Not-for-profit accounting and reporting issues

30 June reporting

Your facilitators are...

Shara Learmonth

Partner, Audit Assurance and Risk Consulting

Susan Staples

Director, Audit Assurance and Risk Consulting

Kaylene Hubbard

Partner, Tax

Julie Locke

Director, Department of Professional Practice

Sonia Yeung

Senior Manager, Department of Professional Practice

Eva Bellwood

Senior Manager, Audit Assurance and Risk Consulting

Acknowledgement of Country

KPMG acknowledges Aboriginal and Torres Strait Islander peoples as the First Peoples of Australia. We pay our respects to Elders past, present, and future as the Traditional Custodians of the land, water and skies of where we work.

At KPMG, our future is one where all Australians are united by a shared, honest, and complete understanding of our past, present, and future. We are committed to making this future a reality. Our story celebrates and acknowledges that the cultures, histories, rights, and voices of Aboriginal and Torres Strait Islander People are heard, understood, respected, and celebrated.

Australia's First Peoples continue to hold distinctive cultural, spiritual, physical and economical relationships with their land, water and skies. We take our obligations to the land and environments in which we operate seriously.

Guided by our purpose to 'Inspire Confidence. Empower Change', we are committed to placing truth-telling, self-determination and cultural safety at the centre of our approach. Driven by our commitment to achieving this, KPMG has implemented mandatory cultural awareness training for all staff as well as our Indigenous Peoples Policy. This sincere and sustained commitment has led to our 2021-2025 Reconciliation Action Plan being acknowledged by Reconciliation Australia as 'Elevate' – our third RAP to receive this highest level of recognition. We continually push ourselves to be more courageous in our actions particularly in advocating for the Uluru Statement from the Heart.

We look forward to making our contribution towards a new future for Aboriginal and Torres Strait Islander peoples so that they can chart a strong future for themselves, their families and communities. We believe we can achieve much more together than we can apart.

*This acknowledgement of country has been developed within KPMG Indigenous Network (KIN) should you wish to modify the wording please reach out for consultation of the KIN. The KIN is a culturally safe and supportive space for Aboriginal and Torres Strait Islander colleagues from all geographies, divisions, and levels of the firm and you can get in touch by emailing smoates@kpmg.com.au

Setting the scene

Economic uncertainties

Demand for services

Regulatory changes

- ACNC
- ATO
- AASB

ESG reporting

Agenda

01

Economic environment

Macro issues impacting NFPs

01
"Trust" narrative continues to evolve

- Growing narrative on declining levels of Trust
- Transparency and accountability under increasing focus
- NFPs balancing the need to demonstrate trust, whilst not diverting from critical service provision

02
Increasing demand for services

- Economic pressures driving many in the community to seek help from NFPs
- Increased demand for services such as food relief, hardship services, health and wellbeing support

03
Policy reforms driving new models of service provision

- Opportunities to redesign service delivery, access to new funding sources
- Risks associated with this in terms of accountability, shared purpose, transparency
- Changing regulatory environment

04
Remaining relevant in a crowded space

- Too large or too small to remain viable
- Accessing grants and funding whilst staying true to purpose
- Continuing to meet stakeholder and member expectations and make accurate and timely disclosures

Organisational impacts

The macro trends are driving internal reflections, discussions and activities. Some of the things we are seeing commonly across the sector are:

Governance

- Director time commitments are generally increasing in line with need for oversight of complex issues
- Director remuneration on the rise (22%)
- Skills and capabilities needed are under review
- Risk maturity

Emerging risks

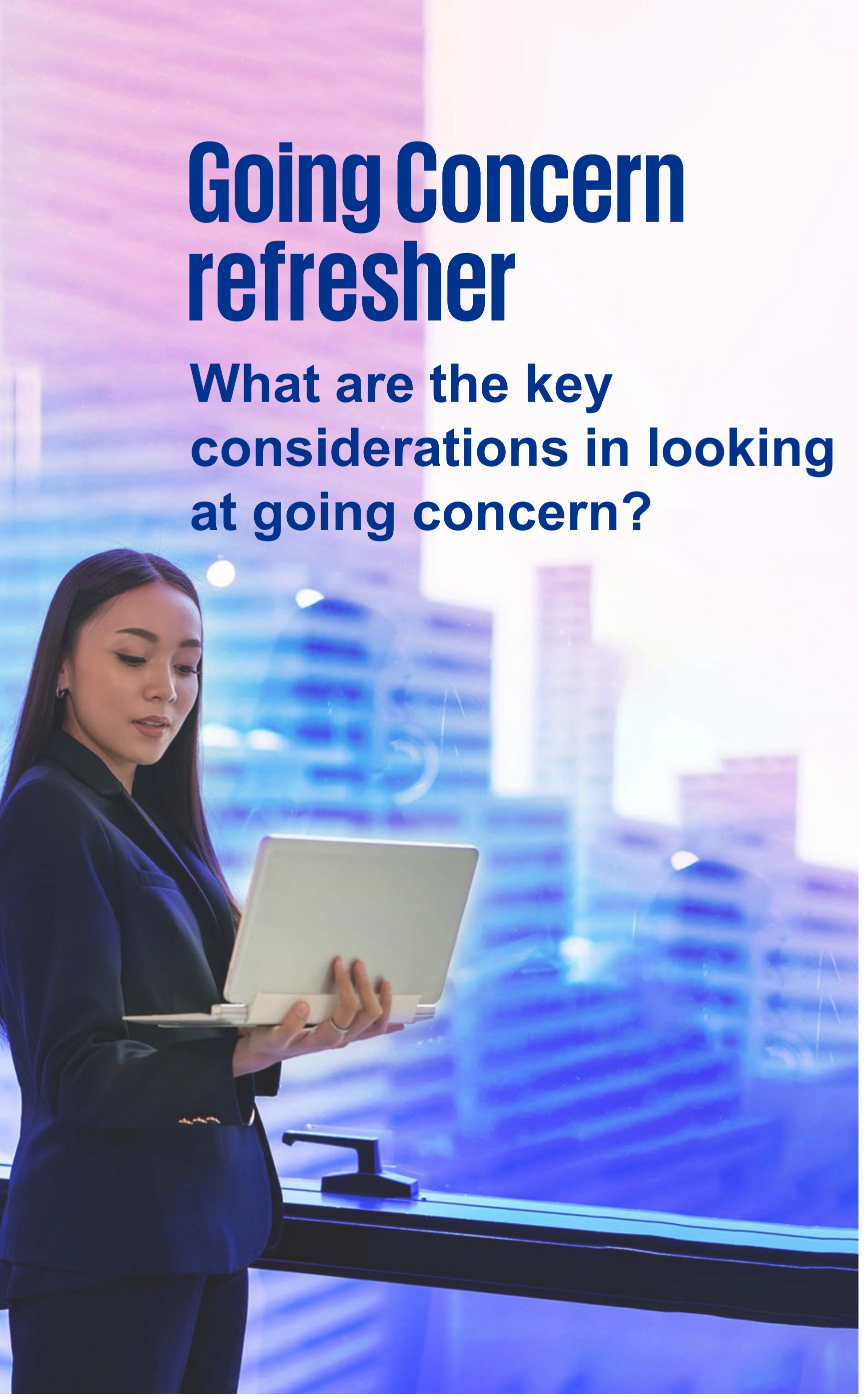
- Data privacy and technology
- Compliance burden is high and distracting
- Climate change responsiveness

