

The Institute of Chartered Accountants in Australia

Not-for-profit sector reporting: a research project



The Institute of Chartered Accountants in Australia

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About this report

This report has been prepared by Mr Stewart Leslie, Director, *Causeway Consulting Pty Ltd*. The author would like to thank Mr Kimberly Smith, Mr Michael Nugent and Mr David Gibbs for their valuable contribution to the project.

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Foreword

The not-for-profit (NFP) sector is a significant contributor to Australia's economy. Australian Bureau of Statistics figures have shown that taxpayers donate hundreds of millions of dollars to a range of organisations with tax deductibility status every year. The people who donate money or time to, and buy goods and services from, NFPs may not have the opportunity to see how their contribution is used, other than through the annual and financial reports of an organisation.

Financial and annual reports, therefore, play a considerable role in helping not-for-profit organisations communicate their achievements, demonstrate where they have made a difference and let philanthropists and other stakeholders know how their contributions are being used.

Today's corporate reporting environment has changed considerably, with the introduction of Australian equivalents to international financial reporting standards and a growing focus on corporate governance, including auditing standards now having the force of law. While the NFP sector has some carve outs, due to the vast difference between what constitutes a not-for-profit, there is still some uncertainty about what their financial reporting requirements are.

With this in mind, the Institute has produced *Not-for-profit sector reporting: a research project*. The report was produced on the back of a thorough review of 31 NFP annual and financial reports and aims to provide guidance and clarity on what should be considered. This report follows on from an earlier review in May 2003 and addresses the need for guidance in the clarity and content of NFP reports. A second publication will be issued in the coming weeks to provide guidance on the application and implementation of these recommendations.

The *Not-for-profit sector reporting: a research project* is part of the Institute's thought leadership initiatives and specifically targets enhancing and promoting the reputation and role of Chartered Accountants for the benefit of the business community and public interest.

Yours sincerely



Neil Faulkner FCA
President
Institute of Chartered Accountants in Australia

Abbreviations

AASB	Australian Accounting Standards Board
AGAAP	Australian generally accepted accounting principles
AIFRS	Australian equivalents to International Financial Reporting Standards
ACFID	Australian Council for International Development
ASIC	Australian Securities and Investments Commission
ASC	Australian Sports Commission
ASX	Australian Stock Exchange
GPFR	General purpose financial report
IFRS	International Financial Reporting Standards
Institute	The Institute of Chartered Accountants in Australia
KPIs	Key performance indicators
NFP	Not-for-profit
SORP 2005	'Accounting & Reporting by Charities: Statement of Recommended Practice' (revised 2005) – published by the UK Charity Commission
SPFR	Special purpose financial report

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Summary

Not-for-profit organisations – NFPs – play an important part in Australia’s economy. It is widely held that there are 700,000 NFPs in Australia, most of which are small and entirely dependent on the voluntary commitment of members.

In common with their for-profit contemporaries, there is an expectation that NFPs, in particular charitable NFPs, will be more accountable and more transparent about their operations by improving disclosure and reporting and adopting contemporary governance practices. The detailed report that follows has been commissioned by the Institute of Chartered Accountants in Australia to:

- > Assist NFPs in the application of relevant legislation and accounting standards to their financial reporting
- > Provide NFPs with additional guidance on broader reporting issues.

The question that any person involved in the governance of a NFP will quite rightly ask is ‘How do the report findings apply to my organisation?’.

The recommendations in this report are made to assist NFPs in improving the transparency, completeness and clarity of Annual Reports and to assist NFPs in finding their way through the complexities of the financial reporting regime that applies to NFPs. It is also intended that a second publication will be issued, at a later stage, to provide guidance on the application and implementation of the recommendations.

In summary, we recommend your NFP’s annual report:

- > Tells the reader what you are trying to do – your mission – and the objectives, activities and funding that fulfil that mission
- > Provides more information about your future plans
- > Clearly explains your governance arrangements
- > Includes key performance indicators (KPIs) relevant to your mission, particularly KPIs relating to fundraising and the utilisation of funds
- > Includes measures of output, outcome and impact – tell your readers what their funding achieves rather than telling them how it is spent
- > Provides explanations of changes in KPIs, outputs, outcomes and impacts.

When preparing your NFP’s financial report, we recommend you:

- > Make sure the financial report meets the needs of your stakeholders – consider the number and spread of stakeholders, their level of involvement in your day-to-day activities, the impact of your activities on your community and the extent of your reliance on government or philanthropic grants and donations
- > Have a strategy to explain the impact of Australian equivalents to International Financial Reporting Standards (AIFRS) on your reported financial position and performance – do not underestimate the impact of AIFRS on your Financial Report
- > Use segment reporting, where you have diversified activities, to explain the results of these activities
- > Make sure the grant income recognised in your profit and loss reflects the grant conditions
- > Consider whether your financial report should recognise in-kind contributions, including goods received for distribution
- > Make sure your financial report discloses where your organisation is reliant on grants or other income from one source to fund your activities.

We trust this report and the complementary guidance publication are useful.

1 Introduction

1.1 Building on previous research

In May 2003 the Institute of Chartered Accountants in Australia (the Institute) published the results of a review of a number of not-for-profit (NFP) organisations carried out to identify whether they were complying with relevant legislation, accounting standards and other requirements. This review concluded that, while these organisations were complying with the basic statutory and reporting requirements, substantial improvements could be made in the clarity and content of their annual reports. It was also suggested that a not-for-profit financial reporting framework was required.

The Institute has decided to build on the May 2003 review to:

- > Assist NFPs in the application of relevant legislation and accounting standards to their financial reporting
- > Provide additional guidance to those organisations on broader reporting issues.

To this end, it engaged Causeway Consulting Pty Ltd to:

- > Conduct research to:
 - Reach a conclusion as to whether matters noted in the May 2003 *Review of Not-for-Profit Financial and Annual Reporting* (which looked at charitable NFPs) have been addressed based on a review of selected current annual and financial reports
 - Determine whether there are any new issues that need to be brought to the attention of the NFP sector
 - Provide an overview of the financial reporting requirements of relevant legislation and accounting standards
 - Reach a conclusion as to what resources the Institute could recommend to the NFP sector to assist the sector in discharging their reporting responsibilities.
- > Prepare a report for distribution to the NFP sector setting out their findings and recommendations
- > Provide the NFP sector with guidance as to best practice in financial and non-financial reporting.

This report details the findings and recommendations drawn from the review. A separate publication building on the findings in this report to provide guidance to the NFP sector will be made available. The guidance publication will include a 'useful resources' guide.

1.2 The scope of the research

The term 'not-for-profit' has a wide application. Accounting standards define a NFP entity as 'an entity whose principal objective is not the generation of profit'.

In elaborating on this definition, accounting standards note:

'Private sector not-for-profit entities are frequently characterised by the absence of defined ownership interests that can be sold, transferred and/or redeemed, and are frequently formed for social, educational, religious, health or philanthropic purposes. Private sector entities which would be classified as not-for-profit entities would include charitable organisations and those clubs and societies whose overall financial objectives do not encompass the generation of profit.'

The review selected annual and financial reports prepared by 39 private sector charitable organisations (charitable NFPs) and peak sporting bodies funded by the Australian Sports Commission (sporting body NFPs) covering the 2004 and 2005 financial years. The findings and recommendations drawn from the review of reporting by these two categories of NFPs are applicable to all private sector NFPs.

1.3 A complex regulatory and reporting environment

Perhaps the most significant finding from our review is that little has changed over the past decade in the NFP regulatory and reporting environment, despite recommendations that action be taken to simplify what is a complex environment.

The variety of legislation that applies to NFPs contributes to this complexity. The overview of relevant legislation in this report indicates that charitable NFPs are subject to 'corporate' and fundraising legislation that varies from jurisdiction to jurisdiction. Sporting body NFPs and other NFPs (such as membership services organisations) are subject to the same variety of corporate legislation.

More recently, the decision by the Australian Accounting Standards Board (AASB) to continue with sector neutral Accounting Standards when introducing Australian equivalents to International Financial Reporting Standards (AIFRS) has added to the complexity. The International Financial Reporting Standards (IFRS), which are the basis of AIFRS, were not developed to apply to NFPs. This has resulted in the AASB including NFP specific text in certain Accounting Standards and exempting NFPs from having to apply certain Standards.

The complexity of the reporting and compliance regime for NFPs is demonstrated in Figures 3, 4 and 5 in section 4.3. It is a regime that results in the waste of all forms of scarce NFP resources – funds raised by donation or received as grants, volunteer time, and management time – and might act as a deterrent to individuals who wish to volunteer their time to assist NFPs. If the NFP sector is to continue to make its valuable contribution to the Australian economy, its regulatory and reporting environment needs to be simplified. In addition, the AASB is developing and promulgating Australian Accounting Standards that are specific to the NFP sector.

We recommend that the state and federal governments develop uniform 'Incorporated Associations' legislation that can be applied to all charitable, sporting body and other private sector NFPs.

We recommend that the AASB be assigned the task of developing a 'private sector NFP' specific financial reporting framework, using the UK Charity Commission's 'Accounting & Reporting by Charities: Statement of Recommended Practice' as a precedent.

1.4 Findings and recommendations – annual reports

1.4.1 What did we look for?

In carrying out our review of charitable and sporting body NFP annual reports we assessed the **transparency** of the NFPs selected for review, with particular emphasis on transparency of governance practices.

We considered the **completeness** of the annual reports to determine whether the NFPs provided sufficient information to enable readers to assess what their funding achieves, rather than telling them how it is spent.

Finally, we assessed the **clarity** of the annual reports by looking at the extent to which quantitative information was enhanced by narrative explanation.

1.4.2 Transparency in mission and objectives

We looked at how effective charitable and sporting body NFPs are in explaining:

- > Their mission – are readers of annual reports provided with a clear understanding of what the NFP is trying to do?
- > Their objectives – are readers of annual reports provided with a clear understanding of the NFP's objectives, and how it is going about funding the activities undertaken to achieve these objectives?

The majority of charitable NFPs (87.5 per cent) are effective in explaining their mission and objectives. This is consistent with the findings in the May 2003 Report.

Sporting body NFPs compared unfavourably with their charitable NFP counterparts. Sporting body NFPs are not effective in explaining:

- > Their mission – only 35 per cent of annual reports reviewed provided the reader with a clear understanding of what the sporting body NFP is trying to do
- > Their objectives – only 21 per cent of annual reports provided the reader with a clear statement of the sporting body NFP's objectives and how it is going about funding the activities undertaken to achieve its objectives
- > Their activities – only 50 per cent of the sporting body NFPs selected for review provided adequate explanations through their annual reports and websites of the activities undertaken to achieve their objectives.

Both groups of NFPs fall down in explaining their plans for the future. Only eight per cent of the annual reports of charitable NFPs and 14 per cent of those of the sporting body NFPs included any 'future looking' information.

We recommend charitable NFPs provide more information in their annual reports regarding their future plans.

We recommend that sporting body NFPs provide more information in their annual reports regarding what they are trying to do (their mission), their objectives, explanations of activities to achieve those objectives and how they are funding those activities. Sporting body NFPs should also include more information in their annual reports regarding their future plans.

1.4.3 Transparency in governance

Our review considered whether annual reports provided an adequate explanation of charitable and sporting body NFP governance processes. We were particularly interested to see whether the migration of the more stringent attitude to corporate governance from for-profit to NFP boards evident in the United States is occurring in Australian NFPs. The evidence would suggest that this is not the case.

In the case of charitable NFPs, only 38 per cent of the NFPs reviewed included a separate 'governance statement' in their Annual report. An additional eight per cent included explanations of their governance processes under other headings in the Annual Report. Only 25 per cent of the annual reports of the sporting body NFPs selected for review included any information on their governance structure, with only one of the selected Annual Reports including a page entitled 'corporate governance'.

In the case of charitable NFPs, there was no correlation between the size of the organisation and the inclusion of a governance statement in the annual report. The contents of the governance statement varied, although we have concluded that the contents were appropriate having regard to the size of the charity and the users of the report.

As a significant funder of sporting body NFPs, the Australian Sports Commission (ASC) has taken a strong interest in the governance of these organisations. In May 2002, the ASC issued its *National Sporting Organisations Governance: Principles of Best Practice*.

Our review of annual reports' strategic plans on sporting body NFP websites and the ASC website revealed that the ASC has worked with a number of sporting body NFPs to improve their governance frameworks and that some of the NFPs are taking unilateral action to improve their governance arrangements.

We recommend that both charitable and sporting body NFPs be more transparent about their governance arrangements in their annual reports. This transparency will:

- > In the initial stages, lead to improved governance arrangements as NFPs strive to demonstrate best practice
- > Assist board members in protecting their reputation
- > In some instances, provide a competitive advantage.

We recommend sporting body NFPs:

- > Compare their current governance structure against the Australian Sporting Commission's *National Sporting Organisations Governance: Principles of Best Practice*
- > If necessary, take remedial action to align their governance structure with this best practice.

1.4.4 Completeness of reporting and transparency in reporting results by charitable NFPs – process KPIs

We assessed the extent to which charitable NFPs' annual reports included 'process KPIs' that are generally used to measure the efficiency of activities.

Very few **annual** reports included any of the generally-used measures of charitable NFPs' efficiency, such as the ratios of fundraising costs to funds raised, net surpluses from fundraising to total funds raised, total costs of services provided to total costs, and total cost of services to gross income received. In NSW, disclosure of measures of fundraising efficiency is mandated by the *Charitable Fundraising Act 1991*. Those charitable NFPs that are subject to this legislation did include the required disclosures in their **financial** report.

A financially literate user of the annual or financial reports we selected for review could calculate the ratios listed above. However, this should not be necessary, and demonstrates a need for charitable NFPs to consider separately reporting these measures of efficiency.

We noted a level of sensitivity in annual reports regarding the disclosure of measures of fundraising efficiency. Costs of fundraising, which might fluctuate in absolute and relative terms from year-to-year, are being described as 'investment in fundraising'. Explanations of fluctuations are being provided. The explanation provided in one annual report left the reader in no doubt about what the charitable NFP is trying to do by investing in its fundraising activities, what it is expecting to achieve through that investment and for what the funds will be used.

We recommend that:

- > Charitable NFPs devise and include in their annual reports process KPIs that are relevant to their mission, objectives and activities. At a minimum these should include, where applicable:
 - The ratio of total costs of fundraising to gross income obtained from fundraising
 - The ratio of net surplus from fundraising to gross income obtained from fundraising
 - The ratio of total costs of services provided by the fundraiser to total expenditure
 - The ratio of total costs of services provided by the fundraiser to gross income received
- > For as long as fundraising ratios remain the generally accepted means of reporting process efficiency, the ratios be separately disclosed
- > Fluctuations in these ratios from reporting period to reporting period be explained in the annual report. This is particularly important where the NFP is investing in its funding coterie. This transparency will educate the broader community that such investment is required and necessary.

1.4.5 Completeness of reporting and transparency in reporting results by sporting body NFPs – process KPIs

The majority of the sporting body NFPs' annual reports reviewed included numerical or graphical analysis of income and expenditure, generally for the current and previous years. None used ratio analysis to provide an indication of the efficiency of their processes. Unlike charitable NFPs, there is no mandatory public disclosure of measures of a sporting body NFP's process efficiency.

We recommend that sporting body NFPs demonstrate the efficiency of their operations by determining the process KPIs that are relevant to their mission, objectives and activities and disclosing them in their annual report. Where these KPIs are expressed as numbers or ratios, fluctuations from reporting period to reporting period should be explained.

1.4.6 Completeness of reporting and transparency in reporting results – outputs, outcomes and impacts

We assessed the extent to which charitable and sporting body NFPs included output, outcome and impact measures in their annual reports. In simple terms, output measures indicate what the NFP has done, while outcomes indicate what the NFP has achieved, and impact measures show what difference the NFP has made.

Output measures, which are usually expressed numerically, are easier to determine, and therefore we found more instances of these than outcome or impact measurements. Outcomes and impacts were generally demonstrated by way of example, using narrative and illustration.

Eighty-eight per cent of the charitable NFPs' annual reports we reviewed included at least one output measure. Only one of the annual reports we reviewed did not include an output measure. Based on the understanding of the charitable NFPs' 'business' we gained from our review of the annual reports, we have concluded that the majority of the organisations reviewed could have extended their reporting by including additional output measures and including outcome and impact measures.

The three measures of output, outcome or impact most commonly used by sporting body NFPs are:

- > Team or individual success in competition – reported in 71 per cent of the annual reports selected for review
- > The number of clubs affiliated with the sporting body NFP – in 57 per cent of annual reports
- > The number of people participating in the sport – in 50 per cent of annual reports.

In the absence of clear statements of what sporting body NFPs are trying to do (their mission), their objectives, and explanations of activities to achieve those objectives, it is difficult to conclude whether these are appropriate measures. Our review did note that 43 per cent of the sporting body NFPs have their strategic plans available on their websites, most of which cover periods of up to three years from 2005. All of these plans include, in varying degrees of detail, the organisation's aims, strategies, timeframes and KPIs.

We recommend NFPs enhance the effectiveness of their annual reports by portraying what the NFP has done (its outputs), what it has achieved (its outcomes), and what difference it has made (its impacts). The inclusion of measures of output, outcome and impact will improve completeness of reporting by demonstrating to readers of the annual report what their funding achieves rather than telling them how it is spent.

Sporting body NFPs can achieve this by comparing planned performance as expressed in the organisation's strategic plan with actual performance.

1.4.7 Clarity in reporting

How well do charitable and sporting body NFPs use narrative to explain the quantitative information included in their annual reports? The answer to this question provides an indication of the clarity of NFP reporting.

Both categories of NFP are good at **providing information** as indicated by:

- > The inclusion of a highlights page in their annual reports
- > The extensive use of graphics and photographs to explain their activities
- > The provision of comparative revenue and expenditure data.

However, neither is good at providing an interpretation of the data. This is indicated by the absence of explanations of trends and movements in revenues, expenditures, cash flows and financial position, and (where applicable) an explanation of the financing of significant capital expenditure programs.

We recommend that NFPs improve the clarity of their annual reports by including explanations of trends and movements in quantitative data in those reports. These explanations should not be limited to financial data. Where process KPIs and outputs, outcomes and impacts are presented in quantitative form, explanations of movements from year-to-year should be provided.

1.5 Findings and recommendations – financial reports

1.5.1 What did we look for?

Our review of NFPs' financial reports was carried out to determine areas where NFPs might need assistance in the application of relevant legislation and accounting standards to their financial reporting. The review was carried out using a checklist to assess the extent to which charitable and sporting body NFPs complied with relevant financial reporting requirements applicable to the financial reports that were reviewed – the requirements in place for annual reporting periods that commenced before 1 January 2005. In addition, we assessed what impact the full implementation of AIFRS will have on financial reporting in the NFP sector.

Based on our review, we concluded NFPs might need assistance in the following aspects of financial reporting:

- > The style of financial reports provided by NFPs
- > Segment reporting
- > Recognition of revenue
- > Accounting for goods and services received for no consideration
- > Disclosure of economic dependence.

The Institute's May 2003 report *Review of Not-for-Profit Financial and Annual Reporting* reached the same conclusion.

1.5.2 The style of financial report

The governing body of a NFP can determine whether the organisation is either a reporting entity and prepare a general purpose financial report (GPFR), or a non-reporting entity and prepare a special purpose financial report (SPFR), for presentation to stakeholders. The decision must be made having regard to the particular circumstances of the organisation. In many respects, it is more difficult to reach the decision for a NFP than it is for a for-profit organisation. The breadth of stakeholders, the additional legislative and voluntary Code requirements, and (in the case of charitable NFPs) the level of public scrutiny of their activities, combine to create that difficulty.

To illustrate the difficulties in reaching this decision, we prepared two case studies using facts gathered from NFP organisations we reviewed. Both have presented SPFRs to their stakeholders. In one case we believe that the presentation of a SPFR is inappropriate. These case studies can be found in section 4.3.

We recommend that charitable and sporting body NFPs that currently prepare a SPFR for presentation to stakeholders consider whether such a report meets its stakeholders' needs, having regard to:

- > The number and spread of stakeholders
- > The level of direct involvement by stakeholders in the day-to-day management of the organisation
- > The community impact of their activities
- > The extent to which the NFP is reliant on government or philanthropic grants and donations.

It is our view that the presentation of a SPFR to NFP stakeholders would be the exception rather than the rule.

1.5.3 Segment reporting

Accounting standard AASB 1005 *Segment Reporting* was current during the period covered by those financial reports we reviewed. This standard did not apply to NFPs' financial reports and the exclusion has been carried forward into accounting standard AASB 114 *Segment Reporting*.

Even though this exemption was available, the majority of the NFPs reviewed included disclosures to comply with AASB 1005. This disclosure was usually in the form of a statement, for example, 'the organisation operates in the community care industry in Australia'. Consideration is being given to the development of a NFP specific standard that will require NFPs to report segment results on the basis of 'service segments' or 'geographic segments'.

We recommend that, until a NFP specific segment reporting accounting standard is developed, NFPs disclose segment information in their financial statements where it would enhance the information presented to the users of the statements by:

- > Enabling the user to better assess the achievements of a NFP with diversified activities or
- > Enabling comparison of the NFP's performance with that of similar NFPs.

1.5.4 Recognition of revenue

With the exception of revenue from grants, there is a high level of consistency in accounting policies adopted by NFPs when recognising revenue. Income from donations, including legacies and bequests, is recognised when received. Sales of goods and services are recognised when the goods are delivered or the service provided. Interest is recognised on an accruals basis and dividends when 'a right to receive a dividend has been established'.

Based on our review of revenue recognition accounting policy notes in NFPs' financial reports, there are two approaches to the recognition of grant revenue. The first approach could be described as 'deferred until earned', while the second can be described as 'recognise on receipt'. We emphasise that both approaches are acceptable, although, based on our understanding of the activities of the NFPs we reviewed, there are instances where inappropriate policies have been applied.

We recommend that when considering the application of AIFRS, NFPs take the opportunity to:

- > Differentiate between 'reciprocal' and 'non-reciprocal grants', and adopt appropriate revenue recognition policies for each
- > Review the wording of their current revenue recognition accounting policy notes, and ensure it clearly explains the conditions that must be satisfied before grant revenue is recognised in profit or loss.

1.5.5 Accounting for goods and services received for no consideration

NFPs often receive goods or services for no consideration by way of 'non-reciprocal transfers' – that is, the recipient NFP is not obliged to provide goods or services of approximately equal value in return to the provider. Examples noted during our review of NFPs' financial statements include:

- > Donations of goods to 'op shops'
- > 'In kind' donations of facilities, advertising etc.
- > 'In kind' contributions to the cost of constructing fixed assets.

The majority of NFPs that receive goods or services in this manner neither recognise nor explain the accounting treatment of these 'non-reciprocal' transfers in their financial statements. Only 36 per cent of the charitable NFPs we reviewed that could have made disclosures of non-reciprocal transfers of goods and services did so.

The approach to disclosure of non-reciprocal transfers in the financial reports we reviewed reflects the lack of clear guidance in accounting standards that applied at the time. This situation will be remedied should the provisions of ED 147 *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)* replace AASB 1004 *Contributions*.

ED 147 deals with the accounting for goods-in-kind and services-in-kind, requiring goods-in-kind to be recognised as an asset provided the 'resources meet the definition of an asset and satisfy the criteria for recognition of an asset'. NFPs may choose to recognise services-in-kind as revenue and as an asset, but are not required to do so. If ED 147 does replace AASB 1004, disclosures explaining the treatment of non-exchange (non-reciprocal) transfers will be required.

It should be noted that similar requirements are already included in AASB 102 *Inventories* which requires NFPs to recognise inventories held for distribution that were 'acquired at no cost, or for nominal consideration [at] current replacement cost as at the date of acquisition'. The application of this standard will require NFPs that receive goods for distribution by way of donation or at a nominal price to determine the current replacement price of the goods at the date of receipt.

We recommend:

- > NFPs (in particular charitable NFPs) consider the nature and extent of non-reciprocal transfers they are involved in that result in the receipt of goods and services for no consideration and, if material, develop an appropriate accounting policy and make appropriate disclosures in the NFP's financial statements regarding these transactions
- > NFPs consider the extent to which they are in receipt of inventories for distribution at no or nominal cost and, if material, develop an appropriate accounting policy and make appropriate disclosures in the NFP's financial statements.

1.5.6 Disclosure of economic dependence

Seventy percent of charitable NFPs and 68 per cent of sporting body NFPs we reviewed receive grant income. In all but a few cases, prima facie, these NFPs would have incurred a deficit during the year had it not been for the receipt of the grant.

Our review of these NFPs' financial reports revealed that only 42 per cent of the NFPs that should have made the 'economic dependence' disclosures required by accounting standard AASB 1034 *Financial Report Presentation and Disclosures* did so.

We recommend that any NFP in receipt of grants consider the impact on the organisation's ability to meet its objectives and its financial performance and position if the grants were not to be received. If the NFP's financial performance and/or financial position would be adversely affected, the appropriate economic dependence disclosures should be made by way of note to the financial statements.

1.5.7 The impact of adopting AIFRS

Our review indicates that charitable and sporting body NFPs believe the most common issues they may face when adopting AIFRS for the first time will result from accounting standards dealing with:

- > Impairment of assets
- > Financial instruments
- > Property, plant and equipment, including capitalised software
- > Revenue recognition
- > Inventories
- > Employee benefits and superannuation
- > Intangibles and goodwill
- > Foreign currency transactions
- > Doubtful debts
- > Leases.

Our review has led us to conclude that NFPs should not underestimate the impact the adoption of AIFRS will have on the financial picture of the organisation presented to key funding stakeholders such as government departments and philanthropic trusts. For example, if the adoption of AASB 139 *Financial Instruments: Recognition and Measurement* results in an increase in the carrying value of investments, will funding sources be less likely to fund activities because of the apparent level of funds that are available to the organisation? If the answer to this question is 'yes', it will be necessary to develop a strategy to explain to funding providers that the increased carrying value is an unrealised profit that might reverse in subsequent years.

We recommend that, notwithstanding the conclusions that might have been expressed in 'AASB 1047 *Disclosures*', NFPs review the impact of AIFRS in the light of:

- > The NFP specific text in the AIFRS
- > The financial picture the organisation will present to its key stakeholders after the application of AIFRS.

2 What should NFPs achieve through their reports to stakeholders?

2.1 The limitations of financial reporting

The limitations of financial reports in completely explaining the results of any enterprise’s operations have long been recognised. It can be argued that this is even more so in the case of NFPs. For example, the United Kingdom Charity Commission has noted¹:

‘Charity accounts alone do not meet all the information needs of users who will usually have to supplement the information they obtain from the accounts with information from other sources. Accounts also have inherent limitations in terms of their ability to reflect the full impact of transactions or activities undertaken and do not provide information on matters such as structures, governance and management arrangements adopted by a charity. The accounts of a charity cannot alone easily portray what the charity has done (its outputs) or achieved (its outcomes) or what difference it has made (its impact). This is mainly because many of these areas cannot be measured in monetary terms: indeed some areas are difficult to measure with any numbers at all. The ... Annual Report provides the opportunity for charity [Boards] to explain the areas that the accounts do not explain.

Charity accounts should therefore be accompanied and complemented by information contained within the ... Annual Report. The ... Annual Report should be a coherent document that meets the requirements of law and regulation and provides a fair review of the charity’s structure, aims, objectives, activities and performance. Good reporting will explain what the charity is trying to do and how it is going about it. It will assist the user of accounts in addressing the progress made by the charity against its objectives for the year and in understanding its plans for the future. Good reporting will also explain the charity’s governance and management structure and enable the reader to understand how the numerical part of the accounts relates to the organisational structure and activities of the charity.’

In carrying out the review covered by this report, we have sought to determine the extent to which the limitations of Financial Reports have been addressed in the Annual Reports prepared by Australian charitable and sporting body NFPs. Where we have concluded the limitations have not been dealt with, we have made recommendations to address them.

2.2 Communicating with stakeholders

The annual and financial reports prepared by both charitable and sporting body NFPs are a primary means of communication between the NFP and its stakeholders. The Institute has suggested:

‘Organisations need to do more than report to their stakeholders. They must communicate with them. Communication is a two-way exchange of information between the organisation and its key stakeholders, based on an agreed understanding of the organisation, how to measure its performance, how it is performing, and how such information should be incorporated in stakeholder decision models.’²

In the preceding paragraph we have used the term ‘stakeholder’. Who are the stakeholders of a NFP? An overview can be found in Figures 1 and 2.

Figure 1: Charitable NFP stakeholders

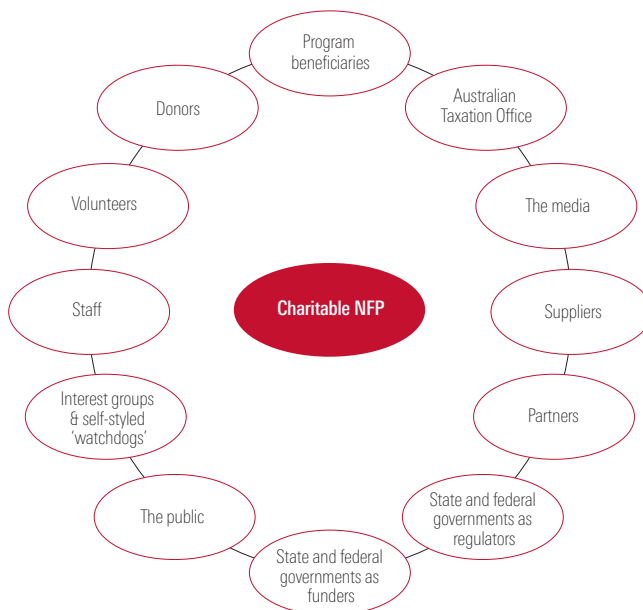


Figure 2: Sporting body NFP stakeholders



1. SORP, 'Accounting & Reporting by Charities: Statement of Recommended Practice', United Kingdom Charity Commission, 2005. Copies of the document can be downloaded www.charity-commission.gov.uk

2. The Institute of Chartered Accountants in Australia and KPMG, 'New Directions in Business Performance Reporting, Communications and Assurance', 2002.

NFPs' annual and financial reports should communicate with each of these stakeholders. While the approach to this communication depends on the particular circumstances of the NFP concerned, there are some guiding principles that should underpin the reporting. These principles, which we have used in assessing the annual and financial reports selected for review, are set out in Table 1.

Table 1: Guiding principles for stakeholder reporting

Principle		Principle	
Transparency	Full disclosure of the processes, procedures and assumptions are essential to its credibility of reporting	Inclusiveness	The reporting organisation should engage its stakeholders in preparing and enhancing the quality of reports
Completeness	All material information should appear	Auditability	Information should be disclosed in a way that enables internal or external auditors to attest to its reliability
Relevance	Reporting organisations should provide information with user requirements in mind	Accuracy	Reports should be accurate to allow users to make decisions with confidence
Reliability	Reports should be neutral and avoid bias	Comparability	Reports should be consistent and allow comparison to earlier reports and to other comparable organisations
Clarity	Information should be easily understood, without loss of detail	Timeliness	Reports should meet user needs within a reasonable time frame

3 A review of NFP annual reporting

3.1 Annual vs. financial reports

3.1.1 The importance of the annual report

We have already noted that 'good reporting will explain what the NFP is trying to do and how it is going about it. It will assist the user of accounts in addressing the progress made by the NFP against its objectives for the year and understanding its plans for the future. Good reporting will also explain the NFPs governance and management structure and enable the reader to understand how the numerical part of the accounts relates to the organisational structure and activities of the NFP'.³

Our review of NFP reporting has revealed that most NFPs present their annual report separately from their financial report which complies with statutory requirements. NFPs' annual reports usually include either summarised financial information or a concise financial report while the 'statutory' financial report is usually made available via the organisation's website or on request.

Arguably, the annual report is more important than the financial report. The annual report should elaborate, magnify, expand and clarify information included in the financial report.

More importantly, the annual report should be used as a tool for demonstrating an organisation's openness and transparency.

3.1.2 The importance of openness and transparency

NFPs enjoy the trust of the broad community. The community assumes NFPs will spend their funds wisely and effectively. The retention of this trust is especially important to the ongoing success of charitable NFPs.

Our review of relevant literature indicates that community trust in NFPs, especially charitable NFPs, is maintained and enhanced when the NFPs' activities are open and transparent to the community.

'Openness is supposed to achieve salutary effects on trustworthiness, and supposedly on trust, not by imposing requirements but by ensuring that information is available to the public, including interest groups and campaigning organisations, who may then use that information to hold institutions, experts and officials to account.'⁴

The annual report is one mechanism that can be used to demonstrate a NFPs transparency and openness. We have reviewed the selected annual reports with the following question in mind:

Has the NFP displayed transparency by explaining what it is doing, how it is governed, the efficiency and effectiveness of its internal processes, and its achievements?

3.2 Annual reporting by charitable NFPs

3.2.1 What did we look for?

In carrying out our review of charitable NFPs' annual reports, we have assessed the **transparency** of the NFPs selected for review using the 'indicators of transparency' in the matrix in Appendix 1. Particular emphasis has been placed on transparency of governance practices.

We considered the **completeness** of the annual reports to determine whether the NFPs provided sufficient information to enable readers to assess what their funding achieves rather than telling them how it is spent.

Finally, when assessing the **clarity** of the annual reports, we looked at the extent to which quantitative information was enhanced by narrative explanation.

The results of our review are presented under the following headings:

- > The transparency of the charitable NFP sector's objectives and activities as explained in its annual reporting
- > The transparency of governance arrangements in the charitable NFP sector
- > The completeness of the reporting
- > The clarity of the reporting.

3.2.2 Transparency in mission and objectives

The annual report should explain the charitable NFP's aims and objectives and the strategies and activities undertaken to achieve them. **Chart 1** indicates that the majority of NFPs (87.5 per cent) are effective in explaining:

- > Their mission – readers of annual reports are provided with a clear understanding of what the charitable NFP is trying to do
- > Their objectives – readers of annual reports are provided with a clear understanding of what need the charitable NFP is serving, the activities undertaken to achieve its objectives, and how it is going about funding those activities.

Charitable NFPs fall down in explaining their plans for the future.

Chart 2 shows that charitable NFPs do not include sufficient information in their annual reports regarding their plans for the future. The importance of explaining future plans is highlighted by the following quote from Peter Drucker:

'The first – but also the toughest – task of the non-profit executive is to get all ... constituencies to agree on what the long-term goals of the institution are. Building around the long term is the only way to integrate all of these interests. [Successful] non-profit executives ... start out by defining the fundamental change that the non-profit institution wants to make in society and in human beings; then they project that goal onto the concerns of each of the institution's constituencies.'⁵

The inclusion of future plans in the annual report assists in 'projecting the goal'. For example, it can assist in convincing a funding body to stay with the charitable NFP and continue to provide funds or donations to support the NFP's activities.

3. SORP 2005, paragraph 35.

4. O'Neill & Onora, *Autonomy and Trust in Bioethics*, Cambridge University Press, 2002.

5. PF Drucker, *Managing the Non-Profit Organisation*, Butterworth Heinemann, 1990.

Chart 1: Explaining mission and objectives – charitable NFPs

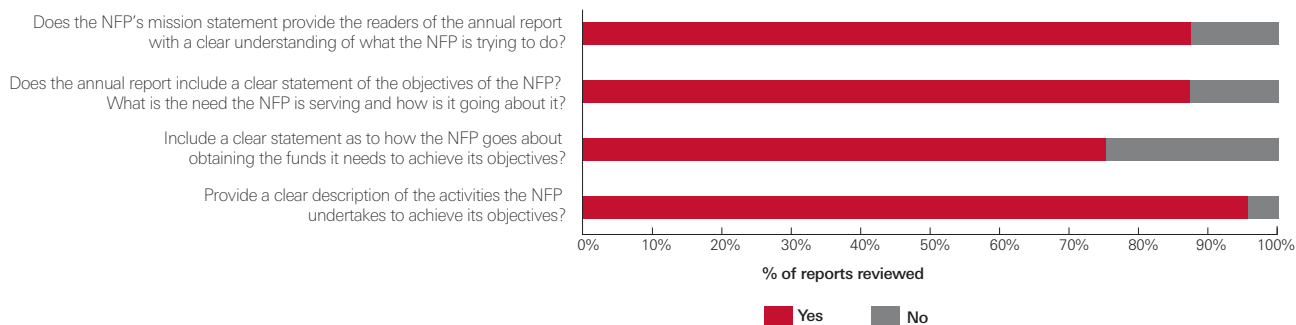
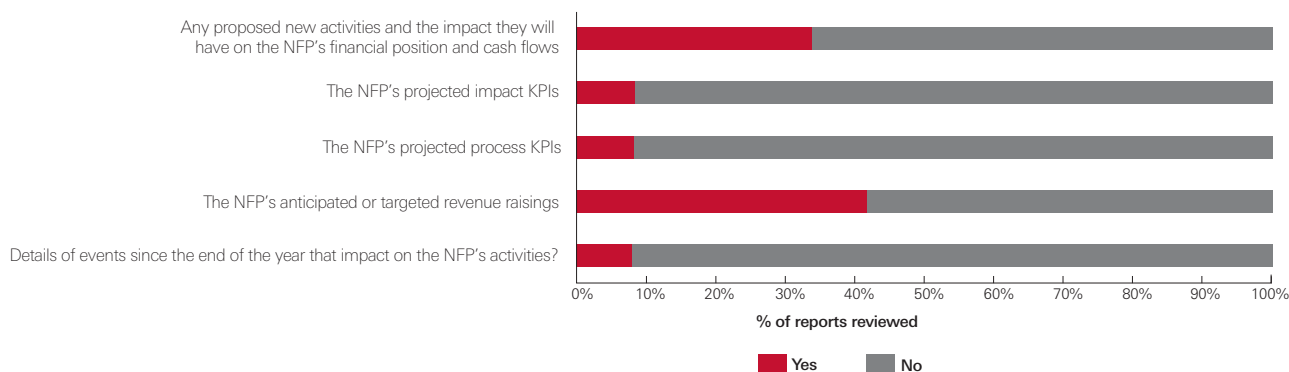


Chart 2: Explaining future plans – do charitable NFPs' annual reports explain ...



