

MANAGING CHARITY MONEY:

Guide for board members on managing finances and meeting ACNC duties

Australian Government

Australian Charities and Not-for-profits Commission

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Important Notice

This guide is a summary giving you basic information about this topic. It does not cover all of the relevant law regarding this topic, and is not a substitute for professional advice. This guide is not intended to provide an approach to conflicts of interest that is suitable in all circumstances. In most cases, your particular circumstances must be taken into account when determining how the law applies to you and whether you are properly fulfilling your legal obligations.

Because this guide avoids legal language where possible, it might include generalisations about the application of the law. Some provisions of the law referred to have exceptions or important qualifications.

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Introduction from the Commissioner



Australian charities have a record of the prudent and innovative use of resources to achieve their missions. Whether it is money, property or even the time of volunteers, all charities leverage their resources to pursue their charitable work for the benefit of the community.

Using resources effectively and ensuring that they are protected appropriately is one of the key responsibilities of the people who manage a charity. The Australian community has high expectations of charities in the way that they use their resources, especially those who own property on behalf of a community or who solicit public donations in their work.

This guide provides insights into good practice in financial management, focusing on practical steps that charities can take to ensure that their finances are used appropriately and protected from misuse. It also explains the obligations that charities have to the ACNC with regard to their finances such as providing financial reports and ensuring that they operate as not-for-profits.

Through the determination of people who work in charities and the generosity of the Australian public, charities have access to a range of resources to assist them in pursuing their charitable purposes. I am delighted to present this guide to the charity sector to support them to ensure that their resources are safe, secure and used effectively.

Good wishes,

Susan Pascoe

Susan Pascoe, AM

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About this guide

This guide has been developed to help charities understand their obligations to the ACNC related to managing their finances, reporting on their transactions and ensuring their funds are used to further their charitable purpose, and not for any private benefit.

Being not-for-profit is an essential element of being a charity, and although the term is used commonly, the definition of not-for-profit is not always well understood.

What this guide covers

This guide looks at the main reporting and record-keeping obligations, as well as what the term 'not-for-profit' means in practice.

The guide contains an overview of some of the main issues charity board members need to be aware of, such as being diligent about a charity's financial affairs, protecting its resources from abuse and ensuring it is accountable.

Who this guide is for

This guide is for people who are, or are considering becoming, board members of a charity registered with the Australian Charities and Not-for-profits Commission (ACNC). It may also be of interest to employees and volunteers of charities.

In using the term 'board members', we refer to members of the governing body of a charity. In your charity, they may be called the directors, governors, trustees or members of the management committee.

For the ACNC, these people are also known as 'responsible persons'. These are the people with responsibility for governing your charity. Your charity has certain obligations that relate to responsible persons, so it is important that you know who these people are.

Find out more about who your charity's responsible persons are, and their role, at **acnc.gov.au/responsiblepersons**

Managing money and other resources

A key responsibility for your board is to make sure your charity has the resources it needs to carry out its work – this ensures it can achieve its charitable purpose. One of the most important responsibilities of board members relates to gaining and maintaining funding and other resources (for example, volunteer time).

The board must work to gather the resources necessary for a charity to undertake its work, but also to ensure that they are protected from abuse and used in an efficient and lawful way.

Charity board members have particular duties under the ACNC governance standards, which the charity must ensure they are aware of and comply with, including duties to ensure that the charity's financial affairs are managed in a responsible manner and that it does not operate while insolvent.

A related duty is to disclose conflicts of interest.

See page 21 for more information on the duties.

Board members are responsible for ensuring that they themselves are accountable, but also that structures and processes exist so that there is accountability throughout the charity, including in arrangements with other organisations (such as those that fundraise or deliver services). This is important as it helps to protect the charity's reputation as well as its resources.

The board must be able to identify major strategic risks and ensure that there are systems in place to identify, manage and respond to risks throughout the charity, such as processes to manage any risk of fraud.



Raising money

How funds can be raised

Fundraising can be undertaken through a number of ways, such as by:

- seeking public donations (such as through doorknock appeals or highway collections)
- holding public events for which you charge an admission fee
- running fundraising events (even in partnership with others)
- running raffles (or other games such as bingo), or
- operating an opportunity shop or holding a bake sale.

Charities also raise money in other ways, including through:

- charging membership fees
- charging for services, and
- receiving funding from government.

However your charity raises money, it is important that you understand the obligations that come with raising and having this money.

Duties of board members when raising money and obtaining funding

Board members must have a clear understanding of how money is raised, including any fundraising operations, as well as ensuring there are appropriate and lawful processes in place to manage any money raised.

They must ensure that any generation of funds occurs in a way that is in the charity's best interests. This includes considering the charity's charitable purpose, its beneficiaries and the impact on the public and other potential donors. For example, information collected from donors must be appropriately stored and used in ways that comply with relevant privacy laws.

Outsourcing fundraising does not remove responsibility from the board members – the ultimate responsibility lies with the charity's governing body. If board members are not clear about how funds are raised or intended to be used they must be diligent and enquire.

However charity funds are raised, the board must ensure that the money, less reasonable expenses, is put towards pursuing the charity's charitable purpose.

Fundraising regulators

The ACNC does not have responsibility for fundraising regulation, but it does require compliance with the governance standards as well as appropriate record-keeping and reporting in relation to all of a charity's activities, including how it raises funds. Fundraising is often conducted by charities as a way of achieving their charitable purposes.

If your charity undertakes fundraising activity, it needs to comply with any fundraising legislation in the relevant state or territory. Generally, you will need to register your charity to undertake fundraising activity and may need a permit. You may need to provide a report on any funds raised to your state or territory government regulator.

! In some states and territories, special arrangements apply to charities that undertake fundraising through gaming activities such as raffles or bingo. Make sure you understand any special requirements associated with this kind of fundraising.

You will also need to consider elements such as taxation. If your charity is a deductible gift recipient (DGR) then it will also have requirements it must meet because of its endorsement with the Australian Taxation Office (ATO).

For more information see our list of regulators that may affect charities at **acnc.gov.au/regulatorlist**

Keeping your finances secure

Keeping an eye on your charity's finances is essential to making sure your charity has access to the resources it needs to do its work. Regularly reviewing your financial position and your charity's ability to pay for its upcoming debts will help make sure your charity has access to money when it needs it and is not operating while insolvent.

Consider establishing a sub-committee of your board with responsibility for overseeing your charity's financial performance and controls. This committee usually reviews financial reports in greater detail and provides advice to the board on the organisation's financial position. You may even consider including one or two people on this committee who are not also board members to provide an extra level of accountability.

