Invitation to Comment **ITC 14**

December 2007

Proposed Definition and Guidance for Not-for-Profit Entities

Prepared by the
Australian Accounting Standards Board

Australian Government

Australian Accounting Standards Board

Commenting on this Invitation to Comment

Comments on this Invitation to Comment are requested by 31 March 2008. Comments should be addressed to:

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A copy of all non-confidential submissions to the AASB will placed on public record on the AASB website: www.aasb.com.au.

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PREFACE

Background

Australian Accounting Standards

The Australian Accounting Standards Board (AASB) makes Australian Accounting Standards to be applied by:

(a) entities required by the *Corporations Act 2001* to prepare financial reports;

(b) all reporting entities engaged in either for-profit, not-for-profit or public sectors; and

(c) any other entity that prepares general purpose financial reports.

Australian Accounting Standards incorporate International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), with the addition of paragraphs on the applicability of the Standards in the Australian environment.

Australian Accounting Standards also include requirements that are specific to Australian entities. In most instances, these requirements are either restricted to the not-for-profit or public sectors or include additional disclosures that address domestic, regulatory or other issues.

Purpose of this Invitation to Comment

The distinction between for-profit and not-for-profit entities is a significant aspect of the Australian financial reporting framework. This is because different recognition, measurement, presentation and disclosure requirements can apply to each type of entity. For example:

- a not-for-profit entity is required to initially measure an asset acquired for no or nominal consideration at fair value under AASB 116 *Property, Plant and Equipment* whereas a for-profit entity would initially measure the asset at cost, which is the nil or nominal amount;
- AASB 120 *Accounting for Government Grants and Disclosure of Government Assistance* does not apply to not-for-profit entities; and
- AASB 1004 *Contributions* applies only to not-for-profit entities.

The AASB has used a principles-based approach to the definition of a not-for-profit entity. The term ‘not-for-profit entity’ is defined in Australian Accounting Standards as:

> an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.

Constituents are considering various factors to determine whether particular entities fall within this definition. Some of those constituents consider that clarification and/or guidance on this definition is needed on the basis that different preparers and auditors are placing different emphases on one factor over another and may arrive at inconsistent conclusions about the status of similar entities.

The AASB considered a number of possible approaches to providing clarification and/or guidance. Some constituents have developed their own guidance for distinguishing between for-profit and not-for-profit entities, and the AASB considered distilling this work as the basis for its own guidance. Others have undertaken research into the need for guidance and the main factors on which it might be based, and the AASB has found this most helpful in identifying the nature of the guidance that many constituents are seeking. In addition, the

AASB has considered the definitions and guidance applied in a number of jurisdictions, including Canada, New Zealand, the United Kingdom and the United States.

As a first step, the AASB agreed that it should proceed with an Invitation to Comment incorporating material issued by the New Zealand Financial Reporting Standards Board (FRSB) on 'public benefit entities' in its Appendix to NZ IAS 1 *Presentation to Financial Statements*. This is on the basis that the FRSB has recently undertaken work in this area and operates in an environment that is similar to the Australian environment. The AASB is also mindful of the Australian and New Zealand policies of converging with one another's accounting standards.

The FRSB's definition of public benefit entities is:

> reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

In the context of the New Zealand material, the AASB has considered issues relating to:

(a) whether there should be one definition that covers both the public and private sectors (as does the existing definition);

(b) whether 'not-for-profit entity' or 'public benefit entity' is the appropriate term to use;

(c) the nature and extent of the definition;

(d) the nature and extent of any guidance; and

(e) whether entities should be required to disclose that they are for-profit or not-for-profit.

For the purposes of this Invitation to Comment the AASB has not modified any of the wording in the New Zealand FRSB's material, although some paragraphs dealing with specific New Zealand background issues have been deleted since they are not relevant to Australian constituents. In the event that the AASB adopted some or all of the FRSB's material, suitable modifications would need to be made to refer to the relevant Australian circumstances, including Australian Standards, legislation and examples.

Terminology

The term 'public benefit entity' is used in a number of jurisdictions such as the United Kingdom and New Zealand, and adopting a similar term and providing guidance would promote consistency with these jurisdictions. Furthermore, the AASB believes that adopting the FRSB's definition would contribute to its convergence project with the FRSB. However, the IASB refers to 'entities with not-for-profit activities' and the standard setters in the United States and Canada refer to 'not-for-profit organizations'. There is a concern that a change to adopt the term 'public benefit entity' would make the AASB Standards less compatible with some other jurisdictions.

