



Welcome

When you're caught up in the 'busyness' of running an organisation, it can be easy to lose sight of the bigger picture.

By taking the time to regularly review your purpose and processes, you'll often uncover inefficiencies that could be holding your organisation back or, worse still, sending it backwards.

Perhaps you could make time to review this important process one of your New Year resolutions.

On behalf of the NFP Audit Team, Seasons Greetings and Best Wishes for a successful and happy 2012.

Mark O'Connor
PARTNER

in this issue...

The hidden cost of poor cost allocation

Did you know...

NFP Reforms

The hidden cost of poor cost allocation

The allocation of shared expenses across programs or business units is an integral part of managing funded programs. It's also a vital element in managing your whole business effectively. Without accurate information from an appropriate cost allocation system, you could be headed for trouble. Here's why.

Many NFPs allocate indirect costs based on what the grant contract allows or what the program can afford. The problem with this approach is that the real cost of service delivery could be obscured behind the need to satisfy a set of criteria that don't necessarily reflect the financial performance of individual programs. It's difficult to assess a program without knowing what it costs to administer it, both in terms of direct costs as well as a share of overhead and administrative costs.

The risk, then, is that your organisation's scarce resources, namely your people, could be delivering services that are unsustainable. And that's not good for the long-term sustainability of the business.

With accurate information on the true cost of service delivery, you can make informed decisions on the most effective use of the available resources to support the most viable services. As a result, not only will the organisation enjoy the benefits of becoming more focussed and effective, but the recipients of your services will too. It's a 'win' all round.

Some of the benefits of developing a cost allocation methodology and implementing it in your organisation include:

- Financial information that demonstrates the full cost of program delivery
- Transparent financial information for setting budgets for program managers
- A basis to assess whether to tender for new program funding
- The ability to model future growth in services
- Information to allow assessment of the impact of loss of program funding
- Demonstration of compliance with grant funding contracts

Once a system has been developed it's important to document it through the preparation of a company policy. The policy should outline the company's methodology and process of allocating indirect costs.

So how effective is your cost allocation system?

For a no-obligation chat about how we can help you, contact Mark O'Connor on 1800 988 522 or cnmail@cutcher.com.au



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14 July

The Assistant Treasurer released for public consultation an exposure draft on a new regulatory framework for public ancillary funds.

21 September

Legislation tabled to improve integrity of public ancillary funds.

6 October

ATO released a new checklist: *Self-governance checklist for non-profit organisations*, to review your status as a non-profit organisation and your tax obligations.

28 October

Government released a consultation paper on the definition of charity.

Did you know?

Motor Vehicle Fringe Benefits simplified

FBT applies where an employee is provided with a non-cash benefit, a motor vehicle being one of the most common types of fringe benefits supplied.

Under legislation changes announced in the 2012 Federal Budget, new statutory rates are to be phased in over the next four years for new motor vehicles purchased. The result will be a single rate of 20% for 2015 year, regardless of the distance travelled.

This is beneficial for employers with drivers travelling low kilometres as it will reduce the amount of FBT they incur on the motor vehicle fringe benefit. However, all motor vehicles previously held must apply old rates and employees with high kilometres will incur a higher FBT expense under the statutory fraction method.

The changes will make FBT calculations so much simpler.

Timetable for phasing in of new FBT rates

Kms travelled during FBT year	Existing contracts (%)	New contracts from 10 May 2011 (%)	New contracts from 1 April 2012 (%)	New contracts from 1 April 2013 (%)	New contracts from 1 April 2014 (%)
0-15,000	26	20	20	20	20
15,000 – 24,999	20	20	20	20	20
25,000 – 40,000	11	14	17	20	20
40,000+	7	10	13	17	20



Fringe Benefits and Christmas Parties

A Christmas party provided for your employees is considered a tax-exempt body entertainment fringe benefit, even if the party is held on your premises.

Christmas parties for tax exempt bodies are considered entertainment for fringe benefit tax purposes and do not fall under any exemptions.

However if you provide a gift to your employees, this is treated separate to the Christmas party and does not fall under the tax-exempt body entertainment benefit. For example, if you provide a gift to your employees that meets the conditions of the minor benefit exemption and is less than \$300 there will be no FBT .



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