Protecting against fraud

Fraud occurs where someone, or a group of people, act in a way that is dishonest or against the law to benefit themselves. People can commit fraud in a variety of ways, including by:

- making false representations
- abusing their position
- failing to disclose information, and
- using other forms of deception.

Theft does happen in charities – it is uncommon, but simple steps can help prevent problems. Ensure that your processes for money-handling are safe and secure to protect against fraud and financial crime.

For more information about financial controls, see our quick tips on basic financial controls at **acnc.gov.au/tools** and read the ACNC's guide *Protecting your charity from fraud* at **acnc.gov.au/fraudguide**.

Protecting against the risk of terrorism financing

Charities can be potential channels for raising and distributing funds for terrorism financing. Because of this, charities must take all reasonable precautions and exercise due diligence (research and action to reduce the risk, particularly when working with other people and organisations) to ensure that funds are not inadvertently directed towards terrorism. This includes putting in appropriate governance structures.

There may be serious consequences for charities if they are used for terrorism financing (even if the charity does not know), including criminal penalties. Strong financial controls and robust governance arrangements can reduce the risk of your charity being used for terrorism financing.

Find out more about protecting your charity from terrorist financing at **acnc.gov.au/protecttf**

Protecting against other forms of abuse

Compliance with the ACNC governance standards will assist your charity to reduce the risk of all forms of abuse, financial or otherwise. The ACNC governance standards are a set of core, minimum standards that deal with how charities are run (including their processes, activities and relationships) – their governance.

Read page 21 for information on the ACNC governance standards

Setting up strong financial controls

Having strong financial systems and controls is very important to help protect you and your charity, and ensure it runs effectively and can meet its debts. It's a good idea to keep a formal document that sets out any financial controls that your charity uses.

Types of financial controls

A number of different financial controls are available to charities and the ones that you use will depend on the complexity and size of your charity's resources. Some examples include:

1	Requiring multiple signatures on payments and receipts	It is a good idea to ensure that, for any money leaving the charity or coming into it, more than one person is involved in authorising and completing the transaction. Having more than one person involved means that there is a higher level of supervision involved in your charity's financial transactions.
2	Keep a budget and track your performance against it	A budget is a document that shows a prediction of how much money you expect you will receive and how much money you will spend within a given period. Consider establishing an annual budget and track your performance against it throughout the year. You should also look into any significant variations.
3	Provide up-to-date financial reports to your charity's board at regular intervals	Your charity's board has ultimate responsibility for the financial health of your organisation and they should receive and review a report on its financial position regularly.
4	Establish clear financial delegations	If there are people in your charity who are authorised to approve purchases and other transactions, make sure your policies and procedures clearly establish how much they are permitted to spend without seeking approval. For example, a board might decide that the CEO can spend up to $5 000 before requiring its approval for any expenditure.
5	Keep information about your accounts secure	Make sure any passwords to online banking or the keys to any petty cash tin or safe are kept secure and that you know who has access to them.
6	Have an ongoing practice of reviewing and strengthening financial controls	It is good practice to review and strengthen all financial controls regularly. You could have a regular item on the board agenda or schedule.

ACNC obligations relating to money

Your charity must meet a number of obligations to remain registered with the ACNC. If your charity fails to comply with these obligations, we may revoke its registration.

The ACNC obligations that relate to managing and using money include duties to:

1. record information (keeping financial records)
2. report annually
3. maintain eligibility for registration (including remaining not-for-profit and pursuing charitable purposes)
4. notify us of certain changes
5. meet the governance standards (including governance standard 5: duties of responsible persons to manage the charity's finances responsibly and not allow the charity to operate while insolvent).

Obligations to other agencies that may relate to money

Unless we tell you otherwise, these obligations are in addition to any other obligations your charity has under other laws or to other Commonwealth, state and territory governments.

Your charity might have obligations because of:

- **concessions, exemptions or other benefits** it may receive from other government agencies (for example, for certain Commonwealth, territory and local government taxes)
- **its legal structure** (for example, as an incorporated association or company limited by guarantee). Your charity's governing document may also have obligations relating to money
- **the way it raises money** (for example, grants or fundraising such as street collections or raffles), and
- **how it operates and what it does** (for example, specific sectors such as aged care, housing, childcare and education have other reporting requirements, as do charities who receive grants from the government).

Some charities also choose to meet voluntary standards such as codes of conduct or codes of ethical practice set by professional associations, peak bodies or other agencies.

As examples:

- Charities that are aid and international development organisations may be members of the Australian Council for International Development (ACFID), and follow ACFID's Code of Conduct
- Charities that fundraise may be members of the Fundraising Institute of Australia, with its Principles & Standards of Fundraising Practice.

Find out more information about other regulators at **acnc.gov.au/otherregulators**

1. Keep operational and financial records

Operational records

- Record and explain what your charity has done (its activities)
- **For example:** annual reports, meeting agendas and minutes, operational plans, reports from events, client records etc.

Financial records

- Record and explain your charity's financial position and any transactions
- **For example:** : financial statements, cash flow statements, bank statements, details of any contracts, leases etc.

All registered charities must keep records in one form or another. Keeping records that help provide an accurate account of your charity's activities and finances, in addition to being a legal requirement, are useful to charities in a number of ways.

Under the ACNC Act, your charity must keep two types of records:

- financial records, and
- operational records.

The primary way of showing that your organisation is dealing appropriately with money is through your financial records. However, operational records (for example through policies, strategic plans and annual reports) can also help demonstrate how decisions are made by the board, and how it is intended that your charity's money will be managed.

Even if your charity is not required to submit annual financial reports to the ACNC, it still needs to keep financial records that would allow such a report to be prepared, if required.

Your charity must also store records for a period of time. For the ACNC, it must keep records for seven years. Before you destroy records, check your charity's records policy and other legal obligations, for example, privacy requirements to make sure you are doing so appropriately.

Financial records

Your charity must keep accurate, up-to-date financial records that correctly record and explain:

1. how your charity spends or receives its money or other assets (**transactions**)
2. its **financial position** (how much money it has), and
3. its **performance** (how it has gone).

Your financial records must also allow financial statements to be prepared and audited, if required.

