

NOT-FOR-PROFIT

# Grants in Australia:

Management and accountability made easy  
for not-for-profit organisations

FEBRUARY 2007



CPA  
AUSTRALIA



CPA Australia Ltd ("CPA Australia") is the largest professional organisation in Australia with more than 112,000 members of the financial, accounting and business profession in Australia and overseas.

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## Executive Summary

CPA Australia established the Public Sector Centre of Excellence to provide the community, government and the profession with advice, guidance and comment on issues vital to the sector.

The sector comprises the public sector (including federal, state and local governments and government business enterprises) and the not-for-profit sector.

Areas of focus are broad ranging, and include current concerns such as sustainability, public private partnerships, risk management and corporate governance.

One of the issues identified by the Centre of Excellence was the lack of literature on grants management in Australia for not-for-profit bodies, government agencies and CPA Australia members working in the sector. Individual programs had guidelines, but there was no document or publication that provided an overview of the requirements and principles for grants management in Australia.

The manual *Grants in Australia: Management and Accountability Made Easy for Not-for-Profit Organisations* has been written in response to community and professional calls for a straightforward guide for not-for-profit bodies to manage grants and satisfy accountability requirements.

The manual was developed following research of the existing literature and consultation with a wide cross-section of stakeholders, including not-for-profit peak bodies, auditors-general, parliamentary account committees and members of the accounting profession.

The manual highlights the need to identify early in the grants process the need to put in place sound administrative practices to ensure that grants are well managed, outcomes achieved and grants are acquitted in a timely and satisfactory manner.

The manual covers the key aspects of grants management, including applying for a grant, accepting a grant, financial management, reporting and acquittal, and audit and verification. The manual provides a bibliography to assist readers to access additional reference material, and checklists to help readers easily review their grants management processes.

CPA Australia acknowledges the input of a wide range of stakeholders and potential users of the manual to deliver a document that will serve the not-for-profit sector, government, and those working in the accounting and audit profession.

## Acknowledgements

*Grants in Australia* was prepared with the input of a number of agencies, organisations and individuals. In particular, the assistance of the following organisations was especially valuable:

- Our Community Pty Ltd
- South Australian Government Treasury
- [communitybuilders.nsw.gov.au](http://communitybuilders.nsw.gov.au)
- Centre for Philanthropy and Nonprofit Studies, Queensland University of Technology.

A number of other government agencies and not-for-profit organisations were also consulted, and their assistance was very much appreciated.

## About the authors

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The CPA Australia Public Sector Centre of Excellence has been established to provide leadership in the consideration of issues affecting public sector and not-for-profit organisations. *Grants in Australia: Management and Accountability Made Easy for Not-for-Profit Organisations* has been prepared by the CPA Australia Public Sector Centre of Excellence as a reference guide to assist not-for-profit organisations manage grants.

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*Grants in Australia: Management and Accountability Made Easy for Not-for-Profit Organisations* is a manual written in response to community and professional calls for a straightforward guide for not-for-profit organisations to manage grants and satisfy accountability requirements in Australia.

## What is the aim of this manual?

The aim of the manual is to act as a ready reference guide to not-for-profit organisations, and those working with not-for-profit organisations, on how to manage and acquire grants in a timely and satisfactory manner.

The manual can also be used as the basis for training staff, volunteers and community members in the successful management and acquittal of grants.

CPA Australia's purpose in producing *Grants in Australia: Management and Accountability Made Easy for Not-for-Profit Organisations* is to assist not-for-profit organisations to more easily manage grants and satisfy accountability requirements. The manual will also be an invaluable reference guide for all involved in the not-for-profit sector in Australia, including CPA Australia members employed in the sector, especially grant organisations, auditors and advisers.

## Who is the target audience?

The target audience of the manual is Australian not-for-profit organisations that are legal entities, and have received government grants or are intending to apply for government grants. Other users of the manual may include grant-makers, government departments, accountants, auditors, researchers and those who train people in grants management.

## How broad is the scope of the manual?

The scope of the manual is to cover grants management from the time the applicant commences planning to apply for a grant, through the successful organisation receiving notification of the grant, the day-to-day management of the grant, to the acquittal of the grant.

Considerable reference material already exists on applying for grants, and therefore this manual does not address applying for grants in detail. However, organisations need to consider when applying for grants the likely impact of a successful grant on the organisation, especially its management and reporting requirements.

## What is a not-for-profit organisation?

A not-for-profit organisation includes a club, society or association organised and operated solely for social welfare, civic improvement, pleasure or recreation, or for any other purpose except for profit. All income must be directed to the purpose of the organisation, and not distributed by way of dividend, bounty or profit to its controllers, members or shareholders.

Not-for-profit organisations exist in Australia at federal, state and local levels.

## Issues facing not-for-profit organisations

Issues facing not-for-profit organisations managing and accounting for grants include:

- failure to manage and acquit grants properly
- lack of guidance on the full extent of the grants process
- lack of understanding of reporting requirements by not-for-profit organisations
- need to have a specific understanding of accounting and financial requirements and associated systems
- widely differing and often complex management and reporting requirements among grants bodies at all levels of government
- confusing and inconsistent terminology
- limited time and resources available to grants recipients to manage and report on grants, particularly during a time of increasing requirements
- lack of adequate guidance for auditors for verification of grants
- need for specific skills for sourcing and administration of grants
- lack of specific guidelines and reference material for not-for-profit organisations
- lack of clarity on GST implications for not-for-profit organisations.

The significance and importance of grants management and accountability in Australia received national attention in March 2005 with a cover story on not-for-profit organisations in *Australian Business Review*.

The article reported that Australia's not-for-profit sector is worth \$70 billion, accounts for 10 per cent of the economy, and employs more than 600,000 people. The article asserted that charities, clubs and non-government organisations play a major role in Australian society and communities.

# 1. What is a grant?

A grant is a sum of money given to organisations or individuals for a specified purpose directed at achieving goals and objectives consistent with the aims and policies of the grants body. Grants can be awarded by government and non-government bodies. For the purposes of this manual, the focus is on grants from government bodies.

In a strict legal sense, a grant is a 'gift' that may, or may not, be subject to unilaterally imposed conditions. However, the term is more generally used to include any funding arrangement whereby the recipient is selected on merit against a set of criteria. The term 'grant' does not include funding of activities primarily relating to the provision of goods and services directly to a government agency.

In the case of government grants, grants and subsidies are made in various circumstances by government to support community activities that achieve goals and objectives consistent with government policy. Grants may be covered by legislation or regulation, or be subject to cabinet, ministerial or administrative discretion. They range in their accountability requirements from highly complex arrangements to the relatively informal. Nevertheless, all grant schemes involve the use of public money. Therefore, both grantors and grant recipients are accountable for the value for money achieved from the allocation of individual grants (*Queensland Treasury Guidelines*).

The power to give a grant may be unfettered (such as the Commonwealth's power to grant financial assistance to the states under section 96 of the federal Constitution) or it may be governed by the specific legislation or government policy applying to the program.

The grant-giving organisation may allocate funds directly to individual applicants or to organisations on an individual project basis, or make bulk payments to intermediary organisations. In this latter case, arrangements can be made to allow the intermediary organisation to make decisions regarding specific allocation of funding (*ANAO Better Practice Guidelines 2002*).

## 2. Issues to consider when applying for a grant

Many organisations that apply for grants consider it as an easy option to obtain funding, without fully considering the organisation's requirements and options. As a result, they can be successful in winning a grant, but then find it difficult to manage it.

Before applying for a grant, it is important to spend some time developing a fundraising strategy for the organisation. The Our Community website ([ourcommunity.com.au](http://ourcommunity.com.au)) contains a simple model for developing a fundraising strategy, and the steps are detailed below.

### Establish a fundraising strategy

A fundraising strategy is an ongoing exercise with an annual revision and action plan. A fundraising strategy needs to have the flexibility to be able to react to new opportunities or to curtail activities that are neither practical nor profitable.

The first steps to be followed are:

- Establish your goals. What do you hope to achieve?
- What are the different levels of fundraising required?
- Research past fundraising activities. What worked? Just as importantly, what didn't?
- Work out who your friends and potential friends are and who is willing to support your organisation: businesses, government departments, individuals, families, philanthropic trusts and foundations.
- Conduct market research with members, friends and other interested people to discover their good ideas or those that have worked in their groups to raise money.
- Detail a case to support each prospective fundraising activity.
- Describe and decide on the method in which you plan to raise funds.
- Set an estimated target for each method.
- Set a timeline. Set up a year planner noting good times for the organisation to raise funds. Pay attention to grant deadlines.
- Document your progress so that, if you are struggling, the bells start ringing early enough for you to change tack.
- Ensure you have an evaluation strategy in place.

Remember: if you are asking for money, it is easier to raise money for a specific project or activity rather than for the organisation as a whole. Most people would rather know exactly where their money is being spent.

## 2. Issues to consider when applying for a grant

For further information on grants writing, refer to the Our Community website, Government agency websites, and the websites of individual grants bodies. The Our Community website ([ourcommunity.com.au](http://ourcommunity.com.au)) provides a series of fact sheets and additional valuable information on grants writing.

### What are the options for fundraising?

There are potentially numerous sources of funds, and may include one or more of the following:

- grants
- sponsorship
- membership fees
- bequests
- in-kind support
- donations
- special events
- raffles, competitions
- merchandising
- sales of goods and services.

### What impact will the grant have on your organisation?

Many organisations look just for the dollars, and then are surprised at the requirements and obligations that are attached. The grant recipient could get trapped with unintended consequences once the grant is given. Therefore, before applying for a grant, your organisation needs to undertake an assessment of the likely impact of the grant on the organisation.

Questions your organisation should consider are:

- Does the grant align with your mission direction – that is, even though you receive more dollars, will receiving the grant take key human and other resources away from the core business?
- What are the links and/or partnerships it will provide?
- What impacts will it have on the business?
- Do you have the capacity and expertise to carry out the task for which you are receiving the grant, either in-house or in partnership with another organisation?

## 2. Issues to consider when applying for a grant

- Do you have the necessary processes to carry out the terms of the grant, or do these need to be built up? Such processes and requirements may include legal and governance structures, management and supervision requirements, accounting, auditing, record-keeping, performance measures, insurance, registrations, taxation, Australian Business Number and goods and services tax.
- How will you manage the possibility that funding is not likely to be ongoing?
- Will you have to compromise the values of your organisation – for example, if you accept a Commonwealth grant, does this mean you have to accept some values or principles that do not accord with those of your group?
- What are the risks and emerging issues that may affect your ability to fulfil your obligations under the grant? Are you confident that you can manage these risks?

