USAID FROM THE AMERICAN PEOPLE | HIV/AIDS Service Capacity Project in Ukraine

NGO FINANCIAL MANAGEMENT

Training for representatives of HIV servicing NGO

TRAINER'S MANUAL

Authors: Svitlana Zakrevska
and Serhyi Kotov

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Kyiv

CONTENTS

Preface	3
Pre-training evaluation	4
Introduction. Introduction of participants, expectations, agenda overview, working procedure	5
Session 1. Financial viability of organizations	8
Session 2. Revenue management. Legal aspects	18
Session 3. Revenue management. Economic aspects	33
Session 4. Budget management	50
Session 5. Cost management	65
Session 6. Control and audit	80
Training wrap-up. Summing up, post-training evaluation	98
Supplementary materials	100
Key to accounting and taxation tests, contained in Annex 6.3 to Session 6	118
List of literature for additional reading	120

PREFACE

This manual was developed to help HIV servicing NGO learn and practically master the materials of the training "Financial management for NGO".

The manual objectives:

- Introduce trainees to an integrated system of NGO financial management;
- Provide information about legal and economic aspects of NGO financial capacity;
- Help trainees hone their skills in using financial management tools such as financial and tax planning, budgeting, revenue, cost and risk management;
- Broaden trainees' knowledge of raising funds from alternative (non-donor) sources;

The manual structure:

Main part – theory and practice of NGO financial management, materials for training activities, for additional reading and relevant explanations;

Annexes – documents, samples, tables that were used during the training and that trainees can avail themselves of in their further work.

Why is financial management so important for NGO?

Ukrainian NGO do not consider financial management a priority for themselves. Therefore, it is often the case that many of them entirely lack systems of financial planning and monitoring, which has a very adverse impact on their viability. To achieve sustainable development in the tough actuality of today NGO managers should develop understanding and confidence that are necessary to use funds effectively. Financial management best practices will:

* help managers use resources efficiently and effectively;

* improve NGO reporting to fiscal authorities and donors;

* help earn partners and beneficiaries' respect and trust;

* help NGO better compete for resources that are becoming increasingly limited;

* help NGO attain financial sustainability in the longer term.

Thus, arguments in favor of financial management are very strong!

We wish you every success in mastering this complicated yet interesting manual.

Training contents

The training will cover the following topics:

- Organizational financial viability
- NGO revenue management (legal aspects)
- NGO revenue management (economic aspects)
- NGO budget revenue management
- Control and audit

Who is facilitating the training?

This training is facilitated by a team of two trainers who are experts in NGO financial management.

Who is the target audience?

The training is indented for NGO managers and financial managers. The group of trainees should not exceed 25 people.

How long will the training last?

The training will last 3 days or 20 hours.

Pre-training evaluation

The following questionnaire is used for pre-training evaluation. Trainees will complete it before the start of the training.

1. Full name _____
2. Name of your organization _____
3. Contact information:
Address _____
Telephones: office _____ mobile _____
Email addresses: _____

4. Please evaluate your knowledge of the below topics before the start of the training by specifying a respective level:

Topic	**I have never been interested in the topic and have no knowledge**	**I lack knowledge but I need it**	**I have some knowledge but I'd like to improve it**	**I have enough knowledge to impart it to others**
Organizational financial viability				
NGO revenue management (legal aspects)				
NGO revenue management (economic aspects)				
NGO budget revenue management				
Control and audit				

5. Which of the proposed topics interests you most and you would like to get more information on it?
_____
_____

6. Are there any barriers that may prevent you from working effectively during the training? If yes, what assistance from the trainers will you need to address these barriers?
_____
_____

Introduction. Trainees' introductions, expectations, agenda overview, working procedure

- **Objectives:**
  1. Identify trainees' expectations.
  2. Review training objectives.
  3. Review training agenda.

- **Time**

30 minutes

- **Materials**

Flipchart paper; markers; tape; pens and paper for trainees.

- **Steps**
  1. Greet trainees.
  2. Ask trainees to introduce themselves using the following scheme:
     - Full name;
     - Name of the organization they represent;
     - Give at least one expectation from the training.
  3. Review training objectives highlighting those that reflect trainees' expectations.
  4. Review the training agenda.

- **Handouts**
  1. Training agenda (Annex 1).

Annex 1

Training agenda

Day 1

Time	Activity
10.30 – 11.00	Registration, check-in, pre-training evaluation
11.00 – 11.30	**Opening, welcome. Training agenda overview.**
11.30 – 12.00	**Participants' introduction, expectations, agenda overview, working procedure, administrative issues**
12.00 – 13.00	**Session 1. Financial viability of an organization.** Presentation: - Financial goals and their connection with the strategy. - Financial management of an organization. - Basic concepts and tools.
13.00 – 14.00	**Lunch**
14.00 – 14.45	**Session 2. Revenue management: legal aspects. NGO revenue sources.** Presentation: - Advantages and drawbacks of various revenue sources. - Comparative analysis of various revenue sources
14.45 – 15.30	**Session 2 (continued). NGO revenue sources.** Presentation: - Unprofitability codes. - Types of revenue, exemption from profit tax for various types of NGO.
15.30 – 15.45	**Coffee/tea break**
15.45 – 16.45	**Session 2 (continued). NGO revenue sources. Passive income. Comparative analysis and situational exercises in assessing various types of revenue.** Presentation, small group activity
16.45 – 17.45	**Session 2 (continued). NGO revenue sources. NGO core activities.** Presentation: - Legal aspects of charged service delivery.
17.45 – 18.00	**Day 1 wrap-up**

Day 2

9.30 – 9.45	**Getting started, Day 1 overview**
9.45-10.15	**Session 3. Revenue management: economic aspects.** **Presentation:** - Stages of NGO activity in charged service delivery. - Investment effectiveness assessment (trainer bonus)
10.15 – 11.00	**Session 3 (continued). Revenue management: economic aspects.** **Presentation**: - Economic aspects of charged service delivery. - Limitations for NGO. **Business game on entering into social entrepreneurship.**
11.00 – 11.30	**Coffee/tea break**
11.30 – 12.00	**Session 3 (continued). Revenue management: economic aspects.** **Game discussion.**
12.00 – 13.00	**Session 3 (continued). Revenue management: economic aspects.** **- Operation of resource and product (services) markets.** **Presentation**: Marketing analysis and strategy.
13.00 – 14.00	**Lunch**
14.00 – 14.30	**Session 3 (continued). Revenue management: economic aspects.** **- Life cycle of a service.**

	Presentation: - Basic pricing methods. - Breakeven point, determining minimum sales and cost of a service. **Practical exercises in calculating the breakeven point**
14.30 – 15.30	**Session 3 (continued). Revenue management: economic aspects. Life cycle of a service.** Analysis of practical exercise results. Discussion. **Presentation**: - Contribution to coverage. - Behavior strategy for an unprofitable service. - Comparison of cost reduction and price increase effects.
15.30 – 15.45	**Coffee/tea break**
15.45 – 16.30	**Session 3. Revenue management, economic aspects (continued) – life cycle of a service (continued).** Exercises in charged service delivery. Analysis of exercises. Group discussion
16.30 – 17.00	**Session 4. Budget management.** **Presentation**: - NGO budget types. - Classification and specific features of budgets.
17.00 – 17.45	**Session 4 (continued). Budget management.** **Presentation**: - Sales budget. Practical exercises. Group discussion.
17.45 – 18.00	**Day 2 wrap-up**

Day 3

9.30 – 9.45	**Getting started, Day 2 overview**
9.45 – 11.00	**Session 5. Cost management. Cost classification.** **Presentation**: - Administrative costs. - Administrative budgeting. - Administrative budget coverage sources. Group discussion.
11.00 – 11.45	**Coffee/tea break**
11.45 – 12.15	**Session 5 (continued). Cost management.** **Presentation**: - Optimization of the expenditure system through a system of contracts
12.15 – 13.00	**Session 5 (continued). Cost management.** **Presentation**: - Project budgeting.
13.00 – 14.00	**Lunch**
14.00 – 14.45	**Session 5 (continued). Cost management.** **Presentation**: - Cash flow budget. Examples. Small group work. Practical exercises.
14.45 – 15.30	**Session 6. Control and audit – reporting** **Presentation:** - Financial reporting system - Control and audit – common accounting mistakes – tests and discussion
15.30 – 16.00	**Coffee/tea break**
16.00 – 17-00	**Close, wrap-up** **Post-training evaluation**

Session 1. Organizational financial viability

- **Objectives:**
  1. Identify key factors of NGO financial stability and viability.
  2. Trace a link between financial goals and organizational strategy.
  3. Review key financial management tools and concepts.

- **Time**

1 hour

- **Materials**

  Flipchart paper; markers; tape, overhead projector, slides.

- **Steps**
  1. Start with the situational game (case example, Annex 1.3). Ask trainees to analyze the importance of organizational viability. Ask them questions listed after the case example. How trainees could avoid a similar situation in their organizations.
  2. Explain to trainees that before starting the topic of financial management in nonprofits it is necessary to review five key elements of **organizational viability.** These elements are part of any organization's activity but it is not often that one can see their clear interaction.
  3. Explain to trainees the concept of financial viability. Its connection to the organization's strategy. How to set financial goals of the organization. What criteria these goals should meet. Ask trainees to formulate financial goals for their organizations.
  4. Key financial management tools and their purpose. Financial management tools review sequence.

Recap. Recap the session once again stressing the importance of financial viability and correctly set financial goals.

- **Handouts**
  1. Presentation "Financial viability" (Annex 1.1);
  2. Reference material for the trainer (Annex 1.2);
  3. Case example "Financial viability" (Annex 1.3)

Presentation. Financial viability

USAID FROM THE AMERICAN PEOPLE | HIV/AIDS Service Capacity Project in Ukraine

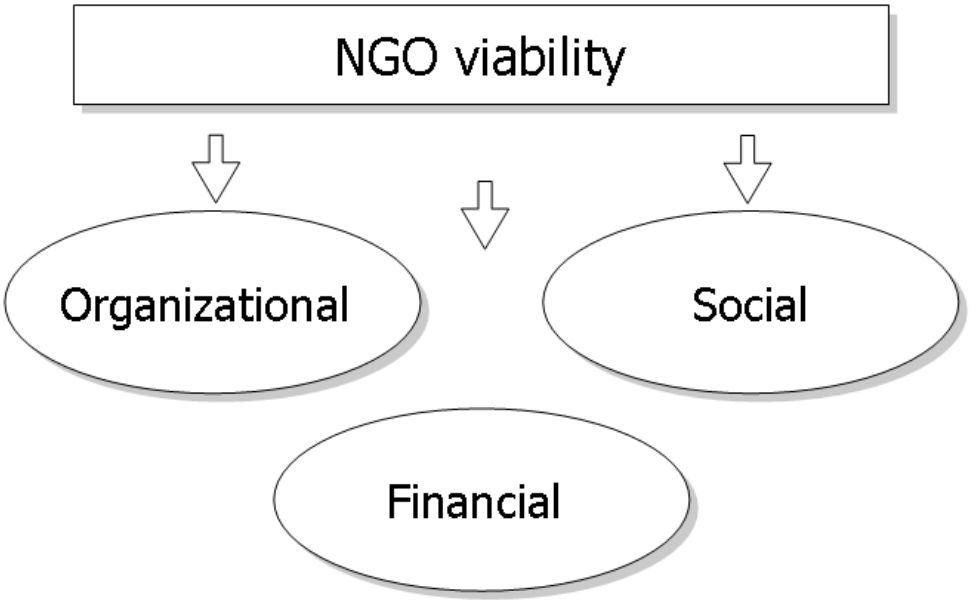
Organizational financial viability

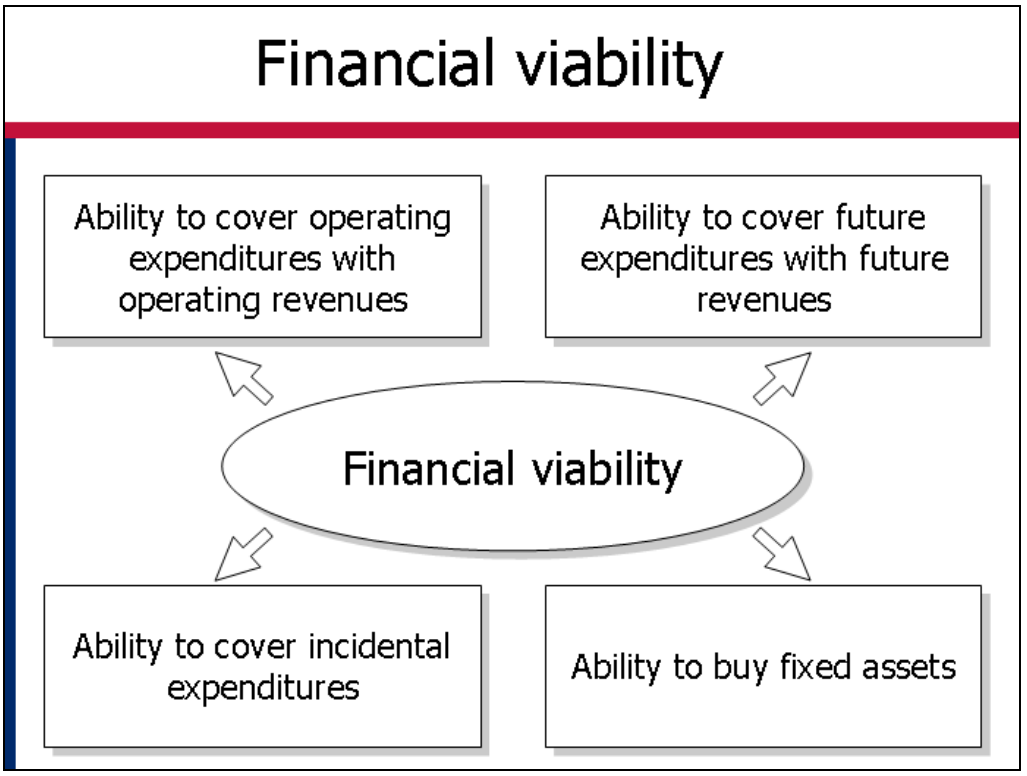
Financial management training for HIV servicing NGO

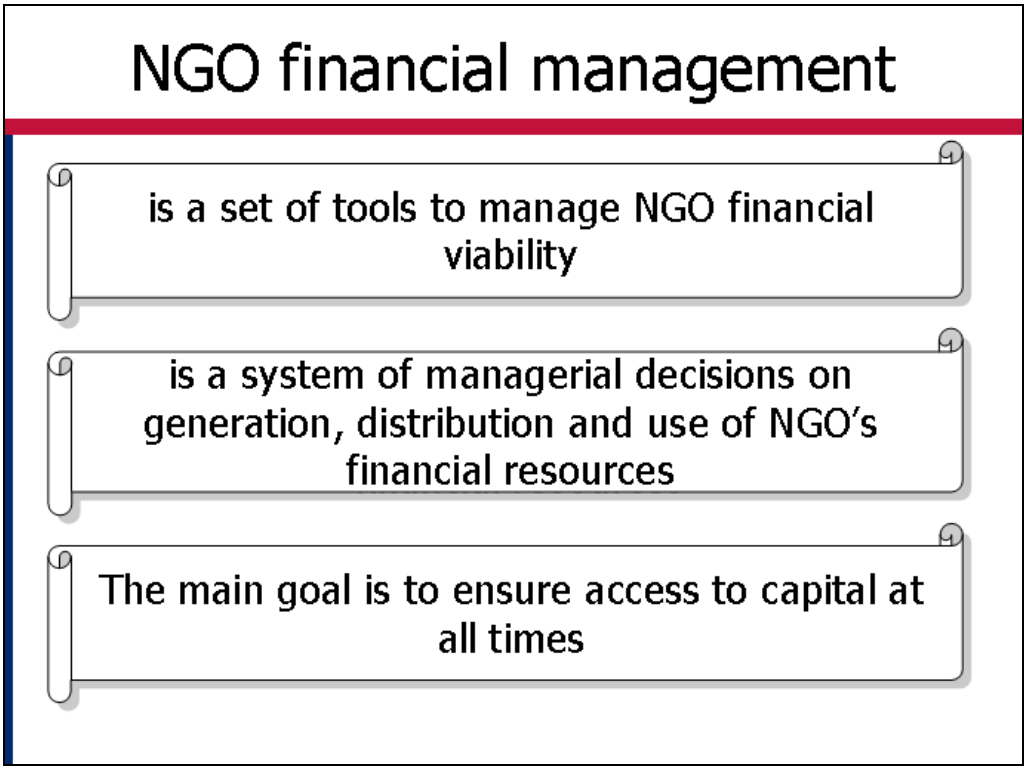
Kyiv, December 2009

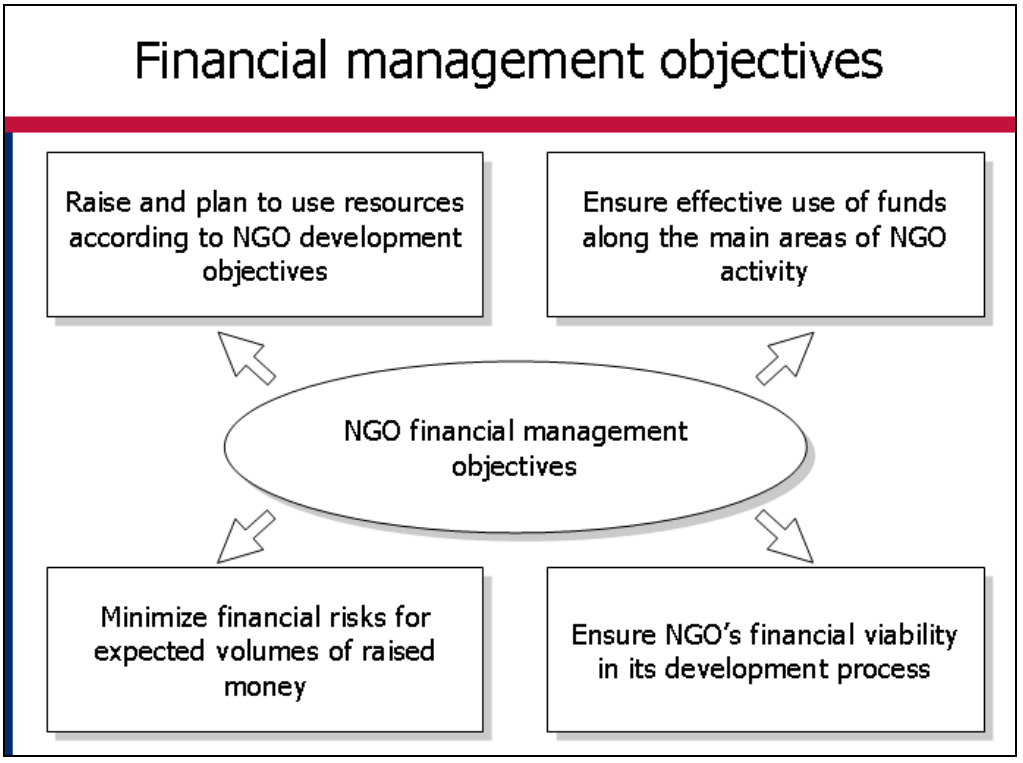
Svitlana Zakrevska, Serhyi Kotov,
Consultants,
All-Ukrainian Charitable Foundation "Coalition of HIV Servicing Organizations

NGO viability




Financial viability
Ability to cover operating expenditures with operating revenues
Ability to cover future expenditures with future revenues
Financial viability
Ability to cover incidental expenditures
Ability to buy fixed assets


NGO financial management
is a set of tools to manage NGO financial viability
is a system of managerial decisions on generation, distribution and use of NGO's financial resources
The main goal is to ensure access to capital at all times


Financial management objectives
Raise and plan to use resources according to NGO development objectives
Ensure effective use of funds along the main areas of NGO activity
NGO financial management objectives
Minimize financial risks for expected volumes of raised money
Ensure NGO's financial viability in its development process

