

The background features a dark blue field with several large, overlapping green shapes. In the top left, there are several thin, parallel, slightly curved lines in a lighter shade of green. The rest of the space is filled with large, smooth-edged green shapes that vary in size and orientation, creating a dynamic, abstract composition.

The Breakthrough Office.™

Technical Deadlines

Resources & Training Guide

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FBT Returns

Technical Deadlines Resources & Training Guide



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FBT & Salary Sacrificing in the NFP Sector

The Theory

Why is FBT relevant to the NFP sector? Historically, employees in the not-for-profit (NFP) sector have received lower wages compared to other industries. To attract and retain staff, salary sacrifice arrangements are available to eligible NFP organisations.

Salary sacrificing is a **pre-tax deduction**, meaning it reduces an employee's taxable income, potentially lowering their overall tax liability. **Certain NFPs qualify for either "exempt" or "rebatable" status, which determines their Fringe Benefits Tax (FBT) obligations.** Exempt organisations do not pay FBT on eligible benefits up to a set cap, while rebatable organisations receive a partial FBT rebate.

The Breakthrough Way

The Breakthrough Office Governance Team assists our clients in registering as either **FBT-exempt or FBT-rebatable**, ensuring they maximise available benefits while remaining compliant with tax regulations.

The Practical Application

An organisation's FBT status can be verified on the **Australian Business Register (ABR)** by searching its **ABN (Australian Business Number)**.

Notes

FBT Rebatable vs. Exempt

The Theory

Both **FBT-rebatable** and **FBT-exempt** organisations have a **grossed-up cap of \$30,000 per employee**. Any salary sacrifice benefits exceeding this cap are subject to the full **47% Fringe Benefits Tax (FBT) rate**, with no discounts or concessions.

The key differences between the two are:

- **FBT-rebatable organisations** receive a **47% rebate** on FBT payable within the cap.
- **FBT-exempt organisations** receive a **full exemption** on eligible benefits within the cap.

The **current FBT rate is 47%**. The most common salary sacrifice benefits used by our clients are:

- **FBT expense benefits** (e.g., loan repayments, rent, or credit card payments)
- **FBT meal entertainment benefits** (e.g., restaurant meals)

Both benefits have a **gross-up rate of 1.8868**, meaning their pre-tax deduction limits are:

- **Expense benefits cap:** \$15,899
- **Meal entertainment benefits cap:** \$2,650 (separately capped at \$5,000 grossed-up)

The Breakthrough Way

Salary sacrifice arrangements can be managed **in-house or via an external salary sacrifice provider**.

- **External providers** charge administration fees but offer employees access to a broader range of benefits, including **remote area housing allowances, novated leases, and meal entertainment cards**.
- **In-house management** requires the **TBO Payroll Team** to collect **sufficient substantiation** and process deductions via payroll.

As the **Technical Accounting Team**, the key responsibilities include:

- Understanding **FBT and salary sacrifice arrangements**
- **Preparing reconciliations** to ensure employees remain within their cap
- **Preventing excess salary sacrifice amounts**, which would create an unexpected tax liability for our clients

The Practical Application

If an employee exceeds their salary sacrifice cap, the employer must pay **FBT at 47%** on the excess amount. For example, if an employee exceeds their cap by **\$5,000**, the organisation would be required to pay **\$2,350 in FBT**.

Regular monitoring and reconciliation help prevent these unexpected tax liabilities.

Notes

Common Types of Salary Sacrifice

The Theory

The **FBT year runs from 1 April to 31 March**, and **FBT returns must be submitted by 21 May**.