Considerable material has been written on how to apply for a grant, and extensive resources are also available on the internet, and from grants bodies. The following suggestions are contained on the Our Community website ([ourcommunity.com.au](http://ourcommunity.com.au)) and apply to most grant applications situations.

Basically, grant bodies need to be convinced of two main things: that a genuine need and project exists, and that the applicant has the capacity to meet the need in a creative and fiscally responsible manner.

But more specifically, what are they after?

Before you write, do your research:

- Many applicants don't do the basic research to check whether their application fits within sometimes quite tight eligibility guidelines.
- Spend the time to find grants whose target audiences and areas of interest match the project for which you are seeking funding.

### Parties involved in grants

The parties included in grants may include the following:

- grantor/grants body: the organisation making the grant
- grantee: the organisation receiving the grant
- third parties: other organisations that partner and work with the grantee to fulfil the requirements of the grant. These parties may contribute to the requirements of the grant conditions, or be formally engaged through contract arrangements to fulfil some requirements directly (for example, provide a survey or consultation process) or undertake specialist work (such as editing, design and publishing of a report).

### The proposal

Most grants bodies seek submissions that are structured around the following:

- 1 A brief description of your organisation
- 2 A description of the proposed project
- 3 A case for support
- 4 A budget.

Applicants may also be required to establish their financial viability, and any other sources of funding for the project, especially from other government departments.

### A brief description of the organisation

Grant evaluators want your organisation to establish credibility and qualifications for funding, and how your existing programs were developed to meet identified community needs.

Include short relevant descriptions of the qualifications and experience that your organisation and its key staff have in the area for which program funds are being sought.

### The project proposal

The project proposal should show that the applicant has developed a clearly defined, achievable and measurable strategy to address the issue or issues previously described.

The project proposal generally should address key questions such as how, what, why and for whom the project is being developed.

The proposed project may need to include the following elements:

- clearly defined aims and objectives
- how the objectives are to be achieved
- outputs and outcomes
- how the success of the project will be measured
- the timeframe in which the project will be completed.

Requirements vary from agency to agency. Other requirements may be specified, and may form part of the selection criteria. For example, the grants body may require details on who within the organisation has been nominated to work on the project, and where the project will be conducted.

## *2. Issues to consider when applying for a grant*

### **The case for support**

It is vital to establish a specific problem or issue in a geographically identifiable area, with the dimension of the problem able to be addressed realistically by your organisation.

- Produce evidence: use up-to-date and accurate data based on objective research, while a relevant and evocative case study illustrating the issue may also drive your points home.
- Community support: evidence of community support is often required, and make sure that support is specific to the project for which your group is seeking funding, rather than a general one for your organisation.

### **The budget**

The project budget can vary from a simple one-page statement of income and expenses to a more complex set of budget papers, including explanatory notes and various items of revenue or expense. Applicants need to be honest, open and realistic about proposed expenditure.

Applicants need to be particularly careful to check the purposes for which funds can and can't be used. Some have restrictions on capital expenditure.

Failure to take adequate care in applying for grants can lead to problems in managing and acquitting the grant.

### 3. What to consider when an organisation has been offered a grant

Successful grant applicants are normally notified in writing of their success, and an information pack is provided to the applicant, with the grants agreement enclosed for the applicant to sign and return.

It is essential to read the correspondence and attachments carefully, in order to fully understand what the requirements and expectations are. Experienced applicants usually contact the grants body at this stage to ensure that they have a clear understanding of the various aspects of the grant, especially reporting requirements.

One of the most important aspects of grants management is to ensure that the applicant pays particular care in reviewing the grant agreement before signing the agreement. Taking particular care at this stage will minimise the risk of issues and problems arising later in the delivery of the grants program.

Some of the administrative questions that need to be answered before signing the grants agreement include:

- Are all the details (such as names, addresses and phone numbers) correct?
- Is the grant for the same amount as that applied for?
- Is the grant for the same outcomes as detailed in the original submission?
- Do any special conditions apply?
- Can assets be purchased? If yes, what are the conditions applying to their acquisition and treatment at the end of the grant period?
- When and how will the money be paid?
- What are the reporting requirements?
- What are the acquittal requirements?
- By what date does the project need to be completed?
- What are the contact details for the funding agency?
- Are there requirements to be met immediately once the grant is awarded?
- How can the terms of the agreement be varied?
- What are the dispute resolution procedures?
- How is intellectual property identified and dealt with?
- Are there clear guidelines for the ownership of any assets created by a grant?
- How will unspent funds be treated?
- What are the requirements for recognising the funding body, such as the use of logos?

### *3. What to consider when an organisation has been offered a grant*

- What are the insurance requirements?
- Which indemnities and insurance policy apply?
- Are there any confidentiality or privacy requirements?
- What are the liabilities and consequences if there is a breach of conditions?
- What are the milestones?
- How will you demonstrate that you have achieved the grant objectives?
- Can the organisation still deliver on the project; for example, have key staff left since the application was lodged?
- Are there other requirements that have to be met before the grant can be entered into?
- What audit arrangements are there?

## **Intellectual property**

Intellectual property represents the property of your mind or intellect. Types of intellectual property include patents, trademarks, designs, confidential information or trade secrets, and copyright.

Some grants may result in the creation of intellectual property. The ownership of intellectual property is particularly relevant for research grants.

## **Signing the agreement**

Organisations need to make sure that the person signing the agreement on behalf of the organisation is authorised to do so. Also, the person witnessing the agreement should be authorised to do so. In most circumstances, the governing body is given in-principle approval to apply and the action is duly tabled at the next committee meeting, and noted in the organisation's minutes.

The agreement should then be returned to the funding body by registered post. A copy of the signed agreement should be retained, and stored in a secure place.

Where the organisation has a contracts register, the register should be noted with the details of the agreement. If the organisation does not have a contracts register, now might be an appropriate time to create one.

## 4. Financial management of grants

Once the grantee has accepted the terms and conditions of the grant, then the grantee will need to implement suitable administrative systems to manage the grant on a day-to-day basis, and provide a final report and financial acquittal.

The actual arrangements will vary from organisation to organisation, depending on the size of the organisation, the organisation's resources, funding body requirements and the environment the organisation operates in.

### QUT Chart of Accounts

Not-for-profit organisations can refer to a *Standard Chart of Accounts*, which has been developed by Queensland University of Technology, in collaboration with Queensland Treasury and government departments. The chart provides a common approach to the capture of accounting information by not-for-profit organisations. By using standard terms and categories, such as wages and salaries, to refer to the same activities, this chart will simplify the work of not-for-profit organisations when acquitting government grants. Government departments and not-for-profit organisations will be talking the same language. This chart of accounts can be accessed on <http://business.qut.edu.au>.

### Types of contributions

Contributions are generally non-reciprocal transfers of assets to an entity, for example, donations and certain types of grants.

The term 'non-reciprocal' refers to transactions where an entity receives assets or services or has liabilities extinguished without directly giving approximately equal value in exchange to the other party. However, it is acknowledged that the donor or grantor may receive an indirect benefit from the transaction.

Not-for-profit entities frequently receive contributions to acquire assets or provide specific goods and services. In addition, donors or grantors may impose conditions in respect of the manner or timing in which the assets may be used.

Contributions are often in the form of:

#### Cash

An unconditional cash contribution is recognised as revenue when the entity obtains control of the contribution or the right to receive the contribution.

## 4. Financial management of grants

A conditional cash contribution is recognised as revenue when the conditions are met.

When an entity fails to meet the specific conditions attached to a cash contribution and the amount is required to be repaid, the entity would need to recognise a liability.

### In-kind

An in-kind contribution generally means a contribution other than cash. This generally occurs when a commitment has been made by a grantee to commit its resources towards the grant activity or project.

In-kind contributions may include:

- labour donated by the grantee, where the project is labour intensive, such as project management and office support
- donated services or indirect costs provided by the grantee such as the provision of accommodation and the use of personal computers.

### Matching

This may be in the form of cash or in-kind contribution. A grantee may 'match' a grantor's contribution to meet a grant application requirement or simply make its grant proposal more competitive.

Where a grantee matches a contribution:

- the contribution should be spent or consumed within the project period and be within the specified terms of the agreement
- every effort should be made to measure reliably indirect costs such as accommodation, electricity, internet usage and other overheads.

### Accounting for grants

The following information is offered for guidance only. For specific advice, please refer to your accountant. The procedures relate to the processes that the grant recipient needs to follow.

### Generally Accepted Accounting Principles (GAAP)

#### Revenue

Revenue would be recognised when the grant funds are received or receivable, for example, where the control of the future economic benefits have been obtained and agreement is enforceable. This would arise for:

- a Non-conditional grants, when the grant funds are received or when the grant agreement becomes enforceable; for example, the grantee is formally advised that the grant application has been approved or the contract or agreement is executed. The journal entry would be Credit Revenue and Debit Cash at Bank / Receivables.
- b Conditional grants, when the grantee meets the enforceable conditions\*. Enforceable conditions generally means 'hard' conditions, and will trigger a repayment if these conditions are not met.

Where conditional grant funds are received in:

- i advance: a liability would be recognised until the conditions are met.\* The journal entry would be Credit Revenue Received in Advance and Debit Cash at Bank.
- ii arrears: revenue would be recognised once the conditions are met. The journal entry would be Credit Revenue and Debit Receivables until receipt.

#### Expense

An expense would be recognised when the grant funds are paid or payable; that is, there is an obligation to pay. This would arise for:

- a non-conditional grants, when the grant is paid or when the grant agreement becomes enforceable; for example, the grantor has advised the grantee that their application has been approved or the contract or agreement has been executed. The journal entry would be Debit Expense and Credit Cash at Bank / Payables.

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\* Where the not-for-profit entity is a local government entity or a government department, Australian Accounting Standard 27 Financial Reporting by Local Governments and Australian Accounting Standard 29 Financial Reporting by Government Departments create a situation where conditional grant revenues are effectively treated on a cash basis (that is, the earlier on receipt or when conditions are met).

## 4. Financial management of grants

- b Conditional grants, when the grantee meets the enforceable conditions. Enforceable conditions generally means 'hard' conditions, and will trigger a repayment by the grantee to the grantor if these conditions are not met. Where conditional grant funds are paid in:
  - i advance: a prepayment would be recognised until the conditions are met. The journal entry would be Debit Prepayment and Credit Cash at Bank.
  - ii arrears: an expense would be recognised upon the conditions being met. The journal entry would be Debit Expense and Credit Payables.