Definition

The FRSB's definition incorporates some of the factors commonly associated with public benefit entities. This is the same as the approach adopted in a number of other jurisdictions, such as the United Kingdom, Canada and the United States. Recent research undertaken in Australia also establishes that many of the AASB's constituents consider that the definition itself needs to incorporate the essential characteristics of a not-for-profit entity, and that the AASB's existing definition is circular.

Guidance

The AASB notes that the existing sets of guidance developed by various constituents are not entirely consistent with each other and that constituents have requested that the AASB provide more definitive guidance. The FRSB has only recently completed its guidance on public benefit entities and the FRSB and the AASB share a similar sector-neutral standard setting regime. The AASB considers that having the same guidance in Australia and New Zealand would greatly facilitate the work of the FRSB and the AASB to converge their Standards in respect of not-for-profit entities.

The Board would envisage any guidance being located in an Appendix that is an integral part of AASB 101 *Presentation of Financial Statements*, in common with its status in New Zealand.

Disclosure

Given that different accounting policies can be applied by entities depending on their status, the Board believes that it would be useful for the readers of financial reports to be able to ascertain whether an entity is for-profit or not-for-profit. The AASB notes that the FRSB's NZ IAS 1 *Presentation of Financial Statements* [paragraph NZ 15.1(b)] requires an entity to disclose "whether, for the purpose of complying with Generally Accepted Accounting Principles in New Zealand (NZ GAAP), it is a profit-oriented or public benefit entity".

Some Australian entities voluntarily make this disclosure, but most do not. It would be helpful to users of financial reports to be able to quickly ascertain the status of an entity and such a disclosure requirement could be included as an Aus paragraph in AASB 101.

Process following this Invitation to Comment

The AASB intends to form views on the key issues following consideration of the comments received on this Invitation to Comment and to discuss those views with the New Zealand FRSB. Both Boards recognise that it is important to aim for a converged definition and converged terminology and guidance on not-for-profit entities in order to establish a sound basis for converging with one another's Accounting Standards.

Request for Comments

The AASB invites comments by 31 March 2008 on the following:

(a) the New Zealand FRSB's:

  (i) terminology – use of the term 'public benefit entity';

  (ii) definition of public benefit entity;

  (iii) guidance for identifying a public benefit entity; and

  (iv) requirement to disclose that an entity is a profit oriented entity or public benefit entity; and

(b) the status of the guidance as an integral part of an Accounting Standard.

Constituents are asked to address whether the above are appropriate in the Australian environment; and the basis for that view. Constituents may support some aspects of the FRSB's material and not others – for example, a constituent may agree with the guidance but not with the terminology.

Appendix A

New Zealand Application Guidance: When is an entity a public benefit entity?

This appendix is an integral part of NZ IAS 1 Presentation of Financial Statements.

INTRODUCTION

NZ AG 1 [Not included by the AASB]

NZ AG 2 PBEs are defined as:

> … reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders.

NZ AG 3 Profit-oriented entities are not defined. Rather, the term profit-oriented entities encompass all entities other than PBEs. An entity must assess whether it is a PBE or a profit-oriented entity, by considering whether or not it meets the definition of a PBE. Assessing whether an entity meets the definition of a PBE requires an entity to determine its primary objective.

NZ AG 4 The form of an entity is unlikely to be a conclusive factor in determining whether or not an entity is a PBE. PBEs are constituted in many different forms such as incorporated societies, trusts, statutory bodies and even companies. PBEs include a wide range of entity types, including charities, clubs, and non-commercial public sector entities. They exist in the private sector and in the public sector and may be small or large. In determining the designation of an entity which is a group, it is necessary to consider the characteristics of the group.

NZ AG 5 to NZ AG 10 [Not included by the AASB]

PURPOSE

NZ AG 11 The purpose of this New Zealand Application Guidance is to assist entities preparing general purpose financial statements to determine whether or not they are a PBE.

NZ AG 12 In many situations whether an entity is a profit-oriented entity or a PBE is important because it will affect accounting policies that have a material effect on the preparation and presentation of financial statements. Inappropriate classification may result in adoption of inappropriate accounting policies and failure to provide users with information appropriate to assessing the financial performance and position of an entity.