The most common types of salary sacrifice benefits include:

- **Salary Sacrifice Expense Benefit:** Used for mortgage payments, rent, childcare fees, and school fees.
- **Salary Sacrifice Meal Entertainment:** Employees can submit receipts for **eligible** meal entertainment expenses incurred within the current FBT year. These amounts can then be deducted **pre-tax** via payroll. **Key ATO requirements include:**
 - Expenses must be for **both meals and entertainment** (e.g., dining at a restaurant).
 - **Takeaway, fast food, and delivery services are not eligible.**
 - **Purchasing both food and drinks (including alcohol) typically satisfies the ATO's definition of meal entertainment.**
- **Pastoral Allowance:** This benefit allows **eligible pastors** to receive a percentage of their income **tax-free**, recognising that **pastors typically earn lower incomes**.
 - The **tax-free percentage** must reflect the proportion of their employment **directly related to pastoral duties** and is determined through an **internal review**.

The Breakthrough Way

The **Payroll Team** processes **Salary Sacrifice Expense Benefits** and **Salary Sacrifice Meal Entertainment** as **two separate pre-tax deductions**. This separation allows the **Technical Team** to accurately complete reconciliations for each FBT category.

At the end of the **FBT year (31 March)**, no further deductions can be processed for employees **who have exceeded their cap**. To prevent issues, a **full review of all clients is conducted in February** to ensure that any required reversals are completed **before the end of the FBT year**.

Pastoral allowances allow eligible pastors to receive a portion of their income tax-free. The amount must reflect the proportion of their employment **directly related to pastoral duties**. Since this is determined by the employer, **clients must complete an internal review and provide the relevant percentage to The Breakthrough Office**, as we are **unable to make this decision**.

To ensure accurate processing and tracking:

- **Each employee's pastoral allowance should be set up as a separate deduction type** (e.g., "Pastoral Allowance – Employee 1").
- A **separate balance sheet account and reimbursement type** must be created for each employee.
- **All living expenses** are eligible for pastoral allowance claims.

Reimbursement Process:

- If the reimbursement is **paid directly to a separate bank account** (e.g., a home loan account), it **can be processed via payroll each fortnight**.

- If substantiation is required before reimbursement, a **deduction should occur each fortnight**, and the reimbursement should **only be paid once supporting documentation has been provided**.
- **Supporting documentation must be saved in SharePoint** to ensure compliance.
- **Balance sheet reconciliations are critical** to track how much each employee is owed under the pastoral allowance.

The Practical Application

To reconcile **how much Expense Benefit and Meal Entertainment** has been used per employee during the FBT year, follow the **FBT Deductions by Employee** template:

1. **Export** a transaction listing **for the current FBT year** – only include deductions.
2. **Copy all deduction types** into the **Deduction Types** tab and paste them into **Column B**.
3. In **Column C**, classify each deduction as **Expense Benefit, Meal Entertainment, or N/A** (e.g., non-FBT-related deductions like child support).
4. **Paste the Expense Benefit deduction name** into **Cell D3**.
5. **Paste the Meal Entertainment deduction name** into **Cell E3**.
6. **Paste all employee names** into **Column C**.
7. **Review the conditional formatting** and ensure it applies correctly to all data.
8. **Verify that the 'Difference' row equals zero** to ensure reconciliation is complete.
9. **Check for red-highlighted items** – these indicate **cap exceedances**.
10. **If an employee has exceeded their cap, flag the issue** with the **Technical Team** for discussion with Payroll to determine corrective action.

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Acquittals

Technical Deadlines Resources & Training Guide



Grant Acquittals

The Theory

An **acquittal** is a critical compliance requirement for **most not-for-profit (NFP) organisations**. It provides **grant funders** with a report on how the organisation has used the funds allocated to them.

The acquittal process compares:

- The **original grant budget** submitted with the application (how the organisation intended to spend the funds).
- The **actual expenditure** (how the funds were ultimately used).