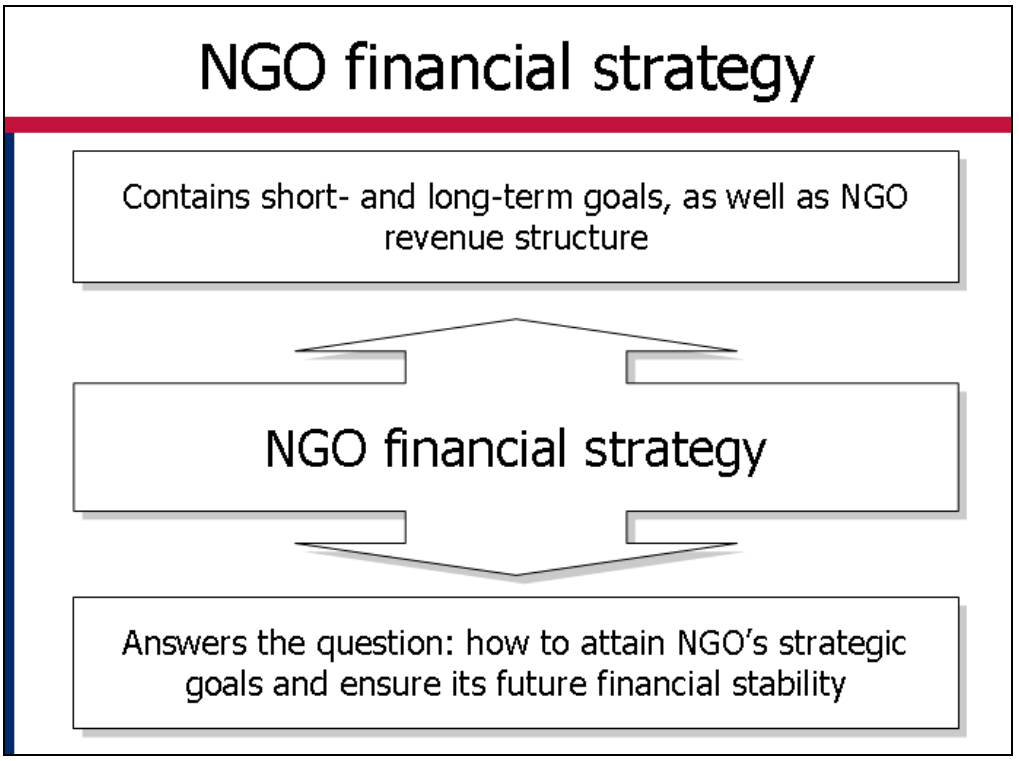
NGO planning pyramid
Vis ion
Mission
Goals (strategic, financial)
Strategic plans
Tactical plans (activity plans)
Financial strategy
Operational budgets
TIME

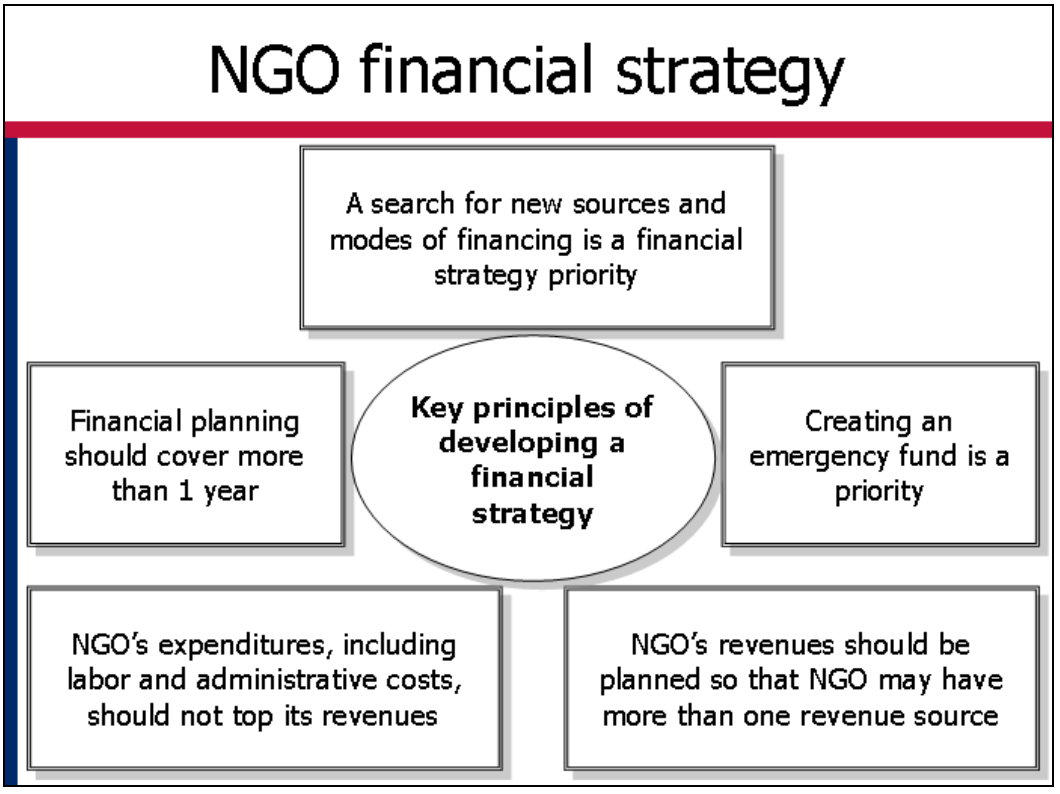
Examples of financial goals

Expense structure	Revenue structure	Management
From 2010 on, administrative expenses should not exceed 10% of all expenditures	Diversify the financial structure so that revenues from one sources do not exceed 25-30%	From 2010 on, financial planning should be based on budgets of 2 previous years

Examples of financial goals

Expense structure	Revenue structure	Management
Annually, commit at least 30,000 UAH to the emergency fund	By the end of 2010 financing from local authorities should account for at least 25% of the overall annual budget	By the end of 2010 set up a system of NGO internal control and reporting


NGO financial strategy
Contains short- and long-term goals, as well as NGO revenue structure
NGO financial strategy
Answers the question: how to attain NGO's strategic goals and ensure its future financial stability


NGO financial strategy
A search for new sources and modes of financing is a financial strategy priority
Financial planning should cover more than 1 year
Key principles of developing a financial strategy
Creating an emergency fund is a priority
NGO's expenditures, including labor and administrative costs, should not top its revenues
NGO's revenues should be planned so that NGO may have more than one revenue source

Annex 1.2

Reference material for the trainer

Financial management is not a simple accounting practice. It is an important element of program management and it should be regarded as a separate activity overseen by an auditing service. Financial management includes planning, organization, control and monitoring of financial resources for an organization to achieve its goals.

Financial management for NGO is like running maintenance for a car. Unless you fill your car with good quality gas and oil and have it serviced regularly, the car won't work properly. A car not serviced will sooner or later break down and its passengers won't reach their destination. In practice, financial management means taking action to ensure a healthy financial state of an organization and leave nothing to chance.

Furthermore, the existence or absence of developed financial management will directly impact NGO's financial viability.

Concept of NGO financial stability. Seven pillars of financial management. It is useful to identify a set of best practice principles that can be used as a benchmark for developing proper financial management in NGO. These principles help managers see the usefulness of effective financial management and proper staff performance. Let us take a look at each of the "Seven pillars of financial management" as a separate goal to work towards.

1. ***Consistency.*** A financial policy should be time-consistent. This ensures the effectiveness and transparency of activities, specifically financial reporting. At the same time, systems can be modified and improved if an organization changes. Inconsistent approaches to financial management can be a sign of financial manipulations inside an organization.
2. ***Accountability.*** An organization should account for the use of its resources and its achievements to its stakeholders, including beneficiaries. All stakeholders have a right to know how the money was spent and how their authority was used. NGO must account for their decisions and actions, and publish their financial reports.
3. ***Transparency***. An organization should be open about its operation and provide information about its activities and plans to stakeholders. Transparency implies accurate, detailed and timely financial reporting to stakeholders, including beneficiaries. If an organization lacks transparency, one can get an impression that it has something to conceal.
4. ***Viability***. To ensure financial viability an organization's expenditures should match its revenues, both on the operational and strategic levels. Viability reflects NGOs' financial integrity and reliability. Trustees and managers of an organization should develop a financial strategy showing how NGO will meet its financial obligations and implement its strategic plan.
5. ***Integrity***. NGO should work honestly and properly. For example, managers and board members should set an example by adhering to the established policy and procedures, and declare their own interests, which at times may run counter to their responsibilities. Honest financial record-keeping and reporting is conditional on the accuracy and completeness of financial accounting.
6. ***Oversight***. An organization must oversee the financial resources it has been entrusted with and their target use. A decision-making body (e.g. the board) should assume joint responsibility for this. In practice executive staff ensure proper financial oversight through thorough strategic planning, financial risk assessment and creation of proper oversight systems and means.
7. ***Accounting standards***. A system of financial accounting and recordkeeping should meet internationally accepted accounting standards and principles. Any accountant in any country should be able to see the workings of the system that an organization is using for its financial accounting.

A tip from us: These 7 pillars can be used as a checklist to reveal strengths and weaknesses of your organization.

Financial planning process

Financial planning is both a strategic and operational process that is aimed at reaching specific goals. This process involves both building long-term financing strategies and short-term budgets and projections. Financial planning is the basis of effective financial management. It does not start with budgets and figures. Effective budgeting is feasible if it is based on a good plan. You cannot project financial indicators unless you have a clear vision of what you are going to do and how.

Pyramid of planning

NGO are created with an aim of achieving specific goals. Typically, they state these goals in a *strategic plan*. A strategic plan consist of several parts (See.. Pyramid of planning – Figure 5 below), starting from a description of long-term goals as Vision or Mission, or both of these, to a more detailed description of the ways to implement the mission. As the level of detail increases, the temporary horizon of planning narrows and NGO staff's involvement in the planning process broadens.

Vision. Vision is the most long-term goal of an organization i.e. this is a challenge that NGO cannot address single-handedly, yet is working towards a solution. For instance, UN vision consists in ensuring "peace in the entire world".

Mission. The majority of NGO describe their mission in their charter documents. A mission elucidates goals and values of an NGO in the form of several general proposals.

Goals. Goals are components that help an NGO carry out its mission. Goals is the focus of an NGO's activities that clearly shows what the NGO aspires to achieve within a specific time span. Goals should be in line with the SMART principle (specific, measurable, achievable, realistic and time-bound).

***Strategy* .** Strategies set forth a goal achievement order for an NGO. Strategies describe actions aimed at attaining each goal.

Plans. A strategy can be divided into several more specific and detailed plans for each objectives, function or project. The temporary horizon of plans (about 1 year) is usually shorter than the one for strategies and goals, and plans are regularly revised in the course of their implementation. Budgeting relies on plans.

Annex 1.3

VIABILITY OF THE ORGANIZATION “ECOLOGY”

Situational exercise

Anatolyi Andriyovych Shuliak, head of the Cherkasy city society "Ecology" was satisfied. He had just signed a contract with the Cherkasy city water and wastewater treatment plant to design an effective water supply model for the city. This was an achievement for the organization that had long planned to create something similar in order to raise environmental awareness of school students.

The idea to create a water supply model occurred to Serhyi Ovcharenko, director of the water and wastewater treatment plant, after he visited the partner city of Des Moines (USA). His counterpart, L.D.Mc-Mallen, director of the local water and wastewater treatment plant, demonstrated such a model to him during the visit. On returning from the USA Serhyi called Anatolyi Andriyovych and asked whether “Ecology” could make the model.

A.A.Shuliak in turn brought up this issue during a meeting with Volodymyr Husev, a member of the Society, who worked in a design institute and had experience of such work. After getting a positive answer A.A.Shuliak convinced the director of the water and wastewater treatment plant that the organization could do this work.

The contractual value of work amounted to 7400 UAH. The contract stipulated a 50percent advance payment with the remaining amount to be paid after the completion of work. Straight after the signing of the contract the water and wastewater treatment plant paid the first half of the amount to the Society. Husev got down to work with enthusiasm.

> *Note. The city society "Ecology" was founded in February 1988 in response to the Chernobyl disaster. The society became the first hub of democracy in the Cherkaska oblast. At the best of times the "Ecology" gathered 5,000 meetings. Its achievements included the revocation of a decision to build the Chyhyrynsk nuclear power station, ecologic peer review of a construction project for a military waste repository in the Kapitanisvk forestry, picketing of authorities to prevent environmental contamination by municipal chemical enterprises. The organization was basically set up to hold public actions and it was hardly involved in any financial activities.*

Andryi Zaviriukha worked as accountant for the “Ecology” on a voluntary basis. He also worked as electrician at one of the local enterprises and was a extramural student at a higher education institution in the specialty “Finance and credit”. Andryi did not have any accounting experience. The procedure of financial relationships between the accountant and implementer (Husev) was as follows. Husev would tell how much money he needed to buy materials and component parts, and Zaviriukha would receive the amount in a bank and would give it to Husev to account for although the latter never accounted for the money and did not submit any confirming documents. Husev would buy components at a market and never asked for confirming documents because he did not think it necessary.

Before long the money earmarked for the salary and component parts ran short. The model was partially created but far from being completed. Husev said that to complete the work he needed some more money, about 1,000 UAH. The director of the water and wastewater treatment plant referred to the contract, and would not give the money demanding that the work be finished.

To resolve the situation Anatolyi Andriyovych convened the Society board. The meeting was heated. Lawyer Serhatyi, a board member, started to threaten to have Husev and Zaviriukha put in jail unless they remedy the situation. After that meeting Zaviriukha went to take his end-of-term exams and Husev disappeared. Later it became known that Husev had left to permanently reside in Russia.

The situation escalated. Nobody barring Husev knew how to finish the work. At that time state taxation authorities in Cherkasy conducted planned audits of the "Ecology" and found out that the profit received for the model was not generated from basic activity and was subject to the profit tax.

Overall, the difference between profits and expenditures related to these profits was subject to taxation. However, as there were no documents confirming the expenditures the total profit amount was to be taxed. Also, when the audit was conducted the deadline for profit tax payments expired, so the organization had to pay not only the tax but also a penalty for the payment delay.

Now no money was left at all. After returning from his end-of-term exams accountant Zaviriukha turned in a notice of resignation, which the lawyer advised Anatolyi Andriyovych not to sign. After several warnings the water and wastewater treatment plant filed a petition with court but it failed to recover any money from the “Ecology” because there wasn’t any in its account.

As a result the organization’s image is compromised, there are conflicts among its members, the bank account is blocked, and the board head is in a bad mood.

© Authors: Anatolyi Rekun and Yuryi Novikov, 2004.

Issues for discussion.

- Why did the organization turn out to be unviable?
- Can something be done to resume its normal activity? Specify.
- Think about factors/criteria that indicate NGO viability?
- Does your organization meet these criteria?

Session 2. Revenue management: legal aspects

- **Objectives:**
  1. Present key revenue sources for NGO.
  2. Identify a link between unprofitability codes and tax exemptions.
  3. Review in detail types of revenue exempt from the profit tax and identify ways for NGO to raise these revenues.

- **Time**

2 hours 30 minutes

- **Materials**

  Flipchart paper; markers; tape, paper A2, 4 packs of felt pens, 7 envelopes B6, 50 UAH in small denominations, 4 calculators.

- **Steps**

1. Cash game. Trainees will be asked to find envelopes with money (1- 10 UAH). Draw comparison with searching for revenue sources. (Trainees will keep the money they have found and use it during the paid services and budgeting exercise).

Issues for discussion:

- What trainees felt when they found the money.
- How they seek money for their organizations.
- Why some of them did not take any action to look for the money.

2. "Gallery" activity. Divide the trainees into 4 groups. On flipchart paper sheets each group will write advantages and drawbacks of the following revenue sources: grants, business, budget, etc. After a while trainees will exchange their sheets. After the groups have finished their work on flipchart paper sheets, discussion is conducted.

Issues for discussion:

- What revenue sources are there for NGO?
- In what large categories can they be combined?
- Which of these sources do trainees use in their organizations?

3. Overview of external revenue sources for NGO. For the exercise "Become a charity donor to get exemptions" trainees divide into 3 groups and acquaint themselves with extracts from Ukraine's legislation regarding tax exemptions for commercial entities that provide money, goods or services to nonprofits.

4. Presentation – the groups will present their conclusions and calculations done during exercise 3.

5. **Overview of internal revenue sources for NGO**. Ask trainees a question **–** "The organizations with what code are present here now?" The answer to this question will help understand what issues should be highlighted at this stage. For example, if trainees do not know unprofitability codes of their organizations, it is worth discussing the interrelation between codes and tax exemptions.
If there are no trainees with code 11 at the training, there is no need to discuss the specificity of taxation under this code in detail.

6. Start the presentation "Types of revenue exempt from the profit tax for various types of NGO" (Annex 2.1). Demonstrate the impact of unprofitability codes on profit tax exemptions.

7. Divide trainees into 4 groups. Pass around questions and extracts from legislation that contain answers to the questions. Ask trainees to study the legislation extracts, hold group discussions and prepare presentations with answers on the flipchart.

Issues for discussion:

- Does a nonprofit pay the profit tax under codes 05, 06, 11? In what cases, and how is this tax calculated??
- Does a nonprofit pay the value-added tax (VAT) under 05, 06, 11?. In what cases??
- Do nonprofits enjoy tax exemptions for gratuitous financial aid under codes 05, 06, 11? In what cases?
- Do for-profit organizations enjoy any exemptions if they make donations to NGO in the form of gratuitous financial aid?

8. Ask trainees to present their answers to the questions and **discuss and correct mistakes.**

9. **"Translator" Exercise** – passive incomes – divide trainees into 3 groups, pass around legislation extracts and lawyers' comments describing passive income types. Ask trainees to make a presentation that translates text from legal into common parlance.

10. **Present** and discuss results, and correct mistakes.

11. **Review the material.** In the same groups solidify understanding of a passive income in practice by means of a solution and analysis of case examples.

12. **Groups present their work results**, which are simultaneously discussed.

The facilitator stays neutral without commenting on the presentations to avoid biasing trainees. However, the facilitator can provide elucidation if it is necessary. Upon hearing representatives of each group give trainees an opportunity to comment on each presentation.

13. Legal aspects of charged services delivery. Brainstorming session

Issues for the brainstorming session:

- What legal forms of nonprofits' economic activity do you know?
- What legal forms of charged services delivery are possible for organizations that were discussed in the case examples?

14. "New director" role play -

- Trainees act as counsels, the 1st trainer acts as director, the second one as tax officer. Cards with counsels' comments on the possibility for nonprofits to provide charged services are passed around to participants. The objective is to study the cards in groups and identify possible forms of NGO economic activities and the specificity of charged services provision.
- Trainees present their work results to the director and other groups.
- Trainees discuss their work results and ask questions.

Recap the session by going over the key issues that have been discussed.

- **Handouts**
    1. Presentation "Revenue management" (Annex 2.1);
    2. Comments and materials for additional reading (Annex 2.2).
    3. Extracts from legislation (Annex 2.3).
    4. Case examples (2.4)

Annex 2.1

USAID FROM THE AMERICAN PEOPLE | HIV/AIDS Service Capacity Project in Ukraine

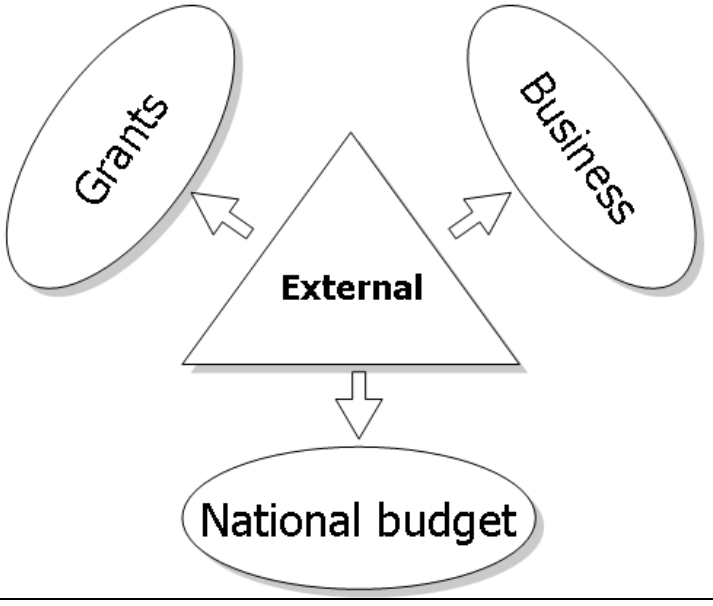
Revenue management – legal aspects

Financial management training for HIV servicing NGO

Kyiv, December 2009

Svitlana Zakrevska,
Consultant,
All-Ukrainian Charitable Foundation "Coalition of HIV Servicing Organizations

NGO financing sources



NGO financing sources

Core activity

Publishing activity, educational and counseling services

Marketing technologies

Dissemination of samples, coupons, contests, special activities, bonuses, scores, etc.

