Not-for-profit

Grants in Australia:

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

CPA AUSTRALIA

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Disclaimer

Executive summary

CPA Australia has identified a 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 revised 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 an up-to-date, straightforward guide for not-for-profit bodies to manage government grants and satisfy accountability requirements.

The original 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 revised manual was developed using a desktop literature review to update the contents of the original manual.

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. The manual also acknowledges the Australian Government's recently announced reform proposals for the not-for-profit sector, including:

- the role of the newly created Australian Charities and Not-for-profits Commission (ACNC) as regulator of the new national not-for-profit (NFP) sector. The ACNC is to commence operation 1 October 2012
- a new statutory definition of "charity" for tax purposes, expected to apply from 1 July 2013
- better targeting of NFP tax concessions to prevent their abuse, and consideration by the NFP Sector Tax Concession Working Group of ideas for better delivering the support currently provided by tax concessions

  [NFP Sector Newsletter, Issue 1 (14 October 2011); No.167 Media Release of 9 December 2011 (The Hon. Bill Shorten MP) "Australian Charities and Not-for-profits Commission (ACNC) – Release of Draft Legislation and Discussion Paper on Implementation Design".]

The not-for-profit sector in Australia is an important part of the economy and the community. Speaking at the National Press Club in 2011, the Minister for Financial Services and Superannuation, the Hon. Bill Shorten MP noted:

- From 2000 to 2007, the NFP sector grew at an average rate of 7.7 percent per year.
- Government support to the sector is significant: in excess of $25.5 billion.
- Philanthropic donations to the sector have also been increasing: now in excess of $7 billion.
- The value of volunteer time is officially estimated at some $14.6 billion.
- In the 10 years to 2007-08, donations claimed by individuals increased by an average annual rate of 14.4 per cent to reach $2.34 billion.

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 auditing profession.

CPA Australia's involvement and interest in the charities and not-for-profit sector stems from our public interest remit and the significant role our membership plays in this sector. Our members provide valuable services (both paid and pro-bono) to the charities and not-for-profits sector both as public practitioners and through direct involvement in the governance and management of charitable and not-for-profit entities.

Considerable resources, toolkits and updates are available to support members working in, or providing pro bono services to the not-for-profit sector. Please visit **cpaaustralia.com.au/publicsector**

We welcome feedback on this publication. Please email comments to **publicsector@cpaaustralia.com.au**

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- Our Community Pty Ltd
- South Australian Government Treasury
- Australian 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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Introduction

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 acquit grants from governments 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, reviewers, 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, reviewers, 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 to 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?

The term not-for-profit organisation (NFPO) is not defined in the GST legislation, but is generally regarded by the Australian Taxation Office (ATO) as being a body which is not carried on for the purpose of profit or gain to its members. The term "body" has a broad meaning which includes a collective group, an artificial person, body politic or body corporate [GSTR 2011/D4, para 116].

More specifically, the ATO will accept a body as an NFPO where:

i. the law or the body's constituent documents prohibit it from distributing its profits or assets among its members both while the body is operating and on its dissolution and

ii. the body does not in fact distribute profits or assets to members.

The ATO has published "acceptable" clauses to satisfy the prohibition on distribution requirement in *Tax basics for non-profit organisations*, 2011 revision at p.3; and more generally Draft GSTR Ruling GSTR 2011/D4 paragraphs 115-118, each available on the ATO's website. All references to ATO facts sheets, booklets, rulings and other materials can be found on the ATO website: ato.gov.au. Where an NFPO does not satisfy (i) and (ii) above, the ATO may accept it as a non-profit body for tax purposes if the way the body has been set up and run demonstrates that it has not and will not distribute profits or assets to members.

An NFPO can actually make profits, provided any profits must be fed back into the operation of the organisation and used to carry out its non-profit objectives, and cannot be distributed directly or indirectly to members (or owners or "other private people": ATO, *Tax basics for non-profit organisations,* 2011 revision at p.3).

The ATO divides NFPOs into three categories:

1. charities
2. income tax exempt funds
3. other non-profit organisations (e.g. sports clubs, community service groups and recreational clubs)

The general tax and specific GST concessions available to different types of NFPOs are set out in Table 1 in the ATO Publication, *Tax basics for non-profit organisations.*

Typical NFPOs include clubs, societies or associations organised and operated solely for social welfare civic improvement, pleasure or recreation, or the like (e.g. health and aged care bodies, scientific societies, scout and guide associations, sports and recreation clubs).

Not-for-profit bodies may be exempt from GST and income tax where they meet prescribed requirements .

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 reviewers and/or 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

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.

For present purposes, 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 for Grants Administration).*

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 *Commonwealth of Australia Constitution Act*) 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 *(*Australian National Audit Officer's *Better Practice Guidelines* 2002*).*

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) 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.

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) 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 fundraising 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 to the grant. Unless care is taken, the grant recipient could find themselves trapped with unintended consequences once the grant is accepted. Therefore, before applying for a grant, your organisation needs to undertake an assessment of the likely impact of the grant on the organisation.

Questions that 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 your 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?

- 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 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:

- to check whether your application fits within 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 should generally 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 details:

- 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.

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. When presenting your case you should:

- Produce evidence: use up-to-date and accurate data based on objective research. In addition, a relevant case study illustrating the issue may drive your points home.
- Produce evidence of 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.

What to consider when an organisation has been offered a grant

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

In order to fully understand what the requirements and expectations are, it is essential to read the correspondence and attachments carefully. 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 after 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?
- 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.

Financial management of grants

Once the recipient (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 (QUT), 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.

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.

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 reliably measure 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.

An NFPO must account on an accruals basis unless it is eligible to account on a cash basis and chooses to do so.