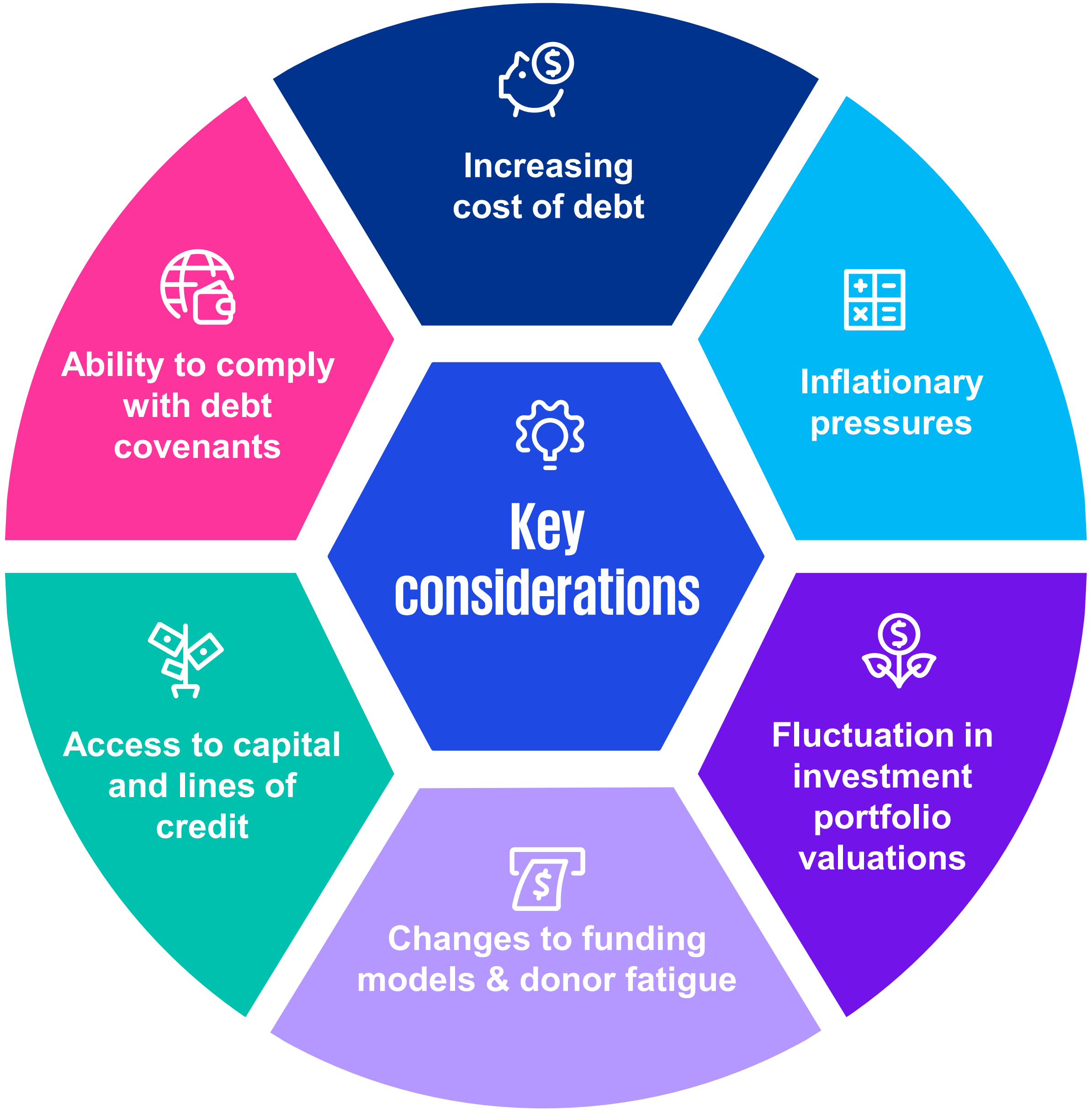
What to think about...

- Accounting impacts of external trends
- Measuring performance and impact
- Resilience and agility in operations in light of risk and regulatory environment
- Transparency and accuracy in reporting

Going Concern refresher

What are the key considerations in looking at going concern?