Internal

Passive incomes

Interest, dividends, royalties, etc.

Commercial activities

Creation of separate subdivisions

Structure, characteristics of nonprofit institutions (organizations)

Order #355 of 07.03.2000 of the State Tax Administration of Ukraine

0001	state authorities of Ukraine
0002	institutions, organizations established by state authorities and financed from respective budgets
0003	local self-governments
0004	institutions, organizations established by local self-governments, which are financed from respective budgets
0005	charitable foundations (organizations) established according to law to pursue charitable activities
0006	non-governmental organizations set up to carry out ecological, health promotion, amateur sport, cultural, educational and scientific activities, non-governmental organizations of the disabled and their local hubs established in accordance with the Law of Ukraine "On associations of citizens"
0007	creative unions
0008	political parties
0009	pension funds
0010	credit unions

Structure, characteristics of nonprofit institutions (organizations)

0011	legal entities whose activity is not intended to generate profits according to law
0012	unions, associations and other unions of legal entities that represent founders' interests and financed at the expense of such founders' contributions and that do not pursue economic activities, except for passive incomes
0013	faith-based organizations registered according to law
0014	research and development institutions and higher education institutions of accreditation levels III-IV, registered in the State register of state-supported scientific institutions, sanctuaries, reserve museums
0015	housing and building cooperatives, associations of co-owners of tenement houses, established according to law
0016	labor unions, their associations and labor union organizations established according to law

Types of incomes exempt from profit tax for various types of NGO

Income types	Nonprofit code								
	0005, 0006, 0007	0008	0009, 0010	0011	0012	0013	0014	0015	0016
Gratuitous financial aid, goods and services provided on a free of charge basis	☻	☻ [1]	-	-	-	☻	☻	-	☻
State subsidies	☻	☻	☻	☻	☻	-	☻	-	-
Passive incomes	☻	☻ [2]	☻ [4]	☻	☻	☻	☻	☻	☻
Revenue from core activity	☻	☻ [3]	-	☻	-	☻	☻	☻	☻
Membership fees	-	-	☻	-	☻	-	-	-	☻

Note: footnotes in columns for nonprofits under codes 0008, 0009 and 0010 indicate that some types of incomes of these organizations are regulated by a special law. For example, the amount of electoral funds of political parties is limited by law, contributions from legal entities are prohibited, etc.

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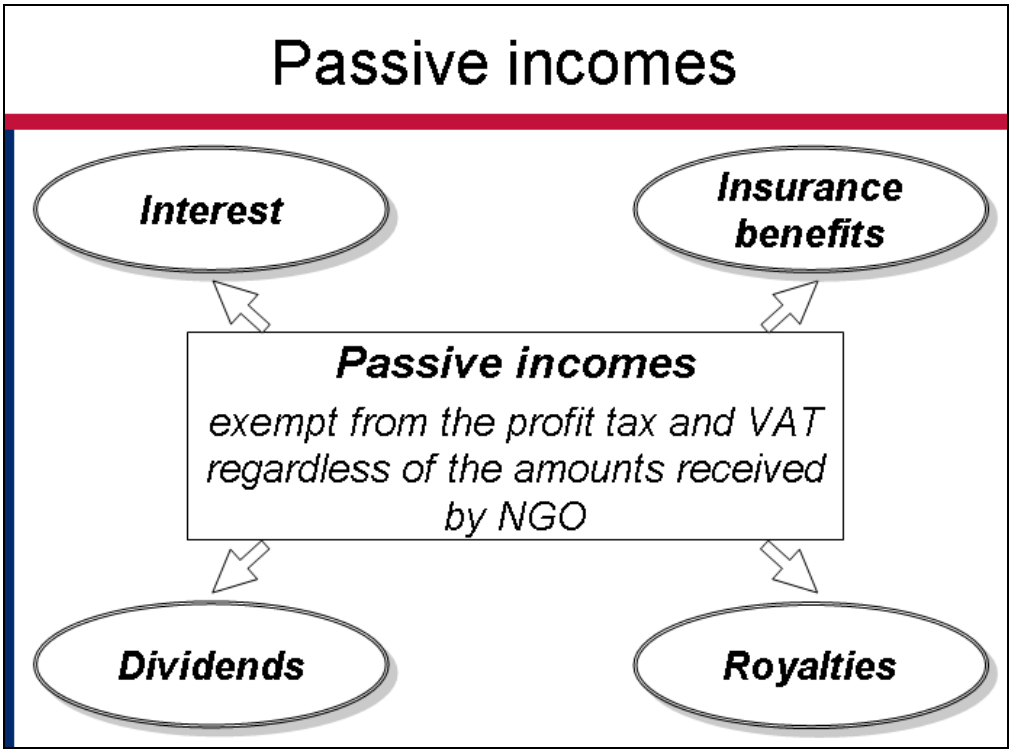
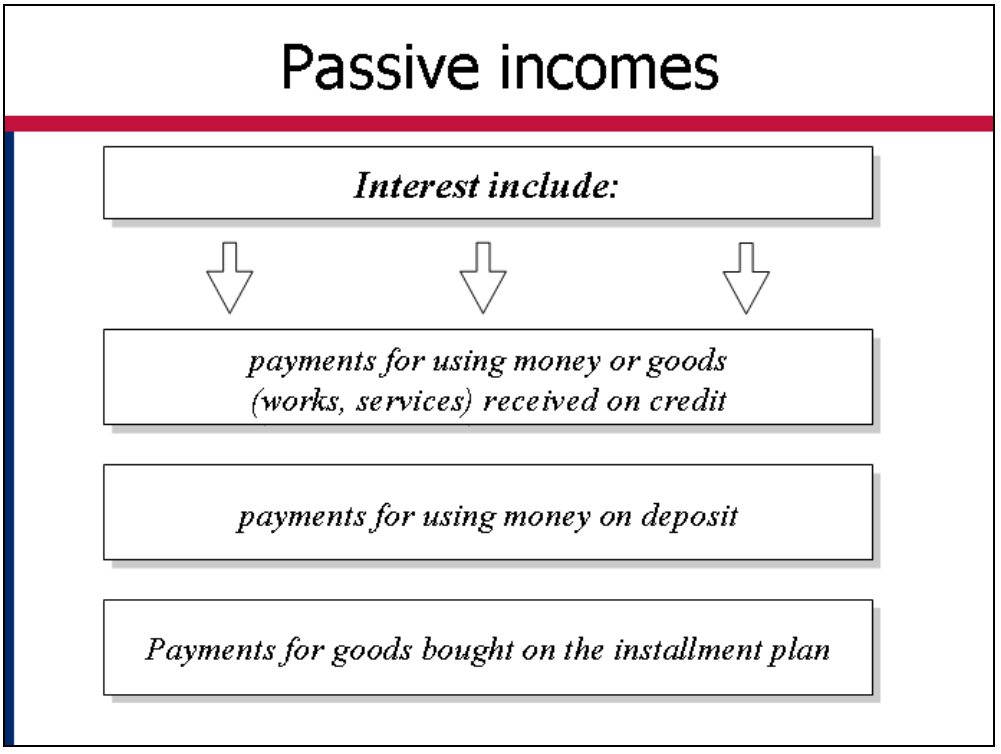

Passive incomes
Interest
Insurance benefits
Passive incomes
exempt from the profit tax and VAT regardless of the amounts received by NGO
Dividends
Royalties


Passive incomes
Interest include:
payments for using money or goods (works, services) received on credit
payments for using money on deposit
Payments for goods bought on the installment plan

Passive incomes

Royalties are any form of payment received as a reward for using or granting the right to use copyright on intellectual property

ROYALTIES

Royalties are not payments for another person's obtaining intellectual property items in his/her ownership, disposal or possession, or if the terms of use entitle the user to sell or otherwise alienate such items

Annex 2.2

NGO financing sources

There are three external sources of financing for nonprofits. Studies show that today more than 80 percent of NGO financing, and in some instances more than 90 percent, comes from international donors. The same case is with HIV servicing organizations.

That's why we will not view in detail the activity of nonprofits aimed at raining money from donors as this topic should be covered at a separate special training. Some specific features should be mentioned though, which relate to the management of revenues received from international donors – donor entities can manage both governmental and private funds. Accordingly, organizations with unprofitability codes 11 and 12 will not enjoy exemption from the profit tax if they receive money from private foundations (the International Renaissance Foundation is the most known one operating in Ukraine), since these revenues will be classified as "Gratuitous financial aid", and this type of income is taxable for code 11 and 12 organizations.

NGO internal sources of financing.

Internal sources of financing are least used by nonprofits for raising financial resources. And this is in spite of the fact that the very name of sources implies that an organization can single-handedly and independently decide when, how and in what form money from such sources should come.

So what is the reason why most of these sources both untapped and unknown to Ukrainian nonprofits at all? Many years of financial management trainings for nonprofits show that internal sources are not only explored by Ukraine's NGO but also this material is greatly mythicized, and the main myth is that nonprofits are sure that once they earn at least one hryvna by themselves rather than raise it from donors, tax officers will punish them right off. For instance, they may be stricken off the register of nonprofits. Such internal sources of revenue as Passive incomes are tax-exempt for all nonprofits without exception, and Core activity is also tax-free for codes 005, 006 and 011 (though it would be fair to say that organizations with unprofitability code 011 may provide services only to their own members if they want to be tax-exempt).

Annex 2.3

Extracts from legislation
(Debit-Credit # 42 (19.10.2009)

1. How to provide charitable assistance

1.1. Tax accounting and a right to gross expenditures

Do for-profit organizations have tax exemptions if they provide charitable assistance to nonprofits? This is clearly stated in subparagraph *5.2.2 of the Law on profit*.

After reading the provision attentively we can see that the size of gross expenditures is limited and is feasible on the following conditions:

(1) a donating enterprise should demonstrate profitability during a previous reporting year;

(2) donations in money or property should be made to budgets of various levels and nonprofits listed in paragraph 7.11 of the Law on profit;

(3) pecuniary donations can be wired to legal entities, including nonprofits — founders of a standing court of arbitration;

(4) the gross expenditure size should exceed 2 percent, yet it cannot be higher than 5 percent of the taxable income in a previous reporting year.

Let's summarize: if a donating enterprise in the previous year operated under a simplified taxation scheme, there no way for it to make gross expenditures for charity support in the current year, even if it meets all the above conditions. If during a previous year the profits were adjusted, corrected i.e. modified, gross expenditures (if any) should be adjusted as well.

Likewise, no gross expenditures will be possible if the donated amount is less or equal to 2 percent of taxable profit in a previous reporting year. For instance, if the taxable profits of a donating enterprise in a previous year amounted to 10000 UAH, and a donation to a nonprofit in the 1st quarter of the current year amounted to 200 UAH, then as per subparagraph 5.2.2 of the Law on profit gross expenditures will not be possible since the donation amount equals exactly 2 percent of the taxable profit. A similar clarification is contained in review letter #14060/7/15-0217 (of 07.06.2009) of the State Tax Administration of Ukraine.

Also, the main tax authority of Ukraine issued a Resumptive tax clarification note as to how the profit tax return should reflect the cost of donations of money, commodities (performance of works, provision of services), which is included in gross expenditures (order #552 (of 08.27.2008) of the State Tax Administration of Ukraine). This document exemplifies how Annex P2 should be completed. As charity support can be provided not only during one quarter but also in the following ones, and the tax return is completed on an accrual basis, the size of gross expenditures reflected in the tax return may change, as per subparagraph 5.2.2.

Let's add one more condition to the above example — in the 2nd quarter the very same organization received another 500 UAH donation. Therefore, the overall amount of donations in the 6 months totals 700 UAH. Gross expenditures as per subparagraph 5.2.2 amount to 500 UAH (10000 x 5percent = 500). And this is the maximum amount that can be reflected in the gross expenditure structure.

1.2. Aid in the form of tangible assets or work (services)

Sale and delivery

Pursuant to paragraph 1.31 of the Law on profit and the Law on value-added tax donation is equated with sale (goods delivery). Does a donating entity (the one that hands over tangible assets) receive gross revenue when providing charity support? At first blush, how can revenue be generated when one donates something gratis? However, in the past tax authorities used to think that a donator would receive a profit amounting to the value of donated goods or rendered services since such donation falls under the definition of sale. Yet today those letters in which this fiscal opinion was expressed, are recalled, and letter #5907/6/15-0316, #10022/7/15-0316a (of 05.26.2006) of the State Tax Administration is effective. This letter deals with gratuitous transfer of tangible assets, but its main idea can be applied to any gratuitous transfer: "...In the event of gratuitous transfer of tangible assets no pecuniary or other compensation for the value of such assets takes place and no revenue is

generated since there are no criteria for its recognition". As to gross revenue amounting to the value of transferred assets, we have seen that a donator simply does not have it.

Goods (work, services) provided gratuitously *include:*

- goods that a taxpayer provides under a gift agreement, other agreements, which do not involve pecuniary or other compensation for the value of such tangible and intangible assets, or their return, or without conclusion of such agreements;
- work or services that a taxpayer provides without claiming compensation for the cost of such work or services;

Right to gross expenditures

Gross expenditures include funds or the value of goods (work, services) that were wired (transferred) during a reporting year to Ukraine national or local self-governments' budgets, to nonprofits defined in paragraph 7.11 of Article 7 of this Law, as well as money amounts that were wired to legal entities, including nonprofits — founders of a standing court of arbitration, which exceed 2percent but not are under 5percent of the taxable income of a previous reporting year, except for contributions specified in subparagraph 5.6.2 of paragraph 5.6 of this Article and contributions defined in subparagraph 5.2.17 of this paragraph.

1.3. Value-added tax

When gratuitous transfer is done, the VAT assessment basis is conditional on the actual cost of a transaction, yet not lower that regular prices (paragraph 4.2 of the Law on VAT). That is to say when commodities are donated to a nonprofit the donating enterprise is going to incur VAT. It is understood that the actual cost of the transaction will be the value of these commodities booked on the balance (acquired). One should only compare this value with a regular price.

When a commodity is acquired specifically for donation, its acquisition price is typically a regular one for VAT purposes. And what should one do when non-liquid assets are donated e.g. an old computer that might have been even written off? For an enterprise it may be of no value while, say, a boarding-school would be glad to receive such a donation.

When capital assets are gratuitously transferred to a person not registered as a taxpayer, such a gratuitous transfer is considered as a delivery of such capital production or non-production assets at usual prices effective on the day of delivery, and for group 1 fixed assets — at regular prices but not lower than their book value (first sentence of paragraph 4.9of the Law on VAT).

Another undecided issue is whether an enterprise is entitled to VAT credit. However, legislators are gracious and have entitled the donating entity to some occasional VAT benefits. Such an benefit is specified in subparagraph 5.1.21 of the Law on VAT i.e. VAT exemptions are applied to transactions related to free provision of goods (work, services) to persons listed in paragraphs "a", "b" and "f" of subparagraph 7.11.1 of the Law on profit "...with an aim of using them for charity purposes, as well as transactions related to free provision of goods (work, services) to persons (entities) who are recipients of charity support according to law".

However, VAT exemptions are not applied to charity support transactions in the form of:

(1) goods (work, services) on which an excise duty is levied;

(2) securities;

(3) intangible assets.

When the above assets are donated, VAT liabilities should be charged on a common basis. And when a donator provides aid in the form of other goods (works, services) VAT exemption is possible if such aid is provided to nonprofits listed in items "a", "b" and "f" of subparagraph 7.11.1 of the Law on profit.

2. Taxation of nonprofits

2.1. Profit tax

Nonprofits enjoy a large number of tax benefits. In accordance with the law (Law of Ukraine "On taxation of profits of enterprises" #283/97-BP amended as of 05.22.97) nonprofits are exempted from a profit tax if they receive revenue in the form of:

— funds or property that were donated to them or provided as gratuitous financial aid or voluntary contributions;
— passive (unearned) incomes (royalties, dividends, interest);

Passive income
Pursuant to the Law of Ukraine "On taxation of profits of enterprises" Interest, Dividends, Insurance compensations and Royalties fall under the passive income category. The most "working" source is a source connected with the use of intellectual property, so-called Royalties.

The success of nonprofits' activity is increasingly conditional on the availability of such types of resources that are typically classified as intellectual property items. NGOs' royalty agreement with commercial organizations is an alternative to raising funds in the form of charity support. NGO benefit from this since payments under royalty agreements are exempt from the profit tax and VAT irrespective of amounts that NGO receive.
Commercial organizations also benefit from this because payments under royalty agreements entirely fall under gross expenditures (exempt from the profit tax and VAT). The Law "On copyright and related rights", "On the protection of the trademark right to goods and services". NGO, which are established or acquired, may use such intangible assets in their own activity and/or assign such assets to other entities. As a rule, the right to use intangible assets to other entities is granted on a fee paid basis.
Royalty (License agreement)
Chapter 75 of the Civil Code of Ukraine puts a license agreement in the category of intellectual property disposal agreements. Under a license agreement, either of the parties (licensor) must grant permission to the other (licensee) to use the intellectual property right (a license) on terms and conditions stipulated by mutual agreement and in accordance with the above-mentioned Code or other laws. The Civil Code of Ukraine lists substantial terms of a license agreement:

Substantial terms of the royalty (license) agreement:
1. Type of license:
A sole (exclusive) license. It is granted only to one licensee, which prevents the licensor from using intellectual property (IP) in the sphere restricted by such a license, and the licensor cannot grant licenses to use the intellectual property in question in the same sphere to other entities. A non-exclusive license (in all instances when a license agreement does not stipulate this type of license, it is considered that under an agreement a non-exclusive license is granted). It enables the licensor to use intellectual property in a sphere restricted by this license, and to grant licenses to use this IP in the same sphere to other entities.
2. A field of application of intellectual property:
Specific rights and modes of intellectual property application. Rights that are not specified in a license agreement are considered to not have been granted to a licensee; a territory in which a license agreement is effective. If license agreement does not specify any territory in which the granted right to IO are applicable, it means the entire territory of Ukraine by default (Section 7 of Article1109, Civil Code of Ukraine); Term of a license agreement. Pursuant to the Civil Code of Ukraine such an agreement expires no later than the expiration of the exclusive property right to the IO defined in the agreement.
3. Size, procedure and terms of compensation for intellectual property use.
4. Other substantial conditions.
Parties may include confidentiality requirements, as well as requirements to using the license object or its improvement.

— money or property generated as a result of core activity or as a compensation for the cost of state services provided;
— subventions or subsidies received from the national or local budgets, state special purpose funds or charitable contributions, including humanitarian or technical support, which are provided to nonprofits under international agreements;
— funds received as contributions

If a nonprofit gets revenue from other sources, it must pay the profit tax. In such a case the profit tax is defined as a sum of incomes received from other sources, which is reduced by an amount of expenditures associated with such incomes, and which do not exceed the amount of such incomes. Profits from commercial activity i.e. leasing of premises, print and sale of newspapers are taxed on a common basis. In case of liquidation of an nonprofit its assets should be handed over to another nonprofit of a respective type or transferred to the budget.
Pursuant to subparagraph 7.11.9 of the Law of Ukraine "On taxation of enterprises' profits", if revenues of a code 011 nonprofit received during a reporting (taxation) year from respective sources exceed 25 percent of the overall gross revenues at the end of the 1st quarter following the reporting year, such a nonprofit must pay a tax on undistributed profit at a rate of 25 percent of such an excess amount. This tax is paid to the budget based on the results of the 1st quarter following the reporting year and within the deadlines established for other tax payers.