We recommend charitable NFPs provide more information regarding their future plans in their annual reports.

3.2.3 Transparency in governance

A review of US literature indicates that the increased scrutiny of for-profit governance practices as a result of recent corporate scandals may extend to that country's NFP sector. Many articles in professional journals refer to 'Sarbanes Oxley for charities'.

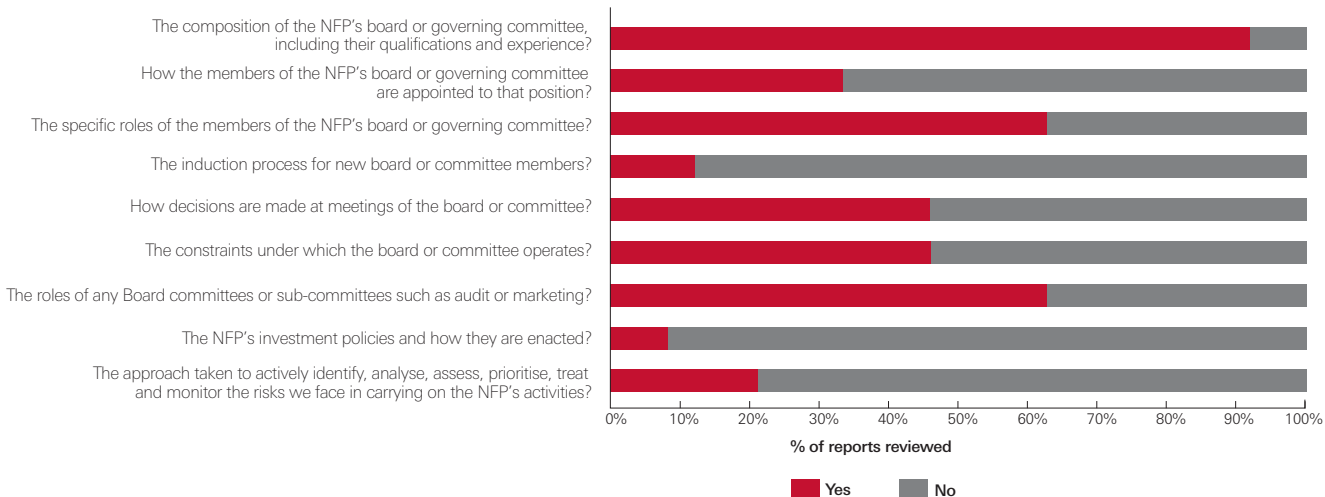
Like their US and European counterparts, Australian for-profit executives who serve on NFP boards are bringing the more stringent attitude to for-profit corporate governance to the NFP boardroom. There is an increasing awareness among NFP board members that they act in a fiduciary capacity for the NFPs'

manifold stakeholders. Their reputation and that of the NFP will depend on how well they exercise their governance responsibilities.

Our review considered whether annual reports provided an explanation of charitable NFPs' governance processes, using the attributes shown in **Chart 3**.

Almost 38 per cent of the NFPs reviewed included a separate 'governance statement' in their annual report. An additional eight per cent included explanations of their governance processes under other headings in the annual report.

Chart 3: Governance of charitable NFPs – does the annual report explain ...



There was no correlation between the size of the organisation and the inclusion of a governance statement in the annual report. One NFP with income in excess of \$300m did not have a statement, while another with income of \$7m did.

The contents of the governance statement varied, although we have concluded that the contents were appropriate having regard to the size of the charity and the users of the report. Two of the organisations reviewed looked to the Australian Stock Exchange (ASX) Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations* as a basis for establishing their Governance Framework. One of these provided a two page overview of their governance framework using the 10 principles laid down by the ASX Corporate Governance Council.

The other merely noted it 'supports the principles of the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations* [but as it] is not a publicly listed company [it] is not obliged to report on these principles. [It] has applied the principles to a non-profit organisation within the scope of operation and breadth of donor and public interest in [the organization]'.

We recommend that charitable NFPs be more transparent about their governance arrangements in their annual reports. This transparency will:

- > In the initial stages, lead to improved governance arrangements as the NFP strives to demonstrate best practice
- > Assist board members in protecting their reputation
- > In some instances, provide a competitive advantage.

3.2.4 Completeness of reporting and transparency in reporting results – process KPIs

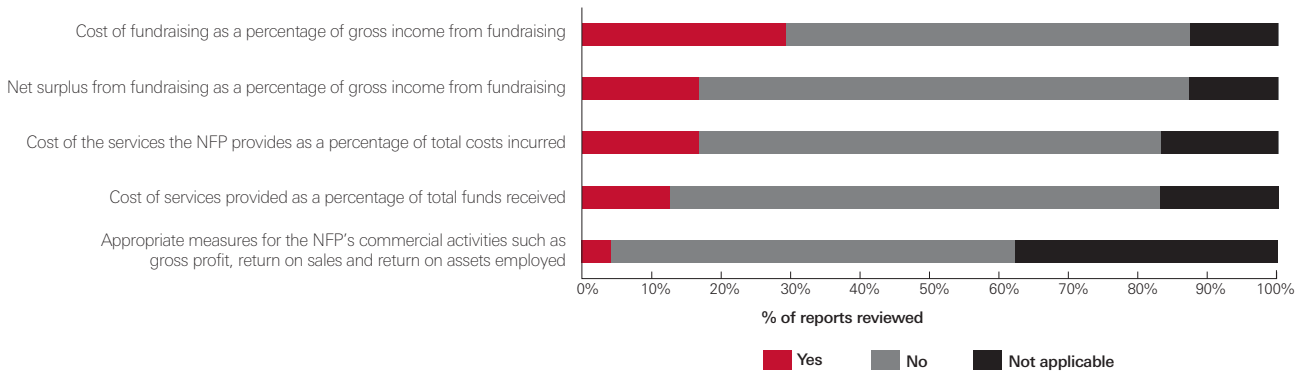
We assessed the extent to which the annual reports included 'process KPIs' that are generally used to measure the efficiency of the NFPs' activities. As can be seen from **Chart 4**, very few **annual** reports included the following generally-used measures of NFPs' efficiency:

- > The ratio of total costs of fundraising to gross income obtained from fundraising – only one-third of those NFPs that could have included this information did so
- > The ratio of net surplus from fundraising to gross income obtained from fundraising – provided by only 19 per cent of those NFPs where this ratio was relevant
- > The ratio of total costs of services provided by the fundraiser to total expenditure – provided by only 19 per cent of those NFPs where this ratio was relevant
- > The ratio of total costs of services provided by the fundraiser to gross income received – provided by only 19 per cent of those NFPs where this ratio was relevant.

In NSW, disclosure of these measures is mandated by the *Charitable Fundraising Act*. Those charitable NFPs that are subject to this legislation did include the required disclosures in their **financial** report.

In our view, with two exceptions, a financially literate user of the annual or financial reports we selected for review could calculate the ratios listed above. However, this should not be necessary and demonstrates a need for charitable NFPs to clearly report these measures of efficiency.

Chart 4: Does the annual report of charitable NFPs include the following?



Reporting costs of fundraising

The reporting of costs of fundraising is a sensitive issue for charitable NFPs. As an example, one charitable NFP included in its annual report the following note:

'The information disclosed in these ratios⁶ has been prepared in accordance with the Australian Council for International Development's Code of Conduct, which requires members to consistently allocate expenses to the categories. This allows for comparison between member agencies. Comparisons with other non-profit organisations who may disclose this information, but do not follow the Code of Conduct compilation requirements may lead readers to draw inappropriate conclusions about their and [this NFP's] performance.'

Many have adopted the practice of describing fundraising costs as 'investment in fundraising'.

The value of reporting of fundraising cost ratios has been discussed in academic literature. For example, Ted Flack of the Centre of Philanthropy and Non-Profit Studies at Queensland University of Technology has concluded:

'The NSW Department of Gaming and Racing, some other State and Territory regulators and Fundraising Institute Australia have each invested a good deal of time and effort over many years in the promotion of the cost of fundraising ratio (percentage) as a signal of fundraising good conduct. Whilst this is the standard, fundraisers are bound to continue to use these ratios to guide their conduct.'

However, there is a growing body of evidence, both from the academic literature and from the experience of fundraising regulators in the UK and the US, that our past and present attachment to these measures may be misguided.⁷

We have some sympathy for Flack's view. The following example is relevant.

The annual report of one of the charitable NFPs we reviewed included the following note:

'... [for the NFP] to remain [a leader] it is vital that our financial capacity continues to be as rewarding and efficient as our ... programs. To this end [NFP] has continued its investment in future fundraising expenditure of 20 per cent. The overall result for the year was a deficit ... driven largely by increased fundraising expenditure'

Later in the Annual Report, this NFP noted:

'[NFP] has increased investment in fundraising (both in dollar and percentage terms) and this expenditure is delivering additional unrestricted income. Income from our ... regular giving program more than doubled this year ... The percentage of spending on fundraising is anticipated to reduce in coming years as income generated by new supporters allows for the expansion of [our] programs.'

It is interesting to note that in the following year's annual report the NFP was able to report:

'... [we have] reduced [our] overall spend on fundraising (both in dollar and percentage terms) in 2005. The reduced spending has not impacted on the level of income raised, with income ... up slightly for the year.'

Later in this annual report, an explanation is provided of the investment in new fundraising programs conducted by the NFP and the successful outcome of those programs.

This example supports the criticism of efficiency measures that focus on fundraising costs for one year. By emphasising these measures, in the absence of an explanation, it would be easy to assume that a NFP with a high level of fundraising and administration costs is inefficient, or that the management is self-interested rather than acting in the best interests of the beneficiaries of the organisation.

The example also highlights the benefits of being transparent about what the organisation is trying to achieve through its 'investment in fundraising' program. The annual report that is the source of our example leaves the reader in no doubt about what the NFP is trying to do by investing in its fundraising activities, what it is expecting to achieve through that investment and for what the funds will be used.

We recommend that:

- > Charitable NFPs devise and include in their annual reports process KPIs that are relevant to their mission, objectives and activities. At a minimum these should include, where applicable:
 - The ratio of total costs of fundraising to gross income obtained from fundraising
 - The ratio of net surplus from fundraising to gross income obtained from fundraising
 - The ratio of total costs of services provided by the fundraiser to total expenditure
 - The ratio of total costs of services provided by the fundraiser to gross income received.
- > For as long as fundraising ratios remain the generally-accepted means of reporting process efficiency, the ratios be separately disclosed
- > Fluctuations in these ratios from reporting period to reporting period be explained in the annual report. This is particularly important where the NFP is investing in its funding coterie. This transparency will educate the broader community that such investment is required and necessary.

3.2.5 Completeness of reporting and transparency in reporting results – outputs, outcomes and impacts

We reviewed annual reports to assess the extent to which charitable NFPs included output, outcome and impact measures in the reports. Output measures, which are expressed numerically, are easier to determine, and therefore we found more instances of these than outcome or impact measurements. Outcomes were generally demonstrated by way of example, using narrative and illustration.

Eighty-eight percent of the annual reports we reviewed included at least one output measure. Only one of the annual reports we reviewed did not include an output measure.

Based on the understanding of the NFPs' 'business' we gained from our review of the annual reports, we have concluded that the majority of the organisations reviewed could have extended their reporting by including additional output measures and including outcome and impact measures.

Our review of the literature, particularly that from the US, indicates that charitable NFPs are increasingly focusing on 'outcomes' and 'impacts' rather than 'outputs'.

6. The NFP concerned discloses the ratio of program, fundraising and administration costs to total costs for the current and previous years.

7. T Flack, *The Mandatory Disclosure of Cost of Fundraising Ratios: Does it achieve the regulators' purposes?*, Working Paper No. CPNS26, Centre of Philanthropy and Nonprofit Studies, Queensland University of Technology, May 2004.

Improving completeness of reporting – outputs and outcomes

In 1990 Drucker posed the question ‘What is the bottom line when there is no bottom line?’. He commented:

‘Non-profit institutions tend not to give priority to performance and results. Yet performance and results are far more important – and far more difficult to measure and control – in the non-profit institution than in a business.’⁸

The management of NFPs has developed and matured since Drucker made that observation in 1990, as has the manner in which the performance of NFPs is measured. The literature on measuring the performance of NFPs is extensive.

The definitions of ‘outputs’ and ‘outcomes’ vary. For example, the Institute of Chartered Accountants of New Zealand⁹ defines ‘outputs’ as ‘the goods and services produced by’ the NFP, and ‘outcomes’ as ‘the impacts on, or the consequences for, the community resulting from the existence and operations’ of the NFP.

This distinction between outputs and outcomes is reinforced in other literature. For example, one paper notes:

‘Outcomes are something that the program participant is, has, or does in response to the service provided. This is distinct from program outputs, which are the number of units of service delivered or the number of people served. Said another way, outputs are about the program, while outcomes are about the participants. Outcomes usually are benefits or changes in participants’ knowledge, attitudes, value, skills, behaviour, condition or status.’¹⁰

Plantz, Greenway and Hendricks suggest that the development and reporting of outcome measures benefit charitable NFPs in the following way:

‘Outcome measurement benefits (NFPs) in multiple ways – ways that counting outputs cannot. It helps them, for example, provide feedback and direction to staff, focus board members on policy and programmatic issues, identify training and technical assistance needs, pinpoint service units and/or participant groups that need attention, compare alternate service delivery strategies, identify partners for collaborations, allocate resources, recruit volunteers, attract customers, set targets for future performance, track program effectiveness over time, increase funding and enhance their public image.

Most programs benefit from simply discussing their intended outcomes. Staff often have varying views of what the program is trying to achieve, and getting everyone focused in the same direction can increase service effectiveness before data collection even begins.

The most important reason for implementing outcome measurement is that it helps programs improve services. It also can increase accountability, guide managers in allocating resources, and help funders make better funding decisions, but its value in enhancing service effectiveness should be seen as primary.’

We recommend NFPs enhance the effectiveness of their annual reports by portraying what the NFP has done (its outputs), what it has achieved (its outcomes), and what difference it has made (its impacts). The inclusion of measures of output, outcome and impact will improve completeness of reporting by demonstrating to the reader of the annual report what their funding achieves rather than telling them how it is spent.

3.2.6 Clarity in reporting

How well do charitable NFPs use narrative to explain the quantitative information included in their annual reports? The answer to this question provides an indication of the clarity of charitable NFP reporting.

Chart 5 details the attributes we used to assess clarity of reporting.

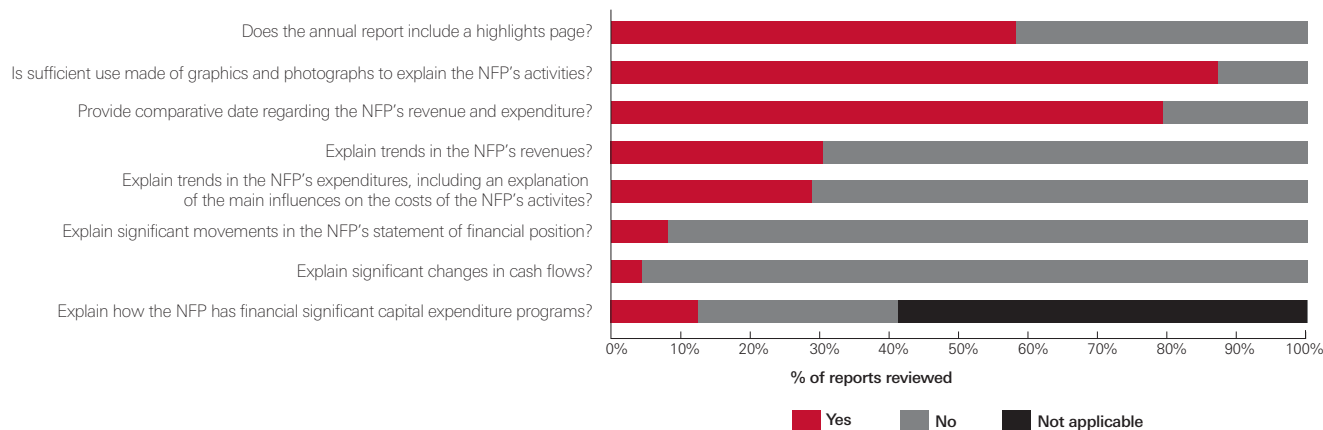
Chart 5 reveals that charitable NFPs are good at **providing information** as indicated by:

- > The inclusion of a highlights page in the annual report
- > The extensive use of graphics and photographs to explain their activities
- > The provision of comparative revenue and expenditure data.

However, charitable NFPs are not good at providing an interpretation of the data. This is indicated by the absence of explanations of trends and movements in revenues, expenditures, cash flows and financial position and (where applicable) an explanation of the financing of significant capital expenditure programs.

We recommend that charitable NFPs improve the clarity of their annual reports by including explanations of trends and movements in quantitative data in those reports. These explanations should not be limited to financial data. Where process KPIs and outputs, outcomes and impacts are presented in quantitative form, explanations of movements from year to year should be provided.

Chart 5: Clarity in annual reporting – charitable NFPs



8. PF Drucker, *Managing the Non-Profit Organisation*, Butterworth Heinemann, 1990.

9. Technical Practice Aid TPA9, *Service Performance Reporting*, issued by the Institute of Chartered Accountants of New Zealand, September 2002.

10. MC Plantz & MT Greenway, United Way of America and M Hendricks, Independent Consultant, ‘Outcome Measurement: Showing results in the Non-profit Sector’, sourced from <http://national.unitedway.org/outcomes/resources/What/OM-What.cfm>

11. *ibid*

3.3 Annual reporting by sporting body NFPs

3.3.1 What did we look for?

We adopted the same approach to our review of sporting body NFPs' annual reports as we did to that of charitable NFPs. We have assessed the transparency of the NFPs selected for review using the 'indicators of **transparency**' in the matrix in Appendix 1. Particular emphasis has been placed on transparency of governance practices.

We considered the **completeness** of the annual report to determine whether the NFPs provided sufficient information to enable readers to assess what their funding achieves rather than telling them how it is spent.

Finally, when assessing the **clarity** of the annual reports we looked at the extent to which quantitative information was enhanced by narrative explanation.

The results of our review are presented under the following headings:

- > The transparency of the sporting body NFP sector's objectives and activities as explained in its annual reporting
- > The transparency of governance arrangements in the sporting body NFP sector
- > The completeness of the reporting
- > The clarity of the reporting.

3.3.2 Transparency in mission and objectives

The annual report should explain the sporting body NFP's aims and objectives and the strategies and activities undertaken to achieve them. **Chart 6** indicates that the majority of sporting body NFPs are **not** effective in explaining:

- > **Their mission** – only 35 per cent of annual reports reviewed provided the reader with a clear understanding of what the sporting body NFP is trying to do
- > **Their objectives** – only 21 per cent of annual reports provided the reader with a clear statement of the sporting body NFP's objectives and how it is going about funding it and the activities undertaken to achieve its objectives
- > **Their activities** – only 50 per cent of the sporting body NFPs selected for review provided adequate explanations of activities to achieve objectives through their annual reports and websites.

Very few (14 per cent) of the sporting body NFPs' annual reports we reviewed included any 'future looking' information. Once again this inadequacy in annual reporting is mitigated somewhat by the organisations' websites. Almost 43 per cent of the sporting body NFPs reviewed have their strategic plan available on their website.

We recommend that sporting body NFPs provide more information in their annual reports regarding what they are trying to do (their mission), their objectives, explanations of activities to achieve those objectives and how they are funding those activities. We also recommend sporting body NFPs provide more information regarding their future plans in their annual reports.

3.3.3 Transparency in governance

The results of the review

Only 25 per cent of the annual reports of the sporting body NFPs selected for review included any information on their governance structure. Only one of the annual reports reviewed included a page entitled 'corporate governance'. The information that was provided by this small group included:

- > The composition of the board, including their qualifications and experience
- > How the board is appointed
- > The roles of the board members
- > Details of board committees and their roles.

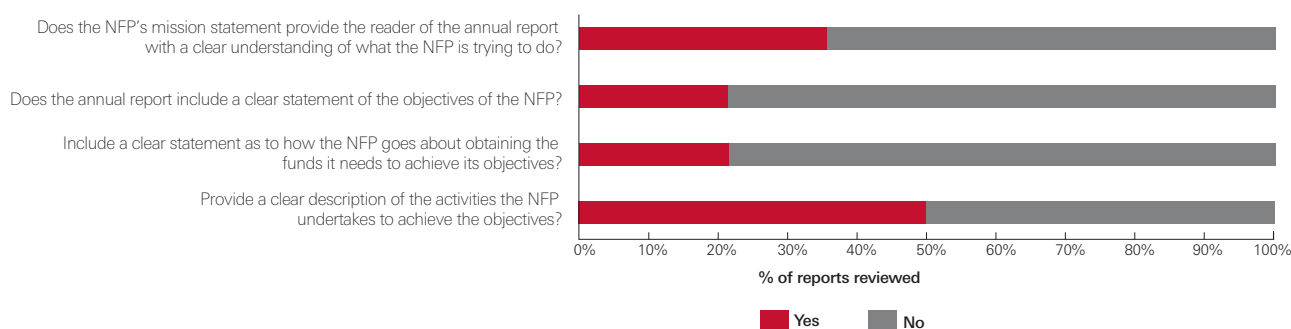
A review of the NFPs' websites for governance disclosures revealed 67 per cent of the sporting body NFPs selected for review named their board members on their website and seven per cent named their board members and disclosed information on how the board is appointed, board members' roles and details of board committees and their roles.

The role of the Australian Sports Commission

All of the sporting body NFPs we selected for review receive funding (directly or indirectly) from the Australian Sports Commission (ASC). In the 2004–2005 financial year, the ASC provided \$51.4m to these and other sporting body NFPs. In 2005–2006 the funding is \$51.6m.

As a significant funder of sporting body NFPs, the ASC has taken a strong interest in the governance of these organisations. In May 2002, the ASC issued its *National Sporting Organisations Governance: Principles of Best Practice*.¹¹

Chart 6: Explaining mission and objectives – sporting body NFPs



11. These can be accessed from the ASC website www.ausport.gov.au/ibp/gmip.asp

These principles indicate that the ASC expects sporting body NFPs to ensure their governance frameworks deal with:

- > A clear delineation of governance roles
- > Effective governance processes
- > Effective governance controls
- > Governance improvement
- > Member responsiveness.

Is governance of sporting body NFPs in an evolutionary phase?

We pose this question because our review of annual reports and strategic plans on sporting body NFPs' websites and the ASC website revealed that the ASC has worked with a number of sporting body NFPs to improve their governance frameworks, and that some of the NFPs are taking unilateral action to improve their governance arrangements.

For example¹²:

- > One organisation included in its annual report the advice that it had 'invited the Australian Sports Commission to undertake a joint wide-ranging review of its high performance programs, **corporate governance and financial and management systems**, and to develop strategies to deal with the acknowledged problems within the sport. The ASC and [the NFP] worked closely together throughout the review process, culminating in a report and recommendations'
- > The ASC website noted that it had 'recently established **an independent review of the governance** of [a] national sporting organization ... [to] examine how [the NFP] is currently governed and, to the extent there are any deficiencies, how it ought to be governed in accordance with best practice principles and practices, in order to perform its function as [a] nationally and internationally recognised national sporting organization'
- > Another organisation noted in its annual report that 'our key partner in government, the Australian Sports Commission has been a powerful and supportive ally in assisting us to **strengthen our organisational and governance capabilities**'.

Other sporting body NFPs have been taking unilateral action regarding their governance arrangements. For example:

- > One prominent sporting body NFP noted in its annual report that 'the evolution ... from a relatively small operation that relied primarily on volunteer resources and the support of its members, to a modern, successful and dynamic organisation has put significant pressures on the operational requirements of the organisation. In light of this change, and these increasing pressures, it is appropriate and timely to **review the governance structures and processes** ... to ensure that they are in line with the operational needs of the organisation and act to ensure the achievement of strategic goals'
- > Another noted that 'a major task this year was the implementation of the proposed changes resulting from last year's Governance review project'
- > Strategic plans available on websites included objectives such as 'maintenance of effective governance and management to ensure [the organisation] remains a sustainable organisation' and 'the Board will strive to maintain and improve a modern governance structure and independent approach that provides an equitable, consultative and democratic forum for' affiliated organisations.

The disclosures regarding governance in sporting body NFPs' annual reports indicate that the more stringent attitude to for-profit corporate governance that has migrated to charitable NFPs' boards has yet to have its full effect in all sporting body NFPs' boardrooms. The sporting body NFPs that fail to align their governance structure with best practice run the risk of loss of reputation and difficulties in obtaining funding from government and sponsors.

We recommend sporting body NFPs:

- > Compare their current governance structure against the ASC's *National Sporting Organisations Governance: Principles of Best Practice*
- > If necessary, take remedial action to align their governance structure with this best practice
- > Be more transparent about their governance arrangements in their annual reports.

3.3.4 Completeness of reporting and transparency in reporting results – process KPIs

We assessed the extent to which the annual reports included 'process KPIs' that are generally used to measure the efficiency of NFPs' activities. The majority of the sporting body NFPs' annual reports reviewed included numerical or graphical analysis of income and expenditure, generally for the current and previous years. None used ratio analysis to provide an indication of the efficiency of their processes.

Unlike charitable NFPs, there is no mandatory public disclosure of measures of a sporting body NFP's process efficiency.

Sporting body NFPs are also relatively free of the broad community accountability pressures experienced by their charitable NFP counterparts. In fact, it could be said that sporting body NFPs of the type we selected for review are required to demonstrate nothing more than success in the national and international sporting arena. Charitable NFPs are required to demonstrate that the funds they receive from donations are used for the purpose they are given, with only minimal amounts being used for administration and fundraising purposes.

We recommend that sporting body NFPs demonstrate the efficiency of their operations by determining the process KPIs that are relevant to their organisation and disclosing them in their annual report. At a minimum these should include, where applicable:

- > The ratio of categories of income to total income
- > The ratio of categories of expenditure to total expenditure
- > Marketing costs as a percentage of income from sponsorships and/or competition and events
- > Administration costs as a percentage of total revenue
- > Competitor, coach and official development costs as a percentage of total revenue.

We also recommend explanations of fluctuations in these ratios are provided in the annual report.

The sporting body NFPs we reviewed are all funded by state or federal government grants, with the majority in receipt of grants from the ASC. In our experience, recipients of grants are required to provide the grantor with a separate form of reporting to demonstrate appropriate acquittal of the grant. An annual report which includes process KPIs and (as we recommend later) output, outcome and impact measures, might obviate the need for this separate reporting.

¹². We have added the emphasis in all of the examples provided here.

3.3.5 Completeness of reporting and reporting of outputs, outcomes and impacts

The three measures of output, outcome or impact most commonly used by sporting body NFPs are:

- > Team or individual success in competition – reported in 71 per cent of the annual reports selected for review
- > The number of clubs affiliated with the sporting body NFP – in 57 per cent of annual reports
- > The number of people participating in the sport – in 50 per cent of annual reports.

We have already noted that 43 per cent of the sporting body NFPs have their strategic plans available on their websites, most of which cover periods of up to three years from 2005. All of these plans include, in varying degrees of detail, the organisation's aims, strategies, timeframes and KPIs.

The question posed by Drucker in respect of charitable NFPs applies equally to sporting body NFPs – 'What is the bottom line when there is no bottom line?'

We have concluded that sporting body NFPs could better use their annual reports to answer this question if they were to link their strategic plan to the information that is provided in their annual report. To illustrate this we have compared the information in one organisation's annual report with the aims set out in their strategic plan. The results of this comparison are presented in **Table 2**.

This sporting body NFP also makes a 'Strategic Plan Progress Report' available on its website. The Progress Report details the organisation's strategic priorities, the strategies to address those priorities and 'success indicators' to measure what has been achieved. It is no coincidence that the Annual Report of this sporting body NFP is the only one of the Reports we selected for review that provides a reasonably detailed overview of its governance of the sport it oversees and its corporate governance framework. Table 2 details only a few of the key strategies, outcomes achieved and how they have been reported in the Annual Report.

We recommend sporting body NFPs enhance the effectiveness of their Annual Reports in portraying what the NFP has done (its outputs), what it has achieved (its outcomes), and what difference it has made (its impacts). The inclusion of measures of output, outcome and impact will improve completeness of reporting by demonstrating to the reader of the Annual Report what their funding achieves rather than telling them how it is spent.

Where a Strategic Plan is made available to the public, the inclusion of a comparison of planned performance as expressed in that plan with actual performance will further enhance the Annual Report's effectiveness.

Table 2: Presenting outputs and incomes – one sporting body NFP's approach

Key strategy	Outcome	Presentation in the annual report
Maintain and increase participation	Increase in competition support of events Increase in number and participation levels in a certain category of events	Bar graphs detailing the number of accredited participants and events for the current and previous years
Develop best practice processes across all customer-facing areas	Customer charter developed. 98.7% of participant accreditations processed within target times	Narrative detailing achievements
Australian Institute of Sport compulsory accreditation to ensure consistency of skills for sport officials	The number of accredited officials increased by 15% during the year	Bar graph detailing the number of officials in each state for the current and previous years
Sports development	Outcome	Presentation in the annual report
Conduct national and state Institute of Sports programs	50 attendees at AIS camps	Narrative
Create and conduct participant development programs using clearly defined pathways	'The highly successful pilot of the [participant development program] was run in 2004 kick starting the careers of four young and talented [participants]'	Narrative that explained the objective of the program, what was provided and the outcomes for each of the four participants
Establish a club grants program	11 grants awarded to clubs for junior development	Comment in CEO's overview and narrative outlining junior development activities during the year

3.3.6 Clarity in reporting

We have considered how well sporting body NFPs use narrative to explain the quantitative information included in their annual reports to obtain an indication of the clarity of charitable NFP reporting. **Chart 7** details the attributes we used to assess clarity of reporting.

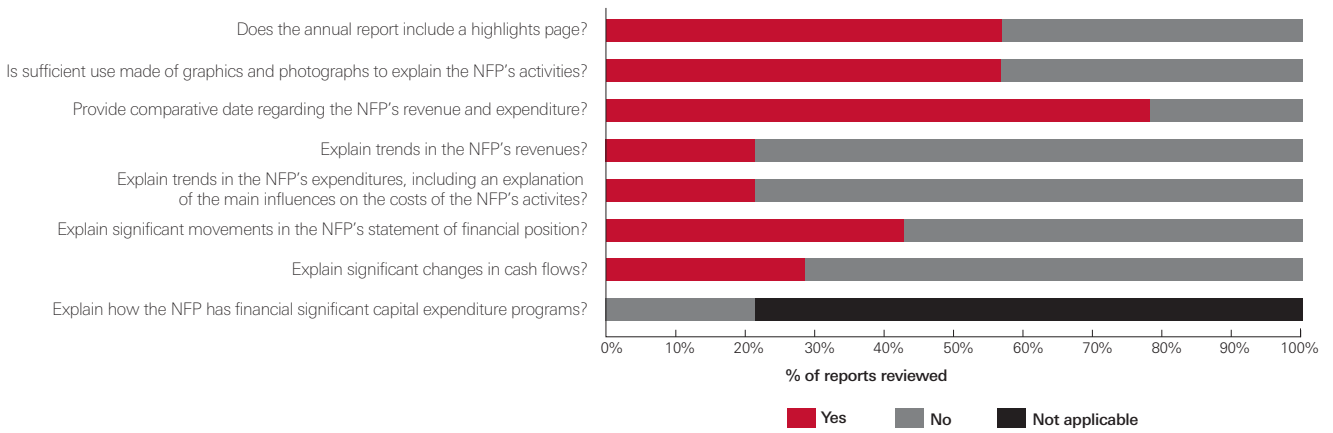
This chart reveals that sporting body NFPs are good at **providing information** as indicated by:

- > The inclusion of a highlights page in the annual report
- > The extensive use of graphics and photographs to explain their activities
- > The provision of comparative revenue and expenditure data.

However, sporting body NFPs are not good at providing an interpretation of the data as indicated by the absence of explanations of trends and movements in revenues, expenditures, cash flows and financial position and (where applicable) an explanation of the financing of significant capital expenditure programs.

We recommend that sporting body NFPs improve the clarity of their annual reports by including explanations of trends and movements in quantitative data in those reports. These explanations should not be limited to financial data. Where process KPIs and outputs, outcomes and impacts are presented in quantitative form, explanations of movements from year-to-year should be provided.

Chart 7: Clarity in annual reporting – sporting body NFPs



4 A review of NFP financial reporting

4.1 Matters arising from review

Our review of NFPs' financial reports was carried out to determine areas where NFPs might need assistance in the application of relevant legislation and accounting standards to their financial reporting. The review was carried out using a checklist to assess the extent to which charitable and sporting body NFPs complied with relevant financial reporting requirements applicable to the financial reports that were reviewed. In addition, we assessed what impact the full implementation of AIFRS will have on financial reporting in the NFP sector. The results of this aspect of the review are covered in section 5 of this report.

In this section of our report, we cover matters we believe require particular attention by NFPs when preparing their financial reports. These matters are:

- > The style of financial reports provided by NFPs to their stakeholders
- > Segment reporting
- > Recognition of revenue
- > Accounting for goods and services received for no consideration
- > Disclosure of economic dependence.

Before elaborating on these matters, we would like to comment on the need for NFP specific financial reporting standards.

4.2 The need for NFP specific financial reporting standards

Figures 3, 4 and 5 provide an overview of the decisions NFPs must make when determining the form and content of their financial reports. NFPs are faced with a complex framework of legislation and accounting guidance.

In its 2003 *Review of Not-for-Profit Financial and Annual Reporting*, the Institute concluded:

'NFPs would benefit from the development of a financial reporting framework that meets their specific requirements. This framework could be based on the requirements of the Concise Financial Reporting provisions of the Corporations Law and Accounting Standard AASB 1039, Concise Financial Reports.'

The need for such a framework has been the subject of discussion for some time. It is now more than 10 years since the Industry Commission¹³ recommended:

'The Commonwealth Government should provide funds to the Australian Accounting Standards Board and Public Sector Accounting Standards Board to develop within two years suitable accounting standards for Community Social Welfare Organisations (CSWO).

The development of specific accounting standards for the sector would improve accountability of CSWOs. It would help donors and the public generally to compare the performance of CSWOs; governments to assess the effectiveness of CSWOs in providing the services for which they are funded; and CSWOs to minimise the costs of accounting and reporting.'

The complexity of the existing framework as demonstrated in Figures 3, 4 and 5, the introduction of AIFRS, the exceptions that have been made to the application of AIFRS to NFPs, the resources that are expended in meeting the existing reporting requirements, the need for different financial information to show what the NFP is achieving and the size and importance of the NFP sector to the Australian economy, all combine to indicate a need for a 'non-government NFP' financial reporting framework.

This framework would:

- > Require agreement between the states and the Commonwealth to mandate its application to NFPs incorporated under the Corporations Law and the various incorporated associations legislation
- > Need to reflect the reporting requirements of fundraising legislation that operates in each state
- > Need to recognise that NFPs range from the very large to the very small and therefore allow for differential reporting based on size, perhaps by adopting criteria similar to that specified in the *Corporations Act* to differentiate between large and small proprietary companies.

We believe that private sector NFPs would benefit from the development of a financial reporting framework that meets their specific requirements. We recommend that the AASB be assigned the task of developing this private sector NFP specific financial reporting framework, using the UK Charity Commission's *Accounting & Reporting by Charities: Statement of Recommended Practice* as a precedent.

The development of this NFP specific approach to stakeholder reporting should overcome the financial reporting complexity resulting from the combination of the *Corporations Act*, incorporated associations and fundraising legislation, and sector neutral Accounting Standards.

4.3 The style of Financial Reports prepared by NFPs

Eighty-two percent of the Financial Reports we reviewed were prepared as 'general purpose financial reports' (GPFRs). The remainder were presented as 'special purpose financial reports' (SPFRs).

