Rob Clough
PO Box 203
East Brunswick
Victoria 3057

Committee Secretary
Senate Economics Committee
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Via email: economics.sen@aph.gov.au

29th August 2008

Inquiry into the Disclosure regimes for Charities and not-for-profit organisations

Dear Committee members,

I am responding to your discussion paper requesting submissions on the disclosure regime for charities and not-for-profit organisations. In way of background, I worked for 20 years in the audit division of a "Big 4" chartered accounting and during this time managed the audits for a number of not-for-profit entities, ranging from motoring organisations to private foundations to national sporting bodies.

The operations of not-for-profit organisations with which I have been involved have been diverse. Accordingly, I am of the view it is difficult to have a one size fits all approach. Instead a tiered approach, which is based around the concepts embodied in the current *Corporations Act 2001* for differential reporting, would seem a suitable approach for the not-for-profit sector. This is discussed further below and in addition Appendix 1 contains responses to each Question for Consideration outlined in the Background Paper.

Users
Prior to determining reporting requirements, it is necessary to first identify the users. For not-for-profit organisations, the users can be considered those who provide monies to an organisation to further its objectives and are dependent on regulatory financial reporting to assess performance. The users can be analysed as follows:

- Programme Donors – individuals (and corporates) who are not members of an organisation nor involved in its governance or management that give a donation to a specific programme or appeal of a not-for-profit organisation (eg Tsunami Appeal). These individuals are interested in the outcome of the specific programme or appeal.

- General Donors – individuals who are not members of an organisation nor involved in its governance or management that give a donation to an organisation, but not for a specific programme. To determine whether they should make future donations they may desire to see the overall financial performance of the organisation.
- Members – some not-for-profit organisations are structured so that members make annual contributions, which may include a right to certain services, as well as participation in governance matters. To assess the value of their membership contributions they typically desire to see the overall financial performance of the organisation. The ability to access this information tends to decrease as the number of members increase.
- Other Donors – these are individuals who are neither programme donors, general donors nor members. As an example, it includes philanthropists that establish private foundations for causes such as cancer research. Because of their typically close relationship to the governance and management with the not-for-profit organisation they do not require additional financial reporting to assess that the donation has been used as intended.
- Government – governments often make grants to not-for-profit organisations. However unlike donors, such grants are often made with reporting conditions attached. Because of this ability to set reporting conditions, governments are not dependent on regulatory reporting.
- Taxpayers – arguably as the provider of tax exemptions, taxpayers are interested in the financial performance of not-for-profit organisations. However, as the taxpayers are not making individual allocation decisions, they are not dependent on regulatory reporting, rather such interest is more akin to being a stickybeak.

Based on the above analysis, two types of reporting need to be considered – general financial reporting and specific programme reporting.

Cost versus benefit
After identifying the different potential users, the issue becomes at what level is reporting required. The *Corporations Act* uses a combination of size and characteristics to define reporting and disclosing entities. Using the concepts, the following definitions should be considered for not-for-profit organisations:

A *Not-For-Profit Reporting Entity* is a not-for-profit organisation that meets two out of three of the following criteria (and is not a not-for-profit disclosing entity):

i) more than 10 % of non-programme income from general donors
ii) more than $1 million non-programme income
iii) more than 100 members

A *Not-For-Profit Disclosing Entity* is a not-for-profit organisation that meets two out of three of the following criteria:

iv) more than 50 % of non-programme income from general donors
v) more than $10 million non-programme income
vi) more than 1000 members

A *Not-For-Profit Non-Reporting Entity* is a not-for-profit organisation that does not meet the definition of either *Not-For-Profit Reporting Entity* or a *Not-For-Profit Disclosing Entity.*

In addition, a *Reportable Programme* is defined as a specific programme or appeal seeking to raise (or actually raising) more than $1 million of which greater than 10% is expected to be obtained (or actually obtained) from Programme Donors.

Reporting requirements
Both *Not-For-Profit Reporting Entities* and *Not-For-Profit Disclosing Entities* should be required to lodge financial reports with ASIC and maintain a website where the public can access the financial reports. The fundamental difference between the different entities' financial reports is the level of disclosure. The lodgement of the financial report with ASIC should be treated as replacing any existing lodging requirements. In essence this means that Not-For-Profit Non Reporting Entities would be the only entities still lodging financial information (if any) with state regulators.

As with company financial reports, the governance of the not-for-profit should sign off the financial reports. In addition to any audit requirements imposed by relevant incorporation legislation, Not-For-Profit Disclosing Entities should be subject to audit. Extending audit requirements to smaller entities may not be cost effective unless a pro-bono mandatory requirement is imposed on registered company auditors, similar to the pro-bono requirements imposed on solicitors by the Victorian Government.