2.2. Value-added tax

Article 2 of the Law (8. Law of Ukraine "On value-added tax" #168/97-BP of 04.03.97) defines categories of VAT payers. Typically, nonprofits do not fall under any of these categories. However, if nonprofits pursue profit-generating activities (unless such activities are prohibited by law and statutory documents), they should be registered as a VAT payer, if revenues from transactions subject to VAT have not exceeded 300 000 UAH in the last 12 months.

2.3. Local tax

All nonprofits must pay a local tax on a common basis unless they are exempt from it by a resolution of local councils of people's deputies.

2.4. Salary taxation

Salaries are taxed on a common basis. The majority of nonprofits belong to first grades of occupational hazard, i.e. they incur a relatively small accident insurance charge.

3. Provision of charged services by NGO (revenues from core activity)

The rules of the game for nonprofits have dramatically changed recently. Running expenditures are soaring, resources available from traditional sources are running low, the number of nonprofits competing for grants and subsidies has more than tripled, and the number of people in need of assistance exceeds the most gloomy forecasts. Savvy managers and board members understand that they will have to rely on themselves more and more to ensure the viability of their organizations, and this idea has naturally lead them to the world of entrepreneurship.
Nonprofits' core activities are considered to be those related to charity support, educational, scientific, cultural and other services for social consumption, creation of a system of social self-reliance and other activities permitted by statutory documents in accordance with relevant legislation on nonprofits.
Charter documents of nonprofits should contain an exhaustive list of their core activities. Nonprofits are required to obtain a state license (accreditation) to provide specific services, such as medical, veterinary, pharmaceutical, security, construction and design works, educational services (including award of state diplomas). Currently, more than 60 types of economic activity are subject to licensing.

4. Social entrepreneurship

Definition: what does the term "social entrepreneurship" mean?

Social entrepreneurship is an NGO's own activity aimed at earning a profit, which contributes to the implementation of NGO's mission and charter activities.
Social entrepreneurship is becoming a real mechanism to solve social problems, and Ukraine is seeing new examples of such activity. Social entrepreneurship, business with a social mission or entrepreneurial activities of charitable and nongovernmental organizations cover diverse socially

vulnerable populations. Such entrepreneurship may pursue labor therapy, social rehabilitation or the introduction of new mechanisms to address social problems. At the same time it should also be "profitable" since otherwise we are talking about charitable or community activities.

Among all organizations that consider themselves to be social enterprises one can single out four functional models of social enterprises that provide workplaces and/or social services to most-at-risk populations (including people living with HIV).
Each of the four models has its strengths and weaknesses. The advantage of the NGO in its pure form is its financial transparency and absence of possible conflict between commercial interests and NGO's mission. However, in Ukraine's legal and taxation environment, when NGO have to operate as nonprofits, it is hard to ensure NGO stability without involving commercial partners. The objective of creating workplaces for socially dangerous populations (including people living with HIV) compels NGO to seek more efficient operational models with involvement of enterprises or private entrepreneurs as full-fledged commercial entities.

Annex 2.4

Case examples

Situational exercise 1:

In quarter IV of 2008 an enterprise transferred 2,5000 UAH to a nonprofit to hold new year celebrations, i.e. charitable aid, and given the requirements of subparagraph 5.2.2 of paragraph 5.2 of Article 5 of the Law of Ukraine "On taxation of enterprises' profits", it included this amount in its 2008 gross expenditures (2007 profits – 100,000 UAH, 2 percent – 2,000 UAH).

However, after all 2008 accounts have been submitted, the enterprise revealed an error in 2007 profit computations, i.e.: 2007 taxable profits – 150,000 UAH, in which 2 percent amount to 3,000 UAH.

Questions:

1. Is it necessary to correct the mistake in 2008 expenditure computations?
2. Can the enterprise book 2,5000 as gross expenditures?

Support your reply with arguments

Situational exercise 2:

NGO "A" has unprofitability code 011.

In 2008 the overall gross revenues amounted to 12000,00 UAH. In the reporting year 7000,00 UAH were spent to achieve statutory goals. In the 1st quarter of 2009 the amount spent on statutory goals was 1000,00 UAH. The amount of undistributed profits at the end of the 1st quarter of 2009 was 4000,00 UAH.

1. Determine whether the organization is a profit tax payer according to its unprofitability code.
2. Calculate the amount of tax on the undistributed profits.

Situational exercise 3:

NGO "B" has unprofitability code 006.

In 2008 the overall gross revenues amounted to 20000,00 UAH. In the reporting year 15000,00 UAH were spent to achieve statutory goals. In the 1st quarter of 2009 the amount spent on statutory goals was 1000,00 UAH. The amount of undistributed profits at the end of the 1st quarter of 2009 was 4000,00 UAH.

1. Determine whether the organization is a profit tax payer according to its unprofitability code.
2. Calculate the amount of tax on the undistributed profits.

Situational exercise 4:

Your organization has been invited to develop and conduct a thematic seminar for small and medium-sized enterprises of the city, but the principal donor has agreed to reimburse only 80 percent of the seminar costs. Your organization has to raise the remaining amount within 5 days. Some of the seminar participants agree to incur this remaining amount, however they insist that they wire the money to your organization's bank account.

Questions:

1. Can your organization accept this money not as a charitable contribution?
2. What agreements are needed to wire the money?
3. How this money should be booked in financial reporting records?

Support your reply with arguments

Situational exercise 5:

Your organization has deposited idle cash (10 000 UAH) for a 1-year period at a 20 percent interest rate and earned some profit. Your statutory documents does not specify that you may earn passive incomes.

Questions:

1. What profit in a pecuniary equivalent did your organization earn during the year?
2. Does your organization have to pay a tax on the money earned?
3. If your answer to question 2 is yes, then specify what tax?

Support your reply with arguments

Situational exercise 6:

The charitable foundation "Medprosvita" received a 1600,00 UAH charitable donation from an international company to publish medical brochures for higher medical education institutions of Ukraine. The charitable foundation spent 700,00 UAH to pay fees to the authors and 900,00UAH to publish the brochure in Ukrainian. The brochures were sold to higher medical education institutions of Ukraine. The overall sale returns amounted to 2100,00 UAH. And at the same time, the charitable foundation performed its functions associated with its core activity i.e. medical education promotion in Ukraine.

Questions:

1. Does the organization have to pay the profit tax?
2. If yes, what is the size of such a tax?

Support your reply with arguments

Situational exercise 7:

The charitable organization "Nadiya" (Hope) (VAT-exempt) received food products as charitable aid at a fair value of 1,000 UAH from one of the domestic food manufacturers. The food products were distributed along with public service advertising to low income families at prices lower than regular ones. The organization incurred the cost of public service advertising and food delivery to recipients to the tune of 200 UAH. The food sale returns amounted to the same amount. Let us examine the procedure for tax and cost accounting in the charitable organization "Nadiya".

Questions:

3. Does the organization have to pay the profit tax?
4. If yes, what is the size of such a tax?

Support your reply with arguments

Session 3. Revenue management. Economic aspects.

- **Objectives:**
  1. Highlight economic aspects of charged services delivery and limitations for NGO.
  2. Overview the life cycle of a service and main pricing methods.
  3. Learn how to determine the breakeven point.
  4. Survey behavior strategies to handle unprofitable losses.

- **Time**
  5 hours

- **Materials**
  Flipchart paper; markers; tape, slides.
  For role play:
  1. Scissors,
  2. Cotton thread
  3. Beads for making a necklace (many)
  4. Box for storing the beads

- **Steps**

1. **An organization's activity related to charged service provision.** Examine examples of charged service delivery by nonprofits. Draw a comparison with the activity of for-profit organizations. Discuss what charged services trainees would be able to provide in their respective organizations.
2. **Assessment of the effectiveness of investments (trainer's bonus).** If time and trainees' qualification permit, the trainer can exemplify how the value of funds changes over time and why it is important when assessing alternative investment options.
3. **Stages of an organization's activity related to charged services provision.** Examine the sequence of actions in the delivery of charged services. Key economic concepts. Major limitations for NGO as compared with for-profit organizations.
4. **Business game of entering into social entrepreneurship and business planning (trainer's bonus).** If time permits and trainees' level of training permit, conduct a business game the purpose of which is to:
   - Have trainees demonstrate their entrepreneurial skills;
   - Help trainees gain experience in using their entrepreneurial qualities focusing on requirements to quality, efficiency, perseverance, and information search. **Operation of resources and products/services markets.** Present the concepts of market and market demand. Main models of market analysis. Key distinctions between products and services.

<u>Course of game:</u>

1. Explain to trainees the instructions. Note that experts will evaluate necklaces when buying them. The necklaces of poor quality will be rejected, and those of good quality will be accepted according to set standards. Trainees who have met their commitment to make a specific number of necklaces will emerge as winners.

2. During the production stage trainers will allow trainees to monitor the time and their own work. However, if necessary trainees may ask trainers for information. In other words, information is only for the asking.

3. After the production stage is over, trainers will inspect ready products. If any of the trainers rejects a product, the trainee may turn to another trainer for evaluation. Trainers should explain to

trainees why a specific product has been rejected. The results will be recorded in the results scheme posted in frond of the whole group.
4. Analyze the results.
5. As an introduction to business planning the game involves real money, i.e. trainees will buy raw materials and sell products (those meeting the quality standards) for money. In this instance experts will acts as buyers. If the quantity of products is smaller than commitments, respective trainees will be fined. The size of the fine should be lower than the price of a necklace so that, if a commitment was to make two necklaces and only one was made, some profit would still remain. A fine for short supply should be higher than a fine for rejected products.

The game was developed for a CEFE program – entrepreneurship development

Issues for discussion:

- What feelings did you have after the game?
- What entrepreneurial qualities did you have to show during the game? Exemplify.

During the introduction to business planning the following issues should be discussed:

- Important qualities
- Reliability of deliveries
- Proficiency level
- Importance of expert evaluation
- Importance of marketing
- Negotiating
- Honing management skills
- Projections of production costs and their comparison with sale revenues.

5. **Summarize the game results – presentation and discussion of the following topics:**

- **Service life cycle.** Marketing analysis and strategy. Selection of a competitive strategy. Adjusting a market behavior strategy to a service life cycle stage.
- **Pricing.** Key pricing methods. Price sensitivity factors. Price components. Cost structure. Fixed and variable costs.
- **Breakeven point.** Determining minimum sales and service cost. Contribution to coverage. Behavior strategy in relation to unprofitable services. Comparison of cost reduction and price rise effects.

6. **Exercises in charged services provision.** Analysis of exercises. Group discussion.

Tip for the trainer.
During group discussions and exercises single out those trainees who are willing to work on concrete services of their organizations rather than with typical case examples and exercises.

Conclusions. Review the specific features of NGOs' providing charged services. Ask trainees what financial management tools they will use in their organizations.

- **Handouts**

1. Presentation "Revenue management" (Annex 3.1);
2. Reference material for the trainer (Annex 3.2);
3. Exercises in charged service delivery (Annex 3.3);
4. Sample form for exercises (Annex 3.4).

Annex 3.1

Presentation "Revenue management"

USAID FROM THE AMERICAN PEOPLE | HIV/AIDS Service Capacity Project in Ukraine

Revenue management – economic aspects

Financial management training for HIV servicing NGO

Kyiv, December 2009

Serhyi Kotov,
Consultant,
All-Ukrainian Charitable Foundation "Coalition of HIV Servicing Organizations

NGO core activity:

(Subparagraph 7.11.13 of Article 7 of the Law on profits)

- provision of charity support, educational, cultural, scientific, and other services for the social sector
- creation of social self-reliance systems for citizens (additional pension funds, credit unions and other similar organizations)
- sale of goods (services) that promote the principles and ideas that the non-for-profit organization stands for, and that are closely linked to its core activity, if the price of such goods (services) is lower than the standard one or when such a price is regulated by the State.

Forms of provision of charged services

Entrepreneurial activity:

1. NGO core activities
2. NGO non-core activities

Corporate rights:

1. Subsidiary companies
2. Participation in entrepreneurial partnership
3. Joint activity with legal entities and/or individuals

Contribution to coverage

For each service the difference between the market price and variable costs (cost of physical and human resources) is an input into organizational development

Profit generated from charged service delivery 1000 UAH

Variable costs:
- salary 500 UAH
- materials 300 UAH

+

Contribution to coverage 200 UAH

Fixed costs: 2000 UAH

We need to sell 2000/200 = 10 units of our service to cover fixed costs of the organization.

If the organization provides several types of charged services, their overall contribution to coverage should cover fixed costs

Alternative strategies

If profit from a service does not cover its delivery expenditures, the following three options should be considered

Withdraw from market

- Develop a plan to withdraw the service from the market:
  - Stop sale;
  - Consider a possibility of using resources to provide other services

Change price

- Analyze the market potential in terms of sale price increase:
  - Enhance the competitiveness of the service;
  - Revise the structure of resources used

Cut expenditures

- Analyze whether these expenditures will be covered by a profit received from the service delivery if they are maximally reduced
- Will the service still be of utility to customers

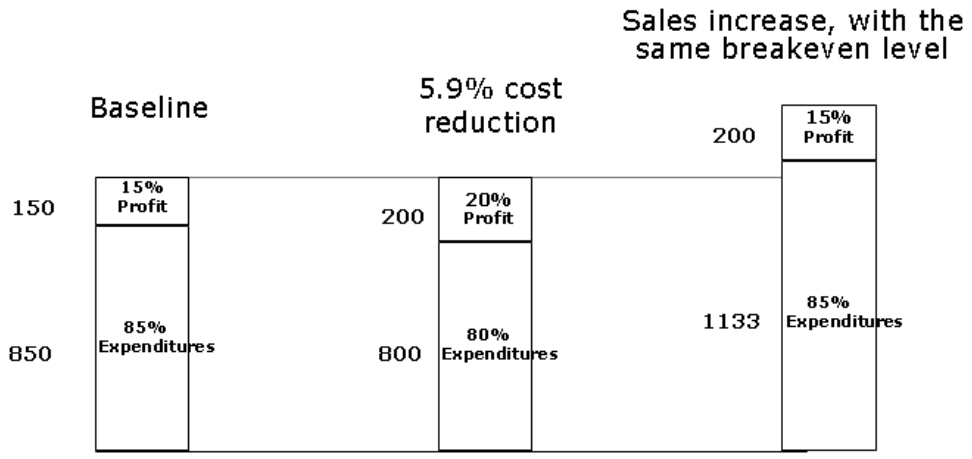
Alternative strategies

The organization provides charged services – trainings A, B, C, D.

Objective: analyze the market value of a training, variable costs and overall fixed costs, and choose a strategy for each service.

	-A-	-B-	-C-	-D-
Cost of a training	1000	1500	600	500
Variable costs per unit	(800)	(1500)	(700)	(700)
Contribution to coverage				
Overall fixed costs	5000			

Comparison of cost reduction and sales increase effects



A mere 5.9% cost reduction may yield the same additional profit as a 33% sales increase.

Comparison of cost reduction and sales increase effects

- An absolute profit increase can be achieved both through a 33% sales increase and through a mere 5.9% cost reduction.
- To increase sales additional funding is often needed (e.g. engagement of additional trainers), which in some cases is problematic or involves additional expenditures.
- Sale of additional services may be problematic due to limited demand, and may also involve additional related expenditures.
- Cost reduction per service gives an important edge over competitors i.e. a possibility of lower or more flexible pricing.

Annex 3.2

Reference material for the trainer

The most common mistakes in social entrepreneurship

- Attempting a rapid start-up to meet an important social need.
- Attempting to meet too many needs at once.
- Inability to discriminate between a social need and market demand.
- Assuming that consumers will start consuming the proposed product as it creates a social value.
- Attempting to develop entrepreneurship in a field outside the organization's technical expertise.
- Ineffectively conducted market research.
- Poorly developed business plan (or its absence).
- Instances of negligence in the system of accounting of grants and operating social expenditures.
- Insufficient volume of capital.
- Attempting to interest an investor in an enterprise that gives money only to support the parent company.
- Overly optimistic forecast of revenue volumes
- Hoping that people will be willing to put their time into ensuring the operation of the enterprise.
- Using revenue rather than cash flow projections in evaluating viability.
- Assuming that the parent NGO will be able to get all profits from the operation of the social enterprise.
- Inability to close down the enterprise that meets a social mission but is unprofitable.
- Prioritizing profit instead of a social mission.

Specificity of raising resources for HIV servicing NGOs' financial stability

Analysis of fundraising activity of HIV servicing NGO in Ukraine shows that sometimes these organizations are face with difficulties raising money, which is largely due to the specificity of their activities and target groups. Many of the surveyed NGO managers emphasized the fact that "no money for drug-addicts", "they give money for children reluctantly, and to give money for drug addicts and HIV infected means compromising one's reputation"; at the same time, all say that "you should knock at the door more often", be more persistent and well-advised in raising resources. Unfortunately, regular grants play a certain negative role too i.e. being accustomed to donor funding NGO work little on exploring other resources.

Key challenges for HIV servicing NGO in Ukraine in raising community resources include a lack of work with local authorities, an erratic and small amounts of resources coming from enterprises and private businesses, as well as heavy reliance on grants. "I think that any organization must survive for at least half a year without any large funding from international donors. Only in this way it will become clear if the organization is viable. Now there are a lot of organizations that are developing due to specific resources. If an organization can exist even without donor funding, then it is real strong and sought-for. We are not a business entity. We do not have any long-term guarantees. What remains is real" (NGO manager, South of Ukraine).

Currently, HIV servicing organizations in Ukraine provide a host of services and work in diverse areas. Life shows that, as a rule, the services for which a donor is ready to pay are developing separately. Yet there are far more areas that donors do not finance or finance less (rehabilitation, resocialization, working with families of alcohol and drug addicts, organizational development).