The most common circumstances where an NFPO will be eligible to account on a cash basis are where the NFPO is:

1. carrying on a business and its income (aggregated with the income of its affiliates and connected bodies) for the income year is less than $2 million
2. not carrying on a business and its annual GST turnover is less than $2 million
3. accounting for income tax purposes using the receipts method
4. a charitable institution or fund, or government school (or a gift deductible entity which either does not operate a fund, authority or institution which can receive tax-deductible gifts or contributions, or satisfies points 2 or 3 above) section 29-40(1),(3); 29-45 *A New Tax System (Goods and Services Tax) Act 1999* (the GST Act); ATO booklet *Tax basics for non-profit organisations*, 2011 revision at pp.16 (n3) and 18.

Where an NFPO does not meet the above requirements for some reason, it may apply in an individual case for permission from the Australian Taxation Office (ATO) to account on a cash basis where it can satisfy the ATO that the cash basis is appropriate having regard to its nature and size, and the accounting system it uses: section 29-45 the GST Act.

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:

- 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.
- conditional grants, when the grantee meets the enforceable conditions. Enforceable conditions generally mean "hard" conditions, and will trigger a repayment if these conditions are not met

Where conditional grant funds are received in:

- 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.
- 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:

- 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.
- 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:
  - advance: a prepayment would be recognised until the conditions are met. The journal entry would be Debit Prepayment and Credit Cash at Bank.
  - 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.

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

Name:

Date:

Signature:

Executive Officer / Secretary / President

Name:

Date:

Signature:

Grants and the internal control environment

General control environment

Controls over grants (including the use of funds, project performance, internal reporting requirements and the 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 their 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. This can be achieved by:

- preparing adequate documentation and records of activities undertaken on a timely basis
- maintaining a well-organised chart of accounts
- 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 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 installments 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 installments 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.

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 NFPO 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 NFPO 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 NFPO'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 NFPOs.

Cash flow, investment of funds and use of interest income

The proper management of cash flows within an NFPO entity is a key strategic function. This involves managing risks, as high-return investments usually equal 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.

Grants and tax compliance

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

Where an NFPO entity is subject to income tax, grant income will generally be assessable income.

Fringe benefits tax

Broadly, the fringe benefits tax (FBT) is a tax that is imposed on employers in respect of benefits provided to employees.

Generally, there will be no FBT implications when an NFPO entity receives or provides a grant unless there is an employer-employee relationship. In addition, where an NFPO entity does provide a grant to an employee, the arrangements under the pay-as-you-go tax system will also need to be considered.

Goods and services tax

All references in this booklet are to the *A New Tax System (Goods and Services Tax) Act 1999* (the GST Act) unless otherwise stated.

NFPOs must register for goods and services tax (GST) if their annual current or projected GST turnover is $150,000 or more (for other entities, the annual GST turnover threshold is $75,000).

The amount of a grant (but not a genuine gift) will be included in the calculation of the NFPO's GST annual turnover in determining whether they have reached the registration threshold.

Appendix 2 provides additional information on the GST arrangements for not-for-profit organisations.

Please refer to the ATO website, ato.gov.au, for the latest information on relevant taxation requirements.

Reporting and acquittal

The grant agreement that the NFPO 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 materials need 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. The recommended reports are outlined below.

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.

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 as outlined below.

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
- 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 the accompanying audit report should be prepared by a registered company auditor or CPA (holding a Public Practice Certificate), subject to the requirements of the grant contract. 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, which are outlined below.

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 NFPO 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, such as:

- collating 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-on-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.

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 six 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 NFPOs 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 Commonwealth 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.

Review engagements and/or other assurance engagements of any of the above might also be possible, depending on the requirements of the grant contract.

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. Therefore, NFPOs should structure their controls and reporting mechanisms around the terms of the funding agreement. Auditors will always look at the terms of the funding agreement when conducting an audit, as 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 and audit plan outlined; the start and completion date of the audit; records required for inspection; and the reporting arrangements. Fees for the audit from the auditor need to be determined as well as whether 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 their initiation of appropriate action, including possible criminal proceedings.

What the auditor needs to do

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

- audit engagement terms
- qualifications required to conduct the audit
- ethical consideration, including independence and conflict of interest
- requirements of the grant and granting body
- audit plan
- working papers

- grants documents: decision-making processes, agreement, assets, liabilities
- compliance; including with grant rules and other relevant legislation and/or regulations
- 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 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.

What is a grant?

A grant is typically funding provided from one party (referred to as the grantor) to another party (referred to as the grantee) where in return, under the grant agreement, the grantee supplies a service to the grantor or a third party. 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 NFPO typically outlines the roles and responsibilities of each party and what services will be delivered by the NFPO. In return, the NFPO 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.

Is a grant subject to GST?

Under section 9–10(2)(d) of the GST Act, a "supply" for GST purposes expressly includes "a grant".

Accordingly, where an NFPO receives a grant, and in exchange provides consideration to the grantor, e.g. by entering into a binding agreement to provide something (such as goods or services), of value or which confers a material benefit on the grantor or third parties, it will generally be a "taxable supply" for GST purposes and potentially liable to GST (for more detail, see Appendix 2).

However, there is no GST liability if the supply is GST-free or input taxed.

Where the grantee makes a taxable supply, it must remit one-eleventh of the amount of the grant to the ATO.

A simple example of a taxable grant would be where the grantor provides a grant of $11,000 to grantee for research, and in return grantee agrees to provide grantor (or a third party – e.g. a subsidiary of the grantor) with its research findings – e.g. on how to better market Grantor's products, with the advice presumably being worth $11,000. The agreement to provide the commercially valuable research outcomes is a taxable supply for GST purposes, and grantee must remit $1000 in GST to the ATO (1/11 x $11,000 = $1000).

The ATO has issued a GST ruling dealing with grants entitled GSTR 2011/D4 *Goods and services tax: financial assistance payments.* This document can be downloaded at ato.gov.au. The ATO has also issued a booklet entitled *GST and Grants*, which outlines the GST treatment of grants.