Monthly **Profit & Loss (P&L) reviews** are essential to ensure allocations between programs are accurate. **Incorrect allocations can impact future funding.**

Key considerations:

- **Underspending** without prior approval to roll funds forward may result in the **unspent amount being returned to the funder**, potentially reducing future funding.
- **Overspending** means the **organisation is covering the shortfall** using its own reserves.
- As **wages and salaries** are typically the largest NFP expense, the **wages and salaries redirection process** as part of Monthly Reporting is crucial to ensuring accurate program allocations.
- **No transactions should be left unassigned to a program**, as this would create an inaccurate representation of program financials.
- Completing **monthly program reviews** prevents the need for **time-consuming adjustments at year-end** when preparing an acquittal.

The Breakthrough Way

Managing Acquittals in Xero

- Every **grant should have a separate program in Xero** to track its financials accurately.
- A **grant contract must be saved in the current financial year's audit folder** for reference.
- **No manual reallocations should be done outside Xero** (e.g., no redirections in Excel).
- Before submitting an acquittal, the **net profit line should be zero**.
 - If this is **not zero at year-end**, it must be **escalated to the Technical Team Leaders** to determine next steps.
- The **acquittal should be reviewed against the original grant budget** to ensure:
 - Overall expenditure aligns with the approved budget.
 - Each **expense grouping** is within the allocated limits.
- If the **grant funder requires custom account groupings** for their acquittal template, a **Xero custom report** should be set up to simplify future acquittals.

The Practical Application

Monthly Reviews

- As part of **Monthly Reporting**, compare the **Program Profit & Loss (P&L) in Xero** and ensure all necessary **reallocations are posted**.

Completing an Acquittal Report

1. If a **budget template includes subgroupings**, create a **custom report in Xero** that aligns with these subgroup names.
2. If the **budget does not specify subgroupings**, use the **standard Xero P&L** but ensure that:
 - **Salaries, wages, superannuation, and employee provisions** are grouped together under **“Salaries and Wages.”**
3. **Save the final report** in the **Acquittals folder**.
4. **Share the report link in ClickUp** for review by **Zac and Tobi**.
5. Until sign-off is received, **acquittal reports must be reviewed before submission to funders**.

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Audits

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Audit Pack Preparation

The Theory

Who Needs to Be Audited and By When?

Audit requirements for not-for-profits (NFPs) are determined by **thresholds set by the Australian Charities and Not-for-profits Commission (ACNC)**. Each organisation should review these thresholds to confirm their specific obligations.

At **The Breakthrough Office**, we conduct a **hard close at every month-end**, meaning:

- **All accounts must be reconciled, and redirections must be completed.**
- Regular month-end processes **minimise year-end workload**, ensuring financial records are audit-ready throughout the year.
- The **audit process closely mirrors month-end procedures** but requires additional attention to:
 - **Clearing accounts (e.g., other debtors) on the balance sheet** – these should have minimal balances.
 - **Accounts payable (AP) and accounts receivable (AR)** – all items should be reviewed and **written off where necessary**.
 - **Prepayments, accrued expenses, and provisions** – ensuring all supporting documentation is correctly recorded and reconciled.

By maintaining **audit-ready financials year-round**, organisations reduce the risk of major adjustments at year-end.

The Breakthrough Way

The Audit Pack

To **prepare a client's file for audit**, The Breakthrough Office compiles an **audit pack** containing key reconciliations and supporting documents.

Audit Folder Structure

Each client's **SharePoint folder** contains an **Audit** folder, with a subfolder for the relevant **financial year**. Inside, the following structured subfolders should be maintained:

- **Assets** (including subfolders for Current Assets, Fixed Assets, Non-Current Assets, and Bank)
- **Liabilities**
- **Payroll**
- **BAS**
- **Audited Financial Statements** (if applicable)

Required Documents by Folder

1. Assets Folder:

- **Current & Non-Current Assets:**
 - **Each account's month-end reconciliation sheet** should be saved as an **individual file (pasted as values)** and named:
 - **[Account Code] – [Account Name]**
 - **Supporting documents** (e.g., Aged Receivables Summary) should be saved in this folder.