AIFRS that apply to annual reporting periods beginning on or after 1 January 2005 retain the concept of a GPFR. Accounting standards AASB 101 *Presentation of Financial Statements* notes that it 'applies to:

- a) each entity that is required to prepare financial reports in accordance with Part 2M.3 of the *Corporations Act*
- b) general purpose financial reports of each reporting entity
- c) financial reports that are, or are held out to be, general purpose financial reports'.¹⁴

AASB 101 goes on to explain:

'General purpose financial reports are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. General purpose financial reports include those that are presented separately or within another public document such as an annual report...'.¹⁵

13. 'Charitable Organisations in Australia', *Industry Commission Report No. 45*, 16 June 1995, page xlii.

14. AASB 101, para Aus1.1.

15. AASB 101, para 3.

SPFRs are defined in AASB 101 as 'a financial report other than a general purpose financial report'. The standard requires an entity to 'disclose in the notes a statement that the financial report is a general purpose financial report, or if applicable, a special purpose financial report'.

The AASB has decided to retain Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* and SAC 2 *Objective of General Purpose Financial Reporting* as part of the framework which overlays AIFRS. As a result, the factors to be taken into consideration when determining whether a GPFR or a SPFR should be prepared are the same that applied prior to 1 January 2005.

The determining factors are as follows¹⁶:

Separation of management from economic interest

The greater the spread of ownership/membership and the greater the extent of the separation between management and owners/members or others with an economic interest in the entity, the more likely it is that there will exist users dependent on general purpose financial reports as a basis for making and evaluating resource allocation decisions.

Economic or political importance

Economic or political importance/influence refers to the ability of an entity to make a significant impact on the welfare of external parties. The greater the economic or political importance of an entity, the more likely it is that there will exist users dependent on general purpose financial reports as a basis for making and evaluating resource allocation decisions. Reporting entities identified on the basis of this factor are likely to include organisations which enjoy dominant positions in markets and those which are concerned with balancing the interests of significant groups, for example, employer/employee associations and public sector entities which have regulatory powers.

Financial characteristics

Financial characteristics that should be considered include the size (for example, value of sales or assets, or number of employees or customers) or indebtedness of an entity. In the case of non-business entities in particular, the amount of resources provided or allocated by governments or other parties to the activities conducted by the entities should be considered. The larger the size or the greater the indebtedness or resources allocated, the more likely it is that there will exist users dependent on general purpose financial reports as a basis for making and evaluating resource allocation decisions.

Figure 3 shows how these factors can be applied in the charitable and sporting body NFP sectors in making a decision as to whether a NFP should prepare a GPFR or a SPFR. To illustrate the difficulties in reaching this decision, we have prepared two case studies using facts gathered from NFP organisations we reviewed. Both have presented SPFRs to their stakeholders. In one case we believe that the presentation of a SPFR is inappropriate.

The decision as to what style of financial report – GPFR or SPFR – is to be presented to the stakeholders of a NFP rests with the governing board of the organisation and must be made having regard to the particular circumstances of the organisation. In many respects it is more difficult to reach the decision for one of these organisations than it is for a for-profit organisation. The breadth of stakeholders, the additional legislative and voluntary Code requirements and (in the case of charitable NFPs) the level of scrutiny of their activities, combine to create that difficulty.

This difficulty would be removed by a NFP sector specific financial reporting framework.

In reaching their decision, the governing board must take into account all of the factors detailed in Figures 3, 4 and 5. The governing boards of companies limited by guarantee should be aware of ASIC's intention to 'look closely at cases where entities claim to be non-reporting entities and ... seek explanations from directors where it appears reasonable to expect that' GPFRs should have been prepared for the entity rather than SPFRs.¹⁷

We recommend that charitable and sporting body NFPs that currently prepare a SPFR for presentation to stakeholders consider whether such a report meets its stakeholders needs, having regard to:

- > The number and spread of stakeholders
- > The level of direct involvement by stakeholders in the day-to-day management of the organisation
- > The community impact of their activities
- > The extent to which the NFP is reliant on government or philanthropic grants and donations.

It is our view that the presentation of a SPFR to NFP stakeholders would be the exception rather than the rule.

¹⁶. Refer to SAC 1, para 20 to 22.

¹⁷. Refer to *Reporting requirements for non-reporting entities: an ASIC guide*, ASIC, July 2005. This publication can be downloaded from ASIC's website www.asic.gov.au/asic/asic.nsf

Figure 3: Financial reporting by NFPs – the reporting entity

Decision 1: Are you a reporting entity?

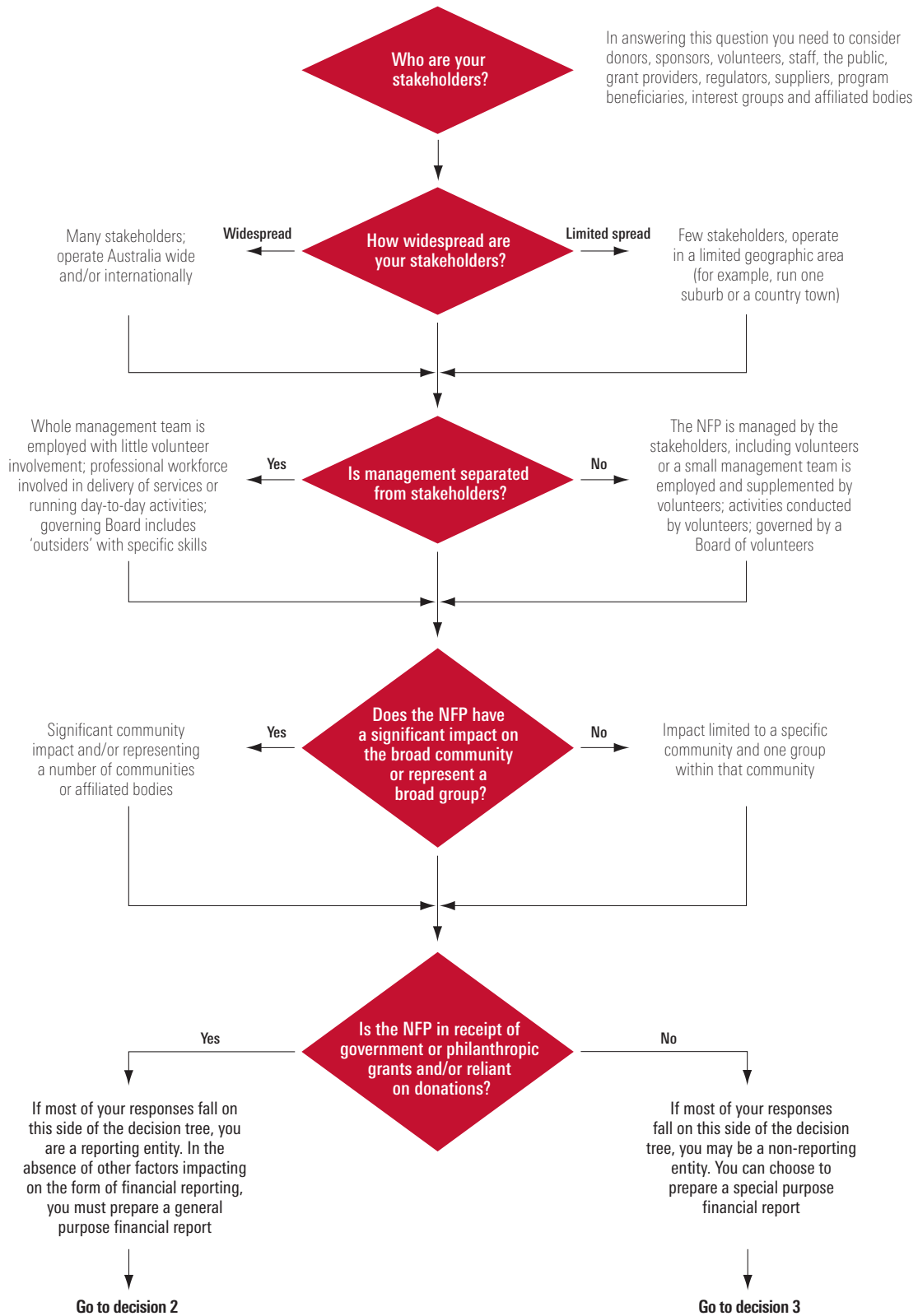


Figure 4: The contents of a general purpose financial report – an overview

Decision 2: What do you include in a general purpose financial report?

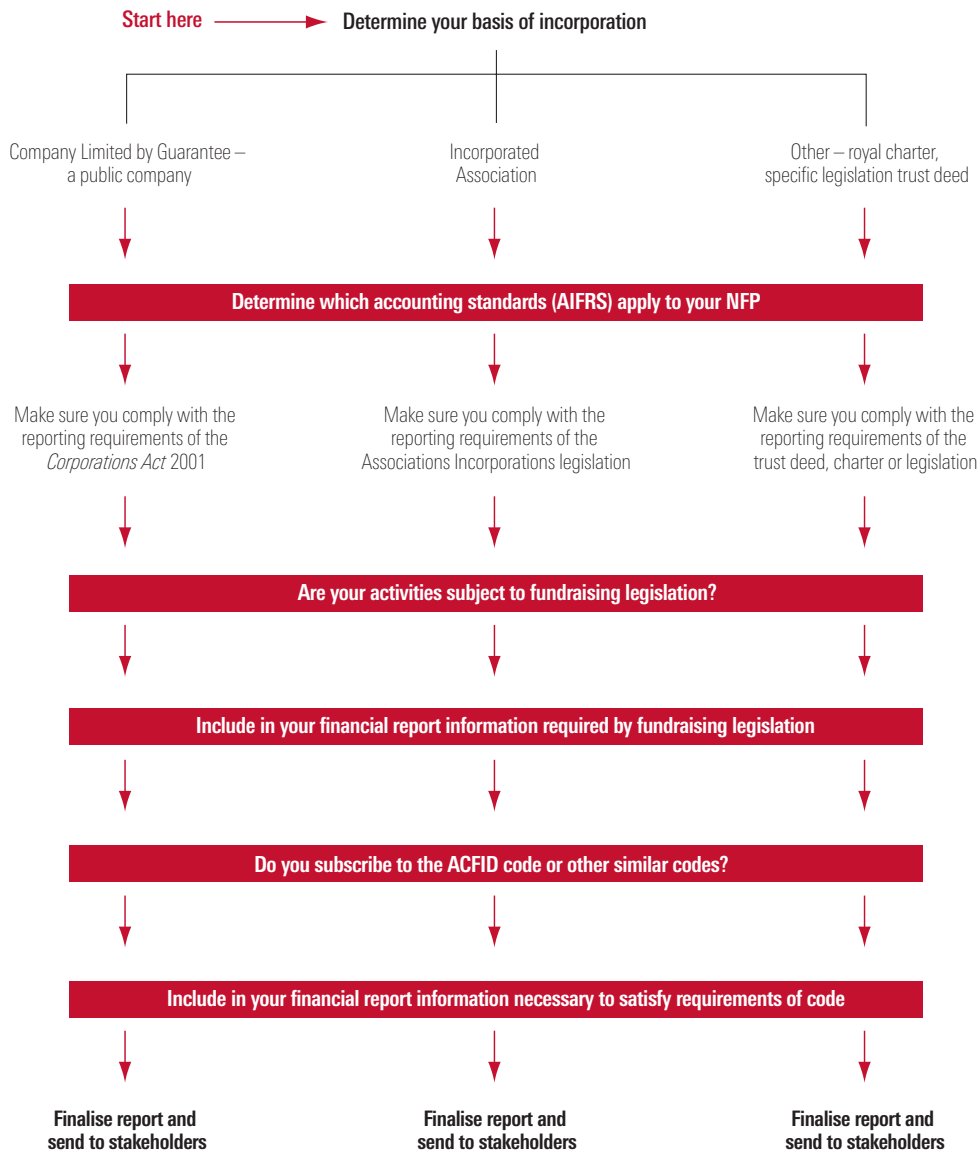
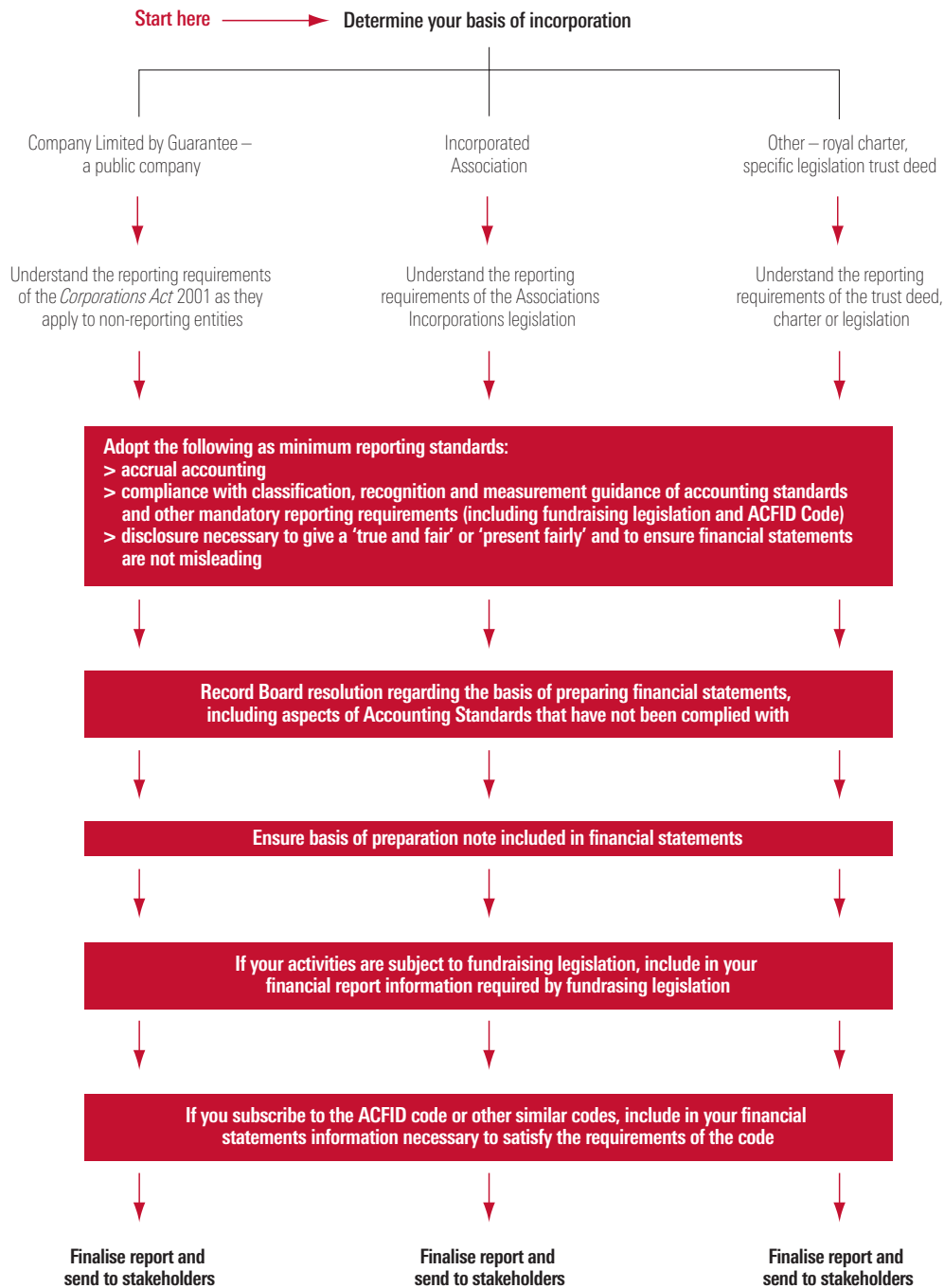


Figure 5: The contents of a special purpose financial report – an overview

Decision 3: What do you include in a special purpose financial report?



Case study 1: Sporting organisation X (SOX)

Background

SOX is a company limited by guarantee which represents its sport at a national and international level. International representation includes affiliation with the sport's international governing body, which contributes to SOX's operating costs.

The members (guarantors) of the company are its seven state branches. These guarantor members elect a 'skills-based' board to govern the organisation. SOX also has 'subscriber members' who pay up to \$200 per year, which entitles them to a range of benefits and enables them to participate in events. Its most recent annual report shows that SOX had 17,000 subscriber members and over 300 affiliated clubs spread across all states.

In addition to income from its subscriber members, which accounts for 15 per cent of its income, SOX receives government and Olympic committee grants (47 per cent of income), sponsorship (two per cent), insurance administration income (22 per cent), and contributions from the international body and other income (14 per cent). Its most recent financial report shows that the organisation had total assets of \$1.5m at 30 June 2005 and net assets at that date of \$940,000. The national office employs nine full-time staff while branches have about 20 full- and part-time staff. SOX does not have any borrowings, but its liabilities include trade creditors (suppliers).

SOX acts as agent for an insurer that provides specialised insurance to meet the needs of affiliated clubs and members. It collects premiums from clubs and members and remits these net of commission to the insurer.

SOX presents its Financial Report as a SPFR.

Is it appropriate for SOX to present its financial report as a SPFR?

Using the chart in Figure 3 to analyse the above facts, we have noted the following.

SOX has many stakeholders, including the branch shareholders, the affiliated clubs, the subscriber members, the insureds and the insurer involved in the insurance arrangement administered by SOX, its grantors (the government and the Olympic committee), the international governing body, its suppliers and its employees. Management is separated from the stakeholders.

In the context of the sport it represents, SOX has a significant role. On its website, it includes among its roles:

- > Servicing individual members and clubs
- > Representing the sport nationally and internationally
- > High performance management
- > Overseeing national rules, policies and systems
- > The provision of communication, education and training
- > Promoting the sport.

SOX is in receipt of significant government grants and subscriptions from its members.

Conclusion

Given the spread of its stakeholders, the pivotal role the organisation has in its sport and its sources of income, we believe SOX should present a GPFR to its stakeholders.

Case study 2: Consumer advocacy organisation Y (CAY)

Background

CAY is an incorporated association that operates as a consumer advocacy organisation carrying out research and analysis and promoting consumer participation and awareness of consumer needs. It has approximately 170 members and 230 subscribers to its publications. While the majority of both members and subscribers are in one state, there are some interstate and a very small number of international members and subscribers.

CAY's most recent annual report indicates that it derives 48 per cent of its revenue from sales of publications, 45 per cent from consulting activities, four per cent from membership subscriptions and the remainder from interest and other income. Total assets as at 30 June 2005 were \$725,000 and net assets \$240,000. CAY employs seven people, and does not have any borrowings but does have supplier creditors.

CAY's most recent Financial Report was presented as a SPFR. Note 1 to this report advises users that:

'This financial report is a special purpose financial report prepared in order to satisfy the financial reporting requirements of the Associations Incorporation Act. The Board of Governance has determined that the association is not a reporting entity.

The financial report has been prepared in accordance with the requirements of the *Associations Incorporation Act* and the following applicable accounting standards:

- AAS 5 Materiality
- AAS 8 Event Occurring after Reporting Date
- AAS 22 Related Party Disclosures
- AAS 28 Statement of Cash Flows.'

It should be noted that by preparing the Financial Report in accordance with the *Associations Incorporation Act*, CAY's financial report was prepared in accordance with the following accounting standards as well as those listed above:

AAS 4	Depreciation
AAS 6	Accounting Policies
AAS 15	Revenue
AAS 17	Leases
AAS 36	Statement of Financial Position
AASB 1018	Statement of Financial Performance
AASB 1041	Revaluation of Non-Current Assets.

Is it appropriate for CAY to present its financial report as a SPFR?

Using the chart in Figure 3 to analyse the above facts, we have noted the following.

CAY has few stakeholders, most of whom are in one state. The board is elected from the stakeholders and management, and the board appear to work closely together.

CAY's activities have a broad impact, providing input into (e.g.) the formulation of government policy and development of policies of organisations in the sector it serves.

CAY receives no government grants or significant donations – it is reliant on sales of subscriptions and its consulting activities.

Conclusion

On balance, given the size of the organisation and the extent of disclosures that are made in the financial report, we have reached the conclusion that a SPFR is appropriate.

4.4 Segment reporting

Accounting standard AASB 1005 *Segment Reporting* was applicable during the period covered by those financial reports we reviewed. This standard did not apply to NFPs' Financial reports and the exclusion has been carried forward into AIFRS standard AASB 114 *Segment Reporting*.

Even though this exemption was available, the majority of the NFPs reviewed included disclosures to comply with AASB 1005. This disclosure was usually in the form of a narrative statement, for example, 'the organisation operates in the community care industry in Australia'.

The AASB has indicated that segment reporting by NFP entities will be the subject of a separate project. It is likely that any standard developed as a result of this project will be based on international public sector accounting standard IPSAS 18 *Segment Reporting*.

IPSAS 18 suggests that NFPs could report on the basis of 'service segments' or 'geographic segments'. Should IPSAS 18 be adopted as the basis of NFP segment reporting, NFPs will be required to:

- > Identify as separate segments each distinguishable activity or group of activities for which financial information is reported
- > Disclose in respect of each reported segment its revenue, expenses, assets and liabilities.

The promulgation of a segment reporting standard for NFPs would only impact on the larger NFPs that operate in a number of segments or geographic areas.

In its May 2003 *Review of Not-for-Profit Financial and Annual Reporting* the Institute encouraged NFPs to apply the provisions of AASB 1005. We reiterate that encouragement to enhance clarity of reporting.

We recommend that, until a NFP specific segment reporting Accounting Standard is developed, NFPs disclose segment information in their financial statements where it would enhance the information presented to the users of the statements by:

- > Enabling the user to better assess the achievements of a NFP with diversified activities or
- > Enabling comparison of the NFP's performance with that of similar NFPs.

4.5 Recognition of revenue

4.5.1 Some consistency in revenue recognition policies

With the exception of revenue from grants, there is a high level of consistency in accounting policies adopted by NFPs when recognising revenue. Income from donations, including legacies and bequests is recognised when received. Sales of goods and services are recognised when the goods are delivered or the service provided. Interest is recognised on an accruals basis and dividends when 'a right to receive a dividend has been established'.

4.5.2 Two approaches to recognition of grant revenues

Based on our review of revenue recognition notes in NFPs' financial reports, there are two approaches to the recognition of grant revenue. The first approach could be described as 'deferred until earned', while the second can be described as 'recognise on receipt'. We emphasise that both approaches are acceptable under the accounting standards that applied to the financial reports we reviewed and remain acceptable under current AIFRS.¹⁸ However, based on our understanding of the activities of the NFPs we reviewed, there are instances where inappropriate policies have been applied.

Determining the approach to recognition of grant revenue depends on the nature of the grant. For example, if the grant is provided under an agreement to deliver a service on behalf of the grantor, the grant should be categorised as revenue from the rendering of services. Subject to recognition criteria being satisfied, such revenue 'shall be recognised by reference to the stage of completion of the transaction at reporting date'. As will be seen from the examples of accounting policies noted below, some NFPs adopt this approach.

Grants may also be categorised as contributions. Accounting standards consider revenue from contributions to have occurred 'when an entity receives an asset, including the right to receive cash or other forms of asset without directly giving approximately equal value to the party to other parties to the transfer; that is, when there is a non-reciprocal transfer'.¹⁹ The standards acknowledge that 'in some cases it may be difficult to determine whether the recipient of a contribution should recognise revenue from contributions. Particular reference is made to the difficulty in determining whether the recipient 'has control of a contribution or the right to receive a contribution'. We believe this difficulty has contributed to the instances of inappropriate policies we noted during our review.

Examples of the 'deferred until earned' approach are as follows:

'Grants for operating expenses are recognised on an accruals basis.'

'The company receives federal and state government funding for various purposes. Grant income is recognised when the monies are received and obligations have been met in relation to the grant or program. Funds received in advance of obligations being met are deferred and taken to income as the related expenses are incurred and obligations met.'

'Some revenue for specific projects has been carried forward to be matched against corresponding expenditure.'

'Government revenue is derived from services and programs performed on behalf of state, commonwealth and local governments. These are recognised in the period in which the services are provided, having regard to the stage of completion of activities and targets within each program as specified in the funding and service contracts. Any funding received for services which have not been performed is recorded as deferred income or funding in advance in the statement of financial position.'

'Grants are recognised on an accruals basis in order that they are brought to account in the accounting period to which they relate.'

18. AASB 1004 *Revenue* and AASB 1004 *Contributions*.

19. AASB 1004 *Revenue*, para. 9.1.1; AASB 1004 *Contributions*, para 10.

Examples of the 'recognise on receipt' approach include:

'Specific purpose grants received to purchase property, plant and equipment are recognised as non-operating income when received.'

'Revenues relating to grant income are recognised when they are received or receivable.'

'Government funding and grants are recognised as income in the financial period received or due to be received.'

It is interesting to note that one 'recognise on receipt' accounting policy note was elaborated upon as follows:

'However, expenditure, for which government funding and grants are received is recognised when incurred, which may be in a subsequent financial period. As a result, timing differences may lead to significant variations in net profit/loss from year to year where matching revenue and expenditure are recognised in different accounting periods.'

This elaboration highlights the problem of volatility of results faced by all NFPs in receipt of grant income.

Some policy notes leave the reader in doubt as to when grant revenues are recognised:

'Grant income is recognised as revenue in the period that [the NFP] gains control of that income, provided that the future economic benefits arising from that income will flow to [the NFP] and the revenue can be reliably measured.'

'Grants are recognised when the Association has established that it has a right to receive that money.'

In our view, these two examples do not clearly explain what conditions must be satisfied to enable grants to be recognised as revenue.

4.5.3 Future developments in recognition of grant revenues

The grant revenue recognition policies discussed above generally reflect the provisions of accounting standard AASB 1004 *Revenue* and in particular paragraphs 9.1 to 9.1.3 of that Standard which deal with contributions of assets.

The best example we can give of the application of this standard is the following accounting policy included in a sporting body NFP's financial report:

'Grants received

Reciprocal grants

Grants received on the condition that specified services be delivered, or conditions fulfilled, are considered reciprocal. Such grants are initially recognised as a liability and revenue is recognised as services are performed or conditions fulfilled.

Non-reciprocal grants

Revenue is recognised when the grant is received or receivable.'

For those annual reporting periods commencing on or after 1 January 2005, the provisions of AASB 1004 *Revenue* dealing with contributions of assets have been replicated in a NFP specific accounting standard AASB 1004 *Contributions*.

This newer AASB 1004 might be revised. In February 2006 the AASB issued Exposure Draft ED 147 *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)*, which sought comments on 'a proposed international public sector accounting standard (IPSAS) that may form the basis of a proposed revision of AASB 1004 *Contributions*. The proposed IPSAS is Exposure Draft ED 29 *Revenue from Non-exchange Transactions (Including Taxes and Transfers)*, issued by the IPSASB on 31 January 2006'. When issuing the Exposure Draft, the AASB advised it 'intends

to consider whether to adopt the resulting IPSAS as a revised AASB 1004'. The AASB also advised that 'unlike the proposed IPSAS, the revised AASB 1004 would also apply to not-for-profit entities in the private sector'.

In explaining the main potential changes to AASB 1004, the AASB advised that '[if] the proposals in the IPSASB ED were to be adopted in a revised AASB 1004:

- > income would not be recognised upon receipt of contributed assets to the extent that a liability is recognised in respect of the contribution; and
- > such a liability would be recognised when, and only when, either:
 - 'conditions' exist in respect of the contributed assets; or
 - the contribution is in the nature of an 'advance receipt'.

... conditions in respect of contributed assets are stipulations that specify that the future economic benefits embodied in the asset are required to be consumed by the recipient as specified or future economic benefits must be returned to the contributor.

... 'advance receipts' are resources received prior to a ... transfer arrangement becoming binding.'

This revision might overcome the concern of one NFP that included in its 'AASB 1047 note' advice that it recorded a substantial grant in its revenue for the 2005 year and went on to explain:

'Under AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance*, this income is to be recognised on a systematic basis over the periods necessary to match them with the related costs which they are intended to compensate, but only when there is reasonable assurance that the entity will comply with the conditions attached; and the grants will be received. This may result in a change in the current accounting policy disclosure. It is important to note that AASB 120 is in draft form and is currently applicable to 'for-profit' entities only.'

We recommend that when considering the application of AIFRS, NFPs take the opportunity to:

- > Differentiate between 'reciprocal' and 'non-reciprocal grants' and adopt appropriate revenue recognition policies for each
- > Review the wording of their current revenue recognition accounting policy notes and ensure it clearly explains the conditions that must be satisfied before the revenue is recognised in profit or loss.

4.6 Accounting for goods and services received for no consideration

NFPs often receive goods or services by way of 'non-reciprocal transfers'. That is, the recipient NFP is not obliged to provide goods or services of approximately equal value in return to the provider. Examples noted during our review of NFPs' financial statements include:

- > Donations of goods to 'op shops'
- > 'In kind' donations of facilities, advertising etc.
- > Donations of investments
- > 'In kind' contributions to the cost of constructing fixed assets.

The majority of those NFPs that receive goods or services in this manner do not explain the accounting treatment of these 'non-reciprocal' transfers in their financial statements. Only 36 per cent of the charitable NFPs we reviewed that could have made disclosures of non-reciprocal transfers of goods and services did so.

Examples of disclosures that are made include:

'The value of services provided by volunteers during the financial year is \$57,962. The value of these services has been calculated in accordance with AusAID guidelines. In-kind contributions of assets and contributions to assist with the acquisition of assets, being non-reciprocal transfers, amounted to \$56,850. This amount has been calculated by reference to the fair value of the assets received when the company gains control of the contribution. The above amounts have not been included in the results of the Company as the related transactions would be recorded as revenue and a disbursement the same financial year and therefore the transaction has no effects on the results of the Company.'

'Donations of fixed assets

All assets donated to the Company are initially recorded at fair value at the date of the acquisition, being the estimated net realisable value of the assets at the date the assets are donated to the Company. This value is recognised as a donation in the Statement of Financial Performance.'

'Donations "in kind"

Donations "in kind" occur from time to time as part of major capital projects. These are recorded as revenue from fundraising in the Statement of Financial Performance at fair value, with an equal amount being capitalised to the fixed assets to which they relate.'

'Donations of goods and services

Resources received in the form of intangible income such as donated facilities, voluntary help or beneficial loan arrangements, the value of which cannot be accurately quantified, are not included in the financial statements. Donated services, such as community-service radio, television announcements and press advertisements, the value of which cannot be accurately quantified are not included in the financial statements.'

The approach to disclosure of non-reciprocal transfers in the financial reports we reviewed reflects the lack of clear guidance in accounting standards that applied at the time.

This situation will be remedied should the provisions of ED 147 *Revenue from Non-Exchange Transactions (Including Taxes and Transfers)* replace AASB 1004 *Contributions*. ED 147 deals with the accounting for goods-in-kind and services-in-kind.

Under the heading of 'Transfers', ED 147 requires goods-in-kind received by a NFP be recognised as an asset when the 'resources meet the definition of an asset and satisfy the criteria for recognition as an asset'. ED 147 goes on to require:

- > Goods-in-kind to be recognised as assets when the goods are received or there is a binding arrangement to receive the goods
- > Immediate recognition of revenue if the goods-in-kind are received without conditions
- > Recognition of a liability if conditions are attached and reduction of the liability as the conditions are satisfied
- > Initial recognition of goods-in-kind at their fair value at date of acquisition.

It should be noted that similar requirements are already included in AASB 102 *Inventories* which requires NFPs to recognise inventories held for distribution that were 'acquired at no cost, or for nominal consideration [at] current replacement cost as at the date of acquisition'. The application of this standard will require NFPs that receive goods for distribution by way of donation or at a nominal price to determine the current replacement price of the goods at the date of receipt.

ED 147 also proposes that 'an entity may, but is not required to, recognise services-in-kind as revenue and as asset'. The proposed treatment acknowledges the uncertainties surrounding services-in-kind, including the ability to exercise control over the services and measuring the fair value of the services. Specific reference is made to services-in-kind provided by volunteers.

The Exposure Draft requires disclosure by way of note of:

- > The accounting policies adopted for recognition of revenue from non-exchange (i.e. non-reciprocal) transactions
- > The basis on which the fair value of inflowing resources is measured
- > The nature and type of major classes of bequests, gifts and donations, showing separately major classes of goods-in-kind received
- > The nature and type of services-in-kind received, including those not recognised.

We recommend:

- > NFPs (in particular charitable NFPs) consider the nature and extent of non-reciprocal transfers they are involved in and, if material, develop an appropriate accounting policy and make appropriate disclosures in the NFP's financial statements
- > NFPs consider the extent to which they are in receipt of goods for distribution at no or nominal cost and, if material, develop an appropriate accounting policy and make appropriate disclosures in the NFP's financial statements.

4.7 Disclosure of economic dependence

Paragraph 5.3(c) of accounting standard AASB 1034 *Financial Report Presentation and Disclosures* requires the following information to be disclosed:

'Where the entity is dependent upon another entity for a significant volume of revenue or financial support and that dependency is not clearly discernible from a separate line in the statement of financial performance or statement of financial position:

- I. the name of the entity on which there is an economic dependency
- II. the nature of that economic dependency.'

Seventy percent of charitable NFPs and 68 per cent of sporting body NFPs we reviewed received grant income. In all but a few cases, prima facie, these NFPs would have incurred a deficit during the year had it not been for the receipt of the grant.

Our review of these NFPs' Financial Reports revealed that 42 per cent of the NFPs that should have made the 'economic dependence' disclosures required by AASB 1034 did so. These requirements have been included in AASB 101 *Presentation of Financial Statements*.

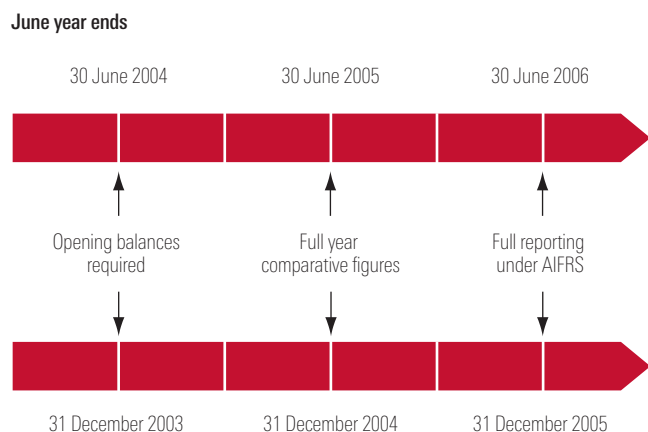
We recommend that any NFP in receipt of grants consider the impact on the organisation's ability to meet its objectives and its financial performance and position if the grants were not to be received. If the NFP's financial performance and/or financial position would be adversely affected, the appropriate economic dependence disclosures should be made by way of note to the financial statements.

5 The NFP sector and International Financial Reporting Standards

5.1 Making the transition to AIFRS

Readers will be familiar with the timeline depicted in **Figure 6**, which summarises the process of transition to Australian equivalents to International Financial Reporting Standards (AIFRS). At the time of this report, every preparer of Financial Reports for the year ending 30 June 2006 should have been ready to prepare their first full year AIFRS-compliant annual financial report. If the report was for the year ended 31 December 2005, the critical date has passed.

Figure 6: The AIFRS timeline



One of the objectives of our review of NFPs' Financial Reports was to assess what impact the full implementation of AIFRS will have on financial reporting in the NFP sector. We paid particular attention to 'AASB 1047 disclosures'²⁰ made in financial reports to determine the issues that NFPs have considered in making the transition to AIFRS.

Generally, all of the GPFRs we reviewed included the required narrative disclosures. One-eighth of the reports reviewed included quantification of the likely impact of the adoption of AIFRS on their financial performance and financial position.

5.2 What is the likely impact of AIFRS on NFP reporting?

Our review of selected financial reports indicates that charitable and sporting body NFPs believe the most common issues they will face when adopting AIFRS for the first time will be:

- > Impairment of assets
- > Financial instruments
- > Property, plant and equipment, including capitalised software
- > Revenue recognition
- > Inventories
- > Employee benefits and superannuation
- > Intangibles and goodwill
- > Foreign currency transactions
- > Doubtful debts
- > Leases.

Those charitable and sporting body NFPs that did not quantify the impacts of implementing AIFRS generally concluded (for example):

'It is not believed that there will be a material impairment adjustment as there is no indication that the company's most significant asset, being land and buildings, is impaired under IFRS.'

'It is anticipated that this will not result in a significant difference in the timing of revenue recognised by the company as the current revenue recognition policy under AGAAP is reasonably consistent with [the revenue recognition policy in accordance with AASB 1004 *Contributions*].'

'The company has reviewed the impact of conversion to IFRS and do not believe there will be any significant impact on the financial report for the year ending 30 June 2006.'

Those organisations that did quantify the impacts of implementing AIFRS found (for example):

- > In one instance, application of AASB 139 *Financial Instruments: Recognition and Measurement* resulted in a 10.2 per cent decrease in the 2005 deficit and a five per cent increase in total equity
- > In another, application of AASB 139 *Financial Instruments: Recognition and Measurement* resulted in a 2.6 per cent increase in total equity and a 5.4 per cent increase in the carrying value of investments
- > In another, recognition of inventories for distribution in accordance with AASB 102 *Inventories* resulted in an increase in the opening balance of retained earnings at 30 June 2004 of over 30 per cent and a decrease of four per cent in the deficit for the 2005 year.