NGO managers should look into ***different sources of funding for various activities.***

Groups of services	Main activities	Financing sources, resources	Resource raising problematic areas
HIV prevention among most-at-risk populations (IDU, MSM, CSW, including VCT)	1. Outreach routes, needle exchange points. 2. Peer-to-peer counseling 3. Distribution of disinfected means 4. Referrals 5. Social support	✓ Donors (grant programs) ✓ Department of labor and social policy (partially) ✓ State center of social services for youth (as a rule, allocation of premises). *Law allows social services to raise money from the national and local budgets* ✓ Local budget (jointly with social services) – publication of information materials, syringe disposal, conduct of trainings)	1. Lack of interest on the part authorities 2. Financing delays 3. Low salaries 4. Lack of specialists 5. Lack of special training for NGO representatives 6. Society's lack of understanding of the problem 7. Instances of denying free medical care and drugs
Community centers and resocialization	1. Counseling of target groups 2. Organization of self-support groups 3. Expert counseling for target groups 4. Leisure time activities for target groups 5. Personal services 6. HIV prevention (needle exchange, rapid testing, etc.) 7. Rehabilitation referral and cross-referrals 8. Information materials	1. Grant money 2. Rent of premises on preferential terms (city executive committee) 3. Donations (commercial organizations, private persons) through the conduct of actions. 4. Voluntary membership fees 5. Contacts with public institutions – employment center, etc. for referral 6. Center of social services for youth – labor remuneration for social workers 7. Internal resources – social entrepreneurship	1. Staff training and development 2. Difficulty finding premises on preferential terms 3. Difficulties with sponsors for target groups 4. Low income level of clients and staff 5. Grant support withdrawal
Care and support	1. Provision of information materials 2. Participation in trainings and seminars for clients and staff 3. Support in health facilities 4. Money support 5. Leisure time activities for children 6. Sporting and health promotion activities 7. Health promotion center	1. Donors 2. Sponsors – business entities and individuals (for children, things, sporting and health promotion activities) 3. collaboration with faith-based organizations and other partners 4. Internal resources 5. Support from local authorities	1. Unwillingness to provide assistance to this group 2. Lack of awareness among the population
Rehabilitation, MAT, work with families of alcohol and drug addicts	1. 28-day free rehabilitation 2. Program overview (trainings, specialists) 3. Rehabilitation and resocialization 4. Procurement and distribution of drugs 5. Counseling	1. Donors 2. Private sponsors' contributions 3. Government entities (Department of Labor and Social Policy – prisoners, MOH - MAT, Ministry for Family, Youth and Sports - state rehabilitation centers) 4. Individuals (payment	1. Limited number of people and time 2. Limited funds for training 3. No clear-cut mechanism of redistribution (the first ones are winners...) 4. No funding for working with families of alcohol and drug addicts

		for rehabilitation – social networks, contribution to the rehabilitation center	
Resource centers	Provision of technical assistance – trainings, trainers	1. Academic resources 2. Donors	Unwillingness of society to respond in a positive way
Advocacy	1. Legislative changes 2. Change in societal attitude to the problem and target group 3. Protection of clients' interests 4. Trainings	1. Trainings 2. Social services 3. Political figures (election time, "named-after" foundations) 4. Donors 5. Internal resources – clubs of the organization, provision of legal services – lawyer assistance	Unwillingness on the part of the State and society to resolve problems
Organizational development	1. Staff training 2. Strategic planning 3. Financial management – all that the organization needs, not a donor	1. Passive income – charged services delivery 2. Redistribution of donor finding 3. Private contributions to NGO statutory activity 4. Dividends 5. Academic resources (e.g. trainings at Kyiv-Mohyla Academy for social workers, trainers, premises, information materials) 6. Interpersonal contacts 7. Contributions	Inability to tap internal resources
General prevention	1. Street actions 2. Lectures at educational institutions 3. Information materials 4. Mass media	1. Donor (for short-term projects) 2. Local authorities 3. fund-raising 4. Sponsorship 5. Educational institutions (premises) 6. Interpersonal contacts	1. Easy to get funding for short-term projects, hard for long-terms ones 2. Local specificity

Exercises in charged service delivery

Objective 1. Charged service delivery

- The organization has temporarily idle money to the tune of 7400 hryvna. There is an idea to invest it in charged trainings “Designing an efficient staff motivation system".
- **Objective**. Complete the outputs and calculate:

1. actual original costs
2. profitability of each training
3. expenditures per training
4. fixed (administrative) costs
5. monthly contribution to coverage
6. breakeven level (number of trainings)
7. investment return time

Objective 2. Provision of charged services

- The organization has idle money to the tune of 7400 hryvna. There is an idea to invest it in the development, promotion of and technical support for information web-resources. A designer and a programmer are doing the work. Profits from technical support are expected to be stable.
- **Objective**. Complete the missing outputs and calculate:

1. actual start-up costs
2. fixed costs
3. monthly breakeven level
4. investment return time

Objective 3. Joint work with a commercial entity

- It is proposed to invest the idle amount of 7400 hryvna in designer services when working jointly with a commercial entity in the NGO's office. A designer and copyists are doing the work. Monthly expenditures and profits are considered theoretically the same.
- **Objective**. Complete the missing outputs and calculate:
  1. actual start-up costs
  2. monthly expenditures
  3. monthly profits
  4. investment return time

Sample form for exercises

Objective 1.

1	**Capital investments**	
	Overhead projector	6150
	Flipchart	
	Literature	
	Training courses	
	Total, investments	
2	**Calculation of profits from the training**	
	Number of participants	20
	Cost of participation	
	Total, training cost	
3	**Calculation of training expenditures**	
	Trainer's salary	300
	Salary related charges	
	Space rent	
	Call-center services	1000
	Stationery	
	Electronic mailing out	1000
	Handouts	
	Meals for participants	
	Certificates	
	Grand total, training cost	

Objective 1.

4	**Administrative costs**	
	Electricity	
	Director's salary	
	Accountant's salary	
	Office manager's salary	600
	Salary related charges	
	Office rent	
	Stationery	
	Communications, Internet	200
	Total, administrative costs	
5	**Contribution to coverage = (2) - (3)**	
6	**Breakeven level = (4)/(5)**	
7	**Minimal scope of services (rounded (6))**	
8	**Monthly contribution to coverage = (5)x(7)**	
9	**Monthly return of investments = (8) - (4)**	
10	**Investment return time, months (1)/(9)**	

Objective 2.

1 Capital investments	
Literature	120
PC for programmer	
xDSL Internet connection	600
Scanner	
USB Flash Drive	100
Total, investments	
2 Average profit from site development	**1000**
3 Monthly profit	
Technical support for resources	300
Promotion of sites	800
Total monthly profit	

Objective 2.

4	**Monthly expenditures**	
	Electricity	140
	Director's salary	
	Accountant's salary	
	Office manager's salary	600
	Designer's salary	1200
	Programmer's salary	
	Salary related charges	
	Office rent	
	Stationery	100
	Communications, Internet	800
	Total monthly expenditures	
5	**Size of uncovered costs = (4) - (3)**	
6	**Breakeven level = (5)/(2)**	
7	**Minimal scope of development (rounded (6))**	
8	**Monthly return of investments = (7)x(2) - (5)**	
9	**Investment return time**	

Objective 3.

1 Capital investments	
Binder	600
Laminating machine	1200
Cutter	
Printer	4800
Scanner	
Total, investments	

2 Monthly profits	Price	Quantity	Amount
Business cards		10	
Typing	2		
Scanning and editing	4		
Photocopy		2000	
Design		15	
Binding	8		
Printing		200	
Laminating	5		
Total, profits			

Objective 3.

3	Monthly expenditures	Price	#	amount
	Toner + developer 30.000 copies capacity	520	0,1	
	White paper		5	
	Springs+covers	4		
	Plastic sheet for laminating machines	2		
	Colored paper	60		
	Copyist's salary	600	1	
	Layout designer's salary		1	
	Taxes		1	
	Total, expenditures			

4	**Monthly profit of commercial entity= (2) - (3)**
5	**Investment return time = (1)/(4)**

Session 4. Budget management

- **Objectives:**
  1. Highlight economic aspects of charged service delivery and limitations for NGO.
  2. Overview the service life cycle and principal pricing methods.
  3. Learn to determine the breakeven point.
  4. Overview behavior strategies to handle unprofitable services.

- **Time**
  1 hour 15 minutes

- **Materials**
  Flipchart paper; markers; tape, slides, annexes.

- **Steps**

1. **Presentation "NGO budget system".** NGO budget types. Budget classification and specific features. Discussion of the existing system of organizational budgets. Strengths and weaknesses of budget management introduction.
2. **Small group work (4 groups).** Using knowledge and samples provided, draw up an administrative, program and cash flow budget.
3. **Presentation and discussion –** present and discuss budgets developed in small groups.
4. **Sales budget.** The sales budget is a component of the budgetary system as a whole, as well as other NGO budgets. Based on the calculated done during the previous session, the groups will draw up a sales budget for a period of 6 months considering seasonal factors and the service market trends.
5. **Presentation –** present and discuss the work done in the groups, correct mistakes.

Tips for the trainer.
During group discussions and exercises you should single out those trainees who are willing to work on concrete services of their organizations rather than typical case examples and exercises.

- **Handouts**
  1. Presentation "Budget management" (Annex 4.1);
  2. Reference material for the trainer (Annex 4.2);
  3. Sales budget exercise (Annex 4.3);
  4. Sales budget sample (Annex 4.4).

USAID FROM THE AMERICAN PEOPLE | HIV/AIDS Service Capacity Project in Ukraine

Budget management

Financial management training for HIV servicing NGO

Kyiv, December 2009

Serhyi Kotov,
Consultant,
All-Ukrainian Charitable Foundation "Coalition of HIV Servicing Organizations"

Budget

Budget is a plan of future actions of an organization in pecuniary terms

Budget reflects what an organization hopes to achieve within a specific time span, and how available funds will be distributed to reach the organization's objectives

The main objective of a budget is to plan the use of financial resources in time

Budgeting is a process

Planning of the organization's future activities as a system of budgets

Follow-up control of plans through this system

Analysis of deviations that occur

Informed managerial decision making

Continuous application of a system of budgets makes it possible to see an objective need for funding, improve financial management by determining time points when the organization has a funding shortage or surplus in order to avoid or cushion crisis

Budgeting functions

- Plan and monitor revenues and expenditures by various activity areas
- Plan amount and terms of incoming core funds
- Coordinate ongoing activities
- Substantiate organizational expenditures
- Create a basis for the evaluation and monitoring of organizational short-term and long-term plans

Classification of expenditures

Fixed or variable

depending on whether expenditures change if production volumes are changed

Direct or indirect

depending on whether expenditures are directly related to specific program

Purpose of classification

Analyze breakeven point and related indicators

Analyze actual program-specific or general organizational expenditures

Types of NGO budgets

Name	Description	Period
Strategic	Financially mirrors organizational strategic plan	3-5 years
Program	Program or project specific expenditures and revenues (direct)	Up to a year
Administrative	Expenditures for administrative staff	Month, year
Annual (consolidated)	Consolidates all revenues and expenditures for one year	Year
Cash flow budget	Monthly or quarterly breakdown of revenues and expenditures	Quarter, half year, year

Administrative budget sources

Project budgeting

- Step 1. Identify the organization's programs
- Step 2. Determine direct costs
- Step 3. Determine the size of administrative and fund-raising costs
- Step 4. Distribute administrative and fund-raising costs among programs
- Step 5. Identify and distribute profits among organization's programs

Sales budget

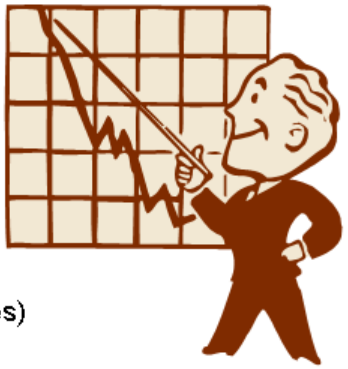
- Sales budget is an operational budget that contains information about planned sales, price and expected revenue from each types of services.
- Sales assessment impacts the cash flow budget
- Sales budget should reflect monthly or quarterly sales in physical and value indicators
- Sales budget is prepared based on :
  - Sales during previous periods
  - Resource potential of the organization
  - Level of demand for the organization's services
  - Pricing policy, service quality
  - Sales geography
  - Categories of buyers and their income levels
  - Seasonal factors
  - Competitive environment and service delivery strategy

Cash flow budget

- *A document that is drawn up once per year on a planned basis*
- *Consolidates all payments and revenues*
- *Reflects marketing and production goals in quantitative and financial indicators*
- *According to specialists, enterprises lose up to 20% of their revenues since they do not draw up their cash flow budgets*
- *To avoid these losses you should regularly compare the budget with actual data, analyze deviations, enhance favorable and modify unfavorable trends, and improve the planning methodology*

Cash flow projection reflects:

- Revenues
  - ✓ Budget – sale of charged services
  - ✓ Membership fees
  - ✓ Revenues from grant programs
  - ✓ Other sources



- Expenditures
  - Direct costs budget (for charged services)
  - Administrative budget
  - Program budgets
  - One-shot or periodical expenditures

Annex 4.2

Reference material for the trainer

Administrative costs

Administrative (indirect) costs are expense line items of an organization's budget, which are not associated with specific activities implemented by the organization. These costs are very "inconvenient" since they are hard to associate with any specific performance results: they exist before and after a project is implemented.

Why administrative costs are are important

No matter how many projects an organization is implementing (30 or three), these costs require continuous financing. They are essential for the organization's survival, but they cannot be directly linked to a specific activity result.

The problem of administrative costs

It is important that your organization have a clearly framed policy to cover administrative (or indirect) costs. Such costs should be financed just as NGO's other expenditures. It is recommended to draw up a separate budget to keep tabs on administrative costs.

The project budget performs several different functions and is important at all project stages:

Planning

The budget is necessary for planning a new project, and helping managers get a clear picture of project-related expenditures and know if project-specific money is available and used in the best way possible.

Fundraising

The budget is a critically important element of any negotiations with donors. The budget provides a detailed description of what NGO will do when it receives a grant, including its expenditure lines and results achieved.

Project implementation

An accurate budget is necessary to monitor the projects after it is started. The most important ongoing monitoring tool is comparison of actual expenditures with the budget. It is impossible to do it without an accurate budget. Since plans change at times, it may become necessary to revise the budget after the project has been started.

Monitoring and evaluation

The budget is used as a tool to measure project success after it is completed. It helps answer the question: "Did the project succeed in reaching what it aimed for?"

Cash flow projections

Cash flow projections (or cash budget) are based on the revenues and expenditures budget, as well as the organization's capital budget. Managers use it to monitor cash availability. While the revenues and expenditures budget shows whether the organization can cover its expenses throughout the year, cash flow projections will show whether it has enough money in the bank.

Cash flow projections are intended to foresee cash flows to and from the organization over one year period by dividing the overall budget into shorter periods that typically span one month. This helps identify possible cash shortages and allows avoiding such actions as:

* early requests for donor grants;
* delays in invoice payments;
* delays in the performance of certain operations; or
* temporary overdrafts.

Cash flow projections are also useful when the organization has a considerable stock of cash that needs to be reasonably invested to get a maximum investment return.

How to project cash flow

To project a cash flow you will need the organization's all workplans and budgets for a year. This is best done by means of Excel spreadsheets. For each revenue and expense line item you should make a projections sheet with a revenue and expenditure schedule. This schedule is based on the time of planned operations. Some operations are easier to project:

* Some operations are performed on a monthly basis –salaries, rental, and utilities payment;
* Some operations are performed on an annual basis – e.g. insurance premiums, audit payments;
* Some operations are performed according to schedule – e.g. general meetings, trainings, receipt of donor grants;
* Some operations are unforeseen – e.g. transport vehicle repairs.

After a monthly budget breakdown based on workplans you can calculate a net cash flow i.e. see where cash outflow exceeds inflow or vice versa. Normally, the bank account balance is also estimated, which allows managing cash flows. Our advice: When projecting cash flows exclude non-cash transactions such as depreciation and in-kind donations.

Annex 4.3

Budget development exercises

Website promotion trainings

Your organization is planning to conduct trainings to create and promote information portals for HIV service organizations. Similar 2-day trainings are conducted by the "Art-studia" LLC, per capita participation cost being 1250 UAH. During trainings trainees are provided with computers and Internet access, as well as handouts (brochure, compact disks) and meals. After the training they are awarded certificates.

Calculate the cost of one training and draw up a 6-month sales budget for charged services considering the fact that maximum demand for these services falls on winter months.

Intellectual property protection trainings

Your organization is planning to conduct trainings on intellectual property protection for HIV servicing NGO. Similar 1- day trainings are provided by "Individual and law" LLC, per capita participation cost being 850 UAH. Trainees are provided with meals and handouts (brochure, compact disk). After the training they are awarded personal certificates.

Calculate the cost of one training and draw up a 6-month sales budget considering the fact that maximum demand for these services falls on spring and summer.

Community's positive attitude to positive people

Objective

1. Hold a press-conference for 40 representatives of the media, CSO, state authorities working in the area of HIV prevention.
2. Conduct 2 trainings for 50 employers of large and medium-sized enterprises (no less than 1000 employees) of the Donetska oblast.
6. Conduct 2 information and counseling sessions for 40 physicians of the Donetska oblast
9. Create a coalition of organizations working to fight HIV and protect PLHIV interests, and hold public hearings.

Project's target group

People living with HIV is a target group whose interests the project aims to protect;
Journalists, physicians, employers, public officials, Interior Ministry and CSO representatives are target groups that the project will inform about issues of stigma and discrimination reduction.

Additional conditions

Maximum grant amount – 60,000 UAH. Project timeframe – 5 months. The organization's contribution – no less than 10 percent of the project funding amount.

HIV/AIDS information center

Objective	Activity
# 1 Help ensure access to STI diagnosis and treatment for most-at-risk populations	1. Organize a working meeting on STI testing and treatment in most-at-risk populations.

# 5 Facilitate community mobilization and technical assistance	1. Organize and conduct a training for budding HIV servicing organizations and self-support groups on writing proposals
# 6 Improve knowledge of NGO staffing policies among the management of oblast HIV servicing organizations	1. Organize and conduct a training on NGO staffing policies

Additional conditions

Maximum grant amount – 40,000 UAH. Project timeframe - 6 months. The organization's contribution - no less than 10 percent of the project funding amount.

Cash flow projections

Beginning account balance is 10,000 UAH. Your organization collects membership fees from 40 organization members once per quarter. In connection with future elections of people's deputies business M.M.Vasyliev donated 7,000 UAH to your organization for organizational purposes in the current month. Make a projection of organizational cash flows for 6 months using previously developed administrative, program and charged services sale budgets. Idle money can be deposited at a 12 percent annual interest rate.

Cash flow projections

Beginning account balance is 4,000 UAH. Your organization collects membership fees from 50 organization members once per quarter. For organizational purposes, you have raised 12,000 UAH for the Children Protection Day from donations by city commercial enterprises. Make a projection of organizational cash flows for 6 months using previously developed administrative, program and charged services sale budgets. Idle money can be deposited at a 12 percent annual interest rate.

Annex 4.4

Budget samples

Charged services sales budget

Period	Service 1			Service 2			Total
	Cost	Quantity	Sales	Cost	Quantity	Sales	
January							
February							
March							
April							
May							
June							
July							
August							
September							
October							
November							
December							
Year total							

Analyze demand for your charged services depending on seasonal factors and draw up a realistic sales budget.

Administrative budget

Expense line item	*Amount*
1. Salary (administrative staff)	
- director	
- chief accountant	
- secretary	
2. Deductions to state funds (pension, social insurance, etc.)	
3. Transport costs	
4. Travel costs	
5. Rent and maintenance of premises	
6. Utilities	
7. Communications (email, telephone, Internet)	
8. Equipment:	
- rental	
- maintenance and repairs	
9. Stationery, supplies	
10. Banking services	
11. Advertisement, PR	
12. Local taxes	
13. Subscriptions	
14. Legal and auditing services, consultations	
15. Other expenditures	
Total	

PROGRAM (PROJECT) BUDGET

Cost category	Cost calculation	Total amount	Expected funding	Applicant's contribution	Other sources
I. STAFF SALARY					
Total:					
II. FEES FOR OUTSIDE EXPERTS					
Total:					
III. TAXES (37,94 percent)					
Salary tax					
Fee tax					
Total:					
IV. TRAVEL AND TRANSPORT					
Total:					
V. COMMUNICATION					
Total:					
VI. OTHER DIRECT COSTS					
Banking costs					
Stationery					
Supplies					
Other direct costs					
Total:					
VII. EQUIPMENT					
Total:					
VIII. INDIRECT COSTS					
Office rent					
Office utilities					
Other indirect costs					
Total:					
IX. PROGRAM EXPENDITURES					
Rent of premises					
Accommodation and meals for participants					
Materials and stationery					
Publications (design, translation, print)					
Information materials					
Other program costs					
Total:					
Total contributions					
Percentage ratio of contributions					

Cash flow projections

Line item	Months								
	January			February			March		
	plan	fact	deviat	plan	fact	deviat	plan	fact	deviat
Beginning of month balance									
Revenues									
Membership fees									
Donations									
Charitable aid									
Target funding Charged service delivery									
Expenditures									
1. Labor remuneration									
- director									
- coordinator									
- manager									
- accountant									
- administrator									
- trainer									
- deductions to the state budget									
2. Transport costs									
- travel costs of seminar participants									
- TDY trips									
3. Office expenditures									
- computers									
- software installation and maintenance									
- printer									
- photocopier									
- scanner									
- modem									
- desks									
- chairs									
- communication services									
- stationery									
- office repairs									
- banking services									
- intangible assets acquired									
4. Program costs									
- office rental									
- supplies									
- office expenditures									
5. Administrative expenditures									
- utilities									
- meals for staff									
- office enlargement									
6. Other expenditures									
- training materials									
- translations									
- booklets									
- credits									
-									
Bank balance									

Session 5. Cost management

- **Objectives:**
  1. Overview the classification of NGO costs.
  2. Learnt to optimize labor costs.
  3. Learn to draw up a project and administrative budget.
  4. Find out how to manage costs using the cash flow budget.

- **Time**
  3 hours 15 minutes

- **Materials**
  Flipchart paper; markers; tape, slides, annexes.

