Department for Education, Children and Young People

Department of Health

Homes Tasmania

COMMUNITY SECTOR GRANTS MANAGEMENT

Annual Grant Financial Accountability Reports (AGFAR)

Explanatory Notes for Community Sector Organisations

July 2023

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1. Financial Accountability

1.1 Introduction

Grants provided to organisations are public funds and the Department has a responsibility under the *Financial Management Act 2016* and associated Treasurer's Instructions and ultimately to Parliament to ensure proper accountability for funds.

Funded organisations are required to advise the Department about their financial status to assure the Department that the organisation is using the funding in an appropriate manner and that the organisation remains financially viable and can continue to operate and provide the funded services.

1.2 Scope

These *Explanatory Notes for Community Sector Organisations* apply to organisations that have entered into a Grant Funding Arrangements that stipulates that the grant must be acquitted using an Annual Grant Financial Accountability Report (AGFAR). These notes are designed to provide an overview of the policy requirements and provide guidance in order to assist organisations with the completion and lodgement of accountability reports thus helping to ensure compliance with the financial reporting requirements of their Funding Agreements.

1.3 Funding Agreement Requirements

Clause 14.1(a) requires organisations to keep comprehensive and accurate accounts and records of its use of the Funds that can be separately identified from other accounts and records of the Organisation.

Schedule 3 of the standard Funding Agreement outlines the accounting and financial reporting requirements for funded organisations.

Accounting Practices

Organisations are required to comply with all applicable Australian Accounting Standards unless otherwise agreed, and are required to maintain records of account in accordance with generally accepted accounting practices.

Financial Reports

In accordance with clause 3.1.3 Organisations are required to submit to the Secretary by no later than 31 October immediately after the end of each financial year:

a) a completed AGFAR. The AGFAR must have an appropriate Organisation Certification sheet which is signed by the Treasurer and the Chairperson to the effect that the grant provided under the Agreement was received and disbursed for the purpose for which it was given. Where multiple AGFARs are required to be lodged by an organisation, a single Organisation Certification sheet signed by bone fide representatives of the Organisation is permissible provided it clearly identifies which grants are covered by the single certification, and

b) where the total Department Agreement Funds are greater than $100,000, a certificate signed by an Approved Auditor to the effect that the AGFAR is properly drawn up and records presented give a true and fair view of the affairs of the Organisation, and

c) a signed copy of the Organisation’s financial statements (including balance sheet and income statement) together with a signed audit opinion from an Approved Auditor.

Please note that failure to provide satisfactory reports within the required reporting deadlines is a breach of Agreement and may result in the withholding of grant funds and will be considered when allocating multiyear agreements and assessing proposals for funding for new services.

1.4 Annual Grant Financial Accountability Forms

The Department has developed standard reporting forms to assist organisations with their annual reporting requirements and to meet the reporting requirements in accordance with the Financial Management and Audit Act, as administered by the Department of Treasury and Finance.

There are two types of accountability reports (cash and accrual) and the type of form required to be submitted to the Department depends upon the level of funding provided and whether an organisation uses cash or accrual accounting:

(A) Annual Grant Financial Accountability Report (Accrual Statements)

Completion of this Report is mandatory for all organisations preparing accrual-based accounts or organisations receiving total Department grant funds over $100,000. The Department requires that organisations separately report income and expenditure details for each grant provided as detailed in the funding table in Schedule 1. As a general rule, funding for similar services have been rolled up into one funding line in the funding table. Where this occurs, this funding can be acquitted in the one AGFAR unless advice has been given that there is a specific requirement that funds need to be acquitted separately. Organisations should refer to paragraph 1.4 of this document for guidance and should seek Departmental approval and advice if there is any uncertainty around what funds require separate AGFAR acquittals.

Organisations preparing accrual reports must comply with applicable Australian Accounting Standards as specified in these guidelines. The Annual Grant Financial Accountability Report (Accrual) comprises:

- Cover Page
- Annual Grant Funding Accountability Report (Accrual)
- Organisation Certification
- Auditor’s Report
- Capital One-Off Grant Report

(B) Annual Grant Financial Accountability Report (Cash Statements)

All organisations preparing cash-based accounts who receive grant funds under $100,000 must submit either a Cash AGFAR or an Accrual AGFAR. When completing the Cash AGAFR, the Department requires that organisations separately report receipt and payment details for each grant provided.

