# Not-for-profit 2023 financial reporting update

Although there are minimal changes to the financial reporting standards in the not-for-profit (NFP) space, the financial reporting environment is constantly evolving in the current working world we are currently part of. These may present additional matters to consider for the June and December 2023 reporting periods.

The key considerations for this current reporting season are:

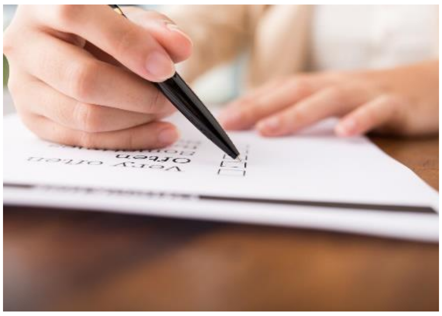
- Recent amendments to Australian Accounting Standards
- NFP private sector framework (Tier 3)
- Australian Charities and Not-for-profits Commission (ACNC) legislative review
- Post-implementation issues
- Sustainability reporting
- NFP public sector updates.

Read our executive summary and detailed analysis of each of these topics on the following pages.

The financial reporting environment is constantly evolving and may present changes for 2023 reporting periods

## Executive summary

The key considerations for this current reporting season are:



- **Recent amendments to Australian Accounting Standards –** This publication explores new amendments effective for the first time for 30 June 2023 and 31 December 2023. AASB 2022-3 *Amendments to Australian Accounting Standards – Illustrative Examples for Not-for-Profit Entities accompanying AASB 15* (AASB 2022-3) is effective for periods beginning on or after 1 July 2022 and covers concessionary leases and a new example on income recognition. Also effective for periods beginning on or after 1 January 2023 is an amendment to AASB 101 *Presentation of Financial Statements* (AASB 101) to disclose material accounting policy information

- **NFP private sector framework (Tier 3) –** An accounting development on the radar is the new NFP private sector financial reporting framework currently being developed by the Australian Accounting Standards Board (AASB). This project will result in a new Tier 3 accounting standard with simplified accounting requirements for smaller NFP private sector entities and the removal of the ability for NFP private sector entities to prepare Special Purpose Financial Statements (SPFS)

- **Australian Charities and Not-for-profits Commissions (ACNC) legislative review** – From the 2023 Annual Information Statement (AIS) period, all charities except for Basic Religious Charities are required to report their related party transactions to the ACNC arising from the ACNC legislative review

- **Post-implementation issues** – This publication explores post-implementation issues on topics that specifically relate to NFP entities. This includes income recognition issues where judgement is required in assessing immediate income recognition under general AASB 1058 *Income of NFP Entities* (AASB 1058) requirements or income deferral under AASB 15 *Revenue from Contracts with Customers* (AASB 15) / AASB 1058 paragraphs 15-17 on capital grant accounting. We will also explore the application of the control model under AASB 10 *Consolidated Financial Statements* (AASB 10) in the NFP sector

- **Sustainability reporting** – Climate change remains one of the key emerging issues and NFP entities should take note of the recent developments in this space from a global and local perspective to assess impacts on its climate risk disclosures

- **NFP public sector specific updates** – There has been several accounting developments by the AASB in the NFP public sector space which include amendments to AASB 13 *Fair Value Measurement* (AASB 13), public-sector specific amendments and effective date deferral of AASB 17 *Insurance contracts* (AASB 17) and a post implementation review on AASB 1059 *Service Concession Arrangements: Grantors* (AASB 1059).

## Recent amendments to Australian Accounting Standards

### Overview

NFP entities should take note of the following recent amendments to Australian Accounting Standards which are effective for the first time for 30 June 2023 / 31 December 2023 year ends:

- AASB 2022-3 which is only applicable to NFP entities
- Amendments to AASB 101 to disclose material accounting policy information.

### AASB 2022-3

In May 2022, the AASB issued AASB 2022-3 the amending standard to AASB 15 for NFP entities which is effective from 1 July 2022. This amendment will be effective for the first time for 30 June 2023 and 31 December 2023 year ends.

The two key amendments in AASB 2022-3 are:

- The retention of the accounting policy choice in AASB 16 *Leases* (AASB 16) for concessionary leases
- An amendment to include a new illustrative example (Example 7A) in AASB 15 to address the accounting for upfront fees received.

