# Defining and Accounting for Fundraising Income and Expenses

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## Abbreviations:

ABS – Australian Bureau of Statisitics

ACFID – Australian Council for International Development

ACNC – Australian Charities and Not-for-profits Commission

AICPA – American Institute of CPAs

AASB – Australian Accounting Standards Board

AIS – Annual Information Statement

ARA – Australasian Reporting Awards

ATO – Australian Taxation Office

CAS – Charities Accounting Standard

CIFC – Centre for InterFirm Comparison

CSWO – Community Social Welfare Organisation

DGR – Deductible Gift Recipient

FASB – Financial Accounting Standards Board

FIA – Fundraising Institute Australia

IASB – International Accounting Standards Board

ICAA – Institute of Chartered Accounts Australia (*now* Chartered Accountants Australia and New Zealand)

IPSAS - International Public Sector Standards

IRS – Internal Revenue Service (US)

NCVO – National Council for Voluntary Organisations

NSCOA – National Standard Chart of Accounts

ROI - Return on Investment

SORP – Statement of Recommended Practice

SOFA – Statement of Financial Activities

The report uses the law and the Australian Accounting Standards Board (AASB) guidelines as current at 31 December 2013.

# Executive Summary

### There is a plan

Large and medium Australian charities are facing renewed scrutiny of their financial reports which will be collected by the Australian Charities and Not-for-profits Commission (ACNC). The ACNC is charged with maintaining, protecting and enhancing public trust and confidence in the sector through increased accountability and transparency. It plans to achieve this in part by maintaining a free and searchable public internet database of registered charities' information, including their financial statements. The ACNC expects that there will be public, media and sector scrutiny of the register, and this will promote appropriate behaviours by donors, funders and charities themselves. In turn, this will enhance public confidence in charities.

The new Commonwealth government has announced that it will alter these arrangements in time and the current way forward is not entirely certain. Early speculation is that returns might instead be collected by private charity ratings agencies as happens in the United States (self-reported on the charitable organisation's website), or by the Australian Taxation Office (ATO).

### What the public wants

There appears to be a view among the Australian public, gained from the popular press, that ratios of funds raised from the public to fundraising expenses or the like (overhead ratios) provide a simple, low cost touchstone for donation decision making and even represent a charity's efficiency and effectiveness. Charity rating tools using such overhead ratios, which are freely available on the internet, are believed to fulfil this need. This appears to dovetail nicely with the proposed ACNC disclosure strategy or charity ratings published by private agencies. There are similar pressures on not-for-profit organisations that may or may not be included in state fundraising legislation.

### How the public and charities actually respond

Paradoxically, research from North America and Europe reveals few donors use such metrics in their donation decisions, even when they are freely available. There are strong indications that the same applies in Australia.

The consensus from practitioners and researchers is that, in isolation, such ratios are a poor measure for efficiency and effectiveness except for situations at the extremes. To varying degrees, pressures placed on charities subjected to scrutiny of their overhead ratios, combined with discretion allowed in formal accounting definitions, lead some charities to craft their annual financial reports so that they push the boundaries and open themselves to sensational media claims of deliberate deception in reporting.

Further, research indicates that virtuous charities may enter a self-imposed "starvation cycle" to minimise their overhead ratios, driven by their vision of a perfect charity figure spurred on by media hype. US charity rating agencies, practitioners and researchers are cautioning that focusing on overhead

ratios without considering other critical dimensions of a charity's financial and organisationalal performance can do more damage than good. In fact, many charities should spend more on overhead.

### We're only ditching the bathwater, not the baby…

Given the research indicates that the same forces are at work in Australia, it is essential before we go down the path of disclosing charities' annual financial statements that careful consideration is given to how fundraising is reported in them. Fundraising financial transactions should be reported and the report should be publicly available as part of an accountability regime. However, it is incumbent on authorities to ensure that the formal accounting standards, other regulatory disclosures or private ratings are "fit for purpose".

### So what are we doing?

This report examines whether the current reporting of fundraising in annual financial statements by Australian charities is fit for the purposes of the ACNC's registry strategy or private ratings agencies and endeavours to suggest a way forward if it is not.

### Why is it important?

Fundraising income is important for some parts of the charities sector such as overseas aid, faith based organisations and environmental organisations. Further, small, volunteer dominated and start up charities usually rely on fundraising being the dominant source of income. For economically significant not-for-profit organisations in 2006–07, fundraising accounted for $17.7 billion or 23.1% of revenue (Productivity Commission 2010, 74). The continued sustainability and growth of this revenue source depends in large part on the continued belief of donors and the wider public that charities generally can be trusted to use donations as promised to achieve the purposes of the specific cause in the public benefit (Bekkers & Weipking 2011). The experience of comparable jurisdictions indicates that the creation of public registries encourages charity rating agencies to use overhead ratios to compile their ratings, which can lead to unintended adverse consequences for charities.

### What is the state of play now?

Some Australian state and territory regulators already require specific financial information about fundraising to be reported. This report examines the regulations for each jurisdiction in detail. What is defined as fundraising differs significantly between jurisdictions. The regulation does not reflect modern fundraising practice in that it tends to focus the reporting requirements on individual "appeals" (campaigns) which may involve a mix of the types of financial transactions. Thus the term "fundraising" tends to refer to the activities conducted to generate the financial transactions (e.g., charity ball, fete, sponsorship) rather than the nature of the financial transactions (e.g., sale of goods, services or transfers) themselves. There are few common requirements and many irreconcilable differences between the jurisdictions, so that a national charity operating across jurisdictions must prepare multiple financial reports to satisfy different regulatory requirements.

We do not consider any of the current state and territory regulatory regimes fit for purpose in relation to financial reporting

### The formal accounting framework

Our report examines the formal accounting standards to ascertain their impact on reporting fundraising transactions. In Australia, accounting rules, practices and disclosures are governed by the Australian Accounting Standards Board (AASB) which prescribes standards. These standards are transaction-neutral, meaning that for-profit, not-for-profit and public sector entities are generally subject to the same accounting treatment and disclosure requirements. The accounting rules, recognition and measurement principles and disclosure requirements are consistent across all entities. Perhaps because of this transaction-neutrality, there is no specific guidance for disclosures in relation to fundraising revenue or expenses in any of the AASB Accounting Standards.

Not surprisingly, with no prescribed disclosure requirements for fundraising revenue and expenses in Australian accounting standards, different not-for-profit entities adopt different practices. This is reminiscent of discretionary fundraising definitions in comparable overseas jurisdictions, where charities stretch the limits of definitions and sometimes charity disclosures fall over the line into deception. An entity is permitted to disclose its expenses by either nature or function. Many not-for-profits elect to disclose their expenses by function (i.e. by grouping individual expenses under headings, such as "fundraising"). However, as acknowledged in paragraph 103 of AASB 101 Presentation of Financial Statements, such an approach "may involve arbitrary allocations and involve considerable judgement" which may lead to inconsistent classifications and a lack of comparable data between entities.

Given this vacuum, there appears to be a natural tendency for charity accounts to reflect their home state’s or territory’s mandatory reporting requirements and these vary from jurisdiction to jurisdiction. These drivers have in turn led to a lack of comparability and inconsistencies in financial reporting disclosures relating to fundraising revenues and expenses.

Australian accounting standards provide an overall framework. However, another level of guidance is required for charities to be able to prepare annual financial reports which can be relied upon with other material as an indication of appropriate fundraising behaviours.

The National Standard Chart of Accounts (NSCOA) is now hosted by the ACNC. It seeks to create a model chart of management accounts for acquittal of all jurisdiction’s financial information requirements. It could not reconcile the different requirements of state and territory regulators.

### What happens on the ground in Australia

The result of this lack of specific guidance for the preparation of annual financial statements was confirmed by an analysis of best practice charity reporting in Australia. Analysis of 13 award winning annual reports from charities revealed a wide variation in terms. Eleven had 34 different terms or combinations of terms to describe fundraising income and expenses, as well as other issues which

thwarted any attempt at meaningful comparison in 11 reports. For example, there are differences in what is regarded as fundraising, differences in the combinations and line descriptions used to disclose fundraising income and expenses and differences in the ways these are reported. Two reports did not disclose any fundraising information at all, including it under general line items.

For internal management purposes many fundraising charities record, measure and scrutinise their costs and benefits of fundraising activities and this is to be encouraged. Each organisation makes their own judgements about such matters as direct and indirect costs, the allocation of joint costs and attribution of income to activities which cannot be usefully extrapolated to external benchmarking because of the differences in judgements and other important characteristics such as life cycle stage, reputation, cause, product mix, supporter demographics, appetite for risk and many others.

### A way forward... accounting

After examining a number of options, a way forward that preserves the general AASB standards framework is adopted. Achieving the acceptance and implementation of new not for profit accounting standards in the current and foreseeable future in Australia is unlikely. It would also require significant resources in professional and sector education and establishment.

Using the principles set out in the formal accounting standards, fundraising transactions could be classified individually, according to a recognised typology for revenue. Also they would be disclosed in the notes to the financial statements when listing the various types of fundraising revenue. The AASB standards would not have to alter and the general accounting concepts would remain. It is in that context that this report recommends that all fundraising revenue transactions be recorded in one of four categories of – sale of goods, provision of services, gifts, or transfers.

Fundraising “sale of goods” are those reciprocal transactions where the transferor and transferee directly receive and sacrifice approximately equal value. Typical examples of fundraising sales in the not-for-profit sector would be the proceeds of sales at fairs, fêtes, bazaars, street stalls and charitable merchandising. Some types of commercial trading can be significant.

Fundraising “provision of services” are those reciprocal transactions whereby the transferor and transferee directly receive and sacrifice approximately equal value of services rendered. Typical examples of such fundraising provision of services would be special event ticket sales, commercial sponsorships or fees for endorsements.

Fundraising “gifts” are non-reciprocal transfers which are made to maintain or increase the entity's capacity to provide those goods and services. Typical examples are those transactions commonly referred to as donations or gifts.

Fundraising “transfers” are those transactions where an entity transfers assets to another entity and only derives benefit from satisfying its objectives of providing benefits to others. Examples of

fundraising transfers are grants from philanthropic trusts and foundations, government general purpose grants and gifts from trusts and other entities with complementary purposes.

Few definitions are bright lines without any fuzziness, and our four categories are defined in such a way to take established and currently operation definitions which minimises the possibility of confusion and misreporting.

As to how fundraising expenses should be disclosed, the report identifies the following options:

> **Option 1.** Require the reporting of fundraising income and expenses by function in which all income and expenses associated with the conduct of fundraising activities are reported in a separate cost centre.
> **Option 2.** Design a system of separately reporting all fundraising expenses that match each of the four categories of fundraising income identified above;
> **Option 3.** Design a system of separately reporting only the direct fundraising expenses to match each of the four categories of fundraising income identified above, or,
> **Option 4.** To design a system that recognises that fundraising is, in many ways, a whole of organisation activity with expenses best reported with other general expenses - by nature.

The report settles on Option 4 which would mean that only the expenses associated with the cost of goods sold type of fundraising will be separately disclosed whilst the other costs of fundraising would be treated as general expenses in accord with general accounting practice. This option has the advantage of relative simplicity, flexibility to alter with accounting standard revisions and avoids the fraught complexity of identification of direct and indirect costs and allocation of joint costs. Accounting "by nature" rather than "by function" avoids arbitrary management discretion in allocating joint costs. The proposal also takes into account the significant limitations of any material benefits associated with reliance on a sole ratio and adverse side effects of producing overhead ratios for external comparison. The chief disadvantage of such a system would be that costs of all fundraising activities would not be separately disclosed, but we do not really consider this a critical disadvantage in the overall scheme of regulation.

### There are limits to what accounts can do

It is our contention that even reconceptualised annual financial statements can only play a very limited role in regulating deviant behaviours involving fundraising. Management accounts and special purpose reports are now more useful to regulators for such purposes. Clearly other mechanisms, which are cheaper, faster and with a better fit for purpose, should be used to address those behaviours.

### If fundraising ratios are not available, how do you detect and prevent fundraising mismanagement and fraud?

As a regulatory tool, the public disclosure of a single financial ratio is not a sensitive measure of fraud or mismanagement. It is reported up to six months after the event and is not fit, without much more, for

the purpose of detecting mismanagement or fraud. Not-for-profit fraud surveys indicated that frauds are not discovered in the main by external auditors reviewing the external financial accounts (2–7%) but by internal controls and tips from employees, volunteers and other parties (35%) (BDO Australia 2014, 46). The charity's governing board is in the best place to monitor, judge and influence the fundraising behaviours of the organisation, so regulatory strategies that focus on ensuring the board carries out this function appropriately are warranted. No other actor can match the board for closeness to the issues, access to information, timeliness, and ability to apply timely corrective action in the most appropriate fashion.

More sophisticated regulatory strategies are required to ensure that boards make fundraising reflective of their charities' strategic plan and overall mission, internally measured on an appropriate mix of financial and non-financial measures, realistic and with a justified basis.

Targeted regulatory strategies should be considered for those who prey upon naïve boards with the promise of instant fundraising success in return for upfront fees or a commission. There are a number of regulatory tools that could achieve this outcome, e.g. licensing, commission remuneration, self-regulation by professional bodies, or even requiring charities to seek multiple bids before contracting with external fundraising professionals.

### So what?

Australia stands at a juncture in fundraising reporting and it has a choice of paths. We need to evaluate the choices available carefully, in the light of the successes and failures of charity regulation regimes around the world, taking into account the best evidence available.

Using overhead ratios as a means of external evaluation is a simplistic answer to a complex issue. Like most simple answers it is flawed and may do harm to the sector and the Australian public that charities seek to benefit.

Politicians, regulators, accounting standard setters and the charity sector itself need to boldly take on the challenge of implementing a fit for purpose approach to accounting for fundraising income and expenses.

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# Chapter 1. Introduction

## How has the issue of reporting fundraising transactions arisen?

1.1. Large and medium Australian charities are facing renewed scrutiny of their financial reports which will now be collected by a national regulator or private charity ratings agency and available to the public through a searchable internet database, or self-reported on the charities' own websites.[1]

1.2. The national regulator is the Australian Charities and Not-for-profits Commission (ACNC) established by the Commonwealth government in December 2012. Up until that time, some charities filed financial statements with various regulators, under various formats (not generally comparable), and with varying degrees of public access. The Australian Taxation Office (ATO), unlike most taxation administrators in developed economies, did not require financial returns.[2] Although the ATO has the power to require them, the power is rarely used and, in any case, financial returns submitted to the ATO cannot be made public.

1.3. The new commonwealth government has indicated a change to the proposed arrangements, but it is not clear what form, if any, regulation of charities at a commonwealth level will take. It has been speculated by the Minister and others that private charity ratings agencies such as those operating in the USA might be an option worth considering (Rittelmeyer 2014; Australian Institute of Company Directors 2014), or the option of requiring self-reporting on the charitable organisation's website (Australian Department of Social Services, 2014).

1.4. From the outset, the policy was that the ACNC would collect, and provide public access to charities' financial information. This flowed from the objectives of the ACNC, listed in the *Australian Charities and Not-for-profits Commission Act 2012* (ACNC Act) as:

i.) to maintain, protect and enhance public trust and confidence in the Australian not-for-profit sector; and

ii.) to support and sustain a robust, vibrant, independent and innovative Australian not-for-profit sector; and

iii.) to promote the reduction of unnecessary regulatory obligations on the Australian not-for-profit sector.

1.5. Among the initiatives designed to further these objectives, the ACNC:

- maintains a free and searchable public register so that anyone can look up information about registered charities
- is working with state and territory governments (as well as individual federal, state and territory government agencies) to develop a "report-once, use-often" reporting framework for charities.

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[1] Small charities may voluntarily submit their financial statements and certain other exceptions exist, for example Basic Religious Charities.

[2] An isolated and recent exception is the audited returns of private and public ancillary funds.

1.6. The public register established by the ACNC is to be populated with data collected from registered charities using an Annual Information Statement (AIS) under a tiered proportionate reporting regime (http://www.acnc.gov.au/).

1.7. In 2013, all registered charities (including basic religious charities) were required to complete an AIS without any financial information. All registered charities could also choose to submit a financial report, but this was not mandatory.[3]

1.8. In 2014, large charities, with annual revenue of $1 million or more, and medium charities, with annual revenue of $250,000 or more but less than $1 million, will be required to provide certain financial information and annual financial reports. Again, basic religious charities will be exempt from providing financial information, but will still be required to file an AIS.

1.9. These public financial returns may allow the creation of financial ratios across many charities and their industry sub-sectors, as occurs in business, particularly in relation to listed public companies.

1.10. The general public – both donors and non-donors – hanker for simple measures to gauge the worth of charities (as they have ready access to in relation to public companies in the financial markets), such as the cost of generating a fundraising dollar, or how much of their donations are spent on operations other than administrative expenses. The popular media also shows interest in such metrics.

1.11. Some state regulators in Australia use charity financial accounts to ascertain fundraising cost and administrative cost ratios. Powerful stakeholders such as government funders and large donors can demand specific information from charities. However, the cost of providing the information generally falls on the charity which is unable to pass this cost on, as a for-profit firm can do.

## What is the problem?

1.12. Charity CEOs, their fundraisers and boards (as well as state fundraising regulators) generally dread the intermittent press story attempting to compare the efficiency and effectiveness of charities from an analysis of fundraising ratios.

1.13. An example was delivered recently via the front page of the *Sydney Morning Herald* which began: “Almost half of donations to some popular charities are spent on fund-raising, prompting calls for more transparency ….” (Brown & Whitbourn 2013, 1). The article went on to explain that a large range of fundraising costs are partly due to the situation that: “... no clear accounting guideline[s] exist about which costs are classified as fund-raising expenses and administration” (Brown & Whitbourn 2013, 1).

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[3] In 2014 Basic Religious Charities will not be required to answer financial questions in their AIS or attach financial reports.

1.14. Some charities fear that such negative publicity will diminish their reputation, individually and collectively, making it more difficult for them to operate in the community generally, and affect their fundraising and volunteers specifically.

1.15. Their unease is exacerbated by the growing consensus emerging between researchers and practitioners that, in isolation, such ratios are a poor measure for efficiency and effectiveness except for situations at the extremes. However, the public and media appear to have entrenched views on the issue.

1.16. The strategy of having a readily accessible, searchable, free public database of financial returns has many precedents. In recent years, government policy has often "flipped regulation" by merely facilitating interested parties to do their own assessments, rather than perform individual audits of each regulated body. This is expected to minimise the government's costs of charity scrutiny, by facilitating the public and other stakeholders to access the material, in the expectation that those stakeholders will alert the regulator to improper activities. Further, the mere fact of disclosure will alter the behaviour of charities in the desired way.

1.17. This flipped regulation is best illustrated by ASX public company accountability, centred around an annual audited financial report. It is assumed that a charity's annual financial report disclosures will provide a measure of the charity's fidelity to purpose and also allow an assessment of its efficiency and effectiveness by comparison to market competitors, as occurs in corporate company markets.

1.18. An underlying assumption is that interested stakeholders will expend the time and resources to consider the information and act accordingly. This is challenged by the research which indicates that individual members of the public are reluctant to expend significant resources, in fact, any expense, on monitoring charities (see chapter 2).

1.19. It is also assumed that an active and informed public forum or market will be created, in the way of the market for ASX companies, with its accompanying trade media and analysts, providing low cost, timely and accessible commentary on performance of listed companies. The beginnings of such markets in the not-for-profit sphere are emerging overseas in the form of internet databases of financial information – charity rating agencies.

1.20. There is a body of scholarly evidence that such databases are not yet providing results similar to listed company markets. Recently the three most prominent US charity rating agencies openly declared that a fixation on overhead cost measurement did not assist donors and in any event was detrimental to the well-being of the not-for-profit sector (see Chapter 2 and Appendix B).

1.21. There is an overwhelming body of scholarly evidence that charitable organisations require different assessment of matters such as performance and accountability. In essence, because charities are not primarily driven by producing a monetary return for their investors, the public listed company model cannot be applied blindly. Comparisons of audited financial statements have a role to play, but public company models of financial ratio metrics, e.g. "Cost of Administration" or "Cost of Fundraising", produce unreliable measures of performance, due to a

range of exogenous factors and the lack of a common approach to allocating joint costs (see Chapter 2).

1.22. These metrics commonly used in public company accounting are driven by a cost of goods sold model. The model requires identifiable goods, direct costs incurred in acquiring the goods and a "sale" – resulting in a figure for gross profit. Using this approach, the belief is that potential and actual stakeholders seek information about the cost of goods sold, that is the cost of acquiring and administering their contribution.

1.23. This is exacerbated by Australian Accounting Standards which are transaction neutral[4]. Further, in Australia, unlike other developed countries, there are no agreed standards of practice or standardised regulatory accounting practice to guide reporting of fundraising in financial accounts. Even where there are agreed accounting definitions for fundraising, there are still significant issues with their application.

1.24. It is our contention that even reconceptualised financial statements can only play a limited role in meeting the perceived information requirements of stakeholders, and that other mechanisms, which are cheaper, faster and fit for purpose, should be used to address their concerns.

1.25. Despite these limitations in relation to external accounting for fundraising, annual financial statements can play a useful role in a coherent system of accountability, but are not a key to fundraising efficiency and effectiveness or a simple measure to influence deviant fundraising behaviour.

1.26. Audited financial statements prepared in accordance with recognized professional standards provide a level of comfort about the financial position of the organisation. However, the further step of using financial metrics to gauge efficiency and effectiveness of overhead expenses, or for external comparisons with other charities, requires commonly agreed definitions and protocols. Even if such measures are adopted uniformly, the full explanatory power of public company financial metrics will not be met because of the need to consider the unique issues of measurement of not-for-profit purposes.

### Why is this important?

1.27. As a revenue source for charities generally, fundraising is significant and growing. Such revenue is largely independent of government-contracted service provision and client co-contribution fees and charges. It also tends to be more discretionary in its application than funds sourced from government.

1.28. Of the sources of revenue for economically significant not-for-profit organisations in 2006–07 the Productivity Commission (2010, 74) estimated that $7.2 billion or 9.4% of revenue came from fundraising. Considering the restricted definition used by the Productivity Commission, the

[4] The basis for the AASB's policy for transaction neutrality is explained in paragraphs 39 to 41 of AASB Policies and Proceedures.

level may be much higher, as membership fees and sales of goods were not included (as are in some state jurisdictions). This would bring the estimate to $17.7 billion or 23.1% of revenue. It may be the dominant source of income in charity sub-sectors such as overseas aid, faith based organisations and environmental organisations, as well as small, volunteer dominated and start-up enterprise.

1.29. The ACNC, as well as researchers and commentators generally contended that the continued sustainability and growth of this revenue source depends in large part on the continued belief of donors and the general public that charities generally can be trusted to use donations as promised to achieve the purposes of the specific cause in the public benefit (Bekkers and Weipking 2011).

1.30. The creation of a central regulator (ACNC) with a brief to increase the public's trust in charities has the potential also to increase fundraising revenues as a result. However, the situation in the United States illustrates that regulatory strategies need to be chosen wisely, as some may actually decrease trust and distort fundraising behaviour, to the detriment of charities and, in turn, the public benefit.

### What is "fundraising"?

1.31. At the heart of the issues in this report is how to define fundraising. We explore the definitional problem throughout this report, but an introduction to the key themes is worthwhile at this point (see chapter 2).

1.32. Fundraising has both common or "street" meanings and specialised or professional meanings. What it would mean to a commercial entrepreneur, a professional fundraising consultant doing capital campaigns, and a volunteer member of the local church are likely to be vastly different. So fundraising spans a range of activities – from sourcing funds through financial institutions, to selling sponsorship on a sports uniform. It is significantly wider than the term as used in the context of ASX companies.

1.33. In the last 20 years, the term development has come into increasing use as a synonym for fundraising, particularly among professional fundraisers. Development has a wider meaning than fundraising in that it includes activities that are designed to strengthen stakeholder loyalty and commitment to the chosen cause.

1.34. Even among not-for-profit organisations, the word fundraising does not have a commonly understood meaning. Most members of the community would understand the local church fete, or a sausage sizzle at the oval as fundraising, but they may be less sure about the Heart Foundation's Red Tick, or advertisements in a Law Journal seeking charitable bequests. Upon reflection, it is the purpose for which funds are raised, rather than the nature of the transaction itself, that informs the parties as to whether the transaction is a charitable or not-for-profit fundraising transaction.

1.35. The state and territory laws relating to fundraising and charity giving, discussed in Chapter 5, appear to have no shared logic, resulting in an almost chaotic regulatory environment across the

states and territories. “Fundraising”, or “collections”, or “appeals” have very different meanings depending on jurisdiction. There are significant variations in the nature of the activities regulated, the types of transactions involved and the persons or entities regulated. Efforts to harmonise this body of regulation have been slow and have achieved little success to date.

1.36. The ACNC is charged with avoiding duplication and unnecessary red tape which sets an agenda of reconciling their collected information with that required by other Commonwealth, state and territory regulators.

1.37. At present, there is no national agreement on a set of terms and definitions for fundraising, or for how income and expenses generated by those activities are to be recorded in the accounts of fundraising charities. To the ordinary person in the street, a government grant would not be regarded as fundraising, but the state and territory fundraising regulations create some odd results, as the example in the box below demonstrates.

**Box 1.1**

Line 1 of the ACNC’s 2014 AIS asks charities to disclose their gross income from government grants. The guidance provided on the ACNC website states:

> Government grants include money, assets or services received from government so that the charity can provide goods or services to others in accordance with the terms of the grant. Include all grants your charity receives or [which are] receivable from the Commonwealth, [a] state or territory, or a local government body in the 2014 financial year.
>
> This includes general purpose grants as well as grants received under a contract with government to provide specified services.[5]

Whilst the use of these lines of account is a transitional requirement of ACNC for registered charities that have not previously prepared accounts in accordance with accounting standards, it does demonstrate the problem for those charities completing their 2014 AIS when there is a conflict with state or territory regulations. For example, in Queensland some grants from state and local governments are likely to be classified as fundraising revenue, especially where they are in the form of general grants to support the work of the grantee. It is therefore possible that charities classifying transactions in their accounting systems for state regulators’ requirements will disclose government grants under either government grants, or under donations, making any aggregated data or comparisons based on these disclosures unsafe. (See Chapters 3 and 5.)

1.38. In its efforts to develop a common framework for financial reporting, the ACNC, along with all other Commonwealth, state and territory agencies has adopted the National Standard Chart of Accounts (NSCOA), developed by Queensland University of Technology, as the foundation from

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[5] Australian Charities and Not-for-profits Commission, *2014 Annual Information Statement Guide*, http://www.acnc.gov.au/ACNC/Manage/2014AISguide/ACNC/Report/2014AISGuide.aspx?hkey=bd783044-c251-4f91-b157-41fa74627d25.

which it hopes to build a "report once, use often" framework for not-for-profit organisations to adopt in reporting to those different government agencies. The agencies have altered their grant application and acquittal forms to use only terms defined in the NSCOA. However, NSCOA is a tool for collecting financial information for special purpose reports such as grant acquittals (management accounting) – it is not intended to provide guidance for general purpose financial reporting such as Annual Financial Reports. Furthermore, NSCOA does not address the problems that arise from the differences in state and territory fundraising regulations, because specified reporting terms are embedded in the specific Acts and Regulations of each jurisdiction.

1.39. For charity accountants and auditors, accounting standards provide no specific guidance or framework for collecting comparable financial data across entities about fundraising activities (see Chapter 3).[6] This is left to AASB's principles-based standards. As a result, the preparers of charity accounts may be influenced by any mandatory disclosures required by state fundraising regulators and perhaps by any industry, professional or best practice standards they are aware of (see Chapter 6).

1.40. The example in Box 1.2 illustrates the need for authoritative guidance on recording common fundraising transactions in financial statements of charities and other not-for-profit entities.

Box 1.2.

## Accounting for a Charity Ball

The honorary Treasurer of "Dancing for Kids" charity (an endorsed DGR) has been presented with the following summary of income and expenses relating to a recent charity gala fundraising ball. Figures are shown GST-exclusive.

| Revenue: | $ |
|---|---|
| ▪ Ticket sales (300 tickets sold at $200 per ticket) | 60,000 |
| ▪ Raffle conducted on the night (1,000 tickets @ $5 per ticket) | 5,000 |
| ▪ Donations made on the night | 2,000 |
| ▪ Sponsorship – naming rights sponsor | 3,000 |
| ▪ Sponsorship – 3 charity ball sub-sponsors ($500 x 3) | 1,500 |
| ▪ Sponsorship – in-kind support (valued) | 2,500 |
| ▪ Charity auction – 1 tax-deductible contribution | 5,000 |
| ▪ Charity auction – proceeds from 7 other items auctioned on the night | 11,000 |
| *Total Revenue:* | 90,000 |

During the evening, the local Mayor announced a grant of $25,000 to assist children with terminal illnesses attend Taronga Park Zoo and Luna Park in Sydney. He presented a cheque for the $25,000 to the CEO of the charity on the night itself.

| Expenses: | $ |
|---|---|
| ▪ Printing of tickets | 1,000 |
| ▪ Costs of preparing banner acknowledging sponsors | 500 |
| ▪ Venue hire | 10,000 |
| ▪ Catering (300 guests @ $50 per head) | 15,000 |
| ▪ Hire of band | 2,500 |
| ▪ Complimentary tickets to sponsors (5 x $200) | 1,000 |
| *Total Expenses* | 30,000 |

[6] Australian Accounting Standards do provide specific guidance in relation to comparability to previous reporting periods of an entity, rather than across different entities.

1.41. How should such fundraising transactions be reflected in the financial statements of an organisation? Some initial questions which arise are:

- Are they best reported simply as Fundraising revenue or should each type of transaction be treated in accordance with its nature, as required by accounting standards?
- Is the surplus generated by dinner tickets a donation (the price is well above a commercial dinner)?
- Is the Mayor's (local government) grant to be treated as a donation or a fee for a service?
- Should the Mayor's grant be separated in the accounts so as to reflect its restricted conditions?
- Are the proceeds from the annual Ball to be treated as "revenue" in the ordinary course of business, for the purposes of AASB 118?
- Is the value of the ticket sales to be treated as revenue from the sale of goods (AASB 118.35 AASB 118 (b)(i)) or "the rendering of services" (AASB 118.35 (b)(ii))?
- Are the donations on the night and the proceeds from the tax-deductible contribution to the charity auction to be treated as sale of goods, or as contributions (AASB 1004.15(a))?
- Should the raffle proceeds be included in fundraising or reported separately?
- Are the commercial sponsorships to be treated as donations or sales?
- How should expenses be disclosed and by what categories?
- Is there a need to consider the cost of the charity's staff time in calculating the results of the Charity Ball?
- Which of these activities are included in the definition of fundraising, or collections, or appeals for support, in the jurisdiction in which the Ball was held?
- Does the Treasurer need to prepare the accounts so as to comply with state or territory regulation?
- Should the actual surplus made for the whole event merely be added to a single line of "fundraising income" in the financial statement?

1.42. We will use this simple example throughout the report, as appropriate, to illustrate the issues and options for the accounting treatment of such transactions. The object is to arrive at a set of options and recommendations about a definition and accounting treatment of fundraising income and expenses which is, as far as possible, evidence-based and fit for purpose.

### What is ahead?

1.43. In the following chapters we examine whether the current reporting of fundraising in annual financial statements by Australian charities is fit for the purposes of the ACNC's registry strategy or a charity rating agency and suggest better ways to meet those purposes.

### Chapter 2. Critical insights from our current knowledge

1.44. Chapter 2 examines existing sources of knowledge, both in Australia and overseas, for critical insights which may assist in providing an evidence based understanding of fundraising accounting and regulation. We analyse published research and commentary about:

- the definition of fundraising;
- the usefulness and impact of overhead and fundraising ratios; and
- the impact of financial record disclosure databases on the behaviours of donors and not-for-profit organisations.

### Chapter 3. Australian accounting standards, the national accounts and fundraising

1.45. This chapter specifically considers the formal professional guidance available on the accounting treatment of fundraising revenue and expenses. It examines the standards set by the Australian Accounting Standards Board (AASB) for the preparers and users of financial statements. These standards incorporate International Financial Reporting Standards (IFRS). It also examines the treatment of fundraising within the framework of the ABS's *Australian National Accounts: Non-Profit Institutions Satellite Account 2006–07*.

### Chapter 4. Commonwealth regulation and fundraising

1.46. The states and territories have been regarded as having primary regulatory responsibility for fundraising, but Commonwealth provisions do have an influence on fundraising and its reporting, in particular through the long-standing taxation provisions. From 2014, the ACNC will collect annual financial returns of registered charities and make them publicly accessible. The 2013 return required a minor level of disclosure,[7] but this will change in 2014 with much more financial information being required from organisations above a certain size.

### Chapter 5. State and territory regulation and fundraising

1.47. The regulation of charitable fundraising in Australia rests primarily with state and territory governments. All states and territories, except the Northern Territory have a registration or licence requirement. We summarise each jurisdiction with an overview of the regulatory schema and detail the financial information that must be collected and disclosed. Since charitable gaming is often regarded as a means of fundraising, it is also examined where it has a bearing on financial reporting. There is no pattern or inherent logic to the regulatory regimes, which have largely resulted from political compromise or to address specific mischief at a particular moment in time.

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[7] The 2013 AIS requires no financial disclosuers, but charities can voluntarily supply their annual report.

### Chapter 6. How industry standards and professional expectations affect the way fundraising is reported

1.48. Australian accounting standards, as in comparable jurisdictions, leave significant professional judegement to organise individual descriptions within the mandated framework. The decision on how to exercise this discretion is often influenced by a number of external factors. Preparers of charity financial reports are likely to be influenced by the expectations placed on them from a number of influential sources, including professional standards, industry standards and peer pressure to conform to best practice.

1.49. In Chapter 6 the requirements of four sources of influence – Fundraising Institute Australia; the Australian Council for International Development; Chartered Accountants Australia and New Zealand (formerly the Institute of Chartered Accountants Australia); and CPA Australia – are examined in detail, followed by an examination of the fundraising disclosures in the annual reports of a sample group of charities, including thirteen that have received awards recognising best practice for annual reports.

### Chapter 7. Comparable overseas jurisdictions

1.50. In this Chapter, the approaches taken to defining and accounting for charitable fundraising in comparable jurisdictions are examined. The relevant regulations in England and Wales, the United States, Canada, Singapore and New Zealand are examined briefly and the extent to which they have been assessed as fit for purpose is reported.

### Chapter 8. What conclusions and recommendations can be made from this research?

1.51. The final chapter comes to the conclusion that the current reporting of fundraising in annual financial statements by Australian charities is not fit for the purposes for the ACNC's registry strategy or a ratings agency. It suggests a range of strategies for a way forward in ensuring that fundraising behaviours are appropriate and that regulation is appropriately located using regulatory tools which take account of the evidence base from research in the area.

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# Chapter 2. Critical insights from our current knowledge

2.1. This chapter examines existing sources of knowledge, both in Australia and internationally, for critical insights which may assist in providing an evidenced based understanding of the various issues.

2.2. As is examined in Chapter 3, Australian accounting standards do not define "fundraising". In Australia the dominant approach of accounting standard setters has favoured a single conceptual framework and common accounting standards across all sectors of the economy (Kilcullen 2011; Crawford et al. 2014). These accounting standards do not provide guidance on how fundraising should be reported in the financial reports of fundraising charities. Given this vacuum, is there an accepted definition of what we mean when describing fundraising?

2.3. There is significant literature on the use of reported fundraising income and expenses via ratios to establish the efficiency and the impact on various stakeholders of such reporting. This bears on the benefits for users of the external reporting of such information.

2.4. To summarise, this chapter reviews several areas of published research and commentary:

- the definition of fundraising: is there an accepted definition of what we mean when describing fundraising?
- overhead and fundraising ratios: what are their benefits and what is their impact?
- financial record disclosure databases; what effect do they have on the behaviours of donors and also nonprofit organisations?

## How has the term "fundraising" been defined?

2.5. There is no agreed definition of fundraising used as a reference point for research, or even discussion amongst the fundraising profession.

2.6. The *International Encyclopedia of Civil Society* provides the following description:

> The language of fundraising has some counterpoint with sales, marketing, law, and even religion, politics and finance. The word itself in the corporate realm denotes sourcing investment to run or grow a business. Similarly in nonprofits, fundraising is about locating the resources an organisation needs to achieve its aims on behalf of those it serves. Common definitions focus on raising money for a nominated cause or program. "Resource mobilization" is a frequently used term in some countries, again borrowing from the rubric of finance but emphasizing as well the idea that an NPO needs more than just funds and will seek people, their time and in-kind resources too.
>
> Another variation on the fundraising theme is found in the word "development". Often used interchangeably with fundraising, it refers in essence to the whole process of garnering resources. (Scaife 2010, 742.)

2.7. As noted in this passage, the term fundraising does not fit easily into any of the existing academic disciplines and is not a mainstream construct in any discipline (Kelly 1998; Mack 2009).

Despite the growing international academic literature on not-for-profit organisations, including charities, high quality theoretical and investigative research on fundraising has not kept pace. Bodies of specialist literature have developed in specific types of fundraising such as bequests, major gifts, charitable gaming, special events, face to face solicitation and cause related marketing.

2.8. The economics (Rose-Ackerman 1982), public relations (Waters 2009), marketing (Sargeant, Jay & Lee 2006) and management (Kistruck 2013) literature all contain some fundraising studies, however those writings tend to treat fundraising as a group of activities, rather like promotions, with a particular focus on philanthropy and donations (Hanson 1997).

2.9. Fundraising and the terms collections, or appeal for support (often used in statutes) are defined in state and territory legislation and are discussed in their own chapter below (Chapter 5), but the common law has not settled on a single definition of fundraising. The case of *Oxford Group v IRC* [1949] 2 All ER 537 is cited as authority for the proposition that fundraising itself is not a charitable activity. Legal scholar, Peter Luxton (1990) makes the following points from an Anglo-American perspective:

> Fund-raising for charity is not itself a charitable purpose. However, an appeal for funds by a charity to enable it to carry on its work can accurately be described as a charitable appeal, since the purposes to which the contributions are sought, and to which they must be applied, are themselves charitable. Thus an appeal to the public to donate such things as bottle tops, old newspapers or clothes, which are not themselves to be applied directly to the charitable purpose, but which are to be sold to raise money, nevertheless constitute a charitable solicitation….

2.10. The following table illustrates some of the variability in how the term is understood:

**Table 2.1. Definitions of fundraising**

| Definition | Source |
|---|---|
| Making any "appeal for support" which contains a representation to the public purporting that the proceeds of an activity are intended to be used for a public or community purpose rather than private gain'. | Fundraising Institute Australia 2004 (see 2.17) |
| The planned and sustained effort to identify, recruit and develop the human and financial resources necessary for a nonprofit organisation to achieve its objectives. | Syd Herron Oration 1976 (Fundraising Institute Australia 2007) |
| The raising of assets and resources from various sources for the support of an organisation or a specific project. | The Association of Fundraising Professionals (AFP, 2003) |
| The act of collecting or producing money for a particular purpose, especially for a charity. | Cambridge Dictionaries Online |
| The generation of revenue for charitable purposes. | Sargeant (2010, 34) quoting Hopkins 2000 |

| Definition | Source |
|---|---|
| Fundraising activities are activities undertaken to induce potential donors to contribute money, services, materials, facilities, other assets or time. | FASB ASC Glossary (AICPA 2013, para 13.62) |
| Fundraising is the mobilization of assets and resources from a variety of sources for a particular purpose, be it an organisation, a project, or a cause. | Dictionary of Civil Society, Philanthropy and Non-profit Sector (Anheier and List 2005, 106) |
| One or more methods of funding, or providing revenue for a nonprofit group. They include soliciting donations, charging fees/dues, holding fund-raising events, such as a craft fair or pancake breakfast, deducting donations from payroll, and seeking grants or contracts. | A Dictionary of Nonprofit Terms and Concepts (Smith et al. 2006, 94) |
| Fundraising is the direct task of producing money required by an institution, association or program, generally for the purpose of meeting operating or capital needs | Fundraising School 1990 |
| Fundraising refers to the process of soliciting and gathering contributions as money or other property, usually by requesting donations from individuals or businesses | Fundraising regulation discussion paper (Treasury 2012) |
| Fundraising: Generating revenue through soliciting and gathering voluntary contributions | A Guide to Understanding the Financial Reports of NFP (CPA 2014) |

2.11. In addition, as seen in the *International Encyclopedia of Civil Society* quote above, the word development is being used more frequently as a term for fundraising, but it also encompasses other elements. Examples of the wider "development" approach include those of Seymour (1988): "development should not be taken as another word for raising money, but as a broad term for the planned promotion of understanding, participation and support [for a nonprofit cause]"; and Sprinkel Grace (1997, 16):

> fundraising is the persistent and vital function that is linked to development and philanthropy and nests with them. The three elements are interdependent. Successful fund raising is an outcome of philanthropy and development … fund raising... is the process of enabling people to act on their values.

2.12. In this tradition, Syd Herron, one of the Australian pioneers of the fundraising profession, wrote that fundraising was "the planned and sustained effort to identify, recruit and develop the human and financial resources necessary for a nonprofit organisation to achieve its objectives" (FIA 2007). His definition reflects the development approach, in which the collection of funds is seen as just one of the processes included in a broader range of development activities.

2.13. The implications of this view that fundraising activities are understood as a part of a range of development activities undertaken by charities, then these are likely to be managed as whole-

of-organisation activities that are not confined to a single department or function (Scaife et al. 2013; Brady et al. 2011; Hager et al. 2002).

2.14. It appears that the professional fundraising literature in Australia and elsewhere defines fundraising as an all-encompassing term for the process of generating goodwill for a not-for-profit organisation, in a process that includes the generation of financial resources for charitable or not-for-profit purposes.

2.15. How do you distinguish a fundraising transaction from any another transaction made by the organisation? On this analysis of definitions, the distinguishing feature is the circumstances in which the transaction took place: how it was marketed and funds solicited. We shall return to this lack of agreed definition in later chapters.

### What are the definitions used in measuring Australian fundraising?

2.16. Might it be possible to use the definitions employed when seeking to measure the size or categories fundraising across a sector or industry? A number of studies have attempted to measure Australian fundraising activity, and, in the process, have defined fundraising either implicitly or explicitly. Again, the lack of a generally accepted definition of fundraising is apparent from a review of the studies.

2.17. One of the earliest studies by McLeod (1991, 42) found that "among Australia's overseas aid agencies, there is an increasing emphasis on the tools of marketing to mobilize 'donor dollars' in what is regarded as a very competitive environment". Campaigns that had enjoyed most success were those that employed child sponsorship or program sponsorship, with nineteen agencies reporting that they use these methods. Direct mailing lists for soliciting donations and sponsorships were found to be widely used. The report indicates that the traditional methods of fundraising included social events, such as concerts, dances, balls and dinners, whilst others reported selling second-hand goods and clothing, cakes and jams, Christmas trees, wines and chocolate bars.

2.18. In research carried out in 1994 for Fundraising Institute Australia, a survey of a limited sample of charities found that a wide range of fundraising methods were in use (Lyons 1994). The survey questions reflected the range of fundraising activities conducted at the time and were not informed by detailed definitions. Although the survey included questions that mixed both marketing methods used (for example, direct mail, telemarketing and doorknocks) and the type of product being marketed (for example, major gift, special event, and lottery/art union/Calcutta), it is clear that the term fundraising was understood to encompass a wide range of both products and marketing means. Table 6 of the Report (Lyons 1994, 25) is reproduced below to illustrate the point.

**Table 2.2. Numbers of Organisations using Various Fundraising methods, Total and Average Sums Raised, Range of Sums Raised and Sum Raised by Median Organisation (from Lyons 1994)**

| Fundraising method | Number Using It | Total Raised $million | Average Sum Raised $'000 | Range in Sum Raised $ | Sum Raised by Median Organisation $'000 |
|---|---|---|---|---|---|
| Direct mail appeals | 102 | 85 | 83 | 4000-51m | 107 |
| Newspaper/magazine appeals | 47 | 4.4 | 94 | 2000-2m | 32 |
| Telemarketing/telephone appeals | 16 | 7.6 | 475 | 7000-2.1m | 135 |
| Major gift/capital appeals | 49 | 12.7 | 259 | 2000-2.8m | 100 |
| Donor Clubs | 28 | 4.3 | 154 | 2000-1.7m | 19 |
| Membership subs | 46 | 3.5 | 76 | 500-1.2m | 10 |
| Badge day/street collections | 23 | 2.5 | 109 | 700-1.0m | 11 |
| Doorknock appeals | 11 | 3.6 | 327 | 7000-1.7m | 140 |
| Special appeals in response to emergencies | 12 | 16.1 | 1342 | 5000-9.6m | 186 |
| Special events | 88 | 21.2 | 241 | 1000-5.9m | 63 |
| Sponsorship (other than association with special events) | 29 | 5.3 | 183 | 1000-1.2m | 73 |
| Cause related marketing | 8 | 0.9 | 113 | 300-871,000. | 6 |
| Opportunity shops | 16 | 11 | 688 | 14,000-5.6m | 105 |
| Other merchandising | 44 | 19 | 432 | 500-7m | 29 |
| Lottery/art union/calcutta | 38 | 14.5 | 382 | 1200-2.3m | 64 |
| Deferred giving (bequests, annuities, life insurance) | 84 | 50.3 | 599 | 500-6.9m | 176 |
| Unsolicited donations | 59 | 5.4 | 92 | 1000-488,000. | 36 |
| Payroll deductions | 24 | 0.9 | 38 | 1000-245,000. | 6 |
| Other fundraising methods | 34 | 10 | 294 | 1000-3.3m | 93 |
| **TOTAL** | | **278.2** | | | |

2.19. In concluding, Lyons pointed to the contradictory data collected in the survey as highlighting the need for FIA as the professional fundraising body in Australia to develop a lexicon of fundraising methods and establish fundraising accounting standards (Lyons 1994, 37).

2.20. The Industry Commission Inquiry, Charitable Organisations in Australia (1995), was the first Commonwealth inquiry about charities ranging across a broad range of issues. In relation to fundraising accounting it stated (Industry Commission 1995, 221):

> Because no public authority imposes uniform standards of financial reporting on CSWOs,[8] there is a lack of statistical data on the sector. Comparable data is therefore difficult to obtain. Previous studies of the sector have adopted different classification systems or defined the sector differently.
>
> Many organisations are involved in a wide range of fundraising activities such as doorknocking, television appeals for donations, raffles, fetes, charity dinners and other functions, child sponsorship, direct mail appeals, bequests and grants from charitable trusts. ….
>
> No consolidated information is available on the extent of fundraising and donations from the public to the sector. Registers of charitable organisations and studies of donations and fundraising cannot be relied on for currency or completeness and do not allow the easy separation of CSWOs from other services.

2.21. In 2004, Fundraising Institute Australia (FIA), the professional association representing the more than 1500 persons in Australia "for whom fundraising practice provides a substantial portion of their regular income" conducted research among its members as a part of the development of the FIA Code of Professional Conduct and found that:

> Fundraising by not-for-profit organisations can be defined as "making any 'appeal for support' which contains a representation to the public purporting that the proceeds of any activity are intended to be used for a public or community purpose rather than for private gain". In this way activities that generate donations will be captured as fundraising, as will trading activities and "gambling activities, including lotteries and bingo". (Fundraising Institute Australia 2004, 2)

2.22. That definition reflects elements of the regulatory definitions of fundraising in several states as will be demonstrated in Chapter 5 .

2.23. The FIA Report lists the following fundraising techniques and activities which generate fundraising revenues (Fundraising Institute Australia 2004, 2):

- Donations of money or goods in kind;
- Running special events;

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[8] CSWO is Community Social Welfare Organisation.

- Organising sponsorships;
- Bequests;
- Grants from foundations, trusts and governments;
- Workplace payroll giving programs;
- Lotteries and raffles;
- Memorial gifts;
- Membership fees;
- Direct marketing;
- Capital campaigns;
- Cause related marketing;
- Telemarketing;
- Face-to-face appeals;
- Road-side collections;
- Door knock appeals;
- Online donations;
- Mail campaigns;
- Proceeds from the sale of goods.