NZ AG 13 Whilst there are relatively few differences in accounting requirements for profit-oriented entities and PBEs, application by an entity of a single requirement that is not in accordance with IFRSs will mean that entity is not in compliance with IFRSs. In certain cases, depending on the nature of the activities of the entity, designation as a PBE or as a profit-oriented entity will not have a material impact on the selection of accounting policies, or on the ability of an entity to assert compliance with IFRSs.

DETERMINING THE PRIMARY OBJECTIVE OF AN ENTITY

NZ AG 14 Whether an entity is a PBE is determined by the primary objective of an entity. In identifying the primary objective of an entity it is necessary to consider the substance of the entity’s purpose and whether the goods or services are provided for community or social benefit.

NZ AG 15 Although in general terms PBEs exist to provide goods and services for the community or social benefit, this does not necessarily imply that such entities exist for the benefit of the public as a whole. Many PBEs exist for the direct benefit of a particular group of people, although it is also possible that society as a whole benefits indirectly. For example, a football club exists to promote and encourage football for the direct benefit of its members. However, society as a whole may benefit through a healthier population and through the provision of organised activities for its youth.

NZ AG 16 In many cases it will be intuitively obvious whether an entity is a PBE or not. However, objectively determining the primary objective of an entity can be difficult where an entity has multiple objectives and such objectives are not ranked, or where the objectives are not clearly stated.

NZ AG 17 Paragraphs NZ AG 18 to NZ AG 31 discuss indicators that aim to focus on the substance of an entity’s purpose and which should be considered in determining whether an entity is a PBE. These indicators are:

- the entity’s founding documents;
- the nature of the benefits;
- the quantum of expected financial surplus;
- the nature of the equity interest; and
- the nature of an entity’s funding.

Founding documents

NZ AG 18 For many entities the governing legislation, a constitution, a trust deed, or other founding documents will specify the objectives of an entity, including for whom the benefits generated by the entity are intended. For example, the State-Owned Enterprises Act 1986 states that the principal objective of every State enterprise is to “operate as a successful business and to this end, to be —

(a) As profitable and efficient as comparable businesses that are not owned by the Crown; and

(b) A good employer; and

(c) An organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so.”

NZ AG 19 The founding documents of an entity may also specify the objective of an entity in terms of the nature of the benefits the entity provides. For example, one of the objectives of District Health Boards is to improve, promote and protect the health of people and communities.

NZ AG 20 Many entities are established with multiple objectives. For example, Crown Research Institutes (CRIs) are required by the Crown Research Institutes Act 1992 (CRI Act) to:

- undertake research for the benefit of New Zealand;
- comply with any applicable ethical standards;

- promote and facilitate application of the results of research and technological developments;
- be a good employer and exhibit a sense of social responsibility; and
- operate in a financially responsible manner and generate an adequate rate of return.

NZ AG 21 Where an entity's founding documents indicate that an entity has multiple objectives, determining which of these objectives is the primary objective will depend on an assessment of the substance of the purpose of the entity.

NZ AG 22 The founding documents may require an entity to be financially viable or to generate an adequate rate of return. However, being financially viable is not in itself conclusive in distinguishing a profit-oriented entity from a PBE. There exists a clear community expectation that PBEs be financially viable and operate to ensure that the limited resources at their disposal are used effectively.

Nature of the benefits

NZ AG 23 The nature of the benefits provided by an entity will usually indicate whether an entity is a PBE. For example, if the entity produces goods or services that are not provided at market prices, but are provided to consumers at no cost or for nominal consideration, the entity is likely to be a PBE.

NZ AG 24 PBEs do not exist to generate benefit in the form of a financial return to equity-holders. That is not to imply that PBEs never generate, or aim to generate, a financial surplus on the net assets employed. However, where a PBE does generate a financial surplus, it may be required or expected to be used to support the entity's primary objective of providing goods or services for the community or for social benefit.

NZ AG 25 PBEs may establish subsidiaries or discrete business units which operate to generate a return that can be used to support the primary activities of the parent entity. Such entities or business units may be profit-oriented. This fact does not affect the classification of the parent or group entity[1].

Quantum of expected financial surplus

NZ AG 26 Many entities aim to generate revenues in excess of the expenses incurred. In order to continue operating all entities need to at least break even over the long term. The quantum of the expected surplus will provide a strong indication whether an entity is a PBE.

NZ AG 27 The objective of profit-oriented entities is to generate a commercial or market return - that is, to maximise the financial return commensurate with the relative risks of operating.