Going Concern

Audit implications

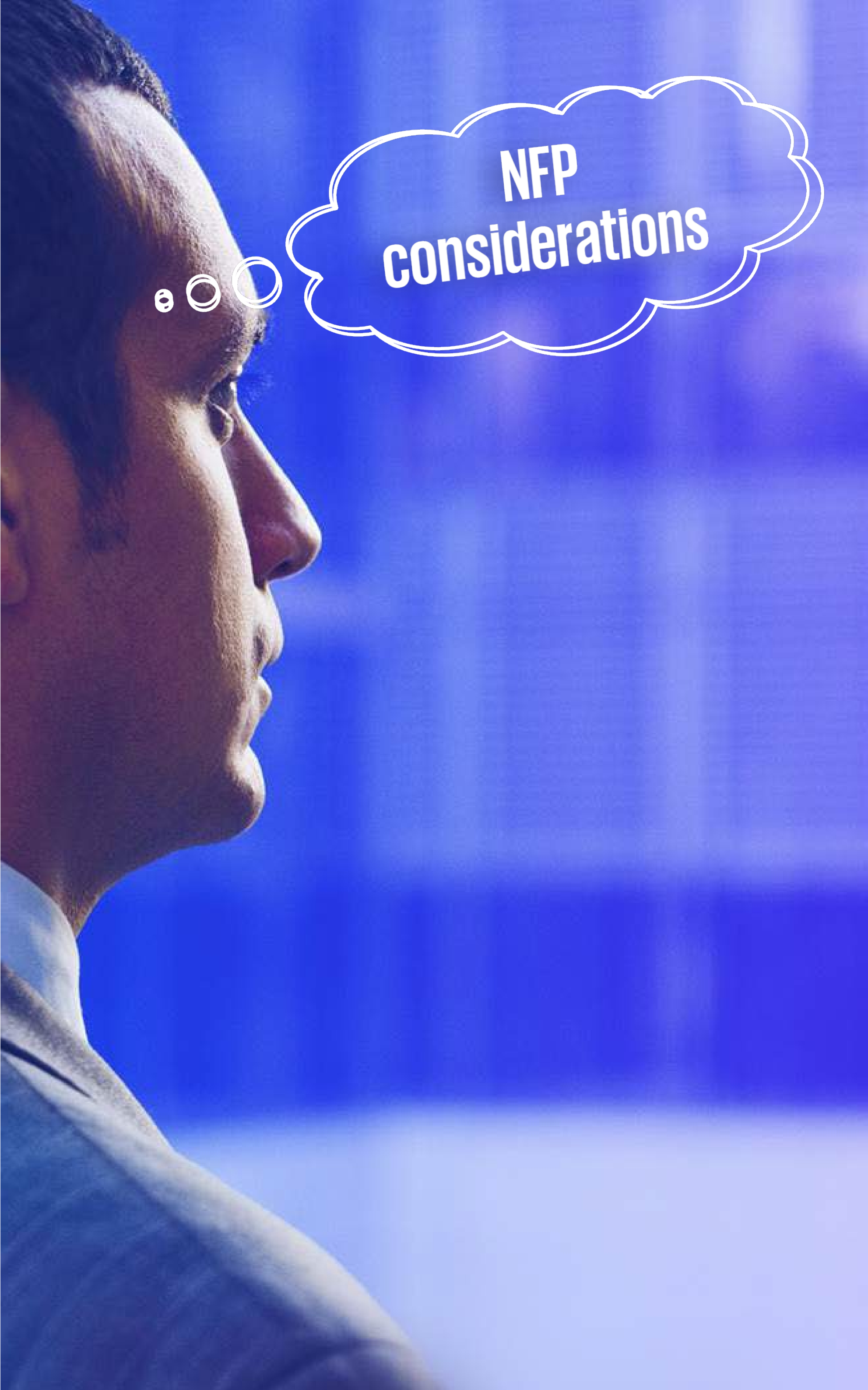
Best practice to prepare month by month cashflow forecasts

Understand what are locked in costs versus cashflow levers

Material uncertainty related to going concern

We draw attention to Note X, “Going Concern” in the financial report. The conditions disclosed in Note X, indicate a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

Impairment refresher



Recoverable amount is the higher of value-in-use and fair-value-less-costs-of disposal

Must consider 'highest and best use' by market participant

Restrictions on use: discounted cash flow (income) or market participant approach, adjusted for the restriction.

Leave liabilities - 15% Award increase

On 21 February 2023, the Fair Worker Commission released an interim ruling mandating a 15% increase to modern award minimum wages of:

- **Direct care workers under the SCHADs, Aged Care and Nurses Awards**
- **Head Chef/cooks under the Aged Care Award**
- **Recreational activities Officers/Lifestyles Officers under the Aged Care Award**

The increase will take effect from 30 June 2023. NFPs need to consider the impact on their recorded leave liabilities as at 30 June 2023 balance sheet date.

02

Tax and regulatory update

Updates for not-for-profits in 2023

1 DGR Register Reform

- Legislation introduced to transfer responsibility for 4 DGR registers to the ACNC from portfolio agencies:
  - Register of Cultural Organisations
  - Register of Environmental Organisations
  - Register of Harm Prevention Charities
  - Overseas Aid Gift Deductibility Scheme

2 Fixing Fundraising

- 16 February 2023 publication of a new set of notional fundraising principles that have been agreed to by all States, Territories and the Commonwealth

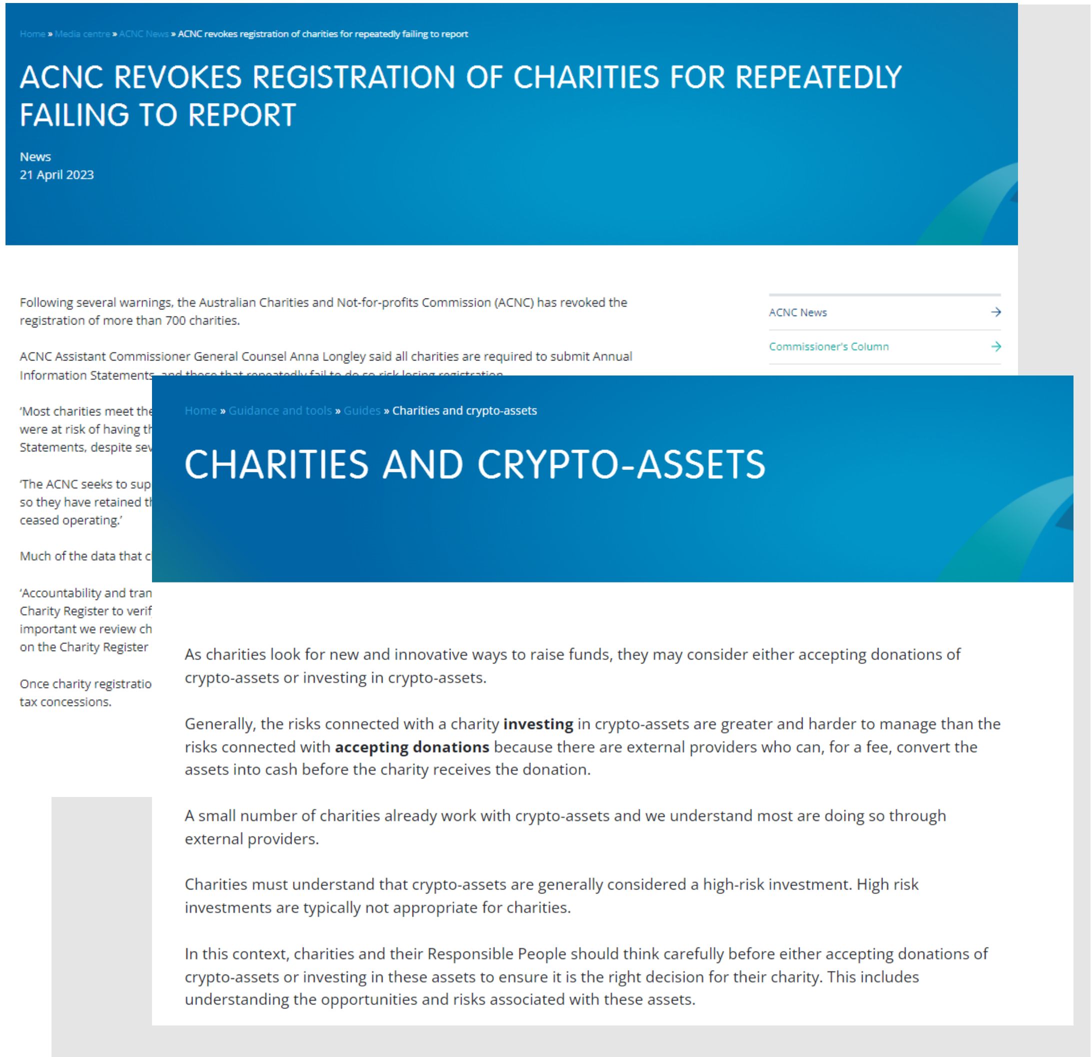
3 Productivity Commission Inquiry into Philanthropy