2.24. The terms used in this research were in common use at the time of the survey and, although not informed by any formal definitions, reflect the influence of the NSW regulatory environment.

2.25. Among the more recent Australian studies is the "Giving Australia" study commissioned by the Prime Minister's Department (Australian Department of Families, Community Services and Indigenous Affairs 2006). Whilst the research focused almost entirely on donations and giving, it also found that:

> One aspect of this was that fundraising was not well understood within many nonprofits. For example, nonprofits differed in whether they regarded attracting donations of second hand goods for sale in shops as fundraising or not. It wasn't unusual for activities that would be classified as fundraising in one organisation to be treated as a commercial activity in another. (Australian Department of Families, Community Services and Indigenous Affairs 2006, 84)

2.26. That project also surveyed 987 not-for-profit organisations and found that 81% of the organisations that responded (the response rate was 25.5%) conducted some form of fundraising activity. The definition was self-determined and the following were rated by respondents as their key fundraising activities (Australian Department of Families, Housing, Community Services and Indigenous Affairs 2005 Draft, 41):

- Special events (16%);
- Direct mail (10%);
- Bequests (9%);

- Foundations grants (8%);
- Pledge/planned giving (6%);
- Major gifts (6%);
- Membership fees (6%);
- Corporate sponsorship (5%);
- Sale of goods (5%);
- Gala events (5%);
- Raffles (4%);
- Corporate gifts (3%).

2.27. In 2010, the Productivity Commission published its Research Report on not-for-profit organisations. Based on data from the Australian Bureau of Statistics, it found that in 2006–07, philanthropy revenue for economically significant nonprofit organisations amounted to $7.2 billion (Productivity Commission 2010, 72), represented by:

- Donations from philanthropic trusts/foundations – $0.3 billion
- Donations from business/organisations – $0.6 billion
- Sponsorships – $1.1 billion
- Donations from individuals – $1.0 billion
- Other fundraising – $1.0 billion

2.28. The ABS classification scheme for the purposes of the national accounts is examined further in chapter 3.

2.29. Several firms of fundraising consultants have published the results of surveys and voluntary benchmarking initiatives in Australia. For example, O'Keefe & Partners conduct annual surveys of an unspecified number of charity CEOs and fundraising managers, providing an insight into the way the term fundraising is used in the field. The 2012 survey produced the following list of fundraising activities by survey respondents:

- (Donor) Acquisition;
- Bequests;
- Cause Related Marketing;
- Capital Campaigns;
- Corporate Sponsorship;
- Direct Mail;
- Individual Giving;
- Endowment Programs;
- Emergency/Disaster Appeals;
- Face to Face Selling (On the Street);
- Major Gifts;
- Membership Programs;

- Online Giving/Campaigns;
- Pledge and Loyalty Programs;
- Payroll Giving;
- Raffles/Art Unions;
- Special Events;
- Service Clubs;
- Telemarketing;
- Trusts and Foundations.

2.30. In 2012, Pareto Fundraising obtained the cooperation of 70 charities in Australia and New Zealand in order to analyse (depersonalised) data on donor behaviour, and found that direct mail fundraising remained the most successful channel for the solicitation of donations. Attempts to collect data on other forms of fundraising, such as lotteries, special events, corporate sponsorship, etc. had been less successful due to a lack of a common approach to recording data on these forms of fundraising. (Personal communication with Sean Triner, Senior Manager at Pareto Fundraising.)

2.31. Findings from research conducted in 2013 on the role of charity boards, survey and interview data illustrated the width of understanding of fundraising among charity CEOs and fundraisers. Responses to the question "how do you define fundraising?" varied from a strictly financial perspective: "the process of acquiring funds to enable the organisation to fulfil its mission", to a broad marketing perspective, expressed as: "relationship building with the community so that they engage with our mission and work". The research (Scaife et al. 2013, 18) found three broad groups of responses can be identified:

- Those that saw fundraising as a system or process, e.g. Developing programs and initiatives designed to deliver sufficient funding to meet the operational goals and objectives of the organisation.
- Those that defined fundraising without including money or finance in their definition, e.g. telling the story of your cause and inspiring people to give. Inviting the community to be a part of a solution by investing in the cause.
- Those that characterised fundraising by what it was not i.e. earned revenue or Government funding, e.g. ...an "add on" to existing government funding. Fundraising enables us to do the extras that can't be budgeted with funding provided for service provision.

2.32. This review can come to no other conclusion other than there is no accepted definition of fundraising for research purposes and there do not appear to be any underlying principles that have been used to define or create a typology of fundraising activities.

### What are the definitions used in measuring fundraising outside Australia?

2.33. There is an extensive literature on giving in the UK, but few surveys or statistical analyses on the wider range of fundraising activities of not-for-profit organisations beyond gifts, bequests and grants from philanthropic trusts and foundations (Sargeant, personal correspondence).

2.34. One of the few sources on other forms of fundraising is the Centre for InterFirm Comparison (CIFC). Subscribers to the Fundratios service are provided with data which compare the fundraising performance of other subscribing charities in a number of fundraising activities with the aim of "helping all charities…to fundraise more effectively by producing a comprehensive analysis of all aspects of fundraising".

2.35. Fundratios results (2009) provide an analysis of the sources of voluntary income under the following headings. They also compare fundraising expenses under these headings, and add Major donor programmes, and Competitions/lotteries:

- Special events
- Corporate
- Committed giving/membership
- Local fundraising
- Trusts
- Legacies and Direct mail appeals

2.36. Based on a survey of 3000 people in the UK during 2011–12, the Charities Aid Foundation in association with National Council of Voluntary Organisations (NCVO), found that the preferred methods of giving were:

- Cash donation (50%)
- Direct debit donation (31%)
- Buying goods (25%)
- Buying raffle tickets (22%)

2.37. The NCVO's UK Civil Society Almanac (2013) reports on voluntary sector income using sources of income by type of income framework. It uses four broad categories of income sources – Voluntary; Earned – Charitable activities; Earned – Fundraising activities; and Investment. This scheme provides a framework that separates sources that are likely to be regarded in Australia as sources of fundraising into two broad categories: Voluntary income which comprises fundraising gifts; and Earned – Fundraising, which comprises fundraising sales.

2.38. In the UK, the Charity Commission of England and Wales has developed a separate standard for charity financial reporting known as the Statement of Recommended Practice (SORP). This is examined in detail in chapter 7. It contains detailed guidance on the disclosure of fundraising income and expenses and is currently under review. Charities registered with the Commission must lodge a series of reports and returns. In the case of larger charities, this is in addition to lodging copies of their audited annual financial statements. The recommended format for the

financial statements provides a combined "by activity" and "by fund" accounting framework that is different from the standard format under internationally recommended accounting standards.

2.39. In the Statement of Financial Activities (including Income and Expenses Account) template published by the Commission, subheadings "Voluntary income" and "Activities for generating funds" are used and no mention of the term fundraising appears under Incoming resources. Under the heading, "Costs of generating funds" are listed "Costs of generating voluntary income" and "Fundraising trading: costs of goods sold and other costs". These lines of account are then displayed with fund-accounting columns headed Unrestricted Funds, Restricted Funds, and Total Funds. SORP uses the term "activities for generating funds" rather than fundraising and recommends disclosure of donations and grants, and trading income under that heading.

2.40. In the US and Canada, the development of sector specific tax returns, such as the Form 990 and Form T3010, that mandate detailed financial disclosures of fundraising activities, have shaped the way in which fundraising activity is represented in the financial statements of charities in those countries. Scholarly studies of fundraising activity usually draw upon these data sources and hence take the tax definitions.

2.41. In the US, the formal accounting definition is found in the Financial Accounting Standards Board Statement of Financial Accounting Standards No 117 (FASB 1993, para 28) [emphasis added]:

> Supporting activities are all activities of a not-for-profit organisation other than program services. Generally, they include management and general, fund-raising, and membership-development activities. Management and general activities include oversight, business management, general recordkeeping, budgeting, financing, and related administrative activities, and all management and administration except for direct conduct of program services or fund-raising activities. **Fund-raising activities include publicizing and conducting fund-raising campaigns; maintaining donor mailing lists; conducting special fund-raising events; preparing and distributing fund-raising manuals, instructions, and other materials; and conducting other activities involved with soliciting contributions from individuals, foundations, government agencies, and others.** Membership-development activities include soliciting for prospective members and membership dues, membership relations, and similar activities [These are not fundraising].

2.42. The tax definition used in IRS Form 990[9] follows this closely:

> Fundraising expenses are the expenses incurred in soliciting cash and noncash contributions, gifts, and grants. Report as fundraising expenses all expenses, including allocable overhead costs, incurred in: (a) publicizing and conducting fundraising

[9] IRS Form 990, Part IX, Column (D)—Fundraising, http://www.irs.gov/instructions/i990/ch02.html#d0e9335.

campaigns and (b) soliciting bequests and grants from individuals, foundations, other organisations, or governmental units that are reported on Part VIII, line 1. This includes expenses incurred in participating in federated fundraising campaigns; preparing and distributing fundraising manuals, instructions, and other materials; and preparing to solicit or receive contributions. Report direct expenses of fundraising events in Part VIII, line 8b, rather than in Part IX, column (D). However, report indirect expenses of fundraising events, such as certain advertising expenses, in Part IX, column (D) rather than in Part VIII, line 8b.

2.43. These American definitions are described in detail in chapter 7. It will be seen from that chapter that despite increasingly detailed instructions on the definitions of the line items in these tax forms, there is evidence of significant discretion in application of the guidance (Keating et al. 2008). There is also considerable doubt on the reliability, and therefore usefulness, of the data collected (discussed below at paragraph 2.53).

2.44. Another point to note is that Australia does not have an unrelated business income tax regime, such as that in the US, or separation of ancillary trading as occurs in the UK. The definitions of such activities take them out of the ordinary and technical definition of fundraising in jurisdictions where such provisions operate. For example, in the UK, recycling outlets (i.e. Op shops) to raise funds for charity are usually operated by a separate subsidiary entity of the charity, with its own accounts, management and governance arrangements, and any surplus is passed back to the charity. In Australia, the charity would control the Op shop directly, and such trading is regarded as fundraising for most purposes.

2.45. Although data sources are more advanced outside Australia, the definitions of fundraising are influenced by regulatory drivers, with significant discretion available in their application. This results in their not being consistently adhered to by respondents (Crawford et al. 2014, 31; Hooper et al. 2008).

### What can be learned from the literature about the terms used to quantify fundraising?

2.46. A review of the Australian fundraising quantum surveys indicates that the term fundraising has been used without an agreed set of definitions to describe the concept itself or the various fundraising methods or activities. The lack of a common definition or typology of fundraising activities has meant that there is no comprehensive or reliable estimate of the contribution made by fundraising in Australia. It has been user- or inquirer-defined, without any articulated common theoretical basis or in many cases without any theoretical basis.

2.47. We note at this stage three issues about the term fundraising, gleaned from the literature, and will return to these in later chapters:

a) Fundraising is a widely used term in the community and is likely to be understood as loosely associated with gathering support for and raising money for charitable and not-for-profit organisations or causes.

b) There is no accepted definition used widely by scholars.

c) In most cases, both in Australia and overseas, the nature of the transaction (for example, donations and sales) and the marketing means by which such transactions are secured (for example, tele-marketing, door knock and direct mail) are used in descriptions of fundraising. As a consequence, it may not be clear whether the revenues generated should be classed according to the nature of the transaction or according to means of the marketing. For example, should the transactions occurring at a special charity event (e.g. ticket sales, raffles, sponsorships, proceeds from an auction and donations) be disclosed under fundraising, under special events (i.e. means of marketing), or under sales, sales of goods or gifts (i.e. nature of the transaction).

### Are overhead and fundraising ratios fit for purpose?

2.48. In the US, the rise of charity rating agencies for donors and funders accelerated after the creation of internet databases using digitised data from the IRS, the US tax agency. For little or no charge, donors can search for a charity and find its rating, including its overhead and fundraising ratio. The general public's view is that such overhead ratios provided a simple, low cost touchstone for donation decision making and the charity ratings agencies provided a service to fill the need. But there is an "about face" story behind this development and the role of research.

2.49. There are many accounting ratios applied to the nonprofit sector, but the overhead or efficiency ratios are:

- Administration Expense Ratio: Total Administration Expense (includes Interest)/Total Expenses;
- Program Expense Ratio: Program Expense/Total Expenses;
- Fundraising Expense Ratio: Fundraising Expense/Total Expenses; and
- Cost of Fundraising Ratio: Fundraising Expense/Total Fundraising Revenue (Ryan and Irvine 2012).

2.50. The ratios used differ between industries or subsectors, as they do between organisations, e.g. depending on age, size, location, strategy and other factors. Regulators and charity rating agencies have changed their views over time on what are appropriate upper and lower limits for such ratios. In the US, for many years a commonly accepted ratio boundary was that no more than 35% should be spent on administration and no more than 25% to 50% of contributions on fundraising.[10]

2.51. In 2007, *Business Week* inducted Charity Navigator, a leading charity rating agency into the Philanthropy Hall of Fame for "revolutionizing the process of giving". Charity Navigator was also

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[10] Refer to Nonprofit Overhead Cost Project – Brief No. 5 "The Pros and Cons of Financial Efficiency Standards 2004", http://nccsdataweb.urban.org/kbfiles/521/brief%205.pdf.

singled out in 2006, 2007 and 2008 by Kiplinger's Financial Magazine as "One of the Best Services to Make Life Easier" and Esquire Magazine claimed that the service was one of "41 Ways to Save the World" (Szper, 2013).

2.52. However, by 2013 the three largest US charity rating agencies including Charity Navigator had collaborated to pen an open letter to charity donors to address the misconception they labelled as "The Overhead Myth" (Guidestar, 2013). (The letter is reproduced in Appendix B) It was bolstered by a coordinated social media campaign triggered by a TED talk (Pallotta 2013) which has been viewed 2.8 million times.

2.53. The letter's message was blunt and unmistakeable:

> The percent of charity expenses that go to administrative and fundraising costs—commonly referred to as "overhead"—is a poor measure of a charity's performance. …. At the extremes the overhead ratio can offer insight: it can be a valid data point for rooting out fraud and poor financial management. In most cases, however, focusing on overhead without considering other critical dimensions of a charity's financial and organisationalal performance can do more damage than good. In fact, many charities should spend more on overhead.

2.54. The writers referenced their strong views with evidence-based research over several decades. They drew from the research that:

- the overhead ratio was an imprecise and inaccurate measure;
- donors believed that charities spend more than they should on overheads and prioritise it over demonstrated success; and
- there was evidence that investments in overheads facilitate better not-for-profit performance and that underinvestment had a significant number of unhelpful consequences (Guidestar 2013, 2).

2.55. The research indicates that, used in isolation, the overhead ratios have limited explanatory power and are usually misleading. The overhead ratios are not measures of efficiency, but input based measures. There is no connection between the amount of resources spent and the quantity and quality of services produced by the charity. Further, the ratios produced for external benchmarking use different definitions, subject to significant managerial discretion and generally do not account for critical differences such as age, nature of the cause and fundraising methods employed (Yetman & Yetman 2013; Tinkelman 2009; Lee 2003; Sargeant et al. 2008; Hager 2003; Connolly et al. 2013; Calabrese 2011; Van Staden & Heslop 2009; Cnaan et al. 2011; Tinkelman & Mankaney 2007; Connolly & Hyndman 2013; Glassman & Spahn 2012; Keating et al. 2008).

2.56. The William and Flora Hewlett Foundation announced in April 2014 that they would end an eight year, $US12 Million "Nonprofit Marketplace Initiative" to improve donor decision making (Louie & Twersky 2014). It had wanted the research and ratings produced by its grantees

(Charity Navigator, GiveWell and Guidestar) to inform at least 10% of the $200 billion individuals give annually (Donovan 2014).

> However, extensive donor-segmentation research completed in 2010 called Money for Good suggests that only three percent of individual donors compare information about *relative* performance when deciding which organisation to support. The majority of donors make giving decisions based on things like loyalty, personal connections, and faith-based commitments. Further, the quality, reliability and volume of nonprofit performance data provided through various platforms are all quite variable, and thus its usefulness to donors is questionable. An independent, third-party evaluation of this strategy in 2012 revealed that our grants have not made much of a dent in these patterns. Rather than try to "fix" this strategy, we are winding it down responsibly.

2.57. The Money For Good Report I (Hope Consulting 2010, 9) found in regard to donors:

> A. While donors say they care about nonprofit performance, very few actively donate to the highest performing nonprofits.
> B. Changing this behavior will be difficult given donors' varied motivations for giving, their loyalty to the nonprofits to which they give, and the fact that they believe that nonprofits perform well.

2.58. Further, "Only 35% ever do research, … of those, 75% spend [less than] 2 hours researching … and they are looking for simple facts and figures" (Hope Consulting 2010, 19).

2.59. This is in no way to disparage use of such ratios internally for management purposes of organisations. Problems emerge when external benchmarking requires a common agreement on definitions of what is fundraising income, what are expenses and particular joint allocation of expenses and comparison of like organisations as (type of cause, age of organisation, fundraising method and a host of other characteristics influence the ratios).

2.60. In comparison to overseas jurisdictions, there are few empirical studies of these issues in Australia, probably due to the relatively immature stage of research development and lack of an accessible data set provided by presence of an external regulator.

2.61. A New Zealand study consisting of eight in depth interviews with charities and accounting experts identified the issues of ambiguity of fundraising expenses generally and specifically the allocation of costs and an appropriate benchmark (Hooper et al. 2008, 75).

2.62. A recent survey of Australian charity CFOs found they generally believed that transfer of financial information to stakeholders would build a positive reputation that would attract greater funding (Dellaportas et al. 2012, 248). However, the CFOs ranked program accountability (89.1%) ahead of fiscal accountability (72.8%) (Dellaportas et al. 2012, 247). This appears to fly in the face of actual behaviour, based on an earlier review showing disclosure of fundraising costs in charity annual reports declined from 59% in 2001 to 40% in 2004 (Givewell 2005).

2.63. In another Australian study, a representative sample of 2,500 individuals were polled in 2013 about the fundraising costs of charities (Martin 2013). The research found that:

- 84% say how much goes to the cause is an important factor when choosing to support charities, but they rank it fourth behind the cause they address, knowing what the charity does and that it will have a tangible impact;
- 4% claimed to know what overheads actually were in relation to their giving;
- on average the members of the public think 55 cents in the dollar goes to the cause, but on average the public think 88 cents in the dollar should do so (Martin 2013, 1)

2.64. However, when some questions were reframed, the following results were obtained (Martin 2013, 10) for the percentage of respondents who "agree or strongly agree" with the statements:

- The amount a charity spends on admin is a good indicator of how effective they are (27%);
- Charities should invest more in fundraising so they can raise more money to help more people (28%);
- Using my donation for fundraising multiplies my donation (21%);
- Administration allows charities to run more efficiently (43%).

2.65. The report suggests that the challenge for charities is to explain to the public "why investing in fundraising is important and helps not-for-profits to achieve the very outcomes people support with their donations" (Martin 2013, 10). This study indicates that the Australian public share similar attitudes, beliefs and behaviours to those in Canada, the US and the UK where more studies on these issues have been conducted.

### What does the literature reveal about the impact of overhead cost disclosure on the behaviours of donors?

2.66. Charity rating agencies assume that their charity ratings will constitute a key input in shaping donors' evaluation of not-for-profits. Regulators who use policy tools to make charities disclose financial information for public inspection and from which league tables can be constructed, share the same assumption. Do donors use this information in their giving considerations? Clearly the research indicates that the public regards the overhead ratios as important, but do they actually act upon them in their donation decision making process?

2.67. There has been considerable interest by scholars about the motivations for giving and the decision making process involved. The assumption that it is an economically rational transaction, driven by price, quality and supply appears to be an overly simplistic view.

2.68. Over 500 articles are analysed by Bekkers and Weipking (2011) who identified eight primary drivers of giving: awareness of need; solicitation; costs and benefits (including tax incentives); altruism; reputation; psychological benefits; values; and efficacy. (refer Box 2.1).

**Box 2.1**

**Drivers of Giving**

*Awareness of need* — needs can be physical, emotional or other intangible needs. This is a subjective rather than an objective assessment by the giver, influenced by knowledge of the beneficiary, past experiences of people in need, and how the beneficiary is presented by the organisation.

*Solicitation* — several studies report around 85 per cent of gifts follow solicitation. But evidence suggests that value of gifts declines with the level of solicitation.

*Costs and benefits* — tax deductibility of gifts encourages giving, although the size of the effect is uncertain. For example, a recent US study estimated a persistent price effect of between -0.79 and -1.26, that is a 1 per cent rise in deduction (fall in the price of giving) results in between a 0.79 and 1.26 per cent rise in the amount given. Employer matching of gifts also has a strong inducement effect. Some studies find links between giving and direct benefits from recipient organisations but it appears they do not increase giving, unless they enhance the giver's self image.

*Altruism* — is motivated by the public benefits achieved by the gift. Pure altruism implies that government funding (or funding from other donors) should 'crowd out' private giving. The evidence on crowding out is mixed, but is not dollar for dollar, and some studies report 'crowding in'. The conclusion drawn is that private benefits or selective incentives dominate altruistic motives.

*Reputation* — positive social consequences from giving arise where the gift is seen as a good thing to do (addresses needs of deserving people effectively). Not giving can damage a person's reputation where it is announced in public or directly observed. Surveys find that donations are strongly linked to social pressures.

*Psychological benefits* — helping others has been found to give the helper a positive psychological benefit (emphatic joy or 'warm glow'). Giving may alleviate guilt, generate good feelings for acting according to a social norm, or in line with a specific, especially altruistic, self-image. Positive moods can promote giving, although when motivated by guilt a negative mood can be associated with giving.

*Values* — surveys have found that people who have altruistic or pro-social values, are less materialistic, endorse post materialistic goals in politics, value being devout or spiritual, endorse a moral principle of care, care about social order, consensus and social justice in society, feel socially responsible for the recipient organisation or society generally are more likely to give. Bekkers and Wiepking argue that supporting a cause that moves the world in a direction desired by the giver is an underappreciated driver of giving.

*Efficacy* — experiments have found a strong link between giving and the perceived outcomes achieved with the gift. People follow leaders, 'experts' and other donors as signals to assess efficacy. Perceptions of waste (such as flashy solicitation material) have a negative effect on giving.

Source: Bekkers & Weipking 2011.

2.69. Their specific analysis in relation to overhead and fundraising costs (Bekkers & Weipking 2009, 28–29) was that:

Perceptions of efficacy are related to charitable confidence and perceptions of overhead and fundraising costs. Donors who have more confidence in charitable organisations think their contributions are less likely to be spent on fundraising costs and overhead (Bekkers, 2006b; Sargeant, Ford, & West, 2006). Such beliefs about the efficacy of charitable organisations are likely to promote giving (Yavas, Riecken, & Parameswaran, 1981; Schlegelmilch, Diamantopoulos, & Love, 1997; Keyt, Yavas, & Riecken, 2002; Schervish & Havens, 2002; Bennett, 2003; Bennett & Gabriel, 2003; Parsons, 2003; Bekkers, 2006b; Bowman, 2006; Sargeant, Ford, & West, 2006). Survey studies by Sargeant and colleagues reveal that the relationship of confidence with giving is mediated by relationship commitment (Sargeant & Lee 2004; Sargeant, Ford, & West, 2006).

2.70. We take from the published research that the public generally, and most donors in particular, hold the strong belief that lower expenses on overhead costs such as fundraising and administration, indicates a better charity. This belief prevails, despite the evidence that these measures in isolation are of little utility in the giving decision process. However strong and entrenched this belief is, it is not a significant driver in the decision to donate. Other factors, particularly with smaller donations, predominate in a donor's reasoning. It is clear that even if the information is freely available, the cost of ascertaining fundraising overhead costs is sufficient to lead donors to overlook such matters, given their perception of the low risks involved.

2.71. Specific research involving watchdog ratings and donor behaviour has gradually become more sophisticated. Silvergeid (2003) examined American Institute of Philanthropy (AIP) ratings and could not find any link, but Chhaochharia and Ghosh (2008) found that contributions to the charities with the lowest ratings are 16% less than to those with the highest rating in AIP data. Tinkelman and Mankaney (2007) found a negative correlation between administrative cost ratios and donations. In a study of "pass/do not pass" ranking by New York's Better Business Bureau (BBB), Sloan (2008) reported that "pass" ratings increase donations, but a "do not pass" rating or the lack of a rating appeared not to affect donations. It appeared that ratings agencies may affect donors' behaviour, but only in a positive direction.

2.72. Further comprehensive studies using improved methodologies are now revealing more consistent findings. Szper and Prakash (2010) tested the relationship between US charity ratings and donations in relation to the Charity Navigator Internet database. They used a two year lag between changes in ratings and changes in contributions to overcome the lag in reporting. They examined all changes, not just the highest and lowest rated charities and then interviewed staff from selected organisations.

2.73. They found that changes in charity ratings tend not to affect donor support. Their interviews with rated charity organisations demonstrated a consensus that "Charity Navigator ratings are too simplistic" (Szper & Prakash 2010, 131). Further, the charity executives believed that:

> community members who support their organisations have a more nuanced understanding of their work than the Charity Navigator ratings are able to convey. In other words, information asymmetries between donors and nonprofits are not as severe as the academic literature suggests. Nonprofits put significantly more emphasis on goodwill and reputation in the community than they do on online ratings. As a result, for them it is not surprising that ratings do not impact donor contributions or primary revenue. (Szper & Prakash, 132)

2.74. In another study, Cnaan et al (2011) surveyed American donors and found that over three quarters did not use any watchdog ratings before making a decision to donate. For those who used the internet, the most commonly used source was the charity's website (Cnaan et al., 392). They proposed a number of explanations for donors not taking heed of watchdog agencies:

- Those making smaller donations do not believe conducting the rating agency check is worth the cost;
- Donating is an activity where trust overrides scrutiny behaviours common in other purchase transactions;
- Many donors are already trusting of a specific organisation and do not need a third party analysis;
- Donors are purchasing a "warm inner glow" and this does not require third party analysis; and
- Donors may be unaware of the existence of watch dog bodies (Cnaan et al., 392)

2.75. The researchers' analysis found that the higher the donation, the more likely a charity rating service would be consulted. They also found that those who were "activists" or "policy advocates" (not just volunteers) were more likely to use the agencies (Cnaan et al. 2011, 393–4). They conclude by remarking that the role of charity rating agencies may have been overstated and that:

> Their rating systems have not yet reached a requisite level of universal acceptance, and many donors are either unaware of their existence or do not care enough to use them. At present, only donors who give large sums of money and those engaged in advocacy use the ratings systematically (Cnaan et al., 394).

2.76. In summary, for all but major donors, financial ratings of charities are not a consideration in the donation decision making process. Donors have other considerations that drive their behaviours. This is so, even when technology makes the information readily accessible and therefore relatively costless – even minimal search costs are too high, given the perceived low risks involved.

2.77. If a significant proportion of donors do not use or take note of charity ratings agencies, then charity donations may not be impacted until the public changes its behaviour to mirror its belief

about overhead expenses. Some might argue that the willingness of donors to change their giving decision behaviour is a matter to be addressed by further consumer education.

2.78. Research which eventually drove the three largest US charity rating agencies to the extraordinary public letter and media campaign referred to above should not be ignored.

### What does the literature find about the impact of charity ratings on the behaviours of nonprofit organisations?

2.79. Scholars have examined not only the impact of overhead cost charity ratings on donors and funders, but also on charities themselves. How does wide disclosure of overhead ratios affect the behavior of charities?

2.80. The literature on this issue reveals two distinct impacts. First, charities push the boundaries of the financial statement definitions to ensure a favourable financial statement in relation to overhead ratios. There is evidence that some move beyond exercising their discretion for categorization and allocation of costs. Second, there is evidence that charities actually alter their behaviour to their detriment in order to fit the preconceived notions about acceptable overhead costs even when it is diametrically opposed to maximizing resources for their mission.

2.81. There are numerous studies that chronicle the boundary pushing by charities and probable deception in response to undue emphasis on overhead ratios in the production of their financial statements. For some UK charities, the allocation of joint costs has been found to be "entirely arbitrary" (Sargeant et al. 2009, 235) and in another study the differences between reported and genuine ratios were up to 30%, merely on the basis of differing allocation policies (Sargeant & Jay 2004). In the US, similar behaviours have been recorded in relation to gaming allocation of costs (Tinkelman 1998; Gordon et al. 1999; Trussel 2003; Jones & Roberts 2006; Krishnan et al. 2006; Keating et al. 2008). In one study, 13% of operating public charities in the US reported spending nothing for management and general expenses and 37% with private contributions of more than $50,000 reported no fundraising or special event costs (Bridgespan 2008). In Canada, one study found "only 27% of charities report fundraising costs despite the fact that 84% report receiving dollars from tax-receipted gifts or fundraising revenues" (Ayer, Hall & Voderek 2009, i)

2.82. After reviewing the international literature about accounting standards, Crawford et al. (2014, 31) stated that:

> The cost of fundraising, an issue of international NPO sector concern, is therefore unable to be calculated effectively and "it is difficult for donors to know just how much of their donations are being spent on charitable purposes" (Dellaportas, Langton, & West, 2012, p. 239). Variability of standards allows "window dressing practices" (Torres & Pina, 2003) as confirmed by Connolly et al. (2013) who found that, when the guidance on these ratios changes (as they did in the Charities SORP), NPOs "gamed" the standards by re-coding expenses against non-overhead items in order to show that more funds are being spent on charitable purpose.

2.83. Szper (2012) conducted research on how charity ratings impact on the financial data prepared by US not-for-profits for their tax returns (Form 990), which the charity rating agencies use to prepare their financial analysis. Szper examined reporting trends in the Form 990 over a range of years. The Form 990 allows considerable discretion in how financial information is reported without any substantial change to the activities of organisations, resulting in a better ratings score. Allocation of costs between fundraising or administration and project costs can be engineered by, for example, greater attention to recording of staff time and classification of external publications and advertising. The study followed up this analysis with interviews of not-for-profit executives about their reporting in Form 990. The study clearly found that organisations were altering their financial information within the discretionary bounds to achieve a better rating.

2.84. It also found that this behaviour was occurring even though not-for-profit executives believed that ratings did not influence the majority of donors' decisions to donate.

2.85. In the UK, a recent study by Connolly et al (2013) is instructive. It examined large UK charities' financial statements over several years, spanning a change in accounting standards with regard to overhead allocations and reporting. In 2005, SORP addressed costs being allocated on an arbitrary and largely unexplained basis and established an activity-based costing framework for raising funds, charitable activity, and governance functions. Further, a note was required to explain the procedures adopted for the allocation of costs between activities and any estimation techniques used (Connolly et al., 793).

2.86. The study found that of the top 180 charities, 26 did not provide any information at all about the level and allocation of the mandated costs and no auditor drew attention to this noncompliance. Over 80% of charities failed to provide an adequate note explaining the procedures for allocating costs and estimations. Further, of those that did report the three costs, charitable activity significantly increased over the pre-SORP financial statements, and the other two costs decreased.

**Box 2.2**

**Impact of overhead cost – Case study**

Tinkelman (2009) used the Avon Product Foundation's (APF) Breast cancer walks as a case study to examine its response to pressures for better overhead ratios. The APF was associated with the Avon cosmetic company and was an integral strategy in the firm promoting its products. APF sponsored multi-day walks, where participants were asked to raise at least $1,000 in sponsorship for breast cancer. It was one of the first, large scale, multi-day fundraising events in America, in its first decade involving over 100,000 participants and raising over $500 million. It was a very successful marketing strategy for Avon as well.

APF and its for-profit event organiser received press coverage that its event costs were too high and increased attention by charity ratings agencies which, during the case study period, were refining their guidelines about overhead costs. Prior to 2003, fundraising expensess of up to 50% of related donations were acceptable, but this was lowered to 40% and then 35% and the ratio of program to total expenses

increased to be at least 65% of total expenses. APF had fundraising ratios of 43% in some years.

The walks had a business model which required significant advertising expenses to attract large numbers of relatively small donors, which generally has higher fundraising costs than some other forms of fundraising such as bequests or major gift solicitation. However, marginal costs of handling one more small donation are low, once up-front costs are covered. Provided that significant numbers of walkers and hence donations could be attracted, the overall amount raised was significant.

Before the press attention and tightening of charity rating agency criteria, APF's accounting for events was highly transparent:

> [APF] showed total gross receipts from special events, total costs of special events, and net proceeds from the events in the revenue and support section of its statements of activities. A footnote in 2001 listed the gross proceeds and total costs for each event. No event costs were allocated to programs or management and general expenses. (Tinkelmann 2009, p. 488)

APF changed its financial statements after criticism to show event expenses as a single line in the statement of functional expenses, and costs and expenses by event were not disclosed. None of the financial statements in later years discussed the joint cost allocation method. However, APF gradually improved its performance according to the rating agency metrics with its new approach to financial reporting. Tinkelmann concluded that "only aggressive and questionable allocation of event costs to program allows Avon (APF) to claim it meets or exceeds applicable BBB standards" (p. 491). Much of this was the classification of the significant advertising needed to involve large numbers of walkers/donors as either fundraising costs or education/promotion of breast cancer awareness.

It also changed parts of its business model, e.g. by reducing its walks from three days to two, reducing the number of events, and making walkers use one tent site for the whole event. Reducing the number of events decreased expenses, but also decreased total dollars raised. In the first year gross receipts fell by over 80%, with lower numbers of walkers involved; and in later years about half of the gross amount was raised compared to years before the changes. One estimate was that, for the two years, up to $157 million was forgone by not continuing with the business model and plans for expansion (Tinkelman, 2009 p. 492)

2.87. Not only do charities respond by paying attention to what is expected in their financial statements, but it is suggested that they also alter their behaviours in relation to operational matters which can impact upon overhead ratios. It has become popularly known as "the starvation cycle". Not-for-profit organisations enter a negative cycle, of concern with funders' perceptions of their overhead costs, which leads them to cut costs, to compete with others for funding dollars on the basis of unrealistic overheads, further driving down costs at the expense of investment in infrastructure and capacity.

2.88. A recent paper on the topic described it as (Lecy & Searing 2014, 5):

> The true casualties in this reporting trend are the competing nonprofits. Whether the reduction of overhead expenses is actual or fabricated, this sets an expectation for donors that such numbers are actually achievable and sustainable. Like a price war, if one nonprofit in a market segment signals through their reporting that they are able to

achieve a scant 5% overhead ratio, there is a race to the bottom in order to attract those funders. This could be a beneficial thing: the early overhead cost scholar in the for-profit sector, J. Maurice Clark, described such costs as the accounting manifestations of idle capacity (1923). However, each downward step causes additional competitive pressure in the industry to decrease overhead, which causes more starvation or misleading reporting, which further reinforces the funder bias toward low overhead costs. After a potential period of efficiency gains, a threshold of overhead will be reached where a nonprofit will have a choice to make: starve your infrastructure, fudge the numbers, or take your chances that the donor won't care about your overhead costs because you've differentiated your organisation's services enough to command a premium. Since the latter option looms largest, starvation or creative accounting are often the answers, which decreases future potential as human capital and other materials necessary for organisational growth are sacrificed.

2.89. The issue was first noted in 2004 (Wing et al. 2004) and others have explored the concept based on case studies and anecdotal evidence (Gregory & Howard 2009; Pallotta 2008; Tinkelman 2009; Silloway 2010). Attempts at empirical examinations of the cycle, using US Form 990 data, are just beginning, and are not without methodological issues.

2.90. Lecy and Searing (2014) examined 25 years of US data from the Form 990 and found evidence of a general downward trend in overhead expensess. Was this due to changes in actual behaviour or adjustments in financial reporting or a combination? They found evidence that the decline was across all not-for-profit subsectors and all size groups except the very small and very large. It is an area which calls out for further empirical research to establish whether anecdotal evidence and case study findings can be confirmed in larger population samples.

2.91. It appears that the significant impact of overhead financial disclosure may not be on the behaviour of donors or funders, but by not-for-profit executives anticipating that it may have an effect on resourcing of the organisations and their behaviours. These behaviours can be reinforced and magnified by competitive pressures of a race to the bottom for overhead costs.

2.92. These behaviours are made possible by accounting definitions which allow significant discretion in the allocation of costs, and are reinforced by the lack of detection or consequences for those who stray over the boundary and provide manipulated and false accounting information (Crawford 2014, 31).

2.93. In summary, charities strive to ensure a favourable financial statement in relation to overhead ratios. There is evidence that some move beyond exercising their discretion for categorization and allocation of costs and act beyond the accepted boundaries.

2.94. Further, there is growing evidence that charities actually alter their behaviour to their detriment in order to fit the preconceived notions about acceptable overhead costs even when it is diametrically opposed to maximizing resources for their mission.

### What insights can assist us?

2.95. The professional fundraising literature in Australia and elsewhere defines fundraising as an all-encompassing term for the process of generating goodwill for a not-for-profit organisation, in a process that includes the generation of financial resources for charitable or not-for-profit purposes. It appears to coincide with the general public understanding of the term. The distinguishing feature is the circumstances in which the transaction took place: how it was marketed and funds were solicited.

2.96. There are definitions for fundraising used by regulators outside Australia, but these allow considerable discretion in their application. These are examined further in chapter 7

2.97. Perverse forces are at work in relation to overhead ratios for external consumption. As stated above, the research finds that used in isolation, the overhead ratios have very limited explanatory power and are usually misleading. They are not measures of efficiency, but input based measures. There is no connection between the amount of resources spent and the quantity and quality of services produced by the charity. At best, the ratio only identifies extremes.

2.98. However, while the general public believe that overhead ratios are measures of efficiency, paradoxically they appear to take little heed of them in their donation decision making.

2.99. Further, while knowing the limited external usefulness of such ratios, charities appear to assume a public trust in them, and respond to their own detriment with behaviours which can reduce their revenues and result in a starvation cycle.

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# Chapter 3. Australian accounting standards, the national accounts and "fundraising"

3.1 This chapter specifically considers the formal professional guidance available on the accounting treatment of fundraising revenue and expenses within the context of existing Australian Accounting Standards. It examines the standards set by the Australian Accounting Standards Board (AASB) followed by the preparers of financial statements. It also examines the treatment of fundraising within the framework of the Australian National Accounts: Non-Profit Institutions Satellite Account 2006–07 (cat. no. 5256) (Non-Profit Institutions Satellite Account). The basis of this Australian Bureau of Statistics (ABS) publication is derived from agreed UN standards for the collection of such data which in turn adopt the general IFRS framework.

3.2 However, this chapter will not address the financial reporting requirements of registered charities under the Australian Charities and Not-for-profits Commission Act (2012) (ACNC Act) and the Australian Charities and Not-for-profits Commission Regulation (2013). The reason is that the provisions of the ACNC Act override certain financial reporting provisions contained in Chapter 2M (which contains Parts 2M.1 to 2M.3) of the Corporations Act (2001). Further, for reporting periods commencing on or after 1 July 2013, medium and large charities which are companies limited by guarantee that are registered with the ACNC are required to report to the ACNC, not the Australian Securities and Investments Commission (ASIC). Accordingly, this chapter will focus exclusively on the accounting treatment of fundraising revenue and expenses in the financial statements of not-for-profit entities as covered by the AASB Accounting Standards.This not only includes those charities that are required to report to the ACNC but also other charities that may not necessarily be required to report to the ACNC. The financial reporting requirements of charities registered with the ACNC will be discussed in more detail in Chapter 4.

## How are the AASB accounting standards applicable?

3.3 In Australia, Accounting Standards are set by the Australian Accounting Standards Board (AASB), an independent body set up for that purpose. The AASB is a statutory body established under section 226 of the Australian Securities and Investments Commission Act (2001) (Cth), with the power to develop, issue and maintain Australian Accounting Standards.

3.4 In June 1991, the AASB introduced the notion of differential reporting. Essentially, this means that there are different levels of reporting requirements for different entities. The type of financial statements to be prepared depends on whether the entity is classified as:

- a reporting entity; or
- a non-reporting entity.

3.5 In August 1990, the Australian Accounting Research Foundation (AARF) released *SAC 1 Definition of the Reporting* Entity. The purpose of SAC 1 is to define and explain the concept of a reporting

entity and to establish a benchmark for the minimum reporting requirements of such entities. Paragraph 40 of SAC 1 defines a reporting entity as:

> … all entities in respect of which it is reasonable to expect the existence of users dependent on general purpose financial statements for information which will be useful to them for making and evaluating decisions about the allocation of scarce resources.

3.6 Put simply, a reporting entity is one which has many (and varied) users of its financial statements who require this report to be prepared and published so that they can make informed decisions about the entity.

3.7 The primary question to ask in determining whether an entity is a reporting entity or not is: "Who are the users of the reports?" The more users, the more likely the entity is to be a reporting entity. If those users are dependent on general purpose financial statements for information, the entity will be considered a reporting entity.

3.8 Once an entity has been identified as a reporting entity, it must prepare general purpose financial statements. In essence, general purpose financial statements (GPFSs) are ones that are prepared in accordance with all recognition, measurement and disclosure requirements contained in the AASB Accounting Standards. Those reporting entities that do not have public accountability[11] (referred to as Tier 2 entities) may elect to apply a reduced disclosure regime, whereby certain disclosure requirements do not have to be complied with. Typically, Tier 2 entities include public companies limited by guarantee (ie. not-for-profit companies), unlisted public companies, trade unions, clubs and professional associations. Tier 2 entities specifically include not-for-profit private sector entities such as public companies limited by guarantee (ie. not-for-profit companies), unlisted public companies, trade unions, clubs and professional associations.

3.9 Conversely, if an entity is regarded as a non-reporting entity, it can elect to prepare special purpose financial statements. According to ASIC Regulatory Guide 85 "Reporting Requirements for Non-Reporting Entities" issued by ASIC in July 2005, in preparing special purpose financial statements (SPFSs), non-reporting entities that are required to lodged their audited accounts with ASIC need only apply those AASB Accounting Standards which are considered necessary to present a "true and fair" view. This requirement is mirrored in Regulation 60.30 of the Australian Charities and Not-for-Profits Commission Regulation (2013), which requires non-reporting entities to comply with a minimum of six (6) AASB Accounting Standards.[12]

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[11] The term "public accountability" is defined in the Standard's Appendix A: "…an entity that has accountability to those existing and potential resource providers and others external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs".

[12] These accounting standards include: AASB 101 Presentation of Financial Statements, AASB 107 Statement of Cash Flows, AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, AASB 1031 Materiality, AASB 1048 Interpretation and Application of Standards and AASB 1054 Australian Additional Disclosures.

3.10 Recently, as part of phase 2 of its differential reporting project, the AASB commissioned a report assessing the types of financial statements (i.e. general purpose or special purpose) lodged by entities with ASIC. The purpose of this report was to facilitate a discussion as to whether there was consistency in the treatment of entities classified as non-reporting entities and the financial reporting practices of sampled entities. At its December 2012 meeting, the AASB was presented with a draft final report from the research contractors.[13]

3.11 The study found that 65% of unlisted companies limited by guarantee lodged GPFSs and 35% lodged SPFSs. Among other public companies, 70% lodged GPFSs and 30% lodged SPFSs. However, in the case of large proprietary companies, only 20% lodged GPFSs and 80% lodged SPFSs. The report concluded that the reporting entity concept is not being applied as intended.

3.12 The AASB Accounting Standards are transaction-neutral, meaning that they apply to all types of entities, including for-profit entities, not-for-profit entities and public sector entities. However, some AASB Accounting Standards contain additional paragraphs that relate to not-for-profit entities. These paragraphs are designated "Aus" in the Accounting Standards. For example, where a not-for-profit entity has been gifted an item of property, plant and equipment, paragraph Aus 15.1 of AASB 116 Property, Plant and Equipment specifically provides that:

> Notwithstanding paragraph 15, in respect of not-for-profit entities, where an asset is acquired at no cost, or for a nominal cost, the cost is its fair value as at the date of acquisition.

## How do accounting standards deal with revenue derived by not-for-profits?

3.13 This section will specifically consider the accounting treatment of various types of income derived by not-for-profits under Australian Accounting Standards. To do so, reference will be made to the disclosure of the various types of revenue reported by the ABS in the Non-Profit Institutions Satellite Account 2006–07.

3.14 The ABS has regard to International Financial Reporting Standards (IFRS) in presenting their financial data. Box 3.1 reproduces Table 7 of the Non-Profit Institutions Satellite Account which will be used to illustrate the accounting treatment of the various types of income derived by not-for-profit entities.

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[13] A copy of the AASB Agenda paper dated 20–21 February 2013, summarising the researcher's findings can be downloaded at: http://www.aasb.gov.au/admin/file/content102/c3/M129_9.2_Possible_policy_implications_of_research_into_accounting_by_lodging_entities.pdf.

**Box 3.1**

**7** NPI INCOME—2006–07

| | Market NPIs | Non–market NPIs | Total NPIs |
|---|---|---|---|
| | $m | $m | $m |
| *Sales of goods* | *4 926* | *1 829* | *6 755* |
| Income from services provision | | | |
| sales of services | 19 591 | 3 823 | 23 414 |
| rent, leasing and hiring income | 765 | 765 | 1 530 |
| volume based government funding | 13 358 | 4 253 | 17 611 |
| sponsorships | 563 | 543 | 1 106 |
| membership fees | 1 933 | 1 732 | 3 665 |
| *Total income from service provision* | *36 210* | *11 116* | *47 326* |
| Transfers | | | |
| from government for current operations(a) | 3 770 | 3 409 | 7 179 |
| from government for capital equipment | 492 | 174 | 666 |
| from resident related or affiliated enterprises | 1 074 | 2 223 | 3 298 |
| from non-resident related or affiliated enterprises | 121 | 172 | 293 |
| donations, bequests and legacies from households | 505 | 3 718 | 4 223 |
| donations from businesses | 183 | 452 | 635 |
| donations from philanthropic trusts/foundations | 167 | 105 | 273 |
| *Total transfer income* | *6 314* | *10 252* | *16 566* |
| Investment income | | | |
| interest | 1 037 | 696 | 1 733 |
| dividends | 195 | 160 | 355 |
| other investment income | 225 | 301 | 526 |
| *Total investment income* | *1 457* | *1 157* | *2 614* |
| *Royalties income* | *63* | *308* | *371* |
| *Other income* | *1 434* | *1 572* | *3 006* |
| **Total revenue** | **50 404** | **26 235** | **76 639** |

(a) Excludes government funding provided on a volume basis, which is included as part of income from service provision. For further information, refer to the glossary.

3.15 The term "income" is defined in paragraph 70(a) of the AASB Framework[14] issued in September 2009 as:

> … increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

3.16 Income comprises both revenue and other income. Revenue is income that arises in the ordinary course of the entity's operations (e.g. sale of goods and services, interest, dividends,

[14] The IASB and the AASB are currently in the process of reviewing the conceptual framework.

royalties etc). Revenue is reported in the Income Statement[15] on a gross basis. The issue of revenue is specifically discussed in AASB 118 Revenue. It should be noted that the International Accounting Standards Board (IASB) is currently in the process of revising and reissuing IAS 18 Revenue which in turn will mean that the AASB will revise and reissue AASB 118 sometime during 2014.[16]

3.17 "Other income" generally includes other items of income that do not meet the definition of revenue (e.g. gain on sale of a non-current asset). There is no specific Accounting Standard that deals with other income[17]. However, it is usually disclosed on the front page of the income statement below the revenue line.

3.18 Using the headings identified in the Non-Profit Institutions Satellite Account 2006-07 as a reference, we will consider the accounting treatment of the various types of income from an Accounting Standards perspective.