NZ AG 28 PBEs do not operate to maximise financial return in this way. PBEs may plan to generate a financial surplus. However, the quantum of the expected financial surplus is not expressed in relation to a market return or other measure of commercial success.

NZ AG 29 PBEs may not quantify the expected financial surplus, or may do so in qualitative or general terms only. For example, an entity may specify that it aims to generate an adequate rate of return, or a financial surplus sufficient to remain solvent, or generate a financial surplus sufficient to repay any debts within a certain time period.

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[1] If a subsidiary or business unit is required to prepare general purpose financial reports its designation is determined by its own primary objective and not that of the parent of the group reporting entity. NZ IAS 27 *Consolidated and Separate Financial Statements* provides guidance on consistency of accounting policies to be adopted in the preparation of group financial statements.

Nature of equity interest

NZ AG 30 Where an entity is established to generate a financial return for the benefit of the equity-holders the ownership instrument is usually clearly defined. This is important for profit-oriented entities because it determines the level of benefits such as dividends and rights to the residual net assets. If an entity does not have any clear equity-holders or the nature of the equity instrument is unclear, the entity is likely to be a PBE.

NZ AG 31 The absence of clear equity holders may manifest itself in a number of ways, including:

- the absence of an individual or entity having a right to participate in any financial return or in the net assets of the entity were it to be wound up or otherwise cease to operate; or

- a requirement that in the event the entity ceases operating any residual net assets are to be applied to another entity with a similar purpose or to revert to another PBE. That is, the use of the assets is effectively restricted to providing goods or services for the benefit of the community or part thereof.

Nature of funding

NZ AG 32 If an entity is funded wholly or primarily through the sale of goods and services it may not be a PBE. If an entity relies wholly or primarily on donations or other contributions that do not establish a financial interest in the entity, or which do not reflect a sale and purchase transaction, the entity is likely to be a PBE.

CONFLICTING INDICATORS

NZ AG 33 In some cases the above indicators may conflict with each other in respect of a single entity and the primary purpose or objective of the entity may not be obvious. Some indicators may indicate that an entity should be classified as profit-oriented and others may indicate the entity should be classified as a public benefit entity. In this situation professional judgement is required.

CHANGING CLASSIFICATION

NZ AG 34 In certain situations, changing circumstances may lead to a change in an entity's classification. For example, a change in government policy may require that entities previously classified as public benefit entities are now to operate on a commercial basis, or vice versa.

NZ AG 35 Where an entity's classification changes from "public benefit entity" to "profit-oriented entity", the entity may need to apply IFRS 1 *First-time Adoption of International Financial Reporting Standards*, in order to assert compliance with IFRSs. Where an entity's classification changes and, as a result the entity's accounting policies change, the entity will need to ensure it complies with the requirements of NZ IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

ILLUSTRATIVE EXAMPLES

NZ AG 36 These following examples aim to illustrate application of the guidance – When is an Entity a Public Benefit Entity? The examples are illustrative only and do not establish requirements.

NZ AG 37 While specific types of entity are referred to in the examples, the circumstances in relation to individual entities may vary significantly, and therefore the examples do not conclude as to whether the entity in question is or is not a public benefit entity. Rather, the examples illustrate characteristics to be considered by preparers in reaching a conclusion regarding the nature of an entity's purpose. In assessing the nature of an entity appropriate weighting needs to be given to each individual indicator. Depending on the circumstances some indicators will provide a stronger indication than others about the underlying nature of the entity. The entity will need to consider each indicator against the other indicators and make an overall assessment of whether or not the entity is a public benefit entity.

ILLUSTRATIVE EXAMPLES: DETERMINING THE NATURE OF AN ENTITY'S PURPOSE

Scenario 1: Crown Research Institute

Entity A is a company established under section 11 of the CRI Act.

- *Founding documents* **-** *The Crown Research Institutes Act 1992*

The CRI Act states that the purpose of every CRI is to undertake research (section 4) and sets out the principles of operation CRIs are expected to follow in fulfilling this purpose. These principles are set out in section 5 of the Act and include, for example, that a CRI should undertake research for the benefit of New Zealand, operate in a financially responsible manner and be a good employer.

The CRI Act establishes a broad framework for the operation of CRIs. The primary objective (purpose) of CRIs is clearly stated in the CRI Act. The principles set out in section 5 are detailed, but they are not ranked and their implementation can be achieved in a number of ways. CRIs, therefore, appear to have discretion as to how they can achieve their purpose.