- **Steps**

1. **Advantages of effective cost management.** Cost management approaches. Tax planning.
2. **Cost classification.** Direct and indirect costs. Fixed and variable costs. Group participants must write and classify all costs that their organizations incur.
3. **Administrative costs.** Trainees will draw up an administrative budget based on actual figures in their organizations, and think of possible sources to cover these costs.
4. **Cost optimization through a system of contracts.** Main types of contracts for employers, taxation. The trainer will present types of contracts with individuals and contract-specific taxation:

1. Labor contract
2. Tender contract
3. Commission contract
4. Royalty agreement
5. Copyright agreement

During the presentation make 3-minute pauses after presenting each contract type. Ask trainees to write 3 questions on cards.

5. **Small group work, review of the material learned**, clarifications. Collect all cards with questions, discard those with duplications, hold a contest among groups (who answers his/her own question best) by putting the questions in succession.
6. **Small group work, case example solution**. Practice the knowledge acquired. Pass around case examples.
7. **Presentation, discussion**. Group will present their work results for simultaneous discussion.
8. **Small group work. Project budgeting** using labor cost optimization approaches. Discussion.
9. **Cash flow budget as a key financial planning tool.** A report and cash flow projections.
10. **Small group work. Draw up a cash flow budget** using project, administrative and sales budgets.

Tips for the trainer

During small group discussions and exercises single out a group of trainees who are willing to work on concrete services of their organizations rather than typical case examples and exercises.

- **Handouts**
  1. Presentation “Cost management” (Annex 5.1);

2. Lawyers' comments on contracts (Annex 5.2);
3. Contract case examples (Annex 5.3).

Annex 5.1

Presentation "Cost management"

USAID FROM THE AMERICAN PEOPLE | HIV/AIDS Service Capacity Project in Ukraine

Cost management

Financial management training for HIV servicing NGO

Kyiv, December 2009

Svitlana Zakrevska, Serhyi Kotov,
Consultants,
All-Ukrainian Charitable Foundation "Coalition of HIV Servicing Organizations

Cost management is:

- **Knowing** where, when and how much organizational resources are used
- **Forecasting** where, why and how much additional financial resources are needed
- **Being able** to ensure a maximally high effectiveness of resources used

Cost management means being able to save and maximize effectiveness of resources

Consequences of ineffective cost management

- Loss of cash
- Misuse of resources
- Unnoticeable increase in expenditures
- Increasingly complicated planning

Advantages of effective cost management

- High competitive ability due to low expenditures and hence prices
- Availability of quality and realistic information about the cost of specific services and their market position as compared with services of other organizations
- Possibility of flexible pricing
- Availability of objective data for the organization's budgeting purposes
- Sound and effective decision making

Cost management includes:

- Systematic method to determine actual expenditures
- Realization of causes and analysis of expenditures
- Streamlining the cost structure through reduction based on analysis
- Continuous search for cost saving options

Seven cost reduction approaches

- **Use moderation.**
- **New or old partners**. Negotiate for more favorable terms with the suppliers, contractors and other partners you are working with. If no agreement has been reached with old partners, find new ones who can offer more favorable terms.
- **Horizontal integration** involves acquisitions from one vendor jointly with other buyers. For example, two organizations can pool their efforts for a rebate on a large volume of procurement
- **Vertical integration** implies developing close relationships with suppliers to control and, if possible, reduce the cost of materials and services they provide.
- **Lease or own**. Check what is more advantageous – to lease (premises, equipment, etc.) or acquire and use as owner
- **Payment options.** Search for new payment options. E.g. pay utilities in bills of exchange of the utilities provider.
- **Put stricter controls in place.**

Tax planning

- Tax planning are legitimate administrative steps aimed at choosing the time, place and types of activities, creating and managing the most efficient schemes and contractual relationships in order to increase cash flows through the minimization of tax payments

- Tax planning scheme is a specific order of relationships amongst several economic entities, which are intended to reduce tax payments, not in contravention of the law

Difference between tax planning and compliance with tax legislation

1. Compliance with tax legislation means ensuring accurate calculation of taxes according to effective regulations.

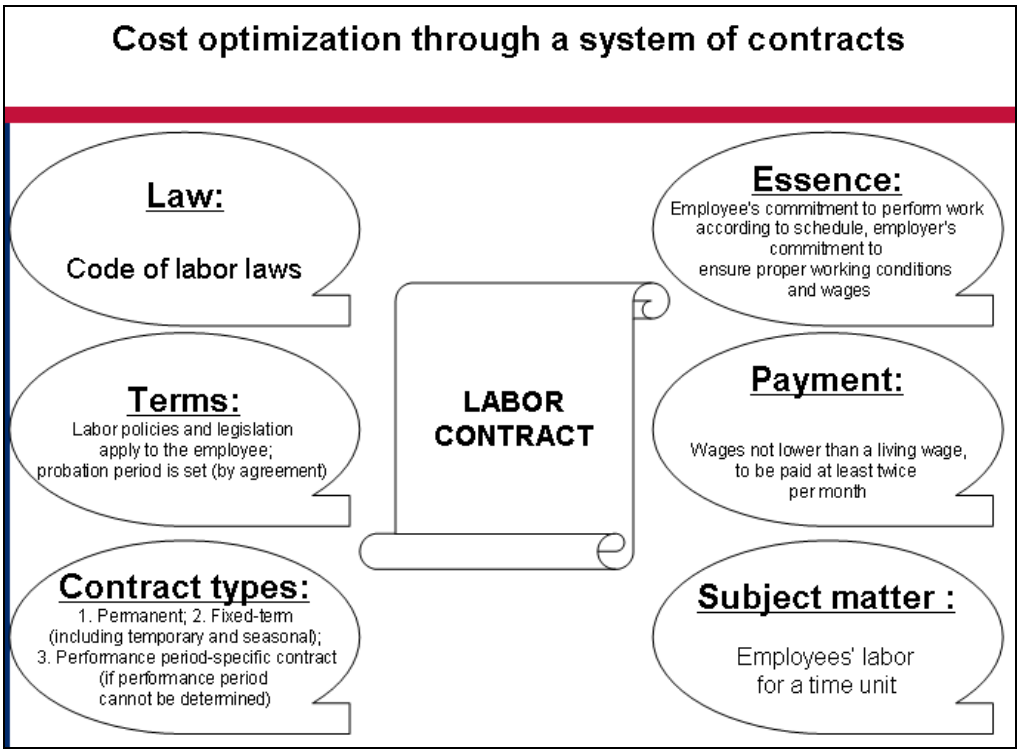
2. Compliance with tax legislation is mandatory.

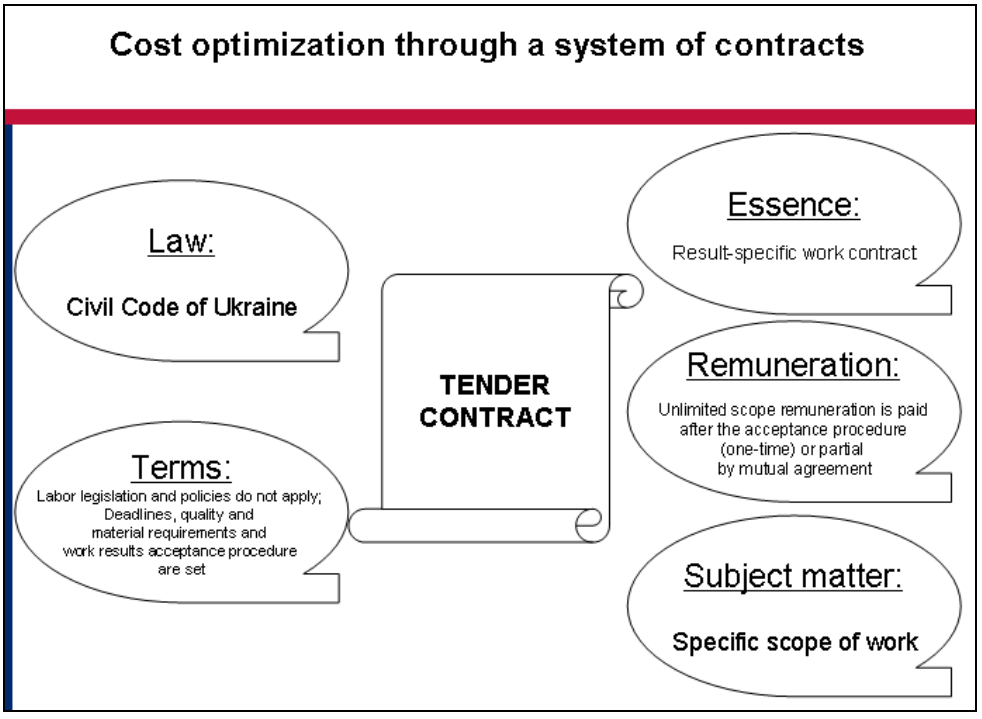
3. Compliance with legislation is enforced by law. Violations may entail penalties or legal sanctions against the enterprise.

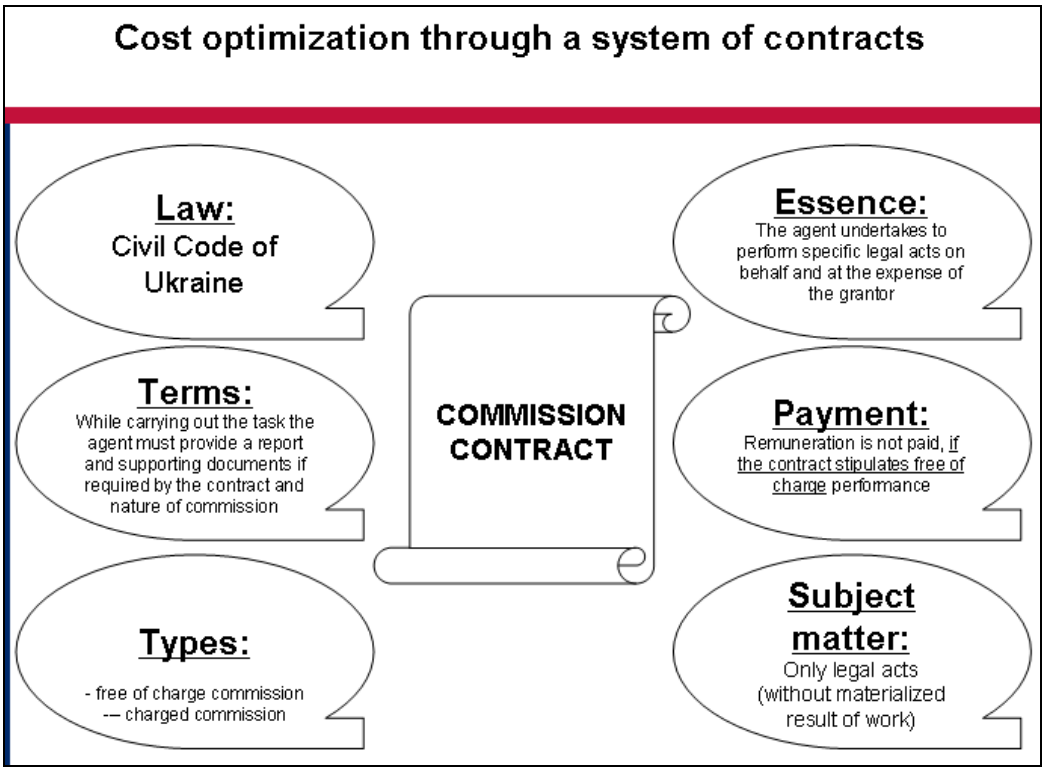
1. Tax planning means agreeing the strategy and tactics with the tax regulations applicable to the enterprise with a view to reducing taxes.

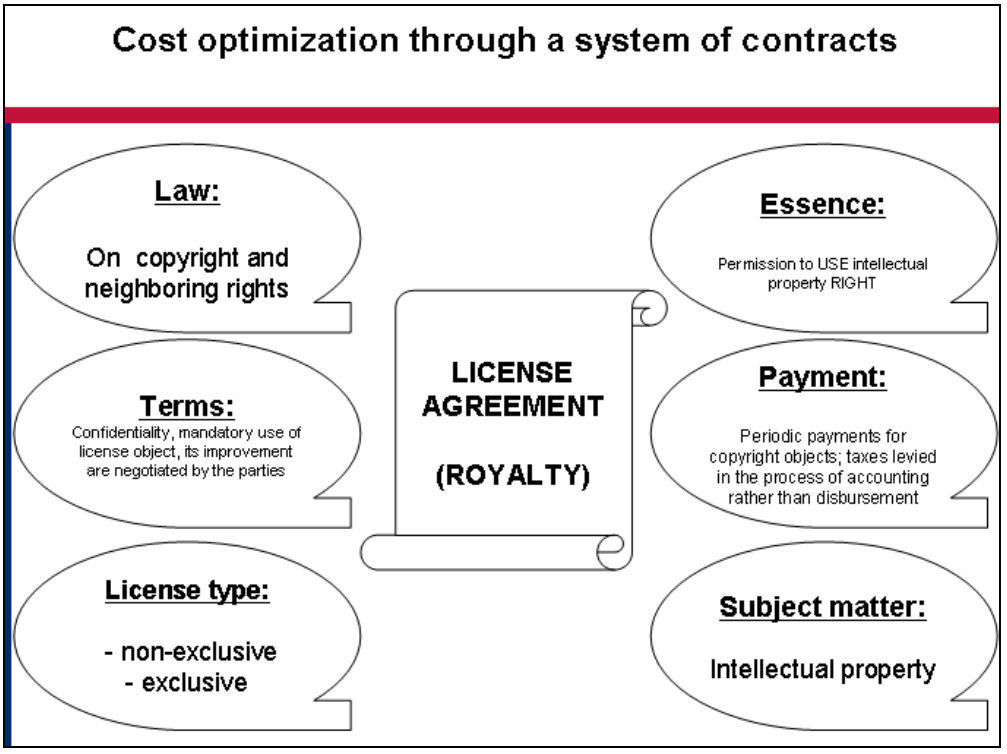
2. Tax planning is a voluntary and internal process of the enterprise.

3. Tax planning is not mandatory and entail no legal consequences since it inherently ensures compliance with law.


Cost optimization through a system of contracts
Law:
Code of labor laws
Terms:
Labor policies and legislation apply to the employee; probation period is set (by agreement)
Contract types:
1. Permanent; 2. Fixed-term (including temporary and seasonal); 3. Performance period-specific contract (if performance period cannot be determined)
LABOR CONTRACT
Essence:
Employee's commitment to perform work according to schedule, employer's commitment to ensure proper working conditions and wages
Payment:
Wages not lower than a living wage, to be paid at least twice per month
Subject matter :
Employees' labor for a time unit


Cost optimization through a system of contracts
Law:
Civil Code of Ukraine
Terms:
Labor legislation and policies do not apply; Deadlines, quality and material requirements and work results acceptance procedure are set
TENDER CONTRACT
Essence:
Result-specific work contract
Remuneration:
Unlimited scope remuneration is paid after the acceptance procedure (one-time) or partial by mutual agreement
Subject matter:
Specific scope of work


Cost optimization through a system of contracts
Law:
Civil Code of Ukraine
Terms:
While carrying out the task the agent must provide a report and supporting documents if required by the contract and nature of commission
Types:
- free of charge commission
-– charged commission
COMMISSION CONTRACT
Essence:
The agent undertakes to perform specific legal acts on behalf and at the expense of the grantor
Payment:
Remuneration is not paid, if the contract stipulates free of charge performance
Subject matter:
Only legal acts (without materialized result of work)


Cost optimization through a system of contracts
Law:
On copyright and neighboring rights
Terms:
Confidentiality, mandatory use of license object, its improvement are negotiated by the parties
License type:
- non-exclusive
- exclusive
LICENSE AGREEMENT
(ROYALTY)
Essence:
Permission to USE intellectual property RIGHT
Payment:
Periodic payments for copyright objects; taxes levied in the process of accounting rather than disbursement
Subject matter:
Intellectual property

Cost optimization through a system of contracts

Law:

Civil Code of Ukraine

Terms:

Agreement is notarized and normally does not stipulate any work performance (provision of services)

Types:

- non-exclusive right
- exclusive right

COPYRIGHT AGREEMENT

Essence:

Transfer of intellectual property right

Payment:

One-shot, periodic or combined payments; taxes levied in the process of accounting rather than disbursement

Subject matter:

Intellectual property

HOW TO HIRE A CONSULTANT OR TRAINER

Contract type	Charges	Deductions	Tax social exemption	Profit tax	State duty
Labor contract					
Tender contract					
Commission contract					
License agreement					
Copyright agreement					

HOW TO HIRE A CONSULTANT OR TRAINER

- Take on to the staff
- Make a tender contract/ service contract
- Make a commission contract
- Make a license agreement
- Make a copyright agreement

Code 0005, 0006 and 0014 organizations may formalize trainings as their core activity, and 0011 organizations may do this if educational or awareness-raising services are listed in statutory objectives or activities

Annex 5.2

Lawyers' comments on contracts

LABOR CONTRACT

Pursuant to Article 21 of the Code of Laws on Labor, a ***labor contract*** is an agreement between the employee and employer (owner of an enterprise, institution, organization or its authorized body) which binds the employee to do work according to his/her qualification and follow internal labor policies. The employer or his/her authorized body in turn undertakes to pay the employee wages and ensure necessary working conditions in accordance with laws on labor, union and the parties' agreement.

Types of labor contract

According to Article 23 of the Code of Laws on Labor, labor contracts are classified as:

(1) permanent contract - concluded for an unspecified period of time. This is the most common type of contract;

(**2) fixed-term contract** – concluded for a specific period negotiated by the parties. Fixed-term contracts also include temporary and seasonal contracts;

(3) performance period-specific contract – concluded when the work completion date cannot be determined precisely. For temporary employees, the employer-employee relationship is regulated by Decree #311. Temporary employees are hired for a period of up to 2 months. If such employees are hired to substitute for temporary absent staff workers, whose workplace and position are preserved, this period should not be more than 4 months. And such a type of contract is deemed to be permanent if a temporary employee overworks the above period and none of the parties seeks termination of the employer-employee relationship as provided for in Article 39-1 of the Code of Laws on Labor. How to conclude a labor contract correctly:

Step 1. Define the position, specialty, qualification according to the Occupational classification;

Step 2. Define responsibilities and functions of the employee, as well as additional his/her responsibilities;

Step 3. Specify the employee's socio-economic needs;

Step 4. Specify a period of probation to see whether the employee's qualification matches his/her position, and whether the employee is capable of performing tasks;

Step 5. Specify the rate, system and terms of salary payments to the employee;

Step 6. Define an optimum timeframe for a labor contract (for fixed-term contracts);

Step 7. Specify the employee's rights and obligations in accordance with law;

Step 8. Familiarize the employee via his/her signature with the job description, internal regulations and the labor contract;

Step 9. Familiarize the employee with working conditions, workplace and provide everything he/she needs for work;

Step 10. Brief the employee on safety regulations, labor health, hygiene and fire safety regulations.

Terms of a labor contract, which deteriorate the employee's situation in defiance of the labor law requirements, are invalid (Article 9 of the Code of Laws on Labor). A labor contract is made in writing in duplicate and signed and sealed by the employer.

When a written form of a labor contract is obligatory (pursuant to Article 24 of the Code of Laws on Labor)

1. When employees are recruited on an organized basis.
2. When employees are to work in special natural geographic and geological conditions or exposure to health hazards.
3. When a contract is concluded.
4. When an employee insists that the labor contract be executed in writing.
5. When a labor contract is made with a minor person.
6. When a labor contract is made with an individual who is an employer.
7. In other instances, stipulated in laws of Ukraine (e.g. with employees whose activity is associated with national security information, commercial confidentiality, etc.).

TENDER CONTRACT

Tender contract is a civil agreement, i.e. an agreement between a citizen and an organization (enterprise, etc.) under which the former undertakes to do specific work, and the subject matter of which is the provision of a specific deliverable. However, this type of contract does not generate labor relationships to which labor legislation applies.

Under a tender contract between the owner and the citizen the latter undertakes to do specific work for remuneration. The main difference between tender and labor relations is that labor laws regulate the work process and its organization.

A civil contract does not organize the work process, and the purpose of such a contract is to obtain a specific material result. Unlike an employee, a contractor is not governed by internal labor policies, but organizes and performs its work at its sole risk.