For each *Reportable Programme* an entity (regardless of type) must maintain on its website a Programme Report.

Financial reporting - Recognition and measurement
Whenever a not-for-profit organisation lodges financial information, it should be in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRS) applicable to listed entities. The use of a common measurement system is a fundamental for the way society operates and as a principal applies equally to financial reporting. If a community co-op greengrocer was to measure fruit and veg using pounds and ounces whereas the next door supermarket used kilos and grams, the consumer would be easily confused. Similarly, the measurement of assets and liabilities used in financial reporting needs to be uniform regardless of an entity's size or nature of operations.

Financial reporting - Presentation and disclosure
The determination of the presentation and disclosure requirements is obviously a key element and therefore in Appendix 2 and 3, proposed general reporting requirements and disclosure requirements are included. Commentary as to rationale of some disclosures is also included. It is expected that "Disclosure Standards" would be issued under relevant enabling legislation for Not-For-Profit organisations, possibly under the basis that any not-for-profit entity seeking tax-exemption status would need to be registered under a *Not-for-profit Organisations Act*.

As part of our CER agreement with New Zealand it is proposed that the final responsibility for drafting the Disclosure Standards be held jointly by the Institute of Chartered Accountants in New Zealand, the Institute of Chartered Accountants in Australia and CPA Australia with ratification by both parliaments or a minister. Alternatively, the Australian Accounting Standards Board could be responsible for the Disclosure Standards, however their relevance has significantly declined with the reversion of accounting standard setting responsibility to London under IFRS.

Upfront disclosure
Establishing a disclosure regime for charities is well and fine, however has little benefit if it is not communicated to the users. Therefore, it is important to consider what upfront disclosure is made in the donation process. In my opinion, the following should be adopted:

- Caller id display – any not-for-profit organisation soliciting donations through cold calling should be required to have the caller ID of “Charity” displayed. Similarly the ACMA “Do Not Call Register” should be expanded to include a separate section to opt-out of charity calls. Personally, I do not donate to charities that cold call me and this approach is a great way to ensure that charities focus on those people who are interested in giving in this manner.
- Agents on commission – similar to authorised reps selling financial products, for a donor to be aware as to whether the charity representative soliciting donations is receiving commission can assist in determining whether to donate
- Reporting status and location identification – at the time of making the donation, the charity should identify whether it is a reporting or disclosing charity and the website address for finding the reporting. This information should also be printed on any receipt provided for tax deduction purposes.

I hope that you find the above comments of use in undertaking your inquiry and if I can provide any clarification on the points discussed above, please do not hesitate to contact me.

Yours faithfully,

Rob Clough

Appendix 1

Disclosures - Questions for consideration

i. Are current disclosure regimes for not-for-profit organisation adequate? • If so, why (taking into account concerns such as those expressed by *Choice)?* • If not, why not?
No. From a donors perspective, there is insufficient ability to assess whether money is used how it was expected or intended.

ii. What would be the potential advantages and disadvantages for not-for-profit organisations of moving towards a single national disclosure regime? How might any disadvantages be minimised?
Clearly the advantage from a community perspective is a greater ability to understand the performance of the not-for-profit sector. Like any reporting regime this has a cost of compliance (be it in preparation and possibly audit). In addition, it may force some organisations to re-assess their modus operandi, albeit it may be painful for those individuals involved. The trick to minimising the cost of adoption is to set the level of disclosure appropriately for different entities.

iii. Would a standardised disclosure regime assist not-for-profit organisations who undertake fundraising activities, and who operate nationally, to reduce their compliance costs if it meant that they would only have to report on fundraising to a single entity (rather than reporting to each state and territory)?
Intuitively yes, however this issue is best addressed in submissions by not-for-profit organisations.

iv. If there was to be a nationally consistent disclosure regime, should it apply across all not-for-profit organisations or should different regimes apply to different parts of the sector? For example, should charities be treated differently than other not-for-profit entities?
The level of disclosure should depend on the nature of operations, however this should be possible with a principals based disclosure regime. It would not be beneficial to impose the same reporting requirements on say a local community tennis club (which is a not-for-profit) as the Red Cross, but this can be addressed through tiering of reporting requirements.

v. If different regimes were to apply to different parts of the sector, how would this be determined and why? For example, would it be based on classifications . ie., as a charity or deductible gift recipient . or would different regimes apply to different organisations based on their annual financial turnover or staffing levels (or some other proxy for size and/or capacity)?
Refer main letter.