- *Nature of the benefits*

The key benefit of establishing CRIs is the production of research that will benefit New Zealand. In one sense the CRIs undertake research for community or social benefit. The New Zealand economy and entities operating in New Zealand can benefit from the research undertaken.

However, there may be discretion as to how research findings are distributed and in determining the nature of the research to be undertaken. Whether or not the Entity A is a public benefit entity may depend on whether Entity A distributes or undertakes research on a commercial fee-for-service basis, or whether it makes its research findings available free of charge or for a nominal charge.

- *Quantum of the expected financial surplus*

The CRI Act requires CRIs to operate in a financially responsible manner so that they maintain their financial viability. On its own maintaining "financial viability" is a general requirement and allows discretion as to what the financial targets should be.

Entity A has in place an operating agreement with the Shareholding Minister. If the operating agreement specified that Entity should aim to generate an expected financial surplus equivalent to a market return, this would indicate that Entity A is a profit-oriented entity. If the operating agreement specified a target rate of return, it would be necessary to consider how that rate of return was determined. If, for example, it was determined after benchmarking against commercial entities, this would indicate that Entity A was profit-oriented. If the rate of return was determined based on ensuring that Entity A covered its variable costs only, this may indicate that it is a public benefit entity.

- *Nature of equity interest*

Entity A is a company. The equity interest is in the form of shares owned by the Shareholding Minister. In the case of Entity A, the nature of the equity interest is clear. In addition, there is no restriction on the use of assets in the event a CRI is sold, wound up or ceases to operate. However, in this case, neither of these factors would appear to affect the nature of the purpose of the entity.

- *Nature of funding*

Entity A competes for funding from government and private sources. Revenue is derived through selling research services in a competitive environment. This may indicate that Entity A is a profit-oriented entity.

If Entity A relied on donations and grants from government and other organisations and such funds were provided on a non-exchange basis, this may indicate that Entity A is a public benefit entity.

Scenario 2: Charity Shop

A charitable trust is established with objective of providing health services to the homeless. The trust receives an annual grant from the Government. The grant is sufficient to cover operating costs necessary to provide basic health care services to a limited number of people. To meet the increasing demand for its services and to fund an expanded range of services, the trust establishes a charity shop (Company 1).

Company 1 sells second hand bicycles and runs a successful bicycle hire service. All profits from Company 1 are returned to the trust to support the primary objective of providing health services to the homeless.

- *Founding documents – Constitution*

Company 1's constitution specifies that its objective is to raise funds to support the charitable trust.

- *Nature of the benefits*

The benefits derived from Company 1 are the funds generated through the sale and hire of bicycles. This may indicate that the shop is a profit-oriented entity.

If on the other hand the shop is used primarily as a vehicle to promote and publicise the objective of the trust or to provide employment to homeless people, then Company 1 may, subject to consideration of other factors, be a public benefit entity.

- *Quantum of the expected financial surplus*

The directors carefully manage Company 1 to ensure it meets its financial targets. The directors are experienced business people who donate their time to manage and guide the operation of Company 1. The directors aim to ensure that the return on the net assets invested in the shop is at least equivalent to a market return. If Company 1 does not generate adequate return the directors may recommend that the trust invest its funds in another activity. This may indicate that Company 1 is by nature an investment and therefore profit oriented.

If Company 1 was operated with the objective of generating a positive financial return and the level of the return was not determined with reference to market returns, the shop may be a public benefit entity.

- *Nature of equity interest*

In the situation described Company 1 is a company 100% owned and controlled by the trust. As such the ownership instrument is clear. In the event Company 1 ceases trading the trust is able to determine how to use any residual assets. This may indicate that Company 1 is profit oriented.

- *Nature of funding*

Company 1 raises revenue through the sale and hire of bicycles. Company 1 also serves as a collection point for donations to the trust. Such donations are not the property of the shop and are banked into a separate trust account controlled by the trust.

Given the objective of Company 1 is to maximise return, the sale and hire of bicycles must be at market rates. This would indicate that the entity is a profit-oriented entity.

Scenario 3: Private Education Organisation

Entity Q is a private organisation dedicated to providing low-cost high quality education to children who immigrated to New Zealand from poverty stricken countries. Entity Q was established as a trust with an initial endowment of $5M from the estate of a wealthy businessperson.