3.19 It is important to note that AASB 118 does not specifically deal with the issue of fundraising income. Instead, the approach taken by AASB 118 is to prescribe the definition, recognition, measurement and disclosure requirements in relation to "revenue". According to paragraph 1 of AASB 118, revenue is classified into the following categories:

- the sale of goods;
- the rendering of services; and
- the use by others of entity assets yielding interest, royalties and dividends.

### How are sales of goods dealt with?

3.20 The first category of income identified in the Non-Profit Institutions Satellite Account is the sale of goods. Paragraph 3 of AASB 118 defines the sale of goods as including "goods produced by the entity for the purpose of sale and goods purchased for resale, such as merchandise purchased by a retailer or land and other property held for resale". In the case of donated

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[15] AASB 101 Presentation of Financial Statements was revised on 20 June 2012 by the AASB. This statement is now referred to as the "Statement of Profit or Loss and Other Comprehensive Income". However, paragraph 10 of the standard states that entities are permitted to use any other titles that they consider appropriate (e.g. Income Statement). For the rest of this chapter, the title "Income Statement" will be used.

[16] The AASB is progressing on a new Service Performance Reporting research project, and considered whether IPSASB ED 54 [the International Public Sector Accounting Standards Board currently has an exposure draft out for comment or Reporting Service Performance Information] provides a suitable basis for accelerating that project. The AASB also noted that the NZASB is developing a standard on service performance reporting. AASB decided that IPSASB ED 54, in combination with its research to date and the NZASB's work, would provide a sound basis for reorienting its work from 'green fields' research to developing an AASB ED of a proposed Standard. AASB also decided that the project should include within its scope both public sector and private sector not-for-profit entities. Also refer to IFRS 15.

[17] There are some minor references in standards, for example AASB 116 paragraph 68.

goods, AASB 1004 Contributions requires not-for-profits to record revenue based on the fair value of the item.

3.21 Paragraph 14 of AASB 118 outlines the revenue recognition criteria for the sale of goods: revenue arising from the sale of goods shall be recognised as revenue when all the following conditions have been satisfied:

(a) the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;
(b) the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
(c) the amount of revenue can be measured reliably;
(d) it is probable that the economic benefits associated with the transaction will flow to the entity; and
(e) the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3.22 Put simply, revenue is recognised by an entity where goods have been sold and delivered to a customer in an exchange transaction. As AASB 118 is transaction-neutral, this principle applies to for-profit, not-for-profit and public sector entities. For example, a not-for-profit may sell items of clothing to customers in a second-hand clothing store, and this would qualify as the sale of goods. Selling items at a fete to raise funds for its purposes would also be classed as sale of goods.

3.23 According to paragraph 35(b)(i) of AASB 118, an entity is required to disclose income from the sale of goods in its financial statements. This disclosure can either be made on the face of the income statement or in the notes to the accounts. An entity is also required to disclose its revenue recognition accounting policy relating to the sale of goods.

3.24 Box 3.2 shows an extract of the revenue note taken from the 2011 financial statements of St Vincent de Paul Society Queensland. It shows how revenue from the sale of goods in their stores is disclosed as a separate line item in the notes to the financial statements.

**Box 3.2**

St Vincent de Paul Society Queensland

**Notes to the Financial Statements**
**For the year ended 30 June 2011**

**Note 2: Revenue**

| | Note | 2011 $ | 2010 $ |
|---|---|---|---|
| ***Revenue:*** | | | |
| *Shop revenue* | | 20,390,688 | 19,762,411 |

3.25 The entity's accounting policy note in relation to the sale of goods (taken from Note 1(b) of the Statement of Significant Accounting Policies) is shown in Box 3.3.

**Box 3.3**

**(b) Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Society and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

**Sale of goods**

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery and/or control of the goods has passed to the buyer.

## How is income from services treated?

3.26 The second category of income identified in the Non-Profit Institutions Satellite Account is "income from the provision of services". Once again, AASB 118 Revenue is the relevant Accounting Standard.

3.27 According to paragraph 4 of AASB 118, "the rendering of services typically involves the performance by the entity of a contractually agreed task over an agreed period of time. The services may be rendered within a single period or over more than one period". Paragraphs 10 to 19 of the Illustrative Example contained at the end of AASB 118 provides examples of services such as installation fees, after-sales support, advertising and insurance agency commissions, financial services fees, admission fees, tuition fees, membership fees, franchise fees and fees from the development of customised software. A not-for-profit entity may provide aged care or respite services. This would qualify as the provision of services. Government funding for these types of services is not considered to be a grant and would be treated as 'income from the provision of services'.

3.28 It is important to note that revenue under the provision of services does not include non-reciprocal grants and donations. For accounting purposes, these transactions are regarded as non-reciprocal transactions whereby the transferor does not receive approximately equal value from the transfer. The accounting treatment of government grants, donations, bequests etc is dealt with under AASB 1004 Contributions, and not under AASB 118. These items of revenue are specifically discussed in the next section of this chapter.

3.29 Paragraph 20 of AASB 118 outlines the revenue recognition criteria in respect of the provision of services. It states that revenue shall be recognised arising from the provision of services when all the following conditions have been satisfied:

(a) the amount of revenue can be measured reliably;

(b) it is probable that the economic benefits associated with the transaction will flow to the entity;

(c) the stage of completion of the transaction at the end of the reporting period can be measured reliably; and

(d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

3.30 Put simply, revenue is recognised by an entity where services have been rendered by the entity. Under AASB 118, revenue can either be recognised progressively or at one point in time depending on the nature of the services being rendered.

3.31 Paragraph 35(b)(ii) of AASB 118 requires an entity to disclose income from the provision of services. An entity must also disclose its revenue recognition accounting policy relating to the provision of services.

3.32 The following is an extract of the revenue note taken from the 2012 financial statements of Australian Communication Exchange Limited, a national not-for-profit established to facilitate access to communication for people who are deaf, hearing impaired or speech impaired. It has disclosed "rendering of services" as a separate line item in the notes to the financial statements.

**Box 3.4**

**Financials**
Notes to the Financial Statements

| | 2012 ($) | 2011 ($) |
|---|---|---|
| **3. Revenue** | | |
| Rendering of services | 12,769,596 | 13,916,963 |
| Sales rebates | (32,202) | (73,783) |
| | 12,737,394 | 13,843,180 |

3.33 The company's revenue recognition policy in relation to the provision of services (taken from Note 1(j) of the Statement of Significant Accounting Policies) is shown in Box 3.5.

Box 3.5

**(j) Revenue**

***(i) Services***

Revenue related to call connection services is recognised in profit or loss when the call is placed and the fee in respect of services provided is receivable.

## How is income from transfers dealt with?

3.34 The third category of income identified in the Non-Profit Institutions Satellite Account is "income from transfers".

3.35 The Australian Bureau of Statistics defines a transfer as a transaction "in which one institutional unit provides a good, service or asset to another unit without receiving from the latter any good, service or asset in return. Transfers are resources provided from one institutional unit to another for which nothing of economic value is provided in return". The transfers category in the Non-Profit Institutions Satellite Account includes government grants, capital grants, bequests, legacies, donations from households, businesses and from philanthropic trusts and foundations.

3.36 The relevant Accounting Standard that applies to transfers is AASB 1004, Contributions, and not AASB 118. The objective of AASB 1004 is to prescribe the accounting treatment and disclosures of contributions received by not-for-profit entities. Instead of using the term transfer, AASB 1004 refers to this as a "contribution".

3.37 A contribution is defined in the Appendix to AASB 1004 as "a non-reciprocal transfer to the entity". A non-reciprocal transfer is defined as a "transfer 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". Examples of contributions include non-reciprocal grants, or a bequest, legacy or a charitable donation (including a donated asset) received by a not-for-profit entity. Another example of a contribution is services provided by volunteers to chartities. However, volunteer time/services are not tranditionally recognised in the accounts due to the difficulty in measuring this contribution.

3.38 A contribution is characterised by the fact that that the contributor (or transferor) provides funds to a not-for-profit entity, not in the expectation that they will receive an equivalent value of goods and services in exchange, but rather in expectation that the not-for-profit entity will spend this money or use the donated asset towards its service delivery objectives (e.g. helping the homeless). In this regard, the transfer is non-reciprocal and AASB 1004 applies.

3.39 Conversely, the sale of goods or the provision of services is regarded as a reciprocal transaction. According to AASB 1004, reciprocal transfers are transfers in which the transferor and

transferee receive and sacrifice approximately equal value. Examples of reciprocal transfers include the sales of goods and services, the provision of loan funds, the provision of employee services, sponsorships and memberships. A reciprocal transfer also occurs where, for example, assets are provided to a government department on the condition that the government department renders particular services to the transferor of the assets and, if the services are not rendered, those assets are required to be remitted directly to the transferor. In the case of reciprocal transfers, the relevant Accounting Standard is AASB 118, not AASB 1004.

3.40 Determining whether a transaction is classified as reciprocal or non-reciprocal is often difficult in practice. For example, certain government transfers may qualify as being reciprocal in nature, where the government has a responsibility to provide services and chooses to extinguish this obligation by providing funds to a third party (either a for-profit or a not-for-profit organisation) to provide these services. On the other hand, a one-off transfer of funds by a government agency to a sporting club to purchase sporting equipment would be considered non-reciprocal.

3.41 For example, AASB 1004 confirms that completion of an acquittal form or acknowledgment of a donation by a not-for-profit entity does not make the transaction a reciprocal transfer as the transferor is not receiving an equivalent value of goods and services in exchange for their contribution (paragraph 15).

3.42 Table 3.1 below summarises which Accounting Standard applies depending on whether the transfer is reciprocal or non-reciprocal.

**Table 3.1. Reciprocal v non-reciprocal transfers – Which accounting standard applies?**

| Is the Transfer … | AASB Accounting Standard |
|---|---|
| Reciprocal | AASB 118 Revenue |
| Non-Reciprocal | AASB 1004 Contributions |

3.43 Paragraph 12 of AASB 1004 outlines the revenue recognition criteria in respect of contributions (or transfers) received by a not-for-profit entity. It states that a contribution shall be recognised as revenue when all the following conditions have been satisfied:

(a) the entity gains control of the contribution or the right to receive the contribution;
(b) it is probable that the economic benefits comprising the contribution will flow to the entity; and
(c) the amount of the contribution can be measured reliably.

3.44 This means that a not-for-profit entity must recognise the entire amount of the contribution (i.e. donation or government grant) as income upon gaining control. However,in some cases it may be difficult to determine whether the entity has control of a contribution. For example, paragraph 14 of AASB 1004 cites one such example whereby a not-for-profit entity receives funding under a multi-year policy agreement. The entity does not obtain control of a contribution under such an agreement until it has met conditions or provided services that

make it eligible to receive a contribution. In this situation, under multi-year public policy agreements, income would be recognised only in relation to contributions received or receivable under policy agreements.

3.45 Paragraph 97 of AASB 101 states that an entity should disclose material items of income or expenses separately on the face of the Income Statement or in the notes to the accounts. AASB 1004 contains only one disclosure paragraph relating to contributions received from not-for-profit entities. Paragraph 18 requires disclosure of the amount of contributions received (including cash and non-monetary assets). There is no specific requirement in AASB 1004 to disclose contributions separately by type, such as donations, bequests, legacies, gifts-in-kind or government grants. Instead, a not-for-profit entity may elect to combine all of these contributions into one category either on the face of the income statement or in the notes to the financial statements.

3.46 Furthermore, there is no requirement under AASB 1004 to identify whether these contributions received (i.e. grants, donations, bequests etc.) are unrestricted or restricted in nature.

3.47 Some not-for-profit entities, like St Vincent de Paul Society Queensland voluntarily choose to disclose their contributions separately under various sub-headings, including donations, bequests and government funding. The following is an extract of the revenue note taken from the 2011 financial statements of St Vincent de Paul Society Queensland.

**Box 3.6**

St Vincent de Paul Society Queensland

**Notes to the Financial Statements**
**For the year ended 30 June 2011**

**Note 2: Revenue**

| | Note | 2011 $ | 2010 $ |
|---|---|---|---|
| ***Revenue:*** | | | |
| *Donations* | | | |
| - General | | 5,609,688 | 4,318,492 |
| - Disaster Appeal | | 3,951,357 | 48,177 |
| | | 9,561,045 | 4,366,669 |
| *Bequests* | | 3,788,126 | 1,755,692 |
| *Government Funding* | | | |
| - General | | 14,802,607 | 11,761,525 |
| - Disaster Appeal | | 3,042,472 | - |
| | | 17,845,079 | 11,761,525 |

3.48 As previously mentioned, the IASB is well advanced on a project to replace its existing standard on revenue, IAS 18 Revenue. As such, the AASB will take this opportunity to replace AASB 118 and AASB 1004. The AASB currently plans to issue an exposure draft of a replacement for AASB

1004 in the second quarter of 2014. IFRS15 Revenue from contracts with customers is also a relevant developmet.

3.49 The entity's accounting policy note in relation to government grants and donations and bequests (taken from Note 1(b) of the Statement of Significant Accounting Policies) is shown in Box 3.7.

**Box 3.7**

St Vincent de Paul Society Queensland

**Notes to the Financial Statements**
**For the year ended 30 June 2011**

**Note 1: Summary Of Significant Accounting Policies (continued)**

**(b) Revenue (continued)**

**Government grants**
Grants are principally of a recurrent or capital nature and intended to fund ongoing operations or asset acquisitions.

Grants received on the condition that specified services are delivered, or conditions are fulfilled, are considered reciprocal. Such grants are initially recognise as a liability and revenue is recognised as services are performed or conditions fulfilled. Revenue from non-reciprocal grants is recognised when the Society obtains control of the funds.

**Donations and bequests**
Revenue or capital assets arising from donations and bequests is recognised when control is obtained, as it is impossible for the Society to reliably measure these prior to this time. For example, cash donations are recognised when banked and other donations are recognised when title of possession transfers to the Society.

## How are investment income and royalties dealt with?

3.50 The fourth and fifth categories of income identified in the Non-Profit Institutions Satellite Account are "investment income" and "royalties". These two categories will be combined for the purposes of the following discussion.

3.51 Paragraph 5 of AASB 118 Revenue states that the use by others of entity assets giving rise to revenue in the form of interest, royalties and dividends comes within the scope of the standard.

3.52 Paragraphs 29 and 30 outline the revenue recognition criteria in respect of interest, royalties and dividends received, stating that revenue arising from these investments shall be recognised when, and only when:

(a) it is probable that the economic benefits associated with the transaction will flow to the entity; and

(b) the amount of the revenue can be measured reliably.

3.53 Paragraph 30 goes on to state that revenue shall be recognised on the following bases:

(a) interest shall be recognised using the effective interest method;

(b) royalties shall be recognised on an accrual basis in accordance with the substance of the relevant agreement; and

(c) dividends shall be recognised when the shareholder's right to receive payment is established.

3.54 Put simply, interest and royalties are recognised under accrual accounting concepts when the right to receive this income exists, whist dividends are recognised when they have been declared by the company directors.

3.55 The disclosure requirements relating to interest, royalties and dividends is contained in paragraph 35 of AASB 118, which requires an entity to disclose separately in its financial statements the amount of revenue arising during the reporting period from:

i.) interest;

ii.) royalties; and

iii.) dividends.

3.56 Furthermore, an entity must also disclose its revenue recognition accounting policy relating to these types of investment income.

3.57 Box 3.8 shows an extract of the revenue note, taken from the 2011 financial statements of St Vincent de Paul Society Queensland, which discloses each item of investment income separately in the notes to the financial statements.

**Box 3.8**

St Vincent de Paul Society Queensland

**Notes to the Financial Statements**
**For the year ended 30 June 2011**

**Note 2: Revenue**

| | Note | 2011 $ | 2010 $ |
|---|---|---|---|
| ***Revenue:*** | | | |
| *Interest received* | | | |
| - Cash and cash equivalents | | 364,573 | 265,435 |
| - Available for Sale Financial Assets | | 200,636 | 191,017 |
| | | 565,209 | 456,452 |
| *Dividends received- Available for Sale Financial Assets* | | 868,866 | 311,665 |

3.58 The entity's accounting policy note in relation to interest and dividends (taken from Note 1(b) of the Statement of Significant Accounting Policies) is shown below (Box 3.9).

Box 3.9

St Vincent de Paul Society Queensland

**Notes to the Financial Statements**
**For the year ended 30 June 2011**

**Note 1: Summary Of Significant Accounting Policies (continued)**

**(b) Revenue (continued)**

**Interest revenue**
Revenue is recognised as the interest accrues for the accounting period.

**Dividends**
Dividends are recognised when the Society's right to receive payment is established.

## How is other income dealt with?

3.59 The sixth and final category of income identified in the Non-Profit Institutions Satellite Account is "other income".

3.60 As previously mentioned, other income generally includes items of income that do not meet the definition of revenue (e.g. gain on sale of a non-current asset, gain from foreign exchange transactions, bad debts recovered, and forgiveness of a loan). There is no specific Accounting Standard that deals with other income; however, it is usually disclosed on the front page of the income statement below the revenue line or below cost of goods sold.

3.61 Box 3.10 has an extract taken from the 2011 financial statements of St Vincent de Paul Society Queensland showing how other income has been disclosed in the notes to the accounts.

Box 3.10

St Vincent de Paul Society Queensland

**Notes to the Financial Statements**
**For the year ended 30 June 2011**

**Note 2: Revenue**

| | Note | 2011 $ | 2010 $ |
|---|---|---|---|
| ***Revenue:*** | | | |
| *Other Income* | | | |
| - Gain / (Loss) on sale of property, plant and equipment | | 435,646 | (272,403) |
| - Gain / (Loss) on sale of Available for Sale Financial Assets | | 131,632 | 53,376 |

3.62 The entity's accounting policy note in relation to the gain/(loss) arising from the sale of non-current assets (taken from Note 1(b) of the Statement of Significant Accounting Policies) is shown in Box 3.11.

**Box 3.11**

St Vincent de Paul Society Queensland

**Notes to the Financial Statements**

**For the year ended 30 June 2011**

**Note 1: Summary Of Significant Accounting Policies (continued)**

**(b) Revenue (continued)**

**Proceeds of non-current asset sales**

The net gain from the sale of non-current assets is included as revenue when control of the asset passes to the buyer. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and net proceeds.

## How is disclosure of expenses dealt with?

3.63 So far, the sole focus of this chapter has been on the issue of revenue. The accounting treatment and subsequent disclosure of revenue is dealt with under AASB 118 and AASB 1004.

3.64 There is no AASB Accounting Standard specifically devoted to the disclosure of expenses. However guidance as to how expenses should be disclosed in the financial statements is discussed briefly in AASB 101 Presentation of Financial Statements. According to paragraph 99 of AASB 101, an entity has the choice of presenting their expenses by either nature; or function based on whichever classification provides information that is considered more relevant and reliable.

3.65 It is interesting to note paragraph 103 of AASB 101 which provides the following statement in relation to disclosure of expenses by function:

> This method can provide more relevant information to users than the classification of expenses by nature, but allocating costs to functions may require arbitrary allocations and involve considerable judgement".

3.66 Expenses classified according to nature are usually listed according to name (e.g. raw materials, employee benefit costs, depreciation, advertising). Conversely, expenses classified according to function are usually listed according to divisions (e.g. cost of sales, administration costs, marketing costs, occupancy costs, distribution costs).

3.67 According to paragraph 104 of AASB 101, if an entity chooses to disclose its expenses by function, it must disclose the following expenses either on the face of the income statement or in the notes to the accounts:

(a) depreciation and amortisation expense; and
(b) employee benefits expense.

3.68 The problem with a 'cost of goods sold' model is that is whilst this is commonly adopted where goods (ie. inventories) are bought and sold and a gross profit figure can be ascertained, it is not particularly useful for services rendered. What is included in the 'cost of fundraising' is subjective with little or no formal guidance provided as to what costs should be included. Unlike goods that are purchased where the cost is directly ascertainable (and where considerable guidance as to what is included in the cost of inventories in AASB 102 Inventories is provided), determining a 'cost of fundraising' equivalent figure is significantly more subjective and involves considerable judgement. Determining the 'cost of fundraising' is not dealt with in AASB 102 nor any of the other AASB Accounting Standards. Ultimately, this results in a lack of comparability and consistency between not-for-profit entities. For this reason, a 'cost of fundraising' model equivalent to a 'cost of goods sold' model for inventories is not recommended or adopted in this report due to the subjectivity involved and lack of guidance provided in AASB Accounting Standards.[18]

3.69 A review of selected annual reports reveals that most not-for-profits (particularly the larger ones) tend to classify their expenses by function (i.e. by groupings, such as cost centres or divisions), rather than by nature.

3.70 Apart from the expenses listed above, there is no formal requirement in the AASB Accounting Standards to disclose specific expenses on the face of the income statement or in the notes to the financial statements. This lack of specific guidance has led to a great diversity in methods of disclosing fundraising expenses adopted by not-for-profit entities. Some disclose fundraising expenses separately, whilst others combine these expenses into other categories such as administration, marketing and selling expenses.

3.71 Furthermore, unlike other jurisdictions such as the United Kingdom and New Zealand that have a recognised SORP, under Australian generally accepted accounting principles (GAAP), the concept of fund accounting – a concept frequently cited and used by not-for-profits – is not mentioned or recommended. Fund accounting is essentially a method of accounting which segregates resources into various categories (i.e. funds) to identify both the sources of the funds and their uses.

3.72 Fund accounting is commonly used by not-for-profits, where it is more important to track how the organisation is spending money rather than how it earns money. Under fund accounting, the

[18] This may be altered in the future by AASB15 and IFRS15.

entity keeps records based on each fund. For example, a not-for-profit may receive several grants from different government departments each for a specific purpose. Expenses for each grant must be accounted for separately, meaning that expenses must be identified, matched and paid for out of each particular grant. When producing financial reports and acquittal forms for each grant, the not-for-profit entity needs to ensure that revenue and expenses pertaining to each grant are reported in the income statement. This is done by establishing separate funds, each with its own cost centres.

3.73 Typically, these funds are categorised into:

- restricted; and
- unrestricted.

3.74 Restricted funds include those that are subject to specified restrictions or uses by donors or external agencies, such as grantors. Conversely, unrestricted funds include funds received in which a donor or grantor has not specified the purpose(s) for which the funds should be expended. In other words, these funds are available to be expended at the discretion of the not-for-profit entity's governing board.

3.75 Fund accounting is typically used for management accounting purposes and can easily be set up using cost centres in the management accounts. However, few not-for-profit entities adopt fund accounting concepts and disclosures in their external financial statements. This is not surprising given that the AASB Accounting Standards do not address the issue of fund accounting.

### What conclusions and recommendations arise?

3.76 In Australia, accounting rules, practices and disclosures are specified by the AASB Accounting Standards. These standards are transaction-neutral, meaning that for-profit, not-for-profit and public sector entities are generally subject to the same accounting treatment and disclosure requirements. This means that the accounting rules, recognition and measurement principles and disclosure requirements are consistent across all entities. As will be seen in Chapter 6 the lack of specific diisclosure requirements for charities and not-for-profit entities has resulted in considerable diversity in reporting practices.

3.77 The issue of fundraising revenues and expenses are not specifically considered in the Accounting Standards. This is not particularly surprising given that the standards are transaction-neutral.

3.78 There is no specific mention of disclosures required in relation to 'fundraising revenue' in any of the AASB Accounting Standards. Instead, disclosures relating to revenue are only found in AASB 118, a standard that only prescribes broad categories of disclosure relating to sale of goods, provision of services and investment income, such as interest, royalties and dividends, or AASB 1004, a standard that primarily deals with transactions such as non-reciprocal grants, charitable donations and bequests.

3.79 A similar situation exists in relation to expenses. Nowhere in any of the AASB Accounting Standards is a not-for-profit entity specifically required to disclose its 'fundraising expenses'.

Instead, under AASB 101, an entity is only required to disclose its material expenses by either nature or function. Only a handful of expenses are specifically required to be disclosed either on the face of the income statement and/or in the notes to the accounts. This means that all entities (including not-for-profit entities) have considerable discretion as to which expenses are disclosed in the financial statements.

3.80 Irvine and Ryan (2011) found that unlike accounting standard setters in several overseas jurisdictions, Australia has provided little specific guidance in respect of accounting practices for not-for-profit entities, particularly in the area of fundraising disclosures.

3.81 Not surprisingly, with no specific disclosure requirements for fundraising revenue and expenses prescribed in Australian Accounting Standards, different disclosure practices have been adopted by not-for-profit entities. This in turn has led to a lack of comparability and inconsistencies in financial reporting disclosures relating to fundraising revenues and expenses. The lack of consistency was one key motivator for this paper. This is dealt with further in Chapter 6 on professional and best practice.

3.82 Box 3.12 revisits our account for a charity ball, to ocnsider how it would be disclosed under AASB accounting standards. Table 3.2 outlines suggested solutions to comply with the AASB standards.

Box 3.12

## Accounting for a Charity Ball

The honorary Treasurer of "Dancing for Kids" charity (an endorsed DGR) has been presented with the following summary of income and expenses relating to a recent charity gala fundraising ball held on Saturday night. All figures presented below are shown GST-exclusive.

| Revenue: | $ |
|---|---|
| ▪ Ticket sales (300 tickets sold at $200 per ticket) | 60,000 |
| ▪ Raffle conducted on the night (1,000 tickets @ $5 per ticket) | 5,000 |
| ▪ Donations made on the night | 2,000 |
| ▪ Sponsorship – naming rights sponsor | 3,000 |
| ▪ Sponsorship – 3 charity ball sub-sponsors ($500 x 3) | 1,500 |
| ▪ Sponsorship – in-kind support (valued) | 2,500 |
| ▪ Charity auction – 1 tax-deductible contribution | 5,000 |
| ▪ Charity auction – proceeds from 7 other items auctioned on the night | 11,000 |
| *Total Revenue:* | 90,000 |

During the evening, the local Mayor announced a grant of $25,000 to assist children with terminal illnesses attend Taronga Park Zoo and Luna Park in Sydney. He presented a cheque for the $25,000 to the CEO of the charity on the night itself.

| Expenses: | $ |
|---|---|
| ▪ Printing of tickets | 1,000 |
| ▪ Costs of preparing banner acknowledging sponsors | 500 |
| ▪ Venue hire | 10,000 |
| ▪ Catering (300 guests @ $50 per head) | 15,000 |
| ▪ Hire of band | 2,500 |
| ▪ Complimentary tickets to sponsors (5 x $200) | 1,000 |
| *Total Expenses* | 30,000 |

### Table 3.2 Suggested Solution in accordance with the AASB Accounting Standards

| Note 3: Revenue | | $ |
|---|---|---|
| ***Sale of goods:*** | | |
| AASB 118.35(b)(i) | Ticket sales | 60,000 |
| | Raffle | 5,000 |
| | Charity auction | 11,000 |
| ***Provision of services:*** | | |
| AASB 118.35(b)(ii) | Sponsorship – naming rights sponsor | 3,000 |
| | Sponsorship – charity ball sub-sponsors | 1,500 |
| | Sponsorship – in-kind support | 2,500 |
| ***Contributions:*** | | |
| AASB 1004.18(a) | Government grants – non-reciprocal | 25,000 |
| | Donations | 2,000 |
| | Charity auction – tax-deductible fundraising contribution | 5,000 |
| ***Total Revenue*** | | **$ 115,000** |

| Note 4: Expenses | $ |
|---|---|
| Printing of tickets | 1,000 |
| Costs of preparing banners acknowledging sponsors | 500 |
| Venue hire | 10,000 |
| Catering | 15,000 |
| Band | 2,500 |
| Cost of complimentary tickets to sponsors | 1,000 |

**Notes:**

1. The AASB Accounting Standards do not require disclosure of fundraising revenue. Instead, the classifications of revenue disclosed above have been taken from the categories of revenue identified in *AASB 118 Revenue* and *AASB 1004 Contributions.* Arguably, all of the above transactions fall under fundraising revenue. However, instead of disclosing each item under the broad heading of fundraising revenue, the disclosures in the suggested solution have been made strictly in accordance with the AASB Accounting Standards. There is considerable discretion as to how each of these different items of fundraising revenue could be disclosed in the notes to the financial statements.
2. The ticket sales, proceeds from the raffle and proceeds received from the charity auction are regarded as sales of goods. Each involves the transfer of goods to the buyer/customer in exchange for consideration.
3. The three sponsorships are considered to be provision of services: sponsors have provided funds to the not-for-profit in exchange for services. This constitutes a reciprocal transaction and is regarded as revenue. Note that the in-kind support is recognised as revenue as it was able to be measured reliably.
4. The government grant of $25,000 is not regarded as a reciprocal grant in exchange for the provision of services by the not-for-profit. Instead, it is categorised as a non-reciprocal grant and as such is disclosed as a contribution under AASB 1004.
5. Donations are also regarded as non-reciprocal contributions under AASB 1004.
6. A distinction has been made in relation to the items sold at the charity auction. The $11,000 proceeds from the sale of seven items auctioned on the night have been classified as forming part of sale of goods. However, the $5,000 tax-deductible fundraising contribution has been classified as a donation (or gift). Certain contributions made in acquiring items at a charity auction may qualify for tax-deductible status provided certain conditions are met. These conditions are discussed in Chapter 5. Hence, the $5,000 is regarded as a contribution and not as revenue arising from the sale of goods.

7. There is no specific requirement to disclose these expenses under *AASB 101 Presentation of Financial Statements.* AASB 101 requires specific disclosure of expenses such as cost of sales, finance charges, depreciation and amortisation, employee benefits expenses and operating lease payments, however, there is no specific requirement to disclose individual expenses such as those outlined in this example. The solution has merely disclosed each expense as a separate line item in the expenses note. Alternatively, these expenses could have been added together (totalling $30,000) and disclosed under the one-line item fundraising expenses.
8. The complimentary tickets to sponsors totalling $1,000 have been recognised as an expense, as the value of the 5 complimentary tickets ($1,000) has been recognised as revenue. The effect of recording the cost of these 5 tickets (at their fair value of $1,000) means that the revenue and expenses of $1,000 have been offset to result in an overall effect of $Nil.

# Chapter 4. Commonwealth regulation and fundraising

4.1. The states and territories have been regarded as having primary regulatory responsibility for fundraising. However, Commonwealth provisions do have an influence on fundraising and its reporting, in particular through the longstanding taxation provisions; and the Australian Charities and Not-for-profits Commission (ACNC) will now collect and publish financial information of registered charities.

4.2. Australia's taxation regime for financial reporting of not-for-profit organisations has been very light touch compared to other OECD jurisdictions. Only a small number of not-for-profit organisations with taxation benefits or concessions are required to file annual financial returns, and this is a comparatively recent development. This is in stark contrast to the USA and Canada where extensive financial information is required of tax exempt organisations (see chapter 7).

4.3. There are aspects of the Australian tax regime, arising from the definition of a tax deductible donation, which may influence financial reporting of fundraising. In most instances only gifts will be tax deductible for donors. It is the drawing of the boundary between a gift and a reciprocal transaction that informs accounting practice.

4.4. The gift border also informs accounting information requirements in relation to GST – the Business Activity Statement (BAS) return for GST does include financial information, but is of little relevance to fundraising.

4.5. From 2013, the ACNC will collect financial returns of registered charities and make them publicly accessible. The 2013 return will be light touch in the amount of disclosure,[19] but this will change in 2014 with financial information being required and made public.

## What is the effect of income tax provisions on financial statements?

4.6. If an entity has been endorsed by the Commissioner of Taxation as an income tax exempt charity under Division 50 of the *Income Tax Assessment Act 1997* (ITAA 1997), then it will not pay tax on any income derived. This is so, regardless of the type of income derived (ordinary or statutory), whether it be the sale of goods, provision of services, donations, bequests, legacies, grants or investment income.

4.7. An entity usually discloses this fact in its accounting policy note in its financial statements. A typical income tax disclosure note is reproduced below.

[19] There is no financial material contained in the 2013 AIS, however charities can voluntarily supply their annual accounts.

**Box 4.1**

**(c) INCOME TAX**

The Group is exempt under the provisions of the Income Tax Assessment Act 1997, and as such is not subject to income taxes at this time. Accordingly, no income tax has been provided for the Group in these financial statements.

4.8. It is curious that the practice in Australia has not been to disclose in the financial statements the other not-for-profit endorsements by the ATO, such as GST, FBT and DGR endorsements, which came into effect after the introduction of the GST.

4.9. As mentioned above, no formal tax return is required as a matter of course, but may be demanded by the Commissioner. This sets Australia apart from other OECD jurisdictions. The general taxation provisions require such tax-exempt organisations, like all taxable entities, to keep appropriate accounting records under Taxation Administration Act 1953 (TAA) Sch 1 section 382-15.

4.10. In other jurisdictions, the income tax form has formed the basis of internet databases open to the public for general scrutiny of a not-for-profit organisation's affairs. The tax purpose design of such information is not always fit for other purposes, e.g. the tax derived definitions of income and expenses may not be entirely useful for purposes such as solvency, overhead expenses or grant effectiveness.

### How are fundraising gifts that are tax-deductible treated?

4.11. According to Division 30 of the ITAA 1997, taxpayers are entitled to claim a tax deduction for gifts (i.e. donations) made during the income year to endorsed Deductible Gift Recipients (DGRs). For a donor to receive a tax deduction for their donation, a not-for-profit organisation must be endorsed as a DGR. This involves a number of requirements, some of which influence fundraising reporting. The requirements that only gifts with limited exceptions will attract the tax deductibility and the organisation must maintain a gift fund for receiving such money or property do bear on accounting for fundraising transactions. Each of these issues is examined in turn.

### Who are DGRs?

4.12. A criterion for a gift to be tax-deductible is that the gift must be made to a DGR. Division 30 of the ITAA 1997 outlines 12 general categories of entities and funds that have been endorsed by the Commissioner of Taxation as DGRs. However, these are only the general categories, not the full list of DGRs. A person wishing to check whether a particular not-for-profit organisation is a DGR can search the name of the organisation at the ABN Lookup website: http://www.abr.business.gov.au.

4.13. Compared to most OECD jurisdictions Australia has a limited cohort of not-for-profit organisations that can be regarded as tax deductible donation bodies and it is not extended to

all charitable organisations. Consequently there are many Australian organisations which fundraise but will not fall within this regime.

### What is a gift?

4.14. The term gift is not defined in the ITAA 1997. Consequently, the term takes on its ordinary meaning. For a gift to be a tax-deductible donation and claimed as an income tax deduction in a donor's personal income tax return, the gift must usually have the following characteristics:

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

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

4.16. Taxation Ruling TR 2005/13 *Tax Deductible Gifts – What is a Gift?* notes that as the term is not statutorily defined it should be given its ordinary meaning (para 12) and goes on to explain this for 47 pages (comprising 230 paragraphs and including 81 worked examples). In that ruling the Commissioner confirms that the following are not considered gifts:

- the purchase of raffle or art union tickets;
- the purchase of a painting or an item of sports memorabilia at a charity fundraiser where the amount paid is not substantially greater than its market value;
- items sold by charities, however, tokens which are commonly given in fundraising drives such as lapel badges, bumper stickers, red noses, Legacy pins, daffodils on Daffodil Day etc. are considered as gifts, as the Commissioner does not consider that these items confer a material advantage to the donor;
- the cost of attending a fundraising dinner, even if the cost exceeds the value of the dinner;
- sponsorships or advertising provided to the donor in exchange for the donation;
- memberships and registration fees;
- payments to school building funds as an alternative to an increase in school fees; and
- payments where the person has an understanding with the recipient that the payment will be used to provide a benefit to the donor.

4.17. The lack of a material benefit to the donor is the line that marks a tax deductible gift from some other transaction that is a sale, or independent obligation such as a payment of a fine, or a combination of transactions. This is important for the requirement of a gift fund which is discussed below.

### What types of gifts are tax deductible?

4.18. The following types of gift are specifically made tax deductible for donors in accordance with section 30-15(2) of the ITAA 1997:

a) gifts of $2 or more in money;

b) property purchased by the donor within 12 months before the gift is made. In this case, the amount of the donation is the lesser of the purchase price of the property or the market value of the donated asset on the date of the donation;

c) property purchased more than 12 months before the date of the donation, and valued by the Australian Valuation Office at more than $5,000;

d) trading stock, in which case the claimable deduction is equivalent to the market value of the stock on the day the gift was made;

e) shares acquired in a listed public company provided the shares were acquired at least 12 months before the gift was made and the market value of those shares on the date of the gift is $5,000 or less;

f) certain cultural gifts, being property made under the Cultural Gifts Program;

g) cultural bequests, being property under the Cultural Bequests Program; and

h) heritage gifts, being gifts to the National Trust, of property of national heritage significance that are listed in the National Heritage List, the Commonwealth Heritage List or the Register of the National Estate at the time the gift is made.

4.19. Gifts that fall within the first five categories (a) to (e) are tax deductible if given to almost all categories of DGRs, but gifts in categories (f) to (h) are tax deductible only if given to DGRs within a limited set of categories.

4.20. It should be noted that in financial statements, gifts in-kind are generally dealt with under the Australian Accounting Standard Board's AASB 13 which states that gifts in-kind are to be disclosed for an amount that reflects the fair value. That is, the normal commercial or sale value of the item or service as evidenced by arms-length transaction or comparative quotations or expert assessment.

4.21. The Australian Electoral Commission (AEC) provides the following guidance in respect of political donations :

> Gifts-in-kind may be goods or services received for which no payment (in cash or in kind) or inadequate consideration is made. Inadequate consideration is where the benefits obtained are clearly of a lesser value than the payment made. Inadequate consideration includes discounts provided that are over and above those that would be offered under normal commercial arrangements.[20]

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[20] Australian Electoral Commission. 2011. *Funding and Disclosure Guide. Donors to Political Parties*. http://www.aec.gov.au.

### How does the Tax-Deductible Contributions exception work?

4.22. Generally speaking, a donor is unable to claim a deduction for the cost of purchasing goods or services from a DGR. This is because the donor receives a material benefit or advantage by way of return.

4.23. However, certain contributions made by individual donors at a fundraising event may constitute a tax deductible gift. This is designed to apply where the contributor receives a minor benefit in return for their contribution. Where certain conditions are satisfied, the donor may be able to claim a tax deduction for a portion of their payment.

4.24. There are two types of eligible contributions:

- a right to participate in a fundraising event (for example, the purchase of a ticket to attend a charity ball); and
- a successful bid at a charity auction conducted by a DGR.

4.25. To be tax deductible, the contribution must be made by an individual to a DGR in respect of an eligible fundraising event. Two conditions must be satisfied, namely:

(a) the contribution must be:
- money over $150;
- property purchased during the 12 months before making the contribution and valued at more than $150;
- property valued by the Commissioner at more than $5,000; or
- shares acquired at least 12 months before making the contribution and valued at $5,000 or less but more than $150, and

(b) the benefit received by the contributor must be no more than 20% of the value o the contribution or $150, whichever is less.

4.26. Box 4.2 shows two examples given by the Australian Taxation Office.[21]

**Box 4.2**

**Example 1:**

Gess pays $260 to attend a charity golf game hosted by a DGR. The market value of an 18-hole golf game is $20. Gess will be eligible to claim a tax deductible contribution of $240 ($260 – $20) as the market value of the golf game (the minor benefit received) does not exceed the lesser of $150 and 20% of the value of her contribution ($52).

**Example 2:**

Bernie buys a ticket for $400 to a gala performance organised by a DGR. The gala performance has a ticket price on the open market of $100. Bernie cannot claim any deduction as the market value of the performance – which is the benefit he receives in return for his contribution of $400 – is more than 20% of the value of his contribution ($80), even though it is not more than $150.

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[21] Fundraising, Guide for Nonprofit Organisations, NAT 13095-09.2008, Australian Taxation Office, Canberra, September 2008, p 12.

### How does a gift fund affect financial descriptions?

4.27. Section 30-130 of the ITAA 1997 requires an organisation seeking and maintaining DGR status to maintain a fund to which all gifts (not only those gifts that are classed as tax deductible) of money or property are to be made. This includes certain contributions listed in section 30-15 (see above at para 4.18). Any interest and other money received from such a fund must be credited to the fund.

4.28. The fund must only be used for the purposes of the fund and must not receive any other money or property.

4.29. This provision has been interpreted by the Commissioner as only applying to those entities that are not endorsed as a whole, such as schools with a school building fund.[22]

4.30. For those not endorsed as a whole entity the imposition of a gift fund requires separation of financial accounting between their ordinary fundraising transactions and those that are gifts and/or have a tax deductible status in the hands of donors. Whether this requires a separate bank account in order to meet the separate fund requirement has long been a matter of contention.

4.31. For those whole entities, the general taxation provisions apply, meaning that such tax-exempt organisations, like all taxable entities, must keep appropriate accounting records under Taxation Administration Act 1953 (TAA) Sch 1 section 382-15.

### Are ancillary funds dealt with differently?

4.32. Ancillary funds, whether public or private, are established and maintained under a will or instrument of trust. The sole purpose of an ancillary fund must be to provide money, property or benefits to organisations which are endorsed as funds, authorities or institutions, gifts to which are deductible under item 1 of the table in section 30-15 of the ITAA 1997.

4.33. Recent reforms to Private and Public Ancillary Funds require the annual filing of a financial return. These returns are not made public. Donations must be disclosed on the following basis:[23]

- Total of the value of shares in a publicly listed entity received;
- Total of the value of shares in an unlisted entity received;
- Total of the value of collectibles received;
- Total of the value of land and buildings received;
- Total of the value of other property received;
- Total of the value of donations received.

4.34. Private ancillary funds are effectively prohibited from fundraising from the public.

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[22] Australian Taxation Office, "Gift Pack", http://www.ato.gov.au/Non-profit/Guides/In-detail/Guides---booklets/Gifts---fundraising/GiftPack/?default=&page=1#Record_keeping

[23] http://www.ato.gov.au/Forms/Ancillary-fund-return-2013/

4.35. The financial information is directed at establishing the value of discrete categories of donated property, rather than by reporting by fundraising method.

### How does GST affect fundraising reporting?

4.36. Australia's valued added tax applies to a broad range of goods and services through the Goods and Services Tax Act (1999) (GST Act). It impacts on not-for-profit organisations by requiring transactions to be scrutinised for GST implications and a financial return to the ATO – the Business Activity Statement (BAS) – may be required. Again, gift transactions are at the heart of the GST construct in terms of fundraising.

4.37. The GST treatment of fundraising activities is considered by the Commissioner of Taxation in GST Ruling 2012/2 (GSTR 2012/2) and the various types of fundraising activities identified are as follows:

(a) Gifts – there is no GST on gifts (including donations, bequests, legacies etc) as the payment of money is not itself considered a "supply" for GST purposes (see paragraph 69 of GSTR 2012/2).

(b) Charitable gaming – raffles and bingo conducted by endorsed charities are GST-free provided that they are in accordance with the relevant state or territory law (section 38-270 of the GST Act). However, this exemption does not apply to activities such as lotteries that are subject to state taxes on gambling.

(c) Donated second-hand clothing – the supply of donated second-hand goods by an endorsed charity is GST-free (section 38-255). However, this does not apply if the charity has dealt with the goods in such a way that they no longer have their original character. It should be noted that this concession only applies to a "gift-deductible entity" or a government school.

(d) Tickets to attend gala balls and fundraising events – generally none of the ticket price can be treated as a "gift" by the person attending the event. In the case of a $165 ticket to a gala ball, GST would be payable on 1/11$^{th}$ of the full amount of $165. In other words, GST of $15 is payable to the ATO. This rule applies even if the ticket (say $165) provides that $100 covers food and entertainment and the remaining $65 is considered a "gift". The only way the gift would be tax-deductible is if the gift component is truly optional. If the gift was truly optional, then GST would only be payable on the actual price of the ticket (1/11 x $100).

(e) Charity auctions – GST is payable, calculated as 1/11$^{th}$ of the full proceeds received from the sale of items at a charity auction.

(f) Sale of merchandise (such as brooches, ties, caps, T-shirts etc) is subject to GST, as this constitutes a taxable supply under section 9-5 of the GST Act.

4.38. A special input taxed concession is provided to endorsed charities by virtue of Division 40-F of the GST Act. According to section 40-160, endorsed charities may elect to have a "fundraising

event" input taxed rather than be considered taxable supplies. The main advantage of nominating that the event be input taxed is that whilst no input tax credits are allowed in respect of the acquisition of donated items, no GST needs to be remitted on the proceeds made from the sale of these items at the auction.

4.39. Section 40-165(1) defines a fundraising event as one that is conducted for the purpose of fundraising and does not form any part of a series or a regular run of like or similar events. These events include:

- a fete, ball, gala, dinner, performance or similar events such as charity auctions;
- an event involving the sale of fundraising goods (such as flowers, chocolates etc) where each item is sold for $20 or less (except where the event involves the sale of alcohol and tobacco) provided the goods being sold are not part of the organisation's ordinary trading activities.

4.40. The Commissioner of Taxation has made a determination[24] that the frequency with which fundraising events may be held, without forming part of a series or regular run of like or similar events, is fifteen fundraising events in any income year. If an endorsed charity intends to make this election, it must do so before the first supply in connection with the event.[25] If the election is made, it will apply to all supplies made by the endorsed charity in connection with that fundraising event. This means that the entity is not required to remit any GST on the proceeds from the event, but is not entitled to claim GST input tax credits for any acquisitions made in relation to the event.

4.41. If the election is not made, the activities will be treated under the general rules that apply to charitable activities as outlined above.

4.42. Common fundraising transactions may or may not be subject to GST, depending on how they are treated under the legislation. Pure gifts will not be subject to GST.

### How are grants dealt with under GST?

4.43. All Australian governments have followed the trend of what has been described as New Public Management and outsourced government services to the private and not-for-profit sectors. These outsourcing transactions are commonly described as grants and in many cases do not represent the total cost of performing the contemplated activity on behalf of government. The Productivity Commission (2010, 281) estimated that on average only 70% of the actual cost of performing the service was provided under the grant agreement. At the same time, another common use of the word grant was a disbursement from a trust or foundation with minimal grant conditions apart from its use as intended and only scant financial acquittal, which would

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[24] Frequency of Fundraising Events Determination (No 1) 2001

[25] ATO Interpretative Decision ID 2005/343

fall towards the gift end of a spectrum of benefits. In practice many of these types of transaction are still regarded by the parties as gifts and are not subject to GST.

4.44. On the introduction of the GST, the ATO considered government grants as a taxable supply on the grounds that consideration is being provided in return for a supply of services. This was the view originally taken by the Commissioner of Taxation in GST Taxation Ruling GSTR 2000/11 and is repeated in the updated GST Ruling 2012/2 at paragraph 73:

> A payment that is made as a function of government, and does not have the characteristics of benefaction including detached, disinterested generosity, is not a gift.

4.45. Hence, GST is remitted on grants received by not-for-profit organisations. This equates to 1/11th of the gross amount of the grant received.

4.46. It is worth noting that the GST treatment of grants is at odds with the view of the Australian Accounting Standards. For GST purposes, the Commissioner considers that a grant involves a supply for consideration (i.e. a reciprocal transfer). However, for accounting purposes, grants are regarded as contributions (i.e. a non-reciprocal transfer) whereby the grantor does not receive a material benefit or approximately equal value in return.

4.47. The Commonwealth's *Financial Management and Accountability Act 1997* (FMA Act 1997) and the associated Department of Finance Circular provide instructions with regard to grants, as shown in Box 4.3.[26]

[26] Australian Department of Finance. 2013. "Grants, Procurements and other financial arrangements." (Finance Circular 2013/01) http://www.finance.gov.au/publications/finance-circulars/2013/01.html

**Box 4.3**

3A Meaning of grant

(1) In these regulations, a grant is an arrangement for the provision of financial assistance by the Commonwealth:

- (a) under which public money is to be paid to a recipient other than the Commonwealth; and
- (b) which is intended to assist the recipient achieve its goals; and
- (c) which is intended to help address one or more of the Australian Government's policy objectives; and
- (d) under which the recipient may be required to act in accordance with any specified terms or conditions.