A financial record explains your charity's financial activities, position and performance and examples include:

- **general account books** – including general journal and general and subsidiary ledgers
- **cash book records** – including receipts and payments
- **banking records** – including bank and credit card statements, deposit books, cheque butts and bank reconciliations
- **creditors' records** – including creditors ledger, invoices and paid bills)
- **debtors' records** – including debtors ledger, invoices and receipts
- **details of any contracts** – including service agreements, office equipment leases, property rental agreements
- **details of any grant payments and acquittals**
- **tax invoices and other relevant tax records**
- **stock records**
- **records of expenses** – for example, motor vehicle expenses
- **records of payments relating to employees** – including 'pay as you go' (PAYG) withholding, superannuation and fringe benefits provided
- **assets list or register**
- **emails, letters and other communication about finance** – for example, an email about repaying unspent grant funds.

In addition to your reporting obligations to the ACNC, your organisation may have obligations to record information and provide it under other laws or to the other Commonwealth, state or territory regulators. For example, the Australian Taxation Office (ATO) has record-keeping requirements.

Find out more at **acnc.gov.au/recordkeeping**

Record-keeping Checklist

Australian Government

Australian Charities and Not-for-profits Commission

This record-keeping checklist promotes good record-keeping practice and supports charities to meet their obligations to the ACNC. It is an indicative list only and does not intend to be exhaustive.

Does your charity:

☐ **Keep financial and operational records?**

- We have a policy about record-keeping which includes what records we keep, how we keep them securely and who is responsible.
- We have records that show all of our financial transactions.
- We have records that show our activities as a charity.

☐ **Keep records in English or in a form that can be easily translated into English?**

- We can quickly translate our records into English if needed.

☐ **Have a system or process for record-keeping?**

- We have a specific role in our charity responsible for record-keeping.
- We have other staff/volunteers/board members who have had training on the record-keeping system and process.
- We have a procedure that describes how our records (for example, written, print-outs, electronic or other) are kept and secured and who is responsible for record-keeping.

☐ **Keep records in a way that are readily accessible (easy to find)?**

- Our record-keeping policy describes where our records will be kept and who is responsible.
- Our record-keeping procedure describes our filing system and how this is maintained.

☐ **Secure any sensitive records?**

- Our record-keeping policy describes how we keep sensitive records secure and who is authorised to access sensitive records.

☐ **Back up any electronic records?**

- We keep a back-up of our records in a different and secure place to our computers.
- Our cloud-based systems and records are secure and backed up.
- We print out only the records we need to.

☐ **Keep paper copies of important electronic records?**

- We organise paper records into files, boxes, folders or envelopes.
- We separate different paper records into categories (bank statements, communication, bills, receipts).
- We separate the paper records by reporting periods (financial years).

☐ **Keep all records for seven years?**

- Our record-keeping policy includes the requirement to keep all records for seven years.
- We have enough storage space (which may include electronic storage) to keep records for seven years.

☐ **Report to other regulatory bodies which have their own record-keeping requirements?**

- Our record-keeping policy recognises our other record-keeping compliance requirements under state or Commonwealth legislation, statutory contracts or accreditation requirements.
- Our board receives at least an annual update of whether we are meeting record-keeping requirements or not.

If your charity can tick these off and follows good record-keeping practice it is likely to meet ACNC record-keeping obligations.

Using the National Standard Chart of Accounts

Consider using the National Standard Chart of Accounts (NSCOA) when you are planning your record-keeping and reporting.

NSCOA is a data entry tool and data dictionary for not-for-profits, including charities. All Australian governments (Commonwealth, state and territory) have agreed to accept NSCOA when requesting information from not-for-profits. While NSCOA is not compulsory, there are benefits in using it.

The benefits of using NSCOA are that it:

- provides a common approach to the way not-for-profits record and report accounting information (consistency in accounting categories and terms). This facilitates data comparison and benchmarking across the sector
- helps not-for-profits to learn from one another and work more easily together
- makes it easier for finance staff and volunteers to service multiple not-for-profits
- allows not-for-profits reporting in multiple jurisdictions or to multiple departments to apply a consistent approach to preparing financial information, reducing the time and cost in preparing financial statements, and
- can be changed to suit each not-for-profit's unique situation such as through creating extra accounts, sub-accounts or using cost centre accounting.

Find out more about NSCOA at **acnc.gov.au/nscoa**



2. Submit an information statement annually

Registered charities must submit an Annual Information Statement to the ACNC every year. Medium and large charities must also submit a financial report – this is optional for small charities.

The ACNC sends reminder letters to charities prior to their due dates. If charities do not submit on time, the ACNC will send warning letters after the due dates have passed. If your charity fails to submit for two or more years, the ACNC will progress towards revoking charity registration.

If your charity does not submit its Annual Information Statement and takes no action to try to do so, the ACNC will:

- **issue penalty notices** if we find your charity is deliberately not meeting its obligation to report, and/or
- **publish a statement that your charity's Annual Information Statement is overdue** on the ACNC Register. This will appear on your charity's entry on the Register if it fails to submit for more than six months after the due date.

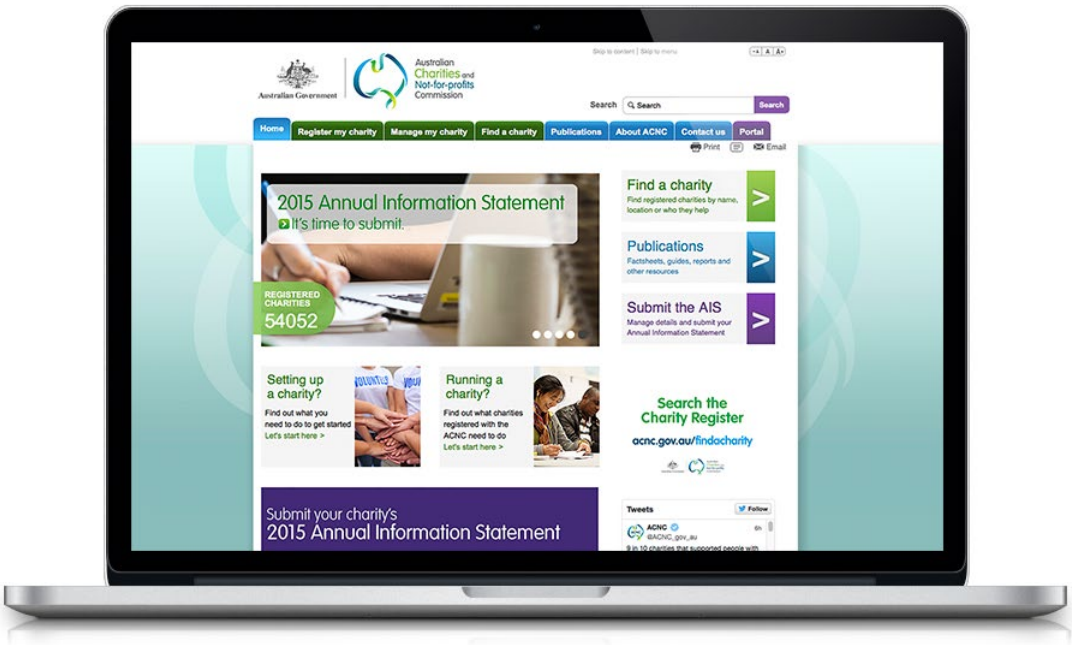
ACNC resources to support you to submit your statement

Submit your Annual Information Statement through the ACNC Charity Portal.