Our review has led us to conclude that NFPs should not underestimate the impact the adoption of AIFRS will have on the financial picture of the organisation presented to key funding stakeholders such as government departments and philanthropic trusts. For example, if the adoption of AASB 139 *Financial Instruments: Recognition and Measurement* results in an increase in the carrying value of investments, will funding sources be less likely to fund activities because of the funds that are available to the organisation? If the answer to this question is 'yes', then it will be necessary to develop a strategy to explain to funding providers that the increased carrying value is an unrealised profit that might reverse in previous years.

5.3 More complexity in NFP reporting

The implementation of AIFRS has added another layer of complexity to NFP reporting. AIFRS are sector neutral and apply equally to for-profit and NFP entities. International Financial Reporting Standards (IFRS) apply to for-profit entities only. The AASB has recognised that NFPs have different objectives to for-profits and use their resources differently to for-profits in achieving those objectives. This recognition has manifested itself in the inclusion of NFP sector specific text in many AIFRS, an overview of which can be found in **Table 3**.^{21 22}

20. Accounting Standard AASB 1047 *Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards* required certain disclosures during the transition period to AIFRS, initially outlining the major impacts in narrative form, and then requiring quantification.

21. Note that Table 3 refers to NFP sector specific text relating to NFPs outside the government sector. AIFRS includes NFP sector specific text that relates to entities in the government sector.

22. Table 3 is based on a detailed paper produced by the AASB, 'Not for profit entity requirements in Australian Accounting Standards', which can be accessed from the AASB's website, www.aasb.com.au/index.html, 'Staff Articles'.

Table 3: NFP specific text in AIFRS

Accounting standard	Topic	Overview
AASB 1 <i>First-time Adoption of Australian Equivalents to International Financial Reporting Standards</i> Paragraph AIG10.2	Revaluation reserves	'In the case of a not-for-profit entity that chooses as its accounting policy the revaluation model in AASB 116 for some or all classes of property, plant and equipment, the not-for-profit entity continues to present the previous GAAP cumulative revaluation reserve relating to each class of property, plant and equipment.'
AASB 101 <i>Presentation of Financial Statements</i> Paragraph 5	Terminology in financial statements	'This standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. Entities with not-for-profit activities in the private sector . . . applying this standard may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves.'
AASB 101 <i>Presentation of Financial Statements</i> Paragraphs 14.2 and 14.3	Compliance with IFRS	NFPs that adopt the sector specific approach in presenting their financial statements may not be able to include a statement in their financial report that it complies with IFRS.
AASB 101 <i>Presentation of Financial Statements</i> Paragraphs Aus14.2 and Aus14.3	Capital management	A not-for-profit entity need not present the disclosures required by the capital management paragraphs of AASB 101 (paragraphs 124A–124C).
AASB 102 <i>Inventories</i> Paragraph Aus2.1	Work in progress of services	The standard does not apply to work in progress of services that are to be provided for no or nominal consideration directly in return from the recipients. The relevant costs can be recognised immediately as expenses.
AASB 102 <i>Inventories</i> Paragraphs Aus9.1, Aus10.1, Aus34.1 and Aus36.1	Inventories held for distribution	These paragraphs deal with inventories held for distribution by NFPs at no charge or for a nominal amount. They specify that such inventories are to be valued at the lower of cost or current replacement cost. Replacement cost is to be used where the inventories are acquired for no or nominal consideration. Extensive disclosures are required to comply with paragraph Aus36.1.
AASB 107 <i>Cash Flow Statements</i> Paragraph Aus20.2	Cash flows from operations and net cost of services	'Not-for-profit entities that highlight the net cost of services in their income statement for the reporting period shall disclose in the financial report a reconciliation of cash flows arising from operating activities to net cost of services as reported in the income statement.'
AASB 114 <i>Segment Reporting</i> Paragraph Aus1.2	Application of Standard	'This standard does not apply to general purpose financial reports of NFP entities.' (Even though NFPs are exempt from the application of this standard, refer to part 4.4 which discusses developments in this area and a suggested best practice position on the disclosure of segment information.)
AASB 116 <i>Property, Plant and Equipment</i> Paragraph Aus15.1	Recognition on acquisition	This Standard requires all entities to recognise items of property, plant and equipment at cost. Where a NFP acquires an asset at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition.
AASB 116 <i>Property, Plant and Equipment</i> Paragraphs Aus39.1, Aus40.1, Aus40.2 and Aus77.1	Revaluation of assets	NFP entities that adopt the revaluation model of recognising assets after acquisition are to offset revaluation increments and decrements relating to classes of assets. For-profit entities are to adopt an asset by asset basis of valuation.
AASB 1004 <i>Contributions</i>	Accounting for contributions	AASB 1004 has been retained for the time being while international standards setting bodies review the revenue recognition standard AASB 120 <i>Accounting for Government Grants and Disclosure of Government Assistance</i> . Until this matter is resolved, NFPs are to account for contributions ²³ in accordance with AASB 1004 while for-profit entities are required to apply AASB 120.

Table 3 continued on page 34 >

23. Contributions are defined by AASB 1004 as 'Non-reciprocal transfers to the entity', that is 'transfer[s] in which the entity receives assets or services or has liabilities extinguished without directly giving approximately equal value in exchange to the other party or parties to the transfer'.

Accounting standard	Topic	Overview
AASB 124 <i>Related Party Disclosures</i> AAS 22 <i>Related Party Disclosures</i>	Different standards to apply to NFP corporate and non-corporate entities	The AASB has decided that AASB 124 will only replace AASB 1017 <i>Related Party Disclosures</i> which applied to entities subject to the provisions of the <i>Corporations Act</i> . As a result of this decision by the AASB, non-corporate entities such as incorporated associations and entities constituted by Act of Parliament or Royal Charter that prepare general purpose financial reports are required to comply with AAS 22.
AASB 136 <i>Impairment of Assets</i> Paragraphs Aus6.1, Aus6.2 and Aus32.1	Use of depreciated replacement cost	When determining impairment losses, NFPs are required to use depreciated replacement. Depreciated replacement cost is defined as 'the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset'. The standard also deals with the debiting of impairment losses to asset revaluation reserves.
AASB 138 <i>Intangible Assets</i> Paragraphs Aus24.1, 44	Recognition on acquisition	This standard requires all entities to recognise intangible assets at cost. Where a NFP acquires an intangible asset at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition. Where the intangible asset is acquired by way of government grant, NFPs are required to recognise the asset and the grant at fair value in accordance with AASB 1004 <i>Contributions</i> .
AASB 138 <i>Intangible Assets</i> Paragraphs Aus85.1, Aus86.1, Aus86.2 and Aus124.1	Revaluation of intangible assets	NFP entities that adopt the revaluation model of recognising assets after acquisition are to offset revaluation increments and decrements relating to classes of assets. For-profit entities are to adopt an asset by asset basis of valuation.
AASB 140 <i>Investment Property</i> Paragraph Aus20.1	Recognition on acquisition	This standard requires all entities to recognise intangible assets at cost. Where a NFP acquires an investment property at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition.
AASB 140 <i>Investment Property</i> Paragraph Aus9.1	Properties that do not meet the definition of an investment property	'In respect of not-for-profit entities, property may be held to meet service delivery objectives rather than to earn rental or for capital appreciation. In such situations the property will not meet the definition of investment property and will be accounted for under AASB 116, for example: (a) property held for strategic purposes; and (b) property held to provide a social service, including those which generate cash inflows where the rental revenue is incidental to the purpose for holding the property.'
AASB 1031 <i>Materiality</i> Paragraphs 14, 17 to 19	Assessment of materiality	'As not-for-profit entities are primarily concerned with the achievement of objectives other than the generation of profit, such as service delivery, it may not be appropriate to assess materiality for income statement items by reference to profit or loss or average profit or loss.' The standard goes on to suggest 'further indications of materiality may be evident from making assessments of the items in an absolute and a relative context'. Paragraphs 18 and 19 provide guidance in making such assessments.

We recommend that, notwithstanding the conclusions that might have been expressed in 'AASB 1047 *Disclosures*', NFPs review the impact of AIFRS in the light of:

- > The NFP specific text in the AIFRS
- > The financial picture the organisation will present to its key stakeholders after the application of AIFRS.

Where necessary, NFPs should develop strategies to explain to their stakeholders the financial impact of adopting AIFRS.

6 The legislation

6.1 A myriad of legislation

Australia's NFPs are subject to a myriad of legislation. This includes all of the legislation a business is expected to understand and comply with – the various taxation legislation, occupational health and safety legislation, environmental legislation, and so on. In this report, we concentrate on the legislation governing record-keeping, reporting and auditing in the not-for-profit sector.

The legal form of the NFP and the activities it undertakes dictate the legislation under which a NFP reports. The NFPs reviewed as part of the preparation of this report comprised:

- > 53 per cent companies limited by guarantee
- > 33 per cent incorporated associations
- > 14 per cent organisations established under specific legislation such as Royal Charter or Act of Parliament.

The overview of relevant legislation in this report indicates that charitable NFPs are subject to 'corporate' and fundraising legislation that varies from jurisdiction to jurisdiction. Sporting body NFPs and other NFPs (such as membership services organisations) are subject to the same variety in corporate legislation.

This variety results in a complex reporting and compliance regime for NFPs that results in the waste of all forms of scarce resources – funds raised by donation or received as grants, volunteer time and management time – and might act as a deterrent to individuals who wish to volunteer.

We recommend that the state and federal governments develop uniform 'Incorporated Associations' legislation that applies to all NFPs in the charitable, sporting body and other NFP sectors.

6.2 Companies limited by guarantee

Companies limited by guarantee are governed by the *Corporations Act 2001*. Section 9 of this Act defines such a company as one 'formed on the principle of having the liability of its members limited to the respective amounts that the members undertake to contribute to the property of the company if it is wound up'.

The *Corporations Act* operates in such a way that companies limited by guarantee are considered public companies.²⁴

6.3 Incorporated associations

Incorporated associations are established under legislation enacted in each state or territory. Details can be found in Appendix 2, together with links to websites where detailed information regarding the legislation and its application is available.

6.4 Fundraising legislation

In addition to the commonwealth, state and territory legislation that enables the incorporation of NFPs, when a NFP is involved in fundraising activities it is subject to the provisions of legislation enacted in the states and the ACT that regulate fundraising activities.

Fundraising legislation has been enacted to:

- > Promote proper and efficient management and administration of fundraising appeals
- > Ensure proper record-keeping and auditing of accounts relating to fundraising appeals
- > Ensure that the public has access to information about collections
- > To prevent deception of members of the public who desire to support worthy causes.

Those NFPs involved in 'fundraising' or 'collections for charitable purposes' should be aware of the provisions of the fundraising legislation operating in their state or territory.²⁵

The provisions of fundraising legislation can be prescriptive. For example, the Queensland legislation specifies the value of payments that can be made from petty cash and the value of payments that must be made by cheque.

The extent of the legislation and regulation varies from jurisdiction to jurisdiction. In two jurisdictions – South Australia and Western Australia – the legislation is complemented by Codes of Practice. The South Australian Code is mandatory, while the Western Australian Code is voluntary.

Fundraising legislation imposes additional and complementary record-keeping and reporting requirements on NFPs, and should be taken into consideration by NFPs and their auditors when establishing, maintaining and examining records and reporting on them. Titles of the fundraising legislation operating in each state and territory can also be found in Appendix 3.

6.5 Record-keeping

6.5.1 The *Corporations Act* and financial records

Those NFPs that are companies limited by guarantee are required to comply with the financial records provisions of the *Corporations Act 2001*, which requires companies to keep written financial records that:

- > Correctly record and explain its transactions and financial position and performance
- > Enable true and fair financial statements to be prepared and audited.

The financial records can be kept:

- > In any language, but must be capable of being translated into English if required
- > In electronic form, but must be able to be converted into hard copy
- > At any place, including outside Australia, as long as sufficient information is available in Australia to enable true and fair financial statements to be prepared.

24. Refer to the definition of 'public company' in the *Corporations Act*. Note also the operation of s. 150 of the Act, which permits the omission of the word 'limited' from the company's name.

25. Note that the Northern Territory does not have fundraising or collections legislation.

6.5.2 Requirements for incorporated associations essentially the same

The wording and extent of the incorporated associations legislation, and the provisions of that legislation dealing with record-keeping, varies from jurisdiction to jurisdiction.

Notwithstanding these variances, the record-keeping requirements are essentially the same – accounting records that record and explain the transactions must be maintained; the accounting records must be able to produce auditable financial statements; and the accounting records must be retained for a period of seven years.

6.5.3 Record-keeping requirements of fundraising legislation

The fundraising legislation and supporting regulations in each jurisdiction focus on the records to be maintained for collection or fundraising activity.

In South Australia and Western Australia, charitable fundraisers are required to ‘keep proper accounts of the receipt and payment of money collected or received by it for charitable purposes and the receipt and disposal of goods collected or received by it for charitable purposes’ or ‘produce accurate information relating to public fundraising to ensure accountability to donors’.

These requirements are less prescriptive than those in the Australian Capital Territory, New South Wales, Queensland and Victoria. These jurisdictions require records to be kept in respect of each collection, appeal or fundraising.

In the Australian Capital Territory, the ‘records must allow a true and fair view of income and expenditure for **the collection** to be worked out at any given time’. Similar requirements apply in:

- > New South Wales – ‘an authorised fundraiser must, in relation to **each fundraising appeal** it conducts, maintain such books of account and records as are necessary to correctly record and explain its transactions, financial position and financial performance’
- > Queensland – ‘the promoter of each appeal ... shall keep ... a record of **the appeal** ...’
- > Victoria – ‘A person conducting a fundraising appeal must keep records sufficient to enable a true and fair view of the income and expenditure relating to **the appeal** to be ascertained at any given time ...’

New South Wales and Queensland legislation and regulations go further by prescribing what records must be maintained for **each** fundraising appeal: These include:

- > A cash book
- > A petty cash book
- > A ledger
- > Registers of:
 - Receipt books or computerised receipt stationery
 - Tickets or computerised ticket stationery
 - Collecting boxes
 - Devises
 - Assets.

6.6 Reporting

In this section of the report we examine the legislated reporting requirements. Ultimately, the nature and extent of reporting to NFP stakeholders is the decision of the governing body. Matters to be taken into account when making this decision are covered in Parts 3 and 4 of this report.

6.6.1 Companies limited by guarantee

Companies limited by guarantee are public companies and must prepare ‘a financial report and directors’ report for each financial year’. The financial report consists of:

- > The financial statements for the year
- > The notes to the financial statements
- > The directors’ declaration about the statements and notes.

The financial report must comply with the accounting standards. The financial statements and notes for a financial year must give a true and fair view of the financial position and performance of the company. (If consolidated financial statements are required, they must give a true and fair view of the financial position and performance of the consolidated entity.)

6.6.2 Incorporated associations

A review of the incorporated associations legislation reveals ‘best practice’ legislation requires statements of accounts to be prepared and that the statements of accounts comprise statements of:

- > Income and expenditure
- > Assets and liabilities
- > Mortgages, charges or other securities affecting the association’s property
- > Income and expenditure, assets and liabilities and mortgages, charges or other securities affecting the property of any trust of which the association is a trustee.

Whether an association is required to comply with accounting standards requires a review of legislation and the accounting standards themselves. Some of the incorporated associations legislation implies that accounting standards are to be complied with, and then only in respect of certain ‘prescribed associations’.

The term ‘prescribed association’ is used in three jurisdictions and varies from jurisdiction to jurisdiction. The turnover and activity criteria to be used in determining whether an incorporated association is a ‘prescribed association’ can be found in Appendix 2. The application of these criteria results in a form of ‘differential reporting’ based on the NFPs’ turnover and activities.

The ‘prescribed associations’ provisions of the legislation that enable differential reporting also provide some flexibility as to who might audit the financial records of the NFP. Further details regarding the appointment of auditors can be found in section 6.7.

6.6.3 The reporting requirements of fundraising legislation

While the reporting requirements of the *Corporations Law* and the incorporated associations legislation are relatively straightforward, the fundraising legislation adds a degree of complexity to the NFP reporting regime. The most comprehensive requirements are included in the New South Wales fundraising legislation. Other jurisdictions limit disclosures regarding fundraising to the proceeds of collections, the expenses relating to the collections and the net proceeds of collection.

The rationalisation of these requirements would remove some of the complexity facing NFPs.

New South Wales has the most comprehensive requirements

The NSW legislation has specific requirements for those NFPs with gross income from fundraising in excess of \$20,000. These include disclosures regarding:

- > Information on any material matter or occurrence, including those of an adverse nature such as an operating loss from fundraising appeals
- > The manner in which the net surplus or deficit obtained from fundraising appeals was applied
- > Amounts spent on direct services in accordance with the charitable objects or purposes of the fundraising, recurrent costs of administration and any other significant purposes including transfers to reserves or accumulated funds
- > Aggregate gross income and aggregate direct expenditure incurred in appeals in which traders were engaged
- > All forms of fundraising appeals conducted by the fundraiser during the period covered by the financial statements
- > Comparisons in monetary terms and ratios or percentages of:
 - Total costs of fundraising to gross income obtained from fundraising
 - Net surplus from fundraising to gross income obtained from fundraising
 - Total costs of services provided by the fundraiser to total expenditure
 - Total costs of services provided by the fundraiser to gross income received.
- > The financial performance for fundraising appeals, showing:
 - The aggregate gross income received
 - The total expenditure associated with all fundraising appeals
 - The net operating surplus or deficit.

In addition, 'the annual financial accounts of an authorised fundraiser that is an organisation are to include a declaration by the president or principal officer or some other responsible member of the governing body of the organisation stating whether, in his or her opinion:

- > the statement of financial performance gives a true and fair view of all income and expenditure of the organisation with respect to fundraising appeals, and
- > the statement of financial position gives a true and fair view of the state of affairs of the organisation with respect to fundraising appeals conducted by the organisation, and
- > the provisions of the Act, the regulations under the Act and the conditions attached to the authority have been complied with by the organisation, and
- > the internal controls exercised by the organisation are appropriate and effective in accounting for all income received and applied by the organisation from any of its fundraising appeals'.

South Australia's mandatory code specifies contents of accounts

The mandatory Code of Practice operating in South Australia requires that 'accounts should contain, in addition to the full range of information which would normally be contained in annual accounts, a statement of income and expenditure, including overheads, relating specifically to fundraising conducted ... during an organisation's normal accounting period, which shows:

- > the aggregate gross income received from each type of fundraising activity
- > the total expenditure associated with each type of fundraising
- > the net operating surplus or deficit from each type of fundraising'.

The South Australian Code also requires 'accounts [to] include a statement which describes how any surplus from fundraising was applied [distinguishing] between amounts allocated to direct services, administration costs and any other application [the transfer to reserves or accumulated funds]'.

Western Australia's voluntary code also specifies the contents of income and expenditure statement

Western Australia's voluntary Code of Practice notes 'information contained in the financial statements is an important factor in determining estimates of fundraising returns to be used in promotional materials for future fundraising campaigns, as well as to satisfy public enquiries into the organisation's fundraising costs'. The Code goes on to specify 'a recognised accounting method is to be used' and that 'Australian Accounting Standards must be complied with in the preparation of accounts'.

To comply with the Code 'financial statements must include a balance sheet; and an income and expenditure statement'.

The income section of the income and expenditure statement must:

- > Clearly describe each type of fundraising activity conducted and avoid the use of general terms such as 'fundraising'
- > List separately each different type of fundraising activity conducted.

The expenditure section of the income and expenditure statement must:

- > Separately list the expenses for each type of fundraising activity listed in the income section
- > Include all direct costs of fundraising in addition to a fair apportionment of relevant and identifiable indirect costs and overheads.

The apportionment method must be clearly stated in the notes to the accounts and remain consistent from year-to-year. Where a change in the apportionment method occurs, this must also be clearly stated in the notes.

Australian Capital Territory and Victoria less onerous

The fundraising legislation in the ACT and Victoria is less onerous than other jurisdictions.

The Australian Capital Territory legislation refers to 'required accounts' and specifies that such accounts must show the following:

- > The proceeds of the collection (including any amounts realised from benefits received for the purposes of the collection)
- > The amount of lawful and proper expenses ... for the collection
- > The net proceeds of the collection
- > The amount applied for the purposes of the collection.

The Victorian legislation requires fundraisers to 'keep records sufficient to enable a true and fair view of the income and expenditure relating to the appeal' ... including:

- > Full details of all funds and assets received as a result of the appeal
- > Full details of what happened to all those funds and assets
- > Full details of:
 - The amount applied to the purposes or objects of the appeal and how it was distributed
 - Any expenditure on assets
 - Any expenditure on wages, salaries, commissions and other remuneration in relation to the appeal
 - Any other administrative expenses related to the appeal
 - Any other expenditure related to the appeal.
- > Any other details required by the regulations.

6.7 Who can audit NFPs?

Once again, the legislation governing who can accept appointment as auditor of a NFP varies from jurisdiction to jurisdiction. In this section of the report, we examine the requirements of the body of legislation applying to NFPs.

Table 4: Auditors qualifications under fundraising legislation

	ACT	NT ²⁶	NSW	Qld	SA	Tas ²⁷	Vic	WA
A person registered as an auditor under the <i>Corporations Act</i>	•		•	•	•		•	•
An auditor approved by the relevant government department or Minister	•		•	•	•		•	
A member of the Institute of Chartered Accountants in Australia				•	•			•
A member of CPA Australia				•	•			•
A member of the National Institute of Accountants				• ²⁸				

26. The Northern Territory does not have any specific fundraising legislation.

27. The Tasmanian legislation does not include provisions regarding the qualifications of auditors.

28. Note that the Queensland legislation is specific as to the qualifications members of the NIA must hold.

6.7.1 Companies limited by guarantee

Companies limited by guarantee must comply with the provisions of the *Corporations Act 2001* dealing with the appointment and removal of auditors. These provisions, which cover almost 70 pages of the that Act, are too extensive to be covered in detail in this report. It should be noted that the person, firm or company appointed as auditor of a company limited by guarantee must (among other things):

- > Be a registered company auditor
- > Comply with the auditor independence provisions of the *Corporations Act*.

6.7.2 Incorporated associations

With the exception of those established under New South Wales and Western Australian legislation, the financial reports of incorporated associations must be audited.

Who can accept appointment as auditor of an incorporated association varies from jurisdiction to jurisdiction. The Australian Capital Territory, South Australian and Victorian legislation, which include the concept of a 'prescribed association', and the Northern Territory legislation, which provides for a tiering of incorporated associations, allow for a range of persons who might accept appointment as auditor of an incorporated association.

Auditors of incorporated associations which are not prescribed may have a lower level of qualification and experience than the auditors of prescribed associations.

6.7.3 Fundraising legislation

Some of the fundraising legislation operating in each state specifies who can audit the reports required under that legislation. The following table summarises the requirements of the legislation.

Appendix 1

Attributes of annual reporting

The following matrix sets out the attributes that we looked for in charitable and sporting body NFPs' annual reports that were selected for review. They have been based on a variety of sources, including:

- > SORP 2005, *Accounting & Reporting by Charities: Statement of Recommended Practice*, issued by the UK Charity Commission
- > Reporting principles issued by the Global Reporting Initiative and the Australian Reporting Awards
- > Accounting Standard AASB 1039 *Concise Financial Reports*.

Attribute	Transparency – aims & objectives	Transparency – governance	Completeness	Relevance	Reliability	Comparability	Clarity
Does the annual report include a highlights page?							•
Is sufficient use made of graphics to explain the NFP's activities?							•
Does the NFP's mission statement provide the reader of the annual report with a clear understanding of what the NFP is trying to do?	•						
Does the annual report include a clear statement of the objectives of the NFP? What is the need the NFP is serving and how is it going about it?	•						
Is the statement of objectives included in the annual report the same as that on the NFP's website?	•						
Does the annual report:							
> Include a clear statement as to how the NFP goes about obtaining the funds it needs to achieve its objectives?	•						
> Provide a clear description of the activities the NFP undertakes to achieve its objectives?	•						
> Clearly explain how it works with other NFPs to achieve its objectives?	•						
Does the annual report:							
> Dissect its revenue, expenses, result, assets and liabilities to enable the NFP to report the following segments:							
– Generating funds – this may be through appeals, commercial activities or bequests			•				
– Administering funds – the management and administration activities of the NFP			•				
– The expending of funds on the purposes for which the NFP was established?			•				
> Provide an analysis of the NFP's revenue?			•				
> Provide an analysis of the NFP's expenditure?			•				
> Provide comparative data regarding the NFP's revenue and expenditure?					•	•	•
> Explain trends in the NFP's revenues?					•	•	•
> Explain trends in the NFP's expenditures, including an explanation of the main influences on the costs of the NFP's activities?					•	•	•

Appendix 1 continued on page 40 >

Appendix 1 (continued)

Attribute	Transparency – aims & objectives	Transparency – governance	Completeness	Relevance	Reliability	Comparability	Clarity
Does the annual report:							
> Explain significant movements in the NFP's statement of financial position?					•	•	•
> Explain significant changes in cash flows?					•	•	•
> Explain how the NFP has financed significant capital expenditure programs?					•	•	•
> Include process KPIs that measure the effectiveness of the NFP's activities?	•		•			•	
> Include impact KPIs that measure the effectiveness of the 'delivery' aspects of the NFP's activities?	•		•			•	
> Include details of events since the end of the year that impact on the NFP's activities?	•						
> Include an explanation of the NFP's plans for the future, including where necessary or appropriate: <ul style="list-style-type: none"> – The NFP's anticipated or targeted revenue raisings – The NFP's projected process KPIs – The NFP's projected impact KPIs – Any proposed new activities and the impact they will have on the NFP's financial position and cash flows? 	• • • •						
Does the annual report explain:							
> The legal form of the NFP?		•					
> The composition of the NFP's board or governing committee, including their qualifications and experience?		•					
> How the members of the NFP's board or governing committee are appointed to that position?		•					
> The specific roles of the members of the NFP's board or governing committee?		•					
> The induction process for new board or committee members?		•					
> How decisions are made at meetings of the board or committee?		•					
> The constraints under which the board or committee operates (for example, the NFP's ethical framework, situations where the board is expected to obtain independent advice, and how the board deals with conflict of interest)?		•					
Does the annual report explain:							
> The roles of any board committees or sub-committees such as audit or marketing?		•					
> The relationship the NFP has with the NFP's State-based NFPs or branches that support the NFP's activities, including: <ul style="list-style-type: none"> – State or branch representatives on the board – The degree of autonomy granted to the state or branch, particularly in relation to fundraising and the utilisation of funds? 		• •					
> The NFP's investment policies and how they are enacted?		•					
> The approach the NFP takes to actively identify, analyse, assess, prioritise, treat and monitor the risks faced in carrying on the NFP's activities?		•					
> The process the NFP uses to decide upon the awarding of a grant?		•					

Appendix 2

Incorporated associations legislation

State or Territory	Title of legislation	Regulations	Supporting material
Australian Capital Territory	<i>Associations Incorporation Act 1991</i>	Associations Incorporation Regulation 1991	www.rgo.act.gov.au/sect3b2.htm
Northern Territory	<i>Associations Act</i>	Associations Regulations	www.nt.gov.au/justice
New South Wales	<i>Associations Incorporation Act 1984</i>	Associations Incorporation Regulation 1999	www.fairtrading.nsw.gov.au
Queensland	<i>Associations Incorporation Act 1981</i>	Associations Incorporation Regulation 1999	www.fairtrading.qld.gov.au
South Australia	<i>Associations Incorporation Act 1985</i>	Associations Incorporation Regulations 1993	www.ocba.sa.gov.au/businessadvice/associations/accounts/index.html
Tasmania	<i>Associations Incorporation Act 1964</i>	Associations Incorporation Regulations 1997 Associations Incorporation (Model Rules) Regulations 1997 Associations Incorporation Direction 1999	www.consumer.tas.gov.au/business_affairs/incorporated_associations/requirements
Victoria	<i>Associations Incorporation Act 1981</i>	Associations Incorporation Regulations 1998	www.consumer.vic.gov.au
Western Australia	<i>Associations Incorporation Act 1987</i>	Associations Incorporation Regulations 1988	www.docep.wa.gov.au/associations/

Appendix 3

Fundraising legislation

State or territory	Title of legislation	Regulations	Supporting material
Australian Capital Territory	<i>Charitable Collections Act 2003</i>	Charitable Collections Regulations 2003	www.urbanservices.act.gov.au/charitable
Northern Territory	None	None	Not applicable
New South Wales	<i>Charitable Fundraising Act 1991</i>	Charitable Fundraising Regulation 2003	www.dgr.nsw.gov.au/HTML/CHARITIES/charities_fundraising.html
Queensland	<i>Collections Act 1966</i>	Collections Regulation 1998	www.fairtrading.qld.gov.au
South Australia	<i>Collections for charitable Purposes Act 1939</i>	Collections for charitable Purposes (Collection Bins) Regulation 1995 Code of Practice	www.olgc.sa.gov.au/default.asp?page=Lottery.Collections_for_Charitable_Purposes.Collections_for_Charitable_Purposes.htm&menu=lottery
Tasmania	<i>Collections for Charities Act 2001</i>	Collections for Charities Regulations 2001	www.consumer.tas.gov.au/business_affairs/charities
Victoria	<i>Fundraising Appeals Act 1998</i>	Fundraising Appeals Regulation 1999	www.consumer.vic.gov.au
Western Australia	<i>Charitable Collections Act 1946</i>	Charitable Collections Regulations 1947 Voluntary Code of Practice for Public Fundraising	www.docep.wa.gov.au/charities/

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The Institute of Chartered Accountants in Australia

Enhancing not-for-profit annual and financial reporting



The Institute of Chartered Accountants in Australia

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About this report

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Foreword

Although not-for-profit (NFP) organisations come in many shapes and sizes, they must all communicate with the people who give money or time to them, as well as those who buy goods or services from them. Annual and financial reports represent a prime opportunity to do this. As well as demonstrating transparency, a good report will underline achievements and show where an organisation has made a difference.

Today's corporate reporting environment has changed considerably, with the introduction of Australian equivalents to international financial reporting standards and a growing focus on corporate governance, including auditing standards now having the force of law. The extent to which these changes apply to NFPs has created some uncertainty about NFP reporting requirements.

To provide clarity on this matter, the Institute published *Not-for-profit sector reporting: a research project* last year. The project included several recommendations to enhance the quality of NFP financial and annual reporting.

The report you are reading now offers practical guidance on how a NFP may implement these enhancements. It forms part of the Institute's thought leadership activities and specifically targets enhancing and promoting the reputation and role of Chartered Accountants for the benefit of the business community and public interest.

Yours sincerely



Robert DiMonte

President

The Institute of Chartered Accountants in Australia

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Recommendations to enhance NFP annual and financial reporting

In 2006, the Institute published *Not-for-profit sector reporting: a research project*, making recommendations as to the form and content of NFPs' annual and financial reports, designed to enhance the quality of these reports. These recommendations are set out in tables 1 and 2. Even though the findings and recommendations are based on two categories of NFP, they are applicable to all private sector NFPs.

The purpose of this report is to assist NFPs in implementing the recommendations enumerated in tables 1 and 2 when preparing their annual and financial reports. This guidance includes accounts prepared for the 30 June 2006 financial year, and may simplify the task of preparing and presenting NFP annual and financial reports. It comprises four sections – the annual report, the financial report, an overview of relevant legislation and resources. The latter section sets out resources that will be useful in meeting reporting obligations.

Table 1: Recommendations to enhance NFP annual reporting

Objectives	NFPs provide more information in their annual reports regarding what they are trying to do (their mission), their objectives, explanations of activities to achieve those objectives and how they are funding those activities.
Future plans	NFPs provide more information regarding their future plans in their annual reports.
Transparency of governance arrangements	<p>NFPs be more transparent about their governance arrangements in their annual reports. This transparency will:</p> <ul style="list-style-type: none"> > In the initial stages, lead to improved governance arrangements as the NFP strives to demonstrate best practice > Assist Board members in protecting their reputation > In some instances, provide a competitive advantage.
Achieving best practice in governance	<p>Sporting body NFPs:</p> <ul style="list-style-type: none"> > Compare their current governance structure against the Australian Sporting Commission’s ‘National Sporting Organisations Governance: Principles of Best Practice’ > If necessary, take remedial action to align their governance structure with this best practice.
Reporting efficiency and effectiveness	<p>Charitable NFPs devise and include in their annual reports process KPIs that are relevant to their mission, objectives and activities. At a minimum these should include, where applicable:</p> <ul style="list-style-type: none"> > The ratio of total costs of fundraising to gross income obtained from fundraising > The ratio of net surplus from fundraising to gross income obtained from fundraising > The ratio of total costs of services provided by the fundraiser to total expenditure > The ratio of total costs of services provided by the fundraiser to gross income received. <p>For as long as fundraising ratios remain the generally accepted means of reporting process efficiency, the ratios be separately disclosed.</p> <p>Fluctuations in these ratios from reporting period to reporting period be explained in the annual report. This is particularly important where the NFP is investing in its funding coterie. This transparency will educate the broader community that such investment is required and necessary.</p>
	<p>Sporting body NFPs demonstrate the efficiency of their operations by determining the process KPIs that are relevant to their mission, objectives and activities and disclosing them in their annual report. Where these KPIs are expressed as numbers or ratios, fluctuations from reporting period to reporting period should be explained.</p>
Outputs, outcomes and impacts	<p>NFPs enhance the effectiveness of their annual reports by portraying what the NFP has done (its outputs), what it has achieved (its outcomes), and what difference it has made (its impacts). The inclusion of measures of output, outcome and impact will improve completeness of reporting by demonstrating to the reader of the annual report what their funding achieves rather than telling them how it is spent.</p> <p>Sporting body NFPs can achieve this by comparing planned performance as expressed in the organisation’s strategic plan with actual performance.</p>
Clarity of annual reports	<p>NFPs improve the clarity of their annual reports by including explanations of trends and movements in quantitative data in those reports. These explanations should not be limited to financial data. Where process KPIs and outputs, outcomes and impacts are presented in quantitative form, explanations of movements from year to year should be provided.</p>

Table 2: Recommendations to enhance NFP financial reporting

<p>Special purpose or general purpose financial report</p>	<p>NFPs that currently prepare a special purpose financial report (SPFR) for presentation to stakeholders consider whether such a report meets its stakeholders needs, having regard to:</p> <ul style="list-style-type: none"> > The number and spread of stakeholders > The level of direct involvement by stakeholders in the day-to-day management of the organisation > The community impact of their activities > The extent to which the NFP is reliant on government or philanthropic grants and donations. <p>In our opinion, the preparation of a SPFR should be the exception rather than the rule.</p>
<p>Segment reporting</p>	<p>Until a NFP specific segment reporting accounting standard is developed, NFPs disclose segment information in their financial statements where it would enhance the information presented to the users of the statements by:</p> <ul style="list-style-type: none"> > Enabling the user to better assess the achievements of a NFP with diversified activities, or > Enabling comparison of the NFP’s performance with that of similar NFPs.
<p>Recognition of grant revenue</p>	<p>When considering the application of AIFRS, NFPs take the opportunity to:</p> <ul style="list-style-type: none"> > Differentiate between ‘reciprocal’ and ‘non-reciprocal grants’ and adopt appropriate revenue recognition policies for each > Review the wording of their current revenue recognition accounting policy notes and ensure it clearly explains the conditions that must be satisfied before grant revenue is recognised in profit or loss.
<p>Goods and services for no consideration</p>	<p>NFPs (in particular charitable NFPs) consider the nature and extent of non-reciprocal transfers they are involved in that result in the receipt of goods and services for no consideration, and, if material, develop an appropriate accounting policy and make appropriate disclosures in the NFP’s financial statements regarding these transactions.</p>
<p>Inventories for distribution</p>	<p>NFPs consider the extent to which they are in receipt of inventories for distribution at no or nominal cost and, if material, develop an appropriate accounting policy and make appropriate disclosures in the NFP’s financial statements.</p>
<p>Economic dependence</p>	<p>Any NFP in receipt of grants should consider the impact on the organisation’s financial performance and position if the grants were not to be received. If the NFP’s financial performance and/or financial position would be adversely affected, the appropriate economic dependence disclosures should be made by way of note to the financial statements.</p>
<p>Impact of AIFRS</p>	<p>NFPs review the impact of AIFRS in the light of:</p> <ul style="list-style-type: none"> > The NFP specific text in the AIFRS > The financial picture of the organisation presented to its key stakeholders after the application of AIFRS. <p>Where necessary, NFPs should develop strategies to explain to their stakeholders the financial impact of adopting AIFRS.</p>

The annual report

Arguably, the annual report is more important than the financial report. The annual report should elaborate, magnify, expand and clarify information included in the financial report.

More importantly, the annual report should be used as a tool for demonstrating an organisation's openness and transparency.