(2) However, the following arrangements are taken not to be grants:

- (a) the procurement of property or services by an agency, including the procurement of the delivery of a service by a third party on behalf of an agency;
- (b) an act of grace payment approved under subsection 33 of the Act;
- (c) a payment of compensation made under:
  - i. an arrangement relating to defective administration; or
  - ii. an arrangement relating to employment compensation; or
  - iii. an arrangement established by legislation;
- (d) a payment to a person of a benefit or entitlement established by legislation;
- (e) a tax concession or offset;
- (f) an investment or loan;
- (g) financial assistance provided to a State in accordance with section 96 of the Constitution;
- (h) a payment to a State or a Territory that is made for the purposes of the *Federal Financial Relations Act 2009*, including the following:
  - i. General Revenue Assistance;
  - ii. Other General Revenue Assistance;
  - iii. National Specific Purpose Payments;
  - iv. National Partnership Payments;
- (i) a payment that is made for the purposes of the *Local Government (Financial Assistance) Act 1995*;
- (j) a payment that is made for the purposes of the *Schools Assistance Act 2008*;
- (k) a payment that is made for the purposes of the *Higher Education Support Act 2003*;
- (l) a payment of assistance for the purposes of Australia's international development assistance program, which is treated by the Commonwealth as official development assistance.

Note1: The Commonwealth has regard to the definition of official development assistance that the OECD has set out in its DAC Statistical Reporting Directives, available on the OECD's website.

Note 2: A gift of public property is not a grant as described in subregulation (1). Section 43 of the Act provides for gifts of this kind.

4.48. The Department of Finance Circular, supports the view taken by the Australian Accounting Standard setters in treating a grant (without conditions specifying a quantum of services) as a contribution, and as such, recommends it be classified as a transfer, rather than the provision of services in exchange for the grant monies provided. It further supports the view that grants that have conditions attached that specify the delivery of certain services, should be treated at "revenue from the provision of services" in the accounts (see Financial Management Regulation 3A).

### What is required by a Business Activity Statement in relation to fundraising?

4.49. BASs are used by those entities which are registered for the GST to report various tax obligations to the ATO. These tax obligations include GST, PAYG withholding, PAYG instalment, FBT instalments and a range of other taxes such as ABN withholding, luxury car and wine equalisation taxes.

4.50. The BAS must be lodged by GST-registered entities either monthly or quarterly depending on various GST and PAYG withholding reporting thresholds.

4.51. The first label on the BAS is Item G1 Total Sales. This includes:

- goods sold to customers;
- services supplied to customers;
- the gross proceeds from the sale of assets, such as office equipment or motor vehicles (including trade-ins);
- gross rents received;
- membership income;
- interest received;
- grants received;
- royalties received;
- commissions received;
- cancelled lay-by sales;
- forfeited customer security deposits;
- employee contributions for FBT provided by the entity;
- the provision of goods or services in return for sponsorship;
- foreign income;
- the GST-inclusive market value of goods or services received in respect of barter transactions.

4.52. However, this label does not include:

- dividends received (both franked and unfranked);
- gifts (donations) received;
- private sales not related to the business (e.g. sale of the private home);
- salary and wages received by the entity;

- government pensions and allowances;
- amounts received from hobby activities;
- distributions received from partnerships and trusts;
- tax refunds;
- amounts received for sales not connected with Australia.

4.53. Some transactions which would be commonly regarded as fundraising would be included (sale of second hand goods and government grants) and others (such as gifts) would not be included.

### In summary what are the implications for fundraising accounting?

4.54. Unlike other comparable jurisdictions Australian taxation administration does not provide a source of annual returns that can be used by the government or others usefully to inform the scrutiny of financial information through a public database of tax exempt organisations. This has been a frustration to many who seek such information, but it does provide an opportunity to develop a standard of disclosure which is fit for purposes other than tax administration.

4.55. The taxation provisions rest firmly on the notion of a pure gift (with very limited exceptions) and this is bolstered by the fact that many DGRs are required to have separate gift funds which effectively quarantine such accounting records from other transactions.

4.56. The GST treatment of government grants is at odds with the orthodox accounting treatment of grants. The definition of gift for GST is that used in income tax provisions, but other fundraising transactions are dealt with on an individual basis by the GST legislation.

### What does the ACNC say about the annual financial reports of charities?

4.57. All charities registered with the ACNC are required to submit an Annual Information Statement (AIS). Commencing 1 July 2014, medium (annual revenue greater than $250,000 but less than $1 million) and large charities (annual revenue of $1 million or greater) will be required to submit a copy of their annual financial reports (AFRs) in accordance with accounting standards (s 60-10(1) ACNC Regulation 2013.) Small charities are not required to provide the ACNC with an AFR.

4.58. The AFR submitted must be in a form that complies with certain financial reporting standards approved by the ACNC (60-5(1)).

4.59. For those charities incorporated as companies Limited by guarantee (CLGs), the ACNC's financial reporting requirements override the standards required under the Corporations Act (Parts 2M.1 and 2M.3), meaning that CLGs will be required to comply with the ACNC's tiered reporting requirements (ACNC Act s111L(1)) after 1 July 2014.

4.60. The ACNC Commissioner announced on the 18 February, 2014 that she will exercise her discretion to accept financial reports submitted to state and territory government in place of ACNC Annual Financial Reports for the 2014 reporting period.

4.61. The AFRs submitted by large and medium charities must first be audited or reviewed depending on the size of the charity as determined by their total annual revenue prior to lodgement with the ACNC (s60-20, 25 ACNC Act).

4.62. The ACNC legislation does not specify whether a registered charity is to prepare general purpose financial reports (GPFRs) or special purpose financial reports (SPFRs) and leaves this decision to the responsible entities as is the prevailing standard under the Australian accounting standards (ACNC Regs 60.10).

4.63. Under Subdivision 60-D, Requirements for annual financial reports (transitional rules), of the ACNC Regulation 2013, certain disclosures are required to be included in the AFRs of medium and large charities which were not required to comply with accounting standards in 2013 reporting period, as follows (ACNC Regulations s 60.50):

### Table 4.1. Medium charities

| Information | |
|---|---|
| **Item** | **Information** |
| | **Income statement—gross income** |
| 1 | Government grants |
| 2 | Donations and bequests |
| 3 | All other revenue |
| 4 | Total revenue |
| 5 | Other income |
| 6 | Total gross income |
| | **Income statement—expenses** |
| 7 | Employee expenses |
| 8 | Grants and donations made by the registered entity for use in Australia |
| 9 | Grants and donations made by the registered entity for use outside Australia |
| 10 | All other expenses |
| 11 | Total expenses |
| | **Income statement—net surplus/deficit** |
| 12 | Net surplus/deficit |
| | **Balance sheet—assets** |
| 13 | Total current assets |
| 14 | Total non-current assets |
| 15 | Total assets |
| | **Balance sheet—liabilities** |
| 16 | Total current liabilities |
| 17 | Total non-current liabilities |
| 18 | Total liabilities |
| | **Balance sheet—net assets/liabilities** |
| 19 | Net assets/liabilities |

Note 1: This information is also proposed to be contained in the medium registered entity's 2014 Annual Information Statement.

Note 2: Government grants are grants that the medium registered entity receives from the Commonwealth, a State or Territory or a local government body.

### Table 4.2. Large charities

| Information | |
|---|---|
| **Item** | **Information** |
| | **Income statement—gross income** |
| 1 | Government grants |
| 2 | Donations and bequests |
| 3 | All other revenue |
| 4 | Total revenue |
| 5 | Other income |
| 6 | Total gross income |
| | **Income statement—expenses** |
| 7 | Employee expenses |
| 8 | Interest |
| 9 | Grants and donations made by the registered entity for use in Australia |
| 10 | Grants and donations made by the registered entity for use outside Australia |
| 11 | All other expenses |
| 12 | Total expenses |
| | **Income statement—net surplus/deficit** |
| 13 | Net surplus/deficit |
| | **Balance sheet—assets** |
| 14 | Total current assets |
| 15 | Non-current loans |
| 16 | Other non-current assets |
| 17 | Total non-current assets |
| 18 | Total assets |
| | **Balance sheet—liabilities** |
| 19 | Total current liabilities |
| 20 | Non-current loans |
| 21 | Other non-current liabilities |
| 22 | Total non-current liabilities |
| 23 | Total liabilities |
| | **Balance sheet—net assets/liabilities** |
| 24 | Net assets/liabilities |

Note 1: This information is also proposed to be contained in the large registered entity's 2014 Annual Information Statement.

Note 2: Government grants are grants that the large registered entity receives from the Commonwealth, a State or Territory or a local government body.

4.64. The ACNC has mapped requirements to the National Standard Chart of Accounts (NSCOA).[27] The NSCOA is a protocol for management accounts of not-for-profit organisations who wish to collect financial information on a standard basis in order to acquit state and Commonwealth financial information returns. However, standardisation for fundraising terms was not possible because of the different requirements of state and territory regulators and hence it offers no guidance.

### What are the effects of the ACNC requirements?

4.65. For the first time in Australia, the ACNC Regulation 2013 introduces legislation that mandates certain lines of account in the AFRs of charities that have total revenue of $250,000 or more and that wish to retain their Commonwealth tax concessions for those which were not required to comply with accounting standards in 2013 reporting period.

4.66. The majority of the specified disclosures are unlikely to create any difficulties since they are commonly found in the AFRs of charities;

4.67. The lines of account that are likely to be related to fundraising in some way, either in the sense that they fall into state and territory definitions of fundraising (see Chapter 5), or that some aspects are likely to be included in fundraising from a professional fundraising perspective (see Chapter 6) are as follows:

4.68. Government grants are defined in the note at the foot of s 60.50 as "grants that the medium [or large] registered entity receives from the Commonwealth, a State or Territory or a local government body". The ACNC website[28] provides further guidance as follows:

> Government grants include money, assets or services received from government so that the charity can provide goods or services to others in accordance with the terms of the grant. Include all grants your charity receives or is receivable from the Commonwealth, state or territory, or a local government body in the 2014 financial year. This includes general purpose grants as well as grants received under a contract with government to provide specified services.

4.69. It is not clear whether government grants include both general purpose grants in general support of the organisation <u>and</u> grants received under the terms of service agreements or contracts with government entities. Grants that are essentially gifts (with no expectation of a specified set of deliverables) are likely to be accounted for in many charities as donations.

4.70. Donations and bequests are defined in the guidance provided on the ACNC web site as follows:[29]

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[27] https://www.acnc.gov.au/ACNC/Contact_us/Pub_consult_comment/2014AIS/ACNC/Report/2014AISGuide_Apndx.aspx

[28] http://www.acnc.gov.au/ACNC/Manage/2014AISguide/ACNC/Report/2014AISGuide.aspx?hkey=bd783044-c251-4f91-b157-41fa74627d25

A donation is when a charity receives voluntary support (by way of cash or gifts in kind) and there is no a material benefit to the donor (for example, it will not be a donation if the person giving money to the charity does so because they want entry to a special event). Include donations from public collections, fundraising, members (but not membership fees), supporters and employees. Also include any bequests and memorials. In-kind support will be valued at the same value that you would use in your accounts.

4.71. The definition provided refers to "donations from … fundraising which may or may not include tax-deductible contributions and some types of sponsorships".

4.72. The ACNC provides the following additional guidance on "Charity size and revenue" (Box 4.4).[30]

**Box 4.4**

### Revenue

Revenue is income that arises in the course of ordinary activities of a charity. Revenue can also be called sales, fees, interest, dividends or royalties. Your charity needs to calculate its revenue by using the Australian Accounting Standards (AAS), which are set by the Australian Accounting Standards Board (AASB).

Examples of revenue

The following are examples of inflows that are likely to be revenue if they relate to your charity's ordinary activities:

- government and other grants, donations (tithing), bequests or legacies, sales of goods or inflows from other fundraising activities
- fees and charges for provision of services
- interest earned
- dividends or similar distributions.

Revenue and income

Income is made up of:

- revenue – earned in carrying out ordinary activities
- gains – see examples of gains under 'not revenue' below.


Income means increases in economic benefits during your charity's reporting period that are inflows or

[29] ACNC. "2014 Annual Information Statement: Guide to requirements." http://www.acnc.gov.au

[30] ACNC. 2014. https://www.acnc.gov.au/ACNC/FTS/Fact_CharSize.aspx

enhancements of assets or increases in equity (other than contributions from equity participants) that result from liabilities decreasing.
Attention - Important information!If your charity makes a 'gain' from selling certain assets, this is considered income and not revenue. Therefore, this kind of activity would not affect the calculation of your charity's size.

Contributions
Your charity may be familiar with the term 'contributions' when preparing financial statements. Certain contributions received or receivable by your charity will be considered revenue.
Find out more about how to calculate revenue by reading the relevant AASB standards on revenue:

- AASB 118 Revenue
- AASB 1004 Contributions.

### Not revenue

Amounts collected for others
Under the AASB standards, 'amounts collected on behalf of third parties' are not revenue. This can include any:

- sales taxes, goods and services taxes and value added taxes
- amounts collected by your charity acting as an agent on behalf of another person or organisation (the 'principal') (AASB 118 Revenue, paragraph 8).

Income that is not revenue
Gains that would not be revenue are:

- gains from the sale of 'non-current' assets, such as property, plant or equipment
- unrealised gains, for example on the revaluation of certain assets.

4.73. Using the principles set out in the accounting standards, fundraising transactions could be individually classified according to the recognised typology for revenue and disclosed in the notes to the financial statements of not-for-profit entities when disclosing the various types of fundraising revenue:

1. sale of goods;
2. provision of services;
3. gifts (including donations, legacies, bequests and gifts-in-kind); and
4. transfers (including grants).

4.74. These disclosures overlap with the current requirements of both AASB 118 and AASB 1004, however, neither of these two Accounting Standards specifically requires disclosure of gifts and transfers.

4.75. The use of such a typology would also align with the Australian Bureau of Statistics' classification system and assist in the compilation of the National accounts by reducing the need to conduct separate surveys to collect sample data.

4.76. It is argued that disclosure of these four categories of fundraising income would not only enhance the relevance[31] of financial statements of not-for-profit entities, it would improve comparability,[32] as users of the financial statements will be able to ascertain the various sources of fundraising income derived by not-for-profit entities.

4.77. In terms of expenses, consideration could be given to treating the direct costs (or expenses) associated with fundraising revenue generated by the sale of goods only be disclosed on the face of the financial statements. Where material, the direct costs of the other categories of revenue should be disclosed in the notes to the financial statements.

4.78. However, indirect costs, such as the salary and wages of the CEO or any full-time staff employed by the not-for-profit entity would not be included, even if some of their time was devoted to the fundraising event. Similarly, general overhead costs such as electricity, rent or telephone, would also fall into the indirect category, and as such, would not need to be separately disclosed as a direct expense related to fundraising revenues. Instead, these costs would be shown under general administration expenses in the income statement.

### What can be learned from Commonwealth regulation about defining and accounting for fundraising income and expenses?

4.79. Commonwealth regulation does not provide any assistance in defining fundraising and, apart from passing references to fundraising in the ACNC Factsheet "Charity size and revenue"[33] and a definition of gifts in kind (for the purposes of the Australian Electoral Commission), Commonwealth regulation relevant to fundraising is confined to the tax treatment of some fundraising transactions.

4.80. The Charity Ball example described in Chapter 1 (Box 4.5) would be reported using the ACNC reporting framework (AIS 2014) for large charities as set out in Table 4.3.

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[31] Paragraph 26 of the *AASB Framework* states "to be useful, information must be relevant to the decision-making needs of users. Information has the quality of relevance when it influences the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations."

[32] In term of comparability, paragraph 39 of the *AASB Framework* reaffirms that "users must be able to compare the financial reports of an entity through time in order to identify trends in its financial position and performance. Users must (also) be able to compare the financial reports of different entities in order to evaluate their relative financial position, financial performance and cash flows."

[33] ACNC Factsheet, http://www.acnc.gov.au/ACNC/FTS/Fact_CharSize.aspx

Box 4.5

## Accounting for a Charity Ball

The honorary Treasurer of "Dancing for Kids" charity (an endorsed DGR) has been presented with the following summary of income and expenses relating to a recent charity gala fundraising ball held on Saturday night. All figures presented below are shown GST-exclusive.

| Revenue: | $ |
|---|---|
| ▪ Ticket sales (300 tickets sold at $200 per ticket) | 60,000 |
| ▪ Raffle conducted on the night (1,000 tickets @ $5 per ticket) | 5,000 |
| ▪ Donations made on the night | 2,000 |
| ▪ Sponsorship – naming rights sponsor | 3,000 |
| ▪ Sponsorship – 3 charity ball sub-sponsors ($500 x 3) | 1,500 |
| ▪ Sponsorship – in-kind support (valued) | 2,500 |
| ▪ Charity auction – 1 tax-deductible contribution | 5,000 |
| ▪ Charity auction – proceeds from 7 other items auctioned on the night | 11,000 |
| *Total Revenue:* | **90,000** |

During the evening, the local Mayor announced a grant of $25,000 to assist children with terminal illnesses attend Taronga Park Zoo and Luna Park in Sydney. He presented a cheque for the $25,000 to the CEO of the charity on the night itself.

| Expenses: | $ |
|---|---|
| ▪ Printing of tickets | 1,000 |
| ▪ Costs of preparing banner acknowledging sponsors | 500 |
| ▪ Venue hire | 10,000 |
| ▪ Catering (300 guests @ $50 per head) | 15,000 |
| ▪ Hire of band | 2,500 |
| ▪ Complimentary tickets to sponsors (5 x $200) | 1,000 |
| *Total Expenses* | **30,000** |

**Table 4.3. Large charity reporting framework**

| ACNC Annual Information Statement 2014 (Large) | | |
|---|---|---|
| **Item** | **Income statement - gross income** | **$** |
| 1 | Government grants | 25,000 |
| 2 | Donations and bequests | 2,000 |
| 3 | All other revenue | 88,000 |
| 4 | Total Revenue | 115,000 |
| 5 | Other income | - |
| 6 | Total Gross income | 115,000 |
| | **Income statement - expenses** | |
| 7 | Employee expenses | - |
| 8 | Grants and donations made by the registered entity for use in Australia | - |
| 9 | Grants and donations made by the registered entity for use outside Australia | - |
| 10 | All other expenses | 30,000 |
| 11 | Total expenses | 30,000 |
| | **Income statement - net surplus/deficit** | |
| 12 | Net surplus/deficit | 85,000 |

Notes:

a) It will be noted that in this case, the government grant was in the form of a gift (without expectation for a specified return of service and it will therefore be disclosed aggregated with other types of government grants.

b) It is likely that some preparers will disclose the $25,000 from the Mayor as a gift.

**c)** Some preparers will not include the cost of the "complimentary tickets to sponsors" in the statement, assessing the $1,000 not to be an actual expense since $1,000 does not represent the true value of the exchange.

# Chapter 5. State and territory regulation and fundraising

5.1. The regulation of charitable fundraising in Australia primarily rests with state and territory governments. All states and territories, except the Northern Territory, have a registration or licence requirement. The activity that requires registration or licensing – to solicit, fundraise, conduct collections, or conduct appeals for support – is different in each jurisdiction, with different descriptions of such activities. Some jurisdictions class bequests, membership fees and sales of goods and services with fundraising, while others exclude fundraising activities directed at members on club premises or employees of a common employer, and charitable gaming. Certain types of organisations may also be excluded in some jurisdictions, most commonly religious organisations and quasi-government authorities. There is no pattern or inherent logic to the regulatory regimes, which have largely resulted from political compromise or to address specific mischief at a particular moment in time.

5.2. It is not surprising that the financial terms used in reports to the regulator or mandated disclosures to the public are equally idiosyncratic. They range from no mandated financial returns in Tasmania to prescriptive forms in South Australia, Victoria and New South Wales. Some jurisdictions appear to rely on financial accounts filed under entity provisions (e.g. incorporated associations legislation) to satisfy any need to examine the accounts of an organisation. The financial terms which are prescribed are usually loosely defined and vary between jurisdictions. For organisations with cross-border fundraising, in some jurisdictions they are required only to report fundraising transactions related to the specific jurisdiction in which they are licensed; in others they report all fundraising.

5.3. We summarise each jurisdiction with an overview of the regulatory schema and detail the financial information that must be collected and disclosed. We also note specific provisons concerning fundraising abuse concerned with excessive benefits and that are not in the public interest. Since charitable gaming is often regarded as a means of fundraising, it is also examined where it has a bearing on financial reporting.

## How is fundraising regulation treated in Queensland?

5.4. In Queensland, the *Collections Act 1966* regulates an “appeal for support” for charitable and/or community purposes by the organisation itself or through a promoter (section 10). Section 5 defines “appeal for support” broadly, to include public advertisements, sales of tickets or goods, staging of events, and also money raised from membership fees where there is public notification that it will be used for that purpose.

5.5. Part 7 of the Act and section 30 of the Regulation apply to the collection of financial information and its reporting by organisations and promoters. Audited financial statements must be filed, along with a Form 20 return. There are no specific requirements about the reporting of fundraising transactions in relation to the audited financial statements and Form 20 does not require special financial information.

## How is fundraising regulation treated in Tasmania?

5.6. In Tasmania, the *Collections for Charities Act 2001* regulates soliciting of donations for a charitable purpose (section 6). Soliciting is defined in terms of modes of requests communicated in person or by various means such as by mail, telephone, email or the internet. It does not include renewals of membership, sales of goods or services or appeals conducted on church or club premises, or appeals to an organisation's members (section 3). Tasmanian incorporated associations or corporations with their principal office located in Tasmania are not required to register in order to solicit funds or to file any financial returns under this Act. Other Tasmanian bodies such as unincorporated associations or trusts can get approval to solicit if they fall within a class of organisations in the regulations, or are approved individually by the Commissioner for a specified period. Non-Tasmanian incorporated associations or corporations must get approval of the Commissioner before soliciting funds. Again, no financial returns or statements are required. However, an organisation must not permit agents, officers and employees to receive excessive benefits in relation to the fundraising (section 13). The criteria for determining excessive benefits is set out in section 13(2):

(2) In determining whether a benefit is manifestly excessive, a court must have regard to—
- (a) the purpose of the organisation; and
- (b) the income of the organisation; and
- (c) the roles of the agents, officers or employees of the organisation; and
- (d) the expenses incurred in the management of the organisation compared with—
  - (i) the purpose of comparable organisations; and
  - (ii) the income of comparable organisations; and
  - (iii) the roles of the agents, officers or employees of comparable organisations; and
  - (iv) the expenses incurred in the management of comparable organisations; and
- (e) any other matter that the court considers relevant."

## How is fundraising regulation treated in Western Australia?

5.7. In Western Australia, there are two pieces of legislation, the *Charitable Collections Act 1946* and the *Street Collections (Regulation) Act 1940*. The *Charitable Collections Act* requires persons who collect funds for charitable purposes to be licensed. The definition of collection is wide, including a variety of solicitation methods, sales of tokens, and conduct of entertainments with part of the proceeds going to charity. The Minister can require an audited financial return (section 15), but this is rarely sought. However an office bearer's statement is required to attest to the following:[34]

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[34] Western Australia, Department of Commerce, "Office Bearer's Statement", http://www.commerce.wa.gov.au/consumerprotection/PDF/Charities/Office_Bearers.pdf.

- The accounts give a true and fair view of all income and expenses of the licence holder as at the end of the financial year and of the results of its operations and its cash flows for the financial year.
- The Balance Sheet gives a true and fair view of the state of affairs of the licence holder as at the end of the financial year.
- The Income and Expenses Statement is sufficiently detailed to enable identification of all charitable collections received and the manner in which the collections have been dealt with.
- Fundraising expenses (i.e. salaries, wages, commissions and any professional fundraising fees) are disclosed separately in the accounts.

5.8. There have been proposals to reform the legislation for some time, but in the meantime a voluntary Code of Practice is in place.[35] The following is extracted from the Code of Conduct:

> **Accounting procedures**
> All organisations and individuals covered by this code are required to produce accurate information relating to public fundraising to ensure accountability to donors. Records must be kept in such a manner as will ensure that funds raised from the public are properly accounted for and the results of fundraising activities are verifiable. This requires that certain accounting procedures and standards be adopted.
> 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. A recognised accounting method is to be used. Australian Accounting Standards must be complied with in the preparation of accounts.
> **Fundraising Income and Expenses**
> Financial statements must include:
> a. a balance sheet; and
> b. an income and expenses statement
> The income section of the income and expenses statement must:
> a. clearly describe each type of fundraising activity conducted and avoid the use of general terms such as "fundraising";
> b. list separately each different type of fundraising activity conducted. Do not aggregate the results of different types of fundraising activities. It is acceptable to aggregate the results of identical fundraising activities. For example, the revenue raised from three raffles conducted in a year may be aggregated.

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[35] Western Australia, Department of Commerce, “Voluntary Code of Practice forpublic fundraising”, http://www.commerce.wa.gov.au/consumerprotection/content/business/Charities/Code_of_Practice/Code_of_Practice.htm.

The expenses section of the income and expenses statement must:

a. separately list the expenses for each type of fundraising activity listed in the income section;

b. include all direct costs of fundraising in addition to a fair apportionment of relevant and identifiable indirect costs and overheads.

**Note**: Section 3 of this code lists some indirect and overhead fundraising costs.

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.[36]

5.9. The following is an extract of section 3 of the Code, Conducting public fundraising (emphasis in original):

**When a donation or purchase is solicited, tell the donor or purchaser, how much of the funds raised will be used to meet the costs of raising the funds.**

Ensure the organisation uses its best endeavours to be able to inform donors or purchasers of:

a. the projected costs associated with raising funds;

b. the net proportion of the funds raised which it intends will be returned to the objectives being funded; and

c. the actual costs incurred in raising funds and the net proportion returned to the objectives being funded.

In calculating these costs, make allowance for all direct and indirect costs to the extent that they can be ascertained, including but not limited to the following:

a. fees or commissions

b. hire of premises or equipment

c. promotion or marketing costs

d. postage

e. printing/artwork

f. prizes or other goods

g. telephone

h. stationery (including tickets)

i. salaries and wages (both temporary and ongoing) and any related costs

j. reimbursements to volunteers

k. relevant ongoing overheads such as:

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[36] "3. Other requirements relating to selected fundraising activity", in: Western Australia, Department of Commerce, *Inc. – A Guide for Incorporated Associations*, http://www.commerce.wa.gov.au/associationsguide/Content/11_Fundraising/11.3_Other_requirements_relatin.htm

- electricity
- rent
- building maintenance
- general administration costs.

Where an indirect cost cannot be ascertained, make a fair allowance for it.

5.10. The *Street Collections (Regulation) Act 1940* applies to any person who conducts a collection in a public street in the Perth Metropolitan area (section 3(1)). Collection is given a wide meaning and includes solicitation as well as selling tokens (section 2). Regulation 10 of the *Street Collection Regulations 1999* requires a return setting out "the amount collected, the expenses incurred in carrying out the collections" and the distribution of funds to each of the beneficiaries.

### How is fundraising regulation treated in the Australian Capital Territory?

5.11. In the Australian Capital Territory, the *Charitable Collections Act 2003* regulates collection for a charitable purpose by a wide variety of means (section 7). Methods covered include directly, by telephone, post, or email, as well as gaming, donations of goods such as clothing, sponsorships or supply of food or entertainment (section 7). Membership fees, bequests, and funds received from members on club premises or through a common employer are not included. A licence is required to collect funds in the ACT, except where an individual or organisation collects less than $15,000 from ACT residents in a 12 month period.

5.12. Where the amount of the collection from ACT residents is $50,000 or more, a financial statement form must be submitted along with audited statements of the collection. If the collection includes monies collected from other Australian states and territories the whole collection may be reported together, if the collector is unable to distinguish between that collected from the ACT and that collected elsewhere (section 15(3)).

5.13. The prescribed financial report form requires the following information:

- gross proceeds of the collection;
- total expenses;
- net proceeds.[37]

### How is fundraising regulation treated in South Australia?

5.14. In South Australia, the *Collections for Charitable Purposes Act 1939* regulates "collectors" for charitable purposes. Collectors are those who collect money or property, including by sales of tokens etc., and also by seeking bequests and devises (section 4). Collectors must be authorised by licence or provide all proceeds to a licensed person unless certain limited exemptions apply.

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[37] ACT, Department of Justice and Community Safety, "Financial Reports to the Director-General for a Charitable Collection", http://www.legislation.act.gov.au/af/2013-79/default.asp

A special licence is available for persons who charge for an entertainment where all or some part of the proceeds are to go to a charitable purpose (section 7).

5.15. Licence holders must file a copy of the audited accounts together with a statement (section 15(2)) setting out:

- The amount of money collected;
- The costs associated with collection or receipt of the money;
- How the money has been dealt with.

5.16. The Collections for Charitable Purposes licence requires reporting of the following:[38]

A. Money collected pursuant to a section 6 licence including from direct mail, telemarketing, general unsolicited donations, internet donations, badge/flower/token days, door knock appeals, payroll deduction schemes, donations in memoriam and bequests (if monies have been received), grants. If property (e.g. clothing, second hand goods etc.) is collected or received for a charitable purpose, the money received from the sale of the property must be included. Money collected pursuant to section 7 (i.e. entertainments) includes dinners/balls, quiz nights and film nights.

B. Costs associated with the collection or receipt of the money including the relevant proportion of any fixed or overhead costs (not including any other running cost of the charity).

C. A declaration of the amount of the gross proceeds distributed for charitable purposes in the financial year.

D. If payment has been made to a speaker or other performer at any entertainment that exceeds $5,000, this information must be detailed. If any disparities are shown between the amount available for the charitable purposes and the amount distributed for charitable purposes, reasons have to be provided.

5.17. Where a collection agent has been authorised by a charity to collect on its behalf, a Collection Agent's Statement is required providing:

A. Details of the amounts collected, the payments made by the charities - including up-front costs and commission on amounts collected; Costs of collections including the relevant proportion of any fixed or overhead costs;

B. Income from direct mail, telemarketing, general unsolicited donations, internet donations, Badge/Flower/Token Days, door knock appeals, payroll deduction schemes, donations in memoriam and bequests actually collected by the licensee;

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[38] "Fundraising Income and Expenses Statement for Section 6 and Section 7" (*Collections for Charitable Purposes Act 1939*, s 15(2)(b)), http://www.cbs.sa.gov.au/lottery/forms/Fundraising_Income_and_Expenses_Statement_for_Section_6_&_Section_7.pdf.

C. Details of the activity where no money was received by the agent and was directed to the charity (e.g. internet donations, seeking bequests and sponsorship).

Box 5.1

### Case Study

**Cancer and Bowel Research Association Incorporated as trustee for Cancer and Bowel Research Trust**

Few cases which involve fundraising expenses have generated case reports in Australia, but this was a recent case reported in South Australia. In 2010 the state regulator refused a licence to fundraise for The Cancer and Bowel Research Trust (the Trust) established in 1998. It raised money from the community using a range of means including telephone and door to door canvassing. The Commissioner for the SA Office of Liquor and Gambling stated in a press release:[39]

> I decided to refuse to issue further licences for the formerly licensed trusts because I was not satisfied that the trustee, CBRA, had operated in a sufficiently transparent manner for a charity. For example, in its 2008 financial statements CBRA initially reported that it had paid a total of $726,519 for research projects and $72,746 in key management compensation. Following a management review, CBRA later amended these figures to $71,352 and $1,206,822 respectively. This is not to say that I formed the view that CBRA or its officers were acting dishonestly but to say that CBRA did not present their financial statements in a transparent manner.
>
> The members of the board of CBRA have since acknowledged to me that the financial statements for the 2007 and 2008 financial years "were, albeit unintentionally, not transparent and apt to mislead" in—
>
> - understating the total remuneration paid to employees of CBRA;
> - in omitting to disclose that employee entitlements of senior employees had been paid through a related (unlicensed) trust, Australian Cancer Education and Prevention Fund; and
> - in overstating the amount applied to "research grants" and correspondingly understating the amount applied to "prevention and awareness campaigns".

The matter was settled after the first day of the court proceedings and the licence was granted on conditions. The Commissioner imposed standards in respect of the accounts, exceeding those in the Australian Accounting Standards. The Commissioner further stated in his press release *"I was willing to enter into the negotiations because the settlement proposed met most of my concerns and included certain features which could not be achieved through formal litigation."*[40]

The background to this situation is that in about mid-2009, an article was published in a newspaper circulating in South Australia which referred to serious allegations against the CEO of the Trust and resulted in damaging publicity to the Trust. In a subsequent court case the CEO gave evidence that the articles arose from allegations made by a former employee of the Trust whom he had dismissed in 2003

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[39] South Australia, Office of the Liquor and Gambling Commissioner, "Commissioner Statement: Cancer and Bowel Research Association Inc" (Media Statement, 6 July 2011) http://www.cbs.sa.gov.au/assets/files//OLGC_CBRA_media_statement_6-7-11.pdf

[40] Ibid, p. 2.

for embezzlement. This person's parents reimbursed the Trust for the amount involved. The former employee then went to work for another not-for-profit organisation. Some years later he was convicted of embezzling an amount in excess of $500,000 from that organisation, and made allegations against the trust's CEO in an endeavour to secure a plea bargain. The allegations were investigated by the Fraud Squad, but were dismissed after a short investigation, and no charges were ever laid against the CEO. However, in July 2010 the Liquor and Gambling Commissioner declined to issue further charity licences to the applicant and the other three related Trusts because of concerns raised by that Commissioner about the financial statements of the Trusts.

At the same time, the Commissioner of Taxation withdrew the Trust's DGR status for a number of reasons, but one of the concerns was with fundraising expenses which took a number of forms. The case was heard in the Administrative Appeals Tribunal (*Cancer and Bowel Research Association Incorporated as trustee for Cancer and Bowel Research Trust and Commissioner of Taxation* [2013] AATA 336)

From the case report the judge found that:

- From 1998 to 2004, the trust had an arrangement where it paid a private company 70% of the funds raised by it on the Trust's behalf and retained 30% for its own expenses and then for its charitable purposes. In mid-2004, the Trust purchased the business and acquired another that had operated a telemarketing campaign for the Trust.
- Further, the Trust engaged persons who would be "unemployable in the general employment marketplace" (about 50% of its employees) as door to door and telemarketing staff. These people were not only soliciting donations, but were also contributing to awareness and prevention activities in relation to cancer. The trust was able to produce evidence which supported and quantified this type of activity. An employee of the Trust who was the state liaison for the local executive of the Fundraising Institute Australia also gave supporting evidence.

The Commissioner argued that not all revenue was being expended for its charitable purposes. In evidence, the Trust's spreadsheet included its estimate of expenses for charitable purposes as a percentage of revenue, and showed a range of percentages from 15.8% to 41.85% in the years 2005 to 2011. The Trust's spreadsheet then attributed a further percentage of the fundraising costs to what it described as "relief of poverty" – apparently an estimate of the amount paid to the persons engaged by the applicant to carry out its fundraising activities (who would otherwise be unemployable), calculated at 20% of total fundraising costs. This additional amount increased the percentages paid for fundraising to a range of 27.73% to 50.25% in the years from 2005 to 2011. The Tribunal commented that this was a relatively high amount compared to the New South Wales average of about 21%. However, it did not accept that this was unreasonable. The appropriate amount to devote to such purposes was difficult to quantify (at [108]–[109]):

> For my part, I do not regard it as possible to quantify the dollar value of this aspect of the awareness and prevention activities of the applicant, or to express it as a percentage of revenue, other than to say that the applicant [Trust] should be given credit for a reasonable proportion of its total fund raising expenses under this heading, and that that proportion should not be regarded as immaterial in assessing whether the applicant [Trust] was acting as a charity.... Further, the 2011 Deed expressly authorises the Trustee to employ persons. The

engagement of persons who would otherwise have been unemployable did not constitute a breach of trust, and I think could be taken into account in considering whether the applicant was engaged in charitable activities.

Second, the Commissioner also drew attention to the total payments made in the 2007 and 2008 financial years to restaurants and hotels: $27,475.37 in 2007 and $27,541.05 in 2008. The venues concerned had been used for meetings with senior staff for management purposes, to discuss concepts to improve the Trust's business activities, and as a reward and encouragement to staff and to assist morale.

In a related argument about excessive expenses, the tribunal agreed with counsel's criticism that it is inappropriate for a charitable institution to incur substantial entertainment expenses. Nevertheless, it noted that in most organisations, some degree of entertainment expense will be incurred, and can be of benefit to them. The total amount of the entertainment expenses paid by the applicant was viewed in the context of the total income of the Trusts, which was in excess of $5 million in each of the years in question. The Tribunal concluded that "In all of the circumstances, I do not think that this expenses was such that it should result in the applicant's endorsement as a charitable institution being revoked." (at [98]).

The Tribunal made several findings about the character of those involved, saying of two key staff that they were "impressive witnesses, and there is no basis for doubting their integrity in managing the Trust and the application of funds" (at [89]). The committee of management included a chartered accountant and two lawyers who were partners in legal firms and there was evidence that they "went through the accounts of the association each year with a fine tooth coomb" (at [98]). The accounts were properly audited.

The ultimate decision of the Tribunal remitted the issue back to the ATO for further consideration.

The case was appealed to the Full Court (*Commissioner of Taxation v Cancer & Bowel Research Association* [2013] FCAFC 140). The trustee challenged the competence of the statutory appeal proceeding to the Court by contending that no reviewable error was made by the lower Tribunal. The trustee also contended that any relief in the judicial review proceeding should be refused as a matter of discretion. The trustee succeeded on this point. There being no basis for the Commissioner's appeal, the case was dismissed and there was no further discussion about fundraising expenses.

**Takeaways**

- The matter arose not because of regulator activity, but a whistleblower (whose allegations were found to be incorrect).
- The allegations appear to have been made initially to the Police and not the specialist regulator in the first instance.
- The fundraising regulator settled the matter out of court as it allowed the imposition of conditions beyond what the court may impose. Were the regulations fit for purpose?
- The conditions were partly in respect of the accounts that exceeded those contained in the Australian Accounting Standards.
- There was great difficulty in allocating joint expenses (e.g. entertainment, provision of information and education, charitable activities from fundraising expenses).
- Although the accounts were prepared and audited in accordance with Australian Accounting

Standards with a diligent and appropriately skilled governance body, they were still judged not to be transparent enough. In the end, the essence of the activities was not brought into question, it was the way they were reported (even though in accordance with the law and Australian Accounting Standards).

## How is fundraising regulation treated in New South Wales?

5.18. In New South Wales, the *Charitable Fundraising Act 1991* regulates the conduct of fundraising appeals for charitable purposes. Conducting an appeal includes direct solicitation as well as by post and telephone and includes gaming, sponsorship, sales of goods and services and entertainments (section 5). It does not include fees for membership, an appeal to members, or workers of a common employer, or solicitation of bequests. Authorities to fundraise are usually granted on conditions (section 19).[41]

5.19. A natural person or an unincorporated association must make a periodic return about fundraising proceeds (section 23) if their income from fundraising exceeds $100,000. Incorporated organisations are not required to submit such returns unless requested (section 27), but are required by standard licence conditions to include certain financial disclosures in their annual financial statements.

5.20. The standard conditions to fundraise require unincorporated associations to provide a return on completion of fundraising activities or on exceeding $100,000 of gross fundraising income in any year.[42] The standard conditions set the requirements for the annual financial accounts as:

> (1) The annual financial accounts (also known as financial reports) of an authorised fundraiser that is an organisation must contain:
>
> > (a) an income statement (also known as a statement of financial performance, a statement of income and expenses or a profit and loss statement) that summarises the income and expenses of each fundraising appeal conducted during the financial year; and
> >
> > (b) a balance sheet (also known as a statement of financial position) that summarises all assets and liabilities resulting from the conduct of fundraising appeals as at the end of the financial year.
>
> (2) The annual financial accounts of an authorised fundraiser that is an organisation must also contain the following information as notes accompanying the income statement and the balance sheet if, in the financial year concerned, the aggregate gross income obtained from any fundraising appeals conducted by it exceeds $100,000:
>
> > (a) details of the accounting principles and methods adopted in the presentation of the financial statements;

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[41] Standard terms are available at http://www.olgr.nsw.gov.au/pdfs/Authority_conditions_fundraising.pdf

[42] Standard conditions clause 4.

(b) information on any material matter or occurrence, including those of an adverse nature such as an operating loss from fundraising appeals;
(c) a statement that describes the manner in which the net surplus or deficit obtained from fundraising appeals for the period was applied;
(d) details of aggregate gross income and aggregate direct expenses incurred in appeals in which traders were engaged.

5.21. Clause 7 of the standard conditions states:

**Ratio of expenses to receipts**
(1) An authorised fundraiser conducting a fundraising appeal for donations only (that is, without any associated supply of goods or services) must take all reasonable steps to ensure that the expenses payable in respect of the appeal do not exceed 50 per cent of the gross income obtained, whether the appeal is conducted house-to-house, in a public place, by telephone canvassing or in any other manner.
(2) An authorised fundraiser conducting a fundraising appeal otherwise than for donations only (that is, with associated supply of goods or services) must take all reasonable steps to ensure that the expenses payable in respect of the appeal do not exceed a fair and reasonable proportion of the gross income obtained.

## Fundraising regulation in Victoria

5.22. In Victoria, the *Fundraising Act 1998* regulates the conduct of fundraising appeals. The Act provides that a fundraising appeal occurs whenever any person or organisation, including a business, collects money for a beneficiary, cause or thing, rather than solely for their own profit or commercial benefit. This includes collecting food, clothes and other items on behalf of a person or organisation, but does not include regulated gaming, membership fees, or soliciting from those with a common employer (sections 5 and 6).

5.23. Section 29 requires:

(a) full details of all funds and assets received as a result of the appeal;
(b) full details of what happened to all those funds and assets;
(c) full details of—
(i) the amount applied to the purposes or objects of the appeal and how it was distributed;
(ii) any expenses on assets;
(iii) any expenses on wages, salaries, commissions and other remuneration in relation to the appeal;
(iv) any other administrative expenses related to the appeal;
(v) any other expenses related to the appeal;

5.24. The annual return form[43] requires the above, as well as:

- an estimate of the organisation's gross proceeds for the next 12 months;
- an estimate of the percentage of these gross proceeds that will go to beneficiaries in the next 12 months;
- gross proceeds by activity such as capital/major gifts, direct marketing, online marketing, online donations, telemarketing, volunteer fundraising, sponsored activities, sales of goods at opportunity shops, ball/dinner dance, auction, art exhibition, highway/street collections, bequest and selling goods a portion of which is donated; and
- a copy of the organisation's most recent audited financial statements.

5.25. Section 29(2) further recognises that if the fundraising is part of a national appeal then Victorian donations need not be separated.

5.26. Consumer Affairs Victoria requires registered fundraisers to lodge an "Annual Return by a Fundraiser" (section 29) in which they must estimate their expected gross proceeds from fundraising activities in the following 12 months and disclose gross proceeds from a number of listed fundraising activities, together with the total amount distributed and the percentage of gross proceeds from all fundraising activities. The Return lists the following fundraising activities:

- Capital/major gifts;
- Direct marketing;
- Online donation;
- Telemarketing;
- Volunteer fundraising;
- Sponsored activities;
- Sale of goods at opportunity shop;
- Ball/Dinner dance;
- Auction;
- Art exhibition;
- Highway/Street collections;
- Bequest;
- Selling of goods where portions of the sale price are donated to a charitable organisation or cause.

5.27. In addition, if an organisation intends to collect funds, receive subscriptions, or request donations for any purpose related to any military service or duty then the *Veterans Act 2005* applies (section 33). This Act replaced the *Patriotic Funds Act 1958* which dated from the first

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[43] The annual return form is partially pre-filled by the Department and forwarded for completion to the organisation.

World War, when Victorian communities raised money to assist soldiers and their families. Section 46 gives the department power to request an audit of the fund.

5.28. If the trustee of a patriotic fund is an incorporated association, two annual statements must be provided to Consumer Affairs Victoria:

- one statement completed by the association as trustee of the patriotic fund, which must include the income, expenses and balance sheet relating to the patriotic fund's assets;
- one statement from the public officer of the incorporated association listing the income, expenses and balance sheet relating to the assets of the association as presented to its members at its annual general meeting

5.29. Otherwise a tiered reporting arrangement applies, with those having annual receipts of less than $10,000 not required to prepare audited financial statements unless requested. Annual receipts above $ 10,000 require the preparation of audited financial statements, but only those above $50,000 need auditing by someone with formal accounting qualifications.

5.30. Section 6B of the *Fundraising Act 1998* states that "a fundraising appeal is not conducted in the public interest if, in the opinion of the Court or the Director, as the case may be, the expenses payable in respect of the appeal in a particular period exceed a reasonable proportion of the total amount raised in that period". The Victorian Department of Consumer Affairs website states:[44]

> If you estimate that **less than 35 per cent** of fundraising proceeds will be distributed to the beneficiaries, we will ask you to "show cause" why you should be registered. Examples of the types of information you can provide to show cause include:
>
> - the nature and type of the appeal (for example, a fundraising dinner will have higher administration costs than a door-knock appeal)
> - the reasonableness of the administration costs of the appeal
> - the size of the appeal (for example, 35 per cent of a large appeal could provide significant benefit to the beneficiaries)
> - the maturity of the appeal (for example, a fundraising organisation in an establishment phase might have higher initial administration costs)."

### How is fundraising regulation treated in the Northern Territory?

5.31. There is no specific legislation for fundraising or collections in the Northern Territory and there are no plans to introduce any. Issues appear to be dealt with under other laws, e.g. public nuisance under police powers, and false and misleading conduct under consumer protection laws.

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[44] http://www.consumer.vic.gov.au/clubs-and-not-for-profits/fundraisers/registration/conditions-on-registration

### What is the impact of charitable gaming regulation on financial reporting?

5.32. Organisations conducting fundraising activities that fall under the charitable gambling regulations in each jurisdiction are also required to lodge certain reports or returns in a tiered system, dependent on the gross proceeds of any one game or session. Smaller games are generally not required to report, while larger games have to submit reports and returns. Table 5.1 sets out the lines of account that are either required in a mandatory Return to the state or territory regulator, or specified in the records that must be maintained by the licensee.

**Table 5.1. Information reported in charitable gaming returns by jurisdiction**

| Line descriptions | QLD | NSW | ACT | VIC | TAS | SA | WA | NT |
|---|---|---|---|---|---|---|---|---|
| Gross receipts | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| Gross profit | | | | ✓ | | | | |
| (Retail) Value of donated prizes | | ✓ | | | | | | ✓ |
| Cost of prizes | | | | | | | | ✓ |
| Value of Prizes paid | ✓ | ✓ | | | | | ✓ | ✓ |
| Selling expenses | ✓ | | | | | | ✓ | ✓ |
| (Total) Expenses/Expenses | ✓ | ✓ | ✓ | ✓ | ✓ | | | ✓ |
| Net profit (proceeds) | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |

5.33. In NSW, Queensland and several other jurisdictions, the regulation of the financial records of charitable gaming is based on the activities being akin to separate trading entities that must account for each game, session, or lottery/raffle/art union and disburse their net proceeds to the charity nominated in the licence. In some jurisdictions, a special Committee has to be nominated in the licence application and is charged with supervising the game(s).

5.34. The regulation of charitable gambling has little impact on the financial reporting practices of fundraising charities, apart from whether or not associated income and expenses are included in fundraising, and the potential impact on the cost of fundraising in those jurisdictions where charitable gambling is included in the definition of fundraising. For example, in Queensland, where art unions are included in the definition of appeals for support (fundraising), charities that rely heavily on income from various forms of charitable gambling will be subject to charitable gambling regulation that mandates the minimum proportion of the gross sales that must be offered as prizes. In any comparison with an organisation based in a jurisdiction where charitable gambling is not included in the definition of fundraising, or that does not have a significant income from charitable gambling, the charity conducting charitable gambling will tend to report both higher fundraising total income and a higher costs of fundraising.