#### Concessionary leases

As documented in the basis of conclusions accompanying AASB 2022-3, the AASB made the following decisions around concessionary leases (leases at significantly below market terms):

- NFP private sector lessees – The AASB has decided to retain the accounting policy choice in AASB 16 for the right-of-use assets of concessionary leases to initially be measured at cost or fair value on an ongoing basis, where this will be a permanent option with no plans to reconsider in future
- NFP public sector lessees – The AASB has decided to defer consideration of the accounting policy choice until the Board decides on any additional guidance for measuring the fair value of right-of-use assets under concessionary leases.

#### Upfront fees

AASB 2022-3 amends AASB 15 to add a new example 7A which provides an in-depth analysis on the accounting for upfront fees for NFP entities. For NFP entities, some common examples of upfront fees include:

- Joining fees at clubs and membership bodies
- Enrolment fees at schools
- Other establishment or set-up fees where the fee is paid near contract inception and the customer can renew the contract each year without paying an additional fee.

For upfront fees where AASB 15 applies, the NFP entity needs to assess whether the fee relates to the transfer of a promised good or service and if it constitutes a separate performance obligation. Otherwise, the upfront fee represents an advance payment for future goods or services and would be recognised as revenue when those future goods or services are provided.

**More information**

*Not-for-profit 2022 financial reporting update* publication

### Amendments to AASB 101 to disclose material accounting policies

Effective for the first time for annual reporting periods beginning on or after 1 January 2023 is an amendment to AASB 101 to change the accounting policy disclosure requirements to disclose "material" accounting policy information from the requirement to disclose "significant" accounting policies. This amendment is included as part of AASB 2021–2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates* (*AASB 2021-2*) which includes other amendments to the AASB Standards to improve accounting policy disclosures and clarify the distinction between accounting policies and accounting estimates. For further details on the other amendments see AASB 2021-2.

This may seem like a minor change, but the impact could be that the voluminous accounting policy disclosures will be able to be removed where it is not considered material. Accounting policies removed may include information that is duplicative of the mandatory requirements of the accounting standards that do not add much value to users understanding of the financial statements given that an entity must apply those policies.

An example of material accounting policy information would include a policy choice made in an accounting standard. For instance, where an entity has opted to designate a material financial asset investment in an equity security at fair value through other comprehensive income, that would be considered a material accounting policy choice that should be disclosed.

Applying this change may not be easy, but we believe this is an opportunity for entities to carefully consider what policies are required for a user to understand the context of the financial statements and the insight the entity has applied in developing them.

A similar amendment included in AASB 2021-6 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies: Tier 2 and Other Australian Accounting Standards* (AASB 2021-6) has been made to AASB 1060 *Simplified Disclosures – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (AASB 1060) which is applicable to entities preparing Tier 2 financial statements.

## NFP private sector framework (Tier 3)

As part of the AASB project around revising the financial reporting framework for Australian NFP private sector entities, the Board released the Discussion Paper (DP) containing Tier 3 reporting requirements for smaller NFP private sector entities. The primary objective of the new Tier 3 reporting requirements is to develop simplified financial reporting requirements for smaller NFP private sector entities. Key proposals in the DP include:

- A proposal for differential reporting tiers. This will include the existing Tier 1 and Tier 2 reporting tiers currently available for entities preparing general purpose financial statements (GPFS) and the development of a new Tier 3 reporting framework. Currently it is proposed that an application threshold will not be specified for the tiers
- The removal of the ability of NFP private sector entities to prepare special purpose financial statements (SPFS)
- An accounting policy choice in preparing consolidated financial statements, or separate financial statements with disclosures about the entity's significant relationships
- The Tier 3 framework proposes simplified accounting requirements for smaller NFP private sector entities. This includes a new income recognition model that is simpler to apply and a proposal for leased assets to remain off the balance sheet for lessees, supplemented by disclosures.

### More information

*May 2023 Client financial reporting update – Not for profit session*

The comment period for the DP closed in March 2023. The AASB considered a preliminary analysis of the feedback received on this at its May 2023 meeting where it was decided that an Exposure Draft (ED) will be developed on the removal of certain NFP entities' ability to prepare SPFS and a Tier 3 Accounting Standard with simplified accounting requirements for smaller NFP private sector entities.

## ACNC legislative review

For ACNC-registered charities, the amendments to the *Australian Charities and Not-for-profits Commission Regulation 2013* introduces many key changes for the 2022 and 2023 financial years. Majority of the amendments arising from this were effective for the first time in the prior period (2021-22 financial year onwards). This includes the new ACNC reporting thresholds and the key management personnel compensation disclosures required for certain large charities preparing SPFS.