In limited circumstances, a grant from a charitable foundation will not be subject to GST. A copy of the grant format that the ATO will accept as not being subject to GST can be found at the Philanthropy Australia website at philanthropy.org.au.

A grant received from government departments will usually be subject to GST. However, there will be no GST liability where either:

- it is an unconditional gift, or
- it is a payment specifically covered by an appropriation under a Commonwealth, state or territory law: section 9-15(3)(c) of the GST Act.

Normally, the grantee NFPO supplying goods or services under the grant agreement will issue the grantor with a tax invoice containing specified details including the total price and the GST payable on the taxable services or goods. However, in some cases, the government department providing the grant (the "recipient" of the services) will provide a tax invoice to the NFPO. This is referred to as a "recipient-created tax invoice" (RCTI) and where an RCTI is issued, it means that the NFPO does not need to raise and send a tax invoice to the government department.

The ATO has released a fact sheet entitled *Grants and GST*, which discusses the criteria for recipient-created tax invoices. Reference should also be made to GSTR 2000/10 *Goods and Services Tax: Recipient Created Tax Invoices* and RCTI 2000/6 *Research Grants*.

Accounting for grants

Care needs to be taken to ensure that the way an NFPO accounts for grants complies with ATO requirements, as the ATO has noted that failure to properly account for GST is a common error, and the ATO accordingly conducts various activities to monitor NFPO compliance in this area.

As far as the NFPO 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.

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 NFPOs, 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 definition of an NFPO entity for accounting purposes 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 an NFPO entity receives a government grant, AASB 1004 *Contributions* applies, not AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance,* which applies only to for-profit entities. 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.

Example

Assume that on 1 January 2006 an NFPO receives a recurring grant from the Department of Communities of $55,000, including GST. This grant is for a 12-month period. The NFPO 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 NFPO 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.

Tip

For NFPOs, 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 NFPO must remit one-eleventh of the gross amount of the grant to the ATO.

In many cases, the government department will provide the NFPO with a recipient-created tax invoice. This means that the NFPO 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 an NFPO – i.e. an unconditional gift. 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.

The ATO position is set out in Taxation Ruling TR 2005/13 *Tax Deductible Gifts – What Is a Gift?* This taxation ruling represents the most comprehensive taxation ruling issued by the ATO on the subject of tax-deductible gifts. TR 2005/13 can be found at 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.

There are two ways a person can make a donation to an NFPO:

- monetary donations
- 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 NFPO. In this case, if the donation meets the criteria for a tax-deductible gift and the NFPO 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* 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.

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 GST Act 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.

Donated assets valued at less than $5000

If a NFPO receives a donated asset that is valued by the NFPO 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 NFPO 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 51cm television set to a NFPO, 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 Websites where it is possible to electronically search for the item.

The difficulty lies where the item being donated is not new; that is, second-hand. In this case, an estimate needs to be made of the value of a second-hand item that is donated. For example, a person may donate a second-hand Sony 51cm television set to an NFPO. In this case, consideration may be given to searching the item on eBay 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 second-hand Sony 51cm 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).

Donated assets valued at more than $5000

If an NFPO 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 NFPO 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 an NFPO 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 NFPO 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 NFPO undertake a range of fundraising activities including fetes, auctions, charity balls, lunches and dinners. In addition, an NFPO 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.

An NFPO that receives sponsorship payments (or in-kind supplies) must remit one-eleventh of the gross amount received to the ATO with its next business activity statement (BAS).

Most fundraising events are subject to GST. For example, an NFPO that charges a participant $198 to attend a black tie charity fundraising dinner will be required to remit one-eleventh of this amount (i.e. $18) to the ATO. In turn, the NFPO is entitled to claim back one-eleventh of the GST component included in taxable supplies the NFPO has acquired from other suppliers. For example, if the NFPO paid $88 for the food it is providing at the dinner, it will be entitled to an input tax credit of the $8 GST included in that cost (i.e. 1/11th x $88).

Election to treat fundraising events as input taxed: There is a special concession provided to endorsed charitable institutions and funds, gift-deductible entities and government schools by Division 40-F of the GST Act. Under section 40-160 of the Act, such organisations may elect to treat a fundraising event as input taxed rather than as a taxable supply generating a GST liability.

This election is optional, applies separately to each fundraising event, and must be made before any transactions take place. The event must also be referred to in the NFPO's records as being treated as input taxed.

Where the election is made, the NFPO must treat *all* sales it makes in connection with the fundraising event as input taxed – i.e. it cannot pick and choose. This means, for example, that any charity auction or raffles that may be held on the night – which would ordinarily be considered GST-free – must be treated as input taxed.

The main advantage in electing that a fundraising event be treated as input taxed is that, while the NFPO will not be able to claim input tax credits in respect of outgoings it incurs in relation to the fundraising event, the NFPO is not required to charge GST on any proceeds it receives from the event. For example, the NFPO would not be required to issue a tax invoice to each guest when the NFPO sends out their ticket for the event.

A fundraising event is defined in section 40-165 of the GST Act as any of the events listed below that is conducted for the purpose of fundraising and does not form any part of a "series or regular run" of similar events. The "fundraising events" are defined as:

- a fete, ball, gala, dinner, performance or similar event (a similar event could include a charity auction, cake stall or wine tasting)
- an event comprising sales of goods where the consideration paid for each sale does not (currently) exceed $20 and:
  - selling such goods is not a normal part of the NFPO's business
  - the event does not involve the sale of alcohol or tobacco products

An example of such an eligible event would be a flower show where flowers are sold for $5 each. In addition, the Commissioner can decide on application by the NFPO, that a particular event is a "fundraising event" when satisfied that:

- the NFPO is not in the business of conducting such events
- the proceeds from the event are for the direct benefit of the NFPO's non-profit or charitable purposes

An example of such an eligible activity could be a golf day, car rally or art show.