### How do the regulations effect a national fundraising organisation?

5.35. As will be observed from the review of each jurisdiction, there are considerable differences in what is included or excluded from the operative definition of fundraising. Those organisations operating over more than one state or territory, will encounter different jurisdictional reporting obligations in financial statements and specific fundraising returns. For national organisations conducting fundraising in all Australian jurisdictions and perhaps overseas, the issues are compounded. Further complications arise for an organisation raising funds across jurisdictions with different definitions and regulation of fundraising, where some fundraising regulation requires the entity's financial accounts to be modified to include specified financial information (e.g. in NSW).

5.36. It is a fruitless exercise to render a description of fundraising accounting records, specific information required to be collected, annual returns and audit requirements into a detailed legal descriptive narrative. As indicated above each jurisdiction is different, in some cases minor but often important detail, in other respects jurisdictions are very divergent. The NSCOA could not map the requirements for such regulators into one uniform set of management accounts because of the differences. Detailed comparative descriptive tables can be found in appendices on the ACNC site.[45] A comparison of each jurisdiction can be found in Appendix C.

5.37. In order to gain some insights into the issue from different lenses, two approaches, just examining the definition of fundraising and the financial details required as a result, are considered below. The first attempts to reduce the activities contained in the different definitions to a formula which identifies the different activities in each jurisdiction. The second takes a market analysis approach.

5.38. The table below provides a comparison of the fundraising activities that are included and those that are excluded in each state and territory. Using a "formula approach", the analysis reveals that any calculation of fundraising income and expenses would vary significantly between Australian jurisdictions because different types of activities (transactions) that might be included or excluded in fundraising in one state are not included and excluded in others. Using NSW as an example, fundraising in that state includes Donations (DON), Art Unions (AU), Special Events (SE), sales of any merchandise (MER), sale of any services (SVS) and activities generated in conjunction with a commercial entities (COM), but excludes unsolicited donations (UNS), membership fees (MEM), fees from nominated services (ESVS), grants from government (GOV) and government trust funds (GTF) and bequests (BEQ) or, expressed as a formula: The coverage of the definition of Fundraising in NSW = DON+AU+SES+MER+SVS+COM-UNS-MEM-ESVS-GOV-GTF-BEQ.

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45 https://www.acnc.gov.au/ACNC/Contact_us/Pub_consult_comment/2014AIS/ACNC/Report/2014AISGuide_Apndx.aspx

5.39. Fundraising regulation in Victoria could be expressed as: FR=DON-MEM-ESVS-AU-GOV-COY-CTF-PAR-FT where COY equals donations from companies, CTF equals donations from charitable trusts, PAR equals donations from partnerships and FT equals donations in lieu of floral tributes.

5.40. Formulae representing the coverage of the regulation in each jurisdiction are shown for each Australian jurisdiction in Table 5.2. This analysis illustrates that no two charities, located in different jurisdictions, and wishing to comply with their different regulatory requirements, would calculate the sum of their "fundraising" income and expenses in the same way. The practical effects of the differences include:

- use of the term "fundraising" in line descriptions within the financial accounts of a charity is likely to reflect the local fundraising regulatory environment; and
- the way fundraising transactions are classified in the general ledger of individual charities is likely to reflect the way in which such activities are reported in those jurisdictions where mandatory reports/returns are required.

5.41. Comparison across Australian jurisdictions is unlikely to be accurate or useful, unless organisations prepare multiple financial statements that segment fundraising income and expenses according to the requirements in each jurisdiction.

**Table 5.2. Comparison of activities included or excluded in the definition of fundraising, by jurisdiction**

| CODE | Queensland | New South Wales | Australian Capital Territory | Victoria | Tasmania | South Australia | Western Australia |
|---|---|---|---|---|---|---|---|
| | Appeals for support | Fundraising appeal (see Note 3) | Collection for a charitable purpose (see Note 3) | Fundraising appeal (see Note 3) | Soliciting for a charitable purpose | Collection for charitable purpose | Collection for charitable purpose |
| **PLUS** | **INCLUDED IN REGULATED FUNDRAISING** | | | | | | |
| DON | | Donation | | | | | |
| DON | Money | Money | Money | Money | Money | Money | Money |
| DON | Articles | Property | | | | Property | Goods |
| DON | | Benefit | Benefit | Benefit | | | |
| DON | | | | | | | Disk, token or badge, etc. |
| DON | | | Clothing bin collection | | | | |
| DON | | | Giving to opportunity shops | | | | |
| DON | | Sponsorship of a walkathon etc. | Sponsorship of a walkathon etc. | | | | |
| AU | Art union sales | Lottery, art union or competition | Lottery, art union or competition | | | | |
| SES | Sale of tickets to a function | Supply of food, entertainment | Supply of food, entertainment | | | Sale of tickets to a function | Entertainment or function |
| MER | Sale of any articles | Supply of goods | Supply of goods | | | | |
| MEM | Membership fees | | | | | | |
| SVS | Sales of any services | Supply of services | Supply of services | | | | |
| COM | Sales in conjunction with others | Sales in connection with others | | | | | |

| CODE | Queensland | New South Wales | Australian Capital Territory | Victoria | Tasmania | South Australia | Western Australia |
|---|---|---|---|---|---|---|---|
| **LESS** | **EXCLUDED FROM REGULATED FUNDRAISING** | | | | | | |
| UNS | | Unsolicited collections | Unsolicited collections | | | | |
| MEM | | Membership fees | Membership fees | Membership fees | Membership fees | | |
| ESVS | | Fees for nominated services | | Fees for nominated services | | | |
| GOV | | From Local Councils | | | | | |
| GTF | | From Government Trusts | | | | | |
| AU | | | Lottery, art union or competition | Lottery, art union or competition | Lottery, art union or competition | | |
| BEQ | | Bequests | Bequests | | | | |
| GOV | | | Government fees and grants | Government fees and grants | Government fees and grants | | |
| COY | | | Sponsorships from a corporation | From a corporation | | | |
| CTF | | | Charitable trust grants | Charitable trust grants | | | |
| PAR | | | | From a partnership | | | |
| FT | | | | Money or benefit in lieu of flowers | | | |
| MER+SVS | | | | | Sale of goods or services | | |

Note 1: Formula representing the coverage:
QLD FR=DON+AU+SES+MER+MEM+SVS+COM
NSW FR=DON+AU+SES+MER+SVS+COM-UNS-MEM-ESVS-GOV-GTF-BEQ
ACT FR=DON+SES+MER+SVS-UNS-MEM-AU-GOV-COY-CTF
VIC FR=DON-MEM-ESVS-AU-GOV-COY-CTF-PAR-FT
TAS FR=DON-MEM-AU-GOV-MER-SVS
SA FR=DON+SES
WA FR=DON+SES

Note 2 The terms exclude descriptions which relate to the activities of an institution such as church or university or which describe a means to fundraise such as 'by mail, telephone or Internet.

Note 3 Where an appeal is conducted on an interstate or national basis, no state segregation of financial information is required.

5.42. Another perspective of the various state and territory regulations is that gained by bringing a marketing lens to the regulation (Kotler 1967). The following table uses this perspective to provide an analysis by fundraising products, markets, marketing means and marketing by whom.

5.43. Although state and territory regulatory regimes use different terminologies to describe the fundraising behaviours, the regulations tend to refer to the collection or appeal for certain types of fundraising transactions or products such as donations, sales, or grants. Similarly, the regulation tends to regulate or exempt certain audiences or market segments such as public appeals, members or persons with shared workplace, etc. In describing what kind of fundraising practices are regulated or exempt, some regulators refer to various marketing channels or marketing means such as mail, telephone, radio or television advertising. Finally, the regulation refers to whom may engage in fundraising, so that some regulation refers to members, commercial agents, traders and employees.

5.44. In practice, modern fundraising techniques use combinations of fundraisers (whom) to solicit support in various forms (products) from carefully selected market segments (markets) using one or a combination of marketing channels (means) (Sargeant 2010).

5.45. It would not be unusual for (authorised) volunteers to be employed in soliciting art union ticket sales or donations from past supporters using the telephone supported by a follow-up mail piece and community service television advertising, each element of such a campaign being regulated in some way in at least one jurisdiction in Australia.

5.46. Hence, the concepts of the regulation do not readily match the organising principles of modern effective and efficient fundraising practices. This is because the most of the regulation dated from an era with limited marketing channels (eg no internet or social media). Regulating the sale of badges on the street corner is not the same as face to face solicitation with automatic re occurring direct debits and follow-up by mobile text messaging. Concepts of donor lifetime value and donor value pyramids were not conceptualised at the time of much of the base legislation. This suggests that a restructure of the regulatory framework is necessary, rather than mere amendments.

5.47. More immediately, a combination of audiences and marketing channels, some of which may or may not be within the regulatory scope, makes allocating income and expenses difficult. It also produces flawed results. Separating the calculations is a complex operation, which is compounded by each jurisdiction having different definitions of what is within the regulatory scope.

**Table 5.3. An Analysis of Fundraising from a Marketing Perspective**

| Products | Markets | Marketing means | Marketing by Whom? |
|---|---|---|---|
| **Gifts** | Families | **Personal solicitation** | Adherents |
| **Transfers (grants)** | Friends | - doorknock | Members |
| **Sales of products or services** | Members | - street collection | Volunteers |
| | Participants | - telephone | - adults |
| (solicited for charitable or community purposes) | - adherents | **Mail** | - minors |
| | - with shared workplace | - letter | Employees of NPOs |
| | Past supporters | - letterbox drop | Commercial agents |
| | General public | - email | "Traders" |
| | Businesses | **Mass media advertising** | |
| | Trusts and Foundations | - newspapers | |
| | Other TSOs | - radio | |
| | Government | - television | |
| | - Federal | - outdoor | |
| | - State/Territory | - journals | |
| | - Local | **Special Events** | |
| | - semi-government | **Internet** | |
| | | - web | |
| | | - text-SMS | |
| | | - social media | |
| | | - interactive TV | |

## Are there any common themes or patterns in the regulations?

5.48. The lack of consensus between jurisdictions about what is required for fundraising regulation appears not to be driven by any substantive differences of an ideological or technical nature, but rather a combination of dated legislation, ad hoc red tape reduction, size of the jurisdiction and different technical drafting conventions and protocols.

5.49. There are three findings that arise from an examination of the detailed provisions of the various schemes of state and territory fundraising regulation. The first is that the regulation seeks to regulate the entities that can be authorised or licensed to conduct fundraising appeals or collections, the means by which fundraising is conducted, and in some cases, the ways in which financial records arising from fundraising activities are to be reported .

5.50. Second, is the observation that much of the regulation reflects its origins in street collections and badge days, but has been added to as other marketing means have come into regular use. Modern fundraising uses multiple channels, not all of which may be caught by the regulation and this bedevils joint cost allocations.

5.51. Third, calculations such as cost of fundraising ratios are unlikely to be comparable across Australian jurisdictions without further clarification of what is the income and expenses in scope. The current information required by regulators is not standard and hence cannot be used to compare ratios between jurisdictions.

5.52. It is clear that each state and territory regulates fundraising activities like the Charity Ball example provided in Chapter 1 very differently. The regulation of the conduct of the Charity Ball and the way in which the financial transactions arising from it are classified and reported are different in each jurisdiction.

5.53. As a consequence of these irreconcilable differences, it is not possible to prepare a single financial report on the Charity Ball for the example in Chapter 1 that would comply with the mandatory reports and returns required in those states and territories that require them.

5.54. Finally, the Cancer and Bowel Research Trust case is a rare insight into the failings of fundraising disclosure. It appears that having audited accounts in accordance with the Australian Accounting Standards is no guarantee of transparency of fundraising income and expenses.

## References

Kotler, P. 1967. *Marketing management: Analysis, planning and control*. Englewood Cliffs NJ: Prentice-Hall.

Sargeant, A. 2010. *Fundraising principles and practice*. San Francisco: Jossey-Bass.

# Chapter 6. How industry standards and professional expectations affect the way fundraising is reported

6.1 As has been noted above, accounting standards leave significant professional judgement as to how to organise individual descriptions within the mandated framework (Chapters 2&3). The decision on how to exercise this discretion is often influenced by a number of external factors. Preparers of charity financial reports are likely to be influenced by the expectations placed on them from a number of influential sources, including professional standards, industry standards and peer pressure to conform to best practice An example of this kind of informal influence is the increasingly common practice among charities of publishing their annual reports, including audited financial statements, on their websites.

6.2 In this chapter the requirements of four such sources of influence – Fundraising Institute Australia, the Australian Council for International Development, Chartered Accountants Australia and New Zealand (formerly the Institute of Chartered Accountants Australia), and CPA Australia – are examined in detail, followed by an examination of the fundraising disclosures in the annual reports of a sample group of charities, including thirteen that have received awards recognising best practice for annual reports.

## What are the Fundraising Institute Australia (FIA) codes and standards?

6.3 FIA is the major professional association representing persons who substantially make a living as fundraisers. The 1600 members of the Institute are employed in many of Australia's larger fundraising charities, and are bound by the FIA's Code of Practice and Standards. The following extracts[46] from the Ethics Code and the Standard of Events Fundraising make it clear that members are required to comply with the fundraising regulation in the State or Territory in which they are practising:

6.4 The FIA Code of Ethics and Professional Conduct provides that:

> 4.4 A Fundraiser must:
> a) fully and accurately disclose to an Organisation all Donations received and all costs incurred by a Donation program under the Fundraiser's control, including where possible a proportion of overhead costs; and b) encourage such disclosure by Organisation affiliated entities (for example state divisions, chapters, branches and auxiliaries).
>
> 9.2 A Fundraiser must not engage in an activity during Fundraising that does not comply with fundraising legislation in their State or Territory or appears to be a criminal offence.
>
> 9.3 Where a Fundraiser is aware that an Organisation they work for does not comply with legislation, the Fundraiser must try to bring this to the Organisation's attention.

[46] http://www.fia.org.au/pages/principles-standards-of-fundraising-practice.html

6.5 The Standard of Event Fundraising Practice provides that:

> 2.6c A Fundraiser must comply with:
> (i) recognised accounting standards of practice;
> (ii) reporting, record keeping and payment requirements of the Australian Taxation Office;
> (iii) reporting and record keeping requirements of relevant State or Territory legislation;

6.6 It will be noted that members of FIA are therefore bound to record fundraising activities in accordance with the different regulatory requirements of each Australian jurisdiction in which they are operating. As we have already identified, there is no single national standard (Chapter 5). This contrasts sharply with the bold self-regulatory regimes such as the United Kingdom's Fundraising Standards Board, which provides detailed guidance in the Statement of Recommended Practice (SORP); and in the United States, the BBB Wise Giving Alliance Standards, and the Financial Statement of Not-for-Profit Organisations (Statement of Financial Accounting Standards No 117) issued by the Financial Accounting Standards Board. These are discussed further in chapter 7.

### What is Australian Council for International Development (ACFID) code?

6.7 Most charities engaged in the not-for-profit aid and development sector in Australia are members of the ACFID. On the basis of 2011–12 data, the aid and development sector raises and expends $1.3 billion annually, with approximately $875 million (over 66% of total funds) coming primarily from public giving. This represents funds from donations, fundraisers, legacies and bequests. Members of ACFID include many of the largest public fundraising charities in Australia, such as World Vision, Red Cross and Care Australia.

6.8 In 1995, following a very public scandal in an international development organisation the Commonwealth government threatened to impose overt regulation on the development sector. Instead, ACFID developed a self-regulatory code of conduct, and public complaint and discipline procedures. To have access to significant government aid funds, international development organisations had to be members in good standing and compliant with the self-regulatory code. As part of the code obligations, members must produce annual reports and financial statements that conform to code provisions and make them available to the public. It is arguably the most developed self-regulatory code in the Australian environment.

6.9 The Code includes the following provisions:[47]

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[47] http://www.acfid.asn.au/code-of-conduct/code-of-conduct

C.3 Fundraising

C.3.1 Legal obligations and ethical principles

Signatory organisations will abide by applicable fundraising legislation and will be aware of best practice standards in fundraising.

Obligation:

1. Signatory organisations will have processes and procedures in place to ensure that all legislative requirements are met in their fundraising activities.
2. Signatory organisations are encouraged to be aware of and comply with the Fundraising Institute of Australia's Code of Ethics and Professional Conduct and their standards for the type of fundraising undertaken (e.g. telemarketing, direct mail, electronic, events, face-to-face, grants and workplace giving).

C.3.7 Disclosure of Fundraising and Administration Costs

In response to many stakeholder concerns, some signatory organisations use financial ratios to reassure donors that every effort is made to maximise the funds directly applied to aid and development activity.

There are two key reasons to ensure that financial ratios are used honestly and transparently. First, stakeholders must be educated that like any organisation, signatory organisations must invest in management systems that help to best target aid and development activity. Signatory organisations face unavoidable regulatory and administrative overheads, like any other business.

Second, it is important that no signatory organisation is obtaining a fundraising advantage through misrepresentation of its comparative efficiency through financial ratios.

Attaching a note to financial ratios provides stakeholders with information on how the ratio has been determined. For example: fundraising expense ratio is the amount spent on fundraising as a percentage of total expenses.

If the signatory organisation intends to distribute all of its funds to a project it should state how the costs incurred in administration and fundraising are being covered (i.e. through other funds, volunteers, a bequest etc.)

6.10 The Code provides for a two tier system of voluntary disclosure. Option 1 is to be used by signatory organisations whose international aid and development revenue is below $250,000 and Option 2 is to be used by those organisations with revenue above that amount. The Implementation Guidance provides definitions for the terms to be used in the minimum level of disclosure. Full details are reproduced in Appendix D.

6.11 The Code also makes recommendations on the way fundraising revenues and expenses are disclosed in members' financial statements. (See Appendix D.)

6.12 The ACFID Code of Conduct and the accompanying Implementation Guidance document reflect a concerted effort to achieve standardization of the ways in which fundraising is disclosed in the financial statements of signatory organisations. The Code calls for compliance with relevant state and territory fundraising regulation, with the FIA's Code of Ethics, Professional Code of Conduct and with NSCOA (See Appendix D). The Code also provides guidance on the disclosure of fundraising, including:

- Accurate disclosure of their fundraising and any administration costs;
- Requiring those that use cost of fundraising ratios in their publications to include an explanation of the methods by which the ratios is calculated;
- If educational and campaign activities include an element of fundraising, the following requirements must be followed:
  - An amount proportionate to the fundraising elements involved must be charged to Fundraising Costs. For example, a one page fundraising request in a 20-page campaign newsletter will charge 5% of the total newsletter costs to Fundraising Costs;
  - Detailed guidance on the allocation of expenses of all fundraising from the public; and
  - The method for allocating the proportion of fundraising cost must be documented and be able to be produced to support the decision and is suggested to be included by way of a note to the accounts.

6.13 Whilst the ACFID Code and Implementation Guidance represent a valiant attempt to standardise the way in which fundraising is disclosed and reported in the financial statements of signatory organisations, it will be noted that the Code does not overcome the problems created by the differences in state and territory fundraising regulation. It also implicitly recognises the discretion available to the preparers of the financial statements in the allocation of direct and joint costs by requiring those who publish fundraising ratios to disclose the methods used to calculate the figures.

### What is the position of Chartered Accountants Australia and New Zealand?

6.14 Every two years, Chartered Accountants Australia and New Zealand (formerly the Institute of Chartered Accountants Australia (ICAA)) publishes a reporting resource for not-for-profit organisations, "Enhancing not-for-profit annual and financial reporting". In its third edition (2013), ICAA, as it was then, provided an updated tool designed to assist not-for-profits in their efforts to attain best practice in their annual and financial reports.

6.15 The recommendations regarding financial reporting are based on the current Australian Accounting Standards, recommendations from the 2011 PwC Transparency Awards, and Chartered Accountants Australia and New Zealand's (formerly ICAA's) experience in not-for-profit reporting practices.

6.16 The PwC Awards, together with the Annual Reporting Awards, are likely to be influential in the way fundraising is reported in the annual reports and annual financial statements of fundraising charities in Australia since they give those preparing financial statements of fundraising charities examples of what is recognised as best practice. A summary of the recommended fundraising disclosures is set out in Appendix E.

6.17 Whilst there is some evidence of the influence of these standards in the financial accounting practices of the charities in the sample examined (see below at para 6.22ff), it appears the available guidance does not provide sufficient detailed definition to successfully guide fundraising charities to a common approach in their fundraising disclosures.

6.18 The difficulties associated with attempts to establish nationally consistent financial disclosure of fundraising activities are frustrated by the variations in the way the states and territories regulate fundraising:

- The regulatory definitions of fundraising in Victoria and appeals for support in Queensland include legacies and bequests, whilst in NSW and ACT bequests are excluded, resulting either in inconsistent collection of financial data on fundraising or, multiple calculations of fundraising for different purposes;
- Similar problems are created by the variations in the treatment of charitable gambling and membership fees.

6.19 As a result of these jurisdictional differences, the disclosure of fundraising on the face of their statement of comprehensive income or under revenue is likely to reflect the definition relevant to the jurisdiction in which the fundraising charity has its head office.

### What is CPA Australia's position?

6.20 CPA Australia does not address the issue of fundraising in any detail in its publication "Charities. A guide to financial reporting and assurance requirements"[48] referring the reader to the National Standard Chart of Accounts (NSCOA) for guidance (CPA Australia 2013, 23), however in a previous publication (CPA Australia 2012), CPA offers examples of income and expenses statements that include the following under the major heading, Income:

- Grants – Federal; Grants – Local; and Grants – Reciprocal; and
- Donations.

6.21 The commentary includes the following references to fundraising income (CPA Australia 2012, 9):

> Most NFP organisations receive most of their income from grants, donations and membership fees (rather than receiving fees for services) and these are often referred

[48] CPA Australia, http://www.cpaaustralia.com.au

> to as contributions. Some organisations will also receive income from trading activity, such as sale of branded goods or goods produced from workshop activities undertaken by clients.
>
> Each source of income for NFPs carries specific characteristics and should be appropriately disclosed in the financial statements. Where income is received with specific conditions on how it is to be used, these conditions should be reported through the financial statements. This is particularly relevant for grants received that carry reciprocal conditions. A reciprocal grant is a grant that has an agreement specifying the conditional use of the contribution. For reciprocal grants, reporting should include stages of completion. This may be measured by reporting the extent to which the conditions of the grant have been met (i.e. the percentage of funds spent or resources used).
>
> Non-reciprocal grants are essentially transfers of resources from one party to another where the transferers do not directly receive approximately equal value in return. These include everyday transfers such as gifts, donations, government grants and taxes. They may be received as cash, or as other assets, or as reductions in liabilities (for example, forgiven loans). Non-reciprocal transfers are a major source of funding for government and other NFP organisations.

6.22 Further, under the heading, Segment reporting (CPA Australia 2012, 9):

> Some NFPs will detail separately fundraising and membership development as well as general activities. Fundraising activities can include advertising and cost of undertaking fundraising campaigns, maintaining donor mailing lists, special fundraising events, preparing and distributing fundraising manuals, instructions and other materials, and all other activities involved with soliciting contributions from individuals, foundations, government agencies and others. Membership development activities can include seeking prospective members, membership fees, and all activities related to membership relations.

6.23 The report then provides an example of an Income and Expenses Statement using segment reporting in which, under the segment heading Fundraising, it lists income from donations only. In the Expenses for the Fundraising segment are listed disclosures classified as Salaries – Admin; Rent; Utilities; and Stationery, which provides an example of joint cost allocation for fundraising (CPA Australia 2012, 10).

6.24 CPA Australia provides some guidance on fundraising in a recent publication (CPA Australia 2014), including a definition of the term fundraising in its Glossary: “Fundraising: Generating revenue through soliciting and gathering voluntary contributions” (CPA Australia 2014, 27).

6.25 The examples provided in this guide (extracts of which are reproduced in Appendix G) list under Income and Expenses both “fundraising appeals” “Donations” and “Beach cricket tournament

collections", making it unclear as to what is included in "fundraising" and what is not. Among the recommended disclosures of fundraising activities are examples of segment reporting (CPA Australia 2014, 18) in which fundraising and a named appeal are separately analysed, and in the Statement of Cash Flows (CPA Australia 2014, 24), revenues from particular fundraising activities are listed.

### What is the National Standard Chart of Accounts (NSCOA)?

6.26 The National Standard Chart of Accounts (NSCOA) provides a common approach to the capture of accounting information by community organisations. Its purpose is reduce the administrative burden falling on not-for-profits in receipt of government funding by setting out a standard financial data dictionary that can be used by both the NFP and the relevant government agency. The dictionary defines each account category, ensuring that financial information is reported and recorded in a consistent way. While it is designed primarily for small to medium nonprofits due to their size, unsophisticated accounting systems and limited resources, it can also be used by larger NFP's to align their systems to produce reports that are categorised consistently. It was arrived at by all state and commonwealth agencies and the not-for-profit sector coming to a mutual agreement about the definitions of terms required to acquit government grants and other financial reporting. Because fundraising legislation and regulation entrench different definitions, it was not possible for the NSCOA to harmonise fundraising reporting requirements.

6.27 In 2010 the Council of Australian Governments (COAG) agreed that NSCOA will be adopted for use by all Australian governments (federal, state, territory and local) as a nationally consistent approach when requesting financial information from not-for-profit organisations, effective from 1 July 2011.

6.28 Whilst NSCOA facilitates the acquittal of government grants and service agreements, the lines of account that are recommended for "fundraising" type transactions are limited to the following, which together include a relatively narrow range of "fundraising" transactions:

> 4-2000 "Fundraising – Gifts, which include "Donations received", "Tax-deductible Donations (Non-public)" Donations (Public collections), Non-tax deductible gifts and Bequests.
>
> 4-3000 "Fundraising – Contributions, which includes Contributions (Members), Contributions (Public), Contributions (Government), Contributions (Philanthropic trusts and corporations) and Contributions (Traders)

6.29 Other types of transactions, which would commonly be considered as "fundraising", such as the proceeds of sales at fetes and stalls, the revenue derived from raffles and the sale of tickets to a charity ball would be classified elsewhere.

6.30 On the lines of account that refer to types of transactions generated by fundraising activities that are regulated in at least one State or Territory, NSCOA refers the user to the relevant provisions of the legislation or licensing conditions. Examples include donations from members

and membership fees (NSW), Sponsorship and Licensing Fees (VIC), and Income from Gaming. These variations mean that NSCOA, whilst illustrative of the "classify-by-type-of-transaction" approach to the problem, is not suitable for use as a means of creating a uniform system of disclosing fundraising income and expenses.

6.31 It should be noted that NSCOA is designed to assist NFPs in the preparation of special purpose reports to government funding agencies and not as a standard for the preparation of annual financial statements.

### What does a survey of best practice reveal?

6.32 Those who prepare annual financial statements are influenced by the example of others in their field. The preparers of charity annual reports tend to look to the practices of other charities with whom they compete for legitimacy and for recognition from providers of resources (Flack, 2004)

6.33 The annual PwC Transparency Awards and the Australasian Reporting Awards recognize what is assessed as best practice in annual reporting and both Awards include processes for recognising outstanding examples of the good practice in charity annual reporting. Insight may be obtained into how "best practice" charities are reporting their fundraising income and expenses from the charities that have been recognized recently in those awards.

6.34 The Annual Report Awards, established in 1950, are run by Australasian Reporting Awards Limited, an independent not-for-profit organisation supported by volunteer professionals from the business community and professional bodies concerned about the quality of financial and business reporting. The objectives of the Awards include the promotion of excellence in reporting through the publication of informative and factual reports. Award winners in 2013 included entries from a wide range of industries and sectors including the Report of the Year award to Woodside Petroleum, Gold Awards to Australian Broadcasting Corporation, City of Kingston and the Judicial Commission of NSW.[49]

6.35 The PwC Transparency Awards were introduced to Australia in 2007 to recognise the quality and transparency of reporting in the not-for-profit sector. The concept originated in the Netherlands where they were introduced by the local PwC firm in 2004 and they have since been introduced by PwC to other countries around the world including Germany, Australia and Korea. Award recipients in 2012 include Youth off the Streets, St John Ambulance SA, Plan International Australia and Mission Australia.[50]

6.36 In order to identify best practice in the reporting of fundraising in the annual reports and annual financial statements of charities, a purposive sample of the annual reports of charities that have received awards from the Australasian Reporting Awards or from the PwC Transparency Awards in 2012 or 2013 was examined.

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[49] Australasian Reporting Awards, http://www.arawards.com.au.

[50] PwC Transparency Awards, http://www.pwc.com.au/about-us/corporate-responsibility/transparency-awards/.

6.37 The thirteen reports in the sample were selected on the basis of the proportion of charities in each state (5 from New South Wales, 4 from Victoria, 2 from Queensland and 1 from each of South Australia and Western Australia.) (COAG 2013) The names of the organisations are not included in this report, however all annual reports in the sample are publicly available and can be downloaded from the Internet.

6.38 An examination of the line description on the face of the Comprehensive Statement of Income and the Notes to account detailing Revenue and any Expenses was carried out and the exact terms used in the line descriptions were recorded and the incidence of the use of the term was noted. Where the descriptions were the same or very similar, the incidence of the term was added; where the terms were different or the combination of terms on one line was different, the lines were counted as two different lines.

6.39 We found that no two sets of fundraising income and expenses disclosures in the annual reports or annual financial statements of the 13 charities in the sample were calculated and disclosed in the same way. Two charities did not use the term fundraising in the financial reports at all although both these organisations' annual reports contained commentary describing fundraising activities in the reporting year. For example, one charity annual report contained acknowledgments of the contributions of donors and the efforts of volunteers involved in a variety of roles including: "serving in cafes shops and fundraising", including $54,000 from an auxiliary, and stall fundraising proceeds of $15,770), but did not mention fundraising income or similar in its financial statements.

6.40 In the 11 reports that did disclose transactions that could reasonably be said to be fundraising, a total of 34 different terms or combinations of terms were used. The terms that reoccurred most were Trust/Foundation/Grant Income (five), Fundraising Appeals (four) and Bequests (three).

6.41 The term fundraising was used on its own in three of the reports, but a further six used it in combination with other terms to disclose income. The following line descriptions were used:

- Fundraising and donations
- Fundraising appeals
- Fundraising appeals and events
- Marketing and fundraising
- School fundraising
- Community fundraising

6.42 Similarly, the term Donations occurred seven times, however in all but one report, donations were aggregated in other terms such as Bequests, Donations and Fundraising, Direct Marketing and Donations, Donations and Appeals, Fundraising and Donations, In Memoriam Donations, making it difficult to compare the disclosures.

6.43 Other income line descriptors that might be regarded as fundraising, or an appeal for support, in some Australian jurisdictions and which describe a class of income included:

- Lotteries
- Merchandising sales
- Royalty and trademark revenue
- Op shop sales
- Sponsorships

6.44 Disclosures of fundraising expenses were less common. Three of the 11 reports that did disclose some type of fundraising income had a simple fundraising line in their disclosures and only one of these three had a simple fundraising class of income to which it could be compared. Four of those 11 reports did not disclose any fundraising expenses.

6.45 Three of the five charities that made disclosures as required by the *Charitable Fundraising Act 1991* (NSW) and Conditions of Licence, used the term Fundraising appeals, and differentiated these disclosures from fundraising in general. Two of five charities that made disclosures in accordance with the *Charitable Fundraising Act* did not make disclosures in respect of fundraising or appeals expenses in their financial statements in ways that allow the matching of income and expenses from appeals. One listed in the prescribed disclosures all their types of fundraising including classes of fundraising that are excluded from the provisions of the NSW Act such as appeals within churches and Op shop revenues.

6.46 Examples of line descriptions for expenses that might be in part attributable to fundraising included:

- Marketing and communications
- Fundraising and Communications
- Media, Communications and Marketing
- Community education

6.47 From the examination of the disclosures of fundraising in the annual reports of this sample of award-winning charities it is clear that there is no evidence of a common, best practice approach to the classification and disclosure of fundraising income or expenses.

6.48 The way in which some charities in the sample used the term fundraising in a separate line of account immediately followed or preceded by donations or bequests or in a list with sponsorships, grants from philanthropic trusts and other types of income generating activities, suggests that, for some preparers, fundraising is used to describe income from community fundraising activities such as fetes, fairs, stall sales, raffles, etc , and does not include donations, bequests, commercial sponsorships and grants from philanthropic trusts.

6.49 The variations in the way in which the income and expenses from various fundraising activities are disclosed in the financial statements of the charities in the sample, is likely to be in part influenced by the fundraising regulation in the states in which the charities have their fundraising activities. All States and the Australian Capital Territory regulate various kinds of fundraising and require certain financial records be kept of those activities (refer Appendix C).

6.50 Those parts of the charts of account of charities that deal with fundraising income and expenses in each jurisdiction are likely to be designed to facilitate the collection of accounting information about fundraising so as to facilitate the requirements for recording and reporting of those activities to the regulator in that state. For example, unsolicited donations, membership fees and bequests are not included in the NSW definition of a fundraising appeal, whilst the income from such activities are included in Appeals for support in Queensland. Charities operating in multiple states and territories may not be able to comply with all the different classifications of fundraising income and expenses using the same chart of accounts.

## So what did we learn?

6.51 Several observations can be made about these findings. First, there is a wide variation in how terms have been used in this relatively small sample and the lack of a pattern suggests there is no common understanding of how fundraising income and expenses should be classified and disclosed in Australia.

6.52 Second, those organisations that are required to comply with disclosures mandated by the NSW *Charitable Fundraising Act 1991* included a separate Note to Account, in which a variety of terms was used to describe their fundraising. As discussed in Chapter 5, standard licence conditions in NSW legislation require certain matters to be placed in the financial statements or notes to such accounts. For example, Note 20 in the notes to account of a large NSW charity provides the informati nset out in Box 6.1.

**Box 6.1**

| Information and declarations to be furnished under the Charitable Fundraising Act 1991 | 2012 $ | 2011 $ |
|---|---|---|
| **Aggregate gross income received** | | |
| Raffles income | 1,983,553 | 1,803,047 |
| (Named fundraising event) | 408,596 | 261,983 |
| Direct marketing & other donations | 706,277 | 661,000 |
| | 3,098,426 | 2,726,029 |
| **Total expenditure associated with all appeals** | | |
| Raffles expenses | 1,103,315 | 997,690 |
| Direct marketing | 217,822 | 187,914 |
| PR/Education | 195,284 | 151,243 |
| Donor management | - | - |
| | 1,516,421 | 1.336,846 |
| **Net operating surplus/(deficit)** | 1,582,005 | 1,389,182 |

6.53 Another large NSW charity made its disclosures under the Act as set out in Box 6.2.

**Box 6.2**

**21. Fundraising activities**

Below is additional information furnished under the *Charitable Fundraising Act 1991* and the Office of Charities Fundraising Auditory Conditions.

**(a) Details of aggregate gross income and total expenses of fundraising appeals**

| | 2012 | 2011 |
|---|---|---|
| | $'000 | $'000 |
| Gross proceeds from fundraising appeals (including bequests) | 58,513 | 52,943 |
| Total costs of fundraising appeals | (18,235) | (16,918) |
| **Net surplus from fundraising appeals** | **40,278** | **36,025** |
| **Net margin from fundraising appeals** | **69%** | **68%** |

**(b) Details Application of funds for charitable purposes**

During the year, (entity) achieved a net surplus of $40,278,000 from fundraising appeals, a net surplus of $835,000 from retail activities, $2,340,000 from project grants, $841,000 from other income and a net surplus of $2,726,000 from investments. Surplus available to spend on research and support programs is $47,020,000.

**(c) Fundraising appeals conducted jointly within traders**

Face-to-face and door-to-door donor acquisition

| | 2012 | 2011 |
|---|---|---|
| | $,000 | $,000 |
| Revenue | 11,980 | 11,438 |
| Total payments to trader | (2,032) | (2,130) |
| Other direct expenses | (214) | (155) |
| Gross contribution | 9,734 | 9,153 |
| **Net margin from fundraising activities conducted with traders** | **81%** | **80%** |

**(d) Fundraising appeals conducted during the year:**

**Appeals/events involving the sale of goods:** yyyy Day and ZZZZ Day

**Appeals conducted jointly with a trader:** Face-to-face pledge appeal (campaign name)

**Fundraising events**: Relay xxxx, xxxx Auction, xxxx events and ssssss

**Mail appeals:** Seasonal mail appeals, fax mail appeal, September mail appeal and March mail appeal

**Other fundraising appeals: ……,** Workplace Giving, In Memoriam donations and ……

6.54 The legislation in one state influenced the reporting of fundraising not only in that jurisdiction, but also in other jurisdictions in which the organisation operated.

6.55 Third, the fundraising disclosures in the annual reports sampled reveal that the term fundraising is used in different ways. For example several organisations in the sample classified donations and fundraising appeals separately, whilst others aggregated donations and appeals under the classification fundraising. Similarly, responding to the requirements under the NSW regulation, several organisations reported the name of their fundraising activity, for example Guardians of the Surf, Girls Night In or Movember, separately from donations, making it difficult to identify

what was understood to be fundraising and making comparisons between organisations difficult.

6.56 One major fundraising organisation recorded Corporate funding, Bequests and legacies, Trusts and Foundations and Fundraising appeals and events separately, in the Notes to account, suggesting that the term fundraising appeals did not include the other revenues generated under the other classifications. Reflecting the Queensland regulatory environment, Queensland-based charities in the sample disclosed income from bequests and commercial fundraising activities under the heading Charitable Fundraising Activities.

6.57 Fourth, the disclosures of what might be classified as fundraising activities in the financial reports of the sample charities tend to be influenced by the fundraising regulation in the Australian jurisdiction in which the organisation has its corporate office. So for example, Queensland-based organisations tended to treat membership fees, bequests and lottery income as coming within the meaning of fundraising, whilst those based in Victoria did not.

6.58 A large Queensland-based charity listed its revenue as set out in Box 6.3. Note that Donations and Appeals are disclosed and a separate line is used to disclose Special functions.

**Box 6.3**

| | 2012 $'000 | 2011 $'000 |
|---|---|---|
| **2 (a) OPERATING REVENUE AND OTHER INCOME** | | |
| Sale of goods and services | 35,392 | 35,073 |
| Fundraising activities | | |
| - Commercial fundraising activities | 15,474 | 15,340 |
| - Donations & appeals | 741 | 1,038 |
| - Special functions | 292 | 404 |
| - Bequests & legacies | 555 | 309 |
| - Community grants | 207 | 332 |
| | 17,269 | 17,423 |

6.59 By comparison, a large Victorian charity, does not mention “fundraising” in its Note 2: Revenue and Other Income, but does have a line description for “Donations and Bequests Received” (see Box 6.4).

6.60 It will also be noted that in the disclosure Government grants and other grants, no distinction is made for grants from philanthropic trusts and foundations that could be included in fundraising in other jurisdictions (see Chapter 3).

Box 6.4

## NOTE 2: REVENUE AND OTHER INCOME

| | Note | 2012 $ | 2011 $ |
|---|---|---|---|
| *Revenue from government grants and other grants* | | | |
| State/federal government grants | | 55,733,312 | 53,064,423 |
| **Total revenue from government grants and other grants** | | **55,733,312** | **53,064,423** |
| *Other income* | | | |
| Other | | 2,341,720 | 2,159,504 |
| Interest received from corporations | | 2,409,754 | 2,048,657 |
| Dividends received from corporations | | 3,547,132 | 5,240,435 |
| Client services income | | 13,323,081 | 13,600,914 |
| Donations and bequests received | | 414,009 | 195,097 |
| Gain (Loss) on disposal of available-for-sale investments | | – | 152,463 |
| Gain on disposal of non-current assets | | 38,579 | 2,258,842 |
| **Total other income** | | **22,074,276** | **25,655,911** |
| **Total revenue and other income** | | **77,807,589** | **78,720,334** |

6.61 The financial statements of the charities in the sample that have their head office in NSW all referred in some way to the provisions of the NSW *Charitable Fundraising Act 1991* and the Office of Charities Fundraising Authority Conditions but the way in which each charity responded to those requirements in their disclosures varied. Section 5 of the Act states the meaning of a fundraising appeal:

> (1) For the purposes of this Act, the soliciting or receiving by any person of any money, property or other benefit constitutes a fundraising appeal if, before or in the course of any such soliciting or receiving, the person represents:
>
> (a) that the purpose of that soliciting or receiving, or
>
> (b) that the purpose of an activity or enterprise of which that soliciting or receiving is a part, is or includes a charitable purpose.
>
> (2) It does not matter whether the money or benefit concerned is solicited or received:
>
> (a) in person or by other means (such as by post, telephone or facsimile transmission), or
>
> (b) as a donation or otherwise (such as by participation in a lottery, art union or competition; by sponsorship in connection with a walkathon, telethon or other

similar event; in connection with the supply of food, entertainment or other goods or services; or in connection with any other commercial undertaking).

6.62 However section 5 goes on to explain that the following activities do not constitute a fundraising appeal for the purposes of this Act:

(a) a request for, or the receipt of, an amount required in good faith as the fee for renewal of membership of an organisation,
(b) an appeal by an organisation to (or the receipt of money or a benefit from) members of the organisation,
(c) a request that any property be devised or bequeathed, or the giving of any information as to the means by which any property may be devised or bequeathed,
(d) an appeal conducted exclusively or predominantly among persons sharing a common employer or place of work by one of those persons (being an appeal for a charitable purpose connected directly with another of those persons or any such other person's immediate family) and the receipt of money or a benefit from any such appeal,
(e) an appeal to (or the receipt of money or a benefit from) any Commonwealth, State or local government authority,
(f) anything prescribed by the regulations.

6.63 These provisions mean that some activities that will be included in accounting calculations of fundraising, but which do not constitute a fundraising appeal for the purposes of the Note to account required by the fundraising Licencing Conditions in NSW.

6.64 One charity that has its operations in several states, has its head office in NSW and is a registered charity in NSW, did not include notes to account in the form required by the NSW regulation, instead including the following note: "Various fundraising activities were conducted during the year including appeals, regular giving, major gifts and corporate partnerships". It will be noted that this organisation appears to treat appeals somewhat differently from the other designations of fundraising income mentioned and may not consider they fulfil the criteria of a (public) appeal.

6.65 It was apparent from the disclosures that there were different interpretations of the NSW requirements. From the evidence available it is likely that the differing interpretations of the requirements stem from a lack of clarity about the differences between appeals (the focus of the regulation) and fundraising.

6.66 Table 6.1 summarises our findings, showing that in the annual reports and annual financial statements of the 13 charities in the sample, there were 28 different terms used as line descriptions for fundraising income including 12 individually named appeals describing events and 6 different line descriptions used to describe fundraising expenses. Two contained no disclosures of fundraising revenue and three had no fundraising expense disclosures. The

following table shows the different line descriptions used and their frequency in the financial statements of the sample charities.

**Table 6.1. Frequency of fundraising line descriptions in sample**

| Income descriptions | Count |
|---|---|
| No reference to "fundraising" | 2 |
| Fundraising | 1 |
| Fundraising appeals | 4 |
| Fundraising and donations | 1 |
| Fundraising appeals and events | 1 |
| Marketing and fundraising | 1 |
| School fundraising | 1 |
| Community fundraising | 1 |
| Donations | 2 |
| Donations and Bequests | 2 |
| Bequests | 3 |
| Lotteries | 1 |
| Merchandising sales | 1 |
| Royalty and trademark revenue | 1 |
| Op shop sales | 1 |
| Sponsorships | 1 |
| (Grants from) Trusts and Foundations | 5 |
| Named "appeals"(eg., “Fun Run”) | 12 |
| **Expense descriptions** | **Count** |
| Fundraising | 1 |
| Fundraising Appeals | 3 |
| Marketing and communications | 1 |
| Fundraising and communications | 2 |
| Media, Communications and Marketing | 1 |
| Community education | 2 |

6.67 Those charities in the sample that used the term fundraising in their annual reports exhibited differing interpretations of the kinds of activities that were included under that heading.

6.68 There were some state-related differences in the way in which fundraising income and expensess were disclosed which tended to reflect the state regulatory definitions of activities likely to be understood by the preparers of the annual reports to be fundraising.

6.69 A majority of those charities in the sample that have their principle office in NSW, made disclosures intended to comply with the NSW fundraising licensing conditions, but appear to have interpreted the requirements in different ways. The evidence suggests that the term,

fundraising appeals, and the differences between it and what was locally understood to be included in the term fundraising might not be recognised.

### Do specialised fundraising databases assist?

6.70 In the last twenty years, the use of sophisticated fundraising databases has become common in the management of fundraising in most medium and large fundraising charities. These databases are often fully integrated with online fundraising facilities, including donation facilities and shopping cart facilities, and have become standard in the administration of donations, membership fees, special event ticket sales and charitable merchandising. Such databases bring together donor records, membership and volunteering records in ways that allow the management of relationships with supporters and other stakeholders.

6.71 Such databases also allow each financial transaction to be tagged with multiple flags that record the nature of the particular marketing campaign (appeal or collection) that generated the transaction, the channel by which payment was made (e.g., direct mail, tele-marketing, door-knock, personal contact, special event, etc.), the special purpose account to which the income is to be credited or an expense to be attributed and any other attributes or notes that the operator may subsequently wish to report on.

6.72 In large fundraising charities, where many thousands of transactions are recorded and receipted each year, it is common practice for the details of each fundraising transaction to be maintained in these fundraising databases, with only summarised data exported to the general ledger. These practices allow detailed records of income and expenses for individual appeals to be maintained without the data being replicated in the accounts. Supporting documentation, including records of receipts issued and verified bank deposit listings, are stored with the accounts. These technologies facilitate detailed cost-centre accounting and provide management and the board with detailed information in order to monitor and evaluate individual fundraising activities.

6.73 The use of fundraising databases allows fundraising charities to classify and report on fundraising financial transactions in many ways. These charities can report by appeal, to satisfy the requirements of those regulators that mandate such reporting. It also facilitates close supervision of non-financial reporting metrics such as response rates and donor life-time value. Importantly, these specialised fundraising databases facilitate the consideration of results that are not readily available from the accounts, but that are important for evaluating fundraising outcomes, such as results across multiple financial years.

Box 6.5

## Accounting for a Charity Ball

The honorary Treasurer of "Dancing for Kids" charity (an endorsed DGR) has been presented with the following summary of income and expenses relating to a recent charity gala fundraising ball held on Saturday night. All figures presented below are shown GST-exclusive.

| Revenue: | $ |
|---|---|
| ▪ Ticket sales (300 tickets sold at $200 per ticket) | 60,000 |
| ▪ Raffle conducted on the night (1,000 tickets @ $5 per ticket) | 5,000 |
| ▪ Donations made on the night | 2,000 |
| ▪ Sponsorship – naming rights sponsor | 3,000 |
| ▪ Sponsorship – 3 charity ball sub-sponsors ($500 x 3) | 1,500 |
| ▪ Sponsorship – in-kind support (valued) | 2,500 |
| ▪ Charity auction – 1 tax-deductible contribution | 5,000 |
| ▪ Charity auction – proceeds from 7 other items auctioned on the night | 11,000 |
| *Total Revenue:* | 90,000 |

During the evening, the local Mayor announced a grant of $25,000 to assist children with terminal illnesses attend Taronga Park Zoo and Luna Park in Sydney. He presented a cheque for the $25,000 to the CEO of the charity on the night itself.

| Expenses: | $ |
|---|---|
| ▪ Printing of tickets | 1,000 |
| ▪ Costs of preparing banner acknowledging sponsors | 500 |
| ▪ Venue hire | 10,000 |
| ▪ Catering (300 guests @ $50 per head) | 15,000 |
| ▪ Hire of band | 2,500 |
| ▪ Complimentary tickets to sponsors (5 x $200) | 1,000 |
| *Total Expenses* | 30,000 |

## Summary

6.74 The evidence suggests that not-for-profit practitioners including managers, accountants and fundraisers are influenced in the way in which they report "fundraising" by their peers through professional associations and through awards for best practice. The relevant professional associations and the promoters of the awards for best practice have not yet developed consensus about how fundraising should be either defined or reported in financial reports of charities.