- Reporting in 2024 to analyse motivations for philanthropic giving in Australia and identify opportunities to grow it further – specifically to double it by 2030

4 Reporting Requirements for self-assessing exempt entities

- From 1 July 2023, non-charity NFPs with active ABNs will be required to lodge an annual self-review return to access an income tax exemption

Updates from ACNC


Home » Media centre » ACNC News » ACNC revokes registration of charities for repeatedly failing to report

ACNC REVOKES REGISTRATION OF CHARITIES FOR REPEATEDLY FAILING TO REPORT

News
21 April 2023

Following several warnings, the Australian Charities and Not-for-profits Commission (ACNC) has revoked the registration of more than 700 charities.

ACNC Assistant Commissioner General Counsel Anna Longley said all charities are required to submit Annual Information Statements

'Most charities meet the
were at risk of having th
Statements, despite sev

'The ACNC seeks to sup
so they have retained t
ceased operating.'

Much of the data that c

'Accountability and tran
Charity Register to verif
important we review ch
on the Charity Register

Once charity registratio
tax concessions.

ACNC News

Commissioner's Column

Home » Guidance and tools » Guides » Charities and crypto-assets

CHARITIES AND CRYPTO-ASSETS

As charities look for new and innovative ways to raise funds, they may consider either accepting donations of crypto-assets or investing in crypto-assets.

Generally, the risks connected with a charity **investing** in crypto-assets are greater and harder to manage than the risks connected with **accepting donations** because there are external providers who can, for a fee, convert the assets into cash before the charity receives the donation.

A small number of charities already work with crypto-assets and we understand most are doing so through external providers.

Charities must understand that crypto-assets are generally considered a high-risk investment. High risk investments are typically not appropriate for charities.

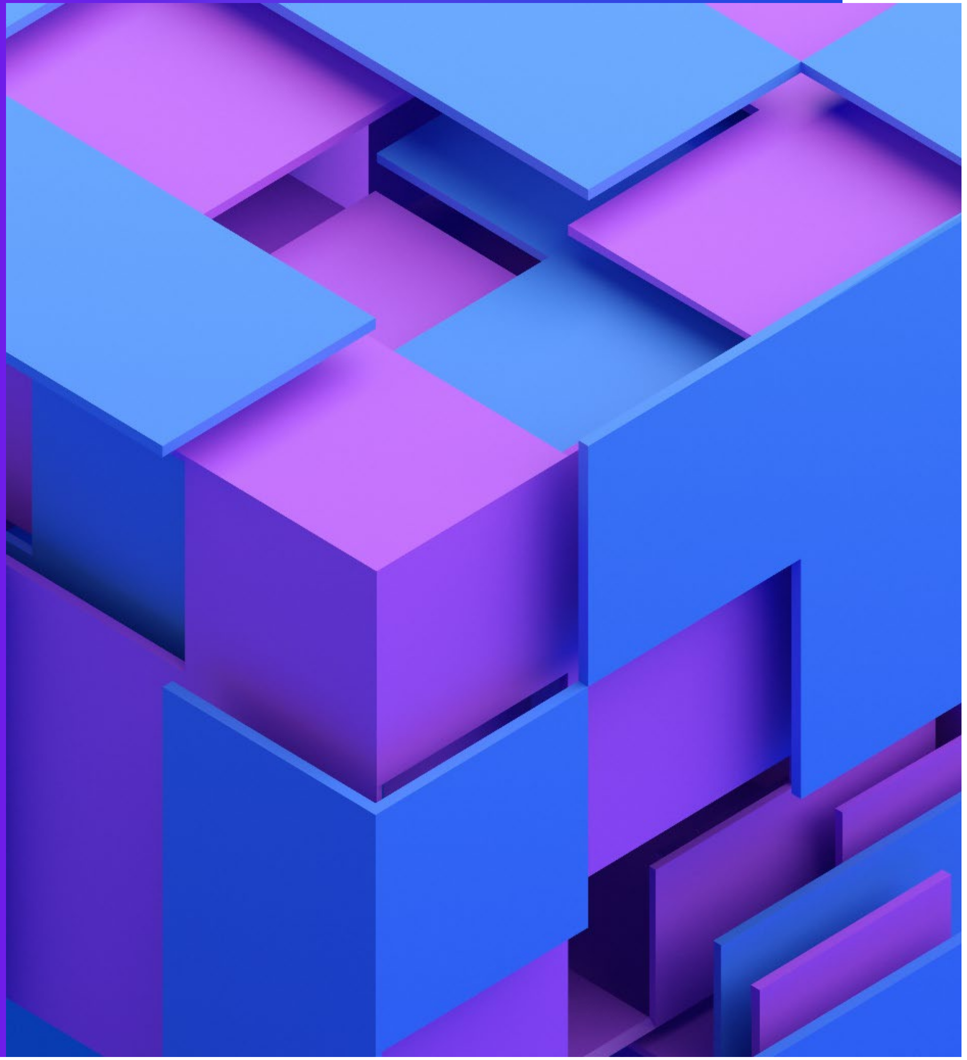
In this context, charities and their Responsible People should think carefully before either accepting donations of crypto-assets or investing in these assets to ensure it is the right decision for their charity. This includes understanding the opportunities and risks associated with these assets.

New guidance published on the risks and benefits of accepting crypto-assets

Commissioner's Interpretation Statements (CIS) on Public Benevolent Institutions and Health Promotion Charities are being updated

ACNC revokes the registration of more than 700 charities for repeatedly failing to report

ATO focus area



01
Commercial activities by Not-for-Profit and charity entities

02
Structuring and transparency

03
Rising debt levels in Not-for-profit

04
Self-assessing income tax exemption

05
Private and Public Ancillary Funds meeting the requiremnets of the Guidelines

03

Financial reporting update

Financial reporting update

New standards/amendments updates

ACNC updates

Hot topic!
Units in managed investment schemes

Hop topic!
Cash and cash equivalents with restriction on use

AASB developments

Amendments applicable for 30 June 2023

Illustrative examples for Not-for-Profit Entities accompanying AASB 15

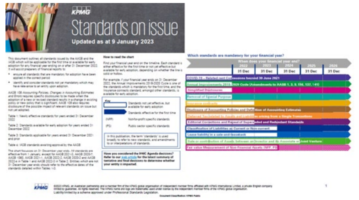
(AASB 2022-3)