### What are conditions?

If a grant is conditional, it generally means the grantee needs to meet certain milestones or criteria before receiving the grant funds, or where the grantee does not meet those milestones or criteria, funds shall be repaid to the grantor.

Grants may be subject to terms and conditions that may need to be met before the receipt of the funds, determining the way that the grant funds are used or requiring the repayment of grant funds if milestones and criteria are not met.

Examples of conditions may include:

- submissions of periodic progress reports
- submissions of detailed plans and strategies
- milestones being achieved
- expenditure in accordance with the grant purpose.

Generally, conditions reflect tangible and concrete events that occur to trigger the obligation to take an action that is outlined in the grant agreement.

### What are restrictions?

Grant agreements may impose restrictions in respect of the manner, purpose or timing in which the grant may be used. It could be argued that, while the manner, purpose or timing remains undischarged, a liability exists – however, the restriction does not create a present obligation.

A restriction imposes a fiduciary responsibility on the not-for-profit entity's management to use the grant efficiently and effectively in pursuing the grant's purpose and objectives. This fiduciary responsibility pertains to all of the entity's assets, and does not, of itself, constitute a legal, equitable or constructive obligation.

Therefore, a grant with restrictions would be recognised as revenue or expense upon the right to receive or pay or upon actual receipt or payment.

Generally, conditions reflect tangible and concrete events that occur to trigger the obligation to take an action that is outlined in the grant agreement.

### **Australian equivalents to International Financial Reporting Standards**

Information on Accounting Standards is available from CPA Australia ([cpaaustralia.com.au](http://cpaaustralia.com.au)), and the Australian Accounting Standards Board ([aasb.com.au](http://aasb.com.au)).

The Appendix contains further discussions on grants, donations, sponsorships, membership fees and residential rent (taken from part 3 of *QUT MYOB Training Manual, 2006.*)

**Types of financial reporting**

Comparison between external and internal requirements

	<b>External reporting</b>	<b>Internal reporting</b>
	<p><b>General purpose financial reports</b></p> <ul style="list-style-type: none"> <li>• Required by Australian Accounting Standards for each reporting period</li> <li>• Financial report intended to meet the information needs common to users who are unable to command the preparation of reports tailored so as to satisfy, specifically, all of their information needs</li> </ul>	<p><b>Grant financial reports</b></p> <ul style="list-style-type: none"> <li>• Requirements dictated by the grant agreement</li> <li>• May contain specific requirements in relation to format and content, as imposed by grantor, who is in a position to command the preparation of reports tailored to satisfy specifically its information needs</li> </ul>
<b>Reporting requirements</b>		
<b>Frequency and basis of reporting</b>	<ul style="list-style-type: none"> <li>• A single set of reports each reporting period (generally once a year) prepared on an accrual basis</li> </ul>	<ul style="list-style-type: none"> <li>• Depends on funding agreement. May be:                             <ul style="list-style-type: none"> <li>– one per quarter or one every six months; or</li> <li>– one each reporting period; or</li> <li>– one at the end of the grant, as part of the acquittal process</li> </ul> </li> <li>• Generally prepared on a cash basis</li> </ul>
<b>Content of reports</b>	<p>Under GAAP</p> <ul style="list-style-type: none"> <li>• Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and Notes to the Accounts</li> </ul>	<ul style="list-style-type: none"> <li>• Requirements as specified by the grant agreement – may be simply a Statement of Receipts and Payments</li> </ul>

<b>Content of reports</b> <i>(cont.)</i>	Under AIFRS <ul style="list-style-type: none"> <li>Income Statement, Balance Sheet, Statement of Changes in Equity or a Statement of Recognised Income and Expense, Cash Flow Statement and Notes to the Accounts</li> </ul>	
<b>Notes to the accounts</b>	<ul style="list-style-type: none"> <li>Where contributions or grants are material by their nature, amount and/or relevance to the nature of the entity, a separate line item may be included on the face of the Statement of Financial Performance (known as an Income Statement under AIFRS). In addition, supportive note disclosure may be required to explain the breakdown of contributions or grants and any material grant terms and conditions</li> <li>Significant accounting policies</li> <li>Financial review that describes and explains the main features of the entity's financial performance and financial position and the principal uncertainties it faces</li> <li>Commentary on any environmental or social impact of the entity's activities and whether key performance indicators have been achieved</li> </ul>	<ul style="list-style-type: none"> <li>Written commentary to reinforce and explain the numbers reported. Provides understanding to the grantor whether the objectives of the grant will be met and whether funding should be paid (if in arrears) or continued (if up front)</li> <li>Commentary on any environmental or social impact of the grant activities and whether targets and outcomes have been achieved</li> </ul>

## 4. Financial management of grants

### Internal reporting: illustrative example only

Reporting on the financial activities of a grant may be along the following lines. Please note that a grant agreement may require a specific format or specific information to be cited; for example, expenditure on capital items.

### Statement of Receipts and Payments

#### Entity

Recipient entity: .....

Address: .....

Contact name: ..... Office held: .....

Contact phone: .....

Purpose of grant: .....

- i Nature of grant (one-off/ongoing)
- ii Statement of Receipts and Payments

Grant amount (receipt) (a)

Grant payments (b)

Funds remaining (a – b)

(Funds remaining are to be repaid to the grantor unless the grantor has given specific approval for the funds to be retained.)

We certify that the grant was used for the purpose for which the grant was provided.

**Finance Manager / Treasurer**

**Executive Officer / Secretary / President**

Signature: .....

Signature: .....

Name: .....

Name: .....

Date: .....

Date: .....

### Grants and the internal control environment

#### General control environment

Controls over grants (including the use of funds, project performance, internal reporting requirements and acquittal process) will vary from entity to entity, depending on the size, nature and complexity of the project. All controls should reflect both the risk they are designed to prevent and the relevant cost or benefit of the implementation of the internal control.

When assigning responsibility and accountability to particular officers for grants activities, these roles should be documented to maintain an adequate audit trail.

Some internal controls that a not-for-profit entity may benefit from are:

- assigning responsibility and accountability to appropriate officers for all grant activities: this may depend upon the experience and skills required; the relevance of the delegation to the role of the individual; and the ability to influence the performance of the activity
- segregating those who keep the records from those who have the responsibility for doing the work, where practicable, to reduce the risk of fraud
- segregating separate but related transactions where practicable
- preparing reconciliations where necessary to ensure integrity of data and information
- ensuring appropriate authorisation of transactions and activities; that is, approval of grant expenditure should be in accordance with the delegations of authority established by an entity's board or committee, and funds should be used in accordance with the grant's purpose. Where authority for grant expenditure is not specifically provided for in the instrument of delegations, the entity's general expenditure authorities should be followed. It is important to note that, while the authority to approve expenditure may lie with a particular officer or officers, the officer responsible for administration of the grant or project may be a different officer. This does not relieve the authorising officer from his or her responsibility, but rather it places extra emphasis on their need to verify the legitimacy of work or expenditure incurred, prior to approving the grant payment
- preparing adequate documentation and records of activities undertaken on a timely basis
- maintaining a well-organised chart of accounts

## 4. Financial management of grants

- maintaining an adequate audit trail
- establishing physical controls over access to and use of assets and records
- developing and preserving the integrity, accuracy and reliability of information systems to ensure transactions are completely and accurately recorded in the correct period with correct authorisation and in a manner that permits development of necessary financial reports

On completion of the grant, the grantee or recipient should provide an acquittal to the grantor or provider as assurance that the funds have been spent for their intended purpose and in accordance with the terms and conditions of the grant agreement.

### Internal reporting

The objective of internal reporting is to provide relevant and appropriate information to management so as to enable it to identify and assess performance against targets and objectives. It should allow a not-for-profit entity to plan future grant programs, measure and evaluate performance, control and account for grants and optimise use of resources.

Internal reporting may include budget reports; monitoring reports (actual versus budget); financial reporting; activity progress and performance reports; and exception reporting.

Internal reporting of grants requires a structured approach to ensure that adequate and appropriate documentation of activities and transactions is captured and maintained on a timely basis. This may include:

- processes in place to capture and report data internally aligned with external reporting requirements detailed in grant agreements so that external reports can be produced with minimal effort and in a timely manner
- financial and non-financial elements of input, output and other measures in differing levels of detail. Data should be linked in order to provide all relevant information on a particular issue
- presentation of reports in a graphical format assisting with analysis compared with predetermined grant milestones
- consideration of materiality and the costs involved in obtaining, preparing and disseminating the information
- evaluation as to the effectiveness of the grant program

The information contained in internal reports provides a basis for external reports such as statutory and acquittal reporting. The recording and maintenance of grant activities and transactions also provides an adequate audit trail.

### Budget preparation

Grant funding impacts on budgets at two levels: the income received and the expenditure incurred.

Budgets are an important tool for not-for-profit entities that rely on grant funding as a major source of revenue and would not be able to undertake many projects without these funds. Grant funding and expenditure are often included in the not-for-profit annual projected budgets. If this is not done, budgets may require adjustment when the grant funding is confirmed.

Grant funding is often provided for a specific purpose and for the achievement of goals and objectives that align with the policies or objectives of the grant provider, whether a government or private entity. To ensure accountability of the grant funds and to ensure that objectives of the grant program are met, it is important that a comprehensive budget be prepared.

The budget is a planning tool that reflects the financial and resourcing requirements of a grant project, and should set out clearly defined target outputs and performance indicators, as well as assigning clear accountabilities for the achievement of those outputs. Although internal management may use a budget to assess viability of projects or to determine which projects should be undertaken, it is likely that the budget will form part of a grant application, and will need to be detailed enough for external users to make an assessment on the scope, viability and components of the project.

A budget should include a clear and detailed breakdown of the projected receipts and payments by major categories (for example, employee expenses, supplies and services) over the life of the grant. Budgets are a means of evaluating performance, and should be monitored on an ongoing basis to ensure any likely problems are identified and to ensure the ongoing viability of the project. Major cost variations that are not identified at an early stage have the potential to erode the grant funds, leaving insufficient funds to complete the project. Potentially the funds spent to date may need to be returned if poor financial management is in breach of the contract.

Grants may be paid in instalments based on the achievement of milestones, as defined in an agreed work plan, and therefore the monitoring process is very important to ensure cash is available when needed. The grant provider would assess progress and milestone reports, and make payment only when satisfied that the milestone has been achieved.

### Other financial management matters

#### Payment of grants

The timing of grant payments is usually specified in grant agreements agreed by both the grantor and grantee. Predominantly the grantor prescribes the method and timing of payment in the grant agreement and the grantee must agree to these terms before any grant payment will be made.