Organisations providing cash reports will also be required to provide supplementary information to assist in the overall assessment of the organisation's financial position. The Annual Grant Financial Accountability Report (Cash) comprises:

- Cover Page
- Annual Grant Funding Accountability Report (Cash)
- Organisation Certification
- Auditor's Report (optional for cash AGFARS as total Department funding is required to be under $100,000)

1.5 Summary Tables: Financial Accountability and Reporting Policy Requirements

The Tables below outline reports and forms organisations are required to submit to the Department to fulfil their obligations under Schedule 3.

Annual Audited Financial Statements	
What we need	**Why we need it**
Annual financial statements together with a signed audit opinion from an appropriately qualified auditor.	To provide financial information to the Department on the whole operations of the organisation and to assist the Department form a view on the financial health of the organisation and whether or not it is a going concern.

Annual Grant Financial Accountability Reports	
What we need	**Why we need it**
Annual Grant Funding Accountability Report	Mandatory for all grants provided by the Department covering the period 1 July to 30 June. To provide information for the year on the receipt and expenditure of individual grant funds.
Capital One-Off Grant Report	To provide information for the year on the receipt and expenditure of individual grant funds for the acquisition of physical assets and other one-off grants received.
Organisation Certification	This certificate <u>must</u> be signed by the **Chair/President** and **Treasurer** to certify: • that grant funds have been used for the purpose intended

	• that the accountability report has been prepared in a true and fair manner as required by the Department • compliance with the conditions of the Funding Agreement • the organisation is financially viable and is able to continue providing services.
Auditor's Report	From an appropriately qualified auditor such as a CPA, CA, NIA or auditor approved by Consumer Affairs. To provide reasonable assurance from an independent body that: • the statements submitted have been prepared in accordance with these guidelines • proper accounts and records have been kept. Audit Reports must be signed by an appropriately qualified auditor such as a CPA, CA, NIA or auditor approved by Consumer Affairs.

1.6 Which Grants are to be Acquitted Separately?

Organisations are required to provide separate AGFARs for each grant provided. The Funding Agreement will separately list (in schedule 1.3) individual services funded by the Department. This schedule will provide the following details:

- the service or activity
- the funding program
- amounts paid during the year.

As a general rule separate financial accountability reports are required for each of those grants listed in schedule 1.3 of the Funding Agreement.

Where more than one grant is provided for a service or activity and it is not feasible to separately allocate costs to an individual grant, organisations may provide a report covering the service or activity as a whole if Departmental approval has been provided. In this regard each grant needs to be listed separately in the Annual Grant Financial Accountability Report and reconciled to the amounts specified in the Funding Agreement. The Department will continue to roll up grants relating to a specific service or activity to assist organisations in identifying which grants are to be acquitted separately.

Please contact the Grants Management Team for advice if there is any doubt as to which grants require separate reporting.

1.7 Cash or Accrual Reports?

The Department encourages all organisations to provide accrual-based financial reports. It is however recognised that a small number of organisations manage their affairs and report on a cash basis.

Organisations in receipt of Department recurrent funds of less than $100 000 per annum (not including GST) that currently provide cash reports may continue this practice. Likewise, those organisations receiving recurrent grant funds of less than $100 000 that currently provide accrual reports may continue to do so. Organisations receiving funds in excess of $100 000 are required to submit accrual-based financial reports.

Organisations that receive grant funding for the first time and their funding amount is less than $100 000 may choose to submit cash-based reports.

1.8 Compliance with Accounting Standards

The majority of the grant funded organisations present their own overall annual financial statements as Special Purpose Reports for the benefit of their members. Consequently, they are not considered reporting entities and can choose not to apply Australian accounting standards. In this regard, most community sector organisations can vary (to the extent permissible by law e.g. the *Associations Inc Act 1964* and their own Constitution/Rules) their reporting requirements to suit their members' needs and other relevant parties such as grant donor organisations, such as the Department.

<u>However, it must be stressed that it was up to each organisation to review its own obligations and consult with its auditor regarding any impact.</u> Background information is available from the Australian Accounting Standards Board, Chartered Accountants - Australia and New Zealand, CPA Australia and on other websites.

It should be noted that organisations' published reports may differ to the Department's reporting requirements. Organisations must prepare their Annual Grant Financial Accountability Reports in accordance with the requirements outlined in these explanatory notes

Organisations should also be aware that the Australian Accounting Standards Board has an ongoing project surrounding Not for Profit Sector financial reporting requirements and organisations should be encouraged to ensure that their Accountants/Auditors keep them up to date for any changes that may be required from 30 June 2022 year ends.