Annual improvements 2018-2020 and other amendments [AASB 1, 3, 9, 116, 137 and 141]

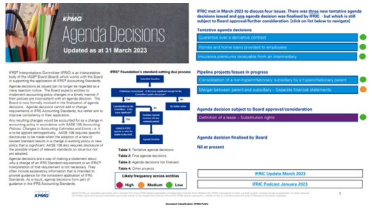
(AASB 2020-3)

Useful KPMG resources

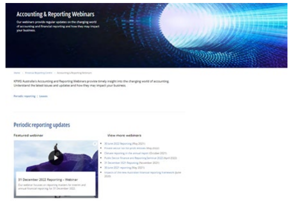
Standards on Issue



IFRIC Agenda decision summary



31 Dec 2022 reporting webinar



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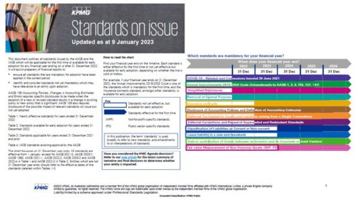
Recent IFRIC agenda decisions

- Rent concessions: lessors forgiveness of lease payments
- Negative low emission vehicle credits
- SPAC – Accounting for warrants at acquisition
- SPAC – Classification of public shares as debt or equity
- Multi-currency group of insurance contracts
- Profit recognition for annuity contracts (IFRS 17)
- Definition of a lease – substitution rights

Useful KPMG resources

Standards on Issue



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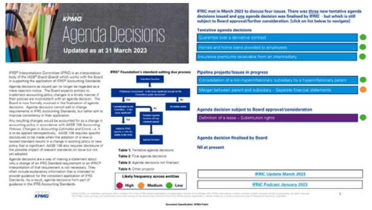

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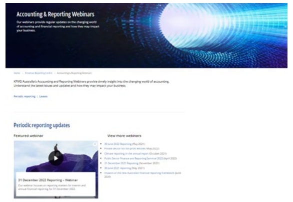

Likely frequency across entities:

High | Medium | Low

ACNC requirements for Special Purpose Financial Statements preparers

From 2023, **medium** and **large** charities preparing **Special Purpose Financial Statements** to disclose related party transactions in financial reports, in accordance with relevant Australian accounting standards.

Who are related parties?

A person or close member of that person's family

- **if** that person has control, joint control or significant influence over the charity or
- is a member of key management personnel of charity or of a parent of charity.

An organisation that

- is connected to charity and has **control or significant influence over charity** e.g. parent entity of charity
- **charity has control or significant influence over** e.g. a subsidiary
- are **members of the same group with charity** e.g. fellow subsidiary
- an **associate or joint venture** of charity.

What do I have to disclose?

- Nature of relationship
- Nature and amount of transactions
- Amount of outstanding balances
- Provision for doubtful debts related to outstanding balances
- Expense recognised for bad debts

Examples of related party transactions

- Intercompany financing
- Cash sweeps and loans
- Lease agreements between related parties
- Asset donation by key management personnel

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Relief:

Comparatives not required in first year of adoption

Examples of related party transactions

- Intercompany financing
- Cash sweeps and loans
- Lease agreements between related parties
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Recap – classification of financial assets

Financial assets

Amortised cost

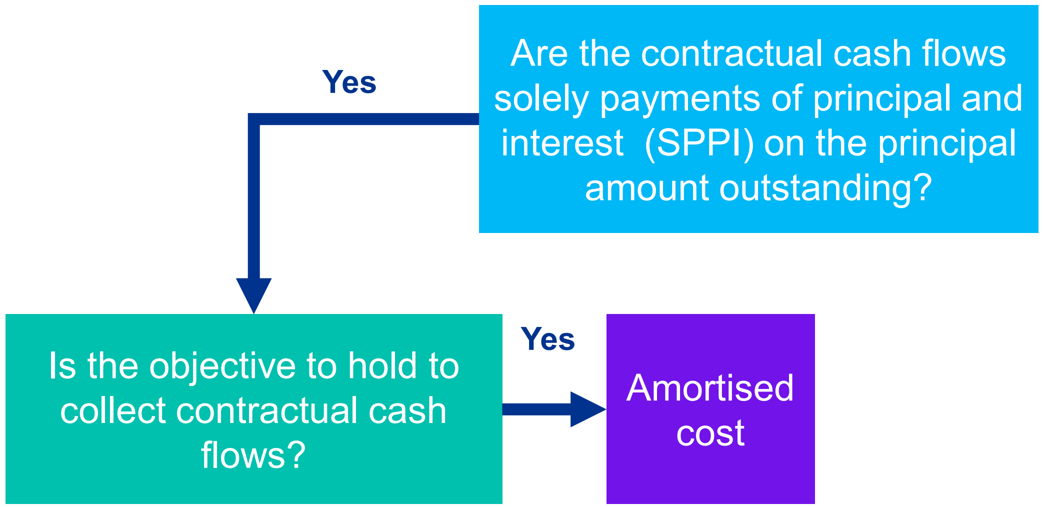
- Solely Payments of Principal and Interest (SPPI)

Fair value through other comprehensive income (FVOCI)

- SPPI
- Equity Instruments

Fair value through profit or loss (FVTPL)