Regulation - Questions for consideration

i. Does there need to be regulatory reform of the not-for-profit sector?
If not:
- Why not?
- Are there alternative (non regulatory) measures that might be taken by government and the not-for-profit sector to address some of the concerns raised by groups such as *Choice* about the governance, standards, accountability and transparency of not-for-profit organisations who use public and/or government funds?
- Who should be responsible for progressing and/or funding these measures?
- How might the uptake of any such measures be monitored?

If so:
- What should be the objectives of reform?
- Are their minimum requirements that must be met in order for a national regulatory system to be worthwhile?
- Should regulatory reform apply to the whole not-for-profit sector, or only to segments of the sector? For example, to charities; to bodies receiving public funds, whether through grants or tax concessions; to bodies with a financial turnover about a specified threshold etc?
- Where should the impetus for reform come from? Who should drive reform?
- What sort of consultation should be conducted on the nature of any regulatory reform? How could input be facilitated from across the broad range of organisations who comprise the not-for-profit sector?
- Are their particular models of regulation and/or legislative forms that would be useful, in the Australian context, in improving governance and management of charities and not-for-profit organisations and in catering for emerging social enterprises? What are the perceived advantages and/or disadvantages of these models?

The inconsistent disclosure regime is indicative of a need for some greater regulation of not-for-profit organisations, however the key is not to go overboard and tailor the regulation appropriately. The purpose of the regulation should be to assist the public in determining where to donate their monies. By comparing not-for-profits, the public can then determine whether they wish to donate to a particular not-for-profit with a specific governance structure. In essence, market forces based on consumer information should drive the outcome.

ii. Should there be a single national regulator for the not-for-profit sector?
If not,
- Why not? What would be the disadvantages in having a single national regulator?

If so:
- Should a national regulator be responsible for the entire not-for-profit sector or only the charitable sector?
- Should the regulator be independent of government?
- Where would the regulator be best located? For example, as a stand alone agency or located within an existing institution, such as the Australian Securities and Investment Commission.
- What would be the role of a national regulator? For example, should it have an:
  - educative/advisory role?
  - enforcement role?
  - mediation/dispute resolution role?

• Should a national regulator be responsible for making decisions about charitable status?
• How should any national regulator be funded? For example, by the federal government, by federal, state and territory governments, on a cost recovery basis?

As noted in the main letter, Not-for-profit reporting entities and Not-for-profit disclosing entities should lodge financial information with ASIC. The role of ASIC should be restricted to lodgement of returns along with financial reports and auditor review. The decision of taxation status is a separate matter for the ATO and should be considered as part of the Government's review of the tax system. As with existing corporate returns to ASIC, there should be lodgement fees.

iii. Should there be a single, specialist, legal structure for the not-for-profit sector?
<u>If not,</u>
• Why not? What would be the disadvantages in having a single, specialist, legal structure for the not-for-profit sector?
<u>If so</u>, would this be best achieved through:
• A national legislation scheme, whereby current national and state and territory laws relating to the not-for-profit sector are harmonised into uniform law?; or
• The referral of powers from the states and territories to the Commonwealth, allowing for incorporation of current laws relating to the regulation of the not-for-profit sector, for example, incorporations Acts and fundraising Acts, into Commonwealth legislation?
• What should be the minimum features of any legal structure?

No. In my opinion, the main issue is about transparency and changing the legal structure would not necessarily resolve this issue. Fundamentally, as long as the governance and legal structure is communicated to users in the financial reporting, I cannot identify how the cost-benefit of any legal structure change would be significantly favourable. Furthermore, I have doubts whether constitutionally, the Commonwealth Government could prohibit States from establishing legislation such as the *Cancer Act 1958 (Vic)*.

Appendix 2

Potential legislative provisions for reporting

1 Who has to prepare programme reports

(1) A programme report must be prepared for each *reportable programme* by:
  (a) all disclosing not-for-profit entities; and
  (b) all reporting not-for-profit entities; and
  (c) all non-reporting not-for-profit entities.

2 Who has to prepare annual reports

(1) An annual report must be prepared for each financial year by:
  (a) all disclosing not-for-profit entities; and
  (b) all reporting not-for-profit entities.

(2) A non-reporting not-for-profit entity has to prepare an annual report only if:
  (a) it is directed to do so by ASIC; or
  (b) a petition is signed by at least 5% of members in a not-for-profit entity within four months of the end of the financial year concerned.

3 Preparation time frame

(1) A programme report required under section 1(1) must be prepared and lodged for each reportable programme on the entity's website:
  (a) for reportable programmes that have not concluded at the end of the financial year – within four months of the end of the financial year concerned; and
  (b) within four months of the conclusion of the reportable programme.