In relation to the requirement that the event not be part of a series or regular run of such events, the ATO takes the view that an NFPO can hold no more than 15 fundraising events in a financial year before the events will be regarded as forming "part of a series ... of like or similar events" and will therefore fall outside the concession [ATO "*Goods and services tax – Fundraising*", 26 September 2008].

Care needs to be taken in relation to the number of similar fundraising events, because if an NFPO holds more than 15 fundraising events in a financial year, the ATO takes the view that none of the events will be eligible for the Div 40-F concession, and the NFPO will have to account for GST for each of the earlier 15 fundraisers (by revising the prior BAS statements it has lodged).

However, by planning in advance, an NFPO could exclude the sales from the 16th and additional fundraisers by forming a non-profit sub-entity to conduct these "excess" events.

Examples from ATO publications

1. The Assisting with Education charity decides to treat its fundraising dinner as input taxed. During the night, it will raffle a car which a car dealer has donated – the raffle tickets will be sold only at the ball, and the raffle will be drawn on the night. As an added attraction, a well-known television celebrity will be making and serving cocktails during the night. The ATO will treat the sale of the raffle tickets as being part of the fundraising dinner and proceeds from the ticket sales will therefore be treated as input-taxed sales. The sales of alcohol are part of the activities of the fundraising dinner and will also be input-taxed.
2. The Homes for Homeless Teens charity intends to hold a charity dinner which it has elected to treat as input-taxed. The charity has been running a lottery and selling tickets throughout the past year and plans to sell the final tickets at the door during its charity dinner and to draw the winning ticket during the dinner. The lottery is a separate event from the dinner and accordingly the proceeds from lottery tickets sold at the door will not be treated as input-taxed sales (though they may be GST-free under other concessions available to charities – some of which are discussed briefly below).

Under ATO guidelines, if a charitable institution elects to treat its fundraising events as input taxed, then the revenue and expenses for each event must be accounted for separately in the NFPO's accounting system. That is, 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, where an NFPO elects to treat a 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.

Other concessions for charitable NFPOs

In addition to the fundraising concession outlined above, NFPOs which are endorsed charitable institutions or funds, income tax exempt funds, or government schools may be entitled to other concessions, depending on their status, but these concessions are: non-commercial activities. The proceeds of the commercial activities of a charitable institution, charitable fund, (as well as a gift deductible entity or government school) are GST taxable or input-taxed, but their "non-commercial activities" are generally GST-free. Accordingly, the organisation will not pay GST on the consideration it receives from non-commercial sales, and can claim input-tax credits for the GST included in the price of items acquired for such sales.

A “non-commercial activity” is generally defined (there are slightly different rules for residential rent) as a sale where the consideration received is less than:

- 50 per cent of the GST-inclusive market value; or
- 75 per cent of the amount the organisation paid to acquire the relevant goods, services or other things subsequently sold

This concession is limited to the proceeds of non-commercial activities in order to ensure that charities and similar organisations do not receive an unfair trading advantage. The Australian Government has announced proposed changes to the legislation to block tax-avoidance schemes involving charities by ensuring that only non-commercial activities that are directly related to the organisation’s non-profit objective will be GST-free.

Example
Housing for Homeless Teens buys toys for $1.10 each and sells them at a fete for $3 each. Similar toys would sell in a retail toy shop for $6.60 each.

As the consideration received for each toy is less than 50 per cent of the GST-inclusive market value, the sale of the toys is GST-free, and the organisation could claim the input-credit of $10c per toy (1/11th x $1.10) for the GST included in the price it paid for the toys.

See the ATO publication: *Goods and services tax – Fundraising*, p.7

Donated second-hand goods
Proceeds from a sale of donated second-hand goods (excluding trading stock of the donor) are generally GST-free provided the organisation does not change the original character of the goods. For example, if an organisation receives a donation of second-hand clothes, and then cleans these clothes and sells them, the proceeds will be GST-free. However, if the organisation cut the clothes up and sold them as rags, the character of the goods has been changed, and the sale would not be GST-free.

Raffles etc.
A sale of tickets in a raffle or cards etc. in a bingo game will be GST-free, provided the sale does not breach local state/territory laws.

See the ATO publications, *Goods and services tax – Fundraising, Tax concessions – an overview* and *Tax basics for non-profit organisations,* Table 1.

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.

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 practice 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 NFPOs record the entire amount of membership fees received as revenue. Hence, when a member pays their 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 NFPOs 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 2012, a member pays their membership fees of $120 for 12 months, by 31 March (three months later), the NFPO 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 NFPO adopts, membership fees are subject to GST. Hence, the tax code is GST.

Residential rent

In some cases, organisations funded by The Department of Communities under the Supported Accommodation Assistance Program (SAAP) rent their properties from the Department of Housing under the Crisis Accommodation 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).

Under section 40-35 of the GST Act, the supply of residential premises by way of lease, hire or licence is input taxed (with certain exceptions). Because the supply is input-taxed, GST does not apply to the supply of accommodation to the tenant, but the landlord cannot claim input tax credits for the GST component of the goods and services the landlord acquires to run its business.

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:

- 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 eligible gift-deductible entities and non-profit child-care providers contained in section 38-250 of the GST Act [see part 3 of the *Charities Consultative Committee Resolved* issues document on the ATO website (www.ato.gov.au/nonprofit). 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. That is, no GST is payable on the supply of accommodation, and the landlord *can* claim input tax credits for the GST paid on business inputs which relate to the supply of accommodation.

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 (not to 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 C*harities Consultative Committee Resolved* issues document at ato.gov.au.

The 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 below are effective from 1 January 2012, and are updated annually.