'Good reporting will explain what the charity is trying to do and how it is going about it. It will assist the user of accounts in addressing the progress made by the charity against its objectives for the year and in understanding its plans for the future. Good reporting will also explain the charity's governance and management structure and enable the reader to understand how the numerical part of the accounts relates to the organisational structure and activities of the charity...'¹

The checklist that follows is designed to assist the user in assessing whether their NFP annual report:

- > Explains the NFP's objectives and activities
- > Explains the NFP's governance arrangements
- > Is complete
- > Is clear

The checklist reflects the reporting guidelines developed by the Global Reporting Initiative (GRI). The GRI is an independent institution whose mission is to develop and disseminate globally applicable reporting guidelines. These guidelines are for voluntary use by organisations for reporting on the economic, environmental and social dimensions of their activities, products and services. GRI is an official collaborating centre of the United Nations Environment Programme (UNEP). The application of these guidelines to Australian private sector NFPs is detailed in Table 3.

1. SORP 2005, *Accounting and Reporting by Charities: Statement of Recommended Practice*, United Kingdom Charity Commission, 2005. Copies of this document can be downloaded from www.charity-commission.gov.uk

Table 3: GRI reporting principles and the not-for-profit sector

Principle		Application to NFPs
Transparency	Full disclosure of the processes, procedures and assumptions are essential to the annual report's credibility.	NFPs enjoy the trust of the broad community. It is assumed that NFPs will spend their funds wisely and effectively. NFPs must communicate what they are trying to do and how they are going about it. Reports by the NFP must show whether the NFP has achieved its objectives during the year and explain its plans for the future.
Inclusiveness	The reporting organisation should engage its stakeholders in preparing and enhancing the quality of reports.	Engaging NFP stakeholders involves acknowledging the involvement and contribution of volunteers, and the receipt of funding from governments, philanthropic trusts and foundations. In certain situations it is important to demonstrate how the organisation takes account of the views of the beneficiaries of (or participants in) the NFP's program or services or the sports.
Completeness	All material information should appear.	The interpretation of financial information is enhanced by the inclusion of input, output and outcome measures in NFP reports. This provides stakeholders with evidence of what their funding achieves rather than simply how it is spent.
Auditability	Information should be disclosed in a way that enables internal or external auditors to attest to its reliability.	The provision of audit reports enhances the confidence that can be placed in the information included in the NFP's reports.
Relevance	Reporting organisations should provide information with user requirements in mind.	NFPs should avoid presenting their reports as public relations documents designed to elicit donations.
Accuracy	Reports should be accurate to allow users to make decisions with confidence.	As noted above, the provision of audit reports enhances the users' confidence in the NFP's reports.
Reliability	Reports should be neutral and avoid bias.	NFPs should report honestly on the events, activities or strategies that have impacted on their performance. The same approach should be taken with both satisfactory and unsatisfactory performance.
Comparability	Reports should be consistent and allow comparison to earlier reports and to other comparable organisations.	The provision of comparative information allows comparisons with published plans and the outcomes of previous periods.
Clarity	Information should be easily understood, without loss of detail.	The interpretation of quantitative information will be enhanced by narrative explanations.
Timeliness	Reports should meet user needs within a reasonable time frame.	In addition to issuing their reports on a timely basis, NFPs need to ensure their reports provide an opportunity to explain future plans and developments in the environment in which the NFPs operate in.

1. Do we explain what we are trying to achieve?

This section of the checklist asks a series of questions to ensure the annual report explains what the NFP is trying to achieve.

	Yes	No	Not applicable
1.1 Mission statement			
Does the annual report include our mission statement – a succinct statement of our core purpose; why we exist?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.2 Objectives			
Does our annual report:			
a) Include a summary of our objectives as listed in our constitution or governing document?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Include a list of the specific objectives we set for the year covered by the report?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Explain our strategy or plan for achieving our objectives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.3 Activities			
Does our annual report:			
a) Explain the significant activities that we undertook to achieve our objectives? What programs did we run, what projects did we undertake, what services did we provide, what grants did we make?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Explain the outcomes we expected from our activities? Does the annual report explain the impacts on, or the consequences for, the community resulting from the existence of our organisation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Explain the role and importance of volunteers in carrying out our activities? Have we explained the activities the volunteers are involved in? Have we considered disclosing the volunteers contribution in terms of hours or staff equivalents or even assigning a \$ value to their contribution?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
1.4 Future plans			
Does our annual report explain our plans for the future? Do we explain our long term aims, the objectives we have set for next year? and the activities we have planned to achieve these objectives?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

2. Who are we and how are we governed?

This section of the checklist asks a series of questions to assess whether the annual report explains the structure of the NFP and how it is governed.

	Yes	No	Not applicable
2.1 Who are we?			
Does the annual report include:			
a) The name of our organisation, including any 'trading names'?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Our Australian Company Number (ACN) or Australian Business Number (ABN)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Details of any other registrations necessary to carry out our activities (e.g. registrations under fundraising legislation)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) The address(es) of our office(s)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e) An explanation of how we are constituted (company limited by guarantee, incorporated association, Royal Charter or Act of Parliament)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.2 Who are our Board members?			
Does our annual report include the following information regarding our Board members:			
a) Their names?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Their qualifications, skills and experience?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) The length of their involvement with our organisation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Their special responsibilities (e.g. fundraising, Audit Committee etc.)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.3 Who manages us on a day-to-day basis?			
Does the annual report disclose the following regarding our Chief Executive Officer and other senior management team members?			
a) Their names?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Their qualifications, skills and experience?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Their length of service with the organisation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.4 Who else is involved in our organisation?			
Does the annual report disclose the names and addresses of other relevant organisations or individuals such as our:			
a) Bankers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Solicitors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Auditors?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Investment advisers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2.5 Do we explain how we are governed?			
Does our annual report include the following, either in a 'Governance Statement' or elsewhere in the report:			
a) The role of our Board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) The processes of our Board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) How we educate our Board members?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) The composition of our Board?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e) Our Board Committees and their functions?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f) Our approach to risk management?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g) Our ethical standards?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h) How we ensure compliance with relevant legislation and regulation?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Examples of Governance Statements can be found on pages 14 to 17

3. Reporting performance and achievements

This section of the checklist asks a series of questions to assess whether the annual report explains the results of the NFP's performance and its achievements during the year covered by the report. The questions are designed so that the person completing them can reach a conclusion on the completeness and clarity of the annual report.

	Yes	No	Not applicable
3.1 How have we met our objectives?			
Does the annual report explain our actual performance against the objectives detailed in last year's report? Have we:			
a) Detailed the output indicators we use to measure our performance and disclose actual and planned performance? <i>Output indicators are measures of the goods or services produced or provided by the organisation. Tables 4(a) and 4(b) on pages 18 and 19 provide examples. Each organisation needs to define its own output measures.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Detailed the outcome indicators we use to measure our performance and disclose actual and planned performance? <i>Outcomes are the impacts on or the consequences for the community resulting from activities. Tables 5(a) and 5(b) on pages 20 and 21 provide examples. Each organisation needs to define its own output measures. The following question will assist in this task: 'How will the participant's or community's knowledge, attitude, value, skill, behaviour, condition or status change as a result of our activity?'</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Included examples to illustrate our outcomes?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Used graphs, tables and photographs where necessary to summarise our performance and achievements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e) Commented on matters we are able to control and those that are outside our control? <i>Consider a commentary on relationships with employees, users or beneficiaries of services, significant funders, occupational health and safety and training. Other commentary might include factors impacting on fundraising and government policy.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.2 Have we explained the results of our fundraising?			
Does our annual report include the following information:			
a) Actual fundraising against fundraising targets? <i>Consider separate disclosure of fundraising through public appeals, regular giving programs, legacies and bequests, philanthropic grants, government grants, and government funding for delivery of services.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) The costs of our fundraising efforts?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) The costs of our fundraising efforts as a percentage of funds raised?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) A commentary on our 'investment in fundraising'? <i>Where the NFP has incurred significant expenditure relating to future fundraising this should be commented on. Commentary should include an explanation of the impact on the current year's return from fundraising and future years' fundraising income.</i>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.3 Do we show how efficiently we have used our resources?			
3.3.1 Does our annual report include the following information regarding the use of our funds:			
a) The funds we have spent on our primary purpose(s) as a percentage of total expenditure?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) The funds we have spent on our primary purpose(s) as a percentage of total funds received during the year?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) The performance of our investments during the year compared with the investment objectives that have been set for the year?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3.3.2 Does our annual report detail the following information regarding the services we provide:			
a) The outputs we have delivered?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) The outputs delivered per employee or volunteer?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) The cost per unit of output?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. Reporting performance and achievements (continued)

	Yes	No	Not applicable
3.3.3 Does our annual report detail the following information regarding our commercial activity:			
a) Gross profit margin?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) The commercial activity's cash contribution to our core activity?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) The cash contribution per person employed in the commercial activity?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) The hours of employment provided by the commercial activity to those served by our core activities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3.1 Do we explain our financial performance and position?

3.1.1 Do we include a financial discussion and analysis?

Does our annual report include a discussion and analysis of the factors affecting our financial performance, financial position and financing and investing activities?

For example, does the annual report include commentary on:

a) Trends in revenues?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) The effects of significant economic or other events on our operations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) The main influences on costs of our operations?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Appropriate measures of our financial performance?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e) Changes in the composition of our assets?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f) Significant movements in our assets, liabilities and reserves?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g) Changes in our cash flows?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h) The financing of our capital expenditure programs?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3.1.2 Have we considered a five year summary?

Have we included a summary depicting our financial and operational performance over the past five years?

	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--	--------------------------	--------------------------	--------------------------

Examples of governance statements

NFPs can enhance the transparency of their organisation by including a governance statement in their annual report. In broad terms, the governance statement should explain the processes that are in place to ensure the NFP's mission is achieved, direct strategy, sustain the organisation and maintain accountability throughout the organisation. The examples of governance statements that follow are for two fictional NFPs which can be adapted to suit any NFP. The background for each of these provides some context for the disclosures in the governance statements.

Nonquestus

Nonquestus is a significant NFP involved in the raising of funds for research to find a cure for a particular disease and the provision of long-term and respite care for sufferers of the disease. It is funded by a mixture of government grants, philanthropic grants, funds raised through annual appeals and regular giving programs, and the profits of volunteer staffed 'op-shops'. Nonquestus operates three long-term/respite care facilities and ten op-shops in Victoria and is centrally managed from Melbourne.

The long-term and respite care facilities are run in a 'self funding' model for operations. Capital expenditure for these operations comes from grants and fundraising. Nonquestus employs 200 people and has the assistance of the same number of volunteers. Turnover is in excess of \$35m.

Nonquestus is a company limited by guarantee. The company's constitution makes membership of the company available to those who have undertaken to contribute to the company's debts in the event of it winding up, or individuals who have contributed more than \$1,000 to the organisation or individuals who have made a significant contribution as volunteers. These groups are known as guarantor, donor and volunteer members respectively.

Ludus Inc.

Ludus Inc. is a suburban sporting club that fields one senior and three junior teams in a suburban amateur league. In addition to all the activities associated with the fielding of these teams, it is a participant in a program that provides non-competitive recreational activities for teenagers and children within the suburb. This program is funded by a \$10,000 grant from the national sporting body. Other than this grant, its activities are funded by sponsorship from local businesses, membership subscriptions from players and others, and a grant from the local council. Total turnover is \$50,000.

Ludus is incorporated under the *Associations Incorporation Act*. Its members are its registered players, participants in the recreational program, and other involved members of the community. Total membership is 200. Ludus has no employees – it relies on volunteers to carry out all functions relating to its activities.

Nonquestus

(A Company Limited by Guarantee)

Governance Statement

Nonquestus is a company limited by guarantee, incorporated under the *Corporations Act 2001*. Ultimate responsibility for the governance of the company rests with the Board of Directors. This governance statement outlines how the Board meets that responsibility.

Achieving the mission

The Board's primary role is to ensure that Nonquestus' activities are directed towards achieving its mission of finding a cure for 'the disease' and providing the best possible care for sufferers until that cure is found. The Board must ensure that this mission is achieved in the most efficient and effective way.

Specific responsibilities of the Board

The Board fulfils its primary role by:

- > Selecting, appointing, guiding and monitoring the performance of the chief executive
- > Formulating Nonquestus' strategic plan in conjunction with the chief executive and senior management
- > Approving operating and capital budgets formulated by the chief executive and management
- > Monitoring management's progress in achieving the strategic plan
- > Monitoring management's adherence to operating and capital budgets
- > Ensuring the integrity of internal control, risk management and management information systems
- > Ensuring stakeholders receive regular reports, including financial reports
- > Ensuring the company complies with relevant legislation and regulations
- > Acting as an advocate for Nonquestus whenever and wherever necessary.

These responsibilities are set out in the Board's Charter, which can be viewed on the company's website, www.nonquestus.com.au.

Management's responsibility

The Board has formally delegated responsibility for Nonquestus' day-to-day operations and administration to the chief executive and executive management.

Board oversight

The Board oversees and monitors management's performance by:

- > Meeting at least 10 times during the year
- > Receiving detailed financial and other reports from management at these meetings
- > Receiving additional information and input from management when necessary
- > Assigning to the Finance, Audit and Risk, Nominations and Remuneration, Research and Quality of Care Committees of the Board responsibility to oversee particular aspects of Nonquestus' operations and administration.

Each Board Committee operates under a Charter approved by the Board. These Charters are reviewed annually and updated as necessary. Copies of the Charters can be viewed on the company's website, www.nonquestus.com.au

Nonquestus

(A Company Limited by Guarantee)

Governance Statement

Board members

All Board members are non-executive directors and receive no remuneration for their services. The company's constitution specifies:

- > There must be no less than five and no more than 11 directors
- > No employees of the company, including the chief executive, can be a director of the company
- > Directors are appointed for a maximum of two terms of four years each.

The Nominations and Remuneration Committee oversees the appointment and induction process for Board and Committee members. Recommendations for appointment are made to ensure the Board has the right mix of skills, experience and expertise. Board members are elected by the company's guarantor, donor and volunteer members.

Board and Committee members receive written advice of the terms and conditions of their appointment and complete a structured induction program when first appointed. Board and Committee members knowledge of the business is maintained by regular visits to Nonquestus operations, management presentations and access to continuing education programs as necessary.

The performance of individual Board and Committee members and the Board and Board Committees is assessed annually.

Risk management

The Board oversees the establishment, implementation and annual review of Nonquestus' risk management system, which is designed to protect the organisation's reputation and manage those risks that might preclude it from achieving its goals.

Management is responsible for establishing and implementing the risk management system which assesses, monitors and manages operational, financial reporting and compliance risks. The Audit and Risk Committee is responsible for monitoring the effectiveness of the risk management system between annual reviews.

Ethical standards and code of conduct

Board members, senior executives and staff are expected to comply with relevant laws and the codes of conduct of relevant professional bodies, and to act with integrity, compassion, fairness and honesty at all times when dealing with colleagues, sufferers and others who are stakeholders in our mission. Board and Committee members and staff are made aware of Nonquestus' ethical standards and code of conduct during their induction to the organisation and are provided with a copy of both documents at that time.

Involving stakeholders

Nonquestus has many stakeholders, including those we care for and their families, those we provide with grant funds, our donors and benefactors, our staff and volunteers, the broader community, the government agencies who provide us funds and regulate our operations, and our suppliers.

We adopt a consultative approach in dealing with our stakeholders. Community committees have been established at each of our long-term and respite care facilities. Volunteer forums have been established and staff can provide feedback via forums and regular surveys. Grant recipients report regularly to the Research Committee. We get involved in industry forums to ensure governments at all levels are aware of our concerns and our achievements and to remain abreast of industry developments.

Ludus Incorporated

(Incorporated under the Associations Incorporation Act)

Governance Statement

Ludus Inc. is incorporated under the *Associations Incorporation Act* and operates under the rules of association adopted by the members on 20 July 1998. Under these rules, Ludus' affairs are managed by the Committee of Management – the Committee. This governance statement outlines how the Committee discharges that responsibility.

The Committee's primary role is to ensure Ludus achieves its objective of providing an enjoyable, safe and (where applicable) competitively successful recreational experience for both competitor and non-competitor participants in 'the sport'. Ludus is reliant on its members' subscriptions, grants and sponsorship, and volunteers, in providing this experience to its members.

The Committee, which comprises the president, the vice-president, treasurer, secretary and two ordinary members, is elected each year at the annual general meeting. In fulfilling its primary role, the Committee meets at least six times per year. At these meetings it considers:

- > The treasurer's report, which details our income, expenditure and financial position
- > Membership matters
- > Competitive results and team matters
- > The outcomes of the non-competitive recreational program
- > Sponsorship and fundraising matters
- > Community relationships, including league matters and local government liaison
- > Risk management including insurance matters.

The Committee is assisted by the Team and Selection, Finance, Fundraising and Audit and Community Committees. Each of these Committees has a charter that defines its roles and responsibilities.

The proceedings at each meeting are minuted and summarised in our quarterly newsletter. Minutes are available for inspection by members at any time.

The Committee reports to members at the annual general meeting. At the annual general meeting the annual report, which includes the audited financial report for the year just ended, is presented to members, together with the budget and plan for the forthcoming year. A summary of performance against budget and plan is provided in the quarterly newsletter.

Table 4(a): Output measures – charitable NFPs

This table details some output indicators that might be used by charitable NFPs to illustrate performance during a year or over an extended period (for example, in a five year summary). Output indicators measure the activities undertaken or the goods or services produced or provided to users by the organisation. The list in this table is not exhaustive and will not cover all NFPs. Each organisation needs to define its own output measures based on the activities it conducts or the products and services it delivers to the community.

Type of NFP	Suggested output indicators
Drug advice centre	<ul style="list-style-type: none"> > Information sessions delivered to schools or community groups > Number of addicts assisted > Number of people assisted by outreach programs > Number of people assisted by training programs as part of rehabilitation
Grant-making trust	<ul style="list-style-type: none"> > Number of grants made during the year > \$ value of grants made during the year
Overseas aid organisation	<ul style="list-style-type: none"> > Number of people assisted > Number of programs delivered during the year, analysed by the nature of program and location of delivery of program > The number of volunteers placed in overseas locations to deliver aid > Value of aid provided (including the value of in-kind donations distributed) > Number of people trained by programs
Disease-focused charity	<ul style="list-style-type: none"> > Number and \$ value of grants made for research > Number of sufferers assisted with equipment or subsidies for medication > Number of sufferers transported for treatment > Number of sufferers cared for in facilities > Information packs provided to sufferers and sufferers families > Volunteer hours provided to assist families of sufferers > Number of contacts with policy makers
Organisation providing assistance to homeless or needy	<ul style="list-style-type: none"> > Accommodation available (number of beds) > Number of people sheltered > Number of meals provided or delivered > Number of children provided with educational assistance > Value of clothing provided > Number of families assisted with food and clothing vouchers

Table 4(b): Output measures – sporting NFPs

This table details some output indicators that might be used by sporting NFPs to illustrate performance during a year or over an extended period (for example, in a five year summary). Output indicators measure the activities undertaken or the goods or services produced or provided to users by the organisation. The list in this table is not exhaustive and will not cover all NFPs. Each organisation needs to define its own output measures based on the activities it conducts or the products and services it delivers to the community. The suggested indicators will need to be modified for the specific circumstances of the NFP (local club, regional or state league or association or national body).

Nature of output	Suggested output indicators
Promotion and development	<ul style="list-style-type: none"> > Number of promotion events conducted > Number of promotion kits distributed > Media coverage > Number of contacts with relevant local, state or national government politicians or officers > Number of coaching clinics conducted
Competition	<ul style="list-style-type: none"> > Number of events mounted > Number of events participated in > Teams fielded
Participation	<ul style="list-style-type: none"> > Number of members registered with the NFP > Number of members participating in the sport during the season
Encouragement and talent development	<ul style="list-style-type: none"> > Number of development squads conducted > Number of members selected for regional, state or national training squads
Coaching development	<ul style="list-style-type: none"> > Number of coaching information sessions conducted > Number of enrolments for coaching education programs > Number attending accreditation sessions > Number of new coaches accredited during the year > Number of coaches retaining accreditation
Official development	<ul style="list-style-type: none"> > Number of 'officials' information sessions conducted > Number of update sessions conducted > Number of enrolments for official education programs > Number attending accreditation sessions > Number of new officials accredited during the year > Number of officials retaining accreditation
Compliance	<ul style="list-style-type: none"> > Number of player education (including anti-doping) workshops conducted > Number of players subjected to drug tests > Number of drug tests conducted.

Table 5(a): Outcomes – charitable NFPs

This table details some outcome indicators that might be used by charitable NFPs to illustrate performance during a year or over an extended period (for example, in a five year summary). Outcomes are the impacts on or the consequences for the community resulting from the NFP's activities. They could be expressed as changes, benefits learning or other effects. The list in this table is not exhaustive and will not cover all NFPs. Each organisation needs to define its own outcome indicators based on the activities conducted or the products and services it delivers to the community. In certain circumstances outcomes may be best illustrated by individual examples.

Type of NFP	Suggested outcome indicators
Drug advice centre	<ul style="list-style-type: none"> > Number of program participants who re-present > Number of people assisted by training programs as part of rehabilitation who find full-time employment > The penetration of drug use in the community served by the centre
Grant-making trust	<ul style="list-style-type: none"> > Expected and actual outcomes of activity funded by the grant (for example, research results, students who complete education)
Overseas aid organisation	<ul style="list-style-type: none"> > Economic benefits to the community – the number of micro businesses started, and their progress, livestock purchased, agricultural improvements and their progress, etc. > Educational benefits to the community – number of children completing primary school
Disease-focused charity	<ul style="list-style-type: none"> > Outcome of research funded by the organisation (for example, changes in the approach to care) > Feedback from sufferers or their families (survey results) > Advocacy outcomes – changes in legislation or regulation; funding provided for research or facilities
Organisation providing assistance to homeless or needy	<ul style="list-style-type: none"> > Utilisation of care – number of bed nights provided as a percentage of bed nights available > Number of children completing education to a certain level as a result of assistance provided > Advocacy outcomes – changes in legislation or regulation; funding provided for facilities

Table 5(b): Outcomes – sporting NFPs

This table details some outcome indicators that might be used by sporting NFPs to illustrate performance during a year or over an extended period (for example, in a five year summary). Outcomes are the impacts on or the consequences for the community resulting from your activities. They could be expressed as changes, benefits learning or other effects. The list in this table is not exhaustive and will not cover all NFPs. Each organisation needs to define its own outcome indicators based on the activities conducted or the products and services it delivers to the community. In certain circumstances outcomes may be best illustrated by individual examples.

Nature of output	Suggested output indicators
Promotion and development	<ul style="list-style-type: none"> > Number of new participants recruited > Growth in number of participants > Percentage of young people in the 'catchment area' who participate in the sport > New facilities made available or funded
Competition	<ul style="list-style-type: none"> > Competition results (team and individual) > Improvement in results compared to previous seasons
Participation	<ul style="list-style-type: none"> > Percentage of registered members who participated in competitive or recreational activities during the year > Number of members participating in the sport during the season
Encouragement and talent development	<ul style="list-style-type: none"> > Number of members selected for training squads who are selected for regional, state or national teams
Coaching development	<ul style="list-style-type: none"> > Number of new coaches accredited
Official development	<ul style="list-style-type: none"> > Number of new officials accredited
Compliance	<ul style="list-style-type: none"> > Outcomes of drug tests > Outcomes of tribunals

The financial report

The decision as to the style of financial report to present to stakeholders must be made by a NFP's Board or governing body. The majority of NFPs prepare a general purpose financial report (GPFR) for presentation to their stakeholders.

'General purpose financial reports are those intended to meet the needs of users who are not in a position to demand reports tailored to meet their particular information needs. General purpose financial reports include those that are presented separately or within another public document such as an annual report or a prospectus.¹

The alternative, a special purpose financial report (SPFR), is defined as 'a financial report other than a general purpose financial report'.

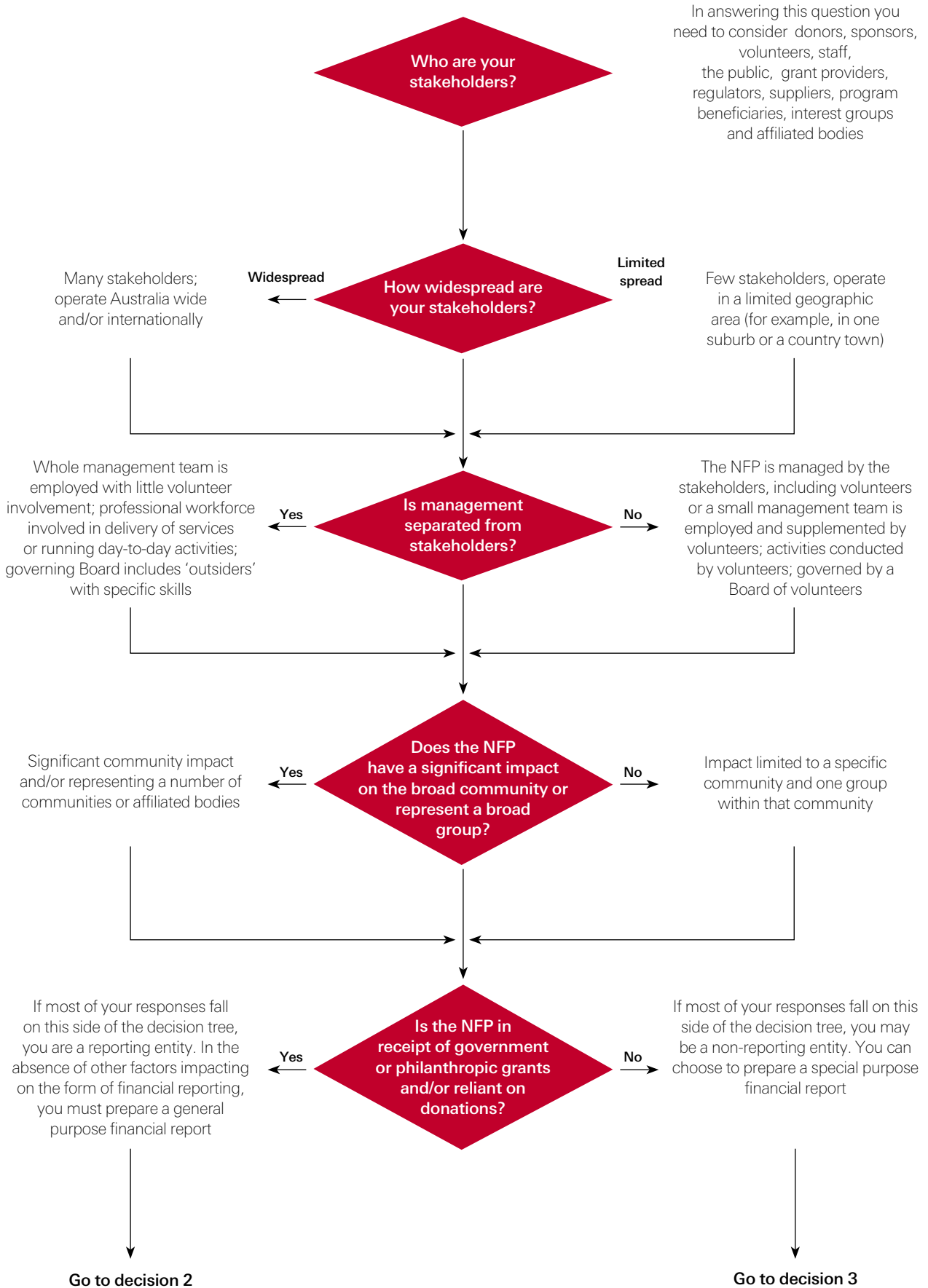
On the following pages we provide decision paths to assist NFPs in deciding what style of financial report to present to their stakeholders. Two case studies are also provided that might provide additional assistance and clarification.

These are followed by a pro-forma financial report for a fictional NFP. We emphasise that this report has been provided for guidance as to disclosures only. It is not meant to provide definitive guidance as to the application of Accounting Standards in particular circumstances.

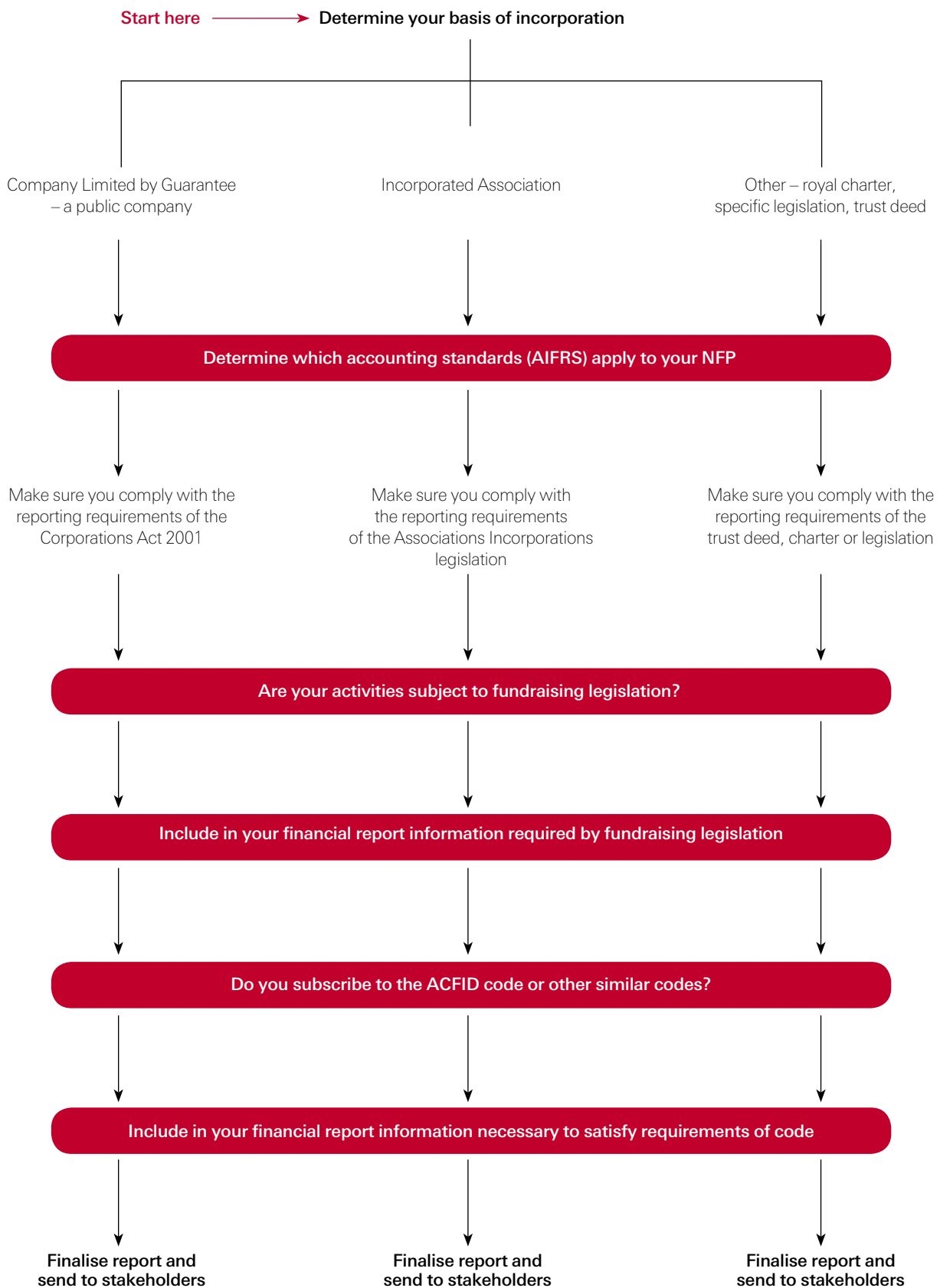
We strongly recommend that Boards, chief executives and the senior finance executives of NFPs discuss the disclosure requirements of Accounting Standards and the application of those standards to their organisation with their professional advisers.

2. AASB 101, para 2

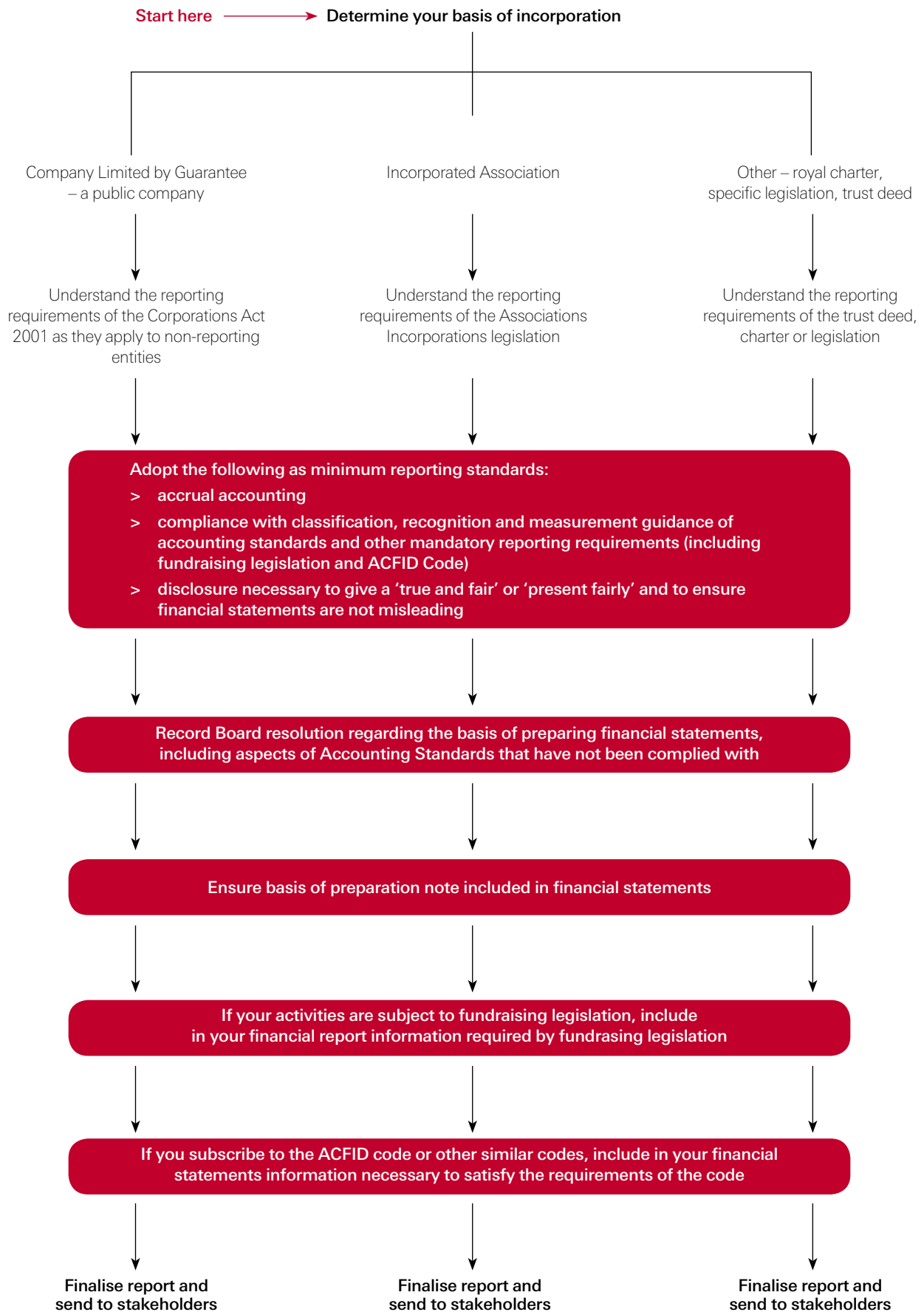
Decision 1: Are you a reporting entity?



Decision 2: What do you include in a general purpose financial report?



Decision 3: What do you include in a special purpose financial report?



Example financial report – The Nonquestus Charity

The following example financial report for the year ended 30 June 2006 is that of a fictional charitable NFP, The Nonquestus Charity. The background information is provided to assist in the interpretation of the report.

Nonquestus is a company limited by guarantee. Its activities involve:

- > The provision of residential, day and respite care to the sufferers of a disease, 'malaise'
- > The provision of emergency overseas aid to children in areas suffering famine or war
- > Advocacy and information on causes supported by Nonquestus.

Funding and income

Nonquestus' activities are funded by gifts and donations, legacies from deceased estates and charitable foundations. Over the 2004 and 2005 years, Nonquestus has been investing in its fundraising activities, the results of which can be seen in the 22 per cent increase in donation income during 2006. Particular emphasis has been placed on developing a corporate giving program, which has contributed \$1.1m to Nonquestus' funding in 2006, up from \$800,000 in 2005.

Residential, day and respite care activities are supported by grants from the federal, state and local governments. Fees charged to residents and users of day and respite care facilities are based on their capacity to pay.

A building appeal has been active for the last two years to raise funds for a new residential care facility. The appeal has raised \$1.3m over the 2005 and 2006 years specifically for this purpose.

In addition to its fundraising activities, Nonquestus operates a trading enterprise which employs a number of the people it assists. This enterprise is conducted through a mail order operation and shops that sell both donated goods and goods purchased for sale.

Nonquestus investment funds are managed by an investment manager under a mandate that includes a risk profile and target return.

Expenditure on activities

Nonquestus dissects its expenditure into costs associated with the generation of funds, expenditure on its charitable activities, and support and administration costs.