- Equity Instruments
- Non-SPPI debt instruments
- On Designation



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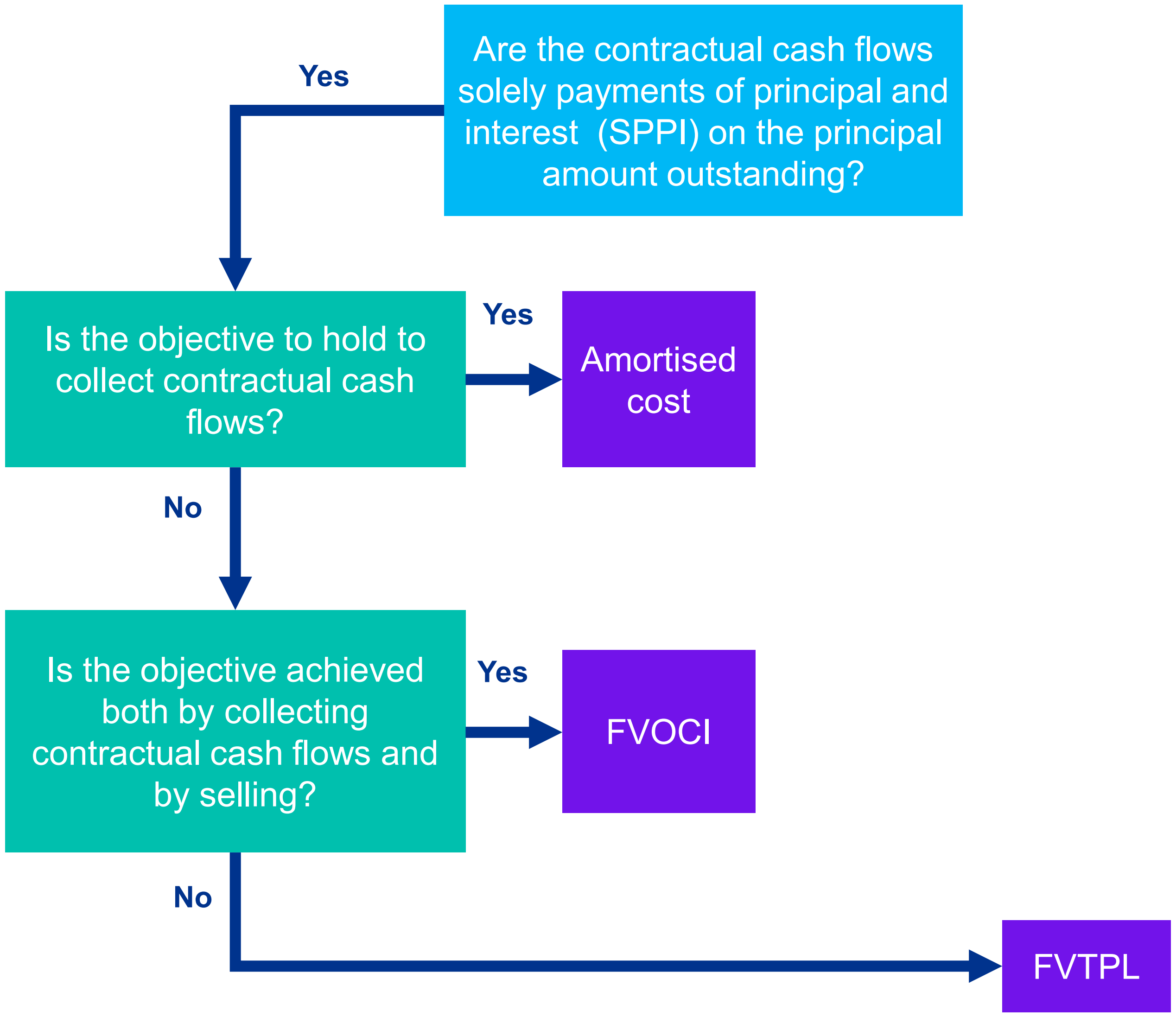

Recap – classification of financial assets

What is the classification of units in managed investment schemes?

Financial assets

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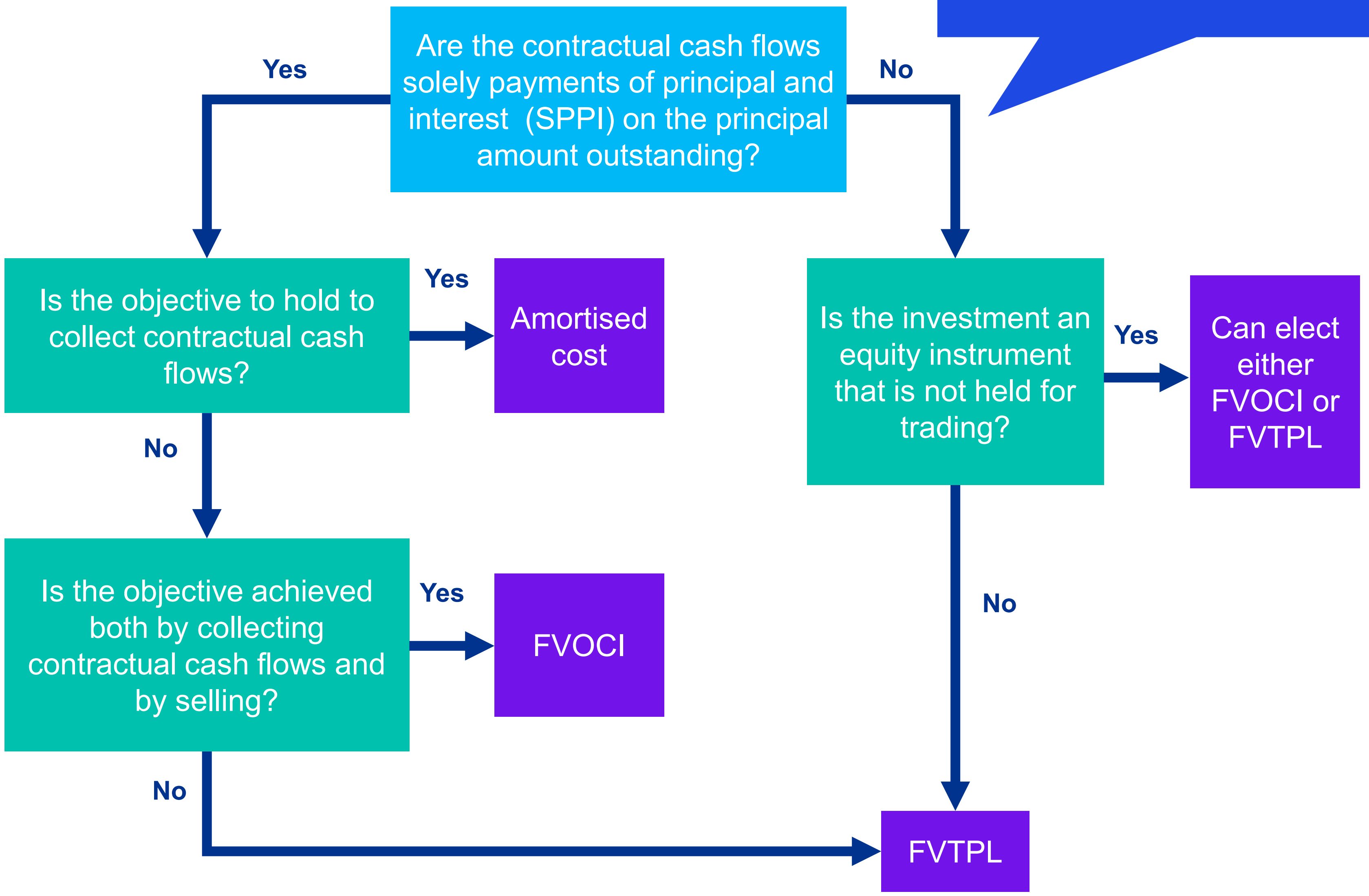