The ACNC produces extensive guidance on reporting, including a:

- **checklist**, everything you need to think about and do to report. It includes a list of records you should have on hand to help you report
- **guide**, which looks at each Annual Information Statement question in detail and explains what we are asking, with examples
- **worksheet**, a word document with all of the 2015 Annual Information Statement questions. If you complete this worksheet, you can share it with your charity's board for approval, if needed. If you are reporting for more than one charity, you can simply add another answer column.

Find out more at acnc.gov.au/reporting



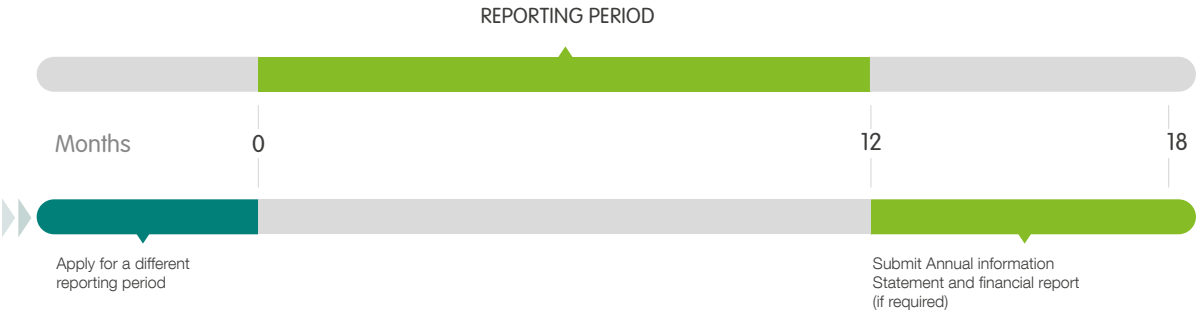
When is my charity's annual information statement due?

> Your charity's Annual Information Statement and any financial report are due within six months of the end of your reporting period.

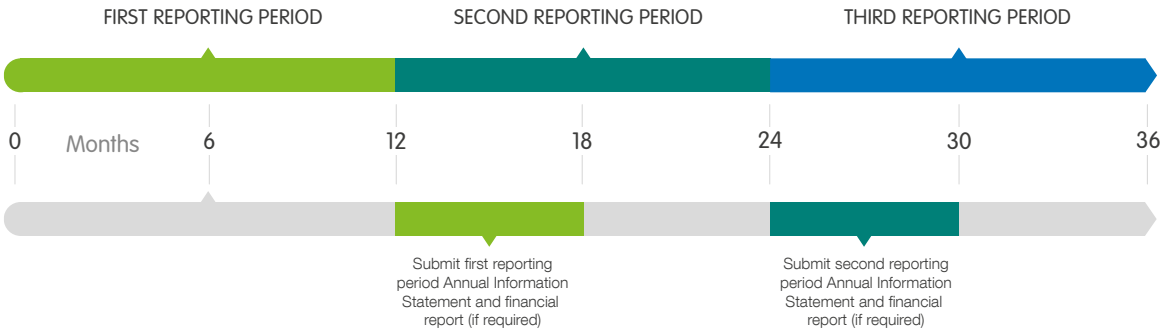
Most charities use the standard ACNC reporting period, which is the financial year from 1 July to 30 June (01/07–30/06). So, if your reporting period ends on 30 June then you have until 31 December to submit your statement.

We often refer to Annual Information Statements by their year. For example the 2015 Annual Information Statement covers the period 1 July 2014 until 30 June 2015.

Reporting over one year (12 months)



Reporting over three years (36 months)



When is a good time to start preparing my charity's Annual Information Statement?

Most charities hold an annual general meeting (AGM). This can be a good time to start preparing to submit the Annual Information Statement to the ACNC. At the AGM, most charities will present a report to their members (such as an annual report) which sets out the work it has done throughout the year and a financial statement that explains how the charity used its finances. This is exactly the sort of information you will need to complete your charity's Annual Information Statement.

Some charities require board/committee approval on their answers to the questions in the Annual Information Statement. The ACNC has prepared a template worksheet to help you do this.

Before you begin your 2015 AIS, we recommend you review your charity's profile page on the ACNC Register to make sure everything is current and accurate.

What does the ACNC Annual Information Statement ask for?

The Annual Information Statement includes non-financial questions on your charity's activities, as well as financial questions. Many of the non-financial questions will have answers prepopulated based on your previous year's statement.

In the 2015 Annual Information Statement the financial information questions are based on an income statement and balance sheet extract.

For small charities there are 9 questions, for medium charities there are 12 questions and for large charities there are 15 questions.

Prepare by using the Annual Information Statement checklist, which is updated each year. Read more at **acnc.gov.au/reporting**

What kind of reporting does my charity have to do?

What information your charity has to report mainly depends on its size, according to the ACNC's definition. Most charities registered with the ACNC are small.

The size of your charity is based on annual revenue. Revenue is the part of income created from the sale of goods or services, or any other use of capital or assets during the ordinary activities of your charity.

The ACNC has three different charity size categories based on annual revenue:

Small charities

- Annual revenue is less than $250 000

Medium charities

- Annual revenue is $250 000 or more, but less than $1 million

Large charities

- Annual revenue is $1 million or more

Size affects the number of financial information questions the ACNC asks and also whether you have to:

- use accrual accounting
- submit an annual financial report
- have your financial report audited or reviewed.

Small charities can choose if they want to submit a financial report (optional) and can use either cash or accrual accounting.

Both medium and large charities must submit a financial report and from 2015 must use accrual accounting. The type of statement in this financial report depends on whether the charity is what is called a 'reporting entity' or not. Financial reports can be either **general** or **special** purpose. The ACNC will accept either type, as long as your charity has met the requirements of the ACNC Regulations.

Medium charities must have their financial reports either reviewed or audited.

Large charities must have their financial report audited.