Costs of generating funds include fundraising and building appeal costs, costs of goods sold and investment management fees. Nonquestus pays close attention to the ratio of fundraising costs to funds raised. As noted above, the charity has been investing in its fundraising activities and considers that there is a time lag between this investment and increased income from donations and gifts. Note 4 to the financial statements discloses ratios to demonstrate the effectiveness of fundraising activities, including a three year rolling average of fundraising costs and funds received as a result of those activities.

Expenditure on charitable activities includes costs associated with the provision of residential, day and respite care, childcare and emergency costs, and costs incurred in providing information and education on causes supported by Nonquestus.

As a company limited by guarantee, Nonquestus is required to comply with the reporting provisions of the Corporations Act. The example report therefore includes a directors report, directors declaration and auditors report.

Financial report for the year ended 30 June 2006

The following example financial report is provided for illustrative purposes only, dealing with the most likely disclosure requirements of a not-for-profit entity. It does not purport to show all possible accounting and disclosure requirements and should not be regarded as a comprehensive checklist of accounting requirements. In particular there are no defined benefit fund note disclosures included in the example financial report. Any not-for-profit entity contributing to a defined benefit fund should be aware that substantial, additional disclosures are required in respect of the fund to refer to AASB 119 Employee Benefits for further guidance.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular not-for-profit entity. Although every attempt has been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No-one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

The following abbreviations have been used in the explanatory notes and citations included in the report:

AASB 136.9

Australian Accounting Standard AASB 136, paragraph 9

UIG 115.4

Urgent Issues Group Interpretation No. 115, paragraph 4

Corp 300A

Corporations Act 2001, section 300A

Note: An explanation of how the AIFRS have been interpreted in arriving at the illustrative disclosure, found at the end of the financial report (pages 61 and 62).

The Nonquestus Charity

(A Company Limited by Guarantee)

Directors report for the year ended 30 June 2006

Corp 298(1) Your directors present this report to the members of The Nonquestus Charity (the company) for the year ended 30 June 2006.

Directors

Corp 300(1)(c) The names of each person who has been a director during the year and to the date of this report are:
Corp 300 (10)(b) and (c)

	Date Appointed	Date of Cessation	Board		Finance		Remun'n*		Audit		Q of C**	
			A	B	A	B	A	B	A	B	A	B
A Borodin (Chair)	15 Dec 99	-	11	11	3	11	2	2	2	5	1	4
M Bruch	19 Jun 00	-	11	11	11	11	2	2	5	5		
W Byrd	19 Jun 00	-	8	11								
B Britten	31 Oct 01	-	10	11					5	5	4	4
J Cage	30 May 02	-	9	11	8	11	2	2				
E Elgar	10 Dec 02	-	9	11							4	4
E Greig	31 May 04	-	7	11								
H Purcell	27 Jul 05	-	9	10								
F Schubert	27 Oct 05	-	8	8								
R Wagner	16 Feb 98	27 Jul 05	-	1								
R V Williams	17 May 97	27 Jul 05	-	1								

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

* = Remuneration Committee

** = Quality of Care Committee

Corp 300 (10)(a) Details of directors qualifications, experience and special responsibilities can be found later in this report.

Company secretary

Corp 300 (10)(d) Ms Fiona Summersun LLB has been the company secretary since July 2001. Prior to joining the company Ms Summersun was an associate with a major legal practice.

Principal activities

Corp 299(1)(c) The company's principal activities during the year were:

- > The raising of funds for research to find a cure for 'malaise'
- > The provision of long-term residential and day and respite care for sufferers of the disease
- > The provision of emergency aid to children in Australia and overseas
- > The raising of funds for these activities through government grants, philanthropic grants, annual appeals and regular giving programs
- > Operating volunteer staffed 'op-shops'.

Operating result and review of operations

Corp 299(1)(a) The operating result for the year was a surplus of \$2,655,000 (2005 - \$265,000). The company is exempt from income tax.

A detailed review of operations can be found in the annual report which accompanies this financial report.

Adoption of Australian equivalents to International Financial Reporting Standards (AIFRS)

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS), the company's financial report has been prepared in accordance with these standards for the first time. Notes 2(b) and 19 to the financial statements provide further information regarding the application of AIFRS.

The Nonquestus Charity

(A Company Limited by Guarantee)

Directors report for the year ended 30 June 2006

Dividends

The company's constitution precludes the payment of dividends.

Corp 299(1)(b)

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the company that occurred during the financial year under review not otherwise disclosed in this report.

Corp 299(1)(d)

After balance date events

There has not arisen in the interval between the end of the financial year and the date of the report any item, transaction or event of a material and unusual nature that in the opinion of the directors is likely to substantially affect the operations of the company, the results of those operations or the company's state of affairs in future financial years.

Corp 299(1)(e)

Future developments

The company will continue to carry on the principal activities noted above. There are no likely developments in the activities in future years which will affect the results and therefore require disclosure.

Corp 299(1)(f)

Environmental regulations

The company's long-term residential and day and respite care activities and its 'op-shop' operations are subject to environmental regulations under both Commonwealth and state legislation. The company aims to achieve a high standard in environmental matters. During this financial year licences were renewed and taken out as and when required by environmental authorities. The directors have not received notification nor are they aware of any breaches of environmental laws by the company.

Corp 306(2)

Auditors independence

The auditors declaration of independence appears later in the report.

Rounding

The company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and, in accordance with that Class Order, amounts in the financial report and directors report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Corp 300(8)(b)

Corp 300(9)(a),

(c) and (d)

Corp 199B

Indemnification and insurance of officers and auditors

Since the end of the previous financial year the company has paid insurance premiums of \$18,000 in respect of directors and officers liability and legal expenses' insurance contracts for current and former directors and officers, including senior executives of the company.

The insurance premiums relate to:

- > Costs and expenses incurred by the relevant officers in defending proceedings whether civil or criminal and whatever the outcome
- > Other liabilities that may arise from their position, with the exception of conduct involving wilful breach of duty or improper use of information or position to gain a personal advantage.

Premiums totalling \$11,000 were paid in respect of the current and former directors named in this report, and former directors Mr L J Winston, Mr R Starkey, Ms L McPaul and Ms H George. Premiums totalling \$7,000 were paid in respect of those officers of the company holding the positions of chief executive, company secretary, chief finance officer and executive director.

The company has not otherwise indemnified or agreed to indemnify an officer or auditor of the company against a liability incurred as such an officer or auditor.

Corp 298(2)

Signed in accordance with a resolution of the directors made pursuant to s. 298(2) of the Corporations Act.

On behalf of the directors:

A Borodin

Melbourne, 23 September 2006

The Nonquestus Charity

(A Company Limited by Guarantee)

Auditor's Declaration of Independence

Corp 306(2)

To the directors of Nonquestus Limited

I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (i) The auditor independence requirements of the *Corporations Act 2001* in relation to the audit
- (ii) Any applicable code of professional conduct in relation to the audit.

ProBono and Co

Chartered Accountants

Gary Goodfellow

Partner

Melbourne, 23 September 2006

The Nonquestus Charity

(A Company Limited by Guarantee)

Directors qualifications, experience and special responsibilities

Corp 300(10)(a)

Name (age)	Qualifications	Experience	Special responsibilities
Albert Borodin (63)	BSc, FAICD	Chairman of MultiNatio Limited; Director of Tabula Arts Limited and Pecunia Bank Limited. Board member for over six years.	Chairman
Maxine Bruch (44)	BComm, FCA	Partner, Propter Chartered Accountants for 10 years. Board member for six years.	Finance, Remuneration and Audit Committees
Wayne Byrd (42)	BBus (Marketing)	Director, Mancipo Advertising Limited. Board member for six years.	Marketing and Communications
Brenda Britten (38)	BArts, Grad Dip Health Services Management	Board member for over four years. Executive Director of the Federal Department of Communities.	Audit Committee, Quality of Care Committee
James Cage (48)	BComm LLB, Solicitor	Partner, LexLegis Lawyers specialising in corporate and contract law. Board member for four years.	Finance and Remuneration Committees
Elaine Elgar (37)	BArts	Malaise survivor. Board member for over three years.	Quality of Care Committee
Eric Greig (60)	MD, FRACS	Retired medical practitioner specialising in the care of malaise sufferers. Board member for over two years.	
Herbert Purcell (68)		Retired Director of Externus Care UK, an organisation that delivered care to children in Bosnia Herzegovina during the conflict in that country. Joined the Board after returning to Australia in early 2005.	
Francis Schubert (34)	BArts, Grad Dip Marketing	Founding Director of FrigusVestis Apparel. Joined the Board during the current year.	Marketing and Communications

The Nonquestus Charity

(A Company Limited by Guarantee)

Financial Report for the Year Ended 30 June 2006

AASB 101.46

	Note	2006 \$'000	2005 \$'000
Income statement			
Continuing operations			
AASB 101.8(b), .88			
AASB 101.83, .86			
AASB 101.81(a)			
Fundraising:	2(d), 3(a)		
<i>Donations and gifts</i>		7,330	6,000
<i>Legacies</i>		2,150	1,330
<i>Building appeal</i>		400	900
Residential care:			
<i>Government funding</i>		700	400
<i>Fees from residents</i>		1,200	1,000
Sales of goods		1,140	900
Investment income	2(d)	400	475
Net gain on disposal of available-for-sale investments	2(d)	500	115
Net gain on disposal of fixed assets	2(d)	20	30
Revenue and other income	3(a), (b)	13,840	11,150
Fundraising		690	550
Building appeal costs		45	110
AASB 102.36(d)			
Costs of goods sold		870	710
Investment management fees		90	110
Residential care costs		2,430	2,545
Childcare and emergency costs		6,500	6,150
Information and education		100	300
Support costs		190	180
Finance costs		12	14
Management and administration		258	216
Expenditure	3(c)	11,185	10,885
Net surplus for the year		2,655	265

The income statement is to be read in conjunction with the attached notes

AASB 101.5

'This Standard uses terminology that is suitable for profit-oriented entities, including public sector business entities. Entities with not-for-profit activities in the private sector applying ... this Standard may need to amend the descriptions used for particular line items in the financial statements and for the financial statements themselves.'

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AASB 101.8(b), .32, .69,

Aus69.1, 74, 104

	Note	2006 \$'000	2005 \$'000
Balance Sheet			
Assets			
Current assets			
AASB 101.68(i)			
<i>Cash and cash equivalents</i>	5	4,490	3,200
AASB 101.68(h)			
<i>Trade and other receivables</i>	6	1,765	1,000
AASB 101.68(g)			
<i>Inventories</i>	7	300	400
Total current assets		6,555	4,600
Non-current assets			
AASB 101.68(a)			
<i>Property plant and equipment</i>	8	5,500	4,000
AASB 101.68(d)			
<i>Available-for-sale financial investments</i>	9	2,615	3,115
Total non-current assets		8,115	7,115
Total assets		14,670	11,715
Liabilities			
Current liabilities			
AASB 101.68(j)			
<i>Trade creditors and other payables</i>	10	1,105	905
<i>Interest bearing loans</i>	11	40	40
AASB 101.68(k)			
<i>Provisions</i>	12(a)	155	115
Total current liabilities		1,300	1,060
Non-current liabilities			
<i>Interest bearing loans</i>	11	100	140
AASB 101.68(k)			
<i>Provisions</i>	12(b)	200	200
Total non-current liabilities		300	340
Total liabilities		1,600	1,400
Net assets		13,070	10,315
Funds			
AASB 101.5 – refer previous page	13		
AASB 101.Aus68.1			
General funds		7,845	4,425
Designated funds		350	300
Restricted funds		3,065	3,880
Asset revaluation reserve		1,670	1,670
Net unrealised gains reserve		140	40
Total funds		13,070	10,315

The balance sheet is to be read in conjunction with the attached notes

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AASB 101.8(c)(ii)

	Note	2006 \$'000	2005 \$'000
Statement of Recognised Income and Expense			
AASB 132.94(h)(ii); AASB 139.55(b)			
Net gains on available-for-sale investments	13	100	20
AASB 101.96(b)			
Fair value revaluation of land and buildings	13	-	670
AASB 101.96(b)			
Net income recognised directly in equity		100	690
AASB 101.96(a)			
Net surplus for the year		2,655	265
Total recognised income and expense for the year	13	2,755	955

The statement of recognised income and expense is to be read in conjunction with the attached notes

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Financial Report for the Year Ended 30 June 2006

	Note	2006 \$'000	2005 \$'000
Cash Flow Statement			
Cash flows from operating activities			
Receipts from:			
		7,330	6,000
		1,565	1,160
		400	900
		1,200	1,000
		700	400
		1,085	610
		275	355
		(10,465)	(9,830)
	15	2,090	595
Cash flows from investing activities			
		130	170
		(1,990)	(1,000)
		(1,200)	(865)
		2,300	915
		(760)	(780)
Cash flows from financing activities			
		(40)	(40)
		(40)	(40)
		1,290	(225)
		3,200	3,425
	2(f), 5	4,490	3,200

The cash flow statement is to be read in conjunction with the attached notes

The Nonquestus Charity

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Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

AASB 110.17

1. Corporate information

The financial report of *The Nonquestus Charity* (the company) for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the directors on 23 September 2006.

AASB 101.126(a)

The Nonquestus Charity is a company limited by guarantee, incorporated and domiciled in Australia.

AASB 101.126(b)

The nature of the operations and principal activities of the company are described in Note 4.

AASB 101.110, 103(a),
Aus13.4, AASB 105.1(a),
Aus13.2.108(a)

2. Summary of accounting policies

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards. The financial report has been prepared on the basis of historical cost and, except where stated, does not take into account changing money values or current values of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

AASB 101.46(e)

ASIC Class Order 98/100

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the class order applies.

AASB 101.Aus13.2,
14, Aus105.1(b)

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). A statement of compliance with International Financial Reporting Standards cannot be made due to the company applying the not-for-profit sector specific requirements contained in the AIFRS.

AASB 1.36A

AASB 101.36

This is the first financial report prepared based on AIFRS, and comparatives for the year ended 30 June 2005 have been restated accordingly. Reconciliations of AIFRS equity and profit for 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in Note 19.

AASB 101.113

(c) Significant accounting judgments, estimates and assumptions

Accounting policies are selected and applied in a manner which ensures that the resultant financial information satisfies the concepts of relevance and reliability, thereby ensuring the substance of the underlying transaction and other events is reported.

AASB 101.116

In the application of AIFRS management is required to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other various factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Significant accounting judgments

The company has entered into leases of premises and office equipment as disclosed in Note 16(b). Management has determined that all of the risks and rewards of ownership of these premises and equipment remain with the lessor and has therefore classified the leases as operating leases.

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Notes to and forming part of the financial statements

2. Summary of accounting policies (continued)

(c) Significant accounting judgments, estimates and assumptions (continued)

Significant accounting estimates and assumptions

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Make good provisions

Provisions for future costs to return certain leased premises to their original condition are based on the company's past experience with similar premises and estimates of likely restoration costs determined by the company's property manager. These estimates may vary from the actual costs incurred as a result of conditions existing at the date the premises are vacated.

Provisions for employee benefits

Provisions for employee benefits payable after 12 months from the reporting date are based on future wage and salary levels, experience of employee departures and periods of service, as discussed in Note 2(m). The amount of these provisions would change should any of these factors change in the next 12 months.

(d) Revenue recognition

AASB 118.35(a)

Revenue is recognised when the company is legally entitled to the income and the amount can be quantified with reasonable accuracy. Revenues are recognised net of the amounts of goods and services tax (GST) payable to the Australian Taxation Office.

Revenue from fundraising

Donations

Donations are recognised when received.

Legacies

Legacies are recognised when the company is notified of an impending distribution or the legacy is received, whichever occurs earlier.

Revenue from legacies comprising bequests of shares or other property are recognised at fair value, being the market value of the shares or property at the date the company becomes legally entitled to the shares or property.

Building appeal

Donations to the Building Appeal are recognised when received.

Revenue from residential care

Government funding

AASB 1004.9 Note 1

The company's residential care activity is supported by grants received from the federal, state and local governments. Grants received on the condition that specified services are delivered, or conditions are fulfilled, are considered reciprocal. Such grants are initially recognised as a liability and revenue is recognised as services are performed or conditions fulfilled. Revenue from non-reciprocal grants is recognised when received.

Fees from residents

Fees charged for care provided to residents are recognised when the service is provided.

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Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

2. Summary of accounting policies (continued)

(d) Revenue recognition (continued)

Sales of goods

AASB 118.14(a) and (c) Revenue from sales of goods comprise revenue earned (net of returns, discounts and allowances) from the sale of goods purchased for resale and gifts donated for resale. Sales revenue is recognised when the control of goods passes to the customer.

AASB 118.30(a)

Investment income

Investment income comprises interest and dividends. Interest income is recognised as it accrues, taking into account the effective yield on the financial asset.

AASB 118.30(a)

Dividends from listed entities are recognised when the right to receive a dividend has been established.

Asset sales

The gain or loss on disposal of all non-current assets and available-for-sale financial investments is determined as the difference between the carrying amount of the asset at the time of the disposal and the net proceeds on disposal.

In-kind donations

Facilities donated for occupancy by residents or children in care are included at the fair value to the company where this can be quantified and a third party is bearing the cost.

Note 2

No amounts are included in the financial statements for services donated by volunteers.

AASB 1004.9

Goods donated for resale are included as income when they are sold.

(e) Expenditure

Note 3

All expenditure is accounted for on an accruals basis and has been classified under headings that aggregate all costs related to the category. Where costs cannot be directly attributed to a particular category they have been allocated to activities on a basis consistent with use of the resources. Premises overheads have been allocated on a floor area basis and other overheads have been allocated on the basis of the head count.

Fundraising costs are those incurred in seeking voluntary contributions by donation and do not include costs of disseminating information relating to the activities carried on by the company.

Support costs are those costs incurred directly in support of expenditure on the objects of the company and include project management carried out by central administration.

Management and administration costs are those incurred in connection with administration of the company and compliance with constitutional and statutory requirements.

(f) Cash and cash equivalents

AASB 107.6, .46

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any outstanding bank overdrafts.

(g) Trade and other receivables

AASB 139.46(a)

Trade receivables, which comprise amounts due from sales of merchandise and from services provided to residents, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Normal terms of settlement vary from seven to 90 days. The notional amount of the receivable is deemed to reflect fair value.

AASB 139.58, .63

An allowance for doubtful debts is made when there is objective evidence that the company will not be able to collect the debts. Bad debts are written off when identified.

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Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

2. Summary of accounting policies (continued)

(h) Inventories

Inventories comprise goods for resale and goods for distribution at no or nominal consideration as part of the company's charitable activities. Inventories may be purchased or received by way of donation.

AASB 102.9, .36(a).

Inventories of goods purchased for resale are valued at the lower of cost and net realisable value. No value is ascribed to goods for resale that have been donated to the company. The cost of bringing each item to its present location and condition is determined on a first-in, first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

AASB 102.Aus9.1,
.Aus10.1, .Aus36.1(a)

Donated goods and goods purchased for nominal consideration held for distribution are initially recognised at their current replacement cost at date of acquisition. Inventories of these goods, together with inventories of goods purchased and held for distribution, are valued at the lower of cost and current replacement cost. The cost of bringing each product to its present location and condition is determined on a first-in, first-out basis. Current replacement cost is the cost the company would incur to acquire the goods held for distribution at balance date.

(i) Property, plant and equipment

AASB 116.13, .14, .30, .31

Bases of measurement of carrying amount

Land and buildings are measured at fair value less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation. Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Any property, plant and equipment donated to the company are recognised at fair value at the date the company obtains control of the assets.

Depreciation

AASB 116.73(b)

Items of property, plant and equipment (other than land) are depreciated over their useful lives to the company commencing from the time the asset is held ready for use. Depreciation is calculated on a straight line basis over the expected useful economic lives of the assets as follows:

AASB 116.73(b)

	2006 % pa	2005 % pa
Freehold buildings	2	2
Project and office equipment	20	20
Computer equipment	33.3	33.3
Motor vehicles	25	25
Equipment held under finance leases	Life of lease	Life of lease

Impairment

AASB 136.9

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

AASB 136.18, .55 .Aus6.1

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. Depreciated replacement cost is used to determine value in use. Depreciated replacement cost is the current replacement cost of an item of plant and equipment less, where applicable, accumulated depreciation to date, calculated on the basis of such cost.

AASB 136.39

Impairment exists when the carrying value of an asset exceeds its estimated recoverable amount. The asset is then written down to its recoverable amount.

AASB 136.60

For plant and equipment, impairment losses are recognised in the income statement. However, because land and buildings are measured at revalued amounts, impairment losses on land and buildings are treated as a revaluation decrement.

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Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

2. Summary of accounting policies (continued)

(i) Property, plant and equipment (continued)

Revaluation of land and buildings

AASB 116.31 Following initial recognition at cost, land and buildings are carried at a revalued amount which is the fair value at the date of the revaluation less any subsequent accumulated depreciation on buildings and any subsequent accumulated impairment losses.

AASB 136.6, .32, .39 Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair values are confirmed by independent valuations which are obtained with sufficient regularity to ensure that the carrying amounts do not differ materially from the assets' fair values at the balance sheet date.

AASB 116 .Aus39.1, .Aus40.1, .Aus40.2 Land and buildings are treated as a class of assets. When the carrying amount of this class of assets is increased as a result of a revaluation, the increase is credited directly to the revaluation reserve, except where it reverses a revaluation decrement previously recognised in the profit and loss, in which case it is credited to the income statement.

AASB 116.Aus77.1 When the carrying amount of land and buildings is decreased as a result of a revaluation, the decrease is recognised in the income statement, except where a credit balance exists in the revaluation reserve, in which case it is debited to that reserve.

AASB 116.67, .68 *Derecognition and disposal*
An item of property, plant and equipment is derecognised upon disposal, when the item is no longer used in the operations of the company or when it has no sale value. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

Any part of the asset revaluation reserve attributable to the asset disposed of or derecognised is transferred to general funds at the date of disposal.

(j) Available-for-sale financial investments

AASB 139.9, .55(b) Available-for-sale investments are those financial assets that are designated as available-for-sale. When available-for-sale financial investments are recognised initially, they are measured at fair value. Any available-for-sale financial investments donated to the company are recognised at fair value at the date the company obtains control of the asset. After initial recognition available-for sale financial investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in profit or loss.

AASB 139.71, .73, .74 The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis; and option pricing models.

(k) Trade creditors and other payables

Trade payables and other payables represent liabilities for goods and services provided to the company prior to the end of the financial year that are unpaid. These amounts are usually settled in 30 days. The notional amount of the creditors and payables is deemed to reflect fair value.

(l) Deferred income

The liability for deferred income is the unutilised amounts of grants received on the condition that specified services are delivered or conditions are fulfilled. The services are usually provided or the conditions usually fulfilled within 12 months of receipt of the grant. Where the amount received is in respect of services to be provided over a period that exceeds 12 months after the reporting date or the conditions will only be satisfied more 12 months after the reporting date, the liability is discounted.

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Notes to and forming part of the financial statements

2. Summary of accounting policies (continued)

(m) Employee benefits

Employee benefits comprise wages and salaries, annual, non-accumulating sick and long service leave, and contributions to superannuation plans.

AASB 119.10, .11 Liabilities for wages and salaries expected to be settled within 12 months of balance date are recognised in other payables in respect of employees services up to the reporting date. Liabilities for annual leave in respect of employees services up to the reporting date which are expected to be settled within 12 months of balance date are recognised in the provision for annual leave. Both liabilities are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

AASB 119.128 The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to anticipated future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

AASB 119.43, .44 Note 4 The company pays contributions to certain defined contribution superannuation plans. Contributions are recognised in the income statement when they are due. The company has no obligation to pay further contributions to these plans if the plans do not hold sufficient assets to pay all employee benefits relating to employee service in current and prior periods.

(n) Leased assets and liabilities

Operating leases

AASB 117.33 Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Finance leases

AASB 117.8, 20, .25 Finance leases, which transfer to the company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the income statement. The fair value of the leases is estimated as the present value of future cash flows, discounted at market interest rates. The carrying value of the leases is considered a reasonable reflection of fair value.

AASB 117.27 Capitalised leased assets are depreciated over the estimated useful life of the asset.

(o) Taxation

Income tax

Note 5 The company is a charitable institution for the purposes of Australian taxation legislation and is therefore exempt from income tax. This exemption has been confirmed by the Australian Taxation Office. The company holds deductible gift recipient status.

Goods and services tax (GST)

UIG 1031.7 Revenues, expenses and assets are recognised net of the amount of GST except where the amount of GST incurred is not recoverable from the Australian Taxation Office, in which case it is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

UIG 1031.8 Receivables and payables are recognised inclusive of GST.

UIG 1031.9 The net amount of GST recoverable from or payable to the Australian Taxation Office is included as part of receivables or payables.

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Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

2. Summary of accounting policies (continued)

(o) *Taxation (continued)*

Goods and services tax (GST) (continued)

UIG 1031.10, .11

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from or payable to the Australian Taxation Office is classified as operating cash flows.

(p) *Make good provisions*

Costs required to return certain leased premises to their original condition as set out in the lease agreements are recognised as a provision in the financial statements. The provision has been calculated as an estimate of future costs and discounted to a present value.

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Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

3. Revenue, other income and expenses	2006	2005
	\$'000	\$'000

The net surplus for the year has been determined after including the following items of revenue and other income

(a) Revenue

AASB 118.35(b)(i)	Sale of goods	1,140	900
AASB 118.35(b)(ii)	Rendering of services	1,200	1,000
	<i>Sales revenue</i>	2,340	1,900
	Government grants	700	400
	Donations and gifts		
	<i>Individuals</i>	2,106	1,678
	<i>Charitable foundations</i>	4,100	3,500
	<i>Corporate donors</i>	1,100	800
	<i>Gifts in kind</i>	24	22
	Building appeal	400	900
	Legacies	2,150	1,330
	Total revenue	12,920	10,530

(b) Other income

	Investment income		
AASB 118.35(b)(iii)	<i>Interest</i>	260	300
AASB 118.35(b)(v)	<i>Dividends</i>	140	175
	Net gain on available-for-sale financial investments	500	115
AASB 101.87(c)	Net gain on disposal of property, plant and equipment	20	30
	Total other income	920	620

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Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

	Note	2006 \$'000	2005 \$'000
3. Revenue, other income and expenses			
The net surplus for the year has been determined after including the following items of revenue and other income			
(c) Expenses			
AASB 132.94(h)		12	14
AASB 101.93		380	270
		3	-
AASB 102.36(d)		550	480
		150	140
AASB 117.35(c)		110	110
		70	70
AASB 101.Aus126.1		14	13
		6	9
AASB 101.93	2(l)	6,050	5,820
		700	650
AASB 119.46		500	480
		35	22
		7,285	6,972

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Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

Note 6

4. Segment reporting

AASB 118.81

The following segment information reflects the company's primary activities of fundraising, sales of goods, the provision of residential, day and respite care and the provision of care to children in need both within Australia and overseas.

Fundraising involves the collection of voluntary donations from individuals, charitable foundations and corporate donors for the company's general activities or specific purposes. Fundraising also involves seeking legacies and bequests to support general activities or specific purposes.

Sales of goods involves the sale through the company's shops and mail order business of donated and purchased goods.

Residential, day and respite care is provided for sufferers of malaise.

During the current and previous year the company provided care to children in communities within Australia and in Africa.

(a) Segment information for the year ended 30 June 2006

Segment result

	Fundraising \$'000	Sales of Goods \$'000	Residential Care \$'000	Child Care \$'000	Total \$'000	
AASB 114.51	Revenue	9,880	1,140	1,900	-	12,920
	Costs					
	Domestic	(735)	(870)	(2,430)	(3,400)	(7,435)
	Overseas			(3,100)		(3,100)
AASB 114.52	Segment results	9,145	270	(530)	(6,500)	2,385
	Net investment and other income					830
	Administration, information & other costs					(560)
	Surplus for year					<u>2,655</u>
	Assets and liabilities					
AASB 114.55	Segment assets	5,245	860	4,319	873	11,297
	Unallocated assets					3,373
AASB 114.67	Total assets	5,245	860	4,319	873	14,670
AASB 114.56	Segment liabilities	-	(315)	(844)	-	(1,159)
	Unallocated liabilities					(441)
AASB 114.67	Total liabilities					<u>(1,600)</u>
	Other segment information					
AASB 114.57	Capital expenditure			1,600	390	1,990
AASB 114.58	Depreciation			280	100	380

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Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

4. Segment reporting (continued)

AASB 114.52A

(b) Segment information for the year ended 30 June 2005

Segment result

	Fundraising \$'000	Sales of Goods \$'000	Residential Care \$'000	Child Care \$'000	Total \$'000	
AASB 114.51	Revenue	8,230	900	1,400	-	10,530
	Costs					
	<i>Domestic</i>	(660)	(710)	(2,545)	(3,050)	(6,965)
	<i>Overseas</i>			(3,100)		(3,100)
AASB 114.52	Segment results	7,570	190	(1,145)	(6,150)	465
	Net investment and other income					510
	Administration, information & other costs					(710)
AASB 114.67	Surplus for year					265
	Assets and liabilities					
AASB 114.55	Segment assets	3,770	905	3,120	633	8,428
	Unallocated assets	3,287				
AASB 114.67	Total assets	3,770	905	3,120	633	11,715
AASB 114.56	Segment liabilities	-	(380)	(552)	-	(932)
	Unallocated liabilities					(468)
AASB 114.67	Total liabilities					(1,400)
	Other segment information					
AASB 114.57	Capital expenditure	-	-	1,000	-	1,000
AASB 114.58	Depreciation	-	-	180	90	270

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(A Company Limited by Guarantee)

Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

4. Segment reporting (continued)

Note 7

(c) Ratio analysis

	Fundraising	Sales	Residential	Child	Total
	%	of Goods	Care	Care	%
		%	%	%	
Costs as a percentage of segment revenue					
2006	7.4	76.3			
2005	8.0	78.9			
Surplus as a percentage of segment revenue					
2006	92.6	23.7			
2005	92.0	21.1			
Funds applied for activities as a percentage total expenditure					
2006	6.6	7.8	21.7	58.1	94.2
2005	6.1	6.5	23.3	56.4	92.3
Funds applied for administrative & other costs as a % of total expenditure					
2006					5.8
2005					7.5
Funds applied for activities as a % of total income					
2006			17.6	47.0	64.6
2005			22.8	55.1	77.9

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Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

AASB 107.45

	Note	2006 \$'000	2005 \$'000
5. Cash and cash equivalents			
Cash at bank and in hand		1,090	200
Short-term deposits		3,400	3,000
	2(f)	4,490	3,200
<p>AASB 132.60(a), .67(a), .67(b)</p> <p>Cash at bank earns interest at floating rates based on daily deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the company's cash requirements. These deposits earn interest at market rates.</p>			
6. Trade and other receivables			
Trade debtors	2(g)	580	522
Less: Provision for doubtful debts		(20)	(17)
		560	505
Legacies	2(d)	755	170
Other debtors		225	205
Prepayments and other accrued income	2(d)	225	120
		1,765	1,000
7. Inventories			
Goods purchased for resale	2(h)	240	320
Donated goods held for distribution	2(h)	60	80
		300	400

AASB 102.36(b)

AASB 102.Aus36.1

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Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

AASB 116.73

8. Property, plant and equipment (Note 2(i))

	Freehold Land and Buildings \$'000	Project & Office Equipment \$'000	Computer Equipment \$'000	Motor Vehicles \$'000	Total \$'000
Cost or fair value					
At 1 July 2004	3,010	390	110	220	3,730
Additions	770	60	140	30	1,000
Revaluation increment	670	-	-	-	670
Disposals	(100)	(50)	-	(50)	(200)
AASB 116.73(d) At 30 June 2005	4,350	400	250	200	5,200
AASB 116.73(e)(i) Additions	1,700	180	100	10	1,990
AASB 116.73(e)(ix) Disposals	(300)	-	-	-	(300)
AASB 116.73(d) At 30 June 2006	5,750	580	350	210	6,890
Accumulated depreciation					
At 1 July 2004	660	165	125	40	990
Charge for year	170	50	25	25	270
Disposals	(30)	(15)	-	(15)	(60)
AASB 116.73(d) At 30 June 2005	800	200	150	50	1,200
AASB 116.73(e)(vii) Charge for year	90	150	88	52	380
AASB 116.73(e)(ix) Disposals	(190)	-	-	-	(190)
AASB 116.73(d) At 30 June 2006	700	350	238	102	1,390
Net carrying amount					
at 30 June 2006	5,050	230	112	108	5,500
at 30 June 2005	3,550	200	100	150	4,000

AASB 116.77(a) to (d);
Aus77.1

Revaluation of land and buildings

The company engages Perlustro and Co, independent accredited valuers, to determine the fair value of its land and buildings. Fair value is determined directly by reference to market-based evidence, which is the amounts for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. The effective date of the revaluation was 1 October 2004.

AASB 117.31(a)

Leased plant and equipment

The company leases computer equipment and motor vehicles under finance lease agreements. At the end of each of the leases the company can, at its option, purchase the equipment at a favourable price. At 30 June 2006 the net carrying amount of the leased computer equipment and motor vehicles was \$140,000 (2005 - \$180,000). The leased equipment secures the obligations under the leases. Refer to Note 11.

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(A Company Limited by Guarantee)

Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

AASB 101.74	9. Available-for-sale financial investments	Note	2006 \$'000	2005 \$'000
	Listed investments at fair value in:	2(j)		
	Fixed interest securities		900	1,600
	Shares		1,235	695
	Investment trusts		480	820
			2,615	3,115

All available-for-sale investments are quoted on the Australian Stock Exchange.

Shares have no fixed maturity date or coupon rate.

Fixed interest securities include corporate bonds, convertible notes and hybrid securities which have coupon rates varying from 5 per cent to 7 per cent and maturity dates ranging from September 2006 to October 2008. The market value of these securities fluctuates from time to time.

Investment trusts are managed by third parties on behalf of the company and other investors. The trusts hold a variety of investments which generate a return based on income from those investments and changes in the market value of the investments. The company's investments in trusts can be redeemed on an at call basis at the market value of the investment at the date of redemption less certain fees and charges.

AASB 101.60, .74	10. Trade creditors and other payables			
	Trade creditors	2(k)	525	580
	Other creditors		190	125
	Accruals and deferred income	2(d), 2(l)	390	200
			1,105	905

11. Interest bearing loans

(a) Obligations under finance leases – secured	2(n)			
Current		40	40	
Non-current		100	140	
		140	180	

The company has entered into finance leases for motor vehicles and computer equipment.

Future minimum lease payments and the present value of the minimum lease payments are:

Due within one year	52	54
Due after one year but not more than five years	125	177
Total minimum lease payments	177	231
Less: Future finance charges	(37)	(51)
Present value of minimum lease payments	140	180

AASB 117.31(b)

AASB 116.74(a)

The carrying amount of plant and equipment pledged as security for these loans is \$140,000 (2005 - \$180,000)

(b) Bank facilities

The company has in place an unsecured bank overdraft facility of \$500,000. The facility was not utilised during 2005 and 2006 and remains unutilised at the reporting date.

The Nonquestus Charity

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Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

12. Provisions		Note	2006 \$'000	2005 \$'000
(a) Current		2(m)		
	Long service leave		45	35
	Annual leave		110	80
	Total current provisions		155	115
(b) Non-current				
	Long service leave	2(m)	175	180
	Make good provision under leases	2(p)	25	20
	Total non-current provisions		200	200
(c) Movements in provisions				Make Good Provision Under Lease \$'000
AASB 137.84 (a)	Balance at 1 July 2005			20
AASB 137.84 (b)	Charge for the year			5
AASB 137.84 (c)	Utilised during the year			-
AASB 137.84(d), (e)	Adjustments			-
AASB 137.84 (a)	Balance at 30 June 2006			25

13. Total funds

AASB 101.97, Aus97.1

(a) Movements in funds – 2006

	At 1 July 2005 \$'000	Income \$'000	Expenditure \$'000	Revaluation Gains \$'000	Transfers \$'000	At 30 June 2006 \$'000
General reserve	4,425	9,590	(6,090)	-	(80)	7,845
Designated funds						
Cyclical repair fund	300	-	(45)	-	95	350
Net unrealised gains reserve	40	-	-	100	-	140
Asset revaluation reserve	1,670	-	-	-	-	1,670
Total unrestricted funds	6,435	9,590	(6,135)	100	15	10,005
Restricted funds						
Building appeal	900	400	(30)	-	-	1,270
Residential care	475	975	(1,135)	-	-	315
Child care	2,505	2,875	(3,885)	-	(15)	1,480
Total restricted funds	3,880	4,250	(5,050)	-	(15)	3,065
Total funds	10,315	13,840	(11,185)	100	-	13,070

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Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

13. Total funds (continued)

AASB 101.97, Aus97.1

(b) Movements in funds – 2005

	At 1 July 2004 \$'000	Income \$'000	Expenditure \$'000	Revaluation Gains \$'000	Transfers \$'000	At 30 June 2005 \$'000
General reserve	6,045	6,870	(8,490)	-	-	4,425
Designated funds						
Cyclical repair fund	300	-	-	-	-	300
Net unrealised gains reserve	20	-	-	20	-	40
Asset revaluation reserve	1,000	-	-	670	-	1,670
Total unrestricted funds	7,365	6,870	(8,490)	690	-	6,435
Restricted funds:						
Building appeal	110	900	(110)	-	-	90
Residential care	310	800	(635)	-	-	475
Child care	1,575	2,580	(1,650)	-	-	2,505
Total restricted funds	1,995	4,280	(2,395)	-	-	3,880
Total funds	9,360	11,150	(10,885)	690	-	10,315

AASB 101.76(b)

(c) Details of funds

General reserve

The general reserve represents the funds of the charity that are not designated for particular purposes.