- For all prepayments, a PDF of the tax invoice must be saved.
 - **Bank Accounts:**
 - Each bank account should have its own subfolder containing:
 - Xero bank reconciliation report
 - Bank statement (showing values match at year-end)
 - **Fixed Assets:**
 - Fixed assets reconciliation and depreciation schedule must be included as a PDF.
- 2. Liabilities Folder:**
- **Trade Creditors / Accounts Payable:**
 - Aged Payables Summary (exported as a PDF)
 - **Grants / Income in Advance:**
 - All grant contracts and month-end grant reconciliation sheets (as per the month-end workflow)
 - **Superannuation & PAYG Payable:**
 - Payroll Activity Summary and reconciliation
 - **Accrued Expenses:**
 - Month-end reconciliation sheet
 - **Annual Leave Provisions:**
 - Month-end reconciliation sheet
 - Annual leave provision report (exported as a PDF)
 - **Accrued Wages & Long Service Leave:**
 - Month-end reconciliation sheet
 - **Non-Current Liabilities:**
 - Month-end reconciliation sheets for all accounts
- 3. Payroll Folder:**
- Payroll Activity Summary for the full financial year
 - Completed FY Payroll Reconciliation Template
- 4. BAS Folder:**
- All Business Activity Statements (BAS) and Instalment Activity Statements (IAS)
 - ATO Integrated Client Account Statement (saved as a PDF)
- 5. Audited Financial Statements (if applicable):**
- If The Breakthrough Office is preparing the audited financial statements, they should be produced using the Xero Custom Report and saved in this folder.

The Practical Application

Key Month-End and Year-End Tasks for Audit Preparation:

1. Ensure all accounts are reconciled as part of the month-end process.
2. Clear all outstanding balances in clearing accounts (e.g., Other Debtors).
3. Review Accounts Payable (AP) and Accounts Receivable (AR):
 - Identify and write off any items as necessary throughout the year, not just at year-end.
4. Ensure correct folder structure and naming conventions in the client's SharePoint audit folder.
5. For all bank accounts:
 - Verify that bank reconciliations match bank statements at year-end.
6. For prepayments, ensure a tax invoice is saved as a PDF.
7. Save and format reports as required for payroll, liabilities, and grant reconciliations.
8. If preparing audited financial statements, use the Xero Custom Report.

By **systematically following this process throughout the financial year**, audits become a **smooth and efficient** process, minimising last-minute adjustments.

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Budgets

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Budgets & Not for Profits

The Theory

The Importance of a Budget for NFPs

Budgets play a crucial role in **Not-for-Profits (NFPs)** by ensuring financial sustainability and compliance with funding requirements. They serve as:

- A **financial roadmap**, helping organisations plan income and expenses.
- A key **reporting tool for funders and auditors**, demonstrating financial responsibility.
- A mechanism for **tracking financial health**, ensuring programs operate within their funding limits.

As discussed in the Acquittals section, a **surplus** means the organisation has **more income than expenses**, which can be reinvested into programs or used to build financial reserves. A **deficit** (loss) means expenses exceed income, which may indicate a need for financial adjustments to maintain sustainability. However, individual grant programs budgeting for a surplus highlight grant which may require funding to be returned to the funder resulting in reduced funding in following financial years.

Budget vs. Forecast: Understanding the Difference

- A **budget** is a **board-approved financial plan** for the entire financial year.
 - It is usually finalised **before the start of the financial year**.
 - Auditors use it as a benchmark to assess financial health of the organisation.
- A **forecast** is an **update to the budget** based on actual financial performance and external changes.
 - Typically **updated quarterly or every six months**.
 - Adjusts for **major financial changes**, such as:
 - A **new grant received**.
 - Changes in **staffing levels and expenses**.

