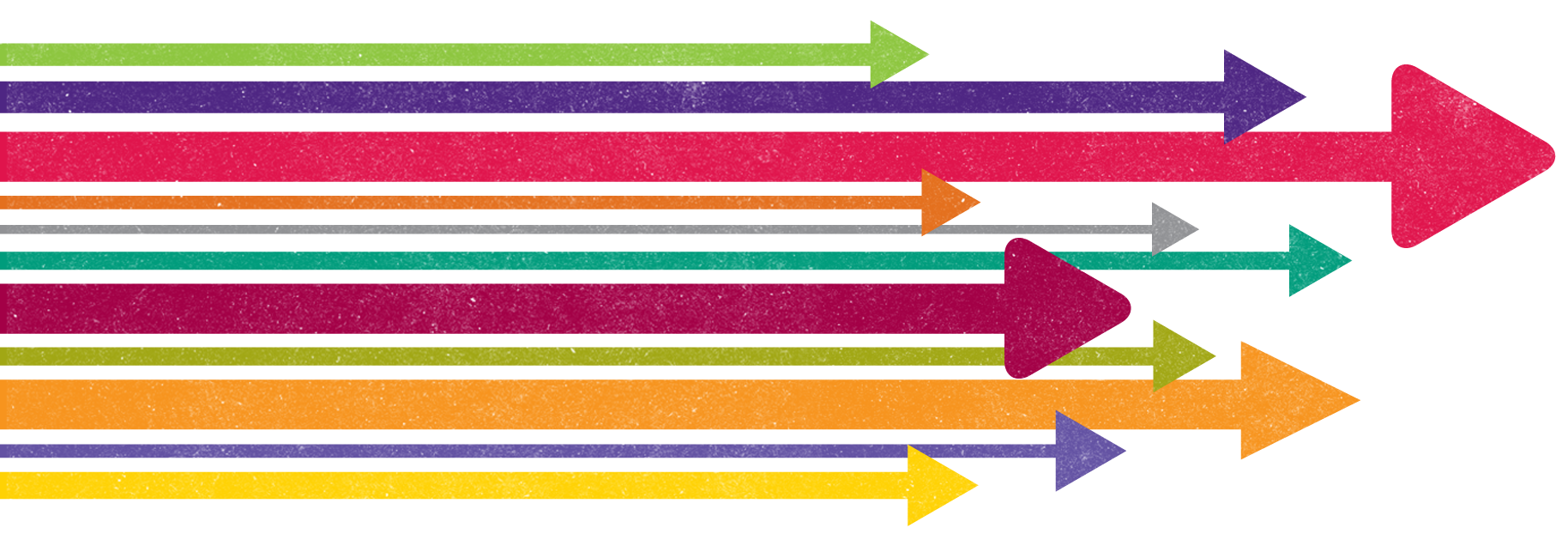
Not-for-profit Guidance

Revenues and Consolidation

Tier 3



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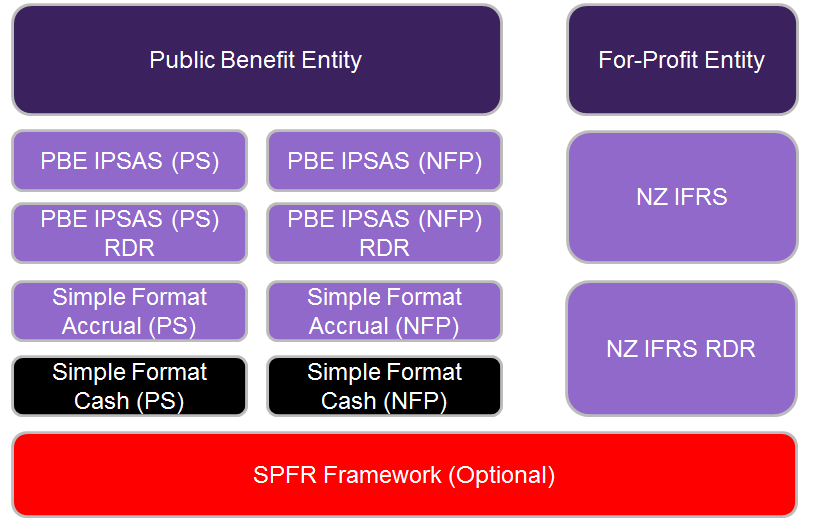
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# Executive Summary