In order to supplement its income Entity Q accepts a limited number of fee paying students. The fees for such students were determined after market research into the pricing of such services. All fee revenue is applied by Entity Q to its objective of providing high quality education to children who immigrated to New Zealand from poverty stricken countries. The revenue from fee paying students has enabled Entity Q to expand the range of services it offers and to expand its roll of immigrant children.

- *Founding documents*

The trust deed establishing Entity Q states that the purpose of Entity Q is to provide high quality education to children who immigrated to New Zealand from poverty stricken countries. The trust deed also provides Trustees with broad powers as to how best to achieve this objective.

The trust deed also requires that, in the event the trust is wound up, any residual assets are to be applied to an organisation with similar objectives.

- *Nature of the benefits*

The nature of the benefits provided by Entity Q are the educational services delivered to the recipient children. The equity provided to Entity Q was for the benefit of immigrant children and not for the generation of a financial return. This would indicate that the entity is a public benefit entity.

The fact that Entity Q also sells education services to fee paying students at market rates does not necessarily change the objective of the entity.

If Entity Q established a subsidiary entity through which it ran its commercial education operations, that subsidiary may be a profit oriented entity. In this case it would also be necessary to consider whether the group reporting entity is a public benefit entity in its own right.

- *Quantum of the expected financial surplus*

The trustees carefully manage the resources of Entity Q in order to maximise the number of immigrant children it can accept and to maintain a high quality educational service. The trustees have a clear operational plan and have established clear financial targets in order to achieve its objectives.

The financial targets are not expressed in terms of return on equity, but rather in terms of meeting the development targets set out in the operational plan. This may indicate that the entity is a public benefit entity.

- *Nature of equity interest*

The trust deed requires that in the event Entity Q ceases operating any residual assets are to be applied to another entity with a similar purpose. The use of the assets is restricted and no individual can benefit privately from the assets.

This may indicate that the entity is a public benefit entity.

- *Nature of funding*

Entity Q receives funding from a number of sources:

(i) investment income from the initial endowment;

(ii) fee income from fee paying students; and

(iii) donations from other fund raising activities.

The relative levels of funding from each of these sources may indicate whether Entity Q is a profit-oriented entity or a public benefit entity. If the majority of funding is raised from investment income or donations and applied to the provision of the education services, then the entity may be a public benefit entity. If the majority of the funding is raised through the sale of education services, it may indicate that the entity is a profit-oriented entity.

Scenario 4: Sports Club

Club AFC is a football club established in a suburb of a large city. Club AFC is part of a regional group of clubs that co-operate together to organise competitions, coaching and training for a wide range of age-groups, from 5 year-olds through to senior grade football and representative grades.

- *Founding documents - Constitution*

Club AFC is established as a charitable trust. Its constitution states that it is a non-profit entity established to foster participation and to promote football in its suburb.

This indicates that Club AFC is likely to be a public benefit entity.

- *Nature of the benefits*

The benefits provided by Club AFC arise from the coordination of football competitions and the provision of football coaching, training and other facilities to the community. Hence, Club AFC provides benefits directly to a particular section of the public, and society as a whole may benefit indirectly. No individual person has a right to the equity or to any net surplus generated by the Club. This may indicate that Club AFC is a public benefit entity.

On the other hand, if Club AFC were to sell its coaching and training services (eg to schools, other football clubs, or individuals) at normal market rates, this may indicate that Club AFC is a profit-oriented entity.

- *Quantum of the expected financial surplus*

The Club manages its finances carefully. Its financial targets are driven by its plans to develop its facilities and the services it offers. This may indicate that Club AFC is a public benefit entity.

If the Club set financial targets with the objective of generating a commercial rate of return, this may indicate that Club AFC is a profit-oriented entity.

- *Nature of equity interest*

There is no clear equity instrument. The Constitution states that in the event the Club is wound up or ceases operating, any residual assets are to be applied to an organisation with a similar purpose as Club AFC. This may indicate that the Club is a public benefit entity.

- *Nature of funding*

Club AFC receives funding from various sources:

(i) membership fees;

(ii) sponsorship;

(iii) bar and food sales; and

(iv) community grants.

Membership fees are set at a level to cover the Club's costs, after taking into account the funding expected to be received from other sources. This may indicate that Club AFC is a public benefit entity.

If Club AFC received the majority of its funding from the sale of football coaching or training services, or from ticket sales at football matches, this may indicate that Club AFC is a profit-oriented entity.