Program Budgets and Organisational Budgets

Most NFPs operate with two levels of budgeting:

- **Program Budgets** – individual budgets for **each funded program**, often required for grant acquittals.
- **Organisational Budget** – consolidates **all program budgets along with administrative overheads** to provide a complete financial picture.

The Breakthrough Way

At **The Breakthrough Office**, we follow a structured approach to ensure **accurate budgeting and alignment with client needs**:

1. **Client Input:**
 - The **Breakthrough Budget Template** is provided to the client at the start of the budgeting season.
 - Clients complete the template with key details, including **staffing, grants, and other expenses**.
2. **Budget Drafting & Review:**
 - Once the completed template is received, we **prepare the first draft of the budget in Excel**, ensuring all income and expenses are captured.
 - The draft is then **reviewed by the client**, and any necessary changes are made. This process can take **several weeks** as refinements are made.
3. **Three-Way Forecasting:**
 - Once finalised, the **approved budget is uploaded to Fathom** for a three-way forecast, covering:
 - **Profit & Loss Statement**
 - **Balance Sheet**
 - **Cash Flow Statement**
4. **Board Approval & Presentation:**
 - The **budget is presented at the client's board meeting** for approval. Our **executive team often attends these meetings** to present and provide insights.
5. **Ongoing Budget Management:**
 - Throughout the year, we **maintain ongoing communication** with the client regarding their budget. **Updated forecasts are provided as needed** to reflect changes in funding, staffing, or other key financial factors.

This structured approach ensures that **budgets remain accurate, transparent, and responsive to the organisation's needs**.