Summary of what charities have to submit

	Small	Medium	Large
Annual Information Statement	**Must submit - Includes 9 financial information questions**	**Must submit - Includes 12 financial information questions**	**Must submit - Includes 15 financial information questions**
Financial report	**Can submit (optional)**	**Must submit[1]**	**Must submit[1]**
Cash or accrual accounting **acnc.gov.au/cashaccrual**	Can use accrual or cash	Must use accrual[1]	Must use accrual[1]
Type of financial statement[2] **acnc.gov.au/financialstatements**	■ Special purpose financial statement (optional) or ■ Reduced disclosure regime general purpose financial statement (optional) or ■ Full general purpose financial statement (optional)	■ Special purpose financial statement (if not a 'reporting entity') or ■ Reduced disclosure regime general purpose financial statement or ■ Full general purpose financial statement	■ Special purpose financial statement (if not a 'reporting entity') or ■ Reduced disclosure regime general purpose financial statement or ■ Full general purpose financial statement
Review or audit **acnc.gov.au/reviewaudit**	No ACNC obligation for review or audit	The ACNC requires your financial reports to be either reviewed or audited[2]	The ACNC requires your financial reports to be audited

1 Unless the charity is a 'basic religious charity' or other transitional arrangements apply.

2 The charity constitution/governing document or grant funding agreements may state the type of financial statement the charity must prepare and whether the financial report needs to be reviewed or audited.

Financial reporting for charities

Medium and large charities with no transitional reporting arrangements must submit:

- a financial report for the reporting period, including:
  - statement of profit or loss and other comprehensive income
  - statement of financial position
  - statement of changes in equity
  - statement of cash flows
  - notes to the financial statements
- a signed and dated responsible persons' declaration about the statements and notes (**acnc.gov.au/templates**)
- (for medium charities) a signed and dated reviewer's report/auditor's report
- (for large charities) a signed and dated auditor's report.

Exemptions and exceptions for reporting

'Basic religious charities'

If your charity advances religion and meets a number of other ACNC requirements, then it may be classed as a 'basic religious charity' and may not be required to submit a financial report. See **acnc.gov.au/basicreligiouscharity**

Charities that are part of transitional arrangements

Your charity may also have different reporting obligations because it is part of a transitional arrangement.

For some charities, reporting annually is a new obligation. We have made arrangements that give you some time to adjust while still allowing us to get the information we need.

For example, charities did not need to provide 2014 comparative information in the 2015 financial report if they did not submit a full financial report or prepare comparative information for the 2014 reporting period, and they continue to be a non-reporting entity and prepare a special purpose financial statement.

Some charities also have reporting obligations to other government agencies, including other regulators. While we work with them to reduce red tape for charities, we also have transitional arrangements to reduce the reporting burden, for example by accepting some reports prepared for state and territory regulators.

We have particular arrangements with:

- the Australian Securities and Investments Commission (ASIC), as well as some of the reporting obligations to ASIC being removed by law
- the Office of the Registrar of Indigenous Corporations (ORIC)
- state or territory regulators of incorporated associations, cooperatives or charitable fundraisers, and
- the Department of Education and Training.

To find out more about each arrangement go to **acnc.gov.au/transitionalreporting**

TOP 10 TIPS
FOR REPORTING FINANCIAL INFORMATION

Based on errors we found in statements for the 2014 reporting period, we suggest the following tips for reporting financial information.

Things to know to complete in your Annual Information Statement correctly

Small, medium and large charities need to complete financial information questions in the Annual Information Statement.

1. Know your charity size

Make sure you get your size right – it is based on annual revenue. Charity size affects reporting obligations.

Find out more at **acnc.gov.au/charitysize**.

2. Know your financial report type

Are you submitting a general purpose or special purpose financial report? Find out more about the types of financial statements you can include at **acnc.gov.au/financialstatements**.

3. Will you self-assess as a basic religious charity? Know the requirements

Only very specific types of religious charities can be 'basic religious charities'. Do not claim this unless you have checked to make sure it applies to your charity.

Find out more at **acnc.gov.au/basicreligiouscharity**.

4. Check that you enter the financial information correctly

Take care not to enter cents in the dollars column or record 'revenue items' as 'other income'. Make sure your totals agree and whole numbers are used. No rounding or decimals.

Find out more about the financial information in the Guide to the Annual Information Statement.

5. Remember to provide financial information

Don't forget to provide financial information, even if you did not conduct charitable activities during the year.

Things to know to avoid making mistakes in your financial report

Medium charities must submit a financial report that is either reviewed or audited. Large charities must submit a financial report that is audited. The tips below are for medium and large charities.

6. Remember to submit your financial reports, including all of your charity's financial statements

The statement of cash flows, statement of comprehensive income and statement of changes in equity were often omitted. Follow the reporting checklist to make sure you submit everything.

7. Preparing a special purpose financial statement? Remember the accounting standards.

You need to comply and state that the statement is prepared in accordance with the six mandatory accounting standards. Find out more at **acnc.gov.au/financialstatements.**

8. Check you have an accounting policy note and it is correct

In the notes to the financial statements, there must be an accounting policy note that contains adequate accounting policy disclosures. Read more on policy note requirements in the relevant accounting standard AASB 101 Presentation of Financial Statements.

9. Preparing a general purpose financial statement? Check the completeness and quality of the related party disclosures

Make sure you provide sufficient detail of transactions between related parties and key management personnel compensation. An example of a related party is a board member's close family member.

10. Make sure you attach all required documents

Remember to attach the audit/review reports and/or responsible persons' declaration and make sure they are signed. Use the Annual Information Statement checklist to make sure you include everything.

Find out more at **acnc.gov.au/reporting**

Frequently asked questions about reporting

What if my charity reports to a different reporting period?

If your charity uses a different reporting period from the ACNC reporting period you need to request a different reporting period. For example, a charity may report on a calendar year from 1 January to 31 December. If you have a different reporting period then you will have a different due date. You can request a different reporting period (not 1 July to 30 June) through the Charity Portal at **charity.acnc.gov.au**.

If your charity's registration date is within three months of the end of your charity's reporting period, you do not need to submit an Annual Information Statement straight away. You can either:

- report for the 3 months or less left in the current reporting period, or
- wait until the next reporting period and report for 15 months or less.

How do I work out my charity's size?

This is based on annual revenue, which is explained below. If you need help with working out your revenue and charity size, Accounting for Good has developed a free charity size calculator which you can get to via the ACNC's charity size page at **acnc.gov.au/charitysize.**

To calculate your revenue and your charity size, it may help if you use Accounting for good's charity size calculator (external link).

Calculate revenue using the relevant accounting standards issued by the Australian Accounting Standards Board. Australian Accounting Standards AASB 118 and AASB 1004 provide technical accounting detail on how to do this.