Under the new amendments the key change for 2023 AIS periods (2022-2023 financial year end onwards) is a requirement for charities preparing SPFS to comply with an additional AASB standard, AASB 124 *Related Party Disclosures* (AASB 124), in addition to the current five minimum standards required under the ACNC regulation as illustrated in the table below. A choice is provided to either adopt full disclosure requirements for all six minimum standards (including AASB 124) or simplified disclosure requirements in AASB 1060 for the six minimum standards as outlined in the table below. The ACNC Commissioner has exercised discretion that comparatives are not required for the first year of adoption of related party transaction disclosure in SPFS.

| Standards | | Option 1 | Option 2 |
|---|---|---|---|
| **AASB 101 *Presentation of Financial Statements*** | Existing | Full | AASB 1060 |
| **AASB 107 *Statement of Cash Flows*** | Existing | Full | AASB 1060 |
| **AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*** | Existing | Full | AASB 1060 |
| **AASB 1048 *Interpretations of Standards*** | Existing | Full | AASB 1060 |
| **AASB 1054 *Australian Additional Disclosures*** | Existing | Full | Specified^ |
| **AASB 124 *Related Party Disclosures*** | ***New*** | Full | AASB 1060 |

^ AASB 1054 paragraphs 1-6 *(Objective, Application, and Definitions)*, 9, 9A, 9B *(General Purpose or Special Purpose Financial Statements and Information about special purpose financial statements)* and 17 *(IFRS Standard Not Yet Issued in Australia)*.

This also means all charities (except Basic Religious Charities) are required to report on their related party transactions:

- Small charities are to disclose reportable related party transactions in their AIS
- Medium and large charities are to disclose material related party transactions in the AIS and financial statements. Immaterial related party transactions do not need to be reported or disclosed.

### More information

*May 2023 Client financial reporting update – Not for profit session*

*Not-for-profit 2022 financial reporting update* publication

Below is an example of what type of transactions may be considered material and therefore may need to be disclosed by a medium or large charity:

**Example 1 – Related party disclosure**

**Fact pattern**

For the year ending 30 June 2023, a large sized charity has completed the following related party transactions:

- Transaction 1: Sold charity assets to a company controlled by a committee member of the charity
- Transaction 2: Entered into a lease agreement with another related charity
- Transaction 3: Sold goods to a related charity under same terms offered to the public.

**Accounting considerations**

**Which of these will need to be reported and disclosed?**

Transactions 1 and 2 are generally considered material and therefore will need to be reported and disclosed. Considerations will need to be made on the nature, size and circumstances of the transactions. When considering the nature of the transaction, it is important to note that a concessionary lease agreement may be considered material on the basis of being qualitatively material, even if it may not be quantitatively material.

Transaction 3 would generally be considered immaterial (depending on nature, size and circumstances of the transaction) and therefore may not need to be reported as a related party transaction. The goods are provided at market rates and therefore omission from being disclosed as a related party transaction would generally not influence the decision of users of such information to make a decision.

ACNC has also published some guidance around these additional ACNC legislative requirements to assist charities. See  the links below for additional details:

- Case study and multiple scenarios: Key management personnel remuneration
- Example and how charities can manage this requirement: Related party transactions
- AIS due dates: Annual Information Statement due dates.

## Post-implementation issues

### Overview

This section discusses common implementation issues identified by AASB in the ITCs and will specifically focus on the NFP topics:

- Sufficiently specific criterion for income recognition
- Transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset for its own use (capital grant)
- Application of the control model in the NFP sector.

### Sufficiently specific criterion for income recognition

One of the two criteria for determining whether AASB 15 or AASB 1058 applies to the recognition of income of NFP entities is identifying whether a contract has sufficiently specific performance obligations. This is an important and fundamental concept as the specificity of performance obligations (together with enforceability) will determine whether the transaction is accounted for under AASB 1058 (which may result in point in time upfront income recognition) or under AASB 15 (which may require overtime and/or point in time revenue recognition depending on the contract terms of the arrangement).

Judgement is required to assess whether a promise is sufficiently specific. Such judgement takes into account any conditions specified in the arrangement, whether explicit or implicit, regarding the promised goods or services.

