

# Charity Funding and Key Considerations

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This article provides a summary and examples of how your charity can grow and attract additional funding. It also looks at types of funding available to Charities and key considerations.

## Is my charity eligible to apply for funding?

Most funders will normally ensure that to be eligible for funding you need to be a non-profit organisation. You can be active in the areas of community, education, arts and culture or amateur sport.

They will ensure that all applicant organisations must be registered legal entities, i.e. registered under the Charities Act, Charitable Trust Act or Incorporated Societies Act or, in some circumstances, not-for-profit organisations registered under the Companies Act.

## Government funding from grants

A source of charity funding to consider is government grants. These grants normally have the following characteristics:

- Funds may be provided through contracts for services
- There may be stricter requirements on the mode of delivery
- Profitable companies may also compete for the work
- Funding may be withdrawn in short notice if government policy changes

Charities that rely heavily on government funding can be exposed to greater uncertainty and can find themselves drawn into political matters that undermine their independence.

## Grants from charitable trusts or foundations

Charitable trusts are set up for the purpose of distributing money, as either:

- Grants, to charitable causes or organisations, or
- Scholarships, to individuals

Some trusts are set up with defined beneficiaries; while others are open to receiving applications for financial support from the community. Organisations who meet the trust's criteria may apply for scholarships or grants.

Trusts may have a regional focus and only make grants to charitable or community organisations operating within a specific regional area, while others cover all of New Zealand. Collectively, Charitable Trusts allow many people to live better lives, enhance their skills, or enjoy improved community facilities.

## Companies that fund community projects

Many large companies like banks and supermarkets offer some form of community funding. These schemes are often much less bureaucratic than trusts and foundations or government contracts, though they also tend to award much smaller sums. This kind of funding can be a great way for small charities to get started.

## Steps to grant funding

We would recommend nominating a trustee or suitable person within your charity to be in charge of funding with the support of the trustees. The following steps are important in establishing and carrying out your funding requirements.

### Step 1: Develop your plan

- Identify projects/items requiring funding
- Identify application deadlines for potential funders

### Step 2: Identify funder for project

- Outline project plan
- Ensure project meets criteria and deadlines of funder
- Discuss with funder in advance to get an indication if application will be considered

### Step 3: Prepare application

- Complete funding application form
- Prepare and collate required documents
- Make a copy of the application for funding interview

### Step 4: Utilise funding appropriately

- Keep all invoices and receipts
- Acknowledge funding
- Compile and submit account accountability documents

## What information is normally needed to complete a grant application?

### We recommend that you provide an application cover letter which;

- Includes a summary of your charitable purpose, trustee and describe the governance structure of your charity and its relationship to any other organisations
- Details how the funding will be used and how you will recognise the funding.

### Complete funding application (paper or online)

- A signed resolution stating your Charities agreement to apply for funding
- A copy of your Board of Trustee minutes from when the resolution was agreed

- Copy of your rules
- Examples of appropriate financial documentation and support as requested from the funder:
- Latest financial statements
- Proposed budget of your project / expenses
- When accounting for your grant, the following documentation is required.
- For goods or services (e.g. sports uniforms, accommodation etc.), funders normally need to see tax invoices and bank statements showing all or full payment(s) of the invoice you are claiming.
- For salaries, funders will fund the gross amount as per the employment agreement submitted with your grant application. Even if you use a payroll company to administer your salaries, they normally require an IRD Schedule (IR345 and IR348), a bank statement showing all wages paid each month and a bank statement showing the PAYE paid.

## **Before you apply for a grant:**

It's important to find out whether your charity is eligible to apply to for a grant. Each funding agency will have its own criteria and eligibility requirements, so it pays to look closely at their funding guidelines before going ahead to make sure you comply.

Check the closing dates for funding applications – some are monthly, some are twice a year. Give yourself enough time before your intended event / programme for it to be processed.

It is important to note that most funders will not issue a grant to cover retrospective payments. A retrospective payment is where your grant funds have been used to pay for goods or services that were bought before your grant was approved.

### **Accountability**

Expenditure of funds must be accounted for to the satisfaction of the grant funder.

They will normally send an Accountability Report to successful applicants with an approval letter. The Accountability Report must be completed by the Charity in full, in the agreed timeframes and with the supporting information attached (such as invoices, receipts and copies of bank statements pertaining to the receipt of funds and expenditure of funds).

The completed accountability report should be returned to the funds provider as soon as practicable after the funds are spent. This accountability report will be required by your charities auditor also (if applicable).

Normally if all or part of the funding is unspent or is not be spent in accordance with the proper purposes of the grant, the Charity will have to return the unspent portion to the funding provider.

### **Recording grant revenue in your financial statements**

Under the new standards, there is no separate category for grants. Instead, your charity must record the grant within the category/categories that best matches the purpose of that grant.

The category/categories you choose to record your grant under will depend on what the grant was given to your charity for. Grants for the general operation of the charity (including grants for capital items) will be recorded under “Fundraising, donations and other similar revenue”.

Grants for delivering a service, project or programme will be recorded under “Revenue from providing goods or services”. You should record the grant as revenue when you physically receive the money into your bank account.

### **Grants with conditions**

Some grants come with conditions attached. For example, the money may need to be used for the stated project and if the project changes or there is money left over at the end of the project, then the grant must be returned.

This type of condition is known as a “use or return” condition. It’s a good idea to keep track of the spending of grants so that you know how much remains unspent at the end of the financial year.

If the grant has a “use or return” condition, then at the end of the financial year, the unspent portion of the grant must be recorded as a liability in the Statement of Financial Position. If the grant has a condition which is not a “use or return” condition but has not been fulfilled at the end of the financial year, you must disclose this in the Performance Report.

## **Other sources of charity funding**

### **What is fundraising?**

Fundraising is the process that your Charity undertakes to secure additional funds. Examples of fundraising are Annual appeals, bingo/quiz nights, cake stalls, movie nights, raffles, fundraising dinners, galas/fairs, car boot sales etc. Fundraising should fund special activities such as new equipment, overseas travel and new programmes or projects.

### **What is sponsorship?**

Sponsorship is when businesses provide funds, resources or services to the Charity in return for rights and / or associations with the organisation. These rights and / or associations help businesses commercially and may take the form of a logo, signs at an event or free advertising in a newsletter.

### **What are donations?**

A donation is when money or goods or services are given to help your organisation. Organisations and individuals normally donate or volunteer for charities that they already know and trust, and have researched and have confidence in.

Most local charities have an established relationship with their community, and understand what is needed, and how they can best assist.

The tax system encourages charitable giving by offering tax benefits for both individual and corporate giving. Registered charities (operating mostly in New Zealand) automatically receive donee status from Inland Revenue. This means that when people make donations to your charity, they are eligible for tax credits. Corporate donations are eligible for tax deductions. In both cases, the donations must be made to an approved donee.