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

- short-term accommodation (Table 1; see also high cost country centres Table 2; tier 2 country centres: Table 3)
- meals (Table 4)
- temporary accommodation – weekly; and long-term accommodation (Table 5)
- long-term accommodation (Table 5)
- employment services (Table 6)

Example from the Consultative Committee document

Assume that Parramatta Community Care (PCC) provides crisis accommodation to families in need, including breakfast and dinner. Clients contribute $100 per week to PCC towards the cost of the accommodation and board.

Using the benchmarks in the Consultative Committee document:

Sydney accommodation rate (Table 1):	$183.00
Breakfast and dinner ($23.65 + $45.60):	$ 69.25
Total benchmark market value/day:	$252.25

The accommodation component is 72.55% [183/252.25%] and the meals component is 27.45% [69.25/252.25%] of the total benchmark value.

Accordingly, the fee paid to PCC is apportioned [see pages 2-3 of Section C in the Consultative Committee document] as follows:

The accommodation component is 72.55% of $100 = $72.55; the meals component is 27.45% of $100 = $27.55.

Therefore, both the food and accommodation provided by PCC would be GST-free, because the consideration for supply of accommodation is less than 75 per cent, and the meals component is less than 50 per cent, of the benchmark market value for accommodation and meals respectively.

As the payment for rent and meals received is GST-free, the charitable institution can claim back all input tax credits in respect of the expenses associated with the rental property. These expense codes should be changed to GST.

However, if PCC also supplied food and accommodation for accommodation in their hostel in Dubbo (a "Tier 2" country centre), the calculation would be:

Dubbo accommodation rate (Tables 1 and 3):	$120.00
Breakfast and dinner ($21.15 + $41.65) =	$ 62.80
Total benchmark value/day:	$182.80

The accommodation component is 65.65% ($65.65), and meals are 34.35% ($34.35) of the contribution of $100.

Accordingly, the accommodation component would be GST-free because it is less than 75 per cent of the benchmark accommodation value of $120. However, the meals would be a taxable supply, because the consideration ($34.35) is more than 50 per cent of the $62.80 benchmark value.

Appendix 2: Taxation

Income tax

Many NFPOs are exempt from income tax on their ordinary and statutory income under, Division 50 of the *Income Tax Assessment Act 1997.*

However, the Australian Government in July 2011 released an exposure draft of legislation and guidelines for new rules designed to "better target" income tax, fringe benefits tax (FBT) and GST concessions for NFPOs by requiring NFPOs (including charities) to pay income tax on profits from commercial activities that are unrelated to the NFPO's altruistic or charitable objectives.

These reforms are intended to combat abuse of the tax concessions by some NFPOs which conducted commercial businesses "dubiously linked to an NFPO cause in order to avail themselves of a tax break" (The Hon. Bill Shorten *Tresury's Not-for-Profit Reform Newsletter*, October 2011).

The government stated that the "vast majority" of commercial activities conducted by NFPOs where the commercial activities are related to a core not-for-profit or charitable purpose (such as health and aged care, child care and the like) will not be subject to any additional tax.

Fringe benefits tax

FBT is imposed on employers in respect of specified benefits provided to employees.

Generally, there will be no FBT implications when an NFPO receives or provides a grant unless there is an employer-employee relationship. In addition, where an NFPO does provide a grant to an employee, the arrangements under the pay-as-you-go tax system will need to be considered.

The Australian Government's 2011 proposed reforms to impose FBT on commercial activities of NFPOs that are unrelated to their altruistic or charitable purpose are discussed above under "Income Tax".

Goods and services tax

The Australian Government's 2011 proposed reforms to impose GST on commercial activities of NFPOs that are unrelated to their altruistic or charitable purpose are discussed above under "Income Tax".

An NFPO is only required to register for GST if either its current or projected annual GST turnover is $150,000 or more (for other – "for profit" – entities, the annual GST turnover threshold is $75,000).

An entity's current and projected GST turnover is calculated as its gross income, excluding any:

- input taxed sales
- gifts or sales for no consideration (and not taxable supplies under section 72-5)
- sales not connected with an entrerprise the organisation carries on
- sales not connected with Australia (or only connected because of paragraph 9-25(5)(c)); or other supplies of a right or option to use commercial accommodation in Australia where the supplies are made through an enterprise which the supplier does not carry on in Australia and are not made in Australia
- sales made through the entity as agent. [section 188-15, 188-20; 188-25; GSTR 2001/7]

In relation to projected turnover, the following are also excluded:

- transfers of capital assets
- sales made in consequence of closing down an enterprise (or permanently reducing it substantially in size – i.e. generally by 10 per cent or more)

A body's annual "current" GST turnover is calculated as its turnover for the current month and the previous 11 months). By contrast, its "projected" annual turnover is calculated as its turnover for the current month and the likely turnover for the next 11 months).

This means that a body's "annual turnover" for GST may vary from month to month, and therefore needs to be monitored regularly, because an NFPO will be required to register within 21 days of crossing the $150,000 threshold, and will be liable to a fine of up to $2200 if it fails to register within the 21 days.

Example

Jazz is an amateur dance troupe. As at 31 May 2012, its current annual GST turnover calculated from 1 June 2011 to 31 May 2012 is $140,000, which is below the registration threshold. However, because it has been awarded a number of grants which it will receive later in 2012, its projected annual turnover calculated for the period 1 May 2012 to 30 April 2013 is $275,000, which is above the registration threshold. Jazz is therefore required to register for GST.

Where a body's annual turnover is below the threshold $150,000, the body may still choose to register – for example, because:

- unless it is registered, the entity will not be able to claim input tax credits
- business customers and suppliers may prefer to deal with a registered entity
- some granting bodies may require goods and services tax registration as a condition of the grant even when the GST threshold isn't reached

If the NFPO is registered for GST, the next issue is to identify whether the grantee is carrying on an enterprise, and if so whether the grantee has agreed to supply something of value to the grantor (e.g. services) in return for the grant payment. If so, where the other requirements are satisfied, this will constitute a “taxable supply” (see GSTR 2011/D4 *Goods and Services Tax: Financial Assistance Payments*).