Timing can take on numerous forms. Payment can be offered in advance at set intervals; for example, monthly, quarterly, semi-annually or annually. Payments may also be offered in arrears at similar intervals. Grant payments can also be intrinsically tied to the conditions imposed by the grant, such as payment upon completion of associated service delivery for which the grant was intended.

If payments are tied to the achievement of performance targets, then the frequency of payments will affect the type of performance measures a not-for-profit organisation should use. For example, if a not-for-profit organisation has to demonstrate achievement against targets every quarter in order to receive payment, it should not choose a performance indicator that can only be measured once or twice a year.

On a purchase contract basis, the grantee needs to demonstrate that service outputs have been regularly achieved by submitting periodic grant acquittal reports as prescribed by the relevant grant agreement before progressive grant instalments will be paid.

Service outputs required to be progressively delivered (milestones) will depend upon the nature and conditions of the specific grant, and may include several different measures on several different reports to record the quantity, quality, timeliness and cost of outputs. It is also likely that the format of these measures and reports will differ from one grant agreement to another.

Grantees need to ensure that they have the necessary available funds and cash flow to fulfil grant requirements and expenditure.

#### Reporting using non-financial performance indicators

An important element of many grant arrangements is the recording and reporting on non-financial indicators.

In most cases, grant applications and acquittal procedures are focused on the outcomes of the program for which the grant was given. As a result, the indicator will vary enormously depending on the nature of the program for which the funding relates.

## 4. Financial management of grants

Typical non-performance indicators will include (but are not limited to):

- number of clients serviced and the outcomes (human services programs)
- amount and quantity of food purchased (community nutrition programs)
- number of books or materials purchased (library or literacy programs)
- length of roadway or footpath constructed (infrastructure development programs).

It is important that the requirement to collect non-performance indicators is understood at the commencement of the program. Collecting this information is much more efficiently performed over the life of the project, rather than trying to consolidate data at the end of the year or conclusion of the program.

In some cases, the data collection can be streamlined with the collection of financial data, for example, recording details from invoices, or having staff document on timesheets activities such as client contacts each day.

Reporting of non-financial data in the annual report provides stakeholders with information about the outcome of the services of your entity. This can be framed in a balanced scorecard or triple bottom line reporting framework, which is considered best practice reporting.

Using the same performance measures over the life of the project can help the not-for-profit organisation to measure trends over time, particularly to find out whether or not there have been any improvements in performance. Being able to demonstrate improvements can be useful if the not-for-profit organisation is planning to apply for ongoing funding or other grants in the future.

If the not-for-profit organisation decides to change its performance indicators at any stage, it should keep a written record of why the decision was made to change. This change should be mentioned in the not-for-profit organisation's next progress report to the grantor. The not-for-profit organisation should keep a written record of any underlying assumptions and calculations for performance information.

Performance reporting in the annual report should be aligned to the performance indicators, objectives and outcomes that were set out in the grant agreement. The annual report should describe the performance targets that were set and the not-for-profit organisation's actual performance against these targets. Where these targets were exceeded or not met, there should be some discussion of the reasons for this.

Case studies can be useful in the annual report to demonstrate performance and significant achievements, particularly for small not-for-profit organisations.

## 4. Financial management of grants

### Cash flow, investment of funds and use of interest income

The proper management of cash flows within a not-for-profit entity is a key strategic function. This involves managing risks, as high-return investments usually equals high risks.

When cash management is done properly, it will ensure that any surplus funds are invested in the appropriate risk-to-return fund, such as a cash management fund or similar account. Frequently, interest will be earned when grants are paid in advance. Government departments and authorities may be restricted to depositing monies into a special deposit account specified by the Treasurer, and/or may be required to obtain the Treasurer's approval before investing funds, and/or be required to use the state's financing authority for the management of large cash holdings.

The ability of an entity to use interest income will depend on the grant agreement. In this regard, most agreements provide for any interest to be applied only for the purposes of the grant. In other words, any interest is quarantined from the general operations of the entity.

To the extent that any funds remain at the end of the grant period, the grantor will generally require these funds to be repaid. Or, depending on the circumstances and the grant agreement an application may be made to the grantor for approval to retain the funds.

When calculating the amount of any unspent grant monies, the entity should consider any interest earned during the grant period.

## 5. Grants and tax compliance

Many not-for-profit entities are exempt from income tax. The *Income Tax Assessment Act 1997*, Division 50 identifies those entities whose ordinary income and statutory income is exempt.

Where a not-for-profit entity is subject to income tax, grant income will generally be assessable income.

### Fringe benefits tax (FBT)

The fringe benefits tax is a tax that is imposed on employers in respect of benefits provided to employees.

Generally, there will be no fringe benefits tax implications when a not-for-profit entity receives or provides a grant unless there is an employer–employee relationship. In addition, where a not-for-profit entity does provide a grant to an employee, the arrangements under the pay-as-you-go tax system will need to be considered.

### Goods and services tax (GST)

Not-for-profit entities must register for goods and services tax (GST) if their annual turnover is \$100,000 or more. For other entities, the turnover threshold is \$50,000. The grant may have an impact on the goods and services tax threshold of the organisation. Input tax credits will not be available on payments made to unregistered entities.

Appendix 2 provides additional information on the goods and services tax (GST) arrangements for not-for-profit organisations.

Please refer to the Australian Taxation Office website, [ato.gov.au](http://ato.gov.au), for the latest information on relevant taxation requirements.

## 6. Reporting and acquittal

The grant agreement that the not-for-profit organisation enters into with the grants body will detail the reporting and acquittal requirements. It is essential at the outset to understand clearly what is required. Some agreements require only a final report, whereas others, especially large grants, may require progress reports during the life of the grant.

### Grant reporting

Grant reporting requirements may vary from grant to grant, and may even vary between grants rounds and years. Therefore, it is critical to check the requirements thoroughly. Also, different projects may require alternative reporting formats and, if so, these will be agreed with the grants body when the grant agreement is negotiated.

### General requirements

Generally, grants bodies will require a number of copies of the report, and they will specify whether the report needs to be in hard copy, electronic form or both. The grants requirement may also specify what additional material needs to be supplied, such as photographs and evaluation reports.

### Formal certification

Depending on the specific grant, formal certification may be sought to confirm work completed and/or the accuracy of the financial records. Formal certification may mean a written report from a third party that the work was done to the standard specified. For example, an organisation may receive funding to build a community centre. The grants body may require certification from the builder or engineer that the work has been undertaken to the appropriate standard.

### Differences between progress and final reports

The major difference between progress and final reports is usually in the amount of detail required and the style of the report.

Progress reports provide details of the achievements and activities undertaken on the project for a fixed period of time since the last report. In many cases, progress reports will cover a project period of, for example, three or four months. The reports may be less formal in their structure and style, as they are predominantly for the use of grantors to assess the progress of the project against the objectives and outcomes in the project application.

Final reports, however, are widely distributed through the grants body, the internet and by other methods, as appropriate. A more formal style, professional presentation and additional details are therefore expected.

Some suggested headings for both progress and final reports and details of the information to be included are provided below. The use of the headings is not mandatory; however, the information requested must be provided somewhere in both reports.

### Progress reports

In most instances, grant payments will only be made when satisfactory progress reports are received and the agreed outcomes specified in the contract have been achieved.

#### Brief description of the project

This description should summarise:

- the objectives of the project
- the methodology (how the project is being conducted)
- the expected outcomes.

#### Progress against project work plan

Reporting progress against the project's work plan should form the majority of the report.

The work plan will:

- identify the major tasks necessary for the project
- list the actions to be undertaken to complete each of these major tasks
- provide performance measures that demonstrate that the various tasks have been successfully completed
- provide a timeline showing when each major task will be started and completed.

Activities undertaken to achieve each of the project's major tasks should be documented and outcomes against each task's performance measures reported.

This section should document any difficulties relating to the progress of the project against the work plan and consider the impact of these difficulties on the objectives of the project. It is particularly important that grantors are made aware of any difficulties as they arise, so that they can offer additional advice or assistance to the project where possible.

## 6. Reporting and acquittal

### **Progress against the implementation and marketing strategy**

The project application provided details of how the project will be implemented and marketed. Progress with the activities to be undertaken and the timeframe must be included.

A communication strategy identifying how the progress and outcomes of the project will be communicated to relevant audiences should also have been detailed in the grant application. Progress should be reported, including any emerging ideas for maximising the communications strategy.

### **Progress against the evaluation plan**

An evaluation plan with performance measures for the project was detailed in the grant application. A review of the progress of the project against the performance measures should be reported in this section. It should include information on the collection of data and the progress of processes for conducting the final evaluation of the extent to which the aims and objectives of the project have been met.

Progress reports to grantors should explain any changes to performance indicators since the last progress report.

### **Expenditure statement**

A financial statement of the expenditure of the project against the budget is required.

### **Final report**

The final grant payment will only be made upon the reception of a satisfactory final report that shows that the agreed outcomes and performance measures for the project have been achieved, with an audited expenditure statement.

### **Executive summary**

The executive summary should provide an overview of the project's aim and objectives, methodology, outcomes, findings, evaluation outcomes and recommendations.

### Background

This section should summarise background information relevant to the project, including how the need for the project was identified and the development of the methodology. Where appropriate (for example in primary research) a literature review may be included.

### Methodology

This section should describe the methodology employed in the project and discuss activities and progress of the project against the work plan. Activities undertaken to achieve each of the project's major tasks should be documented, and outcomes against each task's performance measures reported.

Explanations for deviations from the work plan should be provided, in particular, where they reflect problems with any parts of the methodology used for the project. Other problems encountered (such as with the external environment) should also be reported, in order to help avoid similar problems for future projects.

### Outcomes and findings

This section should provide detail on the project outcomes measured against each task's performance measures, and how these relate to practical use in the workplace and contribute to long-term change.

### Variations and any action taken

It is not uncommon for organisations to have to vary the conditions of the grant to allow for unexpected delays, or additional expenditures. Where such changes occur, the report should outline the changes made and the action taken to address any issues that may arise.

### Evaluation

This section should report and provide discussion on the evaluation of the project including assessment of:

- the extent to which the stated aims and objectives of the project have been met
- the quality of project management
- the achievement of project performance measures

## 6. Reporting and acquittal

- the quality of outcomes
- the impact of the project
- variations and any actions to be taken.

### Communication

This section should outline how the outcomes and results of the project have been communicated to key stakeholders or other relevant groups, and any feedback received.