Units in managed investment schemes

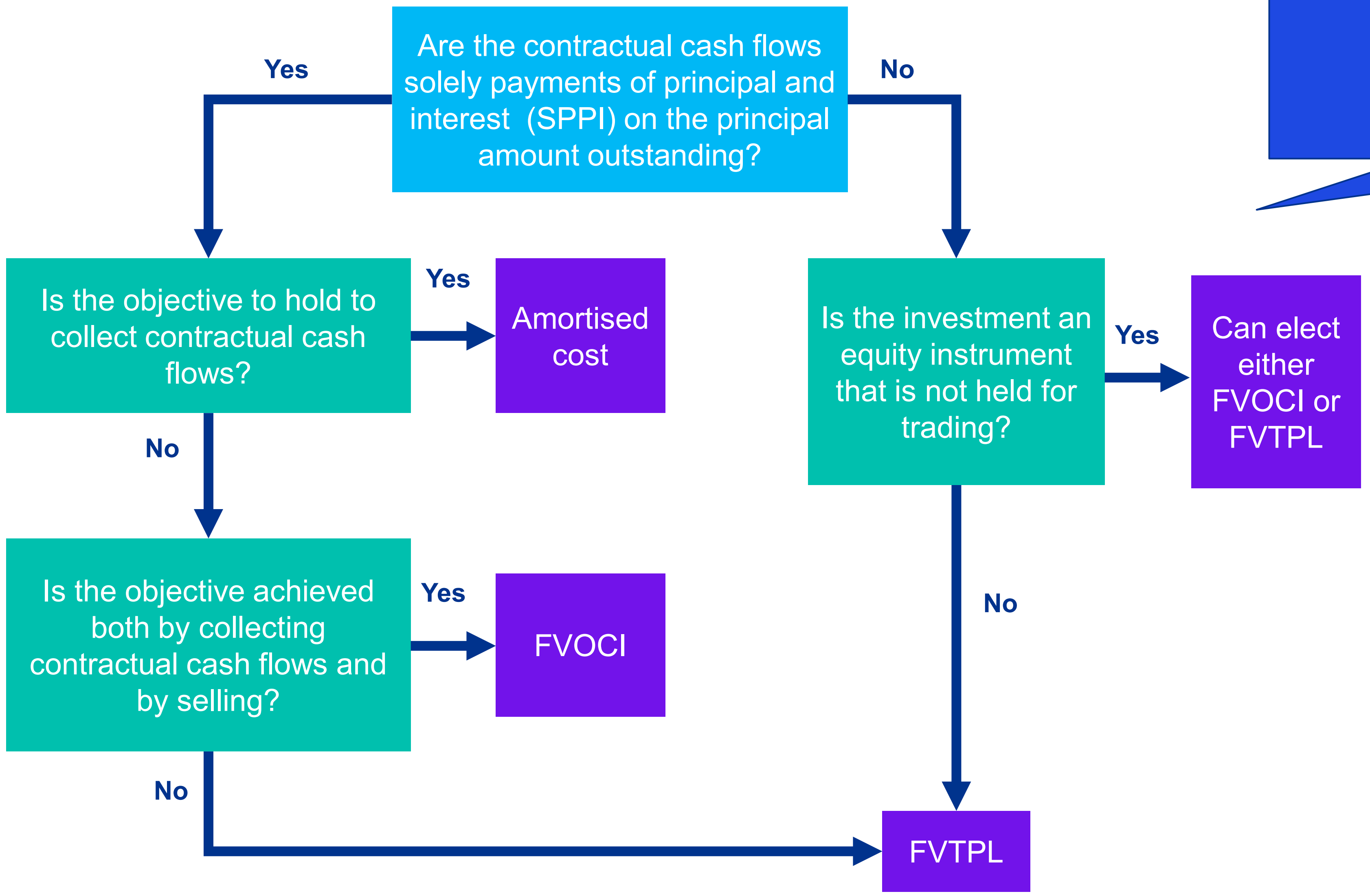
SPPI criterion:

Principal = fair value of asset at initial recognition?

Interest = consideration of time value of money?

credit risk and other basic leading risk?

other associated cost? Profit margin?



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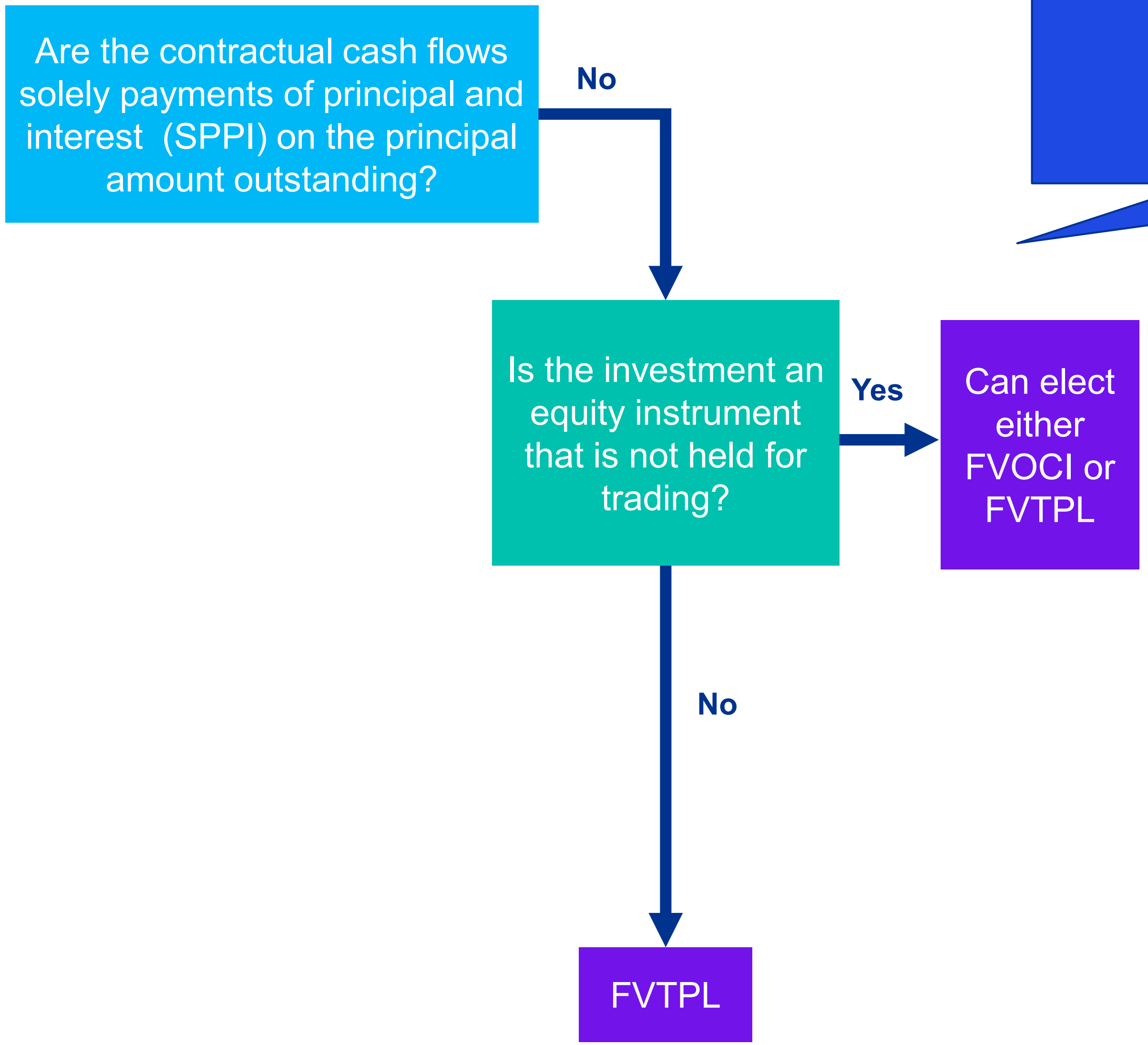

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Principal = fair value of asset at initial recognition?