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# Chapter 7. Comparable overseas jurisdictions

7.1 In this Chapter, the approaches taken to defining and accounting for charitable fundraising in comparable jurisdictions are examined. The relevant regulations in England and Wales, the United States, Canada, Singapore and New Zealand are briefly examined. Finally, some observations are made about what can be learned.

7.2 The example of the charity ball which was introduced in chapter 1 is used in each jurisdiction to illustrate the different accounting treatment and disclosure requirements. It is acknowledged that these transactions may not be material in the annual financial statements, but for the purposes of this chapter materiality is disregarded. In most jurisdictions considerable discretion exists as to what expenses are separately discussed in the notes to the financial statements.

## How has this issue been dealt with in England and Wales?

7.3 In England and Wales, the Charity Commission requires every registered charity to produce an annual report and accounts. (Charity Commission for England and Wales 2005). If a charity prepares accruals accounts, the charity is required to prepare, in accordance with the Statement of Recommended Practice (SORP), what are called primary financial statements. These are (Charity Commission 2005, vi):

1. A Statement of Financial Activities (SOFA) which describes all sources of income and expenditure.
2. A balance sheet which discloses the cash in the bank and other assets and liabilities.

7.4 Disclosures required in the SOFA include:

- Voluntary income;
- Activities for generating funds;
- Investment income;
- Incoming resources from charitable activities;
- Other incoming resources;
- Costs of generating voluntary income;
- Fundraising trading: cost of goods sold and other costs.

7.5 SORP is developed by the Charity Commission and the Office of the Scottish Charity Regulator, in collaboration with the SORP Committee involving professional bodies and sector representatives. It is a mix of mandated and recommended practice and its authority is derived from *The Charities (Accounts and Reports) Regulations 2008* and the *Charities Acts 1992* and *1993 (Substitution of Sums) Order 2009 (SI 2009 No. 508)*.[51]

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[51] Charity Commission for England and Wales, http://www.charitycommission.gov.uk/detailed-guidance/money-and-accounts/charity-reporting-and-accounting-the-essentials-2009-cc15b/#sthash.5zu8clkF.dpuf

7.6 SORP requires fund accounting with the separate disclosure of Unrestricted Funds, Restricted Funds, Endowment Funds, Total Funds, and comparison with Prior Year Total Funds. It should be noted that UK charity law requires non-charitable purpose trading to be conducted in a separate legal entity which may be gifted back to the charity and is thereby usually exempt from income tax. This is an important difference from Australia, where commercial activities in support of the charitable purpose are permitted from within the reporting entity. This has an impact on the way in which such activities are reported, given that in several Australian jurisdictions, they are considered fundraising (see Chapter 5).

7.7 SORP provides a detailed set of recommended practices for charity accounts that facilitates the preparation of a registered charity's Annual Report to the Commission. They are informed by accounting standards but do not override them. There is no equivalent in Australia.

7.8 Using the guidance provided by SORP, the fundraising transactions arising from the Charity Ball example from Chapter 1 (Box 7.1), would be disclosed as set out in Table 7.1.

Box 7.1

## Accounting for a Charity Ball

The honorary Treasurer of "Dancing for Kids" charity (an endorsed DGR) has been presented with the following summary of income and expenses relating to a recent charity gala fundraising ball held on Saturday night. All figures presented below are shown GST-exclusive.

| Revenue: | $ |
|---|---|
| ▪ Ticket sales (300 tickets sold at $200 per ticket) | 60,000 |
| ▪ Raffle conducted on the night (1,000 tickets @ $5 per ticket) | 5,000 |
| ▪ Donations made on the night | 2,000 |
| ▪ Sponsorship – naming rights sponsor | 3,000 |
| ▪ Sponsorship – 3 charity ball sub-sponsors ($500 x 3) | 1,500 |
| ▪ Sponsorship – in-kind support (valued) | 2,500 |
| ▪ Charity auction – 1 tax-deductible contribution | 5,000 |
| ▪ Charity auction – proceeds from 7 other items auctioned on the night | 11,000 |
| *Total Revenue:* | **90,000** |

During the evening, the local Mayor announced a grant of $25,000 to assist children with terminal illnesses attend Taronga Park Zoo and Luna Park in Sydney. He presented a cheque for the $25,000 to the CEO of the charity on the night itself.

| Expenses: | $ |
|---|---|
| ▪ Printing of tickets | 1,000 |
| ▪ Costs of preparing banner acknowledging sponsors | 500 |
| ▪ Venue hire | 10,000 |
| ▪ Catering (300 guests @ $50 per head) | 15,000 |
| ▪ Hire of band | 2,500 |
| ▪ Complimentary tickets to sponsors (5 x $200) | 1,000 |
| *Total Expenses* | **30,000** |

**Table 7.1. Charity Ball Income and Expenditure Statement in accordance with the Charity Commission of England and Wales recommended format (SOFA)**

| Statement of Financial Activities | Note | Unrestricted Funds $ | Restricted Funds $ | 2013 Total $ |
|---|---|---|---|---|
| **Incoming resources from generated funds** | | | | |
| **Voluntary income:** | | | | |
| Donations and legacies | **2** | 2,000 | | 2,000 |
| **Activities for generating funds:** | **3** | | | |
| Events | | 60,000 | | 60,000 |
| Auctions | | 16,000 | | 16,000 |
| Lotteries | | 5,000 | | 5,000 |
| Sponsorships | | 7,000 | | 7,000 |
| **Investment income** | **4** | 0 | | 0 |
| **Incoming resources from charitable activities** | | | | |
| Operational programmes | **5** | 0 | 25,000 | 25,000 |
| **Total incoming resources** | | 90,000 | 25,000 | 115,000 |
| **Less: Cost of generating funds** | | | | |
| **Voluntary income** | | | | |
| Donations and legacies | | 0 | 0 | 0 |
| **Fundraising trading:** | | | | |
| Events | | 28,500 | 0 | 28,500 |
| Auctions | | 0 | 0 | |
| Lotteries | | 0 | 0 | |
| Sponsorships | | 1,500 | 0 | 1,500 |
| **Total cost of generating funds** | | 30,000 | 0 | 30,000 |
| **Net incoming resources available for charitable activities** | | 60,000 | 25,000 | 85,000 |

**Notes:**

1. The SOFA format follows the overall international pattern by requiring income and expenditure to be disclosed both by function and by fund.
2. The Notes to account provide further information where material.
3. It will be noted that SORP distinguishes between Voluntary Income (donations and bequests) and Fundraising Trading, which includes minor forms of trading that are tax-exempt under the tax laws in the UK. Unrelated trading and large scale trading operations tend to be conducted in separate legal entities.
4. It will be noted that although donations were generated during the Charity Ball, no costs have been attributed to the generation of those donations.
5. Although SORP includes extensive guidance on which transactions should be disclosed in each category, the preparers retain considerable discretion and not all preparers will interpret the guidelines in the same way.

7.9 Fundraising regulation in the UK has seen an ongoing policy debate. From Steven Lee, this general comment:

For the last 30 years governments, media pundits, the nonprofit sector and the fundraising profession itself have been grappling with the apparently enduring and seemingly intractable problem of what to do to achieve a truly effective and appropriate framework for the regulation of fundraising in the UK (Lee, 2003, p307).

7.10 In the UK's SORP, charities are required to disclose fundraising revenues and allocate fundraising expenses separately. Although SORP 2005 has brought greater clarity than previous SORP iterations (in 1996 and 2000) to the issues of expense allocation, problems still remain that would suggest the US experience (see below) of charities' management of expense allocation cannot be ruled out in the UK. There is an ongoing debate about the effectiveness of SORP with criticism both of the levels of compliance with the specified accounting practices (Connolly & Hyndman, 2013a, 2013b; Lee, 2006) and criticism of their usefulness, given the wide discretion available to preparers (Aldrich, 2009; Breen, 2009, 2013; Morgan, 2011, 2013).

7.11 Morgan highlights the key reasons for lack of comparability between charity accounts, that even those charities filing in accordance with SORP can avail of simplifications permitted under Appendix 5 of SORP, leading to highly variable practices in the classifying of resources and expenses, which can differ dramatically from the functional breakdown set out in SORP (Morgan 2011).

7.12 Breen (2013) reports that although there appear to be no available figures on the overall quality of financial reporting, the Charity Commission for England and Wales has referred in passing to the frequent neglect of charities to tell their stories well through their accounts and annual reports. A 2006 National Audit Office review of the third sector and policy options queried the Charity Commission's effectiveness in ensuring charity accountability, citing the findings of the Public Accounts Committee that its investigation of complaints was a weak area (NAO 2006, 14).

7.13 Accounting data on fundraising generated by the SOFA and SORP has been made publicly available through the Guidestar UK online register of charities ( www.guidestar.org.uk), however there is some doubt about the extent to which donors use the information available (Connolly and Dhanani, 2013).

### How has this issue been dealt with in the United States of America?

7.14 Most larger not-for-profit organisations in the US are required to prepare annual financial statements in accordance with US Generally Accepted Accounting Principles (GAAP) issued by the Financial Accounting Standards Board (FASB).

7.15 Pre-codification Statements of Financial Accounting Standards[52] (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made* (FASB 1993a) and No. 117, *Financial Statements of Not-For-Profit Organizations* (FASB 1993b) set out the requirements for the preparation of

[52] SFASs "were superseded by FASB *Accounting Standards Codification* Topic 105, Generally Accepted Accounting Principles" (FASB); see http://www.fasb.org/jsp/FASB/Page/PreCodSectionPage&cid=1218220137031

statements of financial position, activities, and cash flows (FASB 1993b, 4). These are distinct from the statements required in Form 990, although the Internal Revenue Service has acknowledged the need for not-for-profits to be able to compare the disclosures in their AFRs with the annual tax return Form 990 (IRS 2007a, 6).

7.16 Although the main public source of financial information about fundraising revenues and expenses is the Form 990, many of the State regulators in the US also have special reporting requirements which are designed to detect excessive fundraising costs or "overheads". Many of these special purpose reports treat revenues and expenses in ways that do not conform to GAAP.

7.17 The definition of fundraising activities in SFAS No. 117 includes “publicizing and conducting fund-raising campaigns; maintaining donor mailing lists; conducting special fund-raising events; preparing and distributing fund-raising manuals, instructions, and other materials; and conducting other activities involved with soliciting contributions from individuals, foundations, government agencies, and others” (FASB 1993b, 11–12).

7.18 In the US, most organisations exempt from income tax under section 501(a) of the United States Internal Revenue Code (26 USC § 501(a)) must file an annual information return (Form 990 or 990-EZ) or submit an annual electronic notice (Form 990-N), depending upon the organisation's gross receipts and total assets.

7.19 On the Form 990 (2012), Part VIII, Statement of Revenue, requires the tabulated disclosure of revenue received from:

- Federated campaigns;
- Membership dues;
- Fundraising events;
- Related organisations;
- Government grants (contributions);
- All other contributions, gifts, grants, and similar amounts not included above; and
- Noncash contributions included in other lines, by total revenue, revenue related to exempt purpose, unrelated business revenue and Revenue excluded from tax under sections 512–514.

7.20 Similarly, expenses must be disclosed in a tabulated form under headings by function:

- Program service expenses;
- Management and general expenses; and
- Fundraising expenses.

7.21 Guidance on the terms used on the Form 990 is provided by the IRS990 Form Instructions.[53] The IRS Form Instructions provide a detailed explanation of the disclosures required in each version of the Form 990 tax return. As such, the instructions do not purport to be a substitute for accounting standards but attempt to provide a framework for the collection of financial data including details of fundraising income and expenses. There is no equivalent in Australia.

7.22 It is noted that that many of the states that regulate fundraising require specific treatment of revenues and expenses, in ways that do not conform to GAAP.

7.23 Using the guidance provided by the US GAAP and SFAS No. 117, the fundraising transactions arising from the Charity Ball example (Box 7.2), would be disclosed as set out in Table 7.2.

Box 7.2

## Accounting for a Charity Ball

The honorary Treasurer of "Dancing for Kids" charity (an endorsed DGR) has been presented with the following summary of income and expenses relating to a recent charity gala fundraising ball held on Saturday night. All figures presented below are shown GST-exclusive.

| Revenue: | $ |
|---|---|
| ▪ Ticket sales (300 tickets sold at $200 per ticket) | 60,000 |
| ▪ Raffle conducted on the night (1,000 tickets @ $5 per ticket) | 5,000 |
| ▪ Donations made on the night | 2,000 |
| ▪ Sponsorship – naming rights sponsor | 3,000 |
| ▪ Sponsorship – 3 charity ball sub-sponsors ($500 x 3) | 1,500 |
| ▪ Sponsorship – in-kind support (valued) | 2,500 |
| ▪ Charity auction – 1 tax-deductible contribution | 5,000 |
| ▪ Charity auction – proceeds from 7 other items auctioned on the night | 11,000 |
| *Total Revenue:* | 90,000 |

During the evening, the local Mayor announced a grant of $25,000 to assist children with terminal illnesses attend Taronga Park Zoo and Luna Park in Sydney. He presented a cheque for the $25,000 to the CEO of the charity on the night itself.

| Expenses: | $ |
|---|---|
| ▪ Printing of tickets | 1,000 |
| ▪ Costs of preparing banner acknowledging sponsors | 500 |
| ▪ Venue hire | 10,000 |
| ▪ Catering (300 guests @ $50 per head) | 15,000 |
| ▪ Hire of band | 2,500 |
| ▪ Complimentary tickets to sponsors (5 x $200) | 1,000 |
| *Total Expenses* | 30,000 |

**Note**. Although SFAS 117 paragraph 24 requires the reporting of gross amounts of revenues and expenses, paragraph 25 allows for the reporting of net amounts in certain circumstances which may include peripheral or incidental transactions, such as infrequent special events. In this example gross amounts have been reported.

[53] US Department of the Treasury, http://www.irs.gov/uac/Form-990,-Return-of-Organization-Exempt-From-Income-Tax-.

### Table 7.2. Charity Ball Income and Expenditure Statement in accordance with the US GAAP

| Statement of activities | Note | Unrestricted $ | Temporarily Restricted $ | Permanently Restricted $ | Total $ |
|---|---|---|---|---|---|
| **Operating activities** | | | | | |
| **Revenues, Gains and other support** | | | | | |
| Contributions and grants | 2 | 2,000 | 25,000 | 0 | 27,000 |
| Bequests | 2 | 0 | | | 0 |
| Earned income | 2 | 88,000 | | | 88,000 |
| Investment earnings on non-pooled funds, net | 4 | 0 | | | 0 |
| Investment earnings on pooled funds - appropriated, net | 4 | 0 | | | 0 |
| Royalties, net | | 0 | | | 0 |
| Net assets released from restrictions | 7 | 0 | | | 0 |
| **Total revenues, gains and other support** | | 90,000 | 25,000 | 0 | 115,000 |
| **Expenses** | 1 | | | | |
| **Services and programs** | | | | | |
| Program 1 | | 0 | 0 | | 0 |
| Program 2 | | 0 | 0 | | 0 |
| | | 0 | 0 | | 0 |
| **Fundraising** | | | | | |
| Membership development | | 0 | 0 | | 0 |
| Other development | | 30,000 | 0 | 0 | 0 |
| | | 30,000 | 0 | 0 | 30,000 |
| **Management and general** | | | | | |
| **Total expenses** | | | | | |
| Change in net assets from operations | | **60,000** | **25,000** | **0** | **85,000** |
| **Statement of Functional Expenses** | | **Services Expenses** | **Fundraising Expenses** | **Management and General Expenses** | **Total Expenses** |
| Advertising | | | 500 | | 500 |
| Catering/Entertainment | | | 18,500 | | 18,500 |
| Equipment rental | | | 0 | | 0 |
| Postage and mailing | | | 0 | | 0 |
| Printing | | | 1,000 | | 1,000 |
| Professional services | | | 0 | | 0 |
| Rents paid | | | 10,000 | | 10,000 |

| | | | | | |
|---|---|---|---|---|---|
| Salaries | | | 0 | | 0 |
| Telemarketing | | | 0 | | 0 |
| Telephone and telecoms | | | 0 | | 0 |
| Travel | | | 0 | | 0 |
| Other | | | | | |
| **Total Expenses** | | | 30,000 | | 30,000 |

**Notes:**

1. The US follows the International pattern by requiring disclosure of fundraising income and expenditure in the annual financial reports by both function (Services, Fundraising and Management, and General) and by fund (Unrestricted, Temporarily Restricted, and Permanently Restricted) but adds a further requirement for a separate Statement of Functional Expenses.
2. The Notes to account provide further information where material.
3. The Statement of Functional Expenses requires the apportionment of joint costs.

7.24 Similar to the UK, there is concern about the framework and execution of fundraising regulation in general. In a recent authoritative publication on the law of fundraising in the US, Hopkins and Kirkpatrick (2013, 466) stated:

> Historically, the responsibility for regulating and othewise monitoring the process by which organisations solicit contributions for charitable purposes has been left to the states, with some collateral regulation by counties and cities. The present manner of state and local regulation of interstate charitable solicitations, however, has produced considerable confusion and has in many respects been ineffective.

7.25 And further:

> There has to be a better system. Present law needs to be reformed to accommodate the legitimate fundraising process and allow it to prosper – for the benefit of society – while protecting the public and restraining the few outlaws. … [C]haritable fundraising is among the highest acts of free speech. When constitutional law rights are in play, government regulation is to be minimal, even if some wrongdoing has to be tolerated. Today's philosophy underlying state-law regulation of fundraising is infected with a regulatory mindset that follows precisely the opposite approach: maximum regulation even if it is harmful to the innocent.

7.26 One of the objectives of the Form 990 is to facilitate the collection of comparable financial data about fundraising income and expenses which can be used by the public and by regulators in making decisions and, in extreme cases, detecting misuse of charitable funds. However, notwithstanding the US Form 990's guidance on such fundraising income and allocation of fundraising expenses, serious doubts exist in the US as to the accuracy of the expense data provided in charity returns, leading some to argue that these returns are not reliable (Keating and Frumkin 2003; US General Accounting Office 2002). In particular, the lack of a standardised

approach to accounting for joint costs has been blamed for inconsistent treatment of fundraising expenses on the Form 990 (Breen, 2013; Krishnan et al. 2006).

7.27 Rigorous research into the accuracy of data on fundraising income and expenses filed in the Form 990 has consistently raised concerns. Froelich et al. (2000) summarised their findings stating:

> So although the IRS 990 Return is an increasingly prominent source of financial variables in studies of nonprofit organisations, we find that questions about the quality of this data are also increasing (p.234).

7.28 Gordon et al (2007) found

> This comparison [between the annual financial statements and the Form 990 filings] reveals numerous problems with the Form 990 data, including inconsistencies in revenue and expense recognition, …, misstatements of functional expenses, discrepancies in the disclosure of program services, and errors attributable to differences in IRS Form 990 rules and not-for-profit GAAP (p.27).

7.29 Furthermore, a growing body of research using Form 990 data suggests that the use of this kind of data to inform decision making or to detect fraud, without other sources of information is unsound and possibly deceptive (Guidestar, 2013), (Szper, 2013), (Glassman and Spahn, 2012), (Szper and Prakash, 2011), (Tinkelman, 2009) and (Gregory and Howard, 2009),

### How has this issue been dealt with in Canada?

7.30 In Canada, the Canadian Accounting Standards Board (AcSB) sets accounting standards for the private sector, including private sector not-for-profits (AcSOC, 2008).[54] Private sector not-for-profit organisations can apply either the International Financial Reporting Standards (IFRSs) or the Canadian standards for not-for-profit organisations set out in the *Canadian Institute of Chartered Accountants' Handbook – Accounting Part II and Part III*.[55]

7.31 The Canadian Revenue Agency requires all registered charities to lodge a copy of the charity's financial statements and complete a Form 3010(13), *Registered Charity Information Return,* a Form TF725, *Registered Charity Basic information Sheet,* a Form T1235*, Directors/Trustees and Like Officials Worksheet* and certain Schedules if applicable, within 6 months of the end of the charity's financial year.[56]

7.32 On the T3010 form, at Line 4500, registered charities that issued official donation receipts during the reporting period must report the total of such gifts. Gifts received from other

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[54] Accounting Standards Oversight Council (AcSOC). 2008. "About AcSOC." http://www.acsoc.ca/about-acsoc/index.aspx.

[55] Guide to Accounting Standards for Not-for-Profit Organizations in Canada, http://www.cica.ca

[56] Canada Revenue Agency, www.cra.gc.ca/charities.

Canadian registered charities are not to be included but reported separately on Line 4510. The total of all other gifts is also required. The instruction “Do not include revenue from governments or from fundraising on this line” refers to this line.

7.33 At Line 4570, charities are required to report separately all revenue received from any level of government in Canada, including revenue from:

- government grants;
- contributions; and
- contracts for goods and services provided directly to government.

7.34 At Line 4630 the total gross amount of all non tax-receipted revenue from fundraising activities is reported, including the gross amounts from activities carried on by the charity (for example, collection boxes, and loose collections) and by contracted fundraisers

7.35 Total revenue received from memberships, dues, and association fees for which the charity did not issue an official donation receipt is recorded separately at Line 4620.

7.36 At Line 4640, gross revenue received from the sale of all goods and services provided to individuals or organisations (except amounts reported on lines 4570 and 4630) are recorded. This includes revenue received from the provision of goods and services as part of the charity’s activities.

7.37 The design of the Canadian scheme is similar to that of the US in that the fundraising disclosures are part of a mandatory tax return, and are not derived directly from the prevailing accounting standards. In Canada, “fundraising” revenue is usually disclosed using the sources of the revenue as the line descriptions rather than using a functional line description such as “fundraising”

7.38 Using the guidance provided by the Canadian Accounting Standards Board, the “fundraising” transactions arising from the Charity Ball example (Box 7.3), would be disclosed as shown in Table 7.3.

Box 7.3

## Accounting for a Charity Ball

The honorary Treasurer of "Dancing for Kids" charity (an endorsed DGR) has been presented with the following summary of income and expenses relating to a recent charity gala fundraising ball held on Saturday night. All figures presented below are shown GST-exclusive.

| Revenue: | $ |
|---|---|
| ▪ Ticket sales (300 tickets sold at $200 per ticket) | 60,000 |
| ▪ Raffle conducted on the night (1,000 tickets @ $5 per ticket) | 5,000 |
| ▪ Donations made on the night | 2,000 |
| ▪ Sponsorship – naming rights sponsor | 3,000 |
| ▪ Sponsorship – 3 charity ball sub-sponsors ($500 x 3) | 1,500 |
| ▪ Sponsorship – in-kind support (valued) | 2,500 |
| ▪ Charity auction – 1 tax-deductible contribution | 5,000 |
| ▪ Charity auction – proceeds from 7 other items auctioned on the night | 11,000 |
| *Total Revenue:* | 90,000 |

During the evening, the local Mayor announced a grant of $25,000 to assist children with terminal illnesses attend Taronga Park Zoo and Luna Park in Sydney. He presented a cheque for the $25,000 to the CEO of the charity on the night itself.

| Expenses: | $ |
|---|---|
| ▪ Printing of tickets | 1,000 |
| ▪ Costs of preparing banner acknowledging sponsors | 500 |
| ▪ Venue hire | 10,000 |
| ▪ Catering (300 guests @ $50 per head) | 15,000 |
| ▪ Hire of band | 2,500 |
| ▪ Complimentary tickets to sponsors (5 x $200) | 1,000 |
| *Total Expenses* | 30,000 |

**Table 7.3. Charity Ball Income and Expenditure Statement in accordance with the Canadian GAAP**

| Statement of Operations and Changes in Fund Balances | Operating Fund $ | Capital Asset Fund $ | Endowment Fund $ | Total $ |
|---|---|---|---|---|
| **Revenues** | | | | |
| Government Grants | 25,000 | - | - | 25,000 |
| Foundation Grants | - | - | - | - |
| Fees for service | - | - | - | - |
| Contributions | 2,000 | - | - | 2,000 |
| Fundraising Events | 88,000 | - | - | 88,000 |
| Investment Income | - | - | - | - |
| Interest and Other Income | - | - | - | - |
| **Total Revenues** | 115,000 | | | 115,000 |
| **Expenditures** | | | | |
| Advertising | - | - | - | - |
| Amortization of capital assets | - | - | - | - |
| Bank charges | - | - | - | - |
| Catering/Entertainment | 16,000 | - | - | 16,000 |
| Marketing and communications | 1,500 | - | - | 1,500 |

| | | | | |
|---|---|---|---|---|
| Other | | | | |
| Professional fees | 2,500 | - | - | 2,500 |
| Rent and building occupancy | 10,000 | - | - | 10,000 |
| Salaries and benefits | - | - | - | - |
| Vehicle and travel | - | - | - | - |
| **Total Expenditure** | 30,000 | - | - | 30,000 |
| **Total of Changes** | 85,000 | - | - | 85,000 |
| **Expenditure Allocation** | | | | |
| **Item** | **Charitable $** | **Administration $** | **Other (Fundraising) $** | **Total $** |
| Advertising | - | - | - | - |
| Amortization of capital assets | - | - | - | - |
| Bank charges | - | - | - | - |
| Catering/Entertainment | - | - | 16,000 | 16,000 |
| Marketing and communications | - | - | 1,500 | 1,500 |
| Other | | | | |
| Professional fees | - | - | 2,500 | 2,500 |
| Rent and building occupancy | - | - | 10,000 | 10,000 |
| Salaries and benefits | - | - | - | - |
| Vehicle and travel | - | - | - | - |
| **Total** | - | - | 30,000 | 30,000 |

**Notes**:

1. The Canadian standards permit disclosure by function as long as administrative and fundraising expenses are disclosed by function. Such expenditure must include disclosure either as a percentage or an amount
2. Fundraising is one of the functions for which disclosures are required.

7.39 In a comprehensive study of charity regulation in Canada, Phillips (2013, 500) commented:

> The reporting system is now clearly centered on two goals—false receipting and political activity—and the regulatory style is dominated by audit and sanction. If there was not already an advocacy chill, there certainly is now. Relationships between the sector and the political executive are more strained than ever, and the regulator is caught in the middle. More than damaged relationships, the greatest consequence of the recent actions is that the state regulatory system has become politicized which, as the regulatory literature has long stressed, is a serious impediment to its legitimacy.

7.40 In a landmark report on charities' reporting to the Canada Revenue Agency, Ayer et al. (2009) examined the statutory returns (Form T3010) to Revenue Canada from Canadian charities for the years 2003 to 2007. The authors' analysis led them "to caution those who wish to use this information [reliance of Canadian charities on fundraising and the costs of fundraising] without investing the time to fully understand its limitations" (Ayer et al. 2009, i).

7.41 In support of this finding, the research found eight systematic types of errors or issues that appear in the information reported by charities on Form T3010 (see Table 2). Six are simple addition errors and a noticeable, but relatively small number of organisations make these types

of errors. Much more frequent are errors or issues that are related to expenditures. Specifically, 17.5% of charities report that they incurred expenses yet fail to report what types of expenses they incurred (e.g. fundraising expenses vs. charitable expenditures). In addition, 12.4% did not report any charitable expenditure, gifts or transfers to qualified donees despite being active and incurring expenses.

### How has this issue been dealt with in Singapore?

7.42 In Singapore, charities are required to comply with the Charities Accounting Standard (CAS) was issued by the Singapore Accounting Standards Council.[57]

7.43 Singapore's *Charities Act 1994*, defines "fund-raising appeal" as follows:

a) an appeal, whether made expressly or impliedly, to any member of the public to give money or other property (whether for consideration or otherwise) which is made in association with a representation that the whole or any part of its proceeds is to be applied for charitable, benevolent or philanthropic purposes; or

b) a receipt from any member of the public of any money or other property (whether for consideration or otherwise) which is given in whole or in part for any charitable, benevolent or philanthropic purposes;

7.44 Paragraph 6 of the *Charities (Fund-raising Appeals for Local and Foreign Charitable Purposes) Regulations 2012* requires registered charities to maintain records of all donations received and disbursed by them and all other income received and expenses incurred. Paragraph 7 of the regulations also refer to fundraising expenses as follows:

**Fund-raising expenses**

7.(1) The total fund-raising expenses of a charity for the financial year ending on or after 1st April 2008, and for every subsequent financial year, shall not exceed 30% of the total receipts from fund-raising and sponsorships for that financial year, as determined by the following formula:

$$\left(\frac{E+S}{R+S}\right)\times 100\% \leq 30\%,$$

where E refers to the total expenses relating to fund-raising for the financial year, including—

(a) direct and material indirect expenses of any kind; and

(b) payments made to commercial fund-raisers engaged by the charity,

but excluding, in a case of the sale of goods by or on behalf of the charity for fund-raising (and not trading), the cost of the goods sold;

[57] Accounting Standards Council, http://www.asc.gov.sg/cas/index.htm

R refers to —

(a) in a case of the sale of goods by or on behalf of the charity for fund-raising (and not trading), the total receipts from such sale (after deducting only the cost of the goods sold); and

(b) the total gross receipts from any other fund-raising for that financial year; and

S refers to the total amount of sponsorships in cash received by the charity relating to fund-raising for that financial year that is conditioned upon the provision of direct or indirect commercial benefit to the sponsors.

(2) The computation of the formula in paragraph (1) shall be done in accordance with such directions as may be issued by the Commissioner relating to the manner of computation of the various items in the formula.

7.45 The Singaporean schema is similar to the US and Canadian models in that the guidance is provided to the charities that are required to lodge a specialised annual return with the regulator. There is no attempt to align the return with annual financial statements prepared by the charities.

7.46 Using the guidance provided by CAS, the fundraising transactions arising from the Charity Ball example (Box 7.4), would be disclosed as set out in Table 7.5.

**Box 7.4**

## Accounting for a Charity Ball

The honorary Treasurer of "Dancing for Kids" charity (an endorsed DGR) has been presented with the following summary of income and expenses relating to a recent charity gala fundraising ball held on Saturday night. All figures presented below are shown GST-exclusive.

| Revenue: | $ |
|---|---|
| ▪ Ticket sales (300 tickets sold at $200 per ticket) | 60,000 |
| ▪ Raffle conducted on the night (1,000 tickets @ $5 per ticket) | 5,000 |
| ▪ Donations made on the night | 2,000 |
| ▪ Sponsorship – naming rights sponsor | 3,000 |
| ▪ Sponsorship – 3 charity ball sub-sponsors ($500 x 3) | 1,500 |
| ▪ Sponsorship – in-kind support (valued) | 2,500 |
| ▪ Charity auction – 1 tax-deductible contribution | 5,000 |
| ▪ Charity auction – proceeds from 7 other items auctioned on the night | 11,000 |
| *Total Revenue:* | **90,000** |

During the evening, the local Mayor announced a grant of $25,000 to assist children with terminal illnesses attend Taronga Park Zoo and Luna Park in Sydney. He presented a cheque for the $25,000 to the CEO of the charity on the night itself.

| Expenses: | $ |
|---|---|
| ▪ Printing of tickets | 1,000 |
| ▪ Costs of preparing banner acknowledging sponsors | 500 |
| ▪ Venue hire | 10,000 |
| ▪ Catering (300 guests @ $50 per head) | 15,000 |
| ▪ Hire of band | 2,500 |
| ▪ Complimentary tickets to sponsors (5 x $200) | 1,000 |
| *Total Expenses* | **30,000** |

**Table 7.5. Charity Ball Income and Expenditure Statement in accordance with the Singaporean Charity Accounting Standards (CAS)**

| Statement of Financial Activities | | | | | |
|---|---|---|---|---|---|
| | Note | Unrestricted funds | Restricted income funds | Endowment funds | Total |
| **Income** | | | | | |
| **Income from generate funds** | | | | | |
| **Voluntary income** | 3 | | | | |
| Activities for generating income | | 2,000 | - | - | 2,000 |
| Investment income | | - | - | - | - |
| Other income | | 88,000 | 25,000 | - | 113,000 |
| **Total Income** | | 90,000 | 25,000 | - | 115,000 |
| | | | | | |
| **Expenditures** | 4 | | | | |
| **Cost of generating funds** | | | | | |
| Cost of generating voluntary income | | - | - | - | - |
| Fundraising trading: cost of goods sold and other costs | | 30,000 | | | 30,000 |
| Investment management costs | | - | - | - | - |
| **Charitable activities** | | - | - | - | - |
| **Governance costs** | | - | - | - | - |
| **Other expenditures** | | - | - | - | - |
| **Total expenditures** | | 30,000 | - | - | 30,000 |
| **Net income/expenditure before tax expense** | | 60,000 | 25,000 | | 85,000 |
| **Tax expense** | | - | - | - | - |
| **Net Income/(expenditure)** | | 60,000 | 25,000 | - | 85,000 |

| Note 3 | Analysis | Current Year | Prior Year |
|---|---|---|---|
| **Voluntary Income** | Donations | 2,000 | |
| | | | |
| Activities for generating funds | Charity Ball | 60,000 | |
| | Commercial sponsorships | 7,000 | |
| | Charity Auctions | 16,000 | |
| | Lotteries | 5,000 | |
| Investment income | | 0 | |
| | | | |
| Income from charitable activities | Government grants | 25000 | |
| **Total** | | 115,000 | |

1. The Singaporean CAS follows the international pattern of requiring disclosure by function and by fund.
2. The requirement to detail in the Notes the income and expenditure for all activities for generating funds is a more detailed requirement than most other jurisdictions.

| Note 4 | Analysis | Current Year | Prior Year |
|---|---|---|---|
| Cost of generating voluntary income | | | |
| | | | |
| Fundraising trading costs | Charity Ball | 28500 | |
| | Commercial sponsorships | 1500 | |
| | Charity Auctions | 0 | |
| | Lotteries | 0 | |
| Investment management costs | | | |
| | | | |
| Charitable activities | | | |
| | | | |
| Governance costs | | | |
| **Total** | | 30000 | |

7.47 No independend research about the efficacy of the Singaporean regulations regarding the disclosure of fundraising income and expenditure was located.

### How does New Zealand deal with the issue?

7.48 Charities in New Zealand are encouraged under the *Charities Act 2005* to register voluntarily with Charities Services of the NZ Department of Internal Affairs and complete an Annual Return, attach a copy of their financial statements and, as necessary, update the charity's details on the Register.

7.49 The financial disclosures of all charities in their Annual Return to the Charity Division must be supported by the disclosures in their AFRs. The AFRs of New Zealand charities must be prepared in accordance with NZ GAAP, (NZ IFRS if large) and Financial Reporting Standard A2 issued by the External Reporting Board.[58]

7.50 The NZ standards do not specifically refer to fundraising,[59] although NZICA has provided some guidance on the recommended treatment of common fundraising methods, including in-house fundraising, telemarketing, sales on behalf, concerts and similar events, pledges, and sales by entity.[60]

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[58] Charities Commission. 2009a. Charities Commission Statement of Intent 2009 – 2012. New Zealand. http://www.charities.govt.nz/about/statement_of_intent09-12.pdf.

[59] Changes foreshadowed to come into effect on 1 April 2015 provide further guidance on the reporting of fundraising expenses. See http://www.xrb.govt.nz/Site/Accounting_Standards/Exposure_Drafts/NFP_Simple_Format_Reporting_EDs.aspx

[60] NZICA (New Zealand Institute of Chartered Accountants) "Not for Profit Financial Reporting Guide. 2007. http://www.nzica.com

7.51 The Annual Return Form – Form 4, Part 1, Statement of Financial Performance for the year ending…, mandates the disclosure of the following (Table 7.6) under the headings Gross income and Expenditure:[61]

**Table 7.6. Annual return form (NZ)**

| Gross Income | Expenditure |
|---|---|
| Government grants/contracts | Grants / donations paid - within NZ |
| All other grants and sponsorship | Grants / donations paid - outside NZ |
| Income from service provision / trading | Salaries and wages |
| Membership dues | Depreciation |
| Donations | Interest paid |
| Bequests | Cost of service provision (excluding salaries and wages) |
| New Zealand dividends | Cost of trading operations (excluding salaries and wages) |
| Other investment income | |
| Other income | All other expenses |
| **Total Gross Income** | **Total expenditure** |
| | **Net surplus / deficit for the year (Total gross income less total expenditure)** |

7.52 Note that there is no reference to fundraising" in the Form and no requirement to disclose financial information "by activity" such as "cost of services" or "cost of administration".

7.53 From 1 April 2014 the *Financial Reporting Act 2013* replaces the *Financial Reporting Act 1993*. For the sake of registered charities, new financial reporting requirements have been imposed under this Act. From 1 April 2015, financial reports that are filed with the New Zealand Charities register will be required to comply with Generally Accepted Accounting Principles (GAAP). The financial reporting standards which must be complied with will depend on the size and public accountability of the registered charity. It can be seen from the table below that large charities (with expenditure over $2 million) have NZ NFP PBE standards. These are based on International Public Sector Standards (IPSAS) which have been adapted to the New Zealand environment and the not-for-profit sector to which they can be applied.

7.54 For smaller entities, Simple Format Reporting Standards have been written which have been tailored to the not-for-profit sector with accrual standards being required to be followed for registered charities with expenditure of greater than $125,000 (but less than $2 million) and cash standards (non-GAAP) for charities with expenditure of less than $125,000. Charities may elect to adopt a higher level of reporting.

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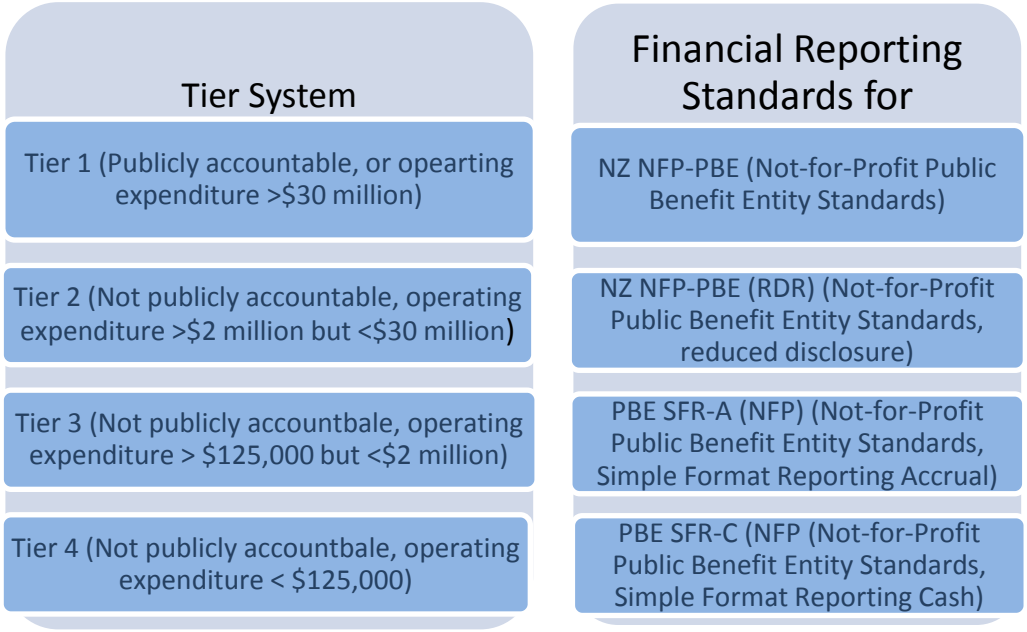
[61] NZ Department of Internal Affairs, http://www.charities.govt.nz/compliance/annual-return/.

**Box 7.5**

**Overview of Reporting Standards**




7.55 In addition, the Accounting Infrastructure Reform Bill is at select committee stage. It introduces the requirement for registered charities with operating expenditure of more than $500,000 to have an audit or review by a qualified accountant. Registered charities with operating expenditure of over $1 million must have an audit. As this is still under discussion, these levels and requirements may change. The charities regulator (Department of Internal Affairs: Charity Services) will be authorised to monitor both the financial reporting and assurance of charities from 2016 onwards. Charities that may not come under this statutory regime may still elect to have assurance in their own constitution.

7.56 As at February 2014, only registered charities will face these changes, although the *Incorporated Societies Act 1908* is under review.

7.57 As to reporting fundraising income and expenditure, across the different tiers there will be different expectations. With the Simple Format Reporting Standards, there are basic rules such as no off-setting, and the requirement for revenue to be recorded when it is received. (This includes significant donated assets with useful lives of 12 months or more, unless they are difficult to value, but does not include donated goods or services.) Where there is a use or return component, then for Tier 3 reporters, the donation can be recorded as a liability, for Tier 4 this can be recorded as a commitment. If there is no use or return component but some other condition, then that condition must be disclosed in the notes to the revenue.

7.58 The Simple Format Reporting Standards have recommended account names, including "donations and other fundraising revenue", and "expenses related to public fundraising". There is a recommended break down of in-house costs (for example, advertising, printing of fundraising materials and staff training costs) as well as external amounts paid to third party fundraiser, however, these categories are not mandatory. Therefore, it will not necessarily be possible to ascertain the costs of fundraising for any smaller registered charity.

7.59 Larger charities will not have standard categories of any type. However, similarly to Tier 3 and 4 charities, they will be required to file information with the charities regulator following a template, which does not currently collect this information. There is no separate fundraising regulator.

7.60 Using the present guidance provided by NZ GAAP, the fundraising transactions arising from the Charity Ball example (Box 7.6), would be disclosed as in Table 7.7.

Box 7.6

## Accounting for a Charity Ball

The honorary Treasurer of "Dancing for Kids" charity (an endorsed DGR) has been presented with the following summary of income and expenses relating to a recent charity gala fundraising ball held on Saturday night. All figures presented below are shown GST-exclusive.

| Revenue: | $ |
|---|---|
| ▪ Ticket sales (300 tickets sold at $200 per ticket) | 60,000 |
| ▪ Raffle conducted on the night (1,000 tickets @ $5 per ticket) | 5,000 |
| ▪ Donations made on the night | 2,000 |
| ▪ Sponsorship – naming rights sponsor | 3,000 |
| ▪ Sponsorship – 3 charity ball sub-sponsors ($500 x 3) | 1,500 |
| ▪ Sponsorship – in-kind support (valued) | 2,500 |
| ▪ Charity auction – 1 tax-deductible contribution | 5,000 |
| ▪ Charity auction – proceeds from 7 other items auctioned on the night | 11,000 |
| *Total Revenue:* | **90,000** |

During the evening, the local Mayor announced a grant of $25,000 to assist children with terminal illnesses attend Taronga Park Zoo and Luna Park in Sydney. He presented a cheque for the $25,000 to the CEO of the charity on the night itself.

| **Expenses:** | $ |
|---|---|
| ▪ Printing of tickets | 1,000 |
| ▪ Costs of preparing banner acknowledging sponsors | 500 |
| ▪ Venue hire | 10,000 |
| ▪ Catering (300 guests @ $50 per head) | 15,000 |
| ▪ Hire of band | 2,500 |
| ▪ Complimentary tickets to sponsors (5 x $200) | 1,000 |
| *Total Expenses* | **30,000** |

**Table 7.7. Charity Ball Income and Expenditure Statement in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRSs)**

| **Statement of Comprehensive Income** | | | |
|---|---|---|---|
| | **Notes** | **This Year** | **Last Year** |
| **Trading activities** | | | |
| Income from trading activities | | 28,000 | |
| Expenditure from trading activities | | 1,500 | |
| Surplus(Deficit) from trading activities | | 26,500 | |
| | | | |
| **Financing activities** | | | |
| Interest income | | - | |
| Interest on borrowings | | - | |
| Net financing costs | 8 | - | |
| | | | |
| **Other revenue generation activities** | | | |
| Membership subscriptions | | - | |
| Fundraising from the public | | 60,000 | |
| Government grants and subsidies | | 25,000 | |
| Other donations and grants | | 2,000 | |
| Other income | | - | |
| Total other revenue generation activities | | 87,000 | |
| | | | |
| **Operating expenditure** | | | |
| Direct costs of public fundraising | | 28,500 | |
| Service delivery costs | | - | |
| Depreciation, etc., | 7 | - | |
| Research and development costs | | - | |
| Other overheads and administrative expenses | | - | |
| Total operating expenditure | 6 | 28,500 | |
| | | | |
| **Operating surplus /(deficit) before donations** | | 85,000 | |
| | | | |
| Donations or grants | | - | |
| | | | |
| **Operating surplus** | | 85,000 | |

1. The NZ IFRS follows the international pattern of requiring disclosure by function and by fund.
2. The Notes to account provide further information where material.
3. In this recommended template provided by Grant Thornton NZ, the use of the term, Fundraising from the public, appears not to include membership subscriptions and other donations and grants.
4. The details of any restrictions on the use of assets are required to be disclosed in the Notes to account.

7.61 In New Zealand, research using data on a structured sample of 400 randomly selected charities provided by then New Zealand Charities Commission, found that 61% of the financial returns to the regulator contained errors or omissions (Cordery, 2011) Most common errors found were related to the failure by registered charities to ensure that their annual returns to the regulator matched the figures disclosed in their annual financial statements prepared in accordance with

accounting standards. Cordery (2011) noted that the lack of charity-specific reporting standards may have contributed to the poor standards of compliance.

7.62 The results of the research into the reporting practices of New Zealand charities has generated a debate about whether sector neutral accounting standards are appropriate and whether a special set of practices or standards are needed (van Staden and Heslop, 2009; Cordery, 2013; Kilcullen, 2007).

### What can be learned from this examination of the way fundraising is regulated and reported in other international jurisdictions?

7.63 This Chapter has focused on the mandatory public disclosure of financial information about fundraising in charities' financial reports and their returns to regulators. This is one aspect of the regulation of fundraising, the others being the registration of those permitted to solicit contributions for a charitable purpose and the regulation of the conduct of those engaged in fundraising (see Chapter 5).

7.64 The variations in the way the financial records of the Charity Ball in our example are reported internationally suggest that there is lack of a generally accepted approach to the treatment and disclosure of fundraising transactions.

7.65 Perhaps the dominant policy approach taken by regulators of charitable fundraising in the last 40 years has been the informed market approach in which it is envisaged that the mandatory disclosure to the public of mainly financial information through a government regulator will create a market in which informed stakeholders including donors are expected to make informed decisions favouring the more efficient charities (Breen, 2009). The policy presumes that, over time, the informed market will tend to encourage good conduct among fundraising charities. Fundamental to the success of this strategy is the availability of reliable and comparable data about the participants in this market and users who are willing to act upon it.

7.66 Since the introduction of charity-specific reporting in the 1960s, there has been mounting evidence of the difficulties faced by regulators around the world in achieving high levels of compliance with financial reporting standards developed for charities. Studies in the UK, USA and New Zealand all point to financial reporting in annual reports and returns are less than satisfactory in respect of their technical accuracy (Bird and Morgan Jones 1981; Connolly and Hyndman 2001; Morgan 2010; Keating and Frumkin 2003; Krishnan et al. 2006; Froelich and Knoepfle 2000; Szper and Prakash 2011; Breen 2009; Cordery 2011).

7.67 The evidence suggests that attempts by international regulators to isolate fundraising income and expenditure by using "segment" or "by function" reporting techniques have been frustrated by the joint-costs problem and the interaction of these special requirements and general accounting principles (Szper, 2013; Breen, 2013; Morgan 2011; Krishnan, et al, 2006; Morris, 2005; Fairbairn, 1998).

7.68 Overall, the attempts to create regulatory systems for fundraising based on the provision of publicly available comparable financial data about the charities do not appear to have been as

effective as the “informed market” policy may have promised (Fairbairn 1998; United States Senate Finance Committee 2004; (National Audit Office 2006; Breen 2013).

7.69 The evidence suggests that the sheer diversity of characteristics of the charities, the lack of a uniform approach to the definition of fundraising, the lack of generally agreed and enforceable approaches to “Joint cost allocation” and the lack of sector-specific accounting standards may all have contributed to this lack of success.