(2) An annual report required under section 2(1) must be prepared and lodged with ASIC and on the entity's website within four months of the end of the financial year.

(3) An annual report required under section 2(2)(a) must be prepared and lodged with ASIC and on the entity's website within four months of the latter of the date of the direction and the end of the financial year concerned.

(4) An annual report required under section 2(2)(b) must be prepared and lodged with ASIC and on the entity's website within four months of latter of the date of submission of the petition to the governance of the entity and the end of the financial year concerned.

4 Contents of annual report

(1) The annual report for a financial year consists of:
  (a) the governance report for the year; and
  (b) the financial report for the year; and
  (c) the governance declaration about the financial report; and
  (d) the auditors report about the financial report (if any).

5 Contents of a programme report

(1) A programme report consists of:
- (a) a programme results statement; and
- (b) a programme declaration.

6 Governance report

(1) The governance report must:
- (a) be made in accordance with a resolution of the governing body; and
- (b) specify the date on which the report is made; and
- (c) be signed by a member of the governing body.

(2) The entity reported on is:
- (a) the entity (if consolidated financial statements are not required); or
- (b) the consolidated entity (if consolidated financial statements are required).

General information about operations and activities

(3) The governance report for a financial year must:
- (a) contain an overview of the entity's main objectives, activities undertaken to achieve those objectives and any significant changes in the nature of those objectives and activities during the year
- (b) identify the key measures (financial or otherwise) used by the governing body to assess performance of the entity; and
- (c) contain a summary of the entity's governance structure, including governing legislation and governing body committees; and
- (d) contain a review of operations during the year of the entity reported on and the results of those operations, including its performance against the measures in paragraph (3)(a) and its financial position at the end of the financial year; and
- (e) give details of any significant changes in the entity's state of affairs during the year; and
- (f) give details of any matter or circumstance that has arisen since the end of the year that has significantly affected, or may significantly affect:
  - (i) the entity's operations in future financial years; or
  - (ii) the results of those operations in future financial years; or
  - (iii) the entity's state of affairs in future financial years; and
- (g) refer to likely developments in the entity's operations in future financial years and the expected results of those operations; and
- (h) if the entity's operations are subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory—give details of the entity's performance in relation to environmental regulation; and
- (i) give details of the entity's registered office and principal place of business.

(4) The report may omit material that would otherwise be included under paragraph (3)(g) if it is likely to result in unreasonable prejudice to:
- (a) the entity; or
- (b) if consolidated financial statements are required—the consolidated entity or any entity (including the entity) that is part of the consolidated entity.

If material is omitted, the report must say so.

Governing body information

(5) The governance report must include the following details for each member of the governing body:

- (a) the name of each person who has been a member of the governing body of the entity at any time during or since the end of the year and the period for which they were a member
- (b) each member's qualifications, experience and special responsibilities; and
- (c) the number of meetings of the governing body held during the year and each member's attendance at those meetings; and
- (d) the number of meetings of each governing body committee held during the year and each member's attendance at those meetings; and
- (e) any interests (whether by shares, debentures, rights, options or otherwise) in the entity or any related body corporate of the entity; and
- (f) any contracts to which a member of the governing body is a party or under which the member of the governing body is entitled to a benefit; and
- (g) all directorships of listed companies or government enterprises held by the member of the governing body at any time in the 3 years immediately before the end of the financial year and the period for which each directorship has been held; and
- (h) remuneration received or receivable for the financial year.

Specific information

(6) If the financial report for a financial year includes additional information under section 7 (information included to give true and fair view of financial position and performance), the governance report for the financial year must also:

- (a) set out the governing body's reasons for forming the opinion that the inclusion of that additional information was necessary to give the true and fair view required by section 9; and
- (b) specify where that additional information can be found in the financial report.

(7) The governance report for a financial year must include details of:

- (a) any dividends, distributions or the like paid or declared by the entity during the year; and
- (b) the name of each person who:
  - (i) is a member of the governing body of the entity at any time during the year; and
  - (ii) was a partner in an audit firm, or a director of an audit company, that is an auditor of the entity for the year; and
  - (iii) was such a partner or director at a time when the audit firm or the audit company undertook an audit of the entity; and
- (c) indemnities given and insurance premiums paid during or since the end of the year for a person who is or has been a member of the governing body or auditor; and
- (d) the name and qualifications of the auditor, including the lead partner; and
- (e) details of services and remuneration paid or payable to the auditor of the auditor for services provided during the financial year; and

(f) the remuneration policy for members of the governing body.

7 Financial report

(1) The financial report for the year consists of:
- (a) the financial statements for the year, comprising:
  - (i) a balance sheet; and
  - (ii) an income statement; and
  - (iii) a cash flow statement; and
  - (iv) a statement of accounting policies.
- (b) the notes to the financial statements.