What if an unusual event happens in my charity and we receive a lot of money which pushes us into a different size category?

If your charity's size changes (because, for example, it receives a large bequest) and you think that your charity is likely to return to its former size in future reporting periods, you can apply to the ACNC for your charity to continue to be recognised as its former size.

Apply by submitting Form 4D: Apply to keep charity size, at **acnc.gov.au/forms**, before your reporting is due so we can allow, where appropriate, for your charity to report according to its usual size.

Read more at **acnc.gov.au/charitysize.**

What happens if I take all the steps above and submit my charity's financial report but later realise it is incorrect?

You must notify the ACNC of any material error or omission in relation to your financial report, **as soon as practicable and within 60 days of first becoming aware of the error if you're a small charity or 28 days if you're medium or large charity**.

The easiest way to notify us is by email to **advice@acnc.gov.au**. If the error or omission is in the financial report, you can attach an updated or new financial report to the email.

If the error or omission is in the Annual Information Statement, you can tell us in the email what the mistake or missing information is and we will reset the AIS to 'in progress' for you to complete.

What is the difference between general or special purpose financial reports?

The ACNC will accept either type, as long as your charity has met the requirements of the ACNC Regulations. These state that your charity's financial reports must:

- meet applicable Australian Accounting Standards, and
- provide a true and fair view of your charity's financial position and performance.

To decide which type of financial statement your charity needs to prepare under the Australian Accounting Standards, your charity must work out

whether it is a 'reporting entity' or not. Basically, if people use and rely on your charity's financial statements to help them make decisions (for example, about whether to donate to your charity) then your charity is most likely a reporting entity.

Read more about general and special purpose financial reports at **acnc.gov.au/financialstatements**.

Why does the ACNC require this information and what does it use it for?

The ACNC is required by the ACNC Act to collect certain information from charities, and to use it in particular ways.

We use the information you submit (including financial information) in different ways:

- for publication (except some personal information) on the ACNC Register
- to assess your ongoing entitlement to ACNC registration, and compliance with the ACNC Act. These are 'recognised assessment activities'
- in certain circumstances, to share with other authorised Australian government agencies, removing the need for those agencies to ask you for the same information
- to share with researchers and others through data.gov.au, contributing to transparency in the charity sector
- to analyse so we can provide useful, usable charity information to the charity sector, donors, volunteers and the public, to build greater understanding of the sector. Each year we release a research report based on all of the data collected from all of the charities who completed the previous year's Annual Information Statement, visit australiancharities.acnc.gov.au
- to inform ACNC regulation of the charity sector.

Does charity size affect other ACNC obligations?

Other obligations to the ACNC that depend on your charity's size are:

- the amount of time your charity has to notify the ACNC of:
  - certain changes, including changes to its legal name, service address, responsible persons and governing rules, or
  - a material error in your Annual Information Statement or financial report
- the amount of information your charity needs to report in its Annual Information Statement, and the administrative penalties that your charity may have to pay if it does not submit documents on time.

Read more at **acnc.gov.au/reporting**

3. Keep your charity status

In order to remain eligible to be registered as a charity, your charity **must continue to be not-for-profit** and pursue its charitable purposes for the public benefit.

Generally, to maintain your status as a not-for-profit, you must ensure your charity is not operating for the profit or gain of individual members. This is the case whether the gains would be direct or indirect. Your charity must also operate this way when it 'winds up' (closes down). Any money received or profit made by your charity should go back into the operation of the organisation to carry out its purposes, and not be distributed to any of its members.

This guide will later look at some of the most common questions charities have (and some myths) about not-for-profit status, such as generating profit (surplus), keeping money in reserve, investing, private benefit and undertaking commercial activities. See page 24.

Find out more about how to keep your charity status at **acnc.gov.au/staycharitable**

What is a not-for-profit?

Generally, a not-for-profit is an organisation that does not operate for the profit, personal gain or other benefit of particular people. This can include its members, the people who run it or their friends or relatives. The definition of not-for-profit applies both while the organisation is operating and if it winds up.

Not all not-for-profits are charities

There are many not-for-profit organisations that do not meet the definition of charity. These include some community service organisations, sports clubs and professional associations.

These not-for-profits are not regulated by the ACNC, but are likely to be regulated under other laws and by other Commonwealth, state or territory government agencies. Much of the information contained in this guide will still be useful to these types of not-for-profits.

Demonstrating that your charity is not-for-profit

It is not enough merely to look like a not-for-profit – your charity must also behave like one. This will include the activities it undertakes, how it deals with money and any potential benefits to its members.

When applying to register with the ACNC, an organisation must be able to show that is not-for-profit. This can be done by having clear clauses in its governing documents and following these in its operations (including if it winds up).

The two main clauses, and examples of how they can be worded, are:

The not-for-profit clause

This clause sets out how the organisation's assets and income are to be used and distributed:

Example: *'The assets and income of the organisation shall be applied solely to further its objects and no portion shall be distributed directly or indirectly to the members of the organisation except as genuine compensation for services rendered or expenses incurred on behalf of the organisation.'*

The dissolution clause:

This clause sets out what happens to the organisation's assets if it winds up:

Example: *'In the event of the organisation being dissolved, the amount that remains after such dissolution and the satisfaction of all debts and liabilities shall be transferred to another organisation with similar purposes which is not carried on for the profit or gain of its individual members.'*

Find out more about demonstrating not-for-profit status at **acnc.gov.au/notforprofit**

4. Notify us of changes or errors

It is important to let the ACNC know if certain details about your charity change. These include your organisation's name, address for service, responsible persons and governing documents.

Changes to your charity

It is also important to let the ACNC know if there are other significant changes to your organisation. It may have had a shift in its purposes or changed its governing document. These types of changes to your organisation may affect whether you are still operating as a not-for-profit, so contact us if you are unsure.

Reporting a material error or omission in the financial report

You must notify the ACNC of any material error or omission in relation to your financial report, **within 60 days of first becoming aware of the error if you're a small charity or 28 days if you're a medium or large charity.**

Breaches of the ACNC Act or governance standards

You must also tell us if you think your charity has breached the ACNC Act or not complied with an ACNC governance standard in a significant way, and as a result it is no longer entitled to be registered. For example, if your charity has expanded its purposes to include a non-charitable purpose (such as sport) it may no longer have solely charitable purposes.

You must notify the ACNC as soon as you reasonably can, but no later than 28 days after you become aware of the failure to comply, using a Form 3C: Notification of contravention or non-compliance, available at acnc.gov.au/forms.