The Practical Application

Completing the Budget Spreadsheet

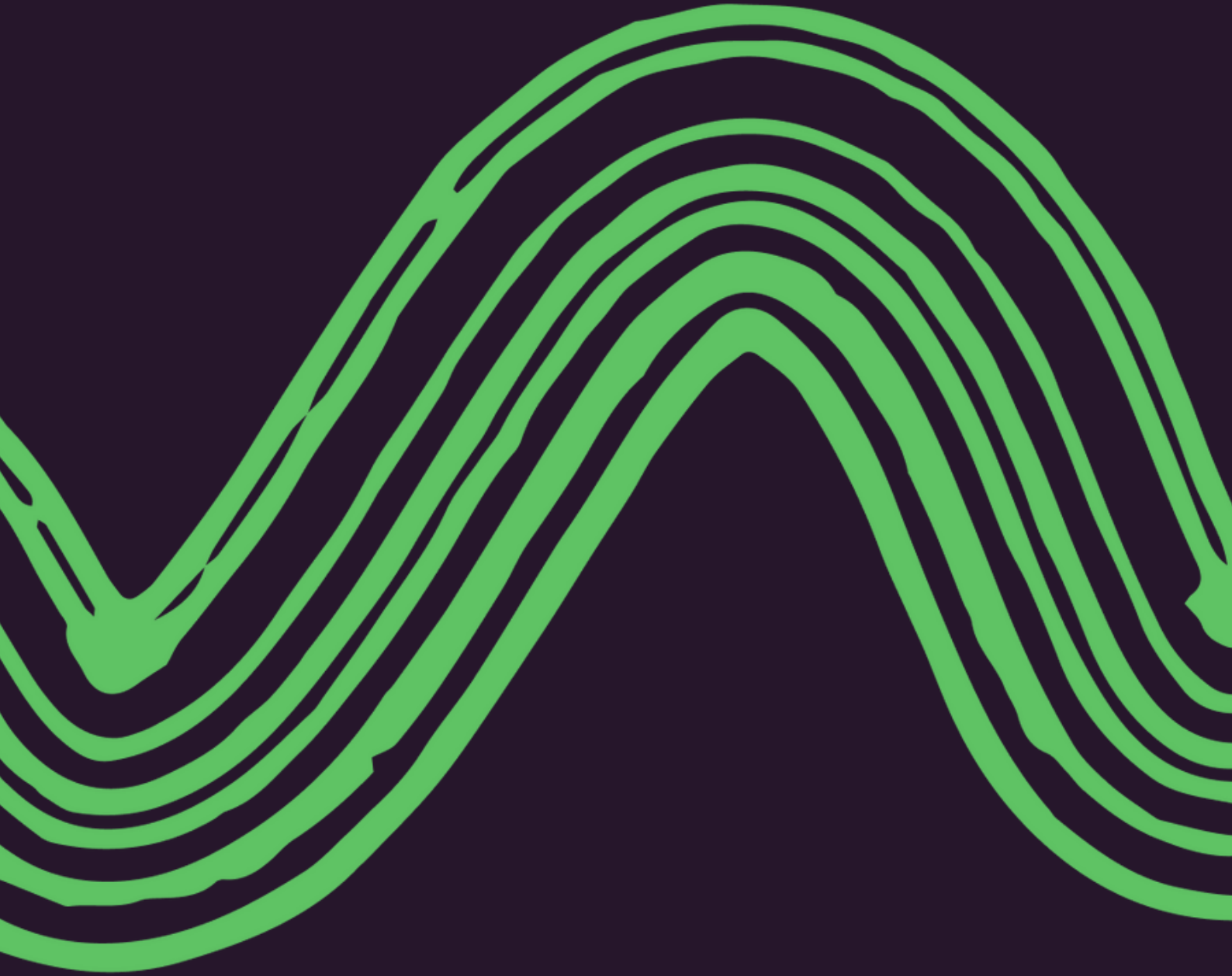
1. **Import Financial Data:**
 - a. Paste the **Program Profit & Loss for the current financial year** into the **'Actuals' tab**.
 - b. Update **Cell C1** to reflect the **number of months completed** in the current financial year.
 - c. Ensure all **GL lines** are included in both the **Annualised tab** and the **Budget tab**.
2. **Employee Remuneration & Wages Budgeting:**
 - a. Export **employee remuneration data for active employees** and paste it into the **Employee Remuneration tab**.
 - b. Ensure all employees have **standard units and a unit rate** applied.
 - c. Update program names in the **Employee Remuneration tab** to reflect **client-specific program names**.
 - d. Allocate wage percentages for each employee **based on the latest Wage Redirection Spreadsheet**.
 - e. In the **Wages Budget tab**:
 - i. Ensure **sufficient rows** for all employees.
 - ii. Copy employee names from Employee Remuneration tab.

- iii. **Check for formula errors.**
 - iv. Verify that the **'Difference' value at the bottom of the sheet is zero.**
 - v. Update program names in the **summary table** and confirm that **calculations align with the wage model.**
 - vi. Ensure the **highlighted values in Row 2 are correct.**
- 3. Finalising the Budget Tab:**
- a. Update **program names** in the **Budget tab.**
 - b. Ensure **wage figures match the total in the Wages Budget tab.**
- 4. Key Budget Information Tab:**
- a. Ensure **income figures match the current financial year's annualised figures.**
 - b. These figures will be updated **through discussions with the client.**
- 5. Client Review & Submission:**
- a. Provide the **prepared budget spreadsheet** to **Zac and Tobi** for review.
 - b. Zac and Tobi will **send the budget to the client** for their final updates.
 - c. Clients will **update income, employee details, and miscellaneous items** as needed.
 - d. Any changes will be incorporated into the spreadsheet before finalising.
- 6. Finalisation & Importing into Fathom:**
- a. Once the client approves the budget, it is **imported into Fathom.**
 - b. The **Balance Sheet and Cash Flow Forecast** will also be completed.
 - c. **Further training will be provided** on these steps as required.

Notes on the Budget Process

- 1. Always use the **Breakthrough Budget Template** for all client budgets.
- 2. **Prepare and maintain both program and organisational budgets** for a holistic view of financial performance.
- 3. Ensure all templated names i.e. program 1 are updated to be client specific

Notes



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