7.70 The problems associated with the lack of reliable data appear to be compounded by the evidence that suggests most donors and members (conceptually the equivalent of owners in the for-profit sector) do not appear to rely heavily on financial reports to inform their decisions (See Chapter 1)

7.71 In summary, the evidence from the jurisdictions surveyed indicates that general accuracy and usefulness of filed financial information is poor and thus reliance on a better-informed-market policy approach to fundraising regulation, which relies on making available comparable financial information about fundraising income and expenditure, has neither been demonstrated to be achievable nor has it proven to be the optimal policy approach. The lack of success in the jurisdiction surveyed in obtaining consitant treatment of fundraising income and expenditure in the financial accounts by using functional accounting techniques, suggests a different approach is necessary.

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# Chapter 8. What conclusions and recommendations can be made from this research?

8.1 In this report we set out to establish whether the current reporting of fundraising in the annual financial statements of Australian charities is fit for the purposes of the ACNC's registry strategy or private charity rating agencies and to suggest a way forward if it is not.

8.2 We said that this is critical because fundraising is important to some parts of the charities sector whose sustainability is dependent on continuing trust by the public, which in turn, can be influenced by public disclosure of fundraising income and expenses in the accounts of charities.

8.3 In this Chapter the findings of this research are summarised. We conclude that the current treatment of fundraising disclosures in charity annual financial statements is not fit for the purposes of public disclosure on an ACNC or charity rating agency public database.

8.4 Options to make charity annual financial statements fit for purpose in relation to the reporting of fundraising income and expenses are discussed. Finally, a recommendation is made and options are considered for the way forward. Consequential ancillary issues of fundraising regulation are also identified and discussed.

## Overview of findings

8.5 Regulators around the world have attempted to use measures that require the separate disclosure of "fundraising" income and expenses in mandatory reports and returns from fundraising not for profit organisations to help identify cases of fraud and self-dealing. An examination of the available evidence found little to suggest that such regulatory tools have been fit-for-purpose. First, there are significant issues in the accuracy and sufficiency of financial returns generally due to a number of systemic causes. Second, it is not possible to use this data alone to separate malfeasance from sound practice and because the term "fundraising" describes a range of activities that generate diverse financial transactions, not easily isolated from the other activities of the charity (Chapters 2 and 7).

8.6 This was confirmed in our consultations with Australian fundraising regulators who confirmed that little is detected from the accounts themselves and not-for-profit fraud surveys. In the vast majority of instances tip offs by staff, volunteers and related parties trigger regulators to reconstruct the accounts themselves to gain an insight to financial transactions. This is illustrated by the case study on the Cancer and Bowel Research Association (chapter 5).

8.7 A review of the academic literature found that media and charity rating agencies have used these disclosures to calculate and publish league tables featuring a ratio of fundraising expenses to fundraising income as a proxy for the efficiency of charities. The public debate generated by fundraising ratio rankings has heightened the public misconception that such a ratio is a useful measure of the "worthiness" of rated charities. As a result, charity managers have tended to respond by using whatever discretion they have to improve their cost of fundraising ratio ratings, or by making decisions about the management of their fundraising activities that reflect

well in the ratings, but which may also be to the detriment of the sustainability of their organisations. Alternatively they can over react and enter into a starvation cycle (Chapter 2).

8.8 This ought not to be confused with internal use of ratios for fundraising metrics when used in conjunction with other metrics and informed by the fundraising investment strategy of the organisation. Governors and managers should be encouraged to review their fundraising performance. It is another matter when single ratios, used without factoring in other variables are used for external public comparisons.

8.9 Our analysis shows that, in its current use, the term "fundraising" in the Australian not-for-profit sector tends to refer to the activities that generate the financial transaction rather than the nature of the financial transaction itself. For example, "fun run" rather than "donations" or "charity gala ball" rather than "sales" (Chapters 3, 5 and 6).

8.10 In the absence of any formal guidance from accounting standards or from best practice, the result of using an activity classification is that a wide variety of terms is used to describe the types of financial transactions generated by fundraising activities. This contributes to a general lack of external comparability (Chapter 6).

8.11 This is further exascerbated by with"by function" (eg fundraising expenses) reporting rather than 'by nature' (eg salaries, event hire). By function works well where there is clear separation between the functions , such as in commercial entities with separate businesses or branches or for tracking above-the-line sales results where there are inventories involved. The wide discretions available and lack of clear defintions for joint cost allocation create a lack of external comparability.

8.12 Even in large fundraising organisations, where there are dedicated fundraising sections or departments (and this is not the situation for the great majority), the fundraising activities are unlikely to be confined to those departments. For example, the CEO and senior management, board are usually heavily involved. By function reporting of fundraising income and expenditure maybe useful internally, but does not produce comparable figures outside of the organisation.[62]

8.13 For the purposes of financial reporting, fundraising transactions would be more usefully characterised by the nature of the transaction as either sale of goods, provision of services, gifts, or transfers, as these terms have widely recognised accounting definitions. Fundraising or development is a term of art with no accepted definition (Chapters 1, 5 and 6).

8.14 In Australia, existing State/Territory regulation tends to focus on the regulation of appeals or collections as if these activities were separate events and time-limited. This does not reflect modern fundraising practice which tends to use continuous multi-channel public fundraising offers, rather than time-limited single channel appeals. For example, a modern Christmas Appeal might include a mail appeal (donations), a special event (sales) sponsored by a corporate partner (sales), a submission to the local Council for a Christmas Party for disadvantaged

[62] This is not unique to fundraising organisations.

children (transfer) and perhaps a Christmas Appeal themed web page, soliciting on-line giving (gift) and food donations (gift). As a consequence, modern fundraising techniques generate a mix of financial transactions, making it difficult and inconsistent with accounting conventions to group such transactions under Appeals in the annual financial statements (Chapter 5).

8.15 To complicate matters further, we find that the legal definitions of fundraising (or appeals, or collections) vary across Australian jurisdictions and are inconsistent. This means that financial statements that include references to disclosures headed fundraising or appeals or collections are unlikely to be comparable across jurisdictional boundaries. This makes it particularly difficult for charities that operate in more than one jurisdiction to prepare financial statements that reflect the fundraising regulatory requirements of all jurisdictions in which they operate (Chapter 5). Inconsistency in the definition of fundraising is seen in the question of whether to include bequests and/or grants from charitable foundations.

8.16 We find that the guidance from Australian accounting standards in respect of fundraising transactions is useful at the conceptual level, but because the standards allow significant discretion at the operational level for those preparing financial statements, they tend not to promote comparable disclosures in respect of fundraising (Chapter 3).

8.17 We find that, using the discretion available, the preparers of charity financial statements tend to collect accounting information about fundraising activities in order to facilitate their State's/Territory's mandatory reporting requirements and these vary between jurisdictions (Chapter 5).

8.18 Our research suggests that there is no evidence yet of the emergence in Australia of a set of best practices informed by professional or industry standards, that might provide a useful starting point for the development of a system for the disclosure of fundraising transactions (Chapter 6).[63]

8.19 It is clear from our research that at present the financial disclosures of neither "fundraising" income nor expenses can be usefully compared, between organisations in the same State or Territory or between organisations in different States or Territories. This is illustrated by the fact that the NSCOA which seeks to come to a model internal chart of management accounts could not reconcile the different requirements of state and territory regulators.

8.20 The case study of the Cancer and Bowel Association, concerning alleged excessive fundraising expenses in South Australia, also shows the limitation of such metrics for regulators and the limitations of their regulatory tools (chapter 5).

8.21 This lack of comparability makes the gathering of accurate information about the sources of "fundraising" income across the sector problematic and hinders the proper understanding of the issues, which is necessary to inform policy, strategy and professional practice.

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[63] We acknowledge that the ACFID has made sterling efforts in its Code in respect of such disclosures, but it is for a relatively small group of similar organisations

## What does this report recommend?

8.22 The focus of this research is the disclosure of fundraising income and expenses in the financial statements of Australian charities. It is not primarily about the regulation of fundraising activities per se, but rather how the financial transactions that are generated by such activities are disclosed in the financial statements of charities.

8.23 Whilst there are differences in the definition of "fundraising" activities across different Australian jurisdictions and between sections of society, the Australian accounting standards are designed to provide authoritative guidance on how such transactions should be recognised and measured in the financial statements of reporting entities.

8.24 Given that the Australian Accounting Standards provide an accepted and rigorous framework for reporting financial transactions, it seems appropriate to use this framework as a basis for our recommendations. To propose an alternative framework is unlikely to result in any widespread acceptance and cause significant costs and dislocations.

8.25 It is in that context that this report recommends that all fundraising revenue transactions be recorded in one of four by nature categories:

- sale of goods
- provision of services
- gifts or
- transfers.

8.26 Fundraising **sale of goods** are those reciprocal transactions where the transferor and transferee directly give and receive approximately equal value. Typical examples of fundraising sales in the not for profit sector would be the proceeds of sales at fairs, fêtes, bazaars, street stalls, special event entertainments and charitable merchandising.

8.27 Fundraising **provision of services** is a reciprocal transaction whereby the transferor and transferee directly give and receive approximately equal value of services rendered. Typical examples of fundraising provision of services would be commercial sponsorships or fees for endorsements. It is acknowledged that there are circumstances where the provision of services is a mixed transaction in which there are elements of a straight purchase and a donation, for example in the ticket price for a charity ball. However, it is argued that the accounting and tax treatment of such transactions can be little different in accounting terms from for-profit sales in which a premium is paid for some other benefit. An example is the price paid for a Louis Vuitton handbag or the price paid at auction for the first tray of mangoes in a season.

8.28 Fundraising **gifts** are non-reciprocal transfers which are made to maintain or increase the entity's capacity to provide those goods and services. Typical examples are those transactions commonly referred to as donations or gifts. The Commissioner of Taxation has defined a "gift" as having the following characteristics (TR 2005/13):

- there is a transfer of the beneficial interest in property;

- the transfer is made voluntarily;
- the transfer arises by way of benefaction; and
- no material benefit or advantage is received by the giver by way of return.

8.29 This is a relatively clear and settled definition which charities are familiar with applying on a regular basis. One other benefit of adopting this tax definition is that this will help to align the disclosures in the financial statements with totals in the gift fund records required by tax law.[64]

8.30 Fundraising **transfers** are those transactions where an entity transfers assets to another entity and only derives benefit from satisfying its objectives of providing benefits to others. Examples of fundraising transfers are grants from philanthropic trusts and foundations, government general purpose grants, and gifts from trusts and other entities with complementary purposes. A key advantage of this approach is that it aligns with the definitions used in the ABS's *Non-Profit Institutions National Satellite Account*.

## Where are the grey areas?

8.31 Whilst the four categories of transactions are defined in Australian accounting standards there are some types of fundraising transactions that may not be easily recognised and may require special guidance to ensure they are treated in a similar way. The following section identifies those types of transactions that may need further explanation.

### *Government grants*

8.32 Some government grants are nonreciprocal and others are reciprocal. Government agencies have different ways of defining reciprocal, and guidance would be useful. The guidance provided by former SAC4 states:

> Value is not received in exchange where an entity transfers assets to another entity and only derives benefit from satisfying its objectives of providing benefits to others. Accordingly, for a transfer to be reciprocal, it is not sufficient that the transferor receives benefit indirectly as a result of the transfer. For example, when a government provides a grant to a not-for-profit entity, typically it does not receive value directly in exchange. In such circumstances, it normally would indirectly receive a benefit as a result of the recipient entity deploying the grant in providing goods or services to beneficiaries which the grantor government represents. (para 102).
>
> If assets are provided to a not-for-profit entity on the condition that the entity is to make a reciprocal transfer of economic benefits, and that reciprocal transfer has not occurred prior to the reporting date, the recipient entity will have a liability. (para 104).

[64] All gifts, not just tax deductible gifts are required be reported under the taxation provisions.

### *Membership*

8.33 The ABS has advised that for the purposes of the National Accounts:

> The treatment of membership fees is dependent upon whether the organisation is defined as a market or a non-market producer. For market producers, membership fees are treated as income from services. For non-market producers membership fees are treated as current transfers… (personal correspondence with research team).

8.34 In the not-for-profit environment, membership fees have characteristics that more closely match those for services, since membership fees usually confer benefits either by means of membership rights or concessions on the prices paid for goods or services supplied. Whilst membership may not always confer rights, it is noted that for the purpose of GST, membership fees are usually classed as a taxable supply. On balance, the classification of membership fees paid as services is recommended.

### *Mixed transactions*

8.35 Some fundraising transactions could arguably belong to more than one category. Some of the significant mixed transactions are tax-deductible contributions, charity gaming and sponsorship. These are dealt with in turn.

8.36 The tax-deductible **contribution** (not gift) is classically illustrated by the gala charity dinner ticket at $1,000 a head. It is recommended that tax-deductible contributions which are not gifts be classified as fundraising sale of goods, for the following reasons:

- There is an exchange of value that can be measured accurately;
- The tax concession available for the contribution does not alter the nature of the transaction;
- The alternative of classifying this type of transaction as a gift or a transfer are less satisfactory since it is likely there will be a further transaction involving the reduction of stock or accounts payable to be recorded, which would not normally arise for a gift or transfer pair of transactions;
- The alternative of classifying this type of transaction as two transactions, to recognise the gift component and the sale of goods component, is overly complex since it is likely to involve obtaining a reliable market valuation of the sale of goods component.

8.37 The purchase of **raffle tickets** or participation in fundraising lotteries is often argued to be akin to a donation because most people who purchase such tickets do so to support the not-for-profit organisation rather than to engage in gambling. It is argued that despite the potential mixed motivations involved, for the purposes of accounting, the transaction has all the attributes of a sale. This treatment is in accord with ATO Taxation Ruling TR2005/13, despite the supply of a raffle ticket being GST free for the purposes of section 38-270 of the GST Act.

8.38 The use of the term **sponsorship** in a not-for-profit fundraising environment has two meanings, one classifying it as a gift and the other as a provision of services.

8.39 Sponsorship is often used to describe the support given to a friend or colleague who is participating in a fundraising activity such as a walkathon, Movember, or an experiential fundraising event like cycling around Australia. Such sponsorship typically involves making a donation to the charity involved, on behalf of the person participating. Sponsorship payments of this type are likely to be gifts, and tax-deductible for the individual sponsor. It is recommended that this type of philanthropic sponsorships be treated as gifts.

8.40 Sponsorship can also be a commercial arrangement in which the sponsor makes a payment to the not-for-profit entity in return for certain benefits. Typically sponsors of this kind receive an agreed package of recognition by means of advertising, publicity or promotions in return for payment. Such payments are subject to GST, and the transactions should be treated as provision of services.

8.41 Using this framework, the Revenue Note disclosures in the Statement of Comprehensive Income should be arranged in categories that comply with the classification system described above like this:

**Revenue**

- Sale of goods:
  - Lottery sales;
  - Art union sales;
  - Raffle sales;
  - Tax-deductible contributions;
  - Other sales.
- Provision of services:
  - Government grants (reciprocal);
  - Membership fees;
  - Sponsorships (commercial);
  - Event entry fees/ticket sales.
- Gifts:
  - Donations;
  - Bequests/legacies.
- Transfers:
  - Government grants.
- Investment income:
  - Interest received;
  - Dividends;
  - Rents;
  - Royalties.

- Other income:
  - Gains on sale of non-current assets;
  - Foreign exchange gains.

8.42 Using the principles set out in the accounting standards, fundraising revenue transactions could be classified individually according to the recognised typology for revenue and disclosed in the notes to the financial statements of not-for-profit entities when disclosing the various types of fundraising revenue:

- sale of goods;
- provision of services (including government payments for services);
- gifts (including donations, legacies, bequests and gifts-in-kind); and
- transfers (including grants).

8.43 There would be several advantages in classifying fundraising revenues in this way, including:

- the disclosures would comply with the current requirements of both AASB 118 and AASB 1004, with the inclusion of gifts and transfers, as neither of these Accounting Standards specifically requires disclosure of gifts and transfers.
- The use of such a typology would also align with the Australian Bureau of Statistics classification system and assist in the compilation of the National Accounts by reducing the need to conduct separate surveys to collect sample data.
- Because revenue from sales of goods and provision of services are well understood and frequently used accounting classifications generally, disclosures of fundraising revenue from these sources are more likely to be applied in a consistent way by the preparers of financial statements, and thus provide more comparable reports.[65] Although not in common use in the context of these additional disclosures, the terms gifts and transfers do have recognised definitions.

8.44 In terms of expenses, this report finds that previous attempts to match fundraising revenue with fundraising expenses have been less than successful. There is no robust, feasible and reliable method of allocating expenses incurred in fundraising activities under a separate category of expenses using the heading fundraising which could apply uniformly across not-for-profit organisations. Previous attempts at designing a method of matching fundraising revenue with fundraising expenses have also been less than successful. The inherent problems of trying to determine and therefore match fundraising expenses can be summarised as follows:

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[65] In terms of comparability, paragraph 39 of the *AASB Framework* reaffirms that "users must be able to compare the financial reports of an entity through time in order to identify trends in its financial position and performance. Users must (also) be able to compare the financial reports of different entities in order to evaluate their relative financial position, financial performance and cash flows."

- There is no robust method of allocating the costs of the four fundraising revenue categories to any one or combination of these sources since fundraising activities generate combinations of all four categories of revenue. Any attempt to allocate costs across the categories will involve significant levels of local discretion. 66
- The two methods tried elsewhere requiring fundraising costs to be collected in a separate cost centre or function, using an all-identifiable-costs method or the direct costs only method, have been found to produce unreliable results. This is because the method relies on the discretion allowed to those who make the allocation decisions. What is allocated as a fundraising cost in one organisation may not be included in another. For example, the hiring of a venue or a band for a charity ball is likely to be readily identified as a fundraising cost, but whether a share of the costs of postage and stationary, rent, telephone and salaries and wages of staff involved in organising the event are to be included in "fundraising expenses", will be treated in dissimilar ways in different organisations. The scale of a set of allocation rules and principles needed to reduce discretion and produce comparable results would be problematic given the costs associated with implementation and enforcement.
- In any case, however detailed the rules for the allocation of fundraising expenses to direct and indirect categories, managers will retain the ability to move expenses from direct to indirect classifications. The simple decision by a manager not to out-source a fundraising expense but rather to fund the expense from existing resources, means that the allocations remain arbitrary and the results incomparable.
- Cost-centre accounting within the accounting systems can track such expenses. For example, to accurately determine fundraising expenses for each fundraising event (such as a gala ball, a fun run, Christmas appeal, application to a philanthropic trust, etc.), cost centres could be established to allow expenses to be job-costed to individual activities. We encourage organisations to engage in such management scrutiny of fundraising income and expenses. However, the inherent discretions in definition of income and expenses and differences in the individual characteristics make their use for general external benchmarking inappropriate. Further, the cost of these kinds of processes are significant and require sophisticated accounting systems and complex coding which may not be worth the benefits. They are outside the financial and accounting capacity reach of many small and medium charities.
- Importantly, it is clear that the benefit of producing an externally available comparison of fundraising income and expenses (facilitating the production of a fundraising ratio) is rated by a consensus of practitioners and researchers as being a poor measure for efficiency and effectiveness, in isolation, except for situations at the extremes.

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[66] This not to mean that management of individual organisations should not do so for internal purposes.

- We note that the evidence shows that an overemphasis on poorly benchmarked costs of fundraising disclosures by third parties drives managerial behaviours that have been deleterious to the health of some virtuous organisations (see Chapter 2).
- Finally, it must be noted that despite perceptions to the contrary, the majority of users of the accounts of fundraising charities do not use the costs of fundraising in making their donantion decisions (Chapter 2, para 2.84).

8.45 This leads the authors of this report to have to make stark choices about any recommendations as to how fundraising expenses should be disclosed. The choices are:

> **Option 1.** Require the reporting of fundraising income and expenses by function, in which all income and expenses associated with the conduct of fundraising activities are reported in a separate cost centre.
> **Option 2.** Design a system of separately reporting all fundraising expenses that match each of the four categories of fundraising income identified in paragraph 8.22 above;
> **Option 3.** Design a system of separately reporting only the direct fundraising expenses to match each of the four categories of fundraising income identified in paragraph 8.22 above, or,
> **Option 4.** Design a system that recognises that fundraising is, in many ways, a whole of organisation activity with expenses best reported with other general expenses, by nature.

8.46 Option 1 is similar to the arrangements in place presently in several jurisdictions, including US, Canada and UK, with the additional insights provided by the four types of fundraising revenue discussed in 8.22 above. Such a system would facilitate those who wish to calculate a cost of fundraising, but does not address the issues discussed in para 8.39 above. Significant subjectivity is involved in determining what constitutes fundraising expenses, which creates problems in firm-to-firm comparisons.

8.47 Option 2 would provide a greater level of disclosure of the costs associated with each of the fundraising revenue streams, but it too would suffer from the disadvantages implicit in Option 1, as discussed in para 8.39 above.

8.48 Option 3 has the advantages of good transparency of the costs associated with each of the four revenue streams and avoids the problems caused by any requirement to apportion joint costs. It does not avoid the definition and classification of direct costs and other non-technical issues.

8.49 Option 4 would mean that only the expenses associated with the cost of goods sold type of fundraising will be separately disclosed whilst the other costs of fundraising would be treated as general expenses. Classifying expenses by nature (i.e. using their name such as salaries and wages, venue hire etc) is less subjective than classifying expenses by function (e.g. fundraising expenses) reducing subjectivity. The chief disadvantage of such a system would be that costs of all fundraising activities would not be separately and externally disclosed. The advantage of this

option is that it avoids inducements to manage the figures and as a result is more likely to provide quality comparable data. Adopting this option would place additional responsibility for monitoring and controlling fundraising expenses on governing bodies and this is dealt with shortly.

8.50 This report recommends Option 4, that is fundraising is a whole of organisation activity with expenses best reported with other general expenses, by nature. This is a way forward that will frustrate those who cling to the notion that crude fundraising ratios are currently or could ever be a useful external measurement tool. However, it is a principled choice and recognises that other evaluations are better suited to these tasks. Further, it does not require separate or modified accounting standards which has significant benefits of being flexible in that any future developments in the accounting standards will automatically flow through to our recommended treatment of fundraising reporting.

8.51 Again, as stated throughout the report, management and the board should identify, measure and scrutinise fundraising income and expenses in relation to their fundraising products, campaigns and activities to inform their fundraising investment and strategy.

## Recommended format for the Statement of Comprehensive Income

8.52 This recommendation can best be illustrated by returning to our example of the charity ball that has been used through this report. Using the example, and including a comprehensive framework for other transactions which were not included in the original example, it would be reported as set out in Table 8.1.

**Table 8.1. Recommended format for the Statement of Comprehensive Income – an example**

| Statement of Profit or Loss and Other Comprehensive Income | Note | 2013<br>$ | 2012<br>$ |
|---|---|---|---|
| **Revenue** | | | |
| **Sales of goods** | **2** | 21,000 | |
| **Provision of services** | **3** | 67,000 | |
| **Gifts** | **4** | 2,000 | |
| **Transfers** | **5** | 25,000 | |
| **Investment income** | **6** | - | |
| **Total Revenue** | | **115,000** | |
| **Other income** | **7** | - | |
| **Total Income** | | **115,000** | |
| | | | |
| **Less: Expenses** | | | |
| Entertainment | | 17,500 | |
| Printing and Stationery | | 1,500 | |
| Rent | | 10,000 | |
| Other | | 1,000 | |
| **Total Expenses** | | **30,000** | |
| **Note 2 Revenue** | **Note** | **2013<br>$** | **2012<br>$** |
| **Sale of Goods** | | | |
| **Lottery sales** | | 5,000 | |
| Art unions | | 0 | |
| Raffles | | 0 | |
| **Tax-deductible Contributions** | | 5,000 | |
| **Other sales** | | 11,000 | |
| **Total Sales** | | 21,000 | |
| **Note 3 Revenue** | **Note** | **2013<br>$** | **2012<br>$** |
| **Provision of services** | | | |
| **Government grants (reciprocal)** | | - | |
| **Membership fees** | | - | |
| **Sponsorships (commercial)** | | 7,000 | |
| **Event ticket sales** | | 60,000 | |
| **Total Income from the provision of services** | | 67,000 | |
| **Note 4 Revenue** | **Note** | **2013<br>$** | **2012<br>$** |
| **Gifts** | | 2,000 | |
| **Bequests/legacies** | | - | |
| **Total Gifts** | | 2,000 | |

| **Note 5 Revenue** | **Note** | **2013**<br>**$** | **2012**<br>**$** |
|---|---|---|---|
| Transfers<br>Local government grants (non-reciprocal)<br>Total Transfers | | <br>25,000<br>25,000 | |
| **Note 6 Revenue**<br>**Investment Income** | **Note** | **2013**<br>**$** | **2012**<br>**$** |
| **Interest**<br>**Dividends**<br>**Rents**<br>**Royalties** | | -<br>-<br>-<br>- | |
| **Note 7 - Other Income** | **Note** | **2013**<br>**$** | **2012**<br>**$** |
| **Gains on sale of non-current assets**<br>**Foreign exchange gain** | | -<br>- | |

### What implications does this hold for regulation and regulators?

8.53 There are several possible regulatory solutions that could ameliorate the failures of the present arrangements for the external reporting of fundraising in the financial statements of Australian fundraising charities. They can be summarised as follows:

- **Option A.** Suggest that the AASB consider issuing guidance on how fundraising transactions should be disclosed in the financial statements of charities (that derive a material level of revenue from fundraising) and have all State and Territory regulators accept annual financial statements complying with these standards as fulfilment of mandatory financial reporting requirements;
- **Option B.** Suggest that the ACNC consider promulgating, or the professional fundraising community agree on a set of recommended practices for reporting fundraising income and expensess in charity annual financial statements, and have all state and territory regulators accept annual financial statements complying with these standards as fulfilment of mandatory financial reporting requirements;
- **Option C.** Have all Australian states and territories recognise this system of financial disclosure by harmonising currently disparate financial reporting requirements.

8.54 Option A would have the advantage of applying to all public benefit not-for-profit organisations in both the public and private sectors and not just to those charities regulated by the ACNC. Further, such authoritative guidance would inform both preparers of accounts and auditors, and become part of the ongoing development of accounting concepts and standards in Australia.

8.55 Option B has many advantages for the financial reporting of fundraising but does not overcome the differences between Australian jurisdictions on the types of fundraising activities covered.

8.56 Option C offers the advantage of having all the State fundraising regulatory regimes align, which would make compliance easier for multi-state fundraising organisations. However, this may not overcome the differences between the states and territories on either the types of fundraising activities regulated or the classes of organisations regulated.

8.57 All three options would require the cooperation of all state and territory fundraising regulators and involve varying degrees of legislative reform.

### What mechanisms and strategies can be considered to deal effectively with the extremes of fraud and poor management involving fundraising?

8.58 Fraud is rarely waiting to be discovered from the face of external financial statements. External audit processes rank near the bottom of actual fraud detection in any year. In the face of the world-wide evidence that financial reports and returns from fundraising charities to regulators are not particularly useful or effective in detecting fraud or sharp practices, what can regulators do to address the threat to public confidence in charities, which is caused by dishonest practices or inexperienced governance and management? In the context of fiscal restraints on funding close supervision of charitable fundraising, regulators need to develop effective strategies to educate, to prevent and protect, as well as to detect abusive or illegal activities.

8.59 First, there needs to be consistent and ongoing education of boards, management, donors and the public about fundraising strategies, costs and appropriate measures. This requires engagement with a number of key influencers to achieve the following:

- **Boards** should disclose their fundraising strategies and plans publicly, with meaningful measures of their progress. Such an explanation alongside the information available in their annual financial statements, would help to educate and inform their supporters.
- **Organisations** that claim, without qualification, that 100% of any donation goes to the cause, free of any indirect costs, should be called to account by regulators, professional bodies and sector peaks.
- **Regulators** should acknowledge that financial ratios which appear to offer a simple solution to a complex issue are not fit for purpose alone. They should use different narratives to address fraud and mismanagement of fundraising activities.
- **The academy** and **professional bodies** need to conduct and disseminate evidence-based research which focuses on fundraising strategies and measurement.
- **Sophisticated donors** (individuals, foundations and government) and **Third Party Monitors** need to model behaviour by eschewing assessment strategies such as inappropriate fundraising financial ratios and instead reward those who disclose fit for purpose fundraising strategies with meaningful measures tailored to their particular context.

8.60 Second, there needs to be a greater focus on laws which clearly make boards responsible for ensuring that fundraising is conducted in a prudent and responsible manner. Boards are in the

best place to monitor, judge and influence organisations in relation to their fundraising activities. As indicated above, assessment of the risks and opportunities that arise in engaging in fundraising will vary according to a host of factors including the organisation's size, age, public profile, sector, needs, and levels of community support. As Steinberg and Morris (2010) point out, it is the process of decision making that is critical, not the readily observable short term consequences. No other actor, be it a government regulator, voluntary code scrutineer, donor, organisation member, or professional association, can match the board for closeness to the issues, access to information, immediacy, and ability to apply timely corrective action in the most cost effective way.

8.61 While such notions can be found in the general fiduciary and statutory duties of governors, including trustees, company directors, and management committee members, there is a case to be made that specific statutory mention may increase awareness and focus on the issues. For example, measures to achieve this could involve:

- ACNC governance standards to include specific mention of responsible persons being charged with acting in the charity's best interests in relation to engagement of professional fundraisers and investment in fundraising strategies;
- State and Territory fundraising legislation to articulate a similar duty for governing bodies;
- State and Territory association legislation to articulate a similar duty for management committee members.

8.62 Other legislative initiatives which might be considered are:

- As cases of fundraising fraud or deception are dealt with more effectively and efficiently under the provisions of the criminal statutes, they could be removed from specialised fundraising provisions.
- The regulation of fundraising conduct in public, such as street collections and doorknocks might best be left to state and local government to supervise, guided by an agreed national code of conduct.
- Current consumer protection laws, with minor amendments, are likely to be adequate to regulate fundraising sales and marketing techniques.

8.63 Third, regulators need to engage in smarter regulatory models which fit the identified issues, rather than applying a comfortable and familiar solution. As indicated above, more attention to encouraging boards to attend to fundraising management diligently may be appropriate. A combination of education, sticks and carrots should be considered within the framework developed above.

8.64 An informative regulatory initiative in Canada that departs from a crude ratio is the main charity annual tax return, Form T3010. It has a series of questions which may serve as a better indicator than a crude ratio, being disclosures concerned with whether external fundraisers were

engaged, the amounts paid and/or retained by external fundraisers and the method of remuneration such as commission, set fee, honoraria.

8.65 Regulators are in a position to be key influencers in helping the public to understand that fundraising is an important, valued and complex activity that should not be evaluated solely on simple comparisons such as cost of fundraising ratios. Regulators should eschew flawed and inappropriate measures which are too easily manipulated and misused. They should engage in the public discourse about inappropriate claims designed to mislead the public such as “100% goes to the cause”.

8.66 Fraud surveys on not-for-profit organisations consistently report that the majority of frauds were uncovered by tips from employees, volunteers and other parties (35% compared to less than 5% for external auditors) (BDO Australia 2014, 46). The ever vigilant volunteer and dedicated employee are significant intelligence sources for charity regulators, so whistle blower provisions and guidelines for the referral of particularly egregious cases should be resourced appropriately and adequately. Such measures provide a flexible and responsive mechanism that would allow reporting abuse in a timely and cost effective fashion.

8.67 There is a case to be made for regulating those who prey upon naïve boards, with the promise of instant fundraising success in return for upfront fees or a commission. There are a number of regulatory tools that could achieve this outcome, e.g. licensing fundraising professionals, regulating remuneration, self-regulation by professional bodies, or, as Steinberg and Morris (2010) suggested, requiring charities to seek multiple bids before contracting with external fundraising professionals.

8.68 Fourth, professional bodies for fundraisers, governors, accountants, lawyers and certification agencies need to fully embrace a sophisticated and evidence-based appreciation of fundraising and act accordingly.

8.69 The fundraisers’ professional associations know the issues, but need to have the courage and support of the sector to turn the tide of public misconception in relation to fundraising ratios and call to account those who peddle the myth of “100% of donation to the cause”.

8.70 The creation of the ACNC has interested professional associations of directors and governance officers in the sector and there is significant appetite for governance education in relation to fundraising (see Scaife, Williamson & McDonald 2013). They can have significant influence on attitudes to fundraising of both boards and the public.

8.71 Apart from the ACFID code, private certification agencies have not been a feature of the Australian landscape as they have been in Europe or the United States. Seals of approval are eagerly sort by ‘free-riding’ donors and offer a genuine alternative to government regulation provided appropriate metrics can be agreed and implemented with reasonable cost.

### How should boards evaluate, monitor and influence their organisation's fundraising activities?

8.72 Governors of charities are critical to improving fundraising practice and fidelity. They have always been so, but regulators have not paid appropriate attention to them in the regulatory design process. We offer some suggestions.

8.73 First, boards should ensure that their organisations' fundraising plans are reflective of the directions set in their strategic plans. For example, if the strategic plan calls for a focus on fundraising for new buildings or facilities, then the fundraising plan is likely to include an emphasis on seeking major gifts. If on the other hand, the strategic plan calls for a focus on consolidation of existing programs and efforts to reduce the costs of existing fundraising activities, then the plan may focus on improving the size of average gifts rather than on increasing the number of active donors or volunteer fundraising activities.

8.74 Each of these fundraising plans will have different return on investment (ROI) profiles and will need to be evaluated over different time periods. Realistic measures of performance should then be developed for the period covered by the strategic plan and the supporting fundraising plans. Care needs to be taken to avoid a purely sales driven approach to fundraising – results may need to be evaluated more like an investment strategy, over longer periods.

8.75 Second, the board should ensure that fundraising performance is measured on an appropriate mix of financial and non-financial measures. So for example, if the fundraising plan calls for the rapid expansion of the number of active donors, then the cost of acquiring new donors should be measured against the average whole of life value of the donors in the existing support base, rather than on the ROI measured on the first donation. Retention of donors is an important metric. Similarly, if the fundraising plan calls for an increased emphasis on the organisation's bequest program, the Program Performance Indicators might include the number of donor initiated enquiries generated by the program. It is clear that restricting the measure of performance in a bequest program to the value of the bequests received in a single year is unlikely to be fit for purpose.

8.76 Third, board members need to ensure that the fundraising plans proposed by management, consultants or contractors are realistic, given the size and public profile of the organisation. Charities that represent well known and widely supported causes are much more likely to be able to generate new sources of fundraising comparatively rapidly than are start-up charities or those with less popularly supported causes. Boards need to be realistic about the potential for quick results and to be very cautious about proposals from contractors who promise instant success. It is an aspect of their core fiduciary duties and they should be held to account.

8.77 Boards can also influence the outcomes of fundraising activities through their influence on the culture of their organisations. For instance, often the strength of smaller, local, not-for-profits is their capacity to attract and develop important volunteer fundraising resources. These need to be encouraged to help develop a base in the community that will support expanded fundraising

activities in the future. Board members and others who have been prominent leaders of larger organisations can often be influential in fundraising by a preparedness to introduce their contacts and networks to the cause. Treating fundraising as an integral part of the role of the board, along with the creation of a culture of philanthropy and social entrepreneurship have been found to be critical factors in establishing fundraising success.

8.78 In larger organisations, where the resources for cost centre management practices are more likely to be available, care needs to be taken to ensure that boards recognise that there limitations to the information provided by such practices. While useful internally for management of costs, the variations between organisations in how such measures are implemented tend to mean that the information obtained is of little use for external comparisons.

8.79 Regulators need to use the levers at their disposal from command and control legislative mandates, to educate and encourage boards to discharge their existing duties in relation to fundraising.

### So what?

8.80 This research set out to determine whether the current reporting of fundraising in the financial statements of Australian charities is fit for the purposes of the ACNC registry strategy or charity ratings agency assessments. It found that it is not.

8.81 Based on careful analysis of current regulatory practices both in Australia and in five comparable overseas jurisdictions we found that trying to define fundraising is difficult because it is essentially a cultural term for a range of activities rather than a descriptive term for a specific group of financial transactions.

8.82 We found that the methods so far used for the collection and public disclosure of financial information about fundraising expenses is not fit for purpose, both in Australia and in the five comparable overseas jurisdictions. It has led to distortions of donor and not for profit organisational behaviours which are detrimental. Collection of such information at a managerial level is important and can be supervised by the governing bodies of fundraising charities.

8.83 For external reporting, we have recommended a system of classification for fundraising revenue transactions within the existing framework of Australian Accounting Standards which, with the cooperation of State and Commonwealth regulators, can be used to make reliable and comparable information available about the sources of fundraising revenue of Australian charities.

8.84 The recommendation does not alter the current accounting standards and can move flexibly with their future development.

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# Appendices

## Appendix A. Australian Accounting Research Foundation Statement of Accounting Concepts SAC 4

From 1 January 2005, the Australian Conceptual Framework (consisting of Statement of Accounting Concepts 1, 2, 3 and 4) were replaced with the IASB Framework. On 1 July 2004, the Australian Accounting Standards Board released the AASB Framework (based on the IASB Framework) effective from 1 January 2005.

The Australian Accounting Standard Setters decided to retain SACs 1 and 2 in their existing format.

However, SACs 3 and 4 have been superseded by the AASB Framework.
The following commentary is based on the former SAC 4. However, it is important to note that the Conceptual Framework (including the former SAC 4) does not have authority under the *Corporations Act (2001).* In other words, it is not binding on directors or companies. The conceptual framework does not override the requirements of the AASB Accounting Standards, and in the event of a conflict between the conceptual framework and a AASB Accounting Standard, the requirements of the latter prevail (AASB Framework, paragraph 3).

However, SAC 4 did provide useful commentary and discussion on a range of accounting issues (including the issue of reciprocal and non-reciprocal transfers). For that reason, the following extracts from the former SAC 4 are included. Note that these paragraphs (and this discussion) is not reproduced in the existing AASB Framework

**Australian Accounting Research Foundation, 1995. Statement of Accounting Concepts SAC 4 (3/95) Definition and Recognition of the Elements of Financial Statements.**

*Characteristics of reciprocal and non-reciprocal transfers*

100 Not-for-profit entities obtain assets or services to provide particular types of goods and services to consumers and beneficiaries, in accordance with their objectives. Contributions, whether restricted or unrestricted, to a not-for-profit entity are non-reciprocal transfers which are made to maintain or increase the entity's capacity to provide those goods and services.

101 For transfers to an entity to create a present obligation on the entity to make future sacrifices of economic benefits to particular external parties, the transfers would need to be reciprocal, whereby the transferor and transferee directly receive and sacrifice approximately equal value. The value that is received and sacrificed would be in the form of assets, services, extinguishment of liabilities, or a combination thereof. Examples of reciprocal transfers are sales of goods and services, the provision of loan funds, and the provision of employee services. An exchange of approximately equal value can occur despite differences between the carrying amounts of the assets exchanged, because the parties have obtained mutual benefit. For example, a commercial sale of goods involves an exchange of approximately equal value, irrespective of whether the sale price exceeds the cost of the goods to the vendor.

102 Value is not received in exchange where an entity transfers assets to another entity and only derives benefit from satisfying its objectives of providing benefits to others. Accordingly, for a transfer to be reciprocal, it is not sufficient that the transferor receives benefit indirectly as a result of the transfer. For example, when a government provides a grant to a not-for-profit entity, typically it does not receive value directly in exchange. In such circumstances, it normally would indirectly receive a benefit as a result of the recipient entity deploying the grant in providing goods or services to beneficiaries which the grantor government represents. Similarly, governments are not obliged to provide benefits, in the form of goods or services, to particular taxpayers or ratepayers in return for their taxes and rates.

103 Because an essential feature of reciprocal transfers is the exchange of approximately equal value by the transferor and the transferee, involuntary transfers to not-for-profit entities (such as taxes) would generally be classified as non-reciprocal transfers. That is, although involuntary transfers will normally result in the provision of some goods or services to the transferors, because the transfers are involuntary, receipt and sacrifice of approximately equal value would occur only by coincidence. For example, governments are not obliged to provide commensurate benefits, in the form of goods or services, to particular taxpayers or ratepayers in return for levies imposed on them.

104 If assets are provided to a not-for-profit entity on the condition that the entity is to make a reciprocal transfer of economic benefits, and that reciprocal transfer has not occurred prior to the reporting date, the recipient entity will have a liability. An example is where a payment is made to a local government in advance for repairs to a private road, where the charge would be repayable directly to the provider or providers if the works were not performed.

105 A transfer of economic benefits may comprise two distinct transactions, which are reciprocal and non-reciprocal in nature. For example, if a donor transfers a building to an entity at a price which intentionally is significantly lower than its fair value, the transfer is in part reciprocal (to the extent that approximately equal value is received in exchange) and in part non-reciprocal. In these circumstances, because a reciprocal transaction is involved, any unsatisfied obligation to provide consideration in return for the building will represent a liability of the recipient of the building.

## Appendix B. The Overhead Myth

**BBB Wise Giving Alliance, Charity Navigator, and GuideStar Join Forces to Dispel the Charity "Overhead Myth"[67]**

*Chief Executives of Three Leading Nonprofit Information Providers Publish Letter Condemning Administrative Expenses as Measure of Performance*

**Release date: June 17, 2013**

Washington, D.C.—In a historic move, the leaders of the country's three leading sources of information on nonprofits—GuideStar (www.guidestar.org/), Charity Navigator (www.charitynavigator.org), and BBB Wise Giving Alliance (www.bbb.org/us/charity) —penned an open letter to the donors of America denouncing the "overhead ratio" as the sole measure of nonprofit performance. The letter, signed by all three organizations' CEOs, marks the beginning of a campaign to correct the common misconception that the percentage of charity's expenses that go to administrative and fundraising costs—commonly referred to as "overhead"—is an appropriate metric to evaluate when assessing a charity's worthiness and efficiency. In response to donor expectations and funder requests, the nonprofit sector, which all three organizations provide information to and about, has often erroneously focused too heavily on overhead over the past few decades, which has starved some nonprofits from investing in themselves as enterprises and created what the ***Stanford Social Innovation Review*** calls, "The Nonprofit Starvation Cycle" (www.ssireview.org/articles/entry/the_nonprofit_starvation_cycle) The open letter, published today on a new web site, The Overhead Myth (www.overheadmyth.com), as well as (overheadmyth.give.org) and Charity Navigator (www.charitynavigator.org/thebestandworstwaytopickacharity), states that "overhead costs include important investments charities make to improve their work: investments in training, planning, evaluation, and internal systems—as well as their efforts to raise money so they can operate their programs. When we focus solely or predominantly on overhead ... we starve charities of the freedom they need to best help the people and communities they are trying to serve." The letter goes on to recommend that donors focus their attention on more relevant factors behind nonprofit performance: transparency, governance, leadership, and results. The Overhead Myth letter is under a Creative Commons license (creativecommons.org/licenses), and nonprofits are welcome to print it for free and use it how they wish.
"We hope the Overhead Myth campaign will inspire nonprofits to focus on results, not ratios, when engaging with donors and funders. Our Money for Good II research shows that donors care about far more than just financial ratios," said Jacob Harold, president and CEO of GuideStar, the leading source of nonprofit information. "Through this campaign we want to encourage donors to give with their heads as well as their hearts, and consider the whole picture when determining which charities to support. As we wrote in our open letter to donors: 'The people and communities served by charities don't need low overhead, they need high performance.'"

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[67] http://www.guidestar.org/rxa/news/news-releases/2013/2013-06-17-overhead-myth.aspx

The Overhead Myth campaign is an unprecedented collaboration among the leaders of the three major nonprofit infrastructure groups in the nonprofit sector. Reams of literature from academics and researchers, including the Indiana University's Center on Philanthropy (www.philanthropy.iupui.edu), the National Center on Charitable Statistics www.nccs.urban.org at the Urban Institute www.urban.org, and the Bridgespan Group www.bridgespan.org , among others, back up the statement from the three organizations that donors should focus on more meaningful factors of nonprofit performance, including transparency, governance, leadership, and, most importantly, results. You can read these reports and more on the back of the Overhead Myth letter (www.overheadmyth.com/research-and-resources) GuideStar, Charity Navigator, and BBB Wise Giving Alliance have been working to offer donors and other stakeholders alternatives to overhead, and will continue to do so.
"All three of our organizations—BBB Wise Giving Alliance as well as Charity Navigator and GuideStar—have been speaking publicly but separately for some time about the need to shift the conversation from overhead to impact and broad accountability standards," stated Art Taylor, president and CEO of BBB Wise Giving Alliance, a charity reporting organization. "This campaign is a big step forward in harnessing each organization's unique voice to distribute one powerful message: let's move beyond overhead."
"A one-dimensional focus on overhead is not the right way to assess a charity's performance. We believe that for a donor to correctly assess a charity, the organization must be viewed on three dimensions: its financial health (not just overhead), its governance practices, and the results of its work. We are working mightily to see to it that in the not too distant future, donors will have available to them information on all three dimensions. Meanwhile, there is already good information on financial health and governance matters that we believe should be given equal consideration in charitable giving/social investment decisions," said Ken Berger, president and CEO of Charity Navigator, a charity evaluation organization.
"There are many ways to get involved in the Overhead Myth campaign," added Harold. "I encourage nonprofits across the country to visit www.overheadmyth.com. We invite them to include the letter, available in a PDF, in their donor solicitations and marketing materials, and to join the campaign to publicly show their support. I also urge nonprofits as well as donors who really want to make an impact with their charitable gifts to spread the word to their own networks using our communications and social media tool kit: www.overheadmyth.com/press. Last, nonprofits can, and should, share their data. Our one-of-a-kind GuideStar Exchange www.guidestar.org/rxg/update-nonprofit-report program allows nonprofits to share their data with stakeholders for free." To learn more about The Overhead Myth campaign and to get involved, please visit www.overheadmyth.com.

**About BBB Wise Giving Alliance**

BBB Wise Giving Alliance (www.give.org), produces reports on more than 1,200 nationally soliciting charitable organizations, and local Better Business Bureaus report on another 10,000 local and regional charities. BBB Wise Giving Alliance does not rank or rate charities but rather seeks to assist donors in making informed judgments by providing objective evaluations of charities based on 20 standards that address charity governance, finances, fund raising, appeal accuracy, and other issues. There is no charge to charities for the evaluation, and the resulting reports are accessible to the public at give.org.

**About Charity Navigator**

Charity Navigator, (www.charitynavigator.org), is the largest charity evaluator in America, and its website attracts more visitors than all other charity rating groups combined. The organization helps guide intelligent giving by evaluating the Financial Health and Accountability & Transparency of more than 6,300 charities. Charity Navigator accepts no advertising or donations from the organizations it evaluates, ensuring unbiased evaluations, nor does it charge the public for this trusted data. As a result, Charity Navigator, a non-profit 501(c)(3) organization itself,

depends on support from individuals, corporations, and foundations that believe it provides a much-needed service to America's charitable givers.

**About GuideStar**

GuideStar, www.guidestar.org, connects people and organizations with information on the programs and finances of more than 1.8 million IRS-recognized nonprofits. GuideStar serves a wide audience inside and outside the nonprofit sector, including individual donors, nonprofit leaders, grantmakers, government officials, academic researchers, and the media.

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BBB Wise Giving Alliance | GuideStar | Charity Navigator

# THE OVERHEAD MYTH

To the Donors of America:

We write to correct a misconception about what matters when deciding which charity to support.

The percent of charity expenses that go to administrative and fundraising costs—commonly referred to as "overhead"—is a poor measure of a charity's performance.

We ask you to pay attention to other factors of nonprofit performance: transparency, governance, leadership, and results. For years, each of our organizations has been working to increase the depth and breadth of the information we provide to donors in these areas so as to provide a much fuller picture of a charity's performance.

That is not to say that overhead has no role in ensuring charity accountability. At the extremes the overhead ratio can offer insight: it can be a valid data point for rooting out fraud and poor financial management. In most cases, however, focusing on overhead without considering other critical dimensions of a charity's financial and organizational performance does more damage than good.

In fact, many charities should spend more on overhead. Overhead costs include important investments charities make to improve their work: investments in training, planning, evaluation, and internal systems—as well as their efforts to raise money so they can operate their programs. These expenses allow a charity to sustain itself (the way a family has to pay the electric bill) or to improve itself (the way a family might invest in college tuition).