1.8.1 Standards to Apply

The following accounting standards are recommended to medium to large Not For Profit Organisations:

AASB 13	Fair Value Measurement
AASB 15	Revenue from Contracts with Customers
AASB 16	Leases
AASB 101	Presentation of Financial Statements
AASB 102	Inventories
AASB 110	Events After Reporting Date
AASB 116	Property, Plant and Equipment

AASB 120	Accounting for Government Grants and Disclosure of Government Assistance
AASB 136	Impairment of Assets
AASB 137	Provisions, Contingent Liabilities and Contingent Assets
AASB 1004	Contributions
AASB 1058	Income for Not for Profit Entities
AASB 1059	Service Concession Arrangements: Grantors (limited application)

1.9 Auditor Accreditation

The standard Funding Agreement with organisations requires that audits be carried out by a "Suitably Qualified Person". A "Suitably Qualified Person" is defined as:

- organisations that are incorporated under the *Corporations Act 2001* must be audited by a registered company auditor
- organisations incorporated under the *Associations Incorporation Act 1964* must be audited by a registered company auditor or any other person the Commissioner for Corporate Affairs may approve, having regard to the complexity of the financial affairs of the association
- for any other Organisation, a person who, in the opinion of the Secretary, having regard to the funds provided through this Agreement and the size of the Organisation has appropriate qualifications or experience and is an independent person.

1.10 Other Financial Reports

Funding Agreements may specify that organisations provide other financial reports in addition to reports required on an annual basis. For example, in some instances a program area of the Department may request quarterly cash flow reports for ongoing monitoring purposes. These regular reporting requirements will be outlined in Schedule 3. In addition, the Department may request other financial reports, particularly where there are concerns about the solvency or financial management of an organisation. These reports must be provided in the format specified by the requesting officer.

1.11 Financial year

Funding is provided by the Department on the basis of a financial year ending 30 June and, in this regard, organisations are required to provide AGFARs covering the period of funding 1 July to 30 June. An organisation whose financial year does not end on June 30 must provide copies of audited financial statements within **4 months** after the end of the organisation's financial year. Annual reports must be provided within **5 months** after the end of the organisation's financial year. Organisations should advise the Grants

Management Team if their financial reporting year differs from the typical 30 June ending financial year.

By way of example, an organisation whose reporting year ends on 31 December is required to provide an AGFAR covering the period 1 July to 30 June by 31 October and the organisation's audited financial statements by 30 April.

1.12 End of Year Financial Report Preparation Planning

The preparation and audit of financial information should be treated as an important but routine aspect of organisation's operations. It is important to commence planning the preparation of end of year reports early, even before the end of the financial year. In this regard it is good practice to consult with your accountant, auditor and board and develop a clear and agreed timetable which covers for example:

- preparation and finalisation of accounting records
- preparation of statutory financial statements –receipts and payments or profit and loss and balance sheet (e.g. for submission to Corporate Affairs or ASIC)
- completion of AGFARs for each Department funded service
- audit of records and provision of audit report
- review and approval of financial reports by the Board, management committee, finance committee
- submission of reports for the Annual General Meeting
- submission of reports to the Grants Management Team by 31 October.

Good planning of the end of year process should reduce the level of stress some organisations experience in completing these requirements and ensure reports are submitted in a timely manner. In addition, early preparation of end of year reports will assist boards to conduct a timely review of an organisation's performance and financial position.

1.13 Glossary of Financial Accountability Terms

Accrual Accounting

A system which records expenses/losses in the period in which they were incurred regardless of when the cash is paid out (e.g. depreciation or long service leave). In the case of income/gains (apart from grants), this is recorded in the period in which it was earned regardless of when cash is received (e.g. unpaid fees).

Accumulated Funds (Equity)

Equity is the residual interest in the assets of the entity after deduction of all its liabilities

Activity/Service/Program

The specific health or community services operation carried out under the Department output.

Assets

An asset is a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity.

Australian Accounting Standards

Standards issued by the Australian Accounting Standards Board.

Brokerage

An arrangement or negotiation of services on behalf of a client in full consultation with the client and/or their carer. A broker deals with a variety of organisations and individuals to supply co-ordinated services for clients.

Cash Accounting

A system that records cash payments made, and funds received.