In these circumstances, the grantor will need to obtain the grantee’s ABN (Australian Business Number), otherwise the grantor may be obliged to deduct 48.5 per cent of the payment under the PAYG provisions (section 12-190 Schedule 1 of the *Taxation Administration Act 1953*) for failure to quote an Australian Business Number. The grantor can determine whether the grantee is registered for goods and services tax and has an ABN by checking the Australian Business Register website: abr.business.gov.au.

If the grantee is not registered for GST, consider whether the amount of the grant will cause the grantee to exceed the GST registration threshold.

If GST applies, the grantor may need to “gross up” the grant an additional 10 per cent to avoid the grantee receiving less than the intended amount of the grant. For example, if a grantor makes a grant of $1000, which is subject to GST, the grantee will only actually receive $909, because the other $91 (1/11 x $1000) will have to be remitted to the ATO as payment of the GST liability on the supply. Accordingly, if the grantor wants the grantee to actually receive $1000, the grantor will need to “gross up” the grant by 11/10 (11/10 x $1000 = $1100) and raise the grant to $1100.

A tax invoice should be requested from the grantee prior to payment, to ensure that the grantor can claim input tax credits.

In many grant situations, the main supply will be the grantee’s obligation to use the funds in a particular manner, which will constitute a taxable supply. Other “peripheral” or incidental supplies which may also be made as part of the transaction, such as the provision of reports on how the grant money was spent, will not normally constitute a taxable supply.

Input tax credits

Where GST applies to a grant, the organisation to which the grant is made (the “Grantee”) will be able to claim an “input tax credit” equal to the amount of any GST component in the supply made by the grantor in providing the grant.

Example: Grantor provides $11,000 as a grant to Grantee Non-Profit (GNP) to conduct research on solutions to a problem facing Grantor’s business, and GNP agrees to provide the research findings (presumably valued at $11,000) to Grantor. The supply of research solutions by GNP will be subject to GST of $1000, but GNP will be able to claim an input tax credit of $1000 [1/11th x $11,000] representing the GST paid on the supply (the grant) made by Grantor to GNP.

Is grant funding subject to goods and services tax?

The Draft ruling GSTR 2011/D4 *Goods and Services Tax: Financial Assistance Payments* deals with the application of goods and services tax to grants of financial assistance and funding. The Draft Ruling (the final ruling is expected to be released 30 May 2012) applies to grants made by governments and the private sector, and aims to assist grantees and grantors in determining whether goods and services tax applies to a grant.

A grant will be subject to GST where it satisfies each of the following requirements:

- The grant represents **consideration “for” a supply** (that is, there must be a link or “nexus” between the grant and the supply by the grantee)
- the supply is made in the **course or furtherance of an enterprise** that is carried on by the NFPO supplier An “enterprise” is defined very broadly in section 9-20(1) of the GST Act and specifically includes an activity or series of activities done by a charitable or religious institution, the trustee of a charitable fund, or the trustee of a gift deductible entity. It also includes an activity or series of activities done in the form of a business, profession, trade or vocation; a one-off “adventure in the nature of trade”; and activities conducted on a regular or continuous basis in the form of a lease.

  Activities specifically **excluded** from the scope of an “enterprise” by section 9-20(2) of the GST Act include work as an employee, and private recreational pursuits or hobbies.
- the supply for which the grant is consideration for is **connected with Australia: sec 9-5(c).** This requirement will be satisfied, for example, where:
  - goods are made available in Australia
  - land is situated in Australia

  for items other than land or goods, where the thing is done in Australia, or supplied through an enterprise which the supplier carries on in Australia.
- the supply must **not be GST-free or input taxed**.
- the entity making the supply that the grant relates to is **registered or required to be registered,** for GST.

There is a useful Table setting out a summary of tax concessions and types of non-profit organisations at pp.4-5 of the ATO’s booklet *Tax basics for non-profit organisations* (2011 revision).

Charities must be endorsed by the ATO if they are to be eligible for GST and FBT concessions, and as noted previously, the Australian Government in 2011 announced proposed reform to impose FBT on commercial activities of NFPOs that are unrelated to their altruistic or charitable purpose.

What is a consideration for a supply?

The definition of **"consideration"** for GST purposes is very broad (section 9-15(1)), and includes any:

- payment
- act or forbearance

whether in/voluntary and whether done by the recipient of the supply or a third party in connection with, in response to, or for the inducement of a supply of anything: section 9-15(1),(2); cf (2A),(2B),(3).

Accordingly, the definition of consideration catches all forms of payment whether in money or otherwise (such as supplies of valuable equipment or barter arrangements).

Similarly, the definition of a **"supply"** is very wide. Under section 9-10(2), it means "any form of supply whatsoever", and includes:

- a supply of goods and services
- the provision of advice or information
- the creation, grant, transfer assignment or surrender of a right
- a financial supply (Reg 40-5.09(1)); GSTR 2002/2
- the entry into or release from an obligation to (or not to) do anything, or to tolerate an act or situation. A supply will be caught whether or not it is lawful to do, refrain from or tolerate the act or situation constituting the supply [section 9-10(2)(g);(3)]. See further GSTR 2006/9; GSTR 2011/D4, para 13

Grants often require the grantee to enter into an obligation, or make an undertaking to do something for the grantor or a third party – for example, to use the grant money for a specified purpose, or to provide particular services. Many government grants are provided to NFPOs in return for the provision of services or infrastructure to the community.

For GST purposes, the "supply" is the act of 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 and provide something of value to the grantor or a third party, that will be a supply, and if the other requirements are met, GST would apply.