Following recent changes to the financial reporting framework, “Old NZ GAAP” and “NZ IFRS Differential Reporting” have been withdrawn from having authoritative support. The previous financial reporting framework has been replaced with the following new framework:



The new financial reporting framework provides for eleven potential framework options, with all new frameworks containing significant recognition and measurement differences to those contained within their predecessor frameworks.

PBEs that are required to comply with Tier 3 may find significant changes around the treatment of certain balances. Accounting for revenue and the requirement to prepare consolidated financial statements are two common areas of significant change.

This document provides a summary of these two key changes, and examples of treatments under the new financial reporting framework.

# Accounting for revenues for PBEs Tier 3

The determination as to how revenue should be accounted for is dependent on what the classification of revenue is under PBE SF-A. Refer to the applicable page for the revenue classification for further details on the treatments available and examples.

|  |  |
| --- | --- |
| Type of revenue | **Examples** |
| Donations, fundraising and other similar revenues | Refer to page 5 |
| Fees, subscriptions and other revenues from members | Refer to page 8 |
| Revenue from providing goods and services | Refer to page 12 |
| Interest, dividends and other investment revenue | No examples provided, recognise revenue on an accruals basis |
| Other revenue | Refer to page 16 |

Revenues: Donations, fundraising and other similar revenues

The following diagram works through the different treatments available under ‘Donations, fundraising and other similar revenues’ – refer to the applicable examples.

*Note*  
Income from donated goods (e.g. raffle prizes) or services (e.g. volunteer time) should not be recognised in the financial statements; however significant donated goods or services (including services in kind) are to be disclosed in the notes to the performance report.

Yes

Classed as revenue from members.

(Go to page 8)

Do not record

Revenue is recognised when the conditions attached to the revenue has been complied with.

(Refer example 3)

For all other revenues is there a “use or return” condition?

**Donations, fundraising and other similar revenues**

Is the donation from a member?

Does the donation relate to goods or services?

Is the donation a donated asset (i.e. PP&E)?

No

No

No

No

Record on receipt of asset.

(Refer example 1)

Record revenue as soon as the right to receive the revenue is met.

(Refer example 2)

No

Is the asset difficult to value?

Yes

Does the asset have a useful life of >12 months?

Yes

No

Yes

Do not record

Yes

Yes

# Examples for Revenues: Donations, fundraising and other similar revenues

Example 1

On 1 June 2015, XYZ Sports Inc. (XYZ) was donated a clubhouse from the local Council. The clubhouse will have a useful life of 12 months or more, is considered to be significant and has a government valuation of $125,000.

When the donated asset is received, XYZ will record the clubhouse as revenue in the statement of financial performance as donations, fundraising and other similar revenue and as an asset in the statement of financial position as property, plant and equipment.

The value recorded will be the government valuation.

XYZ will recognise the house at 1 June 2015 with the following journal entry:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Dr | Property, plant and equipment | $125,000 |  | |
|  | Cr | Donations, fundraising and other similar revenue |  | $125,000 | |
| *(Being journal to record asset received)* | | | | |

XYZ will disclose the basis and date of the valuation in the notes to the performance report.

Example 2

On 15 May 2015, XYZ Sports Inc. (XYZ) received $125,000 grant income from a local government agency to assist with XYZ’s provision of training courses for sports coaches throughout New Zealand in the next two years.

The contract stipulates that XYZ must use the funding to provide training to 500 coaches, being $250 for each coach. XYZ must report to the grant provider at each reporting date. There is no “use or return” condition.

Given the grant contract does not include an obligation for unspent monies to be repaid, the full amount of revenue is recognised on receipt. This is despite the fact that costs in respect to delivering the courses will be incurred over the next two years. The expenses relating to the provision of training will be recognised as incurred.