Find out more about when to notify us of changes to your organisation at **acnc.gov.au/notify.**

5. Meet the governance standards

Registered charities must meet a set of governance standards to be and remain registered with the ACNC. The governance standards are a set of core, minimum standards that deal with how charities are run (including their processes, activities and relationships) – their governance. These standards set out the minimum standard of governance, to help promote public trust and confidence in charities.

The governance standards that deal with financial management include:

Governance standard 1: Purposes and not-for-profit nature

This standard requires charities to be able to demonstrate that they:

- were set up as a not-for-profit with a charitable purpose
- run as a not-for-profit and work towards that charitable purpose, and
- provide information about their charitable purpose to the public.

This standard reinforces the requirement that charities remain charitable as discussed earlier on page 21. In demonstrating compliance with this standard, you need to be able to show that your charity is appropriately managing its finances, including in relation to surpluses, reserves and investments.

Related party transactions and private benefit

A significant issue for charities is that of private benefit – where the resources of the charity are used for the benefit of those close to or related to the charity, rather than for the charity's beneficiaries, and for its charitable purpose.

Related party transactions are those between the charity and 'related parties'. These can be people or organisations, such as:

- those with a significant influence over the charity's strategy and finances (including board members or executive officers, rather than operational managers), and close members of their families (such as a parent, partner, sibling, or child), and
- organisations with a significant influence over the charity (for example, an organisation that appoints one of the members of the board of the charity).

Charities need to be aware of the standards required of them, and be aware of the problems of private benefit and implement policies and procedures to prevent and manage them.

See page 24 for some myths and facts about what charities can and can't do with their profits and resources

Governance standard 3: Compliance with Australian laws

The standard requires charities to not act in a way that under Commonwealth, state or territory law could be dealt with as:

- an indictable offence (being a serious crime that is generally tried by a judge), or
- a breach of law that has a civil (not criminal) penalty of 60 penalty units (currently $10 800) or more.

It is important that you are aware of the relevant legal obligations your charity has in relation to financial management, in addition to the obligations your organisation has to the ACNC. Breaching this standard, by failing to comply with relevant laws, may result in your charity being reviewed by the ACNC, and/or other regulators.

Governance standard 5: Duties of responsible persons

This standard requires charities to take reasonable steps to make sure that a number of duties apply to responsible persons and that they follow them.

These responsible person duties include duties to:

- ensure that the financial affairs of your charity are managed responsibly, and
- not allow your charity to operate while it is insolvent.

Find out more at **acnc.gov.au/governancestandards**

Managing finances responsibly

As a board member, you must have a level of financial literacy that will enable you to make informed decisions about your charity's finances and any other issue before the board. While many boards appoint treasurers and board members with financial expertise, every board member must be able to read and understand a charity's financial information, and the concepts that relate to them. This is what is required by governance standard 5. You may need to participate in some training to improve your financial literacy as part of your role.

Closely reviewing your charity's finances requires you to read all of its financial reports and to pick out anything that looks unusual or concerning. It's a good idea to consider verifying some calculations yourself, especially if they are informing assumption's about your charity's financial health.

You are not expected to have the same level of expertise as a professional in finance such as an accountant. However, you must ensure that your financial literacy is sufficient to read and understand your charity's accounts. You cannot rely exclusively on the treasurer or another board member.

If there are things about your charity's finances that you don't understand, you should feel confident to ask questions and to ask for more information. If you are making a decision that could have an impact on your charity's financial health – consider what this impact might be and whether it is appropriate for your charity.

At the very least, you should be able to determine whether your charity is solvent and what the impact of any decision you make will be on your charity's financial health.

Staying solvent

Under governance standard 5, responsible persons of registered charities must not allow a charity to operate while it is insolvent. Your charity may also have duties under other legislation that applies to it about staying solvent.

What 'being solvent' means

Being solvent means being able to pay your debts as and when they become due and payable.

This means that you must have access to the cash (or assets that can be converted to cash quickly enough) to pay any debts that your charity may have in full and when they are due.

Organisations that are unable to do this are insolvent.

How to avoid becoming insolvent

Strong financial controls and diligent financial management are the best protections against a charity becoming insolvent.

A good way to monitor your charity's solvency is to keep accounts which correctly record its assets (the things it owns, such as property or any cash it has) and its liabilities (the things it owes, such as any debt it has). If your charity's liabilities are greater than its assets, it may be at risk of becoming insolvent.

It is also important to monitor your charity's cash flow (the money going in and out of your charity). If your charity is spending more money than it receives, this may be a warning sign that it could become insolvent.



If you think that there is a chance that your charity is or is about to become insolvent, contact the ACNC immediately.

Find out more about board member duties in our webinar recording of 'Welcome to the board' at **acnc.gov.au/webinars**.

Charity money myths:
the facts about operating as a not-for-profit

With the release of data sets about Australian charities, including their financial information – it is important to be clear about not-for-profit financial management and separate the facts from the myths.

The responsible persons of a charity (board directors, committee members or trustees) have duties to make sure that:

- the financial affairs of the charity are managed responsibly
- the charity does not operate while it is insolvent, and
- the charity continues to meet all of its obligations to the ACNC, including continuing to work towards its charitable purposes and remain not-for-profit.

Below are some facts that dispel some of the myths about how charities can use money, and some tips for charities.

01

Myth one:
A charity can't make a surplus (profit)
Fact: A charity can make a surplus (profit)

- A charity can make a surplus, providing the surplus is used to further its charitable purposes.
- Generating a surplus is generally considered good practice for charities.
- A surplus is important for the financial viability of a charity and can help account for expected and unexpected expenses in the future.
- Based on the 2014 data on Australian charities, charities are more likely to have a surplus than a deficit[1].
- There may also be times when a charity experiences a deficit. A planned deficit, as part of financial management and overall operations of the charity, may also be helpful for the charity's long term success. For example, a charity may experience a deficit in order to deliver immediate relief during a disaster, or the charity may have adequate retained earnings from a large grant awarded during a previous reporting period.
- There are a number of ways that surplus can be used, depending on the charity's purposes and any relevant requirements in its governing documents or the law. A charity could use a surplus by:
  - implementing a new project or service
  - keeping some money in reserve
  - making a payment on a loan
  - acquiring investments, or
  - donating funds to another charity with a similar charitable purpose.