Current Assets

Cash, or assets, which are expected to be realised or converted to cash within a twelve-month period (e.g. cash balances and debtors).

Current liabilities

Amounts owed by the organisation to outside parties, which are intended or called upon to be paid or settled within a twelve-month period (e.g. Creditors, bank overdraft and Provisions for employee entitlements).

Liability

A liability is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity's resources embodying economic benefits.

Non-current Assets

Assets, which are not intended to be converted to cash within a twelve-month period. These are not purchased with the intention of resale (e.g. vehicles, furniture and fittings, land and buildings).

Non-current Liabilities

Amounts owed by the organisation to outside parties which are not required to be repaid in full within a twelve-month period (e.g. Mortgages, loans and certain components of a Provision for long service leave for which employees have not fully qualified).

Not-for-Profit Entity

This is an entity whose principal objective is not the generation of profit. It can be a single entity or a group of entities comprising the parent and each of the entities it controls.

Reserves

Reserves are amounts allocated from an organisation's Equity that may be for a specific purpose (e.g. asset replacement) or of a general, non-specific nature.

2. Annual Grant Financial Accountability Report (AGFAR) Guidelines

These explanatory notes are provided to assist organisations complete the AGFAR.

The AGFAR package is comprised of:

- Cover page including organisation details
- Annual Grant Funding Accountability Report
- Organisation Certification
- Auditor's Report
- Capital One-off Grant Report

References e.g. R1, E1 refer to reporting items listed in the AGFAR. All amounts reported should exclude any GST received or paid.

2.1 Income/Receipts

R1 Prior Year Funds Carried Forward

This represents the funds carried forward (Item S5) from the prior year. Where the AGFAR relates to the first year of a Funding Agreement it shall not be populated unless there are unexpended funds carried forward from the previous Funding Agreement. This should not be populated with a negative carry forward figure from the previous Funding Agreement period.

This field will be pre-populated in the AGFAR template and should not be altered without consultation with the Department.

R2 Grants Repaid

This includes grant funds repaid to the Department in relation to the return of surplus or unexpended grants funds.

This field will be pre-populated in the AGFAR template and should not be altered without approval by the Department.

R4 Grant Funds

This includes the total grant funds (excluding GST) provided for the service, program or activity as shown in the Funding Agreement.

This field will be pre-populated in the AGFAR template and should not be altered without approval by the Department.

R5 Interest on Grant Funds

Organisations are required to identify any interest earned on grant funds including grant funds set aside for employee entitlements or other provisions. Where organisations receive other sources of funding which may contribute to the overall level of interest earned, an apportionment may be required.

R6 Client fees and Other Income

Include any fees charged to client for services provided such as boarding fees, rent etc. Also include any invoiced-raised claims or reimbursements from the Department that relate to the grant funds under the Funding Agreement and any other grants from other sources, other service income from other sources miscellaneous refunds etc. Refer to Item R4 as to what should not be included there.

R8 Net Fundraising Income/Receipts

It is not essential that income from fundraising or donations be included. If the organisation chooses to include this at R8 it must be the net amount (income less expenditure) so as not to inflate any operating surplus/deficit at R7.

2.2 Expenditure/Payments (Accrual) E1-E15

E2 Brokerage/Purchased Services

Brokerage refers to an arrangement or negotiation of services on behalf of a client, and in full consultation with the client and/or their carer. A broker deals with a variety of organisations and individuals to supply co-ordinated services for clients. This should disclose significant services provided by sub-contractual arrangements which normally would be provided by employees e.g. major catering, major cleaning and like services.

E3 Depreciation

Depreciation should be determined in accordance with Australian Accounting Standard *AASB 116 Property, Plant and Equipment*.

Any fixed non-current assets purchased from grant funds are required to be depreciated. Depreciation represents the allocation of the cost of any long-lived asset over its useful life.

Annual depreciation charges must be calculated using methods consistent with AASB 116, for example straight-line or reducing balance methods based on the purchase cost or fair value of the asset.

Section 4 of the Explanatory Notes provides further guidance on asset management issues and suggests, for practical purposes, that items purchased from grant funds in excess of $5 000 need to be depreciated. Items costing less than $5 000 can be expensed.

E8, E9, E10 Provisions for Employee Entitlements

Any expense relating to employee entitlement provisions needs to be recorded here.

The expense should represent the movement between the current year and prior year provisions of employee entitlement liabilities. Any amount actually paid should not be disclosed as an expense but be charged directly against the liability in the organisation's Balance Sheet or Statement of Financial Position.