### Extension of results

This section should outline how the findings of the project and any resources developed will continue to be maintained and used in the future.

### Recommendations

This section should detail recommendations arising from the project.

### Audited expenditure statement

Under the grants contract, an audited expenditure statement must accompany the final report. The statement should show expenditure against the budget provided in the grant application, and should be prepared by a registered company auditor or CPA (holding a Public Practice Certificate). This is not required for consultancy agreements.

## Grant acquittal

The grants body will specify how the grant will be acquitted. The process normally involves two stages:

- financial acquittal; and
- performance report.

### Financial acquittal

The financial acquittal date is normally specified in the grants agreement. A set of financial statements is normally required, and these may be independently audited.

Particular issues that may have to be addressed during the acquittal are the treatment of excess funds (usually cannot be retained), ownership of any assets arising, and records retained.

### Performance report

The performance report details the extent to which the not-for-profit organisation has met the outcomes specified in the grants agreement. There are many ways to evaluate your event, program or activity, and how well it meets the outcomes specified in the grants agreement.

One method is to use evaluation forms for participants:

- statistics: how many participants? which organisations? how many flyers were handed out?
- questionnaires, which could be given out beforehand to determine the impact of your event, program or activity
- one-to-one or group interviews of participants or volunteers
- a suggestion box
- a cost–benefit analysis of the promotion and advertising: how much coverage did you receive? what was the cost of promotion and advertising?

Another way to do this is to make sure that the activity's performance measures closely reflect the outcome of the funding agreement – if there is a logical flow from the broad outcome to the lower-level performance indicators, then it is easier to demonstrate that the activity has met the outcomes.

The performance report should distinguish between outputs and outcomes.

## 7. Audit and verification of grants

The audit and verification of grants is becoming more commonplace, as accountability and governance considerations for grants bodies increase.

An audit is an independent review and examination of records and activities to assess the adequacy of system controls, ensure compliance with established policies and operational procedures, and enable the recommendation of necessary changes in controls, policies or procedures.

### Types of audit

There are potentially five types of audits that a not-for-profit organisation may face relating to its grants:

- not-for-profit organisation external audit
- not-for-profit organisation internal audit
- grants body audit
- auditor-general's audit
- special audit
- performance audit.

#### Not-for-profit organisation external audit

An external audit is the most common form of audit. The audit is conducted by an independent, suitably qualified person. The auditor typically would belong to a professional accounting body.

#### Not-for-profit organisation internal audit

Larger not-for-profit organisations may have their own internal audit function to undertake audits of the organisation's grants.

#### Grants body audit

The grants body undertakes an audit of the grants records, and the audit may be performed by a suitably qualified staff member from the grants organisation.

### Auditor-general's audit

For large grants, the grant may be included in the annual work program for the relevant state or federal auditor-general.

### Special audit

In some circumstances, a special audit may be conducted, and the audit may be performed by the grants body or an auditor-general.

### Performance audit

More and more, grants bodies are seeking confirmation that the grant has delivered the outcomes expected. Performance audits are undertaken by grants bodies to measure the extent to which grants outcomes are achieved. For example, surveys may be conducted of the project's clients to determine the extent to which outcomes have been achieved.

## What the grantee can expect

Any audit, no matter what type it is, will assess what is specified in the funding agreement against what has occurred. Auditors will always look at the terms of the funding agreement when conducting an audit. Therefore, not-for-profit organisations should structure their controls and reporting mechanisms around the terms of the funding agreement. It is the funding agreement that will determine what the grantee can expect to be examined during an audit.

The performance of audits follows an established set of steps: the scope of the audit outlined; the start and completion date of the audit; records required for inspection; and the reporting arrangements. You also need to determine the fees for the audit and if these can be paid out of the grants funds.

The possible outcomes of an audit include confirmation of the procedures and financial reports; recommendations for changes in procedures or adjustments to reports; and advising of return of funds where the grant conditions have not been properly fulfilled. Where fraud or other illegality has occurred, advice should be given to the relevant authorities for initiation of appropriate action, including possible criminal proceedings.

### What the auditor needs to do

The auditor's duties are covered by the relevant accounting and auditing standards. In performing an audit, the auditor will probably need to consider the following:

- audit engagement terms
- qualifications required to conduct the audit
- conflict of interest
- requirements of the grant and granting body
- working papers
- grants documents: decision-making processes, agreement, assets, liabilities
- compliance
- management representations
- sign-off: standards of assertions; 'true and fair'
- general recommendations to the organisation.

Audit engagement terms are the conditions set out at the commencement of the audit to inform the grantee what the scope of the audit will cover, what the auditor will examine, and the administrative arrangements for the audit. The audit engagement terms will usually align to the funding agreement.

# Appendix 1: Transactions unique to not-for-profit organisations

This section provides corroborating detail to back up the more general points made in the earlier sections of the manual. Much of the following material is based on the the Queensland University of Technology *MYOB Training Manual*, by Stephen Marsden. Account numbers used in this appendix are from the Standard Chart of Accounts for small nonprofit organisations available at [qut.edu.au](http://qut.edu.au).

## What is a grant?

A grant is typically provided from one party (referred to as 'the grantor') to another party (referred to as 'the grantee'), whereby the supply of a service is provided under the grant agreement. The grant agreement usually specifies the various rights and obligations between the parties and the conditions attached to the service agreement. Often the grant agreement will provide that the grantee provide certain services to third parties, rather than the grantor.

In the case of the Queensland Department of Communities, grants are usually provided to community organisations throughout Queensland to fund a range of service initiatives and programs that aim to strengthen family or community life, promote the dignity and independence of individuals or assist people in need.

A service agreement entered into between the department and the not-for-profit organisation typically outlines the roles and responsibilities of each party and what services will be delivered by the not-for-profit organisation. In return, the not-for-profit organisation will usually be required under the service agreement to provide appropriate accounting records and periodic returns disclosing how the grant has been acquitted. Audited financial statements are usually also required to be provided to the department at the end of the financial year.

The Queensland Department of Communities has published a standard funding agreement on its website at [communities.qld.gov.au](http://communities.qld.gov.au).

## Is a grant subject to GST?

If a not-for-profit organisation receives a grant, it is usually considered a taxable supply for goods and services tax (GST) purposes. Hence, one-eleventh of the amount of the grant needs to be remitted to the Australian Taxation Office on the business activity statement (BAS).

In limited circumstances, a grant from a charitable foundation will not be subject to GST. A copy of the grant format that the Australian Taxation Office will accept as not being subject to GST can be found at the Philanthropy Australia website at [philanthropy.org.au](http://philanthropy.org.au).

## Appendix 1: Transactions unique to not-for-profit organisations

In the case of grants received from government departments, they will usually be subject to GST. In some cases, the government department provides a tax invoice to the not-for-profit organisation. This is referred to as a 'recipient-created tax invoice'. This means that the not-for-profit organisation does not need to send the government department a tax invoice. If the government department does not issue the non-profit organisation with a recipient created tax invoice, then the not-for-profit organisation will be required to raise and send the government department a tax invoice for the GST inclusive value of the grant received.

The ATO has released a fact sheet entitled 'Grants and GST: Recipient-created Tax Invoices', which discusses the criteria for recipient-created tax invoices. This fact sheet can be downloaded from the ATO website [ato.gov.au](http://ato.gov.au).

A grant is not a 'gift' for taxation purposes. A grant contains specific conditions as to how that grantee is to spend the money. As such, it will not constitute a gift. This is confirmed in Section 9–10(2)(d) of the *Goods and Services Tax Act 1999*, as amended, which states that a taxable supply includes 'a grant, assignment or surrender of real property'.

The ATO has issued a GST ruling dealing with grants entitled GSTR 2000/11 *Grants of Financial Assistance*. This document can be downloaded at [ato.gov.au](http://ato.gov.au). The ATO has also issued a booklet entitled *GST and Grants*, which outlines the GST treatment of grants. This booklet can be also downloaded from the ATO website.

### Accounting for grants

As far as the not-for-profit organisation is concerned, the main issue with accounting for grants is determining the point at which these grants are recognised as revenue in the profit and loss statement. Generally, if a grant is received that relates exclusively to the current period, the grant is recorded as revenue in the profit and loss statement.

However, a particular problem arises where grants are received in advance of the period in which they are expected to be used – where the period of the grant spans more than one financial year.

The issue is whether the total amount of the grant should be treated as revenue upon receipt or recognised progressively as revenue in the period in which the grant is expected to be used. If the latter is chosen, a subsequent issue is whether the grant should be classified as a liability.

The answer to this question depends on whether the grant is reciprocal or non-reciprocal, and whether the grant has been received by a for-profit or a not-for-profit organisation.

## **Reciprocal transfer**

A reciprocal transfer is a transfer in which the entity receives assets (that is, money) or services and directly gives approximately equal value in exchange to the provider of the money. In other words, a reciprocal transfer is one in which the recipient is obliged to provide goods or services of approximately the same value back to the contributor.

In the case of not-for-profit organisations, such transactions are often described as membership fees, tickets to fundraising events, or sales of fundraising goods such as chocolates or lollies.

## **Non-reciprocal transfer**

A non-reciprocal transfer (or contribution) is a transfer in which the entity receives assets (that is, money) or services without directly giving approximately equal value back to the contributor.

In other words, a non-reciprocal transfer is one in which the recipient is not obliged to provide goods or services of approximately the same value back to the contributor. In the case of not-for-profit organisations, such contributions are often described as gifts or donations. The not-for-profit organisation is not required to give back to the donor approximately the same value provided.

Having confirmed that a grant is, from an accounting viewpoint, regarded as a non-reciprocal transfer, the next consideration is whether the grant should be accounted for as revenue upon receipt or initially recognised as a liability and transferred to revenue over the period of the grant. The answer to this question depends on whether the entity is a for-profit or not-for-profit entity.

## Appendix 1: Transactions unique to not-for-profit organisations

### a Accounting for grants in the books of for-profit organisations

Where a for-profit entity receives a government grant, AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* applies. This accounting standard requires that grants should be recognised as revenue in the profit and loss statement *over the period during which the grant relates*.

In other words, the initial amount of the grant should be shown as a current liability entitled Grants Received in Advance in the balance sheet, and transferred to the profit and loss statement on a progressive basis as revenue over the period of the grant. On this basis, the standard regards the government grant as a reciprocal transfer.

### b Accounting for grants in the books of not-for-profit organisations

The definition of a 'not-for-profit' entity is contained in paragraph Aus. 6.2 of AASB 136 *Impairment of Assets*: 'A not-for-profit entity is an entity whose principal objective is not the generation of profit.'