1 Explore charity data from the 2014 reporting period at **australiancharities.acnc.gov.au**

02

Myth two:
A charity can't keep money in reserve
Fact: A charity can keep money in reserve

- It is good practice for a charity to have a reasonable amount of funds in reserve to protect it in the event of unfavourable or unexpected circumstances (in other words, contingency or 'rainy day' funds), such as a sudden loss of funding or a humanitarian disaster that requires a quick response.
- A charity may put aside a reserve to pay for planned future capital expenditures (such as a non-government school planning to build a new campus, or a disability service planning to purchase a mini bus to transport beneficiaries).
- A charity should only accumulate a reserve to further its charitable purposes.
- There is no set limit on how much money a charity can place in reserve. The charity's responsible persons need to decide on what is appropriate, keeping the charity's overall objectives, as well as the size of the profit in mind.
- There is no rule setting out how long a charity is able to keep money in reserve – again it is up to the charity's responsible persons to decide how retaining the money furthers its charitable purposes. However, a charity cannot accumulate indefinitely, as this would not be furthering its charitable purposes.

03

Myth three:
A charity can't invest its funds
Fact: A charity can invest its funds

- Prudent (well advised) investments can diversify a charity's income stream and form part of good financial management practice.
- It is common for charities to make investments.
- When a charity is planning to invest money, it needs to think about how the funds will ultimately further its charitable purposes.
- It is good practice for charities to seek appropriate financial advice about investments.
- A charity should invest its funds as a part of a financial management plan that includes risk management policies and procedures.
- A charity can invest its funds by purchasing bonds, stocks or term deposits. However, high risk investments are generally not appropriate for charities.
- Many charities that choose to make investments aim to do so in an ethical way to align with their charitable purposes.
- Any investment decisions made by a charity must comply with the requirements set out in the ACNC governance standards. This will assist the charity to make sure that the decisions are made within an appropriate governance framework, in a way that furthers the charitable purposes.

Note: If the charity is a **private ancillary fund** or a **public ancillary fund**, it will have slightly different obligations in relation to the accumulation of reserves. Read the factsheet on private and public ancillary funds at **acnc.gov.au/factsheets**

04

Myth four:
A charity can't undertake commercial activities
Fact: A charity can undertake commercial activities

- A charity can undertake commercial activities but must do so with the aim of advancing its charitable purposes. 'Commercial activities' involve transactions (sales and purchases) that aim to provide goods and services to businesses and individuals for the purpose of making money.
- There are three scenarios where a charity can undertake commercial activities in a way that is consistent with the requirements of being a charity:
  1. A charity can undertake commercial activity with the purpose of generating profit to fund its work towards its charitable purpose. For example, a charity that provides free health checks and information sessions for people experiencing homelessness and disadvantage establishes a medical centre in Sydney CBD. The general public utilise the medical centre and pay to use the services. All of the profits made by the medical centre are used to fund the free health checks and information sessions.
  2. A charity can undertake commercial activity where the activity directly contributes towards its charitable purpose. For example, a charity might have the purpose of providing employment to people living with disability. To achieve this purpose, the charity could operate a retail store and provide employment and training to people living with disabilities. In this way, the charity is undertaking commercial activity while also working towards its charitable purpose.
  3. A charity can undertake commercial activity where the activity is only incidental to the purpose of the charity. For example, a charity with the purpose of rescuing and rehabilitating native animals that are injured or have lost their habitat finds that it has a stock of organic fertiliser as a result. The charity decides to sell the fertiliser as a way of raising its profile and generating a very small amount of income. The sale of the fertiliser is a commercial activity that is incidental to the charity's charitable purpose.

05

Myth five:
A charity can't spend money on administration

Fact: A charity can spend money on administration

- Charities are justified in incurring administration costs. Running professional, sustainable and effective charities costs money, which includes spending money on their administration.
- Generally, the administration costs of charities are understood to be costs incurred by the charity to allow it to operate. For example, the costs of renting an office, supplying it with electricity, purchasing and maintaining an IT system, and the salaries of the CEO and office staff who do not provide services directly to clients, are all administration costs.
- It is up to the charity's responsible persons to decide how much money should be spent on administration, as long as they comply with the ACNC governance standards to make sure that the charity's financial affairs are managed in a responsible manner.
- The Australian Charities Report 2014 provides evidence of the diversity, variability, geographic spread, and complexity in the sector. All of these differences affect how much money a charity spends on administration. For example, a remote health charity employing a range of medical professionals and offering services such as dialysis, will have administration costs that are far greater than a charity based in the centre of Perth raising funds for a local childcare centre.
- High administration costs alone do not indicate that the charity is poorly run; in fact, it would be concerning if a charity had no such costs.
- Administration costs can be a mark of effectiveness – for example the charity that trains its staff and evaluates its programs may be more efficient and effective than the charity that does not.
- When trying to understand a charity's effectiveness, it is better to pay attention to other factors of not-for-profit performance: transparency, governance, leadership, and impact.
- In Australia, there are no standards or clear definitions to guide which of the charity's costs should be classified as 'service related' and which should be classified as 'administration'. In the absence of any such standards or guidelines, information about administrative costs is not comparable and is often misleading.

Conclusion

A charity has obligations to its members, beneficiaries and the community, regarding the way it works to achieve its purpose, and how it manages its money. It also has specific obligations to the ACNC and other regulators and agencies. Board members, in particular, have specific duties in this regard, such as ensuring that the charity remains not-for-profit and that they manage the charity's financial affairs responsibly. By managing your charity's resources well, you can enable it to achieve the purpose it was created for.

More information

ACNC resources

acnc.gov.au/ongoingobligations

acnc.gov.au/protect

acnc.gov.au/nscoa

acnc.gov.au/reporting

acnc.gov.au/reportingduedates

acnc.gov.au/charitysize

acnc.gov.au/transitionalreporting

acnc.gov.au/financialstatements

acnc.gov.au/cashaccrual

acnc.gov.au/reviewaudit

acnc.gov.au/recordkeeping

acnc.gov.au/forms

acnc.gov.au/templates

acnc.gov.au/tools



External resources

Australian Institute of Company Directors:
The NFP director's role

Australian Accounting Standards Board:
aasb.gov.au

Accounting for Good
accountingforgood.com.au/acnc-calculator

Our Community resources
financial help sheets and resources and
Damn good advice for treasurers and Damn good advice for board members guides

Chartered Accountants Australia and New Zealand (CAANZ) – Guidance for Not-for-profits

CPA Australia's professional resources for not-for-profits

Institute of Chartered Accountants Australia (ICAA) guidance: Enhancing not-for-profit annual and financial reporting**,** which includes a supplementary guide for charities reporting under the ACNC Act 2012 (last item in Related Links on the ICAA page)

Reconciliation Australia and the Australian Indigenous Governance Institute's Indigenous Governance Toolkit



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