Below are a few illustrative examples of whether a contract may or may not have sufficiently specific performance obligations:

**Example 2 – Sufficiently specific**

**Which of these contracts may be considered to have sufficiently specific performance obligations?**

- **Contract A: Entity needs to provide counselling services**
  **Not sufficiently specific** - While the type of services to be provided is identified in the contract, there are no details around the quantity of services, the recipients, or the time frame over which the services are to be provided

- **Contract B: Entity needs to provide counselling services in relation to mental health in regional Victoria over the next 24 months**
  **May be sufficiently specific** – While the contract specifies that counselling services are to be provided, the location and the time frame of the services, there is no specific detail around the nature or quantity of the services. Other areas of the contract may need to be considered for instance grant contracts may include activity plans that may provide further details around the nature and quantity of such services. Judgement may be required to determine the importance and level of specificity around the nature and quantity of the services

- **Contract C: Entity needs to provide 600 counselling sessions to young adults under the age of 30 affected by mental health issues in regional Victoria over the next 24 months**
  **Is sufficiently specific** – The entity has little discretion over the type, quantity, recipient and location of the services.

## More information

Our *Not-for-profit 2022 financial reporting update* publication contains a detailed explanation of other commonly identified implementation issues relating to income recognition for NFP entities including:

- Upfront fees
- Obligation to transfer goods or services versus cash (recognition of financial liability)
- Principal versus agent considerations.

Our *Not-for-profit financial reporting for June 2020* publication has a detailed explanation of capital grants and the definition of 'significantly specific' and 'enforceable contract'

## Questions to consider

- Are there sufficient details in the contract to allow a NFP entity to determine when the performance obligation is satisfied?
- Do the conditions specified in the contract relating to the promised goods or services (whether explicit or implicit) include the following aspects:
  - Nature or type
  - Cost or value
  - Quantity
  - Period over which the goods or services must be transferred?

## Transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset for its own use (capital grant)

Under AASB 1058 paragraphs 15-17, a transfer of a financial asset to enable an entity to acquire or construct a recognisable non-financial asset for its own use (often referred to as a capital grant) is one that:

a) Requires the entity to use that financial asset to acquire or construct a non-financial asset to identified specifications
b) Does not require the entity to transfer the non-financial asset to the transferor or other parties
c) Occurs under an enforceable agreement.

AASB 1058 requires such capital grants to be recognised as a liability for the excess of the fair value of the transfer over any related amounts recognised and to recognise income as the obligations under the transfer are satisfied.

Often judgement is required in determining whether the "identified specifications" requirement under AASB 1058.15(a) is met.

Below are a few illustrative examples of whether the "identified specification" requirement of an amount received to acquire or construct a recognisable non-financial asset for own use is met:

**Example 3 – Identified specifications**

**Does the contract require the entity to use the financial asset to acquire or construct a recognisable non-financial asset to identified specifications as required by AASB 1058.15(a)?**

- **Contract A: Entity is required to construct a building using cash grant received**
  **Does not meet the "identified specification" requirement** – The contract does not specify the details around the purpose of the building to be built, the size and composition of the building, minimum construction standards, expected timing of the construction and the location of the building to be constructed

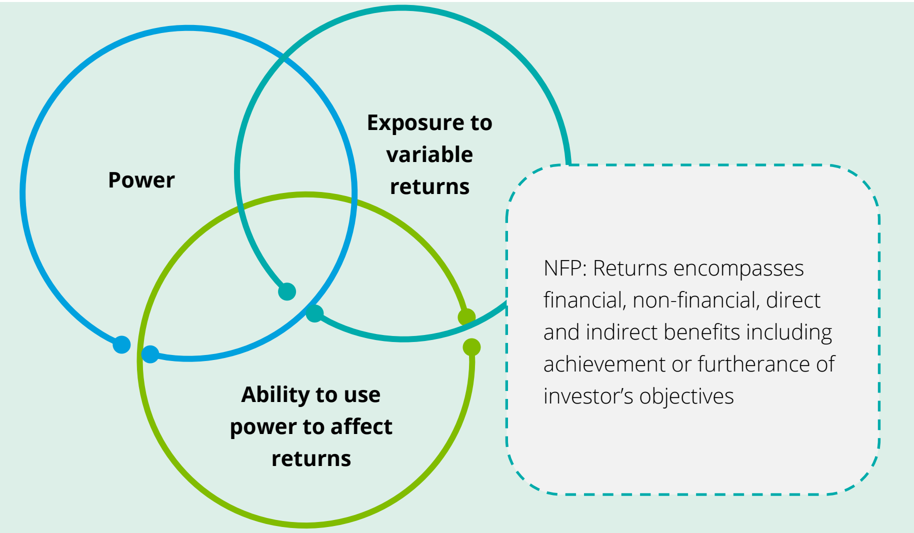
- **Contract B: Entity is required to construct an early learning centre to specific standards required by government regulations in relation to early learning centre programs using cash grant received**
  **May meet the "identified specification" requirement** – While there is detail regarding an early learning centre being built to government regulations, there is no detail about the location, size or composition of the early learning centre. The importance of specificity about the early learning centre's location, size or composition is a matter of judgement.