XYZ will recognise the grant at 15 May 2015 with the following journal entry:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Dr | Cash | $125,000 |  | |
|  | Cr | Donations, fundraising and other similar revenue |  | $125,000 | |
| *(Being journal to record cash received)* | | | | |

Example 3

On 15 May 2015, XYZ Sports Inc (XYZ) received $125,000 grant income from a local government agency to assist with XYZ’s provision of training courses for sports coaches throughout New Zealand in the next two years.

The contract stipulates that XYZ must provide training to 500 coaches, being $250 for each coach. XYZ must report to the grant provider at each reporting date, and at the end of the two year period any unspent monies must be returned.

At 30 June 2015, 100 coaches have attended training courses funded by the grant. At 30 June 2016 a further 250 coaches have attended training courses funded by the grant, with 150 courses remaining to be utilised. By 15 May 2017, all 500 coaches training placements have been utilised.

In this case the grant contract specifically states there is an obligation for unspent monies to be repaid and therefore grant income is recognised on the balance sheet until it is applied to the intended purpose.

XYZ will recognise the grant at 15 May 2015 with the following journal entry:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Dr | Cash | $125,000 |  | |
|  | Cr | Income in advance |  | $125,000 | |
| *(Being journal to record cash received)* | | | | |

At 30 June 2015, the following adjustment would be posted to recognise the applicable portion of revenue:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Dr | Income in advance | $25,000 |  | |
|  | Cr | Donations, fundraising and other similar revenue |  | $25,000 | |
| *(Being journal to release revenue to the statement of financial performance for 100 coaches @$250 each)* | | | | |

At 30 June 2016, the following adjustment would be posted to recognise the applicable portion of revenue:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Dr | Income in advance | $62,500 |  | |
|  | Cr | Donations, fundraising and other similar revenue |  | $62,500 | |
| *(Being journal to release revenue to the statement of financial performance for 250 coaches @$250 each)* | | | | |

At 30 June 2017, the following adjustment would be posted to recognise the applicable portion of revenue:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Dr | Income in advance | $37,500 |  | |
|  | Cr | Donations, fundraising and other similar revenue |  | $37,500 | |
| *(Being journal to release revenue to the statement of financial performance for 150 coaches @$250 each)* | | | | |

Revenues: Fees, subscriptions and other revenues from members

The following diagram works through the different treatments available under ‘Fees, subscriptions and other revenues from members’ – refer to the applicable examples.

Revenue is recognised when the conditions attached to the revenue has been complied with. (Refer example 5)

Record as revenue proportionally on the basis of the value of each item in relation to the total estimated value.

(Refer example 2)

Is the income from any other types of fees?

Yes

For donations from a member there a “use or return” condition?

No

No

Yes

Record as revenue when cash received. (Refer example 3)

Record as revenue when cash received. (Refer example 4)

Record as revenue evenly over the period in which the items are provided to the members. (Refer example 1)

No

Yes

No

Is the fee/subscription for a similar value each period?

Yes

Is it a Fee or subscription in exchange for goods?

**Fees, subscriptions and other revenues from members**

# Examples for Revenues: Fees, subscriptions and other revenues from members

Example 1

XYZ Sports Inc. (XYZ) is a regional sports association in Wellington. XYZ has 1,000 members and a financial year ending 30 June 2016.

For the fee year ending 30 September 2016, court fees have been set at $120 per member. The fee is similar year on year (2015: $115, 2014: $110).

The court fee revenue should be initially recognised by XYZ with the following journal entry posted (assuming all income received on 1 October 2015):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Dr | Cash | $120,000 |  |
|  | Cr | Income in advance |  | $120,000 |
| *(Being journal to record cash received)* | | | | |

The court fees revenue should be released to the statement of financial performance in XYZ and the liability unwound over the period to which the in fees relate. The following journal entry should be posted each month:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Dr | Income in advance | $10,000 |  |
|  | Cr | Fees, subscriptions and other revenues from members |  | $10,000 |
| *(Being journal to record revenue earned)* | | | | |

At 30 June 2016, three months of income in advance should be in the Statement of Financial Position relating to court fees revenue i.e. ($30,000).