Where a not-for-profit entity receives a government grant, AASB 1004 *Contributions* applies, not AASB 120. AASB 1004 requires that the entire amount of the grant be recognised as revenue in the income statement in the year of receipt, regardless of the period of the grant.

## Divergent treatment

As can be seen, the current way that for-profit organisations account for their grants is different from the way that not-for-profit organisations are required to account for grants. Several not-for-profit organisations have complained about this divergent treatment to the Australian Accounting Standards Board (AASB). The AASB is the government body that sets accounting standards in Australia.

Based on these concerns, in February 2006, the AASB released a document entitled ED 147 *Revenue from Non-Exchange Transactions*. This document proposes to amend AASB 1004 *Contributions* to allow not-for-profit organisations to record grants received in advance as a liability similar to for-profit organisations. The grant would be progressively brought to account as revenue in the profit and loss statement over the period of the grant.

This amendment would bring the accounting treatment for grants for both for-profit organisations and not-for-profit organisations into line.

### Example

Assume that on 1 January 2006 a not-for-profit organisation receives a recurring grant from the Department of Communities of \$55,000 including GST. This grant is for a twelve-month period. The not-for-profit organisation will be required to remit one-eleventh of this amount to the ATO (that is, \$5000). This will be coded to the liability 'Accounting 21150 GST Payable'.

Assume that the financial year-end of the not-for-profit organisation is 31 March. Despite the fact that only three months have passed from the date of the receipt of the grant to the end of the financial year, under AASB 1004 *Contributions* the not-for-profit organisation will record the entire \$50,000 as revenue upon receipt of the grant (Account 4-1040 *State Grants – Recurring*).

This is despite the fact that nine-twelfths of the grant relates to the subsequent financial year.

However, once AASB 1004 *Contributions* is amended, not-for-profit organisations will recognise \$12,500 as grant revenue ( $3/12 \times \$50,000$ ) in the profit and loss statement and \$37,500 (representing  $9/12 \times \$50,000$  relating to the next financial year) as Grants Received in Advance in the balance sheet.

### Tip

For not-for-profit organisations, grants are recorded as revenue at the time the grant is received, regardless of the period to which the grant relates. Grants are subject to GST, hence the not-for-profit organisation must remit one-eleventh of the gross amount of the grant to the ATO.

In many cases, the government department will provide the not-for-profit organisation with a recipient-created tax invoice. This means that the not-for-profit organisation does not need to send the government department a tax invoice.

## Accounting for donations and donated assets

In some instances, a person may make a donation of cash, trading stock or property to a not-for-profit organisation. To be a bona fide gift or donation, it must have the following characteristics:

- there is a transfer of the beneficial interest in property
- the transfer is made voluntarily
- the transfer arises by way of benefaction
- no material benefit or advantage is received by the giver by way of return.

Generally, for a payment to be considered a gift, it must be unfettered, that is, there must be no obligation to do anything material in recognition of the gift and no expectation on the part of the donor to receive anything material in return for the donation; that is, no strings attached.

Hence, the following are not usually considered gifts:

- purchase of raffle or art union tickets
- client contributions towards services or activities; for example, contribution towards a bus trip
- purchase of an item such as a mug, key ring or pen that is not merely a token that promotes the community organisation or its activities. Such tokens commonly given during fundraising drives include lapel badges, bumper stickers, red noses, Legacy pins and daffodils on Daffodil Day
- the cost of attending a fundraising dinner, even if the cost exceeds the value of the dinner
- sponsorships or advertising provided to the donor in exchange for the donation
- memberships and registration fees
- payments where the person has an understanding with the recipient that the payment will be used to provide a benefit to the donor.

On 20 July 2005, the Australian Taxation Office released Taxation Ruling TR 2005/13 *Tax Deductible Gifts: What is a Gift?* This taxation ruling supersedes several other taxation rulings and taxation determinations, and represents the most comprehensive taxation ruling issued by the Australian Taxation Office on the subject of tax-deductible gifts. TR 2005/13 contains 230 paragraphs, 81 worked examples and spans 47 pages. It can be found at [ato.gov.au](http://ato.gov.au).

The donor will be able to claim a tax deduction for the gift made, provided it was made to a tax-deductible gift recipient (DGR) that has been endorsed by the commissioner of taxation.

The complete list of deductible gift recipients can be found by searching the name or ABN of the organisation at [abr.business.gov.au](http://abr.business.gov.au).

There are two ways a person can make a donation to a not-for-profit organisation:

- monetary donations; and/or
- non-monetary donations.

The respective accounting treatment of each of these transactions is discussed below.

## Monetary donations

A person may make a monetary (that is, cash) donation to a not-for-profit organisation. In this case, if the donation meets the criteria for a tax-deductible gift and the not-for-profit organisation is a DGR, the relevant cash at bank account is debited, and the revenue 'Account 4-2010 Donations Received' credited. If the donation does not meet the criteria for a tax-deductible gift, then the 'Account 4-2040 Non-Tax Deductible Gifts' is credited. All gifts should be deposited into a separate gift account.

For more information on the requirements of a gift fund, refer to the ATO Fact Sheet entitled *Gift Fund Requirements for Deductible Gift Recipients* at the ATO website.

Reference should also be made to TR 2000/12 *Deductible Gift Recipients: The Gift Fund Requirements*. This tax ruling can be downloaded at: [law.ato.gov.au](http://law.ato.gov.au).

Regardless of whether the donation is a tax-deductible gift or not for income tax purposes, a gift (or donation) is not considered a taxable supply for the purposes of the *Goods and Services Tax Act 1999* as amended.

As it is not considered a GST-free supply or input-taxed supply, it falls outside the scope of the GST Act. Hence, it should be coded to 'N-T' or no-tax in both MYOB and QuickBooks. Gifts or donations are not reported on the business activity statement.

## **Non-monetary donations**

In some instances, a person may donate non-monetary items, for example, electrical equipment. Despite the fact that the donated item is non-monetary in nature, it must still be recorded in the accounting system. The accounting treatment of non-monetary donations depends on whether the fair value of the donated item is greater or less than \$5000. This amount is the threshold adopted in the QUT Model Chart of Accounts to determine whether an item should be recorded as an asset or expense.

### *a Donated asset valued at less than \$5000*

If a not-for-profit organisation receives a donated asset that is valued by the not-for-profit organisation at less than \$5000, the donated asset should be expensed to the profit and loss statement for the estimated fair market value of the donated asset.

There is no need for the not-for-profit organisation to obtain a formal valuation of the item in question if it is less than \$5000. However, the item must be valued on a reasonable basis.

For example, if a person donates a new Sony 51 cm television set to a not-for-profit organisation, then a comparable price for this television set can be obtained by checking the price at a retail store, such as Big W, Target, Myer or JB Hi Fi. Many stores have webpages where it is possible to electronically search for the item.

The difficulty lies where the item being donated is not new; that is, secondhand. In this case, an estimate needs to be made of the value of a secondhand item that is donated. For example, a person may donate a secondhand Sony 51 cm television set to a not-for-profit organisation. In this case, consideration may be given to searching the item on E-bay (ebay.com.au) and typing in the name of the relevant item.

It is not essential that the donated item be valued precisely. As long as there has been a reasonable attempt to value the donated asset, the auditor should be satisfied.

It is important that you keep a record of where you found the comparable item and price. For example, you should print out the webpage showing the comparable item and the price, and keep this printout with your asset information.

Let us assume that the secondhand Sony 51 cm television set has been valued at \$400. In this case, the expense 'Account 6-0040 Asset Purchases < \$5000' will be debited and the revenue account entitled '4-2010 Donations Received' credited (if it is a tax-deductible gift). If the item donated is not a tax-deductible gift, then the 'Account 4-2040 Non-Tax Deductible Gifts' should be credited.

In the case of donated non-monetary items, no input tax credit can be claimed, as no money was actually spent to acquire the item. Similarly, no GST is payable, as there was no sale. Hence, the tax code to be used in both MYOB and QuickBooks is N-T (No Tax).

### *b Donated asset valued at more than \$5000*

If a not-for-profit organisation receives a donated asset that is valued at more than \$5000, the donated asset should be recorded in the appropriate asset account in the balance sheet. This asset should also be added to the asset register.

If the property is valued by the Australian Valuation Office, the donor will be notified of the value of the donated item by way of a valuation certificate. In some cases, the donor will provide the not-for-profit organisation with a copy of the valuation certificate. This will provide the value of the asset to be recorded in the accounts.

This time, let us assume that a person has donated to a not-for-profit organisation a widescreen plasma television that has been valued by the commissioner at \$7500. In this case, the asset 'Account 1-7120 Plant and Equipment' will be debited, and the revenue 'Account 4-2010 Donations Received' should be credited if it is a tax-deductible gift. If the item donated is not a tax-deductible gift, then the 'Account 4-2040 Non-Tax Deductible Gifts' should be credited.

Once again, no input tax credit can be claimed by the not-for-profit organisation on the \$7500, as no money was actually spent to acquire the plasma television. Similarly, no GST is payable, as there was no sale. Hence, the tax code to be used in both MYOB and Quick Books is N-T (No Tax).

## **Accounting for sponsorships and fundraising events**

Many not-for-profit organisations undertake a range of fundraising activities including fetes, auctions, charity balls, lunches and dinners. In addition, a not-for-profit organisation may also approach a corporate partner to be involved in sponsoring certain events or functions.

In terms of the accounting treatment for fundraising events, the relevant cash at bank account is debited with the appropriate revenue account credited (4-2000 or 4-3000). Similarly, where sponsorships are obtained, the relevant cash at bank account is debited, with the revenue 'Account 4-4050 Sponsorships & Licensing Fees' credited.

The GST treatment of sponsorships is relatively clear. Sponsorships are normally subject to GST, as they are provided in return for advertising services. Hence, ensure that the tax code is GST.

## Appendix 1: Transactions unique to not-for-profit organisations

When receiving monies from sponsorships, the not-for-profit organisation must remit one-eleventh of the gross amount received to the Australian Taxation Office on the next business activity statement.

Most fundraising events are subject to GST. Although genuine gifts or donations with no strings attached are not subject to GST, most other fundraising events constitute taxable supplies for GST purposes. Hence, they are subject to GST.

In other words, a not-for-profit organisation that charges \$180 to attend a black tie charity fundraising dinner will be required to remit one-eleventh of this amount to the ATO. Of course, the not-for-profit organisation is entitled to claim back one-eleventh of all costs associated with this event as an input tax credit.