(2) The financial report for the year consists of:
- (a) the financial statements in relation to the entity; and
- (b) if the entity controlled other entities during the financial year, the financial statements in relation to the consolidated entity comprising the entity and the entities that it controlled during the financial year.

8 Compliance with pronouncements, standards and regulations

(1) The financial report for a financial year or a programme results statement must comply with:
- (a) the recognition and measurement requirements of accounting pronouncements issued by the International Accounting Standards Board; and
- (b) the applicable requirements of disclosure standards; and
- (c) any disclosure requirements of the entity's constitution or governing legislation or rules.

(2) The financial report or programme report must comply with any further requirements in the regulations.

9 True and fair view

(1) The financial report for a financial year must give a true and fair view of:
- (a) the financial position and performance of the entity; and
- (b) if consolidated financial statements are required—the financial position and performance of the consolidated entity.

(2) A programme results statement must give a true and fair view of the financial outcome of the reportable programme.

(3) This section does not affect the obligation under section 6 for a financial report or programme results statement to comply with accounting pronouncements, standards or regulations.

10 Governance declaration

(1) The governance declaration must:
- (a) be made in accordance with a resolution of the governing body; and
- (b) specify the date on which the declaration is made; and
- (c) be signed by a member of the governing body.

(2) The governance declaration is a declaration by the governing body of the entity:

(a) whether, in the opinion of the governing body, there are reasonable grounds to believe that the entity will be able to pay its debts as and when they become due and payable; and

(b) whether, in the opinion of the governing body, the entity has met and there are reasonable grounds to believe that it will continue to meet for the next year the objectives of the entity, as outlined in its constitution, governing legislation and rules; and

(c) whether, in the opinion of the governing body, the financial report is in accordance with:

(i) section 8 (compliance with pronouncements, standards and regulations); and

(ii) section 9 (true and fair view).

11 Programme declaration

(1) The declaration must:

(a) be made in accordance with a resolution of the governing body; and

(b) specify the date on which the declaration is made; and

(c) be signed by a member of the governing body.

(2) The programme declaration is a declaration by the governing body of the entity:

(a) whether, in the opinion of the governing body, income generated for the programme has been used in accordance with the programme objectives the objectives of the entity, as outlined in its constitution, governing legislation and rules; and

(b) whether, in the opinion of the governing body, the programme results statement is in accordance with:

(i) section 8 (compliance with pronouncements, standards and regulations); and

(ii) section 9 (true and fair view).

12 Audit

(1) A disclosing not-for-profit entity must have the financial report for a financial year audited in accordance with Australian Auditing Standards by a registered company auditor and obtain an auditor's report.

(2) A reporting not-for-profit entity or a non-reporting not-for-profit entity must have the financial report for a financial year audited in accordance with Australian Auditing Standards by a registered company auditor and obtain an auditor's report if:

(a) it is required to do so under its constitution or governing legislation or rules; or

(b) the governance of the entity determine to do so; or

(c) it is directed to do so by ASIC; or

(d) a petition is signed by at least 5% of members in a not-for-profit entity within four months of the end of the financial year concerned requesting so.

(3) An entity must have a programme results statement audited in accordance with Australian Auditing Standards by a registered company auditor and obtain an auditor's report if:

(a) it is required to do so under its constitution or governing legislation or rules; or
(b) the governance of the entity determine to do so; or
(c) it is directed to do so by ASIC.

(4) The auditor’s report on a financial report or programme results statement must opine as to:
(a) whether, in the opinion of the auditor, the financial report or programme results statement is in accordance with:
(i) section 6 (compliance with pronouncements, standards and regulations); and
(ii) section 7 (true and fair view).
(b) whether the auditor has complied with the independence requirements of his professional body

Potential Key Requirements for Disclosure Standard DS 1 – Financial Report

Objective

1. **The standard identifies key elements in the presentation of a financial report for a reporting not-for-profit entity or a disclosing not-for-profit entity.**

2. **The concept of materiality should be adopted.**

3. **All disclosure requirements apply to reporting not-for-profit entities. Only identified disclosures apply to disclosing not-for-profit entities.**

Components of a Financial Report

4. As per the Act, a financial report comprises:
(a) a balance sheet;
(b) an income statement;
(c) a cash flow statement;
(d) statement of accounting policies; and
(e) notes to the financial statements.

5. The financial report should be presented in plain English
Terms such as "balance sheet" and "investments" should be used instead of "statement of financial position" and "financial assets" as these are terms are more likely to be understood by users. The financial reports of not-for-profit organisations are aimed more at the general public than investment analysts for whom AIFRS disclosures as set by the IASB are aimed.