Example 2

XYZ Sports Inc. (XYZ) is a regional sports association in Wellington with a financial year ending 30 June 2016.

For the fee year ending 30 September 2016, court fees have been set at $120 per member.

In addition, at the beginning of the 30 September 2016 fee year, XYZ ran an incentive to encourage new members to sign up on 1 October 2015. XYZ offered a one hour personal training session (worth $80) at a discounted price of $50. The training session could only be used in December.

On 1 October 2015, XYZ had 1,200 members, of which 200 members were new (taking advantage of the discounted personal training session).

The membership revenue should be initially recognised by XYZ with the following journal entry posted (assuming all income received on 1 October 2015):

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Dr | Cash | $154,000 |  |
|  | Cr | Income in advance |  | $154,000 |
| *(Being journal to record cash received – being 1,200 members @ $120 each plus 200 members at $50)* | | | | |

As the incentive for the training session only relates to December 2015 only, all of the revenue earned in relation to the personal training session ($50 x 200 new members) will be recognised in December with the following journal entry posted:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Dr | Income in advance | $10,000 |  |
|  | Cr | Fees, subscriptions and other revenues from members |  | $10,000 |
| *(Being journal to record revenue earned)* | | | | |

The court fees revenue should be released to the statement of financial performance in XYZ and the liability unwound over the period to which the in fees relate. The following journal entry should be posted each month to 30 September 2016:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Dr | Income in advance | $12,000 |  |
|  | Cr | Fees, subscriptions and other revenues from members |  | $12,000 |
| *(Being journal to record revenue earned)* | | | | |

At 30 June 2016, three months of income in advance should be in the Statement of Financial Position relating to court fees revenue for all members i.e. ($36,000).

Example 3

XYZ Sports Inc. (XYZ) is a regional sports association in Wellington. XYZ has 1,000 members and a financial year ending 30 June 2016.

XYZ operates a ‘pay-as-you-go’ fee for the hire of the equipment owned by the association. On 28 June 2016, XYZ received $1,000 for the hire of equipment on 5 July 2016.

Given the revenue has been received for a service yet to be performed, the revenue is initially recognised by XYZ with the following journal entry posted on 28 June 2016:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Dr | Cash | $1,000 |  |
|  | Cr | Income in advance |  | $1,000 |
| *(Being journal to record cash received)* | | | | |

The hire fee revenue is then released to the statement of financial performance in XYZ and the liability unwound when the equipment is used. The following journal entry should be posted on 5 July 2016:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Dr | Income in advance | $1,000 |  |
|  | Cr | Fees, subscriptions and other revenues from members |  | $1,000 |
| *(Being journal to record revenue earned)* | | | | |

Example 4

On 15 May 2015, XYZ Sports Inc. (XYZ) received $25,000 donation from one of their members to fund the cost of refurbishing the sports pavilion.

While the funds must be used for the purpose specified, there is no specific “use or return” condition.

Given there is no obligation for unspent monies to be repaid, the full amount of revenue is recognised on receipt. The expenses relating to the refurbishment of the pavilion will be recognised as incurred.

XYZ will recognise the donation at 15 May 2015 with the following journal entry:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Dr | Cash | $25,000 |  | |
|  | Cr | Fees, subscriptions and other revenues from members |  | $25,000 | |
| *(Being journal to record cash received)* | | | | |

Example 5

On 15 May 2015, XYZ Sports Inc (XYZ) received $25,000 donation from one of their members to fund the cost of refurbishing the sports pavilion.

On donation of the funds, the donor expressed that any unspent monies at the conclusion of the project must be returned.

At 30 September 2015, the sports pavilion was refurbished and the $25,000 utilised.