Provisions for employee entitlements should be determined and accounted for in accordance with Australian Accounting Standard *AASB 119 Employee Entitlements.* The accounting policies adopted should be adequately disclosed in the Notes to the Annual Financial Statements.

TOIL and Flex provisions can only be claimed if it forms part of the organisation's Industrial Agreement and only if the balances are vesting.

Generally, liabilities for employee entitlements will be recorded as follows:

(i) Annual Leave

The liability should be measured on a nominal basis using applicable wage and salary rates for respective employees plus any relevant loadings including for example 17.5% Leave Loading.

(ii) Long Service Leave

Any liability due to be paid or is due and could be paid within the next 12 months of the reporting date should be measured on a nominal basis. Under AASB 119 non-current long service leave liabilities shall be measured as the present value of the estimated future cash outflows to be made by the employer in respect of services provided by employees up to the reporting date. The recommended method for estimating long service leave involves a complex and detailed calculation based on employee records over an extended period to determine the probability that an employee will become eligible for long service leave in the future.

It is permitted however for organisations to use a "rule of thumb" method which approximates the long service leave liability. For example, an organisation may calculate the long service leave liability based on the entitlements for all employees who have been employed for 7 or more years for a 15-year long service leave scheme. Other formulae based on staff turnover experiences could also be used.

It is important that any estimate is a reasonable approximation of the liability due and should consider the probability that employees may leave an organisation before they become eligible for long service leave. Generally, organisations that accrue long service leave liabilities for each employee from the date of commencing employment tend to overstate the likely liability and therefore, set aside funding that would otherwise be available for delivery of services.

(iii) Sick Leave

Sick leave entitlements fall into two broad categories:

(a) vesting sick leave entitlements, which accumulate and vest in a similar manner to annual leave entitlements

(b) non-vesting sick leave entitlements, which may accumulate in a similar manner to annual leave entitlements, but do not vest and are paid only upon a valid claim for sick leave by an employee.

Vesting sick leave is of the same nature as annual leave and should be recorded on a nominal basis. It is generally unlikely that organisations will have vesting sick leave arrangements in place. If an amount is claimed at E10, the Organisation may be required to provide evidence that vesting sick leave forms part of their Industrial Agreement.

(iv) Provision for Termination, Retrenchment or Redundancy

The recognition of liabilities relating to termination, retrenchment or redundancy of employees depends on the existence of a present obligation of the employer as at the reporting date and when, and only when the employer is obliged to make such payments to employees. For example, where an award covers retrenchment or redundancy payments and an employer has taken sufficient actions under that award so that employees will be retrenched or made redundant, a present obligation to employees will usually exist. Factors indicative of a present obligation that is binding on the employer may include a negotiated agreement with employees or their representatives and a public announcement by the board of directors or other governing body of the employer.

In addition, it must be probable that settlement of liabilities relating to retirement, termination, retrenchment or redundancy payments will be required and that they can be reliably measured.

There will be few situations where organisations are required to provide for termination, retrenchment or redundancy costs. On occasions specific programs may be subject to review or reform that may necessitate changes to funding or a restructure of services to be provided. In these instances, it is likely that assistance will be provided to organisations to adjust to any new service requirements, which may also include staff restructuring. Organisations should recognise a liability where an obligation exists at reporting date to pay redundancy costs as a result of a service review.

A number of organisations have provided for redundancy costs for all employees as a contingency in the event that payment may be required if a Funding Agreement expires or funding is withdrawn. This circumstance does not meet the definition of a liability as outlined in AASB 119 since there is no present obligation to make payments to employees. Redundancy costs of this nature should <u>not</u> be accrued or expensed for the preparation of the AGFAR.

E11 Other Provisions

This item is used to record costs associated with any other provision liability not already disclosed in separate expense items E8, E9 and E10. The item should <u>not</u> include items such as food, supplies and materials.

Some organisations put funds aside for future asset replacement or maintenance costs or project costs (for example office relocation). The nature of these items involves a significant discretionary element on the part of management and do not therefore fall into the category of liabilities and expenses. Whilst it may be prudent to make allowance for these future commitments it is not permitted under Australian Accounting Standards to disclose these amounts as liabilities or to record any movements in these provisions in the profit or loss statement.