Net unrealised gains reserve

This reserve records fair value changes on available-for-sale investments.

AASB 116.Aus39.1,

Aus40.1, Aus40.2.

Asset revaluation reserve

This reserve is used to record increases in the fair value of land and buildings and decreases to the extent that such decreases relate to an increase in the value of that class of assets previously recognised in the reserve.

Cyclical repair fund

The Cyclical Repair Fund has been established to meet the costs of major refurbishments and repairs at residential care properties. It is expected that these will be carried out in 2007 and 2008.

Building appeal

The Building Appeal Fund comprises those amounts collected for the construction of new residential care facilities in Heathcote.

Residential care

The Residential Care Fund comprises funds raised by the Friends of Nonquestus for use at the company's residential care facilities.

Childcare

The Child Care Fund was established in 1994 by a gift from the Liberalis Foundation to be used solely for childcare projects. Since then sundry restricted gifts for child care have been added to the Fund. During the year an unexpended balance of \$15,000 was transferred to the General Reserve with the permission of the donor.

The Nonquestus Charity

(A Company Limited by Guarantee)

Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

13. Total funds (continued)

Note 8

(d) Members Guarantee

The company is limited by guarantee. In the event of the company being wound up, the constitution states that each member is required to contribute a maximum of \$20 towards meeting any outstanding obligations of the company. At 30 June 2006 the number of members was 125 (2005 – 120).

14. Financial instruments

AASB 132.56

(a) Financial risk management – objectives and policies

The company's financial instruments comprise cash and cash equivalents, available-for-sale financial investments and finance lease liabilities. In addition the company has various financial assets and liabilities including amounts receivable in respect of residents at its long-term residential and day and respite care centres and amounts payable to trade and other creditors.

The main risks arising from the company's financial instruments are interest rate risk, liquidity risk, credit risk and market price risk. The company does not hold financial instruments denominated in foreign currencies and does not use derivative instruments to manage risks associated with its financial instruments.

The company's policies for managing each of these risks are summarised below. The policies are subject to Board approval and are reviewed regularly.

AASB 132.67

Interest rate risk

The company is exposed to interest rate fluctuations on its cash at bank and cash on deposit and on fixed interest securities included in its available-for-sale financial investments. It does not have a material risk in relation to its interest bearing loans. The company actively monitors interest rates for cash at bank and on deposit to maximise interest income. The company accepts the risk in relation to fixed interest securities as they are held to generate income on surplus funds.

AASB 132.52

Liquidity risk

The company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate liquid funds or unused overdraft facilities are maintained.

When necessary, cash for unforeseen events such as relief activities following natural disasters is sourced from liquidation of available-for-sale financial investments. It is company policy to hold only those investments quoted on the Australian Stock Exchange.

AASB 132.76

Credit risk

The company is exposed to two sources of credit risk – amounts receivable in respect of residents at its long-term residential and day and respite care centres, and counterparty risk in respect of funds deposited with banks and other financial institutions.

The majority of amounts receivable in respect of residents at long-term residential and day and respite care centres are due from government departments or health insurance providers. All arrangements to provide residential care are subject to contractual arrangements, which include settlement terms. Any amounts outstanding beyond the contracted period are followed up. Credit is only extended to residents not covered by these arrangements after credit evaluations are carried out.

Credit risk

Funds are deposited only with those banks and financial institutions approved by the Board. Such approval is only given in respect of banks that hold an AA rating from Standard and Poor's or an equivalent rating from another reputable ratings agency.

At the reporting date, the company does not have any material credit risk exposures to any single receivable or group of receivables or any bank or financial institution.

AASB 132.52

Market price risk

Market price risk is the risk that the company's operations will be adversely affected by a significant adverse fluctuation on the value of its available-for-sale investments. The company has engaged Fiducia Investments to advise on the management of its investment portfolio. The Board has approved risk and return parameters for investment in available-for-sale investments and receives reports from management and Fiducia on a bi-monthly basis regarding the performance of the investment portfolio.

The Nonquestus Charity

(A Company Limited by Guarantee)

Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

14. Financial instruments (continued)

AASB 132.86

(b) Fair values

Carrying amounts of financial assets and liabilities recorded in the financial statements represent their net fair values, as determined in accordance with the accounting policies disclosed in Notes 2(g), 2(j), 2(k) and 1(n) to the financial statements.

AASB 132.67, .71

(c) Interest rate risk

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk as at the reporting date.

	Effective Interest Rate %	6 months or less \$'000	6 to 12 months \$'000	1 to 2 years \$'000	2 to 5 years \$'000	More than 5 years \$'000	Total \$'000
Financial assets							
Cash	4.5	4,490	-	-	-	-	4,490
Fixed interest securities	6.25	-	235	285	380	-	900
Financial liabilities							
Lease liabilities	6.9	(20)	(20)	(40)	(60)	-	(140)
		4,470	215	245	320	-	5,250

The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk as at the previous reporting date.

	Effective Interest Rate %	6 months or less \$'000	6 to 12 months \$'000	1 to 2 years \$'000	2 to 5 years \$'000	More than 5 years \$'000	Total \$'000
Financial assets							
Cash	4.0	3,200	-	-	-	-	3,200
Fixed interest securities	5.75	-	1,135	225	240	-	1,600
Financial liabilities							
Lease liabilities	6.9	(20)	(20)	(40)	(100)	-	(180)
		3,180	1,115	185	140	-	4,620

The Nonquestus Charity

(A Company Limited by Guarantee)

Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

AASB 107.Aus20.1,

Aus20.2

Note 9

15. Cash flow information

Reconciliation of net surplus for the year to net cash flows from operations

	Note	2006 \$'000	2005 \$'000
Net surplus for the year		2,655	265
Profit from sale of available-for-sale financial investments		(500)	(115)
Profit on sale of property, plant and equipment		(20)	(30)
Depreciation of property, plant and equipment	3(b)	380	270
<i>(Increase)/decrease in assets</i>			
Inventories		100	450
Trade and other receivables		(765)	(725)
<i>Increase/(decrease) in liabilities</i>			
Trade creditors		(55)	(20)
Provisions for employee benefits and make good costs		40	60
Other liabilities		255	440
Net cash flow from operations		2,090	595

16. Commitments and contingencies

(a) Finance leases

AASB 117.31

The company has entered into finance leases for various items of equipment. Details can be found at Note 11.

(b) Operating leases

AASB 117.35

The company has entered into commercial leases of land and buildings and office equipment. These leases have an average life of between three and seven years with no renewal option included in the contracts. There are no restrictions placed upon the lessee upon entering into these leases. Future minimum rentals payable under non-cancellable operating leases as at the reporting date are:

Within one year	-	110	110
After one year but not more than five years	-	300	400
More than five years	-	-	-
Total commitments under operating leases		410	510

AASB 116.74(c)

AASB 101.Aus126.7

(c) Capital expenditure commitments

At reporting date the company has entered into contracts for capital expenditure of \$250,000 (2005 - \$190,000) which have not been provided for in the financial statements. The amounts are payable:

Within one year	-	110	90
One year or later and no later than five years	-	140	100
Later than five years	-	-	-
		250	190

The Nonquestus Charity

(A Company Limited by Guarantee)

Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

16. Commitments and contingencies (continued)

AASB 137.89

(d) Contingent assets

Legacies with a probate value of \$1,600,000 have not been included in the financial statements as no notification of impending distribution has been received.

AASB 124.Aus16.1

17. Related parties and related party transactions

(a) Directors

Directors of the company in office during the year are disclosed in the directors report that accompanies these financial statements.

AASB 124.16

(b) Directors compensation

The directors act in an honorary capacity and receive no compensation for their services. During the year travel expenses totalling \$6,233 incurred by the directors in fulfilling their role were reimbursed.

AASB 124.17

(c) Transactions with director-related entities

During the year payments of \$8,000 were made to Leviculus Printers for the printing of the annual report. Mrs R Wagner, a director of the company, is also a director of Leviculus Printers. This service was provided under normal commercial terms and conditions. There are no amounts payable to or receivable from directors or director related entities at the reporting date.

AASB 124.16

Note 10

(d) Key management personnel compensation

Those persons having authority for planning, directing and controlling the company's activities, directly or indirectly, are:

	Note	2006 \$'000	2005 \$'000
Cheryl Watson, Chief Executive Officer			
Ian W Smith, Fundraising Director			
Stella Judkins, Director of Residential Care			
Norma Ware, Director of Child Care			
Mark Whelan, Chief Finance Officer			
Short-term employee benefits		676,086	635,782
Post-employment benefits		60,000	60,000
Total compensation		736,086	695,782

AASB 101.Aus126.3

18. Economic dependency

The company is dependent upon the ongoing receipt of grants from the Federal Department of Health and Ageing and state Departments of Human Services to ensure the continuance of its residential, day and respite care services.

AASB 1.38

Note 11

19. Transition to Australian equivalents to International Financial Reporting Standards (AIFRS)

The company changed its accounting policies on 1 July 2005 to comply with AIFRS. Financial reports for all years up to and including the year ended 30 June 2005 were prepared in accordance with accounting practices generally accepted in Australia (AGAAP). The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Standards* with 1 July 2004 as the date of transition.

This note explains the significant adjustments made by the company in restating its AGAAP balance sheet as at 1 July 2004 and its AGAAP based financial statements for the year ended 30 June 2005.

The Nonquestus Charity

(A Company Limited by Guarantee)

Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

19. Transition to Australian equivalents to International Financial Reporting Standards (AIFRS) (continued)

(a) Valuation of available-for-sale investments

The company holds investments listed on Stock Exchanges as described in Note 9. Under AGAAP, individual investments held by the company were carried at cost unless the market value of the investment at reporting date was below cost, in which case the investment was written down to market value. The amount of the write down was charged to the income statement when recognised.

In accordance with AASB 139 *Financial Instruments: Recognition and Measurement*, all investments have been classified as available-for-sale. AASB 139 requires gains or losses on available-for-sale financial investments (other than impairment losses and foreign exchange gains and losses) to be recognised directly in equity through the statement of changes in equity until the asset is derecognised at which time the cumulative gain or loss previously recognised in equity shall be recognised in profit or loss.

To comply with the requirements of AASB 139, the carrying value of available-for-sale investments held at 1 July 2004 were restated to market value at that date and the change in the market value of the investments reflected in the statement of changes in equity for the year ended 30 June 2005.

(b) Make good provisions

Make good provisions are an estimate of the costs of dismantling and removing items of property, plant and equipment and restoring the site on which the items are located to their original condition. Under AGAAP these costs were not required to be included in the cost of property, plant and equipment.

AASB 116 *Property, Plant and Equipment* requires that, where the construction or commissioning of an item of property, plant and equipment results in the obligation to dismantle or remove the asset and restore the site on which the asset stands, an estimate of such costs is required to be included in the cost of the asset and depreciated over the useful life of the asset.

The company has entered into various leases of premises, the terms of which require the company to restore the lease premises to their original condition at the end of the lease term. To comply with the requirements of AASB 116, the cost of the leasehold improvements has been increased by an estimate of the costs that will be incurred in restoring the premises, accumulated depreciation has been increased by the accumulated charges relating to these assets based on the expired term of the leases and an equivalent liability recognised under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

(c) Goods for distribution at no or nominal cost

Under AGAAP inventories of goods held by the company for **distribution** at no or nominal cost as part of its charitable activities were not recognised in the financial statements.

AASB 102 *inventories* requires inventories held for distribution, being goods held for distribution at no or nominal consideration in the ordinary course of the company's operations, to be recognised in the financial statements. Such inventories are to be measured at the lower of cost or current replacement cost. Where these inventories have been **acquired** at no or nominal consideration, cost is deemed to be the current replacement cost as at the date of acquisition. The carrying amount is recognised as an expense when distributed.

To comply with the requirements of AASB 102, the carrying value of goods held for distribution held at 1 July 2004 were valued at their replacement cost at that date and included in inventories. The change in carrying value of goods held for distribution was reflected in the income statement for the year ended 30 June 2005.

The Nonquestus Charity

(A Company Limited by Guarantee)

Financial Report for the Year Ended 30 June 2006

Notes to and forming part of the financial statements

19. Transition to Australian equivalents to International Financial Reporting Standards (AIFRS) (continued)

AASB 1.39(a)

(d) Reconciliation of total funds as presented under AGAAP to that under AIFRS

	30 June 05 \$'000	1 July 04 \$'000
Total funds under previous AGAAP	10,170	9,580
Adjustments increasing(decreasing) funds:		
> Recognition of adjustment to carrying value of available-for-sale investments	20	20
> Recognition of make good provision		
<i>The net of the recognition of the estimated cost of restoration added to property, plant and equipment, accumulated depreciation of that cost and the associated provision</i>	-	(15)
<i>Depreciation for the year</i>	(5)	-
> Recognition of inventories held for distribution	15	65
Total funds under AIFRS	10,200	9,650

AASB 1.39(b)

(e) Reconciliation of surplus for previous year under AGAAP to that under AIFRS

	Year ended 30 Jun 05 \$'000
Prior year surplus under AGAAP	120
> Recognition of adjustment to carrying value of available-for-sale investments	20
> Additional depreciation as a result of recognition of make good provision	(5)
> Recognition of inventories held for distribution	15
Prior year surplus under AIFRS	150

AASB 1.38

(f) Reconciliation of cash flow for previous year under AGAAP to that under AIFRS

There is no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

AASB 101.126(a)-(c)

20. Additional company information

The Nonquestus Charity is a company limited by guarantee, incorporated and operating in Australia.

The registered office of the company and its principal place of business is:

Charity House
132 Charybyle Street
Melbourne Vic 3000

The Nonquestus Charity

(A Company Limited by Guarantee)

Directors Declaration for the year ended 30 June 2006

The directors declare that in their opinion:

- Corp 295(1), (4) a) The attached financial statements and notes thereto comply with Accounting Standards
- Corp 295(4)(d) b) The attached financial statements and notes thereto give a true and fair view of the financial position and performance of the company
- Corp 295(4)(d) c) The attached financial statements and notes thereto are in accordance with the *Corporations Act 2001* and the Corporations Regulations 2001
- Corp 295(4)(c) d) There are reasonable grounds to believe the company will be able to pay its debts as and when they become due and payable.

Corp 295(5)(a) Signed in accordance with a resolution of the directors made pursuant to s. 295(50) of the *Corporations Act 2001*.

On behalf of the directors

A Borodin

Melbourne, 23 September 2006

The Nonquestus Charity

(A Company Limited by Guarantee)

Auditors' Report for the year ended 30 June 2006

INDEPENDENT AUDIT REPORT

To the members of The Nonquestus Charity

Scope

The financial report and directors responsibility

The financial report comprises the balance sheet, income statement, statement of recognised income and expenses, and statement of cash flows, accompanying notes to the financial statements, and the directors declaration for The Nonquestus Charity (the company) for the year ended 30 June 2006.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations, changes in equity and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- > Examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report
- > Assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report.

These and our other procedures did not include consideration or judgment of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written auditors independence declaration, a copy of which is included in the financial report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Qualification

Proceeds from appeals are a significant source of revenue for the company. The company has determined that it is impracticable to establish control over the collection of proceeds from appeals prior to entry into its financial records. Accordingly, as the evidence available to us regarding revenue from this source was limited, our audit procedures with respect to proceeds from appeals had to be restricted to the amounts recorded in the financial records. We therefore are unable to express an opinion whether proceeds of appeals the company obtained are complete.

The Nonquestus Charity

(A Company Limited by Guarantee)

Auditors Report for the year ended 30 June 2006

INDEPENDENT AUDIT REPORT (continued)

Audit opinion

In our opinion, except for the effects on the financial report of such adjustments, if any, as might have been required had the limitation on our audit procedures referred to in the qualification paragraph not existed, the financial report of The Nonquestus Charity is in accordance with:

- a) The *Corporations Act 2001*, including:
 - I. Giving a true and fair view of the financial position of The Nonquestus Charity at 30 June 2006 and of its performance for the year ended on that date
 - II. Complying with Accounting Standards in Australia and the Corporations Regulations 2001
- (b) Other mandatory financial reporting requirements in Australia.

ProBono and Co

Chartered Accountants

Gary Goodfellow

Partner

Melbourne, 23 September 2006

The Nonquestus Charity

(A Company Limited by Guarantee)

Explanatory Notes

- 01** AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* does not apply to not-for-profit entities. NFPs should apply AASB 1004 *Contributions*. Readers should be aware that, at the time of preparing this example financial report, both the Australian Accounting Standards Board and the International Public Sector Accounting Standards Board have projects in train that might result in revisions to both AASB 120 and AASB 1004.
- 02** Difficulties in the reliable measurement of the value of hours contributed by volunteers preclude the inclusion of such amounts in the financial statements. However NFPs should disclose such information in annual reports to provide the reader with a better understanding of the NFPs' activities. The value of volunteer contributions could be expressed in terms of staff equivalents and an indicative value of the hours provided.
- 03** In the interests of transparency, it is recommended the notes explain the basis of apportionment of costs between activities. Where the organisation operates under the auspices of any organisation that mandates the manner in which costs are apportioned (e.g. the Australian Council for International Development) this should be disclosed with an appropriate explanation.
- 04** These example financial statements do not deal with the situation where a not-for-profit contributes to a defined benefit superannuation fund on behalf of its employees. Any not-for-profit contributing to a defined benefit fund should seek specific advice on the recognition and substantial additional disclosure requirements of AASB 119 *Employee Benefits* applicable to such a fund.
- 05** The taxation status of the organisation should be disclosed. The example financial report is that of a charity. It is recommended that the financial report of a charity disclose whether:
- > The charity is a charitable institution or a charitable fund for the purposes of Australian taxation legislation
 - > The charity holds deductible gift recipient status.

Australian taxation legislation provides tax exempt status to a number of different types of organisations, including community service, cultural, educational, employment, health, religious, resource development, scientific and sporting organisations and friendly societies. Such organisations which are not also charities can self-assess their tax status.

It is recommended that organisations other than charities disclose their taxation status, whether that status is self assessed or endorsed by the Australian Taxation Office and whether the organisation holds deductible recipient gift status.

- 06** AASB 114 *Segment Reporting* specifies that the standard 'does not apply to general purpose financial reports of non-for-profit entities'. It is recommended that NFPs apply the standard to provide additional analysis of their activities. The adoption of the standard, together with the ratio analysis included in Note 4 to the financial statements, should satisfy the requirements of the various fundraising legislation that applies in Australia.

AASB 107 *Cash Flow Statements* encourages but does not require the amount of cash flows arising from the operating, investing and financing activities of each reported segment. Such cash flows have not been disclosed in the example financial report.

- 07** The inclusion of the suggested ratio analysis serves a twofold purpose – to provide the reader with further insight into the NFP's activities and to satisfy the requirements of Australian fundraising legislation. In particular, the suggested disclosures should satisfy the requirements of the *Charitable Fundraising Act 1991* (NSW) which requires the following information be disclosed:
- > Comparisons in monetary terms and ratios or percentages of:
 - Total costs of fundraising to gross income obtained from fundraising
 - Net surplus from fundraising to gross income obtained from fundraising
 - Total costs of services provided by the fundraiser to total expenditure
 - Total costs of services provided by the fundraiser to gross income received
 - > The financial performance for fundraising appeals, showing:
 - The aggregate gross income received
 - The total expenditure associated with all fundraising appeals
 - The net operating surplus or deficit.

The Nonquestus Charity

(A Company Limited by Guarantee)

Explanatory Notes (continued)

- 08** Disclosures regarding the amount members have undertaken to contribute in the event of a company limited by guarantee being wound up assist the user of the financial report in understanding the financial position of the company.
- 09** AASB107 Aus20.2 requires NFPs that highlight the net cost of services in their income statement to include a reconciliation of cash flows arising from operating activities to the net cost of services as reported in the income statement.
- 10** This form of disclosure is recommended as best practice and is not mandatory. Paragraph Aus25.2 of AASB 124 *Related Party Disclosures* requires this disclosure in respect of disclosing entities only. Disclosing entities are defined by the *Corporations Act 2001* and include those entities whose securities are included in the official list of a prescribed Australian financial market and those which have securities to which a lodged or deemed prospectus relates. Not-for-profits are not disclosing entities. However, the disclosure of the names and positions of each key management person enhances the transparency of reporting.
- 11** Where appropriate an alternative disclosure might be: *There were no material differences between the 2004 financial report prepared under previous AGAAP and AIFRS, hence no restatement of balances has been required and funds have not changed.*

Overview of legislation

Australia's NFPs are subject to a myriad of legislation. This includes all the legislation that a business is expected to understand and comply with, including taxation, occupational health and safety, environmental and other legislation. In this section of the guidance we provide an overview of the legislative provisions applicable to the NFP sector.

The legal form of the NFP and the activities it undertakes determine the legislation under which a NFP reports.

Reporting by companies limited by guarantee is governed by the *Corporations Act 2001*, incorporated associations by the Associations Incorporation Act in their state of incorporation, while others that are constituted under Royal Charters or Acts of Parliament must comply with the reporting requirements of their constituting document.

On the following page we provide an overview of the record-keeping, reporting and auditing provisions of the *Corporations Act 2001* that apply to all companies limited by guarantee, no matter in which state or territory they operate.

This is followed by a summary of those requirements applicable to incorporated associations under their relevant state legislation.

The record-keeping, reporting and auditing requirements of the Corporations Act 2001

Record-keeping

Those NFPs that are companies limited by guarantee are required to comply with the financial records provisions of the *Corporations Act 2001*, which requires companies to keep written financial records that:

- > Correctly record and explain transactions and financial position and performance
- > Enable true and fair financial statements to be prepared and audited.

The financial records can be kept:

- > In any language, but must be capable of translation into English if required
- > In electronic form, but must be convertible into hard copy
- > At any place, including outside Australia, as long as sufficient information is available in Australia to enable true and fair financial statements to be prepared.

Financial report

Companies limited by guarantee are public companies and must prepare a *financial report and directors report for each financial year*. The financial report consists of:

- > The financial statements for the year
- > The notes to the financial statements
- > The directors declaration about the statements and notes.

The financial report must comply with Accounting Standards.

The financial statements and notes for a financial year must give a true and fair view of the financial position and performance of the company (if consolidated financial statements are required, they must give a true and fair view of the financial position and performance of the consolidated entity).

Auditing

Companies limited by guarantee must comply with the provisions of the *Corporations Act 2001* dealing with the appointment and removal of auditors. These provisions, which cover almost 70 pages of this Act, are too extensive to be covered in detail in this guidance. It should be noted that the person, firm or company appointed as auditor of a company limited by guarantee must (among other things):

- > Be a registered company auditor
- > Comply with the auditor independence provisions of the *Corporations Act 2001*.

Table 6: Incorporated associations legislation

State or Territory	Title of Legislation	Regulations	Supporting Material
Australian Capital Territory	Associations Incorporation Act 1991	Associations Incorporation Regulation 1991	www.rgo.act.gov.au/sect3b2.htm
Northern Territory	Associations Act	Associations Regulations	www.nt.gov.au/justice
New South Wales	Associations Incorporation Act 1984	Associations Incorporation Regulation 1999	www.fairtrading.nsw.gov.au
Queensland	Associations Incorporation Act 1981	Associations Incorporation Regulation 1999	www.fairtrading.qld.gov.au
South Australia	Associations Incorporation Act 1985	Associations Incorporation Regulations 1993	www.ocba.sa.gov.au/businessadvice/associations/accounts/index.html
Tasmania	Associations Incorporation Act 1964	Associations Incorporation Regulations 1997 Associations Incorporation (Model Rules) Regulations 1997 Associations Incorporation Direction 1999	www.consumer.tas.gov.au/business_affairs/incorporated_associations/requirements
Victoria	Associations Incorporation Act 1981	Associations Incorporation Regulations 1998	www.consumer.vic.gov.au
Western Australia	Associations Incorporation Act 1987	Associations Incorporation Regulations 1988	www.docep.wa.gov.au/associations/

Table 7: Record-keeping requirements of incorporated associations

Provision	ACT	NT	NSW	QLD	SA	TAS	VIC	WA
An incorporated association shall:								
Keep accounting records that correctly record and explain the transactions (including any transactions as trustee) and the financial position of the association.	71(a)	41(a)	28(1)(a) ¹	Reg. 9(5)(a)	35(2)(C)(i)(a)	23(1)(a)	30A	25(a)
Keep its accounting records in such a way that:								
> True and fair accounts of the association can be prepared from time to time	71(b)(i)	41(b)(i)	-	59(1)(a) ²	35(1)(a)	23A(1)(b)(i)	30(3) and 30(3A)(a)	25(b)
> A statement of the accounts of the association can conveniently and properly be audited in accordance with the legislation.	71(b)(ii)	41(b)(ii)	-	Reg. 9(5)(c)	35(1)(b)	23A(1)(b)(ii)	-	25(c)
Retain its accounting records for at least seven years after the transactions to which they relate were completed.	71(c)	41(c)	-	Reg. Schl. 5, Para. 9	Reg 8	23A(3)	30(4A)	-

¹ The NSW legislation requires 'an incorporated association [to] ensure ... that proper accounting records are kept which correctly record and explain the transactions of the association and its financial position'. Where the incorporated association is a fundraiser within the meaning of the Charitable Fundraising Act 1991, there are additional requirements.

² Queensland's Associations Incorporation Act 1981 does not specify that the 'statement' be true and fair.

Table 8: What is a 'prescribed association'?

The term 'prescribed association' is used in three jurisdictions. The following table provides a summary of the relevant provisions of the Incorporated Associations legislation in those jurisdictions.

Jurisdiction	Section(s) of Legislation	Summary	Criteria/Definition																
ACT	76	This section of the ACT Associations Incorporation Act 1991 specifies who can be appointed auditor of a 'prescribed association' and the duties and responsibilities of the auditor.	Regulation 13 of the Associations Incorporations Regulations 1991 specifies 'an incorporated association that has gross receipts exceeding \$500,000 for a financial year of that association is prescribed for the Act, section 76'.																
SA	Division 2 (ss. 35 and 38)	This division of the Associations Incorporation Act 1985 deals with: <ul style="list-style-type: none"> > the manner in which a prescribed association must keep its accounting records; > the preparation and recording of accounts; and > the lodgement of periodic returns. 	Section 3 of the Act defines a 'prescribed association' as 'an incorporated association: <ul style="list-style-type: none"> a) that had gross receipts in that associations previous financial year in excess of – <ul style="list-style-type: none"> i. \$200,000; or ii. such greater amount as is prescribed by regulation; or b) that is prescribed or of a class prescribed by regulation'. 																
	39	This section deals with the annual general meeting of a prescribed association.																	
Victoria	30B	Section 30B of the Associations Incorporation Act 1981 deals with the auditing of the accounts of a prescribed association and the retention of the association's accounting records.	Section 3 of the Act defines a 'prescribed association' as an 'incorporated association: <ul style="list-style-type: none"> a) that has gross receipts in that association's previous financial year in excess of \$200,000 or such other amounts as is prescribed by regulation; or b) that has gross assets in excess of \$500,000 or such other amount as is prescribed by regulation; or c) that is prescribed or of a class prescribed by regulation'. 																
		Regulation 7 of the Associations Incorporations Regulations 1998 requires that 'a "prescribed association" must prepare its financial statements in accordance with: <ul style="list-style-type: none"> a) the Australian Accounting Standards prescribed in Part 1 of Schedule 1 which have been issued by the Australian Accounting Research Foundation ...; and b) the Accounting Standards specified in Part 2 of Schedule 1 which have been issued by the Australian Accounting Standards Board'. 																	
Northern Territory		The Northern Territory's 'Association Act' has adopted a tiering of associations, based on the gross annual receipts, gross assets and activities of the association. Note that only one of the criteria needs to be satisfied for an association to be classified in a tier.	<table border="1"> <thead> <tr> <th>Tier</th> <th>Annual Gross Receipts</th> <th>Gross Assets</th> <th>Activity</th> </tr> </thead> <tbody> <tr> <td>One</td> <td><\$25,000</td> <td><\$50,000</td> <td>n/a</td> </tr> <tr> <td>Two</td> <td>\$25,000 – \$250,000</td> <td>\$50,000 – \$500,000</td> <td>Gaming machine licence</td> </tr> <tr> <td>Three</td> <td>>\$250,000</td> <td>>\$500,000</td> <td>Performing local government functions</td> </tr> </tbody> </table>	Tier	Annual Gross Receipts	Gross Assets	Activity	One	<\$25,000	<\$50,000	n/a	Two	\$25,000 – \$250,000	\$50,000 – \$500,000	Gaming machine licence	Three	>\$250,000	>\$500,000	Performing local government functions
Tier	Annual Gross Receipts	Gross Assets	Activity																
One	<\$25,000	<\$50,000	n/a																
Two	\$25,000 – \$250,000	\$50,000 – \$500,000	Gaming machine licence																
Three	>\$250,000	>\$500,000	Performing local government functions																

Table 9: Auditing incorporated associations

With the exception of those established under the New South Wales and Western Australia legislation, the financial reports of incorporated associations must be audited. The following table summarises the relevant provision of the associations incorporation legislation.

Jurisdiction	Section(s) of Legislation	Provision
ACT	74(1)	The committee of an incorporated association shall take reasonable steps to ensure that the audit of the association's accounts is completed at least 14 days before the audited statement of the accounts is required to be presented at the annual general meeting of the association under s. 73.
NT	43(1)	At each annual general meeting of an incorporated association, the committee must present the following documents for the consideration of the meeting: a) The audited statement of the association's accounts in relation to the last financial year of the association b) A copy of the auditors report to the association in relation to the association's accounts for that financial year.
QLD	59(1)(b) and (c)	The members of the management committee of an incorporated association must ensure the association, within six months of the close of the financial year prescribed, or more frequently if the rules of the incorporated association so provide ... causes the financial affairs of the incorporated association to be audited [and] presents the audited statement to the annual general meeting for adoption.
SA	35(2)(6)	A prescribed association must, after the end of a financial year of the association: a) Cause accounts in respect of the financial year to be prepared b) Cause the accounts to be audited

The appointment of auditors varies from jurisdiction to jurisdiction. The Australian Capital Territory, South Australia and Victorian legislation, which includes the concept of a prescribed association and the Northern Territory legislation, which provides for a tiering of incorporated associations, allows for a range of persons who might accept appointment as auditor of an incorporated association. Auditors of incorporated associations which are not prescribed associations may have a lower level of qualifications and experience than the auditors of prescribed associations. The relevant provisions are summarised in the following table.

Jurisdiction	Section(s) of Legislation	Provision
ACT	74(2) An association that is not a prescribed association	The accounts of an incorporated association shall be audited by a person who: a) Is not an officer of the association b) Has not prepared or assisted with the preparation of those accounts.
	74(3) An association that is a prescribed association	The association's accounts shall be audited by a person who is a member of the Institute of Chartered Accountants in Australia, the National Institute of Accountants, or CPA Australia, or who is registered as an auditor under the <i>Corporations Act 2001</i> , being a person who is not: a) An officer of the association, or b) A partner, employer or employee of an officer of the association, or c) A partner or employee of an employee of an officer of the association.

Table 9: Auditing incorporated associations (continued)

Jurisdiction	Section(s) of Legislation	Provision
NT	46(1) Tier 1	A tier 1 incorporated association must ensure its accounts are audited by a person who: <ul style="list-style-type: none"> a) Is not a member of the association b) Is not a partner, employer or employee of a member of the association, or c) Is not a partner of an employee of a member of the association.
	47(2) Tier 2	The association must ensure its accounts are audited by: <ul style="list-style-type: none"> a) A person who is a member of an accountants body b) A person who holds qualifications in a prescribed class of qualifications, or c) A person who is, or is a member of a class of persons, approved by the Commissioner.
	48(2) Tier 3	The association must ensure its accounts are audited by: <ul style="list-style-type: none"> a) For an incorporated association described in subs. (1)(a), (b) or (c) – a person who holds a public practice certificate issued by an accountants body b) For an incorporated association described in subs. (1)(a), (b) or (c) – a person who is, or is a member of a class of persons, approved by the Commissioner, or c) For an incorporated association described in subs. (1)(d) – a person who is registered as an auditor under the <i>Corporations Act 2001</i>.
QLD	59(1)(b)	The financial affairs of the incorporated association shall be audited by: <ol style="list-style-type: none"> I. A person registered as an auditor under the Corporations Act, or II. A member of CPA Australia or the Institute of Chartered Accountants in Australia, or III. A member of the National Institute of Accountants, other than an associate, who has satisfactorily completed an auditing component of a course of study in accountancy of at least three years' duration at a tertiary level conducted by a prescribed university or other prescribed institution under the <i>Corporations Act 2001</i>, s. 1280(2A)(a), or IV. A person whom the chief executive considers has appropriate qualifications.
SA	35(2)(b)	The accounts are to be audited by a registered company auditor, a firm of registered company auditors, a person who is a member of the Australian Society of Certified Practising Accountants or the Institute of Chartered Accountants in Australia or such other person who may be approved by the Commission as an auditor of the accounts of the association for the purposes of this Act.
Tasmania	24(1)	The financial affairs of the association to be audited by: <ul style="list-style-type: none"> a) A person who is a registered company auditor within the meaning of the <i>Corporations Act 2001</i>, or b) Such other person as the Commissioner, having regard to the complexity of the financial affairs of the association, may approve.
	24(1)	Unless an incorporated association is exempted under subs. (1B), the committee of an incorporated association shall, as soon as practicable after the end of its financial year, and at such other times (if any) as the rules of the association provide, cause the financial affairs of the association to be audited ...
Victoria	30B(1)	The accounts of a prescribed association can be audited by: <ul style="list-style-type: none"> a) A registered company auditor, or b) A firm of registered company auditors, or c) A person who is a member of CPA Australia or the Institute of Chartered Accountants in Australia, or d) Any other person who is approved by the Registrar as an auditor of the accounts of the incorporated association for the purposes of this section.
	30B(1)	A prescribed association must, after the end of each financial year of the incorporated association cause its accounts to be audited ...

Table 10: Resources

There are extensive resources available to not-for-profit entities to assist them through the complexity of legislation and regulation and to adopt best practice. In the following table we have provided a selection of links to government and other organisations that make resources available to NFPs.

Organisation	Website	Resources available and comments
Australian Accounting Standards Board	www.aasb.com.au	Look for the document 'Not-for-Profit entity requirements in Australian Accounting Standards' (updated November 2005). www.aasb.com.au/whatsnew/staff_articles/NFP_requirements_Nov_2005.pdf
Australian Sports Commission	www.ausport.gov.au	Follow the links to: Developing Sport > Sport innovation and best practice > governance and business management for information regarding the Commission's 'Governance and Management Improvement Program' and resources regarding strategic planning and risk management for sporting bodies.
Australian Taxation Office	www.ato.gov.au	Follow the link to the Non-Profit homepage www.ato.gov.au/nonprofit/ for comprehensive overview of the application of taxation legislation to NFPs. This link also provides further links to state and territory government websites that deal with fundraising.
Our Community	www.ourcommunity.com.au	Our Community provides extensive links to information and resources that can be used by all NFPs.
Philanthropy Australia	www.philanthropy.org.au	Follow the links Community Foundations > Tools and Resources for access to fact sheets, FAQs, Papers and Presentations. Also follows the links Research and Information for additional resources. Some of the information is provided free of charge, while some is available on a subscription only basis.
Social Ventures Australia	www.socialventures.com.au	SVA offers training courses in areas such as 'Social Return on Investment', a community mentoring program and a series of workshops that showcase 'best practice' in social ventures.
Victoria: Department of Justice Consumer and Business Affairs Victoria	www.consumer.vic.gov.au	Refer to Clubs Fundraising and Community Events > Clubs for information for club treasurers, a voluntary treasurer's handbook, a community fundraising strategy tool and information about risk management. Refer to Clubs Fundraising and Community Events > Fundraising for information about who should register and obligations that arise when raising funds.

Table 10: Resources (continued)

Organisation	Website	Resources available and comments
Queensland: Department of Equity and Fair Trading Office of Fair Trading	www.consumer.qld.gov.au	Refer to Business > Services > Charities for information about the governing legislation, registering a charity and rules for fundraising in Queensland.
South Australia: Office of the Liquor and Gambling Commissioner Lottery Licensing	www.olgc.sa.gov.au	Refer to Lottery > Collections for Charitable Purposes for information about fundraising within South Australia. This includes information about licences required, forms to be completed and contacts within the department.
Western Australia: Ministry of Fair Trading Charitable Collections Advisory Committee	www.fairtrading.wa.gov.au	Refer to Consumer Protection > Charities for information about codes of practice, links to legislation, forms and running a commercial fundraiser.
New South Wales: Department of Gaming and Racing Office of Charities	www.dgr.nsw.gov.au	Refer to Charities link for information about the Fundraising Act, obtaining authority to fundraise, and controls that exist over charities including expenses, record-keeping, disclosure, financial reporting and audit and lodgment of returns.
Australian Capital Territory: Department of Urban Services City Operations Branch	www.urbanservices.act.gov.au	Refer to About Us > Charitable Collections for information about the Fundraising Act, best practice guidelines and forms to be completed.
Tasmania: Office of Consumer Affairs and Fair Trading	www.justice.tas.gov.au	Refer Consumer Affairs and Fair Trading > Business Affairs > Charities for an explanatory booklet and information about the Act, forms to be filled out, requirements of various forms of fundraising, and being allocated a fundraising day within the state.