XYZ will recognise the donation at 15 May 2015 with the following journal entry:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Dr | Cash | $25,000 |  | |
|  | Cr | Income in advance |  | $25,000 | |
| *(Being journal to record cash received)* | | | | |

At 30 September 2015, the following adjustment would be posted to recognise the applicable portion of revenue:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Dr | Income in advance | $25,000 |  | |
|  | Cr | Fees, subscriptions and other revenues from members |  | $25,000 | |
| *(Being journal to record revenue earned)* | | | | |

Revenues: Revenue from providing goods and services

The following diagram works through the different treatments available under ‘Revenue from providing goods and services’ – refer to the applicable examples.

Yes

Yes

Yes

Record as revenue when the goods are sold.

(Refer to example 1)

Record as revenue by reference to the stage of completion of the service at balance date.

(Refer to example 2)

Record as revenue on a straight-line basis over the term of the agreement. (Refer to example 3)

For revenue from other income (e.g. entrance fees), record as revenue as events occur.

(Refer to example 4)

**Revenue from providing goods and services**

Is the revenue from sale of goods?

Is the revenue from provision of services?

Is the revenue from lease or rental income?

No

No

No

# Examples for Revenues: Revenue from providing goods and services

Example 1

XYZ Sports Inc (XYZ) is a regional sports association in Wellington. XYZ is selling XYZ branded water bottles to businesses in the region to promote XYZ and its sporting activities. The bottles are $1.35 each.

On 1 October 2016 XYZ distributed 1000 water bottles to ABC Inc. The water bottles were physically paid for on 15 November 2016.

XYZ will recognise the revenue on 1 October 2016 with the following journal entry:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Dr | Receivables | $1,350 |  | |
|  | Cr | Revenue from providing goods and services |  | $1,350 | |
| *(Being journal to record sale)* | | | | |
| XYZ will recognise the receipt of cash on 15 November 2016 with the following journal entry:   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | Dr | Cash | $1,350 |  | | |  | Cr | Receivables |  | $1,350 | | | *(Being journal to record receipt of cash)* | | | | | | | | | |

Example 2

XYZ Sports Inc (XYZ) has an arrangement with Sports Plus NZ Inc to provide coaching services to children under 10. XYZ must provide these services to a total of 800 children within the year (1 August 2015 – 31 July 2015). XYZ has a financial year end of 30 June 2016.

The total contract is for $100,000 and this was received on signing the contract at 1 August 2015. At 30 June 2015, XYZ had provided the service to 600 children.

XYZ will recognise the revenue on 1 August 2015 with the following journal entry:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Dr | Cash | $100,000 |  | |
|  | Cr | Income in advance |  | $100,000 | |
| *(Being journal to record cash received)* | | | | |

The revenue should be released to the statement of financial performance in XYZ and the liability unwound by reference to the stage of completion of the service. The following journal entry should be posted at 30 June 2016:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Dr | Income in advance | $75,000 |  |
|  | Cr | Revenue from providing goods and services |  | $75,000 |
| *(Being journal to record revenue earned)* | | | | |

At 30 June 2016, $25,000 income in advance should be in the Statement of Financial Position relating to the services not yet provided.

Example 3  
XYZ Sports Inc (XYZ) owns a building in Thorndon, Wellington. XYZ rents the building out to Sports Active Inc. The rental agreement in place is for three years, with an annual rent of $15,000. The rental agreement runs for the financial year, with the first year being the year ended 30 June 2016.

# XYZ will recognise the revenue on a straight-line basis over the term of the agreement, starting 1 July 2015, with the following journal entry each month:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Dr | Cash | $1,250 |  | |
|  | Cr | Revenue from providing goods and services |  | $1,250 | |
| *(Being journal to record revenue earned)*  Example 4  On 15 May 2015, XYZ Sports Inc. (XYZ) held a hockey tournament where there was an entrance fee for supporters of $5. On the day, 500 supporters attended the event and paid the entrance fee.  Cash is recorded when it is earned, and accordingly XYZ will recognise the revenue on the date the event occurs, being 15 May 2015, with the following journal entry:   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  | Dr | Cash | $2,500 |  | | |  | Cr | Revenue from providing goods and services |  | $2,50000 | | | *(Being journal to record cash received)*  Where income is received in advance of the event to which it relates it is held as income in advance until such time that the event takes place. | | | | | | | | | |

Revenues: Other revenues

The following diagram works through the different treatments available under ‘Other revenues’ – refer to the applicable examples.