When we focus solely or predominantly on overhead, we can create what the *Stanford Social Innovation Review* has called "The Nonprofit Starvation Cycle." We starve charities of the freedom they need to best serve the people and communities they are trying to serve.

If you don't believe us—America's three leading sources of information about charities, each used by millions of donors every year—see the back of this letter for research from other experts including Indiana University, the Urban Institute, the Bridgespan Group, and others that proves the point.

So when you are making your charitable giving decisions, please consider the whole picture. The people and communities served by charities don't need low overhead, they need high performance.

Thank you,

Art Taylor
President & CEO,
BBB Wise Giving Alliance
overheadmyth.give.org

Jacob Harold
President & CEO,
GuideStar
overheadmyth.guidestar.org

Ken Berger
President & CEO,
Charity Navigator
www.charitynavigator.org/thebestandworstwaytopickacharity

## Research shows that the overhead ratio is imprecise and inaccurate:

**37%**

37 percent of nonprofit organizations with private contributions of $50,000 or more reported no fundraising or special event costs on their 2000 Internal Revenue Service (IRS) Form 990

**13%**

Nearly 13 percent of operating public charities reported spending nothing for management and general expenses.

*(The Nonprofit Overhead Cost Study)*

**75-85%**

Further scrutiny found that 75 percent to 85 percent of these organizations were incorrectly reporting the costs associated with grants.

## But still, Americans over-emphasize the number and prioritize it over demonstrated success:

**62%**

62% of all Americans believe the typical charity spends more than it should on overhead.

*(Giving Evidence)*

A 2001 survey found that OVER HALF OF ADULT AMERICANS FELT THAT NONPROFIT ORGANIZATIONS SHOULD HAVE OVERHEAD RATES OF 20 PERCENT OR LESS; NEARLY FOUR IN FIVE FELT THAT OVERHEAD SHOULD BE HELD AT LESS THAN 30 PERCENT. In fact, those surveyed ranked overhead ratio and financial transparency to be more important attributes in determining their willingness to give to an organization than the demonstrated success of the organization's programs. *(BBB Wise Giving Alliance)*

## The "Overhead Myth" persists despite evidence that investments in overhead facilitate better nonprofit performance:

**"ORGANIZATIONS THAT BUILD**

robust infrastructure—which includes sturdy information technology systems, financial systems, skills training, fundraising processes, and other essential overhead—are more likely to succeed than those that do not."

*(The Nonprofit Starvation Cycle)*

**2,000**

2006 CompassPoint Nonprofit Services study of nearly 2,000 nonprofit executives in eight metropolitan areas reveals that receiving general operating support played a major role in reducing burnout and stress among executive directors.

*(Daring to Lead 2006: A National Study of Nonprofit Executive Leadership)*

**11.5% VS 10.8%**

In 2011, the charities which GiveWell reviewed and recommended had higher overhead than the charities they review and didn't recommend, 11.5 percent versus 10.8 percent.

*(Giving Evidence)*

## Underinvesting in overhead creates a range of negative outcomes which undermine quality and sustainability:

| Description of Underinvestment | Consequences |
|---|---|
| • Limited/no staff for administrative roles (e.g. finance, development, operations) | • Limited ability for organization to manage/monitor finance, development, etc. |
| • Limited investment in staff training and development | • Increased turnover among staff, particularly those looking for ongoing professional development<br>• Limited ability to continually enhance skills of employees<br>• Difficulty building senior team from within |
| • Inexperienced staff for administrative roles | • High turnover<br>• Poor work quality |
| • Poor IT infrastructure | • System crashes, downtime<br>• Loss of data/information, limited information sharing |
| • Poor donation management systems | • Inability to track donors and fundraising progress<br>• Limited ability to target fundraising |
| • Poor performance management systems | • Limited ability to track beneficiary outcomes, particularly across sites<br>• Limited ability to easily generate reports for grantmakers |

Source: Mark A. Hager, Thomas Pollak, Kennard Wing, and Patrick M. Rooney, "Getting What We Pay For: Low Overhead Limits Nonprofit Effectiveness," Nonprofit Overhead Cost Project of the Center on Nonprofits and Philanthropy at the Urban Institute and the Center on Philanthropy at Indiana University, August 2004; case study interviews.

Primary Sources:


**The Nonprofit Starvation Cycle**
*Stanford Social Innovation Review*, Fall 2009

**Getting What We Pay For: Low Overhead Limits Nonprofit Effectiveness**
Center on Nonprofits and Philanthropy, Urban institute Center on Philanthropy, Indiana University

**What We Know About Overhead Costs in the Nonprofit Sector**
Center on Nonprofits and Philanthropy, Urban institute Center on Philanthropy, Indiana University

**Nonprofit Overhead Costs: Breaking the Vicious Cycle of Misleading Reporting, Unrealistic Expectations, and Pressure to Conform**
The Bridgespan Group, April 2008

**Where'd My Money Go? Americans Perceptions of the Financial Efficiency of Nonprofit Organizations**
GreyMatter Research, 2008

**Good Charities Spend More on Administration than Less Good Charities Spend**
Giving Evidence, May 2013

**Management and General Expenses: The Other Half of Overhead**
*The Nonprofit Quarterly*, Spring 2003

**The Worst Way to Judge a Charity**
*Los Angeles Times*, April 2012

**Ratio Discrimination in Charity Fundraising: The Inappropriate Use of Cost Ratios Has Harmful Side-Effects****
Voluntary Sector Review, March 2010 **Behind pay wall

## Appendix C. State and Territory Fundraising – Comparative Tables

### Table C.1. Fundraising records required in each jurisdiction

| | NSW* | VIC* | QLD* | SA* | WA* | TAS* | ACT* |
|---|---|---|---|---|---|---|---|
| Yes/No | Yes | Yes | Yes | Not specified | Not specified | Not specified | Yes |
| Details* | Records of **income and expenses** for each appeal, in written English, at registered office, for 7 yrs: s 22(1), (2). Also accounting books and records **sufficient to ensure proper accountability**: Regs Sch 1, r 4. Organisations must prepare annual accounts containing an income and expenses statement, balance sheet and details of the appeal: Regs Sch 1, r 7. | Records 'sufficient to enable a **true and fair view of income and expenses'**, including details of receipts and how they were dealt with, application of appeal proceeds, any other expenses, incl. administration: s 29. Also records of who oversees, manages, or benefits from the appeal; start and finish dates; names and addresses (or descriptions of a class) of beneficiaries: s 30. | Payments made and receipts received must have documentary evidence. Must keep details of any promoter, statement of income and expenses associated with appeal, and how it was used: s 30. Regs, Sch 2 lists detailed accounting requiremts: cash book (amounts received and paid) ledger, receipt book, ticket registers (if chief exec requires) | **'Proper accounts'**, which includes **amounts collected or received**, costs associated with collection or receipt, how money was dealt with, and any other information the Minister requires: s 15. | The Minister can request audited 'accounts' and a statement of how proceeds were applied: s 15(1). Voluntary Code of Practice requires preparation and audit of annual accounts within four months of end of financial year, and keeping records for five years. | | Records which allow a **'true and fair' view of income and expenses** for the collection to be determined: s 50. These must show net proceeds, amount of expenses and the amount applied for the purposes of collection, and be kept for seven years: Regs r 13. |

### Table C.2. Specific information that must be collected and records that must be kept

| ITEM | NSW | ACT | VIC | WA | TAS | QLD | SA |
|---|---|---|---|---|---|---|---|
| | *Charitable Fundraising Act 1991*; *Charitable Fundraising Regulation 2008* | *Charitable Collections Act 2003*; *Charitable Collections Regulation 2003* | *Fundraising Act 1998*; *Fundraising Regulations 2009* | *Charitable Collections Act 1946*; *Charitable Collections Regulations 1947* | *Collections for Charities Act 2001*; *Collections for Charities Regulations 2001* | *Collections Act 1966*; *Collections Regulation 2008* | *Collections for Charitable Purposes Act 1939* |
| **Record:** All gross income received | Yes r 10 | Yes r 13 | Yes s 29 | Yes (implied) r 11 | No | Yes s 30 | Yes s 15 |
| All gross income receivable | Yes r 10 | No | No | No | No | No | Unclear |
| All items of expenses | Yes r 10 | Yes – only lawful expenses r 13 | Yes s 29 | Yes (implied) | No | Yes s 30 | Yes s 15 |
| Application of income from appeal | Yes r 10 | Yes r 13 | Yes s 29 | Yes (implied by regulator's power to request) | No | Yes s 30 | Yes s 15 |
| Net proceeds | No | Yes | Yes | No | No | Yes s 30 | Yes s 15 |
| Particulars of all the above transactions, including documentation | Yes r 10 | No | Yes s 29 | No | No | Yes – in 'approved form' s 30, Regs Sch 2 | Not expressly |
| Separate accounts for each appeal? | Yes r 10 | Yes r 13 (implied) | Yes s 29 (implied) | Unclear: 'for a charitable purpose' | No | Yes r 34 | No |
| Relaxation of state specific records for national/interstate appeals | No | Yes s 50(3) | Yes s 29(2) | No | N/A | No | No |
| Person overseeing appeal | No | No | Yes s 30 | No | No | Yes ('promoter') s 30 | No |
| Person supervising or managing appeal | No | No | Yes s 30 | No | No | Yes ('promoter') s 30 | No |
| Anyone who received a benefit (other than designated beneficiary) e.g. trader | No | No | Yes s 30 | No | No | No | No |

| ITEM | NSW | ACT | VIC | WA | TAS | QLD | SA |
|---|---|---|---|---|---|---|---|
| Beneficiaries/class of beneficiaries | No | No | Yes s 30 | No | No | Yes – purpose of the appeal s 30 | No |
| Appeal start and finish dates | No | No | Yes s 30 | No | No | No | No |
| Kept in a way allowing ease of auditing/Audit | | Yes s 50 | Yes s 29 | No | No | Yes s 30 | Yes s 15 |
| **Documentation:** Cash book for each appeal bank account | Yes Regs Sch 1 r 4 | No | No | No | No | Yes r 30 | No |
| Register of assets | Yes Regs Sch 1 r 4 | No | No | No | No | Yes (if chief exec requires) r 30, Sch 2 | No |
| Register of receipt books | Yes Regs Sch 1 r 4 | No | No | No | No | Yes (if chief exec requires) r 30 | No |
| Register of tickets | Yes Regs Sch 1 r 4 | No | No | No | No | Yes (if chief exec requires) r 30 | No |
| Petty cash book (if petty cash used) | Yes Regs Sch 1 r 4 | No | No | No | No | Yes r 30 | No |
| Minute book for all fundraising appeal business (organisations) | Yes Regs Sch 1 r 4 | No | No | No | No | No | No |
| Register of collectors | Yes Regs Sch 1 r 4 | No | No | No | No | No | No |
| Record system for ID cards, receipt books, boxes etc issued to collectors | Yes Regs Sch 1 r 10 | No | No | No | No | Yes (if chief exec requires) r 30 | No |
| Record of devices/items sold | No | No | No | No | No | Yes (if chief exec requires) r 30 | No |
| Annual financial reports | Yes | No | Yes | No | No | Yes s 31 | No |
| Income/profit and loss statement | Yes Regs Sch 1 r 7 | No | No – arguably Yes: records to be kept | No | No | Yes Regs Sch 2 | Yes (‘proper accounts’) s 15 |

| ITEM | NSW | ACT | VIC | WA | TAS | QLD | SA |
|---|---|---|---|---|---|---|---|
| | | | in easily auditable form | | | | |
| Balance sheet | Yes<br>Regs Sch 1 r 7 | No | No – see above | No | No | Yes<br>Regs Sch 2 | Yes ('proper accounts') s 15 |
| Further details | Yes if fundraising gross income over $100k: Regs Sch 1 r 7 | No | No | No | No | Only if required by Chief Exec | Only if required by Minister s 15 |
| *If an organisation or a company:* Declaration by president or principal officer etc that accounts present true and fair view of association's affairs, and the organisation has complied with legislation | Yes<br>Regs Sch 1 r 7 | No | No | No | No | Yes<br>Regs Sch 2 | No |
| Audit | Yes s 24 | Yes (if collection over $50k or if requested) s 49 | No (or on request) s 32 | Yes (if return requested) s 15 | No | Yes s 31 | Yes s 15 |
| By company auditor | Yes s 24 | Yes s 49 | Yes s 32 | No | No | Yes s 31 | Yes s 15 |
| By CPA, CA or NIA accountant | No | No | No | No | No | Yes s 31 | Yes (not NIA) s 15 |
| By other person approved by regulator | Yes s 24 | Yes s 49 | Yes s 32 | Yes s 20 | No | Yes s 31 | Yes s 15 |
| Exemptions from record keeping? | No | No | Yes s 16A General Ministerial discretion | No | N/A | No | On application to Minister s 18 |
| Returns | Yes (unless incorporated) | Yes s 48 | No (on request) | No (on request) s 15 | No | Yes s 32 | Yes s 15 |
| Gross amounts received | Yes s 23 | Yes r 14 | N/A | Yes s 15 | No | Yes – as profit/loss stmt and | Yes s 15 |

| ITEM | NSW | ACT | VIC | WA | TAS | QLD | SA |
|---|---|---|---|---|---|---|---|
| | | | | | | balance sheet. Regs Sch 2 | |
| Expenses | No | Yes r 14 | N/A | No | No | Yes – as profit/loss stmt and balance sheet. Regs Sch 2 | Yes s 15 |
| Net amount received after expenses | Yes s 23 | Yes r 14 | N/A | No | No | Yes – as profit/loss stmt and balance sheet. Regs Sch 2 | Yes s 15 |
| Amount applied to collection purpose | No | Yes r 14 | Yes s3.4 and 5.2 | Yes s 15 | No | No | Yes s 15 |
| Appeals recorded separately | Yes s 23 | Yes | N/A | Unclear | No | Unclear | Unclear |
| Public access to records | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| On request | Yes | No | Yes | No | No | Yes (for fee) r 37 | No |
| Through regulator | No | Yes ss 40, 41 Name and contacts only | Yes s 33 | Yes s 20 | Yes Name and contacts only | Yes (for fee) r 37 | Yes s 15 |

### Table C.3. Requirements to file annual returns

| | NSW | VIC | QLD | SA | WA | TAS | ACT |
|---|---|---|---|---|---|---|---|
| | *Charitable Fundraising Act 1991; Charitable Fundraising Regulations 2008* | *Fundraising Act 1998* | *Collections Act 1966* | *Collections for Charitable Purposes Act 1939* | *Charitable Collections Act 1946* *Street Collections Regulations 1999* | *Collections for Charities Act 2001* | *Charitable Collections Act 2003* |
| Annual return required | No, unless unincorporated, or a natural person. | Yes | Yes | Yes | No, unless a street collection. | Not specified | Yes |
| Details | Incorporated associations must already submit returns under the *Associations Incorporation Act.* Unincorporated bodies and individuals must submit returns as required by their authority to fundraise: s 23. Unincorporated bodies with gross receipts of under $100,000 do not need to submit returns: Regs Sch 1, r 5. | Director can request an auditor's report on the fundraiser's accounts and records: s 32. | Within seven months of end of organisation's financial year (Act, Part 7; Reg s 30): audited statement of income and expenses balance sheet Collections Form 20—Annual return of charity or sanction. | Copy of audited accounts; and a statement setting out (s 15(2)): money collected or received costs associated with collection or receipt manner in which the money has been dealt with any other information required by the Minister Minister can also request a statement of other information relating to money or property: s 15(3). | **Charitable Collections:** Minister can request audited statement of receipts and how they were dealt with: s 15. **Street Collections:** Within 30 days of collection: statement specifying amount collected, expenses incurred, and amount distributed: r 10. | | Must submit report to chief executive within 120 days of end of each year of licence, or within 120 days of end of the licence: s 48. |

### Table C.4. Audit Requirements under fundraising statutes

| | NSW | VIC | QLD | SA | WA | TAS | ACT |
|---|---|---|---|---|---|---|---|
| | *Charitable Fundraising Act 1991* | *Fundraising Act 1998* | *Collections Act 1966* | *Collections for Charitable Purposes Act 1939* | *Charitable Collections Act 1946* | *Collections for Charities Act 2001* | *Charitable Collections Act 2003* |
| Audit required | Yes | No | Yes | Yes | Yes | Not specified | No |
| Details | By a registered company auditor or a person approved by the regulator: s 24(1) | Director may require an audit: s 32 | By a registered company auditor, CPA, CA or NIA accountant, or a person approved by the chief executive. Minister can also make ad hoc requests: s 31(1)(f). | By a registered company auditor, a CPA or CA accountant, or a person approved by the regulator: s 15. | By a person approved by the Minister: s 15(2).<br><br>Accounts may be audited and inspected by the Auditor General or his/her delegate and reported to the Minister: s 20. | | Chief executive can require an audit: s 49. |

# Appendix D. Australian Council for International Development

## a) Australian Council for International Development Code of Conduct, Implementation Guidance – Income Statement Definitions

**F.2.1 Income Statement — Definitions**[68]

The definitions in paragraph F.2.1 are to be used by all signatory organisations in the preparation of their Income Statements in conjunction with the Australian Accounting Standards. For those which are not specified here refer to the definitions found in the National Standard Chart of Accounts (NSCOA).

**Income statements - Revenue**

- Donations and Gifts – Monetary: Donations and gifts are benefits received free of charge (or without providing consideration in return) and include all donations and gifts actually received. Where donations and gifts form the major category of income, organisations are advised to provide further detail of the composition of these. For example: restricted or unrestricted as to purpose, relating to international or domestic programs, or by major fundraising activity.
- Donations and Gifts – Non-monetary: this heading covers the disclosure of goods and services received in kind. The inclusion of a figure here should be where a fair value can be reasonably determined, taking into account materiality considerations and then be guided by the below points on specific areas of note. Any figure recorded under this heading should match a corresponding expenses heading named 'Non-monetary expenses'.
    - Donated assets (excluding buildings) are recognised as income when the asset is received. The amount recorded should be equivalent to the fair value of the donated asset. The fair value is 'the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction' (AASB 116). Both usability and marketability are joint considerations in determining fair value.
    - Donated buildings are not recorded as income and should be recorded directly as an asset in the Balance Sheet (please see the definition for Property, Plant and Equipment).
    - The disclosure of volunteer services in financial statements is optional, also:
        - Whether, and if so how, an organisation discloses volunteer services in their Financial Statements will depend on their unique circumstances and interests, taking into account their ability to calculate the value of volunteer services, materiality considerations, the implications for their RDE and the view of their auditors.
        - If agencies choose to disclose the value of volunteer services in their Financial statements, then they can choose whether to include this value as both Non-Monetary Revenue and Expense items in the Income Statement OR as a disclosure in the Notes to their Accounts; and
        - In order to be included in the face of the Income Statement, the organisation's auditors will need to be satisfied that the values have been determined in an appropriate manner and that documentation is available to support the calculations made.
        - AusAID/DFAT publishes job descriptions and relative rates of pay for help in valuing volunteer services. This is provided specifically for accredited organisations operating under the

[68] http://www.acfid.asn.au/code-of-conduct/implementation-guidance/f-definitions/f-2-1-income-statement-definitions

Recognised Development Expenses (RDE) guidelines. However it may also assist other organisations as a reference. *Please see RDE Worksheet Explanatory Notes available at http://www.ausaid.gov.au/ngos/rde.cfm*

- Bequests and Legacies: financial support in the form of gifts or donations received through wills.
- Grants - AusAID: Grants sourced directly from AusAid.
- Grants - Other Australian: Grants sourced from all other Australian Institutions, including other Australian Commonwealth Government departments or agencies other than AusAID, State Government departments, and other Australian organisations such as philanthropic organisations and Corporate entities.
- Grants - Other overseas: all grants sourced from non-Australian institutions, including international affiliates, multilateral institutions and other non-Australian organisations.
- Investment Income: includes all income from interest, dividends, rent and other income earned on investment assets.
- Revenue for International Political or Religious Adherence Promotion Programs: if organisations have material amounts of funds in any of these areas, they should itemise on separate lines to enhance donor understanding.
- Includes income received for the purpose of supporting a political party, promoting a candidate or organisation affiliated to a political party, or to promote a particular religious adherence.
- Refer to the definitions in Principle B.1.5 of the Code & Guidance Document for more detail in this area.
- Other income: organisations with large Domestic Programs may choose to disclose separately or as part of other relevant categories.
- Includes any income not included in the other categories and could include gross income from any retail and commercial activities and raffles as well as income from foreign exchange transactions. If this income constitutes more than 10% of total revenue, organisations are encouraged to disclose this separately in the Income Statement.

**Income Statement - Expenses**

- International Aid and Development Programs Expenses: expenses incurred to perform international aid and development activities, - i.e. activities undertaken to reduce poverty and address global justice issues via direct engagement through community projects, humanitarian relief and/or community education and public policy campaigns.
- International projects - Funds to international programs: Funds to international programs must be limited to funds and gifts in kind actually remitted overseas to aid and development projects, plus the cost of remitting those gifts.
- These costs may include (but are not limited to):
  - Salaries of program staff or volunteers costs working overseas, which might be paid from Australia,
  - The cost of acquiring property, plant and equipment in Australia which is then sent overseas, for example the cost of a computer and transportation costs in getting this computer equipment overseas,
  - Costs of programs implemented by international partners,
  - Administration costs of overseas field offices or program partners, and
  - Program expenses (not management fees) funded via international secretariats

Organisations are encouraged to show details of their international programs either by program or by country. These details may be disclosed either in the Income Statement or in notes in the form of a supplementary report or set of graphics.

- International projects - Program support costs: includes the direct cost of project management spent in Australia, including project design, monitoring and evaluation and project management. It includes the

training and professional development of Australian based staff and volunteers involved in the effective management of international projects.

- It may also include the salaries of program support staff paid in Australia.
- International projects - Community Education: includes all costs related to informing and educating the Australian community of, and inviting their active involvement in, global justice, development and humanitarian issues. This includes the cost of producing and distributing materials, the cost of conducting educational and public policy campaigns, and the cost of personnel involved in these activities.
- Educational materials and campaigns often include the opportunity for the community to provide financial or other support to the organisation.
- If educational and campaign activities include an element of fundraising, the following requirements must be followed:
    - An amount proportionate to the fundraising elements involved must be charged to Fundraising Costs. For example, a one page fundraising request in a 20-page campaign newsletter will charge 5% of the total newsletter costs to Fundraising Costs.
    - The method for allocating the proportion of fundraising cost must be documented and be able to be produced to support the decision and is suggested to be included by way of a note to the accounts.

These requirements ensure that all costs associated with fundraising activities are disclosed at the highest level of transparency.

- International projects Fundraising costs - Public: includes all costs related to the purpose of raising revenue from the public. Items include:
    - the production and mailing of fundraising materials,
    - the cost of promotional or marketing campaigns,
    - the costs of establishing and maintaining public donor databases,
    - funds paid to third parties to provide fundraising services,
    - Donation related bank fees; and
    - The cost of personnel involved in preparing and conducting marketing and fundraising campaigns.
- International projects fundraising costs - Government, multilateral and private sector: includes the costs of personnel and related expenses involved in the preparation of funding submissions for, and reporting against grants from government, multilateral organisations, corporate and philanthropic organisations.
- International projects Accountability and Administration costs: signatory organisations are encouraged to use footnotes to explain any distinctions or category variations.

Includes costs (not able to be allocated to a program activity) associated with the overall operational capability of the organisation. These costs include (but are not limited to):

- audit and accounting services
- legal fees
- memberships and subscriptions
- management costs of international secretariat functions
- office accommodation expenses (rent, maintenance, depreciation, utilities, etc.)
- bank charges (not donation related)
- general staff training.

**Note: depreciation and costs of goods sold for merchandising activities can be separately disclosed and agencies are encouraged to do so when these items represent more than 10% of the expenses in this category.**

- Non-Monetary Expenses: the expenses to offset the value of gifts of goods and services received in kind, as well as any volunteer services (please refer to Non-Monetary Income definition for details relating to volunteer services) that are recognised in the financial statements.
- Expenses for International Political or Religious Adherence Promotion Programs: if organisations have material amounts of funds in any of these areas, they should itemise on separate lines to enhance donor understanding.
- Includes expenses made for the purpose of supporting a political party, promoting a candidate or organisation affiliated to a political party, or to promote a particular religious adherence.

Refer to the definitions in B.1.5 of the Guidance Document for more detail in this area.

- Domestic Programs Expenses (including monetary and non-monetary): includes expenses on programs that are directed towards beneficiaries within Australia. If this is a material category for signatory organisations, they are encouraged to choose the level of detail to report on under this heading and to use headings that are simple and clearly explain their operations.

### b) Australian Council for International Development Code of Conduct – Financial Statements (extract) - Options

**Extract from Code of Conduct Implementation Guidance, C Public Engagement, C2.2 Financial Statements[69]**
**OPTION 1 – Signatory organisations with small international aid and development programs**

- For those signatory organisations whose international aid and development revenue is below $250,000 the minimum level of disclosure required is set out in the template below. Signatory organisations may include additional headings where this improves transparency. Large signatory organisations with international aid and development revenue below this amount may include the Short Form Income Statements as a note to their full financial statements. Small signatory organisations whose revenue falls into this category may choose this format for their primary Income Statements, if it complies with other regulatory requirements. It will not be necessary for signatory organisations in this category to prepare the organisation's Annual Reports in accordance with Option 2 of the Code of Conduct Financial Report Format.

[69] http://www.acfid.asn.au/code-of-conduct/implementation-guidance/c-public-engagement/c-2-2-financial-statements

**International Aid and Development Income Statement (Short Form)**

| | 201X | 201X-1 |
|---|---|---|
| **Revenue** | | |
| *Donations and gifts* | | |
| *Monetary* | | |
| *Non-monetary* | | |
| *Grants* | | |
| *Other Income* | | |
| **Total Revenue** | | |
| | | |
| **Expenses** | | |
| *International Programs* | | |
| *Community Education* | | |
| *Fundraising Costs* | | |
| *Accountability and Administration* | | |
| *Non-Monetary* | | |
| *Total Expenses* | | |
| **Excess /(Shortfall) of Revenue over Expenses** | | |

The categories selected for the Income Statements have been based on common activities of signatory organisations in the sector. If a signatory organisation has experienced nil transactions during the financial year for a particular category, there are two options:

i) The signatory organisation can still include the line item on the face of the statement, but record a zero next to the category.

ii) Alternatively, the signatory organisation may include a note at the foot of the Income Statements, which explains items for which there were no transactions.

Comparison figures for the previous reporting period must be disclosed. Under this option, separate International Aid and Development Balance Sheets or Statement of Changes in Equity are not required. Table of Cash Movement requirements (as detailed in Option 2) apply. All other Code annual reporting requirements apply (as set out in C.2).

Definitions for this Income Statement are at Section F.2 - Financial Definitions.

**OPTION 2 All other signatory organisations**

All signatory organisations that do not meet the criteria for Option 1 of the Code Summary Financial Report Format must comply with the minimum disclosures set out in Option 2 of the Code Summary Financial Report Format detailed in the following pages.

- Income Statements (or as appropriate for the signatory organisation, Statements of Income and Expenses, Profit and Loss Statements, Statements of Financial Performance, or Statements of Profit or Loss and Other Comprehensive Income).

The Income Statements discloses the revenue and expenses of the signatory organisation during the financial reporting period. Organisations can include more information than the minimum templates, i.e. Adding in headings where this improves transparency. It is important that the final figure on this statement agrees to the amount of increase or decrease in Net Equity. Comparison figures for the previous reporting period must also be disclosed.

**INCOME STATEMENT FOR THE YEAR ENDED [date]**

| | **201X** | **201X-1** |
|---|---|---|
| **REVENUE** | | |
| Donations and gifts | | |
| • Monetary | -------- | -------- |
| • Non-monetary | -------- | -------- |
| Bequests and Legacies | -------- | -------- |
| Grants | | |
| • AusAID | -------- | -------- |
| • Other Australian | -------- | -------- |
| • Other overseas | -------- | -------- |
| Investment income | -------- | -------- |
| Other income | -------- | -------- |
| Revenue for International Political or Religious Adherence Promotion Programs | -------- | -------- |
| **TOTAL REVENUE** | -------- | -------- |
| | | |
| **EXPENSES** | | |
| International Aid and Development Programs Expenses | | |

| | | |
|---|---|---|
| • International programs | -------- | -------- |
| • Funds to international programs | -------- | -------- |
| • Program support costs | -------- | -------- |
| • Community education | -------- | -------- |
| • Fundraising costs | -------- | -------- |
| • Public | -------- | -------- |
| • Government, multilateral and private | -------- | -------- |
| • Accountability and Administration | -------- | -------- |
| • Non-Monetary Expenses | -------- | -------- |
| Total International Aid and Development Programs Expenses | -------- | -------- |
| International Political or Religious Adherence Promotion Programs Expenses | -------- | -------- |
| Domestic Programs Expenses | -------- | -------- |
| **TOTAL EXPENSES** | -------- | -------- |
| | | |
| **EXCESS / (SHORTFALL) OF REVENUE OVER EXPENSES** | -------- | -------- |

The categories selected for the Income Statement have been based on common activities of signatory organisations in the sector. If organisation has experienced nil transactions during the financial year for a particular category, there are two options.

i) The signatory organisation can still include the line item on the face of the statement, but record a zero next to the category.

ii) Alternatively, the organisation may include a note at the foot of the Income Statement, which explains items for which there were no transactions. For example, reporting under Option 2, with no International Political or Religious Proselytisation projects could note the following 'During the financial year, the signatory organisation had no transactions in the Political or Religious Adherence Promotion Programs category.'

The purpose of using defined categories of income and expenses is to allow the reader of the financial report to determine and make comparisons on areas such as fundraising costs, accountability and administration, and community education. Additional headings may be used on the face of the statement if required (especially under the domestic programs expenses heading). Additional headings will depend on the signatory organisation's activities.

## Appendix E. Extracts from ICAA[70] publication *Enhancing not-for-profit annual and financial reporting*, (Sydney April 2013), regarding recommendations for fundraising disclosures

The publication recommends disclosure of fundraising ratios with comparisons to benchmarks as an element in a suite of "Performance Measures" (see p 44). The CPA publication also recommends fundraising ratios (see p14)

### Extract taken from page 8

| | |
|---|---|
| **Funding sources and sustainability of funding** | NFPs should consider providing more detail about sources of funds as well as fundraising activities. Although the quantum of funds raised and used by NFPs can be determined from their financial statements, additional information on the sources of funds would enhance transparency.<br>Disclosure about funding both now and in the future should not be limited to current year data only. It is important that stakeholders can assess the future viability of the organisation and the extent to which the organisation relies on certain revenue streams, particularly government funding.<br>Consideration should be given to providing information regarding:<br>• The processes to secure government funding, the reliance on that funding, if there are any conditions on its use and how those conditions are being met or measured<br>• Policies for public fundraising, application of those funds, costs, targets against actual funds raised and complaint procedures<br>• Information on the revenue models and the NFP's approach to funding, including how this is evolving to adapt to observed changes in donations and funding<br>• The use of websites to generate donations. |
| **Reporting efficiency and effectiveness – charitable bodies** | Charitable NFPs should identify and include in their annual reports those process key performance indicators (KPIs) that are relevant to their mission, objectives and activities. At a minimum these should include, where applicable:<br>• The ratio of total costs of fundraising to gross income obtained from fundraising<br>• The ratio of net surplus from fundraising to gross income obtained from fundraising<br>• The ratio of total costs of services provided by the fundraiser to total expenditure<br>• The ratio of total costs of services provided by the fundraiser to gross income received.<br>For as long as fundraising ratios remain the generally accepted means of reporting process efficiency, the ratios should be separately disclosed.<br>Fluctuations in these ratios from reporting period to reporting period should be explained in the annual report. Such transparency communicates to the broader community that this investment is required and necessary to support the ongoing operations of the charitable NFP. |

[70] Now known as Chartered Accountants Australia and New Zealand.

### Extract taken from page 12

AASB 101.119
AASB 118.35(a)

**(C) REVENUE RECOGNITION**

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised net of the amounts of goods and services tax (GST) payable to the Australian Taxation Office.

**Revenue from fundraising**

AASB 1004.11 & 12

Donations

Donations collected, including cash and goods for resale, are recognised as revenue when the company gains control, economic benefits are probable and the amount of the donation can be measured reliably.

Legacies

AASB 1004.12
AASB 1004.11

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**

AASB 1004.12
Note 5

Government funding

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 the company obtains control of the funds.

Fees from residents

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

### Extract taken from page 13

AASB 101.119
Note 7

**(D) EXPENDITURE**

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 directly incurred in supporting 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.

Research grants are amounts granted to institutions in Australia that specialise in research into the causes and treatment of 'malaise'. Grants are recognised when paid to the institution or when there is an obligation to make payment under a contract.

Childcare and emergency costs comprise amounts paid to overseas aid organisations to assist in the provision of emergency overseas aid to children in areas experiencing famine or war and who are suffering from 'malaise'.

Other costs comprise investment management fees, information and education costs.

**Extract taken from page 20**

6.2 HAVE WE EXPLAINED OUR SOURCE OF FUNDRAISING, OUR RELIANCE ON FUNDRAISING AND THE RESULTS OF OUR FUNDRAISING?

Do we include and explain the following information:

| | | | |
|---|---|---|---|
| a) Our revenue model and our approach to fundraising, including how this is evolving to observed changes in donations and fundraising? | ☐ | ☐ | ☐ |
| b) The extent to which we are reliant on specific sources of fundraising to meet our objectives? For example, ongoing philanthropic grants, corporate or public donations, sponsorships. | ☐ | ☐ | ☐ |
| c) Actual fundraising against fundraising targets? Consider separate disclosure of fundraising through public appeals, regular giving programs, legacies and bequests, philanthropic grants. | ☐ | ☐ | ☐ |
| d) Explanation of our policy for managing and protecting funds raised that are surplus to our needs? | ☐ | ☐ | ☐ |
| e) The costs of our fundraising efforts, including a clear definition of what is included in fundraising costs? | ☐ | ☐ | ☐ |
| f) The costs of our fundraising efforts as a percentage of funds raised? | ☐ | ☐ | ☐ |
| g) A commentary on our 'investment in fundraising'? Where the NFP has incurred significant expenditure relating to future fundraising, comment should be included. Commentary should include an explanation of the impact on the current year's return from fundraising and future years' fundraising income. | ☐ | ☐ | ☐ |
| h) Our treatment of and accounting for in-kind donations, such as time, goods and professional services. | ☐ | ☐ | ☐ |
| i) Information about the policies for public fundraising, application of funds raised (how each $ of funding is spent)? | ☐ | ☐ | ☐ |

**Extract taken from page 44**

## DIRECTORS' REPORT FOR THE YEAR ENDED 30 JUNE 2013

Corp 300B(1)(e)

### PERFORMANCE MEASURES

The company measures performance through the establishment and monitoring of benchmarks:

- To assess the cost-effectiveness of fundraising activities
- To assess control over the company's administrative and other indirect costs
- To ensure that revenue derived is being directed effectively towards assisting 'malaise' patients treatment in Australia and towards aiding child 'malaise' sufferers in famine and war zones
- To assess the effectiveness of overseas emergency aid
- To assess the effectiveness of Australian residential care.

The performance against these key performance indicators is as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Benchmark | Actual | Benchmark | Actual |
| Cost as % of activity revenue: | | | | |
| Fundraising | 8.0% | 8.4% | 8.0% | 9.8% |
| Commercial | 25.0% | 31.5% | 25.0% | 27.5% |
| Care | 110% | 116% | 105% | 105% |
| Childcare and emergency aid | 100% | 103% | 110% | 137% |
| Overhead (support, mgmt, admin and other) cost as a % of total expenditure | 8.0% | 8.39% | 9.0% | 10.16% |
| Expenditure on activities as % of total income: | | | | |
| Care | 25% | 22.6% | 25% | 28.0% |
| Childcare and emergency aid | 50.0% | 36.1% | 50.0% | 44.0% |
| The number of overseas aid projects: | | | | |
| Initiated | 100 | 95 | 100 | 75 |
| Completed | 100 | 110 | 100 | 80 |
| The number of Australian care patients: | | | | |
| New admissions | 60 | 60 | 50 | 45 |
| Long term residencies | 50 | 55 | 60 | 60 |
| Successful discharges | 70 | 65 | 60 | 65 |

**Extract taken from page 47**

NONQUESTUS
(a company limited by guarantee)

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

AASB 101.10(b), .81(b), .82, Note 1

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

**Extract taken from page 50**

| | STATEMENT OF CASH FLOWS | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|---|
| AASB 101.10(d), .11, .51<br>AASB 101.10 | | | | |
| AASB 107.6, .10, 18, .20.2 | CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| AASB 107.14 | Receipts from: | | | |

**Extract taken from page 54**

AASB 101.119
AASB 118.35(a)

(C) REVENUE RECOGNITION

Revenue is measured at the fair value of consideration received or receivable. Revenue is recognised net of the amounts of goods and services tax (GST) payable to the Australian Taxation Office.

**Revenue from fundraising**

AASB 1004.11 & 12

Donations

Donations collected, including cash and goods for resale, are recognised as revenue when the company gains control, economic benefits are probable and the amount of the donation can be measured reliably.

Legacies

AASB 1004.12
AASB 1004.11

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.

**Extract taken from page 60**

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS (CONTINUED)

| | 2013 $'000 | 2012 $'000 |
|---|---|---|

## Appendix F. Extracts from the Annual Reporting Awards Criteria

## a) Annual Report Awards

(Downloaded from http://www.arawards.com.au/)

### Extracts from Annual Reporting Awards Criteria relating to the disclosure of fundraising income and expenses

**Concise reporting**

Some organisations produce an abbreviated version of their annual report, often referred to as concise annual reports or 'annual reviews'. These provide savings for the reporting organisation.

Concise reports can achieve ARA awards provided they have sufficient quality and quantity of information to allow informed decisions by stakeholders.

Concise versions should provide appropriate discussion of both operational and financial performance and outlook and meet at least Australian Accounting Standard AASB 1039 Concise Financial Reports and direct users to the full financial report to ensure they are able to access detailed financial information. Disclosures in the Concise Financial Reports must have been derived from the main Financial Report*.

Reports that fail to address appropriate matters can be marked down during the adjudication process and consequently can miss out on an award. However, many Concise Reports deliver excellent levels of disclosure and have achieved award level results. ARA will continue to assess the Concise Reports submitted against its published criteria. Excellence in disclosure, innovation and creativity in communication with stakeholders will be considered and awarded accordingly.

**Note: For adjudication, ARA requires hard copies of the (full) Financial Statements, or the URL to access these statements if they are only available online, to be submitted with the Entry.**

**An annual report containing a qualified audit report on its financial statements may be excluded from receiving an award, depending on the nature, significance, and consequential adverse effects of the audit qualification on the reliability and usefulness of information in the annual report.**

**Community and Welfare**

- Indicate the mission and objective of the organisation and whether this has changed in recent years.
- indicate the types of services provided, statutory obligations and oversight.
- the extent to which it engages in commercial activities and enterprises to supplement income.
- Acknowledge the contribution of volunteers at all levels within the organisation, and the individual and corporate donors. The report should make a clear distinction between voluntary and paid positions.
- Indicate fundraising policies and campaigns/appeals undertaken, including the revenue received and associated costs.
- Provide details of internal controls for volunteer and paid personnel raising funds and allocating resources.
- Discuss the extent of government co-funding of the organisation's activities, including whether this co-funding has increased in proportion to overall fundraising income.
- Comment on the percentage of funds spent on administration costs as opposed to in-the-field activities such as aid distribution.
- Acknowledge the receipt of any government funding, or specific funding from other sources such as philanthropic trusts or foundations.
- Outline any conditions which apply to contributions and how those conditions are met.
- The five year summaries should include information on the number of clients or patients by service type or activity and by region. Charts, graphs or photographs should be utilised to illustrate this information.

- Disclose any accreditations and government issued authorities or licences held and compliance with licensing requirements.
- Include any reporting available to the public under fundraising regulations.
- Include segment reporting that as a minimum looks at cost of raising funds, cost of administering operations and expenses on the purpose for which the organisation is established.

## b) PwC Transparency Awards

(Downloaded from ww.pwc.com.au)

### Evaluation Criteria & Eligibility

To be eligible for the Transparency Awards, nominees must:

- Be endorsed by the ATO for charity tax concessions
- Generate revenue >$5m
- Have audited accounts
- Have deductible gift receipt (DGR) status
- Not be an educational institution or a religious institution - other than one directly related to the provision of charitable community work.

Only one submission per organisation will be accepted.

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**How are the Awards decided?**

An expert jury will select the winner from among nominees put forward by an independent evaluation committee. A jury report will be prepared that gives entrants and other interested parties information on trends and best reporting practices in the not-for-profit sector. The jury's decision is binding and no correspondence about the results is possible.

**What criteria will be used to assess each organisations' annual report?**

The evaluation criteria have been developed based on: PricewatehouseCoopers' Reporting Framework; the Institute of Chartered Accountants in Australia research - Enhancing not-for-profit annual and financial reporting; and the Global Reporting Initiative's reporting guidelines.

**About the organisation**

We reviewed the disclosure of the cause the organisation focuses on, how the organisation is constituted and considered other disclosures and information that should be present in the documentation provided. We determined the extent to which the organisation explains the environment in which it operates. Our assessment required us to consider the 'story' painted in the Annual Report and supporting information, including the history and relevance in the current environment.

**Stakeholder Reporting and Engagement**

We assessed the extent to which the organisation both explains its interactions with its stakeholders and how it obtains, manages and deploys the resources necessary to execute its mission and vision. We expect to see clear communication of how stakeholder relationships are managed, how employees and volunteers are recruited, trained, rewarded, retained and recognised, and how the organisation is funded.

**Business Strategy**

We considered the extent to which the organisation explains the strategy and structures that enable it to operate and looked for clear communication of how those strategy and structures enable the organisation to sustain and grow its activities. Ideally, management supports its strategy with targets and relevant milestones.

**Governance Structure and Process**

Inextricably linked to the strategy and mission is how well the organisation's underlying organisational and governance structures, systems, processes and risk-management frameworks are aligned and how information in regard to this is disclosed.

**Activity and Performance**

Reporting by not-for-profits should not just focus on the financial measures but on outputs, outcomes and impacts. We measured the extent to which the organisation's reporting contained information on how they have delivered outputs, outcomes and impacts in line with the expectations of their stakeholders. Performance based information demonstrates how well the organisation understands the community need for their services, executed their strategy, and managed their resources and relationships.

**Financial performance and position**

We assessed the extent of financial information provided to stakeholders and specific financial disclosures. Where an organisation has supplementary information that supports the annual report and meets these criteria, they are entitled to include this information as part of their submission.

## Appendix G. Extracts from 2014 CPA publication "A Guide to Understanding the Financial Reports of Not-for-Profit entities"

### Extract taken from page 12 & 13

- **Fundraising** income – NFPs may also generate income through fundraising events (for example a school fete) or activities (such as a raffle). Whilst some fundraising activities will involve provision of goods or services in return for income, other activities may not. In order to undertake fundraising activities, NFPs are also commonly required to obtain a license under local state or territory laws and comply with fundraising legislation, which can include financial reporting obligations. Koala Ridge's statement of comprehensive income on page 21 indicates that it receives fundraising income (fundraising appeals). In addition, the entity has raised funds through a sports tournament (beach cricket tournament collections) which also falls under the broad heading of fundraising income.
- Membership income – Subscriptions or fees paid by members of an NFP often allow members to enjoy certain benefits and facilities provided by the NFP. Entities will need to determine how this revenue is most appropriately recorded, either on receipt or spread over a period of time. Recognition can depend on what the members get in return from the NFP for the subscriptions or fees paid, and the basis of accounting adopted by the NFP (cash basis or accruals basis).
- Trading income – Many NFPs operate trading facilities (such as a shop or bar) as part of their activities, with the profits or surplus generated from such activities utilised for the primary objectives of the NFP. The trading activities of Koala Ridge ascertained from its statement of comprehensive income on page 21 include operating a bar (bar income), hiring out equipment (equipment hire), operating a gymnasium (gym fees) and hiring out a hall (hire of hall).

### Extract taken from page 18

| For the year ended 20XC | Fundraising $ | Beach cricket tournament $ | Bar $ | Hall hire $ |
|---|---|---|---|---|
| Income | 50,842 | 10,244 | 4,223 | 39,422 |
| Expenditure | 31,111 | 11,482 | 5,924 | 29,842 |
| Activity surplus/(deficit) | 19,731 | (1,238) | (1,701) | 9,580 |

**Extract taken from page 21**

## KOALA RIDGE BEACH LIFE SAVERS INCORPORATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 20XC

| | Note | 20XC $ | 20XB $ |
|---|---|---|---|
| **Income** | | | |
| Member fees | | 30,622 | 37,389 |
| Fundraising appeals | | 50,842 | 61,111 |
| Government and other grants | 5 | 152,348 | 67,142 |
| Donations | | 46,735 | 42,954 |
| Beach cricket tournament collections | | 10,244 | 8,433 |
| Subsidies | | 7,848 | 4,834 |
| Bar income | | 4,223 | 4,782 |
| Equipment hire | | 1,523 | 1,718 |
| Gym fees | | 5,232 | 6,225 |
| Hire of hall | | 39,422 | 38,284 |
| Inventory sales | | 31,823 | 29,384 |
| Dividends received | | 2,978 | 2,432 |
| Interest received | | 2,534 | 3,628 |
| **Total income** | | **386,374** | **308,316** |
| **Expenditure** | | | |
| Fundraising expenses | | 31,111 | 42,342 |
| Beach cricket tournament expenses | | 11,482 | 10,342 |
| Bar expenses | | 5,924 | 4,848 |
| Catering | | 10,721 | 8,777 |
| Inventory purchases | | 15,423 | 14,284 |
| Hall maintenance | | 29,842 | 27,482 |
| Depreciation | | 22,284 | 20,342 |
| Gas and electricity | | 12,423 | 11,484 |
| Employee costs | | 99,836 | 90,145 |
| Insurance | | 15,222 | 17,842 |
| Motor vehicle expenses | | 2,224 | 3,897 |
| Printing, postage and stationery | | 798 | 642 |
| Repairs and maintenance | | 29,784 | 26,642 |
| Security | | 3,484 | 3,121 |
| Professional fees | | 7,824 | 7,523 |
| Telephone | | 1,742 | 1,548 |
| Loan interest | | 1,642 | 1,872 |
| Bank charges | | 582 | 497 |
| **Total expenditure** | | **302,348** | **293,630** |
| **Operating surplus/(deficit)** | | **84,026** | **14,686** |

**Extract taken from page 24**

## KOALA RIDGE BEACH LIFE SAVERS INCORPORATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 20XC

| | 20XC $ | 20XB $ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Receipts from donations and gifts | 46,937 | 43,590 |
| Grant receipts | 148,230 | 49,270 |
| Fundraising receipts | 50,842 | 61,111 |
| Member and customer receipts | 102,765 | 118,391 |
| Dividend income | 2,724 | 2,040 |
| Interest income | 2,642 | 3,506 |
| Payments to suppliers and employees | (291,022) | (274,050) |
| **Net cash flows from operating activities** | **63,118** | **3,858** |
| **Cash flows from investing activities** | | |
| Purchase of investments | 15,481 | 6,441 |
| Disposals of investments | (5,432) | (2,124) |
| **Net cash flows from investing activities** | **10,049** | **4,317** |
| **Cash flows from financing activities** | | |
| Bank loan repayment | (6,157) | (5,724) |
| **Net cash flows from financing activities** | **(6,157)** | **(5,724)** |
| Net increase/(decrease) in cash and cash equivalents | 67,010 | 2,451 |
| Cash and cash equivalents at beginning of year | 24,798 | 22,347 |
| **Cash and cash equivalents at end of year** | **91,808** | **24,798** |

**Extract taken from page 27 (glossary)**

**Fundraising**: Generating revenue through soliciting and gathering voluntary contributions.