However, there is a special input taxed concession provided to charitable institutions in Division 40-F of the *Goods and Services Tax Act 1999* as amended. According to Section 40-160, a charitable institution may elect for a fundraising event to be input taxed rather than be regarded as a taxable supply. This election is optional under the act, and applies to each fundraising event.

The main advantage of nominating that the fundraising event be input taxed is that, although no input tax credits are allowed in respect of outgoings associated with the fundraising event, no GST is required to be remitted on the proceeds received.

A fundraising event is defined as one that is conducted for the purpose of fundraising and does not form any part of a series or regular run of similar events. Section 40-165 (1) (a) classifies a fundraising event as a fete, ball, gala, dinner performance or similar event.

The commissioner of taxation made a determination on 10 August 2001, cited as *Frequency of Fundraising Events Determination (No 1) 2001*, that the frequency with which fundraising events may be held without forming part of a series or regular run of like or similar events is 15 in any income year.

Therefore, in any income year, a charity may hold up to:

- 15 fetes, 15 balls, 15 gala shows, 15 dinners, 15 performances, 15 charity auctions, 15 wine tastings and 15 fashion parades
- 15 national flower days; and
- 15 golf days, 15 national health promotion days.

Where a charitable institution elects to have its fundraising event input taxed, it is required to treat all supplies made in connection with it as input taxed. This applies to the ticket charity auction that may be held on the night as well as raffles, which would ordinarily be considered GST-free.

By electing to treat the fundraising event as input taxed, the not-for-profit organisation is not required to issue a tax invoice to each guest when the ticket is sent. Furthermore, there is no need to remit one-eleventh of the proceeds from the auction or other activity conducted on the night. However, the not-for-profit organisation is unable to claim back any input tax credits in respect of the event.

According to the Australian Taxation Office, if a charitable institution elects to treat its fundraising events as input taxed, then the revenue and expenses for each event must be separately accounted for in the accounting system. In other words, if the input-taxed election is made for a particular event, the ATO requires that all proceeds and costs associated with that particular event be separately accounted for.

In order to satisfy these requirements, if the organisation elects to treat the fundraising event as input taxed, then the bookkeeper should set up a cost centre within either MYOB or QuickBooks and job cost all revenues and expenses associated with fundraising event to INP (input taxed).

The decision to elect that a fundraising event be treated as input taxed should be made in discussion with the board, CEO and external accountant.

## **Accounting for membership fees**

Many not-for-profit organisations are membership-based. Hence, they charge fees to those persons who join the organisation as members.

Typically, membership fees will be received by the not-for-profit organisation on an annual basis. The member (or prospective member) typically completes a membership or registration form and submits this form with the nominated fee either via cheque, cash or EFT, or by providing credit card details.

Usually, the not-for-profit organisation will send out the membership application form requiring the applicant to complete a variety of details. The application itself may be accompanied by a tax invoice, provided the document contains all of the requirements for a tax invoice.

Membership fees are regarded as a reciprocal transfer, because the not-for-profit organisation is providing the member with benefits of approximately equal value in exchange for the money received.

## Appendix 1: Transactions unique to not-for-profit organisations

According to paragraph 12 of AASB 1004 *Contributions*:

Where clubs and professional associations charge fees in return for contributors being able to enjoy the use of facilities, receive publications or practise in a particular vocation for a defined period, an exchange transaction can be presumed and the fees would not be treated as contributions.

Although the member's benefit may exceed the current financial year, most not-for-profit organisations record the entire amount of membership fees received as revenue. Hence, when a member pays his or her membership fees, the relevant cash at bank account is debited for the amount of the membership fee, with the revenue 'Account 4-3010 Contributions (Members)' credited.

Some not-for-profit organisations may elect to record the membership fees by apportioning the fees between the current period and future periods. For example, if the membership fees relate to one or more financial years, the portion that relates to the current financial year is regarded as revenue, with the amount relating to the future financial year regarded as a liability.

For example, if on 1 January 2006, a member pays their membership fees of \$120 for twelve months, by 31 March (three months later), the not-for-profit organisation may elect to show only \$30 as revenue (three months), with the remaining nine months (or \$90) shown as a current liability ('Account # 2-1230 Revenue Received in Advance').

Regardless of which method the not-for-profit organisation adopts, membership fees are subject to GST. Hence, the tax code is GST.

### Residential rent

In some cases, organisations funded by Department of Communities under the Supported Accommodation Assistance Program (SAAP) rent their properties from the Department of Housing under the Crisis Assistance Program (CAP). Properties can also be rented from the private market and in some cases also from the Department of Communities (in the latter case a peppercorn rent is charged).

According to section 40-35 of the *Goods and Services Tax Act 1999*, as amended, the supply of residential rent is input taxed. This means that the landlord is unable to charge the GST to the tenant. Hence, the revenue account '4-5030 Rental Income' should be coded to INP (input taxed). However, being an input-taxed supply, this means that all expenses associated with the rental property should also be coded to INP. Hence, the following accounts have been assigned the GST tax code INP:

## Appendix 1: Transactions unique to not-for-profit organisations

- Account 6-0430 Insurance: Rental Properties
- Account 6-0560 Rates: Rental Properties
- Account 6-0580 Rent: Rental Properties
- Account 6-0590 Repairs and Maintenance: Rental Properties

The landlord is unable to claim back the GST on these items. In this case, the rental income would be coded to Item G4 Input Taxed Sales in the GST calculation worksheet for the business activity statement. The associated rental expenses would be coded to G13 Purchases for Making Input Taxed Sales.

However, there is a special GST-free concession provided to charitable institutions, charitable funds and gift-deductible entities contained in Section 38-250 of the GST Act. This section provides that, where these entities charge a price for accommodation that is less than 75 per cent of the GST-inclusive market value of a comparable unit of accommodation, the supply is regarded as GST-free, not input taxed.

Coding the rental income as GST-free instead of input taxed does not mean that the landlord can charge the GST. There is still no GST on the rent. However, the benefit lies in the expenses associated with the rental property. Instead of being coded as INP, they can be coded as GST, meaning that the landlord can claim back the GST on all of these expenses.

Bookkeepers should consult with their accountant or auditor to see if they are eligible to take advantage of the GST concession contained in Section 38-250 of the GST Act. If the concession applies, the bookkeeper should change the revenue account '4-5030 Rental Income' from INP to GST. Furthermore, the GST tax codes for all of the following expenses should be changed from INP to GST.

- Account 6-0430 Insurance: Rental Properties
- Account 6-0580 Rent: Rental Properties
- Account 6-0590 Repairs and Maintenance: Rental Properties.

The expense 'Account 6-0560 Rates: Rental Properties' can only ever be assigned the GST tax code N-T (never INP nor GST).

In this case, the rental income would be coded to Item G3 GST-Free Sales in the GST calculation worksheet for the business activity statement. The associated rental expenses would be coded to 811 Non-Capital Purchases.

For more information on the rules relating to the non-commercial activities of charities, cost of supply and market value tests, refer to section 38–250 of the *Charities Consultative*

## Appendix 1: Transactions unique to not-for-profit organisations

*Committee Resolved Issues* Document at [ato.gov.au](http://ato.gov.au)

The *Resolved Issues* document contains a series of tables outlining the benchmark market values for accommodation that it will accept for cities and regional centres around Australia. The benchmark values are effective from 1 January 2006, and apply to supplies made from that date. The benchmark market values were updated to operate from 1 January 2007.

This document provides benchmark market values for the following types of supplies:

- short-term accommodation (table 1)
- meals (table 4)
- board and quarters (table 5)
- long-term accommodation (table 5)
- employment services (table 6).

### *Example*

Assume that a charitable institution provides crisis accommodation to families in need. Rent of \$60 per week is received by the charitable institution. As residential rent is input taxed, no GST is charged on the \$60. The charitable institution is unable to claim back the GST on expenses associated with the rental property.

The market value of comparable accommodation is \$100 a week. As the charitable institution's rent of \$60 per week is less than 75 per cent of \$100 (that is, \$75), the GST-free concession contained in section 38-250 of the GST Act applies. In this case, the bookkeeper should change GST tax code from INP to GST-free.

More importantly, as the rent received is now GST free, the charitable institution can claim back all the input tax credits in respect of the expenses associated with the rental property. These expense codes should be changed to GST.

## Appendix 2: Taxation

### Income tax

Many not-for-profit entities are exempt from income tax. The *Income Tax Assessment Act 1997*, Division 50 identifies those entities whose ordinary income and statutory income is exempt.

Where a not-for-profit entity is subject to income tax, grant income will generally be assessable income.

### Fringe benefits tax (FBT)

The fringe benefits tax is a tax that is imposed on employers in respect of benefits provided to employees.

Generally, there will be no fringe benefits tax implications when a not-for-profit entity receives or provides a grant unless there is an employer–employee relationship. In addition, where a not-for-profit entity does provide a grant to an employee, the arrangements under the pay-as-you-go tax system will need to be considered.

### Goods and services tax (GST)

Not-for-profit entities must register for goods and services tax (GST) if their annual turnover is \$100,000 or more. For other entities, the turnover threshold is \$50,000. The grant may have an impact on the goods and services tax threshold of the organisation. Input tax credits will not be available on payments made to unregistered entities.

It should be noted that some grants bodies may require goods and services tax registration even when the goods and services tax threshold isn't reached:

- Identify whether or not the grantee is carrying on an enterprise, and whether something is supplied to the grantor in return for the payment. If so, then the grantor will need to obtain the ABN of the grantee, otherwise 48.5 per cent no-Australian Business Number Pay As You Go withholding could apply. This will constitute a 'supply' whereby the grantee has entered into binding obligations in connection with the payment (see GSTR2000/11 *Grants of Financial Assistance*).
- The grantor should identify if the grantee is registered for goods and services tax. This can be done by checking the Australian Business Register website: [abr.business.gov.au](http://abr.business.gov.au)
- If the grantee is registered for goods and services tax, consider whether or not the goods and services tax is applied to the grant.

## Appendix 2: Taxation

- If the grantee is not registered for goods and services tax, consider whether the amount of the grant will cause the grantee to exceed the goods and services tax registration threshold.
- If the goods and services tax applies, the grantor may need to 'gross up' the grant by an additional 10 per cent. A tax invoice should be requested from the grantee prior to payment, to ensure that the grantor can claim input tax credits.

GSTR 2000/11 *Grants of Financial Assistance* explains that where a grantor receives a supply in return for payment of money to the grantee, the payment will be subject to goods and services tax.

In most funding situations, the main supply often can be the grantee's obligation to use the funds in a particular manner; other peripheral or incidental supplies, such as the provision of reporting, may also exist.