COMMISSION CONTRACT

Contract essence

The agent and grantor are parties to the commission contract. Pursuant to Section 1 of Article 1000 of the Civil Code, under this contract the agent undertakes to perform specific legal acts on behalf and at the expense of the grantor, and such acts must be primarily legacy acceptable, concrete and feasible. The commission contract may establish the agent's sole right to perform all or part of legal acts stipulated in the contract on behalf and at the expense of the grantor (Section 2 of Article 1000 of the Civil Code). Such a sole right may be limited by the commission term duration and/or a specific geographical area.

Distinction from similar contracts

The difference between the tender contract and commission contract is that the object of tender commitments is to produce a materialized result of work, which is to be delivered to the client, whereas the commission contract is binding only in terms of certain legal acts.

Contractual payment

Pursuant to Article 1002 of the Civil Code, if the commission contract does not specify the size or procedure of compensation to the agent, it must be paid upon completion of commissioned work at regular prices for such services. If the parties have agreed on free of charge delivery of commissioned work, it should be specified in the contract. Thus, normally the commission contract involves compensation. Note that in the past, pursuant to Article 387 of the Civil Code of the Ukrainian Soviet Socialist Republic, the agent was entitled to compensation (pay) only if such compensation is stipulated by the contract.

Contract execution

The agent must act in line with the content of the commission given. However, in the interest of the grantor the agent may deviate from the commission content if it has no possibility of making an inquiry with the grantor in advance or if it has received no response to the inquiry within a reasonable time. At the earliest opportunity the agent must notify the grantor of any such deviations from the commission content. The grantor must provide the agent with necessary means to carry out the commission if otherwise is stipulated in the contract (Article 1007 of the Civil Code). Furthermore, the grantor must reimburse to the agent the costs associated with the commissioned work done. Note that the property the agent has received from the grantor for further sale or the property received from third parties for further transfer to the grantor will not be transferred to the agent. Upon completion of the commissioned work the agent must submit a report and supporting documentation to the grantor if this is required by the contract and commission nature.

Contract termination

Just like any other contract the commission contract may be terminated on a common contract termination basis, specifically through its proper performance. Special grounds for terminating the commission contract are set forth in Article 1008 of the Civil Code, and consequences of such termination are listed in Article 1009 thereof. Thus, either the grantor or the agent may withdraw from the commission contract at any time; however, a refusal to waive the withdrawal from the commission contract is void. Also, one should take into account that:

- Losses that the agent incurs as a result of the commission contract termination due to the grantor's withdrawal are normally not refunded (except when the agent has acted as a commercial representative - see below) (Section 2 of Article 1009 of the Civil Code);

- Losses that the grantor incurs as a result of the commission contract termination due to the agent's withdrawal are reimbursed only if the agent has withdrawn from the contract when the grantor cannot otherwise ensure its own interests, as well as a contract under which the agent acted as a commercial representative (Section 3 of Article 1009 of the Civil Code).

Commission to receive or provide services

In this case the "work" of the agent consists only in what the agent must find for its grantor or customer, for which the agent receives certain remuneration. The services per se will be provided by the grantor to a client or by a contractor to the grantor, i.e. in such "grantor-agent" relationship instances only the amount of compensation that the agent receives from the grantor is taxable.

Royalty (license agreement)

Chapter 75 of the Civil Code of Ukraine classifies a license agreement as an intellectual property rights agreement. Under a license agreement one party (licensor) grants the other (licensee) permission to use the intellectual property right (license) on mutually agreed upon terms and in accordance with the above-mentioned Code and other laws. The Civil Code of Ukraine sets forth substantial terms of the license agreement:

1. Type of license:

- *Exclusive license*. It is granted only to one licensee, as a result of which the licensor cannot intellectual property (IP) in the sphere limited by such a license, and grant other persons licenses for such IP in the same sphere.
- *Non-exclusive license* (in all instances when a license agreement does not contain this type of license, it is deemed to grant an non-exclusive license). The non-exclusive license allows the licensor to use IP in the sphere restricted by this license, and to grant other persons licenses to use the foregoing IP in the same sphere.

2. Sphere of intellectual property use:
- Specific rights and IP use mode. Note that the rights that are not set forth in the license agreement are deemed not to have been granted to the licensee;
- Territory of license agreement. If a license agreement does not specify a territory in which the IP rights are exercisable, it means that the license agreement is by default applicable in the entire territory of Ukraine (Section 7 of Article 1109 of the Civil Code of Ukraine);
- License agreement duration. Pursuant to the Civil Code of Ukraine it expires no later than the expiration of an exclusive property right to the intellectual property specified in the agreement.

3. Size, procedure and terms of compensation for IP use.
The parties negotiate the above-mentioned terms of compensation. Copyright objects are the exception to this rule. Legislation establishes minimum compensation rates for using copyright objects. Such compensation is paid in a one-shot (lump sum) amount, periodical payments (royalties) or as combined payment (lump sum + royalty).

4. Other substantial terms.
Such terms may include requirements to confidentiality, mandatory use of license objects, license object upgrade or improvement, etc. Royalties are taxed according to the dividend taxation regulations (See paragraph 9.3, subparagraph 9.4.1 of the Law on individual income tax). And since January 1, 2005 dividends have been taxable in a somewhat different manner: to date, per subparagraph 9.3.4 of the Law, 15-percent tax has been imposed on dividends paid to a taxpayer by a corporate rights issuer (a resident who is a legal entity or individual). Currently, 15-percent tax is levied on dividends that a corporate rights issuer (a resident who is a legal entity or individual) credits to the taxpayer's account, i.e. no deferral of individual income tax until the actual date of royalty payment is granted.

COPYRIGHT AGREEMENT

A copyright agreement is an arrangement that assigns the right to use a work or other intellectual property. It may contain an exclusive or non-exclusive right of intellectual property assignment.
A specific feature of such a contract is that an author, who assigns a non-exclusive right, preserves the right to use the work and to assign the non-exclusive right to use the work to other persons. It should be noted that there are several types of copyright agreements, however, for the purposes of taxation the only thing that matters is whether any operations (services) are carried out (provided) under these agreements. Generally, service delivery is stipulated only in a commission contract (contract for commissioned work and intellectual property us), which is why payments under this type of contracts are subject to 32-percent and 1-percent (2-percent) contributions to the Pension Fund as well as a 15-percent profit tax.

A copyright agreement is notarized. When executing this type of agreement a notary acts as a fiscal agent. Subject to subparagraph 4.2.2 of the Law on individual income tax, proceeds from intellectual (industrial) property sale are include in an overall monthly taxable income as author's compensation amounts, i.e. incomes in the form of author's compensation are taxable under royalty taxation regulations.

At the same time royalties are taxed according to the taxation rules established for dividends (see paragraph 9.3, supara.9.4.1 of the Law on individual income tax).
Therefore, since January 1, 2005 author's compensation amounts are taxed in the process of accounting rather than disbursement. Until that time a deferral had been possible for individual income tax payments in regard to author compensations, etc. pending actual payment of such compensations.

Annex 5.3

Contract case examples

Situational exercise:
Partners have invited a representative of your organization to a conference on its charter activities. All costs, except transport, are incurred by the partners. Unfortunately, board members of your organization cannot leave the city on the specified conference dates, so other persons should be delegated to the conference. For conference participation your organization can afford only an amount that is only 10 percent higher than the price of tickets.

Questions:
1. Who must file documents to cover transport costs and what kind of documents are these?
Support your reply with arguments

Situational exercise:
To optimize costs you have concluded a License agreement with trainers who will conduct trainings outside your oblast (region). A donor has allocated money to cover incidental (related) costs.

Questions:
1. What incidental costs can be reimbursed to the trainer based on the concluded agreement?
2. What documents are needed to reimburse the expenditures and what expenditures can be reimbursed based on these documents?
Support your reply with arguments

Session 6. Control and audit

- **Objectives:**
  5. Examine types of financial reporting and financial reporting users.
  6. Highlight the most common errors in NGO economic operations, find ways to correct the errors. Provide understanding of consequences of errors that have not been corrected timely.

- **Time**

1 hour 30 minutes

- **Materials**

  Flipchart paper; markers; tape, overhead projector, slides.

- **Steps**
  1. **Plenary discussion.** Questions for discussion:
  - What types of financial reporting do you know?
  - Who can be a user of financial reporting?
  - What is special about reporting to donor entities?
  2. **Practical exercise** – complete a tax report according to case examples. Trainees will work in 2 groups. The first group will complete the tax exemption part, the second one will complete the taxable part.
  3. **Presentation** of group work results, discussion.
  4. **Control tests** to reveal taxation and accounting mistakes in key NGO activity areas.
  5. **Discuss results**.

Conclusions. Summarize session results and underscore the importance of a careful approach to accounting and financial reporting as well as impact of these factors on organizational viability.

- **Handouts**
  1. Presentation “Control and audit” (Annex 6.1);
  2. Tax report completion exercise and samples (Annex 6.2);
  3. Accounting and taxation tests (Annex 6.3)

Presentation "Control and audit"

USAID FROM THE AMERICAN PEOPLE | HIV/AIDS Service Capacity Project in Ukraine

Control and audit

Financial management training for HIV servicing NGO

Kyiv, December 2009

Svitlana Zakrevska,
Consultant,
All-Ukrainian Charitable Foundation "Coalition of HIV Servicing Organizations

Audit

is an examination and verification of open books of account, records, source documentation and other information on financial and economic activities of economic entities with an aim of determining their accuracy, completeness and compliance with law and regulations

Financial results report

Goal of the report *is to provide users with complete, accurate and unbiased information on revenues, expenditures, profits and losses of the enterprise during the reporting period.*

Profits *is an increase in economic benefits through revenue assets or decrease in liabilities, which leads to an increase in core capital (except for capital increase due to the owner's contributions).*

Expenditures *is a decrease in economic benefits through assets outflow or increase in liabilities, which leads to a reduction of core capital (except for capital decrease as a result of its withdrawal or distribution among owners).*

Loss *is excess of expenditures over revenues for which such expenditures were incurred.*

Profit *is an amount by which revenues exceed related expenditures.*

Financial reporting users

Financial reporting uses may include legitimately authorized representatives of state authorities, legal entities or individuals, who are interested in the results of economic activity of specific entities, including :

- owners;
- founders of economic entities;
- creditors;
- investors;
- other persons, who are legally entitled to receive financial accounting information.

Open financial reporting

Consists of an audit report, balance sheet, profit and loss report, other reporting documentation containing information that does not constitute commercial secret and can be made public according to law

Breach of cash discipline

- Untimely capitalization of cash in the organization's cash office
- Exceeding the limit of available cash in the cash office and breaching the terms of issue of cash to be accounted for
- Errors in cash balance calculations in the cash book

Annex 6.2

Tax report completion exercise and samples
(Debet-Kredet # 43 (10.25.2004)

How nonprofits report

Among other taxpayer liabilities and duties, Article 9 of the Law on the taxation system establishes a general requirement to submit statements, accounting reports and other documents related to the calculation and payment of taxes, duties and other mandatory payments to tax authorities and other state bodies.

We will not deal with bookkeeping reporting in this material but we'll try to see how tax accounting works. And one may wonder what it has to do with tax statements if an organization is a nonprofit one i.e. earns no profits…

Let's see…

Question one: does the **Tax return** completed by nonprofits fall under the definition of a tax statement?

Yes, because it meets the definition of a **tax statement** as a tax calculation that is submitted to a tax authority within the established deadlines and on the basis of which the tax can be charged and paid (paragraph 1.11 of Law #2181).

Nonprofits complete the tax return following the Tax return completion procedure established by the State Tax Administration of Ukraine. This procedure applies to organizations included in the **Register** of nonprofit organizations and institutions with a unprofitability code assigned according to the Procedure for coding nonprofit institutions (organizations) approved by State Tax Administration of Ukraine order #355 of 07.03.2000.

What, when and where to submit and pay

According to paragraph 16.4 of the Law on profit all taxpayers must file a tax return with a tax authority at the place of their registration within the deadlines established in subparagraph 4.1.4 of Law #2181. For quarterly reporting purposes – within **calendar days** following the last calendar day of a taxation quarter. However, this last day should not be a holiday or a day off, in which case the last day is the nearest business (banking) day following such a holiday or day off.

When filing a tax return, one should remember that the same paragraph of the Law on profit prohibits that tax authorities demand any reporting forms (including bookkeeping reporting) that are not directly required by this Law.

A tax return can be file electronically or be mailed ten days before the deadline (with return receipt requested registered), which is stipulated in paragraph 1.6 of the Tax return completion procedure.

It is important to note that paragraph 1.5 the Tax return completion procedure establishes that the Tax return should be filed **even if an organization had no transactions (amounts) during the reporting period.** In this case respective tax return rows will be blanked out.

The tax for the reporting period is paid to the budget within 10 calendar days following the tax return submission deadline (subparagraph 5.3.1 of Law #2181). However, only those nonprofits, which have additional revenue sources such as the lease of property, can project a profit tax.

To determine the tax payment deadline one should take into account that the last day of payment is calculated on the basis of the tax return submission deadline, even if this day falls on a holiday or a day off. In other words, the tax should be paid within **50 calendar days** following the end of a reporting period.

How to complete the tax return – general guidelines

The tax return is based on accounting data and is completed for a reporting period **on an accrual basis from the beginning of a calendar year** (per paragraph 11.1 of the Law on profit, for profit taxation purposes the following taxation periods are used: a calendar quarter, a half year, three quarters, a year). Summary amounts are specified in column 3 of the reporting form.

Only the tax amount specified in the tax return should be paid to the budget (i.e. within the accuracy of 100 UAH), and not the amount obtained during accurate tax calculation. The amount rounded to hundreds, is a tax liability amount that is reflected in the organizations' personal account card. Normally, the accuracy of tax return data is endorsed by the signatures and seals of the organization director and chief accountant (or a specialist responsible for accounting and reporting).
Given the requirements of paragraph 7.20 of the Law on profit, nonprofits must keep tabs on their tax-exempt revenues (Part I of the Tax return), and separately – on taxable revenues and associated expenditures (Part II of the Tax return). Let us look at each part in detail.

Part I. Tax-exempt incomes
Part I of the Tax return summarizes profits of nonprofit organizations (institutions), which are tax-exempt as per subparagraphs 7.11.2 - 7.11.7 of the Law on profit (rows 1 to 7). Each group of nonprofits completes only one of these rows (groups of rows), which corresponds to its activity. Sources of such tax-exempt revenues, which belong to a respective group, are detailed in the subrows to each row.

Table 1 illustrates the distribution of rows in the Tax return.

Table 1
Distribution of groups of nonprofit organizations (institutions) by Tax return rows

Row in the Tax report	Unprofitability code	Organizations (institutions)
1	0001	state authorities of Ukraine
	0002	institutions and organizations established by state authorities and funded from respective budgets
	0003	self-governance bodies
	0004	institutions and organizations established by self-governance bodies and funded from respective budgets
When completing row 1.3 (row. 1.3 = row. 1.3.1 + row. 1.3.2 + row. 1.3.3 + row. 1.3.4 + row. 1.3.5 + row. 1.3.6) of the tax return, you should be guided by the List of groups of revenues of budget-funded institutions, requirements to their creation and areas of use, approved by the Cabinet of Ministers' directive #659 of 05.17.2002. **Row. 1 = row. 1.1 + row. 1.2 + row. 1.3**		
2	0005	charitable foundations and charities established for charity support purposes
	0006	- non-governmental organizations established with an aim of pursuing environmental, health promotion, amateur sporting, cultural, educational and academic activities, - non-governmental organizations of the disabled and their regional hubs
	0007	creative unions
	0008	political parties
	0014	- research and development institutions, - higher education institutions of accreditation levels III - IV, entered in the State register of scientific institutions supported by the State, - sanctuaries, reserve museums
Row. 2 = row. 2.1 + row. 2.2 + row. 2.3 + row. 2.4 + row. 2.5		
3	0009	pension fund (row. 3.1 = row. 3.1.1 + row. 3.1.2 + row. 3.1.3)
	0010	credit unions (row. 3.2 = row. 3.2.1 + row. 3.2.2 + row. 3.2.3)

Row. 3 = row. 3.1 + row. 3.2		
4	0011	legal entities other than those specified in paragraph "b" subparagraph. 7.11.1 paragraph 7.11 of Article 7 of the Law on profit (in row 2 of Tax return), which do not pursue profit generating activities according to law, e.g. gardening and garage cooperative, private educational institutions legally registered as nonprofits with respectively assigned signs
Row. 4 = row. 4.1 + row. 4.2 + row. 4.3		
5	0012	- unions, - associations, - other associations of legal entities created to represent the interest of founders, which are supported with founders' contributions and do not pursue economic activities (with the exception of passive incomes)
Row. 5 = row. 5.1 + row. 5.2 + row. 5.3		
6	0013	faith-based organizations
Row. 6 = row. 6.1 + row. 6.2 + row. 6.3		
7	0015	- housing-construction cooperatives, - associations of tenement co-owners
Row. 7 = row. 7.1 + row. 7.2		

Note that those organizations (institutions) that complete rows 1.3.5, 2.5, 3.1.3, 3.2.3, 4.3, 5.3 of the Tax return (subventions and subsidies received) do not fall under tax exemption and hence do not enter in these rows amounts of subventions received for downward adjustment of the prices of charged services provided to them (or via them to service recipients). Such subventions should be reflected in Part II of the Tax return.

Interestingly, nonprofits with the **0016 unprofitability code** i.e. **labor unions, their associations and labor union organizations** (paragraph "g" subparagraph 7.11.1 of the Law on profit) need not fill out part I of the tax return. They complete the Tax ax return only in the part related to taxable profit accounting (part II). This exemption is provided to them in paragraph 1.3 of the Tax return completion procedure.

The information provided in the tax return should be based on accounting data (paragraph 1.5 of the Tax return completion procedure). Therefore, nonprofits' tax-exempt revenues are reflected according to the accounting guidelines, specifically set forth in Accounting provision (standard) 15 "Income". For example:

- ***profit interest is recognized for the period when they were charged;***
- ***dividends – when decision is made to pay dividends;***
- ***royalty – at the time of charging;***
- ***target financing received – during periods when expenditures associated with meeting the terms of target financing will be incurred;***
- ***gratuitous financial aid or voluntary donations (in the form of money or property) – at their actual entry into accounting records;***
- ***return on the sale of goods (services) that promote the principles and ideas advocated by a nonprofit, - at the time of actual transfer (signing of the service delivery report).***

Also, the value of property received by a nonprofit (in the form of donations) is specified in respective rows of the tax return, and this value corresponds to the amount specified in supporting documents.

In the remaining rows of Part I of the Tax return nonprofits specify for what purposes tax-exempt revenues were used:
in row 8 – budget-funded institutions (organizations);
in row 9 – others except for budget-funded ones.
Financed expenditures are specified in these rows of the form, i.e. expenditures actually **incurred** during the reporting period.
Thus, in a tax return of any nonprofit (except for labor unions) one in the first seven rows will be filled out (including its sub-rows), as well as row 8 (for budget-funded organizations), or row 9 (for other nonprofits).

Let's look at the procedure of completing Part I of the Tax return of nonprofits as **exemplified** by reporting of the "Komunalka" tenement co-owners association (TCOA) for three quarters of 2009.

To make things simpler let's assume that the TCOA **is not a VAT payer.**
During the reporting period TCOA received the following tax-exempt revenues:

- utility payments received from tenement residents, - **187,0** thousand UAH;
- TCOA members' contributions to cover the cost of tenement maintenance and repairs according to the approved budget estimate - **65,4** thousand UAH;
- tenement residents' donations - **5,9** thousand UAH.

The above revenues are tax-exempt because they are raised to meet TCOA core operational need, i.e. to provide public consumption services, to create social self-reliance systems for tenement residents (according to the definition of core activities in subparagraph 7.11.13 of the Law on profit).

- In addition, TCOA raised **0,7** thousand UAH in interest on its bank deposit.