- **Contract C: Entity is required to construct an early learning centre which should include five rooms on the entity's land at a specific location noted under the contract and to specific standards required by government regulations in relation to early learning centre programs using cash grant received**.
  **Likely to meet the "identified specification" requirement** – While there is detail regarding the location of the early learning centre and the requirement for it to be built to government regulations, there is no detail about the size or composition of the early learning centre. However, the importance of specificity about the size or composition of the early learning centre is a matter of judgement.

### Questions to consider

- Are there sufficient details in the contract to allow a NFP entity to determine if the "identified specifications" requirement is satisfied?
- Do the conditions specified in the contract relating to non-financial asset to be built (whether explicit or implicit) include the following aspects:
  - Purpose of the amount received
  - Size or composition of the asset
  - Minimum construction standards?

## Application of the control model in the NFP sector




To assist NFP entities with the application of the control model in AASB 10, the AASB previously issued the accompanying Appendix E *Australian implementation guidance for not-for-profit entities* in 2013 to explain various principles in AASB 10 from the perspective of NFP entities, including the criteria for determining whether one entity controls another entity, and illustrates the principles with examples.

AASB 10 paragraph 6 indicates that "An investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee."

Appendix E paragraphs IG 18 – IG19 indicate that in respect of not-for-profit entities, the broad scope of the nature of returns encompasses financial, non-financial, direct and indirect benefits, whether positive or negative, including the achievement or furtherance of the investor's objectives.

Many NFP entities have expressed concerns around outcomes of applying the control model in the NFP sector as many NFP entity organisational structures do not naturally fit into AASB 10's definition of control. Some common NFP examples are:

- A school establishing a foundation or a fund to raise funds for future projects
- A religious organisation establishing an auxiliary organisation to undertake activities that share common values with the religious organisation but are not related to the religious organisation's main activities.

Specifically on the application of the implementation guidance in AASB 10 Appendix E, NFP entities have noted that there are challenges in identifying variable returns in the NFP sector given that most returns in the NFP sector are non-financial returns.

It is common for NFP entities to have foundations associated with them (e.g., a school establishing a foundation or a fund to raise funds for future projects) which may present challenges for NFP entities to navigate and apply the control assessment criteria. Due to the inherent judgement involved, differences in application may exist in practice such as in the education sector and specifically in schools, some schools would consolidate the associated foundations, whereas other schools may not.

### Questions to consider

- When making the control assessment, are all three control criteria present: power over the investee, variable returns to the investor and a link between power and returns?
- On the identification of variable returns, and specifically around congruence of social objectives, is the related entity furthering the investor's objectives or are the variable returns merely tangentially related?

The identification of variable returns in the NFP sector can be highly judgemental in practice, specifically when it comes to congruence of social objectives, as many NFP entities struggle to determine if the related entity is furthering the investor's objectives or whether variable returns are merely tangentially related.

In cases like the above, it is important for NFP entities to ensure that adequate consideration is given in making the control assessment. In particular, around the highly judgemental areas, entities need to ensure they have clear accounting policies and documentation to support conclusions and we encourage consultation with your Deloitte contacts to assist in working through these issues.

## Sustainability reporting and climate-related disclosures

Globally, there is a growing push to introduce a consistent baseline of sustainability reporting standards that can be applied by organisations around the world. Responding to this objective, the IFRS Foundation established the International Sustainability Standards Board (ISSB), which issued two exposure drafts in March 2022, Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and Exposure Draft IFRS S2 *Climate-related Disclosures* (IFRS S2).

On 26 June 2023, the ISSB issued its first two IFRS Sustainability Disclosure Standards, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1) and IFRS S2 *Climate-related Disclosures* (IFRS S2).