Yes

Yes

Record as revenue as they are earned in accordance with the substance of the relevant agreement. (Refer to example 1)

Record as revenue when receivable, which would usually be defined in the agency agreement. (Refer to example 2)

**Other revenues**

Is the income from license fees and royalties?

Is the income commission for acting on behalf of another entity as the agent of that other entity?

For gain on sale of an asset, record as revenue when control of the asset transfers to the new owner.

(Refer to example 3)

No

No

# Examples for Revenues: Other revenues

Example 1

XYZ Sports Inc (XYZ) receives royalties for every XYZ sports book sold. The book publisher agreed to pay XYZ a percentage of the proceeds for every book it sells. The book is sold at $30, with 5% receivable by XYZ effectively receiving $1.50 per book sold.

XYZ received $1,500 in advance on 28 February 2015, with any royalties due first being deducted from this $1,500.

At 30 June 2016 (XYZ’s financial year end) 800 books had been sold.

On 28 February 2015, XYZ will account for the money received with the following journal:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Dr | Cash | $1,500 |  | |
|  | Cr | Income in advance |  | $1,500 | |
| *(Being journal to record cash received)* | | | | |

At 30 June 2016, the following adjustment would be posted to recognise the revenue earned to date, being the 5% on the 800 books sold:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Dr | Income in advance | $1,200 |  |
|  | Cr | Interest, dividends and other investment revenue |  | $1,200 |

At 30 June 2016, $300 will be in income in advance relating to the royalties advance.

Example 2

XYZ Sports Inc (XYZ) receives funds from Sports Association Trust on behalf of ABC Volley Inc (ABC). XYZ administers the funds on behalf of ABC, and receives a 3% commission.

For the year ending 30 June 2016, XYZ administered $1,200,000 funds on behalf of ABC, and in return received

$30,000 commission. At 30 June 2016 $6,000 commission due for the year end was yet to be paid.

At 30 June 2016, XYZ will recognise the revenue receivable from the commission with the following journal:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Dr | Accrued income | $6,000 |  | |
|  | Cr | Other revenues |  | $6,000 | |
| *(Being journal to record revenue receivable)* | | | | |

Example 3

On 1 May 2016, XYZ Sports Inc (XYZ) sells their motor vehicle held in the fixed asset register at $8,000 to ABC Volley Inc (ABC) for $10,000.

At 1 May 2016, XYZ will recognise the gain on sale of the asset with the following journal:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Dr | Cash | $10,000 |  | |
|  | Cr | PPE |  | $8,000 | |
|  | Cr | Other revenues |  | $2,000 | |
| *(Being journal to record cash received and gain on sale of PPE)* | | | | |

# Consolidation

**Determining Whether Control Exists for Financial Reporting Purposes**

Under PBE (NFP) SF-A the financial statements of an entity shall incorporate all the activities of the entity.

The definition of control under PBE (NFP) SF-A is ‘the power to govern the financial and operating policies of another entity so as to benefit from its activities’.

The definition of control requires, subject to two limited exceptions, that there be both a “power element” and a “benefit element”. The circumstances listed below are broad criteria that can be applied in establishing if control exists:

1. There is ownership of the majority of a voting interest in an entity.
2. There is an ability to obtain the majority of a voting interest through ownership of rights that are currently exercisable.
3. The board has the power to appoint or remove a majority of the members of the governing body of an entity.
4. The board has the power, through any form of mechanism, to set or modify the financing and operating policies that guide the activities of an entity.
5. The board has the power to extract distributions from an entity, or the board can direct the entity to perform tasks that meet the objectives of the controlling entity.
6. The board has the power to dissolve an entity and obtain a significant level of the residual economic benefits.

When one or more of the circumstances listed in the paragraph above does not exist, other indicators may still be sufficient to establish the existence of control.

The following examples show situations where control exists or does not exist under PBE (NFP) SF-A.