Where there is only an unenforceable expectation between the parties that certain action will be taken, there would generally be no supply and no GST liability, though the ATO considers that, where grants consist of large sums of money, normal practice would mean that the various parties would expect that formal obligations would be entered into.

A payment of money is not a "supply" in itself, unless provided in consideration for a supply of money (e.g. a purchase of foreign exchange currency): section 9-10(4).

Supplies that form part of the grant agreement, but are merely peripheral or incidental to the objective or purpose of the grant, will not be consideration for a supply. For example, a grant may require that the grantee provide financial reports to the grantor, which the grantor uses to maintain accountability over the grant funds and to assist in evaluating the effectiveness of the program in meeting its objectives. As Draft Ruling *GSTR 2011/D4* notes at paragraphs 33-39, grants are not normally made for the purpose of obtaining financial reports on expenditure, but rather to achieve a particular purpose, such as the purchase of needed equipment or the like. In such circumstances, the key purpose of the grant is to enable the grantee to purchase the equipment; the supply of financial reports is merely peripheral, and does not constitute a supply. However, each case will depend on its particular facts.

For a supply to be a taxable supply generating a GST liability, it must be made "for" consideration. That is, there must be a link or "nexus" between the supply made and the consideration provided – i.e. the consideration must be provided "in connection with", "in response to" or "for the inducement" of the supply (section 9-15(1)). These phrases are very broad (GSTR 2011/D4, paragraphs 17-22, 108-111).

The question of whether a payment is in connection with the supply of an obligation is a question of fact and degree, with the ATO focusing on whether the "true character" of the transaction reveals a "substantial relation" between the substance of the supply and the grant.

Appendix 2 of GSTR 2011/D4 *Goods and Services Tax: Financial Assistance Payments* contains a useful overview of the GST outcomes of various common situations likely to arise in relation to grants of financial assistance.

Examples (from GSTR 2011/D) – in each case, it is assumed that the grantee is an NFPO

Example 1

The Gooseville Foundation pays money to a commercial dance troupe – Jazz – in order to ensure that Jazz can continue its artistic contribution to the arts. Jazz agrees that in return for the payment, it will continue to present performances, and will repay the money if they fail to do so.

By agreeing to continue its performances, Jazz enters into an obligation for which the payment by Gooseville is consideration which has a sufficient link to the obligation, and Jazz will be liable for GST.

Example 2

If instead of the situation above, Jazz had not undertaken to continue its performances, but there was merely an expectation that it would do so, the provision of future performances would not be a “supply” by Jazz to Gooseville. The agreement to repay the monies in prescribed circumstances does not have a sufficient link to the grant payment – it is the supply of a “peripheral” thing – and GST is not payable.

Example 3

Govco (a government agency) makes a payment to a local business (Dreams) – to enable Dreams to purchase computer equipment. Dreams agrees to provide a report to Govco outlining the particular items of computer equipment it purchases using the grant.

The main focus of the payment to Dreams is to enable it to purchase the equipment, not for the supply of information by Dreams on its purchases. The obligation to provide reports on expenditure therefore does not have a sufficient nexus with the supply of information, and is not consideration for that supply; it is peripheral to the payment. Dreams is not liable for GST.

Example 4

The Gooseville Foundation transfers electrical equipment to Jazz for use in its performances, and in return Jazz agrees to continue its performances.

The transfer of equipment by Gooseville is a non-monetary supply valued at the GST inclusive market value of the equipment. The agreement by Jazz to continue its performances is a supply with presumably the same value, so that while GST applies, no additional net amount is payable by either party: see GSTR 2001/6 *Goods and Services Tax: Non-Monetary Consideration.*

Example 5

Grantor pays $10,000 to Research Group to enable it to conduct medical research which will be of benefit to society generally but of no benefit to Grantor. In return, Research Group undertakes to report to the grantor on how it spends the funds: this does not confer a material advantage, and there will be no GST liability.

Example 6

Grantor pays $10 million to Hospital to enable it to build a new hospital wing to treat alcoholics. The wing is to be named “The Grantor Wing” and a plaque in Grantor’s honour is to be erected in the foyer of the building: The ATO accepts that the recognition given to Grantor would not confer a material advantage on Grantor, and accordingly there will be no GST liability.

A “gift” does not constitute a grant to a not-for-profit entity

A genuine gift is not a ”grant” for tax purposes because there is no consideration for the supply.

The term “gift” is not defined in the GST legislation and therefore takes its ordinary meaning. Accordingly, in order for a payment to be considered a “gift” for these purposes, it must satisfy the following criteria as a matter of substance and reality (though these criteria are not absolute, and it is a matter of degree):

- there must be a transfer of money, property, or something of value
- the transfer must be made voluntarily and arise by way of benefaction – i.e. the transfer must not be the result of a prior contractual obligation
- the maker of the payment must not receive a material advantage or benefit in return *(GSTR 2011/D4*, paragraphs 121-123, based on TR 2005/13)

Hence, if an NFPO provides a benefit which gives the grantor body a material advantage or benefit (for example discount tickets or free parking provided by a theatre company in return for a donation), the transfer will not be genuine gift and will potentially be liable to GST: GSTR 2011/D4 paragraph 125).

In determining whether a benefit is “material”, the ATO takes the view that where an item simply promotes or advertises the grantor (e.g. a bumper sticker or lapel badge) it will not provide a material benefit. However, items which are valuable or useful (e.g. pens, T-shirts, and the like) will be considered a “material benefit” unless there is a significant disproportion between the amount of the donation and the value of the benefit received. For example, where the NFPO provides a $10 box of chocolates to a person who donated $100,000, this would probably be regarded as non-material.