6. Where additional information is required to be disclosed under section 9 to ensure the financial report is True and Fair, the entity must disclose:
(a) the reason that the governing board believe that compliance with recognition and measurement requirements of international accounting pronouncements is misleading
(b) the period and adjustments necessary to the financial report necessary to achieve a true and fair view

7 . Each material class of similar items shall be presented separately in the financial report. Items of a dissimilar nature or function shall be presented separately unless they are immaterial.

8. Assets and liabilities, and income and expenses, shall not be offset unless required or permitted by the recognition and measurement requirements of an international accounting pronouncement.

9. Except where identified otherwise in a Disclosure Standard, comparative information shall be disclosed in respect of the previous period for all amounts reported in the financial report. Comparative information shall be included for narrative and descriptive information when it is relevant to an understanding of the current period's financial report.

Programme / General Distinction

10. The balance sheet, income statement and cash flow statement must have separate disclosure columns for "programme", "general" and "total", unless the organisation does not have specific programme activities.
Unlike commercial organisations, not-for-profit organisations often have specific programmes (or appeals) that vary significantly from year-to-year and involve restricted use income and assets. By

separating these items on the face of the primary statements, users can more easily assess the underlying performance and position of a not-for-profit entity.

Balance Sheet

Current/Non-current Distinction

11. An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet.

Current Assets

12. An asset shall be classified as current when it satisfies any of the following criteria:
(a) it is expected to be realised in, or is intended for sale or consumption in, the entity's normal operating cycle;
(b) it is held primarily for the purpose of being traded;
(c) it is expected to be realised within twelve months after balance date; or
(d) it is cash or a cash equivalent (as defined in AASB 107) unless it is restricted from being exchanged or used to settle a liability for at least twelve months after balance date.

All other assets shall be classified as non-current.

Current Liabilities

13. A liability shall be classified as current when it satisfies any of the following criteria:
(a) it is expected to be settled in the entity's normal operating cycle;
(b) it is held primarily for the purpose of being traded;
(c) it is due to be settled within twelve months after balance date; or
(d) the entity does not have an unconditional right to defer settlement of the liability for at least twelve months after balance date.
All other liabilities shall be classified as non-current.

Information to be Presented on the Face of the Balance Sheet

14. As a minimum, the face of the balance sheet shall include line items that present the following amounts to the extent that they are not presented in accordance with paragraph 15:
(a) property, plant and equipment;
(b) intangible assets;
(c) investments
(d) biological assets;
(e) inventories;
(f) trade and other receivables;
(g) cash and cash equivalents;
(h) trade and other payables;
(i) provisions;
(j) borrowings;
(k) liabilities and assets for current tax, as defined in IAS 12 *Income Taxes*;
(l) deferred tax liabilities and deferred tax assets, as defined in IAS 12;
(m) minority interests
(n) members balances
(o) accumulated surplus
(p) reserves

15. The face of the balance sheet shall also include line items that present the following amounts:
(a) the total of assets classified as held for sale and assets included in disposal groups classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*; and
(b) liabilities included in disposal groups classified as held for sale in accordance with IFRS 5.

16. Additional line items, headings and subtotals shall be presented on the face of the balance sheet when such presentation is relevant to an understanding of the entity's financial position.

17. When an entity presents current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet, it shall not classify deferred tax assets (liabilities) as current assets (liabilities).

Income Statement

Information to be Presented on the Face of the Income Statement

18. As a minimum, the face of the income statement shall include line items that present the following amounts for the period:
(a) total revenue;
(b) finance costs;
(c) equity-accounted results;
(d) tax expense;
(e) a single amount comprising of (i) the post-tax surplus or loss of discontinued operations and (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and
(f) surplus or loss.

19. The following items shall be disclosed on the face of the income statement as allocations of profit or loss for the period:
(a) surplus or loss attributable to minority interest; and
(b) surplus or loss attributable to equity holders of the parent.

20. Additional line items, headings and subtotals shall be presented on the face of the income statement when such presentation is relevant to an understanding of the entity's financial performance. Where any of the following line items exceed 10% of total revenue they should be disclosed on the face of the income statement:
(a) donations;
(b) bequests;
(c) members contributions;
(d) investment revenue;
(e) government grants
To ensure consistency between not-for-profit organisations, the key income streams should be separately disclosed on the face of the income statement, if material. The actual categories should be refined after consultation with the not-for-profit sector.