Organisations can however identify any commitments as a “below the line” appropriation of profit and disclose a Reserve as part of Equity in the Statement of Financial Position/Balance Sheet. Commitments of this nature should be detailed when advising the Grants Management Team of any surplus funds.

E14 Other Expenditure/Payments

This item may include an allocation of administrative costs not charged directly to a specific service where organisations run a number of different programs or services. Typically, organisations pool central or corporate administrative costs or overheads such as CEO/management salaries, payroll costs and general administrative office expenses. Costs are allocated to services via a charge out method using an appropriate base (e.g. total grants received or total revenue) and may be processed through a clearing account or by some other allocation means.

This item also includes any other expenses that cannot be readily allocated to Items E1 – E13.

2.3 Expenditure/Payments (Cash) P1-P12

The disclosure of the relevant payment items is generally self-explanatory, as the organisations permitted to use cash-based accounting under the Funding Agreements would, in most instances, have relatively smaller number of transactions and activities.

Where more than one service/program is involved then, for annual grant accountability purposes, there must be a rational system in place to apportion the expenses/payments against the grants and other related income for the respective programs.

2.4 Unexpended Funds

Clause 5 of the standard Funding Agreement outlines the obligations of organisations regarding reporting any unexpended funds. The clause provides:

> *Organisations are not required to seek approval to carry forward funds or required to return funds in respect of each funded service if the level of unexpended funds is less than or equal to 5 percent of the total grant income, interest earned on the grant and related client fees, or $10,000, whichever is the lower*

If it is not agreed to carry funds over, they must be returned to the Department. Organisations will be advised of any amount to be returned.

Unexpended funds can be directly determined from the AGFAR by referring to item **S7 "Service Operating Surplus/(Deficit)"**. Private fundraising and donations are not included in the calculation of unexpended funds.

Where any surplus exceeds the defined limits, the Organisation is required to seek approval regarding the use of the unexpended funds or otherwise return the surplus funds to the Department. Any request to carry forward funds must include a detailed explanation of the reasons for retaining funds. If it is not agreed to carry funds over, they must be returned to the Department. The AGFAR form provides a section for recording intentions regarding surplus funds.

The reporting options are listed below:

Level of Unexpended Funds	Action required
(a) Service Operating Surplus less than or equal to 5% of Service Income (Receipts) and less than $10,000	No action required
(b) Service Operating Surplus > 5% of Service Income but less than $10,000	Request to carry forward funds required **or** Return surplus to the Department.
(c) Service Operating Surplus > than $10,000	Request to carry forward funds required **or** Return surplus to the Department.

*"Service Operating Surplus" – **Item S7** and "Total Service Income **Item R7 which is transferred to Item S8** are reported in the Annual Grant Financial Accountability Report.*

2.5 Capital One-off Grants

Organisations may receive one–off grants for purchase of capital items such as motor vehicles. Organisations have adopted a variety of approaches to account for capital or one-off grants. The receipt of these funds tends to inflate an organisation’s surplus where grants received are recognised as income and the expenditure capitalised in the Balance Sheet. In some instances, organisations have deferred the recognition of all or part of the grant until the purchase is actually completed. This approach does not conform to appropriate accounting standards.

The recommended accounting treatment for accrual-based reports is as follows:

- record the full amount of the capital grant as grant income (AGFAR Income Item R4)
- record the purchase of the asset as an asset addition (AGFAR Statement of Financial Position Item F8)
- record any depreciation charged for the year as an expense (AFAR Expenditure Item E3).

In addition, the **“Financial Statement - Capital Grant Funds Received”** form included in the AGFAR package should be used to acquit any capital grants received. This form is used to collect information relating to individual grant funds that are provided for the acquisition of physical assets and other one-off capital items.

3. Management of Assets

3.1 Overview

Clause 4 of the standard Funding Agreement outlines requirements with respect to non-current assets purchased from grant funds.

Non-current physical assets are items that are valuable or useful and have a life expectancy of more than one year. The types of non-current physical assets that need to be recorded include:

- office equipment
- motor vehicles
- furniture
- computers
- communications systems
- equipment
- real estate property and buildings.

Organisations are required to maintain a register of all Department funded assets **valued at $5 000 or more**, where those assets are purchased from grant funds. This register should be made available to Departmental officers if requested.

3.2 Real Estate and Assets Used for Other Purposes

Assets purchased from grant funds can only be used for the service funded. Organisations need to obtain prior approval from the Department when purchasing from grant funds assets with a value in excess of $50 000 or assets where the use is not solely for the funded service. In addition, prior approval from the Department is required for all purchases of real estate using grant funds.