Goods and services tax will apply if the obligation constitutes the substance of the grant, and a binding commitment exists; for example, a contract, repayment provisions in certain circumstances, guarantee or lien over property of the grantee or an enforceable deed (GSTR 2000/11 *Grants of Financial Assistance*, para. 34).

In most cases, grants to non-government entities that are registered for goods and services tax will be subject to goods and services tax.

### Is grant funding subject to goods and services tax?

The ruling GSTR 2000/11 *Grants of Financial Assistance* deals with the application of goods and services tax to grants of financial assistance and funding. GSTR 2000/11 applies to grants made by governments and the private sector. It aims to assist grantees and grantors in determining whether goods and services tax applies to a grant.

The grant will be subject to Goods and Services Tax where it satisfies all of the following tests:

- the grant represents consideration for a supply
- the supply is made in the course of furtherance of an enterprise that is carried on by the supplier
- the supply for which the grant is consideration for is connected with Australia
- the entity making the supply that the grant relates to, is registered or required to be registered, for goods and services tax.

## What is a consideration for a supply?

The definition of a supply is very wide, and includes supplies of:

- goods and services
- rights
- obligations
- information.

The definition excludes most supplies of money.

For a supply to be a taxable supply, it must be made for consideration. A payment will be consideration for a supply if the payment is 'in connection with', 'in response to' or 'for the inducement' of a supply. In determining whether a payment is in connection with the supply of an obligation, the test is whether there is a link or nexus between the substance of the obligation and the grant.

As an example (from GSTR 2000/11): A government agency makes a grant to a not-for-profit entity for the purpose of undertaking specific research that will be made public. The object of the grant is to improve the international competitiveness of entities in the transport industry, and the agency is obliged to undertake the relevant research and publish the findings. While the agency does not derive a direct benefit from the making of the grant, the provision of the information in the report goes to the purpose for which the money is granted, and the grant is consideration for the obligation to supply information to the public. Refer to GSTR 2000/11 for other examples.

Supplies that form part of the grant agreement, but are merely incidental to the objective or purpose of the grant, will not be consideration for a supply; for example, the requirement to provide financial reports to the grantor. The grantor uses this information to maintain accountability over the funds disbursed and to assist in evaluating the effectiveness of the program meeting its objectives.

## Rights

For example, does a right to repayment exist when conditions are not met? A grant agreement may specify that the grant is to be repaid if the grantee fails to meet the conditions attached to the grant. The right to a repayment establishes that there is a supply for which the grant is consideration.

## Obligations: does the grant agreement create an obligation?

Conditional grants require the grantee to enter into an obligation, or make an undertaking to do something, for the grantor. The grant is then made 'in connection with' such an obligation or supply. The obligation may be to use the grant money for a specified purpose, or to provide particular services to the community. Many government grants are provided to not-for profit entities in return for the provision of services or infrastructure to the community.

It is important to note that the supply is the entering into the obligation to fulfil the conditions attached to the grant, not the actual fulfilment of the conditions themselves.

It is common for financial assistance grants to be documented in an agreement that establishes rights and obligations between the parties. If the rights or obligations are binding, that would be a supply, and goods and services tax would apply. Where there is only an expectation and not a binding commitment between the parties, there would be no supply and no goods and services tax.

Care needs to be taken to ensure there is no confusion between an obligation and a legally binding obligation. An obligation does not need to be legally binding for there to be a supply. The Australian Taxation Office considers that, where grants consist of large sums of money, normal 'government accountability' would dictate formal obligations being entered into, with the various parties expecting those obligations to be fulfilled. This will, in the absence of anything else, create 'binding' obligations.

## Grants that are 'gifts' to not-for-profit entities

A gift to a not-for-profit entity is *not* consideration for a supply. In order for a payment to an entity to be considered a 'gift', it must pass both of the following tests:

- the payment must be transferred voluntarily and not be the result of a prior contractual obligation
- the maker of the payment must receive no material benefit in return.

Even if a gift has conditions attached to it that flow from the payer's right to regulate the disposal of the donation, it may still be a 'gift'. Such conditions reflect the terms on which the payer intends to make the gift, and the entity's understanding of the terms on which the gift will be made.

## Unspent grant funds that are repaid

Often grant agreements require funds not spent by the grantee to be repaid to the grantor. The grant repayment is an adjustment to the original consideration provided to enter into the grant obligation.

Upon repayment, the not-for-profit entity will have a 'decreasing adjustment' on its business activity statement (BAS). This means it will be seeking to reduce the amount of goods and services tax it pays to the Australian Taxation Office as a result of having to pay some of the grant back.

GSTR 2000/1 *Adjustment Notes* states that adjustment notes are to be held for decreasing adjustments where the goods and services tax exclusive value of the taxable supply is greater than \$50. This responsibility rests with the not-for-profit entity, unless it has issued a recipient created tax invoice.

The grantor, on the other hand, will have an 'increasing adjustment' on its business activity statement as a result of getting some of the grant back. This means that the goods and services tax input tax credit originally claimed back would need to be reduced.

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## Websites

Websites and their addresses change from time to time. Therefore, the following sites are suggestions only, and the sites were active at the time of the preparation of the manual. CPA Australia does not endorse any of the sites listed.

[anao.gov.au](http://anao.gov.au)

[ato.gov.au](http://ato.gov.au)

[communitybuilders.nsw.gov.au](http://communitybuilders.nsw.gov.au)

[grantslink.gov.au](http://grantslink.gov.au)

[grants.ord.sa.gov.au](http://grants.ord.sa.gov.au)

[ourcommunity.com.au](http://ourcommunity.com.au)

For those who don't have internet access, copies of guides and references can be obtained by contacting the relevant agency directly.

# Glossary

## **Appraisal criteria**

The tests applied to a grant application to ensure that it meets the program's aims and objectives.

## **Audit trail**

The documentation of detailed transactions supporting summary ledger entries. This documentation may be on paper or in electronic records.

## **Conflict of interest**

A conflict of interest arises when a person makes a decision or exercises a power in a way that may be, or may be perceived to be, influenced by either material personal interests (financial or non-financial) or material personal associations.

## **Evaluation**

The process of reviewing the overall efficiency, effectiveness and economy, as well as the appropriateness, of a grant program. This can take place either during routine management review or as the subject of a specific program evaluation.

## **Funding agreement**

A legally enforceable agreement setting out the terms and conditions governing funding determined by the grant-giving organisation. The form of the agreement will depend on the intent of the grant and the degree of control required. The forms of enforceable funding agreements include:

- deed
- contract
- exchange of letters.

In the case of grants to state governments or in networked grant programs, Memoranda of Understanding (MOUs) or a combination of MOUs and legally enforceable agreements may be necessary.

## **Grant**

A grant is a sum of money given to organisations or individuals for a specified purpose directed at achieving goals and objectives consistent with government policy. In a strict legal sense, a grant is a 'gift' from the Crown, which may or may not be subject to unilaterally imposed conditions. However, the term is more generally used to include any funding agreements where the recipient is selected on merit against a set of criteria. The term 'grant' does not include funding or activities relating primarily to the provision of goods and services directly to a government agency.

## **Grantslink**

A whole-of-government website offering direct links to existing information on Commonwealth Government grant programs. It is accessible at [grantslink.gov.au](http://grantslink.gov.au).

## **Monitoring**

The process by which the grant-giving organisation establishes whether individual grants made to a program have been expended as intended.

## **Our Community**

Our Community is a Melbourne-based organisation that provides advice and assistance to not-for-profit organisations through web-based services. The website is: [ourcommunity.com.au](http://ourcommunity.com.au).

## **Procedural fairness**

A principle of administrative law requiring that decision-makers act fairly; that is:

- the person affected by the decision has a right to be heard
- the decision should be made without bias or the appearance of bias
- the decision must be linked to the available evidence.

### **Risk management**

Risk management can be described as the culture, processes and organisation that help a business to evaluate risk, assess its potential impact and plan the appropriate action to take in order to avoid or control risk by the most economical means. It is not possible or desirable to eliminate all risks; the objective is to implement cost-effective processes that reduce risks to an acceptable level, reject unacceptable risks, and transfer other risks through insurance and other means.

### **Selection criteria**

The tests applied to a grant application to ensure that it meets the program's aims and objectives.

### **Strategic objective**

A statement of the outcomes, at the strategic level, that the grant-giving organisation seeks to achieve in the short or long term.

### *Note*

Readers should refer to the specific terms for a particular grant, or seek professional advice to ensure that they understand the terminology in use for any specific grant.

Source: Australian National Audit Office (2002). *Better Practice Guide: Administration of Grants*. Canberra: Australian National Audit Office.

## 1 What you should look for when you are accepting a grant

Item	Yes	No	Comment
Are the conditions the same as in the original application?			
Are all organisational details correct and up to date?			
Are contact details provided for the grants body clear?			
What are the payment conditions?			
What are the reporting arrangements?			
Are accounting systems to handle the grant in place?			
Is it clear what funds can or can't be used for?			
Has a person been nominated to manage the grant?			
Are staff trained to handle the grant?			
How will the grant be reported on internally?			
How will disputes or amendments be handled?			
What auditing requirements exist?			
What are the requirements for media coverage?			
What are the acquittal arrangements?			
Are there other requirements to be met before the grant can start?			
Are there clear guidelines for ownership of any assets created by the grant?			

## 2 What you should consider when you are reporting on a grant

Item	Yes	No	Comment
Are the conditions the same as in the original application?			
Are all organisational details correct and up to date?			
Are contact details provided for the grants body clear?			
What are the reporting arrangements?			
How are reports handled by the committee?			
Who has been appointed responsible for reporting on the grant?			
When do reports have to be made?			
How is the end of financial year to be treated?			
How will the grant be reported on internally?			
How will disputes / amendments be handled?			
What auditing requirements exist?			
What are the requirements for media coverage?			
What are the acquittal arrangements?			
Are press clipping and photographic records being kept for reporting purposes?			
Is internal reporting aligned to external reporting?			
Are all reports signed off by the correct responsible officer?			
Are signed copies of all reports kept?			

### 3 What you should bear in mind when working with auditors

Item	Yes	No	Comment
Copy of the agreement?			
Procedures to manage the grant?			
Endorsement of the management committee?			
Personnel appointed to manage the grant?			
Accounting system to manage the grant?			
Records of grant progress reflected in committee minutes?			
Payments only in accordance with the grant provisions?			
Proper authorisation for all payments?			
Notes to the account as required?			
Source document up to date and complete?			
Committee minutes up to date and complete?			