21. An entity shall present an analysis of expenses using a classification based on the nature of expenses. Where any of the following line items exceed 10% of total expenses they should be disclosed on the face of the income statement:
(a) employee benefits expense;
(b) other employee-related costs;
(c) depreciation and amortisation;
(d) payments to recipients;
(e) occupancy costs
(f) communication costs
To ensure consistency between not-for-profit organisations, the key expense streams should be separately disclosed on the face of the income statement, if material. The actual categories should be refined after consultation with the not-for-profit sector.

Cash Flow Statement

22. An entity shall present a cash flow statement prepared in accordance with the requirements of AASB107, except that the direct method of presentation must be adopted.
For not-for-profit entities, the operating cash flow is one of the most meaningful measures of performance and therefore the use of the direct method provides high value to users.

Statement of Accounting Policies

Basis of preparation

23. An entity should disclose key elements of the basis of preparation of the financial report, including
(a) The presentation currency

(b) Whether the accrual accounting has been adopted in the financial report, except for cash flow information
(c) The entities covered by the financial report, including any alternative name used in the previous financial report
(d) The balance date and period covered for both the current period and comparative period
(e) The level of rounding used in the financial report

24. An entity shall disclose whether the presentation and classification of items is consistent with the previous financial report. Where the presentation or classification has changed, the comparatives shall be adjusted and the nature and amount of adjustment identified.

25. An entity shall disclose whether the financial report is prepared on a going concern basis.
(a) When the financial report is not prepared on a going concern basis, the basis on which the financial report is prepared and the reason why the entity is not regarded as a going concern shall be disclosed.
(b) When the governing body is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed.

Significant accounting standards and selections
26. An entity shall identify those international accounting pronouncements having significant impact on the recognition and measurement of the entity's financial information. An entity shall disclose any selections made under international accounting pronouncements to adopt a certain recognition and measurement option.
In considering accounting policies, for many users the key issue is which decisions the entity has made where there are options – eg are investments held to maturity or carried at fair value. By focussing on this disclosure rather than regurgitating accounting standards, the user has a greater ability to understand decisions of management.

Critical judgements
27. An entity shall disclose critical judgements that the governing body has made in the process of applying the recognition and measurement requirements of international accounting pronouncements.

28. Where an entity has specific programmes, an entity shall disclose as critical judgements details of the following:
(a) the basis for allocating administration and overhead costs to specific programmes
(b) the basis for allocating asset usage costs to specific programmes
One of the most difficult issues in reviewing the outcome of specific programmes is trying to understand the basis that administration and other costs are allocated to the programmes.

Key assumptions
29. An entity shall disclose information about the nature and amount of key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next annual reporting period. The detail may be transferred to the Notes to the Financial Statements.

Notes - General

Structure
30. The notes shall provide additional information that is not presented on the face of the balance sheet, income statement, statement of accounting policies or cash flow statement, but is relevant to an understanding of any of them.

31. Notes shall, as far as practicable, be presented in a systematic manner.

32. An entity shall disclose further subclassifications of the line items presented in the balance sheet, income statement and cash flow statement, classified in a manner appropriate to the entity's operations.

33. An entity shall disclose, either on the face of the balance sheet or in the notes, details of any individual asset (or asset category) or individual liability (or liability category) that exceeds 10% of net assets.

Donations

34. An entity shall disclose details on donations, including the number of donors and any key conditions of donation. Any individual donation that exceeds 10% of revenue must be disclosed.

35. Where donations exceed 10% of revenue, an entity shall disclose the direct cost of generating donations split between commissions, other employee benefit expenses, employee related costs and other costs.

The efficiency of organisations in raising revenue is often of interest to users.

Bequests and grants

36. An entity shall disclose details on bequests and grants, including information as to bequests and grants expected but not recognised (due to inability to measure) and any key conditions of bequests and grants received. Any individual bequest or grant that exceeds 10% of revenue must be disclosed.

Involvement

37. An entity shall disclose detail of average full-time-equivalent employee numbers throughout the period, along with the number of volunteers throughout the year (unless impracticable).

In assessing the performance of a not-for-profit organisation the number of people involved is a key measure.

Service delivery

38. An entity shall identify the primary activities of the not-for-profit organisation along with number of individuals receiving service or benefit from the entity during the period for each activity along with the number of units of the service or good delivered for each activity. The cost of service or good delivery, both direct and total (including overheads) should be reported for each activity.

Typically not-for-profit organisations operate with the provision of a key service. For instance a housing service may have a number of houses for which a number of homeless people use this service. Disclosure of these numbers enables the user to understand the context of the operation of the not-for-profit.

