seek an amendment to the regulation that will extend the transitional period while the commission works towards a long-term streamlined reporting solution for the sector.

The ACNC will continue to consult with the Independent Schools Council of Australia and other state and territory bodies to implement longer-term data-sharing arrangements with the Department of Education and Training.

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NFP revenue exposure draft – please comment

The AASB has released a long-awaited exposure draft on how NFP revenue will be accounted for. The draft proposes to loop NFP entities into the requirements of AASB 15 *Revenue from Contracts with Customers* where certain criteria are met, that is, the revenue is received for a sufficiently specific purpose and the agreement is enforceable.

The proposed standard will replace the requirements of AASB 1004 *Contributions* – the controversial standard that requires most grant revenue to be recorded on receipt. The revised accounting requirements, however, will be more onerous for preparers.
ED 260 'Income of Not-for-Profit Entities' proposes guidance to assist NFPs to apply the principles of AASB 15 *Revenue from Contracts with Customers* (Part A); and a replacement of the income recognition requirements in AASB 1004 *Contributions* (Part B). ED 260 proposes that the timing of revenue recognition by a NFP entity in relation to a transaction should be based on whether:

- The transaction occurs in a contract (that is, an agreement with another party that creates enforceable rights and obligations), and, if so,
- Whether the contract includes performance obligations (which are promises by the entity to transfer goods or services to the customer).

When these are met, the NFP entity would apply AASB 15. Under that Standard, the entity would recognise revenue when (or as) it satisfies each performance obligation by transferring a promised good or service to the customer (which occurs when the customer obtains control of that good or service).

Under AASB 15, the amount of revenue recognised when a performance obligation is satisfied is the transaction price (that is, the amount of consideration from the customer to which the entity expects to be entitled in exchange for transferring the promised good or service to the customer).

When consideration from a customer is recognised as an asset in advance of satisfying the related performance obligation, the amount of that consideration is recognised as a contract liability.

In respect of the Part B, the proposals would:

- Remove a scope limitation in AASB 1004 on the application of AASB 15 by NFPs to account for revenue from a contract with a customer, i.e., even if a transfer from a customer is 'non-reciprocal', the requirements of AASB 15 would apply (instead of those in AASB 1004), and
- Not require a NFP to determine whether a particular transaction is a 'reciprocal' or 'non-reciprocal' transfer to determine which Standard applies to the transaction (and, consequently, how to account for it).

The most significant change to practice proposed by the ED 260 is to defer income from grants and donations where the conditions attached regarding delivery of goods or services are enforceable and sufficiently specific, regardless of whether the ultimate beneficiary is the grantor or a third party.

The current standard has been interpreted as requiring income to be recognised immediately if the ultimate beneficiary is not the grantor. For example, under the proposals a charity receiving grants requiring the provision of a certain number of hospital beds would not recognise revenue until the beds were provided, despite the ultimate beneficiary being the patient, rather than the grantor.

Some types of transfers to NFP entities would continue to be recognised as income immediately, for example:

- Donations to a charity with discretion regarding which charitable purposes the donations will be used for, and
- Grants, or local government rates, specified to be used in a particular future period but without any specification of the nature of the goods or services for which they must be used.

The proposals will also require that transactions with a donation element be recognised at fair value. For example a grant of a peppercorn lease of land for 99 years for a $1 would require the finance lease asset to be recognised at fair value, with corresponding income (unless there are performance conditions attached).

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The proposals provide guidance on how current grant/donation agreements would need to be amended regarding performance obligation conditions to enable better matching of income with expenditure. An entity would need to consider its own specific circumstances and service performance objectives before determining whether such amendments would be beneficial.

It is proposed that the Australian Implementation Guidance for NFP entities in relation to AASB 15 and AASB 10XX would both be applicable to annual reporting periods beginning on or after 1 January 2017.

We encourage NFP entities to review this standard and provide any comments direct to the AASB.

Future in focus

Revenue standard's effective date deferral?

The International Accounting Standards Board (IASB) voted to publish an exposure draft proposing a one-year deferral of the effective date of IFRS 15 *Revenue from Contracts with Customers* to 1 January 2018. The AASB has followed suit in respect of AASB 15 *Revenue from Contracts with Customers* with the release of ED 263.

Signs of fair-value disclosures relief for NFP public-sector entities

The AASB issued an exposure draft proposing limited relief for NFP public-sector entities from certain disclosures specified by AASB 13 'Fair Value Measurement'. It will apply only to fair-value measurements categorised as level 3 in the fair-value hierarchy. It is expected that amendments will be finalised in time for entities' early adoption for 30 June 2015 financial year-ends.

The board decided that the proposed relief would:

- Be limited to property, plant and equipment (including infrastructure assets) within the scope of AASB 116 'Property, Plant and Equipment' that are held for their current service potential rather than to generate future cash inflows, and
- Include relief from disclosure of quantitative information about the significant unobservable inputs used in fair-value measurements and a description of the sensitivity of fair-value measurements to changes in unobservable inputs. The board acknowledged that AASB 13 requires the sensitivity description only to be narrative, and that an example of the disclosure is included in the illustrative examples accompanying IFRS 13 *Fair Value Measurement*.

2014 AIS should be filed by 30 June

For many charities, the end of the financial year brings with it the due date for the 2014 AIS. Registered charities have a legal requirement to submit an AIS, and repeatedly failing to do so will result in revocation and loss of Commonwealth tax concessions.

If you need help completing the AIS, look at the guidance on www.acnc.gov.au/2014AIS. If unsure about the due date, or if your charity is up-to-date with its reporting, check the information on the charity register. If exceptional circumstances prevent your charity from submitting an AIS, please contact the ACNC ASAP.

Update your charity's sub-type by 1 July

For some charities, the sub-type in which they were registered no longer applies because of the introduction of the *Charities Act 2013* (Cth). To ensure your charity's profile on the register is complete and current, please check your sub-type. Some charities will need to choose a new sub-type. Charities updating need to do it by 1 July.

Charities that have failed to update will be alerted via their portals. Updating can be done via portals.

When updating, select sub-types that accurately reflect your charity's activities and purposes. If unsure, review the ACNC's 'Guidance on charity sub-types', which explains the new sub-types that most closely align with previous counterparts. It also provides information about selections and changes that should be made.

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ACNC funded to 2018-2019

In federal budget papers, the ACNC has been funded until 2018-2019. This is consistent with the Social Services Minister's statements that abolishing the ACNC is not an immediate priority. Its allocated funding is being reduced from $14.98 million in 2014-2015 to $14.81 million this financial year. Its budget in forward estimates will drop to $13.23 million in 2018-2019.

Performance reporting by NFPs

At the May AASB meeting, an exposure draft *Reporting Service Performance Information* will be discussed. It is expected to be issued for comment in July.

'Green Paper' on tax options next

The federal government invited the community to provide input into the design of its tax White paper and released the *Re:think tax discussion* seeking community feedback by 1 June. Chapter 7 of the paper considered the role of tax concessions for the NFP sector. The community's responses will inform the government's tax options Green Paper, due to be released in the second half of 2015.

Questions?

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