In Australia, the Federal Treasury released a consultation paper on 27 June 2023 outlining its finalised proposals for the implementation of mandatory climate-related financial disclosure requirements in Australia. The proposals significantly expand the reporting scope of entities expected to be caught, phasing in the mandatory reporting requirements which start in 2024 – 2025, and ultimately by 2027 – 2028 including all entities meeting the large proprietary company thresholds.

The Treasury consultation paper is open for comment until 21 July 2023, with enabling legislation exposed prior to being implemented in line with the initial commencement date of 1 July 2024.

Following the consultation, detailed disclosure standards will be formally established by the AASB, with consultation expected in the second half of 2023, with a view to finalise standards in Q2 of 2024. Disclosures are expected to be closely aligned with the ISSB™ Standards, with Australian equivalents to be set by the AASB considering Australian-specific requirements.

While the Treasury consultation proposes that mandatory climate-related financial disclosures will initially apply to entities reporting under Chapter 2M of the Corporations Act 2001, we expect that a broad range of entities may be expected to eventually fall into the regime which may include not-for-profit entities. The AASB has noted that sustainability-related reporting for for-profit entities is significantly different to NFP entities and accordingly will require further outreach and research to determine the relevance of such reporting for NFP entities.

Though timing on an Australian framework for NFP entities is currently uncertain, it is important to consider and plan to execute on the entity's intentions regarding the reporting of sustainability related disclosures. NFP entities should continue to monitor the AASB's developments.

### More information

*Action now for mandatory climate reporting in Australia* publication

## AASB public sector specific developments

In the public sector space, there are a few accounting pronouncements that public sector entities should take note of in the upcoming financial reporting periods:

| Topic | Effective date | Pronouncement | Details |
|---|---|---|---|
| **Fair value measurement** | Periods beginning on or after 1 January 2024 | AASB 2022-10 *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities* | The Standard amends AASB 13 for fair value measurements of non-financial assets of NFP public sector entities not held primarily for their ability to generate net cash inflows. The amendments provide clarifications around:<br>• Highest and best use<br>• "Financially feasible" assessment of asset's use<br>• Cost approach to measure fair value<br>• Development of unobservable inputs.<br><br>It applies prospectively with earlier application permitted. |
| **Insurance contracts** | Periods beginning on or after 1 January 2023 | AASB 2022-8 *Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments* | This amending Standard defers the application of AASB 17 for public sector entities from 1 January 2023 until periods beginning on or after 1 July 2026. |
| | Periods beginning on or after 1 July 2026 | AASB 2022-9 *Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector* | This amending Standard makes public-sector-specific modifications to AASB 17 with earlier application permitted. |
| **Service Concession Arrangements: Grantors** | N/A | Invitation to Comment ITC 49 *Post-implementation Review of AASB 1059 Service Concession Arrangements: Grantors* | The AASB sought feedback from stakeholders to assist its assessment of whether AASB 1059 continues to meet its objectives and could be improved through amendment via an ITC. Comments closed on 28 February 2022. AASB will subsequently decide on next steps once they have reviewed all feedback received. |

## Conclusion

The financial reporting landscape is continuously evolving in our current reporting environment. While there are minimal amendments to the financial reporting standards for NFP entities in the upcoming financial period, these changes may still introduce additional considerations for the reporting periods ending in June 2023 and December 2023. The amendment to AASB 101, which requires disclosure of material accounting policies for December 2023 year ends, and the new related party disclosures for ACNC-registered charities preparing SPFS in June 2023 are expected to contribute to additional considerations and disclosure changes by NFP entities.

While we acknowledge there may be some challenges involved in implementing these changes, such changes present opportunities for NFP entities to enhance the quality and transparency of the disclosures in the financial statements, effectively communicating the entity's story to stakeholders through the financial statements. NFP entities should proactively apply the required amendments and develop a plan to navigate post-implementation issues related to NFP income recognition, the application of the control model in the NFP sector, and other regulatory requirements such as sustainability reporting and climate-related disclosures outlined in this publication.



## Contacts

**Parthia Fung**
**Senior Manager**
parfung@deloitte.com.au

**Maybelle Chia**
**Director**
machia@deloitte.com.au

**Moana Overton**
**Partner**
moverton@deloitte.com.au

**Alison White**
**Partner**
aliswhite@deloitte.com.au

**Anna Crawford**
**Partner**
acrawford@deloitte.com.au

**Carol Warden**
**Partner**
cwarden@deloitte.com.au