3.3 Partly Funded Assets

Many organisations fund the purchase of assets from a number of sources. For example, the proceeds of fundraising may be contributed to grant funds to assist with the purchase of an asset. Organisations that receive funds from several sources may pool funds to purchase an asset. Typical examples include:

- the purchase of a building to house a number of services
- the purchase of a vehicle to be used for a number of services
- the inclusion of a vehicle as part of a salary package for a manager who is responsible for managing several funded programs.

Organisations are required to identify the proportion of Department funds used for the purchase of any assets and record these details in the assets register. The asset management provisions outlined in Clause 4 to the Funding Agreement apply equally to partly funded assets.

3.4 Leased Assets

Since the Leasing standard was revised in 2016 there is no longer a distinction between operating and finance leases for lessees. The standard requires a lessee to recognise assets and liabilities for all leases with a lease term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right of use asset representing its right to use the underlying leased asset and a lease liability representing its obligations to make lease payments.

3.5 Depreciation

All non-current physical assets with a direct unit cost value of $5 000 or more must be depreciated in accordance with the Australian Accounting Standard (AASB116), *Property, Plant and Equipment*.

Annual depreciation charges must be calculated using methods consistent with AASB116, e.g. straight-line or reducing balance based on the purchase cost or the deemed value. The straight-line method is preferred.

Depreciation should commence in the month following the acquisition and the installation of the asset. The disposal of an asset should cause depreciation to cease at the end of the month in which the asset was disposed or transferred.

3.6 Disposal of Assets

Organisations can only sell Department funded assets listed in the assets register with the **written approval of the Department.** However, approval is not required where an asset is replaced by a similar item of a similar value, for example an upgrade of computer equipment or replacement of a motor vehicle.

If the Funding Agreement is terminated, or if the organisation ceases to be funded by the Department, the organisation must dispose of the asset in a manner directed by the Department. The proceeds from the sale of such an asset should be paid back to the Department or used in a manner directed by the Department. The amount will equal the proportion of the Department's contribution to the purchase price.

When an asset is sold, transferred, scrapped, or otherwise disposed of by an organisation, the assets register should be updated to include the date of disposal, the disposal amount and the method of disposal. The asset should only be deleted from the register at the end of the financial year - after the finalisation of the balance sheet and the incorporation of this information into the organisation's financial statements.

If an asset is traded-in it should be treated as a disposal. When an asset is sold outright the sale proceeds must be recorded as a receipt in the organisation's financial records and recorded on the assets register.

3.7 Asset Register

The table ***Asset Register – Guideline for Data Recording*** below provides guidance on the information required for an asset register. The format of the register is at the organisation's discretion provided the basic information identified in the table is recorded.

Asset Register – Guideline for Data Recording

FIELD NAME	FIELD USE
ASSET DESCRIPTION	General Description: - Use the following formula: (Item)(Make)(Model)
SERIAL NUMBER	Serial number recorded on the manufacturer's label or plate.
ASSET NUMBER	It is suggested that each asset recorded on the assets register should have a unique identification number that may be used to locate the asset entry in the assets register.
SUPPLIER	As described on the purchase order or invoice.
ASSET CUSTODIAN/CONTROLLER	Person or title of person with custodial responsibility.
ADDRESS	Enter full postal address where the asset is located.
ASSET VALUE	Usually the gross purchase price, i.e.: the cost before deducting any trade in allowance.
PURCHASE DATE	Purchase date of asset or date asset was transferred from another funded organisation.
DEPARTMENT FUNDS USED	Enter the $ amount of Department funds used to acquire this asset.
YEAR OF FUNDING	Enter the financial year when grant was disclosed as a cash receipt.
DEPARTMENT PROGRAM	The Department program that funded or part funded the asset purchase.
ACCUMULATED DEPRECIATION	Total amount of depreciation charged to date. (Asset Value x Depreciation Rate x Years)
WRITTEN DOWN VALUE	Asset Value less Accumulated Depreciation.
DEPRECIATION DATE	Accumulated Depreciation and Written Down Value should be calculated annually to 30th June.
DISPOSAL DATE	Date that asset was removed from service.
DISPOSAL METHOD	Enter details of disposal e.g. Trade In, Sale, Theft etc.
DISPOSAL RECEIPTS	Enter the $ proceeds received on disposal of asset.