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credit risk and other basic leading risk?

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Are the contractual cash flows solely payments of principal and interest (SPPI) on the principal amount outstanding?

No

Is the investment an

Yes

Can elect
ther
CI or
TPL

Therefore, classified as

Fair Value through Profit or Loss

No

FVTPL

Cash and cash equivalents – Restriction on use

April 2022 IFRIC meeting

Demand deposit classified as cash unless **restrictions on use from a third party contract** change the nature such that it would **no longer meet the definition of cash.**

What is the impact to financial statements if there are restrictions in place?

Disclose

***including key judgements**

- externally imposed restrictions that limit or direct the purpose of resources may be used
- whether funds are restricted
- restricted and unrestricted amounts of total comprehensive income
- which assets to be used for specified purposes
- restricted and unrestricted components of equity

Example

Scenario

- Kid Support, a not-for-profit entity, receives $10m from a donor which can only be used for running of a specific program consistent to objective of Kid Support.
- Kid Support deposited monies in an account where cash is readily accessible.
- Kid Support has an obligation under program agreement with donor to use the cash held on deposit only for specific program.
- Agreement with donor also states that any cash not used in accordance with program agreement must be refunded to the donor.

Should the demand deposit be classified as cash and cash equivalent?

AASB developments

Post implementation review – ITC 50

Income of Not-for-Profit entities

- Sufficiently specific criterion
- Termination for convenience clause
- Principal vs agent
- Alternative revenue recognition model

Post implementation review – ITC 51

Not-for-Profit topics

- Control and consolidation
- Structured entities
- Related party disclosures
- Basis of Preparation of Special Purpose Financial Statements disclosure about compliance with Australian Accounting Standards

Discussion Paper

Removal of SPFS*

Tier-3 reporting requirements

- Simplified recognition and measurement requirements
  - Leases remain off-balance sheet
  - Income is deferred and is recognised when the related outflow occurs
  - Choice of consolidation
  - Financial assets held to generate income and capital return measured at FVOCI, i.e. units in managed investment funds

- AASB considered smaller NFP with revenue $500k – $3m in developing the Discussion Paper
- **No** threshold established


New NFP GPFS-Tier 3 proposed

Reporting update

25 January 2023, 23RU-04

Submissions closed on 31 March 2023

**SPFS refers to Special Purpose Financial Statements.*

AASB developments

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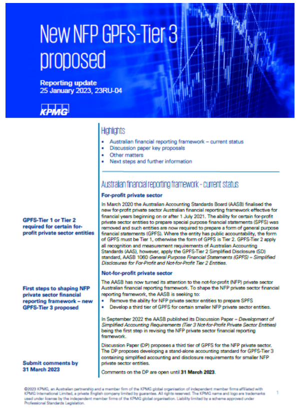

New NFP GPFS-Tier 3 proposed

Reporting update

AASB will decide whether education material or standard setting is required.

What's next for the Tier 3 reporting requirements?

*SPFS refers to Special Purpose Financial Statements.

What's next for the Tier 3 reporting requirements?

Mar 2023
Closed for comment

May 2023
AASB decided to develop Exposure Draft

To be determined
Release of Exposure Draft (expected late 2024)

To be determined
Issue new standard

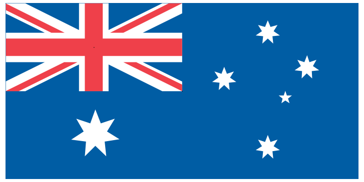
After at least 2 years lead time
New standard effective

04

ESG reporting

ESG developments in Australia

2023



First half 2023
expected consultation paper on legislating climate–related financial disclosures in Australia

Australian Government
The Treasury

ISSB

June 2023
ISSB expected to release the final versions of IFRS® sustainability standards:
- IFRS S1 General sustainability disclosure requirements
- IFRS S2 Climate-related disclosures

September 2023
AUASB to release updated assurance standards applicable for the ISSB standards

Australian Government
Auditing and Assurance Standards Board

2024

December 2023/early 2024
Australian equivalent of IFRS S2 expected to be released

Australian Government
Australian Accounting Standards Board

ISSB

2024-2025
Expected effective date for IFRS S2 (from Jan 2024, first reporting Dec 2024) and IFRS S1 (to follow)

1 July 2024
Expected effective date for AU climate related financial disclosures *(first reporting 30 June 2025)*

2025

Service performance reporting

Hot off the Press

AASB discussed plan to develop a project plan for **Service Performance Reporting**

What is service performance reporting?

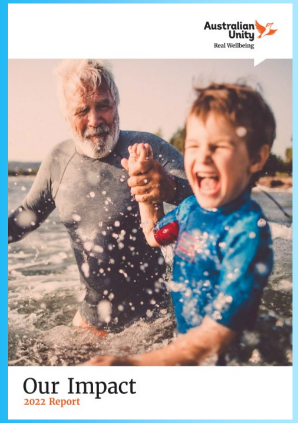
Information about what the entity has done during the reporting period in working towards its broader aims and objectives, together with supporting contextual information

Impact reporting

Increase in organisations releasing impact reports that outline how value is derived outside formal financial statements

The AASB has decided to use the New Zealand Service Performance Reporting Standards as the primary point of reference. The following working assumptions will be applied:

- Collaborate with regulators and stakeholders
- Continual assessment of relationship to and potential overlap with other projects
- Initial scope will include public and private sectors
- Differential reporting requirements may not be needed if the project results in a scalable, principles-based pronouncement.
- Develop a working definition of ‘service’ to ensure a common understanding of the project scope



Key takeaways

- Consider how macro-economic factors affecting your organisation and its accounting impact
- Revisit your going concern assumption and impairment assessment
- Understand the impact of AASB new amendments and IFRIC agenda decision
- Ensure you fulfil your financial reporting obligations
- Be alert with future development in ESG
- Stay up-to-date with the AASB and ACNC developments

Questions?

Thank you

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