The following items are not usually considered gifts:

- the purchase of raffle or art union tickets
- client contributions towards services or activities; for example, contribution towards a bus trip
- the purchase of an item such as a mug, key ring or pen that is not merely a token promoting the community organisation or its activities (tokens may be such items as lapel badges, bumper stickers, red noses, Legacy pins; daffodils on Daffodil Day; and the like)
- 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

A basic outline of the key elements of a "gift" for taxation purposes can be found in the ATO document: *Donors and gifts – Giftpack* on the ATO website. A more detailed analysis is set out in TR 2005/13 *Income Tax: Tax Deductible Gifts: What Is a Gift?*, which is the most comprehensive taxation ruling issued by the ATO on the subject of tax-deductible gifts.

However, a payment that is made as a function of government and does not reflect detached, disinterested generosity (benefaction) is not a gift (GSTR 2011/D4, paragraph 124) and may create a GST liability.

Consider seeking a Private Ruling from the ATO on unclear issues. Complex and serious issues can arise in relation to the application of GST (or other taxes) to non-profit organisations and charities.

In such circumstances, consideration should be given to obtaining a Private Ruling from the ATO on the GST (and other) implications of the particular fact situation. A Private Ruling is a statement of formal advice given to a particular taxpayer by the ATO setting out the ATO's view on the GST (and other tax) implications of a transaction or situation which the taxpayer has entered or proposes to enter into and which is described in the application for the Ruling. A Private Ruling will only protect the person whose tax affairs are ruled on – i.e. other persons cannot rely on a Private Ruling (but can of course rely on a Public Ruling which clearly covers their fact situation).

Where the NFPO obtains and follows a Private Ruling strictly, it will protect the NFPO against penalties and interest charges. Reference should be made to ATO publications such as *GST and grants – Which Guidance Must You Follow?* and related materials.

The impact of GSTR 2011/D4

GSTR 2011/D4 *Goods and Services Tax: Financial Assistance Payments* deals with the application of GST to grants of financial assistance and funding, and applies to grants made by either governments or private sector bodies, and is intended to assist grantors and grantees to determine whether GST applies to a particular grant.

When issued in its final form (scheduled for release on 30 May 2012), GSTR 2011/D4 will replace GSTR 2000/11, and will:

- clarify the position on when a financial assistance payment will be consideration for a supply (paragraphs 11-48)
- remove the confusion caused to taxpayers who had interpreted the terms of Example 4 in GSTR 2000/11 (paragraph 114) as meaning that wherever a grant contained a condition requiring repayment of the grant monies in specified circumstances, this constituted a taxable supply. GSTR 2011/D4 (paragraphs 28-30, 44) makes it clear that there will only be a taxable supply where the grantee makes a supply of something else for that payment – for example, by entering into an obligation to undertake a specified activity
- incorporate the effect of the Federal Court decision in *FCT v Secretary to the Department of Transport (Vic)* 2010 ATC 20-196, which identifies the factors which the ATO will take into account in determining whether a supply has been made to the payee under a tripartite arrangement that involves the supplier providing a service or goods to a third party: paragraphs 49-52; GSTR 2006/9

When the final version of GSTR 2011/D4 is issued (scheduled for 30 May 2012), GSTR 2000/11 will be withdrawn. However, because GSTR 2000/11 has provided the basic guidance for GST liability for more than a decade, many taxpayers have relied upon it over the years in arranging their GST affairs. To prevent such taxpayers from being unfairly disadvantaged by changes in the new Ruling, transitional rules will apply as follows:

- where an entity has relied on GSTR 2000/11 to treat a supply as *taxable*, but the arrangement would *not* be treated as taxable under GSTR 2011/D4, the taxpayer may seek a refund for past overpaid GST, provided that they apply within four years after they lodged the relevant GST return: section 105-55(1)) of the *Taxation Administration Act 1953*, and they have refunded the overpaid amount/s to the payer/s [GSTR 2011/D4, fns 24, 25]

- in the reverse situation, where an entity has relied on GSTR 2000/11 in determining that a particular supply was not a taxable supply, but it *would* be treated as taxable under GSTR 2011/D4, then no GST is payable on that supply (i.e., in effect, the principles in GSTR 2000/11 will continue to govern the taxpayer's position)
- entities can continue to rely on GSTR 2000/11 after its withdrawal for payments made before 31 December 2012 where the arrangement was entered into before the date on which the final version of GSTR 2011/D4 was issued, *and* the GST consequences of the transaction are affected by a conflict between the views in GSTR 2000/11 and the final version of GSTR 2011/D4
- the final Ruling will not apply to taxpayers to the extent that it conflicts with the terms of settlement of a dispute agreed to before the date of issue of the final Ruling
- where entities have entered into arrangements which they cannot alter in order to bring themselves within the views in the final Ruling, they should apply in writing to the ATO for consideration on a case-by-case basis.

See further Non-Profit News Service No. 0348 (www.ato.gov.au/nonprofit)

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 NFPO 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 ATO as a result of having to pay some of the grant back.

GSTR 2000/1 *Goods and Services Tax: 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 NFPO, 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

ato.gov.au

communities.qld.gov.au

communitybuilders.nsw.gov.au

grantslink.gov.au

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 Australian Government grant programs. It is accessible at 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 NFPOs through web-based services. The website is: 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 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.

Checklist 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?			

Checklist 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?			

Checklist 3: What you should bear in mind when working with auditors

Item	Yes	No	Comment
Is there a copy of the agreement?			
Are there procedures to manage the grant?			
Do you have the endorsement of the management committee?			
Have personnel been appointed to manage the grant?			
Is there an accounting system to manage the grant?			
Are records of grant progress reflected in committee minutes?			
Have payments only been in accordance with the grant provisions?			
Has there been proper authorisation for all payments?			
Are there notes to the account as required?			
Are source documents up to date and complete?			
Are committee minutes up to date and complete?			

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