The Institute of Chartered Accountants in Australia

Contact details

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**The Institute of
Chartered Accountants
in Australia**

The General Manager
Corporations and Financial Services Division
Department of the Treasury
Langton Crescent
PARKES ACT 2600

27 August 2007

Dear Sir

Re: Financial Reporting by Unlisted Public Companies

The Institute of Chartered Accountants in Australia welcomes the opportunity to make a submission on the Discussion Paper: Financial Reporting by Unlisted Public Companies.

The issue is complicated by the fact that these proposals interact with those of the AASB in ITC 12 with regard to the future of the reporting entity concept and the possible application of the proposed IFRS for SMEs in Australia. The reporting framework is consequently in a state of flux.

In our detailed response we suggest that companies limited by guarantee should continue to report to their members in some form, but that small ones (those that fall below certain thresholds) should not be required to lodge audited general purpose financial reports with the ASIC. However, we strongly recommend that some governance framework, administered by ASIC be set up to supervise these smaller unlisted public companies.

We conducted an online survey of our membership and received 48 responses. This is a high level of response to a financial reporting survey and indicates to us that there is a great deal of interest in these issues in the community. We attach a summary of the findings for your information.

Our detailed comments are attached.

Yours faithfully

Bill Palmer
General Manager Standards & Public Affairs
The Institute of Chartered Accountants in Australia

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Unlisted Public Companies Discussion Paper

Companies Limited by Guarantee - Financial Reporting

- A. *Do you support the introduction of a differential reporting regime based on size for companies limited by guarantee? If so, what do you consider to be the appropriate criteria (both in terms of the indicators of size and the quantum of those indicators) for differentiating between those companies that are required to report and those companies that are exempt?*

We do support a differential reporting regime for companies limited by guarantee. In response to our survey, just over half of those who suggested thresholds suggested using the revised small/large proprietary company thresholds brought in by the Simpler Regulatory System legislation. Feedback from participants at our Financial Reporting for SMEs forum in June, however, leads us to believe that the community as a whole would not be comfortable with removing financial reporting and audit requirements from all companies limited by guarantee that fall below that level. In addition a significant minority of respondents to our survey suggested using a lower threshold, such as revenue of \$5m, \$2m or \$1m. Of the suggestions, \$5,000,000 was the most popular.

Our suggestion is therefore a compromise approach. Based on Table 1 of the discussion paper, we suggest that companies limited by guarantee above the \$25,000,000 revenue threshold apply full IFRS (per Table 1, this is the top 5% and is likely to include those that are publicly accountable) and those below apply a specific not-for-profit standard to be formulated by the AASB. Subject to the outcome of the ITC 12 consultation process, this might be based on the proposed IFRS for SMEs. We further suggest that companies limited by guarantee with below \$5,000,000 in revenue be exempted from the financial reporting and auditing requirements of the Corporations Act in a similar manner to small proprietary companies, but be subject to enhanced corporate governance requirements. From Table 1 in the discussion paper, we can see that such a cut-off point would exempt something like 75% of the companies limited by guarantee from the requirement to prepare audited general purpose reports. We have deliberately omitted an asset test here as we are aware that some not-for-profits for historical reasons own significant assets.

We are suggesting this lower threshold in view of the cost of preparing general purpose financial information compared with the benefit for members. While there is a significant level of public interest in these entities, members are primarily focused on whether the entity is fulfilling its stated objectives, whether that be charitable work, maintaining the golf course or whatever, rather than in its detailed finances. Apart from wanting comfort that the entity can continue to operate as a going concern, most of the financial information provided in a general purpose financial report is irrelevant to the membership. Such comfort can be derived by the imposition of a rigorous governance structure.

We assume that small unlisted public companies that are exempted from financial reporting and auditing obligations would be subject to the requirement in S 347A of the Corporations Act to pass a solvency resolution within 2 months of the review date of the company, in the same way as small proprietary companies are at present. In order to be able to make such a resolution, the directors need to have a reasonable governance structure in place. Small public companies that remain unaudited (ie, without a requisition by members) should be required to demonstrate an ongoing strong governance environment. Such a governance structure could include (as suggested by one of our members) various elements, not dissimilar to the attributes that ASIC looks for in granting audit relief to large proprietary companies, for example:

- Documented governance policies
- Directors trained in governance and accredited with some minimum qualification in governance (for example, Certificate IV in Small Business Management, a qualification widely available from TAFE - see <http://www.seeklearning.com.au/tafe/certificate-4-in-small-business-management.asp>)
- A strategic plan, action/business plan and risk register, all reviewed triennially
- Policies and procedures manuals
- Annual budgets and cash flow projections
- Annual accounts, which would not be general purpose, signed by the directors, prepared within 4 months of balance date and presented to AGM of members. Such accounts would comprise a detailed profit and loss account, a cash flow statement, a balance sheet, a statement of significant accounting policies, disclosure of significant commitments and related party disclosures.
- An Annual Return, including financial data (something like the old key financial data) and confirmation of the directors' solvency resolution, signed by the directors, to be lodged with ASIC
- The option of independent audit where 5% of members requisition a meeting to appoint an auditor

This structure would be supported by a triennial review of the governance and control environment by an independent reviewer (say a Registered Company Auditor or accredited member of a review panel). Should breaches be detected in items such as:

- Governance framework and control environment
- Triggering of a small/large test
- Propriety and timeliness of financial reporting to members
- Inappropriate accessing of benefits by directors or officers (pecuniary interest or conflicted directors etc)
- Late/no AGMs
- Late/no financial data or annual return or equivalent lodged with ASIC,

then that small public company should be subject to independent audit for a minimum 3 year period; the auditor would be appointed either by ASIC or by the members. Financial reports would be under, the appropriate reporting framework (perhaps the proposed IFRS for SME's, subject to the outcome of the ITC 12 consultation process) for that 3 year period.

We envisage ASIC would remain the regulator for these companies.

In our view, while the members of a company limited by guarantee may only seldom ask to see the financial report, they do at present derive some comfort from the fact that they know that one is prepared and audited. In our experience of running an auditing and financial reporting help line for the past fifteen years or so, fraud in licensed clubs (generally companies limited by guarantee) is not uncommon. Furthermore, the enquiry into the Penrith Panthers also suggested that the undisclosed accessing of benefits by directors and officers is an issue for members. Therefore it is absolutely vital that other mechanisms need to be put in place to ensure good governance if some entities are going to be relieved of the obligation to lodge audited financial reports.

- B. *Do you believe it is appropriate to differentiate between companies limited by guarantee by the nature of their operations rather than just size? If so, what nature of operations do you believe warrants greater transparency?*

74% of our respondents did not believe it is appropriate to differentiate between companies limited by guarantee by the nature of their operations rather than just size. Some constituents did, however, refer to the increased requirements for accountability where the entity has a liquor license or poker machines.

In our view, this kind of qualitative decision-making has led to confusion in the application of the reporting entity concept and in the decision as to whether an entity is in fact not-for-profit and eligible to use the not-for-profit concessions in the AASB standards. Not-for-profit reporting generally has a tight budget and the reporting regime should be kept simple to apply.

C. Do you consider that companies limited by guarantee that receive any money through grants should have financial reporting requirements? If so, can this obligation be satisfied by the company providing special purpose financial reports to the grantor rather than preparing general purpose financial reports under the Corporations Act?

The acquittal of government grants is an issue that needs to be decided in consultation with the bodies generally granting the funds. While an acquittal report designed by the department concerned and signed off by the entity's auditor is more likely to provide relevant information to the grantor body than general-purpose financial reports, if every grantor body is asking for something slightly different, it makes compilation and audit or review of the report harder for the not-for-profits and for their advisers.

Users may find it helpful if the Department of Administration and Finance, together with its State counterparts, be delegated the task of preparing a standard form of grant acquittal report for government agencies and that they liaise with the Attorney General's Department and professional accounting bodies about the accounting and auditing requirements to obtain greater uniformity and simplicity.

With the introduction of thresholds, the acquittal report becomes even more important. For those companies falling below the chosen threshold, the acquittal report will be the only means the grantor has of assessing that the funds have been used appropriately.

D. If you support some companies limited by guarantee being exempted from financial reporting, what percentage of members should be required in order to require an exempt company limited by guarantee to prepare a financial report?

Our survey revealed roughly equally strong support for the following percentage cut-off points: 5%, 10%, 25% and 75%. Our view is that 5% of members (in line with S 293 of the Corporations Act) or 100 members in number, whichever is lower, should be able to require a company limited by guarantee that falls below the lower threshold to prepare a financial report.

This requirement must, however, be supported by a strong commitment from the regulator to take an interest in the affairs of companies that fall below the threshold. Anecdotal evidence from our help line indicates that the provision in the Corporations Act enabling holders of 5% of a small proprietary company to demand financial reports can be ineffective where there is a falling out between shareholders. We have heard of instances where shareholders without the resources to pursue legal remedies are ignored by the majority owners when they request financial reports. When they complain to ASIC about the contravention of the Corporations Act, they receive no support. When a dispute between members arises, the majority or the individuals more concerned with day-to-day management may often be in a position to draw on company funds to pay legal expenses, whereas private individuals have to put in their own

money. Commencing legal action is very costly and private members can be effectively deprived of their rights if they cannot afford to pay to have them enforced.

- E. *If you support the retention of financial reporting requirements for all companies limited by guarantee, do you consider that there is scope to reduce the amount of financial information these companies are required to report? If so, what type of financial information do users need companies limited by guarantee to report (for example, related-party disclosures)?*

See our answer to A above.

To some extent, the answer to this question must depend on the outcome of the AASB's consultation on ITC 12. We suggest that companies limited by guarantee with revenue between \$5,000,000 and \$25,000,000 be able to use IFRS for SMEs (tailored for not-for-profits) if it is issued for use in Australia instead of full IFRS, should they wish. For the time being, under the current reporting framework, or if the proposals in ITC 12 do not gain acceptance, companies limited by guarantee that are non-reporting entities and fall between these two thresholds should be able to continue to prepare simplified accounts.

- F. *Do you consider that there is a need to harmonise the financial reporting requirements of companies limited by guarantee and incorporated associations to provide a consistent reporting framework for not-for-profit entities in Australia?*

We wholeheartedly agree with this proposition. Work done by our Not-for-profit Group in Victoria has demonstrated the wide variety of requirements that not-for-profits are subject to around Australia – see <http://www.charteredaccountants.com.au/files/documents/ICAA07-SSASubmission042707.pdf>. As time passes, Australia acts more and more as one single economy and a not-for-profit may have branches in every state. It would be of considerable assistance to our members and their clients if the requirements were harmonised.

We note the view recently expressed by David Gonski in "Company Director" August 2007 that a special not for profit corporate entity be established to replace companies limited by guarantee and associations, under powers referred to the Commonwealth by the States. This suggestion is, in our view, worthy of further investigation.

- G. *In order to assist in progressing this project, it would be useful to obtain an indication from companies limited by guarantee of the cost of preparing a directors' report and audited financial report as required by the Corporations Act.*

We are unable to provide this information, but are publicising the paper to our members who may be able to assist you. We have heard estimates ranging from \$7,500 to \$60,000.

Companies Limited by Guarantee - Auditing

- H. *If some companies limited by guarantee were to be exempt from financial reporting, do you consider there is value in these companies continuing to be subject to some level of non-statutory external assurance as a means of promoting good governance? If so, what should this assurance relate to and how do you think this regime should be introduced (for example, through best practice guidelines issued by the professional accounting bodies)?*

In our view, companies limited by guarantee that are required to prepare and lodge general-purpose financial reports should have them audited.

Those companies that fall below the threshold and are not required to lodge general-purpose financial reports should be subject to a governance regime similar to that used by ASIC in its

audit relief Class Order (see A above). Under that Class Order, large proprietary companies can be excused from having an audit if a suitably qualified accountant certifies that appropriate governance practices are in place.

In light of the shortage of registered company auditors in country areas, we suggest that the governance review described in A above should be able to be performed by a member of the accounting bodies with a practicing certificate.

In order to safeguard the public interest, regulation for those companies limited by guarantee that fall below the lower threshold should still be statutory.

I. For those companies limited by guarantee that are required to prepare financial statements, do you consider that there is a need to change the current audit requirements? If so, which aspects of the current requirements need to be reformed?

In our view, the current audit requirements are satisfactory for those companies limited by guarantee that are above our lower threshold and are therefore required to prepare financial statements.

Companies Limited by Guarantee - Other issues

J. Do you support amending the Corporations Act so that companies limited by guarantee are specifically prohibited from distributing profits to members in the form of dividends?

We were not aware that there was any demand for the legislation to be changed in this way, but we have no objection to such a change being made.

Unlisted Companies Limited by Shares

K. Do you support the principle that all for-profit companies that have raised capital from the public should have statutory annual financial reporting obligations?

We support this principle.

L. Given a satisfactory mechanism to allow unlisted public companies limited by shares with a not-for-profit objective to convert to a company limited by guarantee is not available, would you support an equivalent differential reporting regime to that proposed for companies limited by guarantee to be established for unlisted public companies limited by shares with a not-for-profit focus? If so, do you support using the definition of not-for-profit entity in the accounting standards to determine whether a company has a not-for-profit focus?

We question how many companies limited by shares with a not-for-profit objective there are and therefore how necessary this proposal is.

We also have reservations about this proposal as the definition of not-for-profit in the accounting standards is interpreted differently from practice to practice. However, if, as is proposed, the AASB drafts a more rigorous definition with supporting commentary, we would support this proposal.

M. In order to assist in progressing this project, it would be useful to obtain an indication from unlisted public companies limited by shares of the cost of preparing a directors' report and audited financial report as required by the Corporations Act and also the number of unlisted public companies limited by shares that have a not-for-profit objective.

We are unable to provide this information, but are publicising the paper to our members who may be able to assist you.

31 March 2008



**The Institute of
Chartered Accountants
in Australia**

The Chairman
Australian Accounting Standards Board
E Mail: standard@aasb.com.au

Dear David

Re: ITC 14: Proposed Definition and Guidance for Not-for-Profit Entities

The Institute of Chartered Accountants in Australia welcomes the opportunity to comment on and is generally supportive of ITC 14 'Proposed Definition and Guidance for Not-for-Profit Entities'. In summary, we prefer the existing terminology, but support the issuance of indicator guidance to help practitioners determine whether an entity is for-profit or not-for-profit.

We have long been aware from conversations with constituents that differentiating between for-profit and not-for-profit entities has been difficult as many entities show features of both. The decision is vital as it determines the entity's selection of accounting policies. At the end of the day, the evaluation of the features of the entity requires professional judgement and an accounting standard or guidance cannot give all the answers. However, we welcome this initiative and believe that the guidance, once it has been Australianised, will be useful to practitioners in making these judgements.

In making this submission, we have conducted a survey of our members using questions based on those in the ITC. We received 51 responses, an indication of the high level of interest in the topic. The survey revealed strong overall support for a project to clarify the definition of not-for-profit (or whatever term is adopted in the future) - 78% of respondents - but ambivalence regarding adoption of the New Zealand terminology. The results are attached as Appendix 2.

We have also reviewed the guidance on determining whether or not a government entity is a not-for-profit put out by the Heads of Treasuries Accounting and Reporting Advisory Committee and the Australian Council of Auditors General Advisory Committee. Their guidance discusses similar indicators to those nominated in the ITC, but also adds classification in Government Finance Statistics as a relevant indicator.

Our detailed comments on the AASB's questions are in Appendix 1 attached.

Please contact Kerry Hicks at kerry.hicks@charteredaccountants.com.au or 02 9290 5703 if you require any further information.

Yours sincerely

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Appendix 1 Detailed Answers to AASB Questions

The New Zealand FRSB's terminology – use of the term 'public benefit entity'

Views from the respondents to our survey were mixed on the proposed change in terminology. The number who agreed with the proposed change (41%) was less than the number who disagreed (47%) but a significant minority stated that they were unsure (12%).

A number of members raised issues with the New Zealand terminology, such as

- whether the term 'public benefit entity' will lead to confusion with the ATO's term 'public benevolent institution'
- whether the terminology could lead to the exclusion of some not-for-profits as currently defined, such as professional bodies.

On balance, respondents showed a preference for retaining the terminology they are familiar with and in the absence of a strong mandate for change, we suggest that the Australian not-for-profit terminology be retained.

An article in February 2008's Charter by Gina Anderson of Philanthropy Australia suggests the term 'community benefit organisation'. This term might go some way to alleviating the concerns of those who dislike 'public benefit entity' as the community concerned may be the public at large or a smaller subgroup. The Board may wish to suggest this to constituents as an option in the next draft of the proposals.

The New Zealand FRSB's definition of public benefit entity

Members were generally supportive (65%) of the proposed definition, but this answer must be read in the context of the ambivalence displayed by respondents towards adopting the New Zealand terminology. Our members appear to support the definition and guidance, but wish to retain the traditional terminology.

The advantage of the New Zealand definition is that it is positive, in that it focuses on the positive features the entity exhibits (providing goods or services for community or social benefit) rather than focusing on what it is not, as in the current Australian definition. However the element of the definition that those surveyed seemed most comfortable with was "where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders", which focuses on the financial aspects of the entity like the current Australian not-for-profit definition, rather than what the entity actually does.

Some members raised the question of whether some entities now classified as not for profit would fail the definition of public benefit entity. For example, whether professional services organizations like the Institute would fall within the definition is unclear. While it is clear that the Institute is not-for-profit, it is unclear whether we "provide goods or services for community or social benefit".

One member suggested that the word 'spiritual' should be inserted into the definition so that it reads 'community, social or spiritual benefit' to avoid disputes as to the status of religious organizations.

The New Zealand FRSB's guidance for identifying a public benefit entity

A large majority of our respondents supported the inclusion of indicator guidance in the final document, (76%) subject, of course to Australianisation of the guidance. 82% supported the use of examples in the guidance. The practical guidance is the key to interpreting the definition, regardless of whether the final pronouncement is drafted in terms of 'public benefit entity' or 'not-for-profit'. One member suggested issuing the indicator guidance to support the current definition of not-for-profit.

We suggest that the material be re-exposed as an ED after the terminology has been decided and after Australianisation of the guidance so that users can evaluate whether the end product is useful.

One respondent also suggested that the entity's tax status be used as an indicator.

We suggest that paras NZ 26 onwards on the quantum of the expected financial surplus need to be clarified to take into account the effects of AASB 1004. Entities applying this standard often find that they have some years which show excessive revenue as a result of receiving a grant for a project that will take several years to complete. The existence of a substantial surplus in the year when a grant has been received should not be interpreted as a for-profit motive. The HOTARAC guidance is helpful here in that it stresses that it is the entity's intentions, rather than its actual returns, that are important.

An example clarifying the status of professional organizations such as the Institute would be useful, as discussed above.

Requirement to disclose that an entity is a profit oriented entity or public benefit entity

All respondents supported this proposed disclosure, as the entity's status is crucial to the selection of accounting policies. We suggest that this disclosure should be made in Note 1, the Statement of Accounting Policies.

It is only necessary to mandate the disclosure for not-for-profits, as, in the absence of any such disclosure, it is reasonable to assume that the entity is following the main text of the standards, rather than the Aus paragraphs.

The status of the guidance as an Integral part of an Accounting Standard

Respondents to our survey showed a preference for guidance to be incorporated into an Appendix that is an integral part of AASB 101. 48% of respondents supported this approach. 32% suggested that it should be in a separate standard and 20% that it should be as implementation guidance that is not part of the standard.

Some members did, however, comment that AASB 101 only applies to reporting entities and to entities that are required to prepare financial reports under Chapter 2M and requested that the statement be generally applicable rather than tied to the applicability of AASB 101. It is hard to see how this could be achieved without creating another type of accounting pronouncement, unless perhaps it was issued as a concept statement (SAC). It was clear from responses that members would like the document to apply to all entities, whether reporting or non-reporting and however constituted.

When we were preparing our response to ITC 12, member feedback indicated that members would like a separate not-for-profit standard based on the IFRS for SMEs or other simplified accounting guidance when it is issued. At this point, in our view, the indicator guidance should be included in the not-for-profit standard.

Harmonisation with New Zealand

Generally respondents supported a harmonised approach with New Zealand (74%), but added the proviso that harmonisation should only be pursued if it is consistent with the needs of the Australian community. Given the lack of strong support for the New Zealand terminology, complete harmonisation is unlikely.

Appendix 2 Results of NFP Survey (22 February 2008)

Total number of respondents: 51

Question 1

Do you consider the current AASB not-for-profit definition is unclear and requires further clarification or guidance?

Yes	40	78%
No	10	20%
Unsure	1	2%
Total	51	100%

Comments:

- Yes must consider 2 Tier system
- Most not for profits do not have trained accountants on staff or those trained staff cannot maintain full currency with standards within the resources of their organisations
- not for profit is a linguistic term as all entities need a surplus or breakeven to continue. Need to clarify to show the difference between the for profit or not for profit
- More guidance should be provided, as some parts of not-for-profit entities are indeed to generate profit to help "subsidise" other areas of the business
- Not for profit is as it implies, "not the generation of profit" these not for profit entities generally have a public benefit goal as their mission statement
- It is too broad to promote a universal understanding
- There is a desperate to distinguish between 'for profit', 'not-for-profit' and 'non-profit' entities. NFP's can have valid profit motives and indeed need to, in order to satisfy the 'going concern' concept when reporting to members and third party
- Some further elaboration & guidance may be useful
- definition is too brief & open to varied interpretation and as a result the inconsistent application
- Recognition of grants should follow international standards and match income with expenditure
- "Non Dividend Paying entities for the Public Benefit"
- Only if there is a perceived need to make a distinction between reporting and non-reporting NFP entities - the PBE definition specifically mentions reporting entities, but the NFP definition encompasses reporting and non-reporting entities.
- Definitions and explanations in NZ standard assist in properly identifying NFP/PBE

Question 2

Do you consider the following parts of the Invitation to Comment as appropriate to the Australian environment (noting that the AASB intends to change any specific NZ legislation references to Australian legislation references) and preferable to the current AASB material:

- a) Terminology – use of the term 'public benefit entity'?

Yes	21	41%
No	24	47%
Unsure	6	12%
Total	51	100%

Comments:

- Instead it may have unintended consequences and could lead to the inclusion of for-profit entities.
- Two very different approaches. Not for profit is not always for "public benefit" and visa versa
- I believe that the current view of not for profit
- The current view of not for profit entities in Aust is much wider than just whether they provide a public benefit. The ITC shows that some entities we now see as NFP would be classified as for profit and have to use the standards BHP uses. I feel
- A Lions Club may operate an Opportunity Shop for profit this is for public benefit & therefore should be specifically recognised
- I am concerned it will be confused with the Public Benevolent Institution status given by the ATO. Otherwise it is fine to change as long as it is consistent.
- semantics of terminology should not really be a major issue
- The term 'public benefit' is too narrow. Representative organisation (eg ICAA) would be better represented by 'not-for-profit'
- Better describes nature of entities. Not for Profit has negative flavour, & is not strictly correct (make profit, but perhaps not full commercial ROR).
- Prefer not-for profit terminology
- Smaller entities do not understand or plan for CAPEX and economic volatility.
- "Public benefit entity" will likely imply a broader public focus intent than many NFPs have - e.g. sports clubs, while they may benefit the public incidentally, are about arranging and playing sport games - and as a result may be misleading to non-expert
- We have already had significant change to many, many terms in our profession. The public at large are only just coming to grips with not for profit. Then there will be another series of explanations and exceptions as to what constitutes a public benefit, fu
- It is not clear from the term PBE that it is in fact an NFP
- Not-for-profit is unanimously known throughout Australia so why change for the sake of change?

b) Definition of public benefit entity

Yes	31	65%
No	14	29%
Unsure	3	6%
Total	48	100%

Comments:

- The main determinant should be whether the profit(surplus) is used within the entity or for distribution to other NFPs. By nature a NFP must generate a surplus from some activities in order to carry out its main objectives.
- However I would add the word "spiritual" into the definition so that it says "community, social or spiritual benefit" to avoid later arguments.
- NZ definition is very appropriate
- in particular, the reference to financial return to equity holders as a key part of the definition
- The definition mentions community and social activities. Again, professional/representative bodies are not represented well by this definition.
- Amendments as appropriate to the Australian environment
- Compliance with ATO guidelines. States should adopt single reporting framework.

- Goes beyond simple statement of current intent, and specifically refers to reporting entities, despite guidance and examples indicating that this could apply to all sized entities.

c) Indicator guidance for identifying a public benefit entity

Yes	37	76%
No	8	16%
Unsure	4	8%
Total	49	100%

Comments:

- subject to Australianisation of examples; a useful additional guide may be the income tax status of the organisation
- I agree with the guidance
- Refer 2(b) above
- The guidance is of more use than the definition and could apply in large measure to the existing NFP definition with corresponding terminology.
- I see difficulty with the issue of the quantum of the financial surplus. A charity may run a shop on commercial grounds to provide a return, which goes to the charity.

d) Incorporation of examples into the guidance

Yes	40	82%
No	6	12%
Unsure	3	6%
Total	49	100%

Comments:

- However I do not agree with some of the comments in the NZ guidance.
- The IASB approach is to remove illustrative examples, which instead should be incorporated into AASB Interpretations.
- Helpful, but tailor to Australian examples
- Perhaps not as a formal part of the guidance.

Question 3

Would you agree that the above guidance on public benefit entities/not-for-profit entities should be located?

- in a separate standard

Yes	16	44%
No	20	56%
Unsure	0	0%
Total	36	100%

- as an Appendix that is an integral part of AASB 101 *Presentation of Financial Statements* in common with its status in New Zealand

Yes	24	60%
No	16	40%

Unsure	0	0%
Total	40	100%

as implementation guidance that is not incorporated as part of the standard

Yes	10	31%
No	22	69%
Unsure	0	0%
Total	32	100%

Comments:

- AASB101 does not apply to all entities.
- There is no standard that applies to all entities. This type of definition transcends whether an entity is a reporting entity or not. An entity should determine whether it is NFP first then whether it is a reporting entity.
- Am not familiar enough with the AASB system workings to offer an opinion
- Either a or b. Definitely not c. Let's not make up a whole new set of separate guidelines that have to be found and understood. Please make it as easy as possible to be found and updated.
- Tie this in with the upcoming SME standard
- it is important that the definition and guidance is given appropriate authority if it is to impact the implementation of accounting policies from other standards
- given there could be significant judgment required in determining the status of an entity, its inclusion as implementation guidance would be more appropriate
- Most work by Professionals is done on a Pro Bono or discounted basis. Therefore, I suggest no legal enforcement through standards

To express the results slightly differently:

As a separate standard	16	32%
As an appendix to AASB 101	24	48%
As implementation guidance	10	20%
Total	50	100%

Question 4

Do you agree that Australian entities should disclose whether an entity is a profit oriented entity or a public benefit entity (currently a not-for-profit entity)?

Yes	48	100%
No	0	0%
Unsure	0	0%
Total	48	100%

Comments:

- Definitely.
- Very important in order to understand accounts. Balance Sheet & P&L can be significantly different.
- Stake holders may make decisions that have an economic impact.
- Whether PBE or NFP this is useful, relevant financial information for users of that information.

Question 5

Do you support the convergence objective of both Australia and New Zealand in respect of not-for-profit entities?

Yes	37	74%
No	6	12%
Unsure	7	14%
Total	50	100%

Comments:

- if it makes sense overall, then yes.
- There are a number of NZ not for profit entities operating in Aust, as there Aust not for profit in NZ, uniformity in reporting will provide constituent reporting of these entities irregardless where the parent is resident.
- As long as this does not create another bureaucracy that make changes impossible like IFRS.
- Only if the definition is consistent with our needs
- In line with adoption of IASB standards.
- Yes, although it may be misleading to use the same terms if we end up differing on the details beyond terms.
- Unless definitions and more importantly understanding by the clients of accounting firms and more broadly public at large is IDENTICAL then no convergence
- Agree in respect of definition and examples of NFP/PBE. However, unsure of other NZ requirements for NFP/PBE.

17 April 2008

Policy and Strategy Division
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Dear Sirs

Exposure Draft Associations Incorporation Bill 2008

CPA Australia, The Institute of Chartered Accountants in Australia (the Institute) and the National Institute of Accountants (NIA) (collectively referred to as the Joint Accounting Bodies) welcome the opportunity to make a submission on the Exposure Draft Associations Incorporation Bill 2008 (Draft Bill).

The Joint Accounting Bodies represent over 180,000 professional accountants. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally. The Joint Accounting Bodies have together considered the Draft Bill and our comments are set out below and in the attached Appendix.

Our members are involved in associations as members as well as treasurers and auditors, both paid and voluntary, and not-for-profit reporting is an area that concerns them greatly. In 2007, the Joint Accounting Bodies responded to the Treasury's discussion paper on unlisted public companies (please refer to CPA Australia's link: http://www.cpaaustralia.com.au/cps/rde/xchg/SID-3F57FECB-65397AE6/cpa/hs.xsl/14131_23992_ENA_HTML.htm; or the Institute's link: http://www.charteredaccountants.com.au/A119702265?z_d=lsk) and to the Victorian State Services Authority on not-for-profit regulation (<http://www.charteredaccountants.com.au/files/documents/ICAA07-SSASubmission042707.pdf>). A recurring theme in these submissions is the need for Australian governments to reduce the burden of compliance without removing the requirement for accountability and to act together to draft legislation and regulations that are consistent across the country as increasingly associations are crossing State boundaries. In our view, NSW Government resources would be better spent working with other State and Federal Governments, through the Council of Australian Governments (COAG), to produce a uniform national scheme that embraces the whole not for profit sector, whether the activities be conducted through companies limited by guarantee or through associations.

The Joint Accounting Bodies' detailed comments are in the attached appendix. The comments are generally confined to the financial reporting and assurance aspects of the Bill as they represent our area of expertise.

If you require further information on any of our views, please contact John Ngiam (CPA Australia) by email to john.ngiam@cpaaustralia.com.au, Kerry Hicks (the Institute) by email to kerry.hicks@charteredaccountants.com.au or Tom Ravlic (NIA) by email to tom.ravlic@nia.org.au.

Yours faithfully



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Representatives of the Australian Accounting Profession

Detailed Comments

One Law

As mentioned in our covering letter, the Joint Accounting Bodies have stated in previous submissions to State and Commonwealth governments that it is difficult to reconcile the different legislative requirements across jurisdictions for equivalent sized entities which conduct similar activities. Entities such as incorporated associations are subject to the legislation of the State or Territory, while public companies limited by guarantee are subject to federal legislation. In some cases associations may operate across State boundaries. Consequently, we encourage the Government of NSW and other State governments to work with the Commonwealth government to develop a consistent approach for reporting purposes, including the examination of a single federal statutory regime for all corporate bodies by referral of powers from the States and Territories to the Commonwealth government and national regulators.

Some commentators have gone so far as to suggest that Australia needs a single Commonwealth regulatory regime for not-for-profits.¹ A single scheme could then be tied in with the Commonwealth Treasury's proposals to reduce the regulatory burden on small companies limited by guarantee using thresholds to be agreed. Other commentators have told us that they recommend to some not-for-profits that they should incorporate as a company limited by guarantee rather than an association as the underlying law is better known and easier to follow and does not differ from State to State.

In the event that the NSW Government proceeds with finalising this legislation in isolation from the other State and Commonwealth governments, the following detailed comments identify areas that should be considered as part of this process.

Financial Reporting Requirements

The term 'financial statements' used in Part 5 of the Draft Bill is not defined. This could lead to confusion. If it is the NSW government's intention that the definition in the Corporations Act should be used then it should be stated. We suggest using the definition in the Accounting Professional and Ethical Standards Board's APES 205 *Conformity with Accounting Standards*:

"Financial Statements means a structured representation of historical financial information, which ordinarily includes explanatory notes, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term can refer to a complete set of Financial Statements, but it can also refer to a single financial statement, for example, a balance sheet, or a statement of revenues and expenses, and related explanatory notes. The requirements of the financial reporting framework determine the form and content of the Financial Statements and what constitutes a complete set of Financial Statements."

Exactly what is required of each tier of association (the appropriate framework, per the definition) can then be specified in Regulations.

Section 49 requires that the financial statements of a small association must give a true and fair view. This is a company law concept, which brings in by implication the application of accrual accounting and possibly also extends to the application of all the accounting standards, particularly if the Australian Accounting Standards Board (AASB) should proceed with their proposals in ITC 12 *Request for Comment on a Proposed Revised Differential Reporting Regime for Australia and IASB Exposure Draft of A Proposed IFRS for Small and Medium-sized Entities*. The legislators need to be clear on what is required. The Joint Accounting Bodies believe that the Department is intending that small associations should be able to choose to prepare simple financial reports for their members, in some cases only a cash-based statement of income and expenditure. It would be helpful for users of the legislation for the Department of Fair Trading to specify exactly what is required for small associations in the Regulations. We suggest that the Department give a

¹ "A Better Framework: Reforming not-for-profit regulation" by Susan Woodward and Shelley Marshall, University of Melbourne, 2004 <http://cclsr.law.unimelb.edu.au/index.cfm?objectId=017B1CA1-B0D0-AB80-E29B8B41F029F841>

small association the option to produce a simple Statement of Key Financial Data derived from information prepared on an accrual basis and signed by two members of the Association's management committee. The Joint Accounting Bodies would be pleased to assist in drafting the appropriate wording.

Section 52 requires a large association to keep records which are sufficient to enable financial statements to be prepared in accordance with Australian Accounting Standards. The Joint Accounting Bodies suggest that this requirement should apply to all associations, as all associations have accountability obligations. Preparation of financial statements of some sort for small associations, which may eventually grow to become large associations, fulfils those obligations. If the *International Financial Reporting Standards for the Small and Medium-sized Entities* were to be adopted by the AASB, the accountability requirements for associations may also change resulting from the stipulated benchmarks. Consequently, financial records should be sufficient for all associations to provide an accounting and audit trail.

Audit and/or Assurance Requirements

The Joint Accounting Bodies are of the view that the requirements of section 54 relating to the qualifications of the auditor are more stringent than necessary. The Joint Accounting Bodies also share the view that it should be adequate for the auditor to be a member of one of the three accounting bodies holding a public practising certificate. Many practising members have had adequate audit experience over their careers to be able to conduct a small audit, but, because they have not worked exclusively in audit for a significant period of time, do not qualify for registration as a Registered Company Auditor. Reducing the stringency of this requirement will enable associations to have a greater choice of possible auditors without compromising audit quality and will make it easier for associations in regional areas to secure the services of a qualified auditor. CPA Australia also made this suggestion in its submission to the Victorian government in relation to the Victorian associations' legislation.

It should be noted that members of the Joint Accounting Bodies are subject to the ethical requirements of the Accounting Professional and Ethical Standards Board, which cover audit independence.

The requirement in section 54 that the auditor shall not be a member of the association may also be excessive, particularly where an association is large and the proposed auditor is not involved in its management. A better way of drafting the requirement would be to state that the auditor must be independent in terms of APES 110 *Code of Ethics for Professional Accountants*. APES 110 emphasises the threats to independence and the appropriate safeguards that can be put in place to mitigate those threats, which leaves scope for professional judgement.

The Financial Year

The Joint Accounting Bodies strenuously disagree with these proposals and see absolutely no reason why associations should be forced to adopt a year-end of 30 June or 31 December.

In our experience associations have a variety of year-ends. Generally the year-end is chosen because it fits well with the association's activities. For example a sporting club will have its year-end just after the end of its sporting season, for example 30 September for a winter sport. A school parents' association may choose to have its year-end at the end of October or November after its major fund-raisers for the year and in time to hand over to a new committee who will then plan activities for the next academic year. Other associations may run one major event during the year, such as a regional agricultural show. They choose to have their year-end just after the completion of the major event.

Changing to compulsory year-ends would be highly inconvenient for the associations, volunteers who assist them and also for their professional advisers. Accounting firms appreciate clients with non-standard year-ends as this assists with managing their flow of work. If associations are forced to have 30 June or 31 December year-ends, they will be competing for professional (and volunteer) resources with the for-profit sector, and in all likelihood, their fees will increase to reflect the increased demands on professional practices.

Other Issues

1. The Joint Accounting Bodies question the need to change the terminology from “Rules” to “Constitution” as those involved in associations seem to be comfortable with the current terminology.
2. The Joint Accounting Bodies question the need to combine the roles of Secretary and Public Officer. Under the current legislation, associations can combine these roles if they wish, but they can also use the existence of two designated positions as a means of recruiting an extra volunteer onto the committee.