Note: When consolidating financial statements from a different tier (e.g. where a tier 2 entity consolidates a tier 3 entity into its financial statements), accounting policy differences are adjusted such that the entity being consolidated aligns its accounting policies with the consolidating entity (e.g. a tier 3 entity adjusts its financial statement balances on consolidation to align its accounting policies with that of a tier 2 entity).

# Examples of Consolidation

Example 1 - Control exists

*Overview*XYZ Sports Trust is a registered charity with operations spread across the Wellington, Wairarapa and Manawatu region. The organisation has a regional head office based in Wellington, and 15 branches spread throughout the region. The regional head office is responsible for obtaining government funding through contracts held at a national level. The regional head office then distributes the funding to its branches as deemed appropriate in order to achieve its contracted objectives with the government.

The regional head office is also responsible for all aspects of managing the brand and any fundraising activity that takes place at a regional level.

For each branch we note the following:

|  |  |
| --- | --- |
| • | each individual branch is a separate legal entity; |
| • | each individual branch is responsible for electing its own board members, a process that cannot be influenced by head office; |
| • | each branch has its own governing body that is responsible for determining its own operating and financing policies (although the constitution requires the branch to fulfil the overriding objectives of the regional head office); and |
| • | 95% of all funding is received through the regional head office. |

The regional head office has the power to dissolve a branch should the need arise.

On wind up, the residual net assets of a branch must be distributed back to head office.

*Assessment of control*Whilst there are several factors that would indicate the regional head office might not control the branches, being:

|  |  |
| --- | --- |
| • | each individual branch has its own governing body responsible for determining the operating and financing policies of the branch; and |
| • | the regional head office does not have the power to appoint the members to the governing body. |

In this instance the regional head office does control the branches as the head office has the ability to force the branch to wind up, and to then receive the residual net assets on wind up.

Example 2 - Control does not exist

*Overview*XYZ Sports Trust is a registered charity with operations spread across the Wellington, Wairarapa and Manawatu region. The organisation has a regional head office based in Wellington, and 15 branches spread throughout the region. The regional head office is responsible for obtaining government funding through contracts held at a national level. The regional head office then distributes the funding to its branches as deemed appropriate in order to achieve its contracted objectives with the government.

The regional head office is also responsible for all aspects of managing the brand and any fundraising activity that takes place at a regional level.

For each branch we note the following:

|  |  |
| --- | --- |
| • | each individual branch is a separate legal entity; |
| • | each individual branch is responsible for electing its own board members, a process that cannot be influenced by head office; |
| • | each branch has its own governing body that is responsible for determining its own operating and financing policies (although the constitution requires the branch to fulfil the overriding objectives of the regional head office); and |
| • | 95% of all funding is received through the regional head office. |

The regional head office does not have the power to appoint members to the governing body, but given the brand association, it does have the power to dissolve a branch should the need arise.

The regional head office uses its “control” of the funding allocation as a means of ensuring the individual branches operate in accordance with the overriding objectives of the regional head office.

On wind up, the residual net assets of a branch must be distributed to another registered charity that undertakes similar activities. This may or may not be the regional head office or another of the individual branches.

*Assessment of control*Whilst there are several factors that would indicate the regional head office might control the branches, being:

|  |  |
| --- | --- |
| • | the regional head office can use its control of the funding allocation as a means of gaining leverage over the branches; and |
| • | the head office has the ability to force the branch to wind up. |

In this instance the regional head office does not have control over the branches. The basis for this is as follows:

|  |  |
| --- | --- |
| • | the regional head office does not have the power to appoint the members to the governing body; |
| • | each individual branch has its own governing body responsible for determining the operating and financing policies of the branch, and while the regional head office controls the supply of funding to the branch, donative control alone is not sufficient in order to establish ownership control (i.e. the ability to set the operating and financing policies of the branch) as ultimately the governing body has the option to reject the funding and seek alternative sources; and lastly |
| • | While the head office has the power to wind the branch up, it does not have the power to direct how any residual net assets are distributed. |