Reportable programmes

39. An entity shall identify all reportable programmes that form part of the programme disclosures in the primary statements. For any reportable programme that constitutes more than 10% of total revenue or 10% of total expenses, the following should be disclosed:

(a) the objectives of the reportable programme, including the key financial and non-financial measures

(b) the income and expenditure items of the programme

(c) assets and liabilities of the programme, including details of any contingent liabilities relating to cancellation of the programme

(d) expected conclusion date of the programme and the expected treatment of any surplus

(e) the number of beneficiaries and units of service or goods delivered during the period

Understanding the nature of key tied programmes provides a greater understanding to the operations of the not-for-profit

Equity

40. An entity shall disclose the following, either on the face of the balance sheet or in the notes:

(a) for each class of share capital:

(i) the number of shares authorised;

(ii) the number of shares issued and fully paid, and issued but not fully paid;

(iii) par value per share, or that the shares have no par value;

(iv) a reconciliation of the number of shares outstanding at the beginning and at the end of the period;

(v) the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital;

(vi) shares in the entity held by the entity or by its subsidiaries or associates; and
(vii) shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and
(b) a description of the nature and purpose of each reserve within equity.

41. An entity without share capital, such as a partnership or trust, shall disclose information equivalent to that required by paragraph 76(a), showing changes during the period in each category of equity interest, and the rights, preferences and restrictions attaching to each category of equity interest.

42. An entity shall disclose the amount of dividends recognised or declared as distributions to equity holders during the period, and the related amount per share, including details of any franking. An entity shall disclose the amount of franking credits available for subsequent reporting periods.
Often not-for-profit groups have trapped franking credits.

43. A disclosing not-for-profit entity shall disclose information that enables users of its financial report to evaluate the entity's objectives, policies and processes for managing capital.

44. An entity shall disclose the name of the auditor and the amounts paid or payable to:
(a) the auditor of the entity for an audit or a review of the financial reports of the entity;
(b) the auditor of the entity for non-audit services in relation to the entity, disclosing separately the nature and amount of each of the non-audit services provided by the auditor; and
(c) a *related practice* of the auditor for non-audit services in relation to the entity, disclosing separately the nature and amount of each category of non-audit service.

45. An entity shall disclose the nature and amount of each individual and each class of capital commitments and of other expenditure commitments contracted for as at balance date, other than commitments for the supply of inventories, which have not been recognised as liabilities. The disclosures shall be made in the following time bands, according to the time that is expected to elapse from balance date to their expected date of settlement:
(a) within twelve months;
(b) twelve months or longer and not longer than five years; and
(c) longer than five years.

Other disclosures

46. Where material, the disclosure requirements of all Australian Accounting Standards except for AASB101 should apply to disclosing not-for-profit entities and reporting not-for-profit entities, except for the following standards that only apply to disclosing not-for-profit entities:
AASB3 – Business Combinations
AASB4 – Insurance Contracts
AASB7 – Financial Instruments
AASB8 – Operating Segments
AASB112 – Income Taxes
AASB127 – Consolidated and Separate Financial Statements
AASB128 – Investments in Associates
AASB131 – Interests in Joint Ventures
AASB1023 – General Insurance Contracts
AASB1038 – Life Insurance Contracts

For the purposes of AASB124 (Related Parties), a disclosing not-for-profit entity is not a disclosing entity.

It may be more beneficial to separately reissue the disclosure requirements of AASBs as separate disclosure standards.

Potential Key Requirements for Disclosure Standard DS 2 – Programme Results Statement

Objective

1. **The standard identifies key elements in the presentation of a financial report for a reporting not-for-profit entity or a disclosing not-for-profit entity.**

2. **The concept of materiality should be adopted.**

Programme Results Statement

3. The results statement shall disclose the programme background including:
(a) the name of the entity
(b) the objectives of the reportable programme,
(c) the key financial and non-financial measures of success.
(d) the expected conclusion date of the programme and
(e) the expected treatment of any surplus

4. The results statements should disclose two columns – the period of the statement and cumulative to date.

5. The results statement should identify the components of the income and expenditure items of the programme, including:
(a) the amount obtained from donations
(b) the direct cost of generating donations charged to the programme
(c) the administration and overhead costs allocated to the programme
(d) the asset usage costs charged or allocated to the programme
(e) the direct cost of service or goods delivery of the programme

6. An entity shall confirm that income and expenditure has been recognised, measured and allocated in accordance with the most recent published financial report. Where there is variance that is relevant to the programme the nature and impact of the change in policies must be disclosed.

7. The results statement should disclose the assets and liabilities of the programme as at the statement date, including details of any contingent liabilities relating to cancellation of the programme.

8. The results statement should include the actual outcome compared against the measures identified in paragraph 3(c), including the number of beneficiaries and units of service or goods delivered.