The expenditures the "Komunalka" TCOA incurred on its own upkeep during three quarters of 2009:

- payments for utilities (consumed by tenement residents), to public utility companies, - **187,0** thousand UAH;
- staff salaries (including service and technical staff) and social insurance charges - **21,6** thousand UAH;
- tenement maintenance and running repairs (servicing of tenement systems, elevators, meters, public space lights, disinfection, garbage disposal, tenement grounds gardening, etc) - **42,9** thousand UAH;
- depreciation of fixed assets (residential building and co-owners' property are not depreciated) - **0,9** thousand UAH.

Also, TCOA incurred the following expenditures:

- provided charity support to poor citizens - **2,9** thousand UAH;
- paid for kindergarten grounds gardening - **1,7** thousand UAH;
- held sporting events among junior school students - **2,0** thousand UAH.

Within the established deadlines, the "Komunalka" TCOA submitted to the raion tax office

Completing a tax return *(see Table 1)*

Completion of Part I of the Tax return on the use of funds according to the example 1 conditions

Table 1

Indicators	Row code	On accrual basis from start of fiscal year
1	**2**	**3**
Part I		
Incomes of nonprofits that are included in the Register of non-profit institutions and organizations according to item "f" of subparagraph 7.11.1 of paragraph 7.11 of Article 7 **(unprofitability code 0015)** **Row. 7 = row. 7.1 + row. 7.2**	7	
Revenues that such nonprofits get to meet their core activity needs **Row. 7.1 = row. 7.1.1 + row. 7.1.2 + row. 7.1.3**	7.1	
contributions	7.1.1	
amount (187,0 + 5,9 = 192,9 thousand UAH)	7.1.2	
Property value	7.1.3	
Passive incomes, i.e. incomes received as interest, dividends, insurance payments and indemnities, royalty	7.2	
Total amount of financed spending of the nonprofit institution (organization), **Row. 9 = row. 9.1 + row. 9.2**	9	
Total expenditures on the upkeep of the nonprofit institution (organization), except budget-funded, within its budget estimate (21,6 + 42,9 + 0,9 = 65,4 thousand UAH)	9.1	
Expenses incurred by the nonprofit institutions (organization) to achieve statutory objectives (implement core activities) **Row. 9.2 = sum of rows (from 9.2.1 to 9.2.9)**	9.2	
to carry out charitable activities	9.2.1	
to carry out environmental activities	9.2.2	
to carry out health promotion activities	9.2.3	-
to carry out educational activities	9.2.4	-
to carry out amateur sporting activities	9.2.5	
to carry out awareness-raising activities	9.2.6	-
to carry out cultural activities	9.2.7	-
to carry out scientific activities	9.2.8	-
Expenditures on other needs specified in the charter documents	9.2.9	

Part II. Profit tax calculation

Part II of the Tax return submitted by nonprofits features the calculation of the corporate profit tax. This part in turn includes three independent sections.

Section 1. This section calculates a profit tax on revenues that a “concerned” nonprofit has received from other sources since the beginning of the year (i.e. except for tax-exempt sources specified in subparagraphs 7.11.2 - 7.11.7 of the Law on profit and reflected in Part I of the tax return).
Such a calculation is done in rows **10 to 15** and is based on rates of subparagraph 7.11.9 of the Law on profit, which stipulates that if a nonprofit receives profits from sources other than those mentioned above, this nonprofit must pay a profit tax on revenues thus generated.
A profit is determined as a difference between revenues from other sources and expenditures incurred as a result of such revenues:

Taxable profit	=	**Amount of revenues from other sources**	-	**Amount of expenditures incurred as a result of such revenues**

And there is an additional tax restriction: the amount of such expenditures cannot exceed the amount of "other sources" revenues, i.e.

Amount of revenues from other sources	≥	**Amount of expenditures incurred as a result of such revenues**

Thus, one can infer that a nonprofit **cannot have a loss** because revenues generated from other sources will always be positive or at least equal to zero.
Note that the calculation of a taxable profit **does not factor in depreciation charges.**
A tax on a profit received is calculated on a quarterly basis at a common 25 percent rate and is paid to the budget on a common basis within the deadlines established by paragraph 5.3 of Article 5 of Law #2181.
Whilst Part I of the Tax return is filled out exclusively according to accounting rules, this section is based on tax accounting requirements and is subject to the Law on profit, including to the “first type of occurrence” rule.
Section 2. This section deals with a calculation of a tax on profit from an excess amount according to sentence 1 of subparagraph 7.11.9 of the Law on profit, which reads as follows: if an undistributed profit generated in the previous year to the end of quarter 1 of the current year exceeds 25 percent of the gross revenue amount in the previous year, the organization must pay **a tax on profit from such an excess amount**.
This provision of the Law on profit applies only to **0011 code** nonprofits (listed in item "d" of subparagraph 7.11.1 of the Law on profit). The list includes legal entities (except those specified in item "b" of the same subparagraph), whose activity does not seek profit according to requirements of respective laws, e.g. gardening or garage cooperatives, private educational institutions.
The above calculation is done in rows **16 to 24** of the Tax return based on the results of **the 1st quarter of every year** and is to be paid to the budget within the deadlines for the quarter 1 tax payment i.e. within 50 calendar days (paragraph 3.9 of the Tax return completion procedure).
Section 3. Rows **25 to 26** are completed only if a nonprofit itself has revealed errors in the data of the tax return filed earlier. This will be discussed more in detail in subsequent publications.
Let’s return to the “Komunalka” TCOA and loot at how Part II of the Tax return for 3 quarters of 2009 is completed.
Reminder: to avoid complication, we assume that TCOA **is not a VAT payer.**
During a reporting period TCOA received the following tax-exempt incomes:

- proceeds from the lease of non-residential spaces jointly owned by tenement residents, - **37,0 thousand UAH;**
- proceeds from the operation of the TCOA corporate workshop ОСББ - **12,7 thousand UAH.**

Expenses TCOA incurred during three quarters and directly associated with these proceeds:

- expenditures on the leased out spaces (advertisement, insurance, security, payment for land, etc.), - **7,1 thousand UAH;**
- expenditures associated with the operation of the corporate workshop (materials, sewer wages, workshop maintenance, etc) - **9,8 thousand UAH.**

Completing the Tax return (See Table 2).

Table 2

Completion of Part II of the Tax return on the use of funds according to the example 1 conditions

1	2	3
Part II		
Amount of Incomes from other sources subject to the profit tax. Normally, **VAT** is excluded from the amount of received incomes if the nonprofit is a registered VAT payer (37,0 + 4,7 = 41,7 thousand UAH)	10	
Financed expenditures directly associated with taxable incomes received. These expenditures should be reflected in the same reporting period, like the incomes for which these expenditures were incurred and which are specified in row 10. The amount of expenditures cannot exceed the amount of incomes, i.e. row 10 = row 11. Depreciation amount is not included (7,1 + 9,8 = 16,9 thousand UAH)	11	
Taxable profit **Row. 12 = row. 10 - row. 11**	12	
Tax liabilities in the reporting tax period (as per paragraph 10.1 of Article 10 of the Law on profit the profit tax rate is **25** percent) **Row. 13 = row. 12 x 25 : 100**	13	
Amount of the profit tax charged for the previous taxation period in the current year. In a tax return for the 1st quarter, this row is blanked out; in a half-year tax return the amount of income for the 1st quarter is included; in a tax return for 3 quarters – data from the half year return, and in the yearly tax return data for three quarters are included **Row. 14 = row. 13 of the previous tax return in the current year**	14	
Profit tax amount charged for the reporting period. Nonprofits pay the tax on profits generated from their non-core activities on a common basis, for the taxation period during which these profits were earned **Row. 15 = row. 13 - row. 14**	15	

Note!

In accordance with Law #2181 a tax return on the use of funds by non-profit institutions and organizations is equivalent to a tax report (statement).

Tax return data of nonprofits are based on accounting data. The tax return for a reporting period is completed on an accrual basis from the beginning of a calendar year.

On the basis of results of a reporting period a nonprofit cannot have a loss. A profit received from tax-exempt revenues will always be positive or at least equal zero.

When calculating a taxable income one should discount depreciation expenses even for fixed assets that work towards a taxable profit.

If a nonprofit fails to file its Tax return in time or delays the payment of the declared tax, a penalty is levied on its profit pursuant to paragraph 17.1 of Law #2181.

What will happen if.., or Something about responsibility

As nonprofits' tax return is equivalent to a tax statement, nonprofits fall under the action of both the Law on profit and Law #2181.

And this means that if the tax return submission deadline is not met, subparagraph 17.1.1 of Law #2181 establishes a responsibility in the form of a penalty amounting to **10 tax-exempt minimum individual incomes**. Currently, this penalty amounts to **170 UAH**.

If an organization fails to pay a tax timely, it is liable to a penalty of **10 to 50 percent** of the tax debt amount depending on the number of days of such delay (subparagraph 17.1.7 of Law #2181). Also, default interest is added pursuant to Article 16 of the above Law.

However, even if the tax return has been filed timely, trouble may arise from subparagraph 4.1.2 of Law #2181. When completing a tax return one should strictly follow the Tax return completion requirements. If a taxpayer files a tax return completed in violation of the requirements, such a tax return may **be rejected** as tax reporting. Such rejection may occur if a taxpayer did not specify required information, if the tax return was completed carelessly and is hardly legible, if its pages are crumpled or torn, if some officials' signatures or seals are missing or if it is a copy instead of the original …

So, it is better to avoid such trouble...

Regulatory framework

1. Law on the taxation system – Law of Ukraine #1251 (of 06.25.91) in the redaction of the Law of Ukraine as of 02.18.97 "On taxation system".

2. Law on profit - Law of Ukraine #334/94-BP of 12.28.94 "On taxation of profits of enterprises" in the redaction of the Law of Ukraine #283/97-BP as of 05.22.97

3. Law #2181 – Law of Ukraine #2181-III of 12.21.2000 "On the procedure for meeting taxpayer liabilities to budgets and state special-purpose funds".

4. Accounting provision (standard) 15 "Income" – accounting Provision (standard) 15 "Income", approved by Ministry of Finance order #290 of 11.29.99.

5. Tax return submission procedure – Procedure for submitting a tax return on the use of funds by nonprofit organizations and institutions, approved by State Tax Administration order #233 of 07.11.97, in the redaction of State Tax Administration order #153 as of 94.03.2003.

Iryna Reznikova

Annex 6.3

Accounting and taxation tests

Test I - Cash *(based on the materials from the journal "Debit-credit")*

Every accountant if not deposited, at least once received cash from a bank. Do you know well how to manage money? No, not in terms of keeping money safe or amassing it, but in terms of compliance with the "Regulations on cash transactions in Ukraine".

I	Which of the cash payments listed below are included in a daily average amount to calculate the cash limit?
1	… payment of dividends;
2	… TDY travel costs;
3	… return of contribution to the statutory fund by the founder.
4	… 2 and 3.

II	If the organization conducts cash transactions without determining the cash limit, the cash limit...
1	… is considered to equal zero and all cash balance at the end of the business day is deemed to be above-limit;
2	is automatically set in the amount of 10 tax-exempt minimum individual incomes;
3	… a newly created enterprise may work without a set cash limit in the first 3 months.

III	During an audit the regulatory bodies revealed that a cash voucher (hereinafter referred to as - CV) is not signed by the recipient. In this case...
1	… the enterprise must to deduct the amount received under such a CV from the employee;
2	… the cash amount under such a CV is added to the cash balance of the day on which this voucher was issued;
3	... executive staff of the enterprise may be disciplined with an administrative fine.

IV	The organization does not lodge cash with a bank but only receives it from the bank for salaries and reporting amounts. What cash limit can the enterprise set?
1	Not more than 170 UAH.
2	The enterprise may set such a cash limit as it finds appropriate.
3	In this case the enterprise cannot set a cash limit at all.

V	How often should an operating organization revise its cash limit?
1	Every three months.
2	If there are appropriate objective factors.
3	Legislation does not provide for either the term of mandatory revision or requirements to mandatory cash limit.

VI	An employee has received money to be accounted for, but did not account for it. Will the organization be affected in such a case?
1	Yes, a financial penalty to the tune of 25 percent of the issued amount.
2	No.

VII	An entrepreneur wants to use a current account for his/her entrepreneurial activity, which was opened as an account for a physical person. Is the bank entitled to make payments related to entrepreneurship activities from a physical person's current account?
1	Yes.
2	No.

VIII	An employee's application requesting a refund of overspent amount for a TDY trip, which is enclosed with CV, has the director's endorsement. Should the employee sign the CV in this case?
1	Yes.
2	No.

IX	An employee spent 12,000 UAH to buy commodities and materials for organizational needs at his/her own

	expense, and accounted for the expenditures in an expense voucher. The organization refunds the expended amount to the employee. Does the organization breach paragraph 2.3 of the Regulations that limit cash settlements of one enterprise (entrepreneur) with another enterprise (entrepreneur), which are made during one day under one or several invoice documents, with a limit amount of 10,000 UAH?
1	Not, it does not.
2	Yes, it does. When an individual paid for the commodities and materials, this individual acted on behalf of the enterprise.
3	Yes, it breached the regulations when the expended amount was refunded to the employee.

X	An employee timely accounted for the cash he/she received by filing a report to the accounting office, and he/she returned the unspent amounts on the day following the filing of the report. Is this a breach of cash policies?
1	Yes.
2	No.

XI	Can an organization that sells tickets to a sporting event without using registers of payment transactions and account settlement books, enter the cash at the end of the business day for the entire day using one petty cash receipt (cash slip)?
1	Yes.
2	No.

XII	Can an organization disburse an earlier deposited salary to an employee using contributions to the employee's cash fund?
1	Yes.
2	No.

XIII	The organization has several affiliates. In this case a cash limit is set as…
1	… a single one for the principal enterprise and its affiliates;
2	… by the principal enterprise for each affiliate individually;
3	... a single one or as several ones for the principal enterprise and for affiliates according to a decision by the principal enterprise.

XIV	The terms of cash take transfer to the bank account of the organization are set...
1	… by a bank with which the organization has opened the account;
2	… by the enterprise in coordination with the bank.
3	… by the enterprise without negotiation with the bank.

XV	The organization received cash in the amount that exceeds a set cash limit, and on the following business day it was disbursed as salary to employees. Should this cash be regarded as above-limit on the day of its receipt?
1	Yes.
2	No.

XVI	Under a cash voucher an employee receives an advance for a TDY trip. Should the accountant demand the employee's passport to enter his/her passport data in the cash voucher?
1	Yes.
2	No.

Test II – TDY trips *(based on the materials from the journal "Debit-credit")*

How to execute documents correctly when an employee is dispatched on or returns from TDY? What per diem should be paid and what expenditures should be reimbursed? This test will check your knowledge in this area.

I	Per the director's order an employee comes from one TDY and goes on another on the same day. What should be the size of his/her per diem?
1	For one day.
2	For two days.

3	Per diem is not provided at all.

II	An employee returns from TDY on a workday at 00 hours 15 minutes. Should the organization pay per diem for this day if the business hours of the organization are 9-00 to 17-00, and the employee reports to work on this day?
1	Yes.
2	Yes, but only 50 percent.
3	No, since the employee reported to work on that day.

III	Can an organization pay per diem in the amount less than the norm set by the Cabinet of Ministers when sending an employee on TDY inside Ukraine?
1	Yes.
2	Yes, but only if this is negotiated with the employee being sent on TDY.
3	No.

IV	An employee on overseas TDY stayed alone in a double room because there were no single rooms available. A hotel bill was added to the expense voucher. What amount should be refunded in this instance?
1	The overall amount that the employee spent and that is specified in the hotel bill.
2	Half the amount specified in the hotel bill.
3	Accommodation expenses are not refunded at all.

V	An employee was sent to undergo a skills upgrade course, which takes place during working hours and the cost of which is paid by the organization. Should the organization reimburse travel expenses to the employee if the distance to the training site is over 30 km and the employee can return to his/her permanent place of residence daily?
1	Yes, all travel expenses should be reimbursed if the director's order provides for the possibility of daily returns.
2	Yes, but only once – there and back.
3	No.

VI	An employee dispatched on overseas TDY gets to Ukraine's border in a train, which leaves at 23.40 and crosses the border at 08.10. Should per diem be paid in this case?
1	According to rates established for overseas TDY.
2	For in-country travel – at rates established for business trips inside Ukraine, for overseas stay – at rates established for overseas business travel.

VII	An employee on TDY did not receive an allowance advance. When should the employee file a TDY report?
1	During the working day following the day of return from TDY.
2	Within 3 working days of returning from TDY.
3	Law does not establish a deadline for expense report if an allowance advance has not been not given.

VIII	The director of an organization, who together with his/her employees was on overseas TDY, paid for hotel accommodation with a corporate card. Can the director include the hotel bill issued to his/her name in the expense voucher if the bill contains only the overall amount paid for the accommodation?
1	Yes.
2	No.

IX	What amount of currency can an employee take on overseas TDY (specified in a customs declarations) if the employee dos not have form #013 statement from the bank?
1	Equivalent of 3,000 US dollars.
2	Equivalent of 3,000 Euro.
3	Equivalent of 10,000 US dollars.
4	Equivalent of 10,000 Euro.

X	An employee is sent on TDY for 5 calendar days, but a holiday falls on one of these days. Should the reimbursement be calculated at a double rate for the holiday in this case?

1	Yes.
2	Yes, but only if the employee was specially dispatched to work during the holiday.
3	No.

XI	An employee sent on overseas TDY may receive an allowance advance…
1	Only in the currency of the country the employee is going to.
2	In the currency of the country the employee is going to, or in a freely convertible currency.
3	Partly in foreign currency and partly in Ukrainian hryvna.

Test III – Audits *(based on the materials from the journal "Debit-credit")*

During audits and presentation of audit results many questions and misunderstandings may arise. Let's check how well we are versed in the following issues and clarify certain aspects the knowledge of which will help us out in difficult situations.

I	What documents should State Tax Office (STO) auditors produce to the director of an organization that is audited, before the start of a planned audit in order to be granted access the records of the organization?
1	An audit warrant bearing a STO seal and signed by STO head or his/her deputy.
2	An STO officer certificate.
3	An order issued by the STO head warranting an audit, or its photocopy certified by the STO seal
4	Correct answers given in paragraph 1 and 2.

II	In how many days before the start of a planned audit should the regulatory bodies notify the organization of the audit start date, and in what way?
1	In 10 calendar days, by phone, tax, teletype, etc
2	In 10 calendar days via written notification exclusively
3	The auditor must notify of the start of the audit upon arrival at the enterprise at the time when the audit starts.

III	What is the maximum term established for one unscheduled audit by one regulatory body?
1	The term is not set
2	The term is established by the regulatory body and it is not limited in any way.
3	The term cannot exceed 10 business days unless otherwise is provided for by law.

IV	An organization has received a letter signed by the STO head demanding that the organization present copies of all documents related to its activity in the past 3 years for an audit directly in the STO. The letter also says that the organization may "use the documents only in the presence of STO officers who will conduct the audit". Are these STO requirements legitimate?
1	Yes
2	No
3	Yes, if a written notice of such invitation was received 10 days before, specifying the name of an official invited.

V	May STO officers continue a planned audit if the audit warrant has expired?
1	Yes, they may if the organization's management does not mind it.
2	No
3	Yes, they may if there is an appropriate order issued by the STO head or his/her deputy authorizing audit continuation.

VI	Auditing department officers have come to the organization "Metelyk" to conduct an audit. Are they entitled to conduct such an audit if the organization is not funded from the local budget?
1	No
2	Yes. If criminal proceedings have been initiated against the organization's officials.
3	Yes. If during the period to be audited the organization received financing from the local budget.

VII	STO officers, who have come to the organization to conduct an audit, have refused to register in the Audit register. How should the organization management act in such a situation?
1	Issue a written order authorizing the STO officers to start the audit
2	Deny the auditors access to records and a possibility of conducting an audit, and lodge a complaint with the regulatory body management about the STO officers' actions.
3	Coordinate its actions with the regulatory body management by phone.

VIII	STO is conducting a planned audit of the "ABC" LLC, from which the organization "Metelyk" has regularly purchased goods for its activities. A written request was sent to the "Metelyk" to present copies of all documents confirming the purchase of goods from the "ABC" LLC. "Metelyk" has not provided any copies of supporting documents. Are STO officers entitled to conduct an unscheduled audit of the "Metelyk" without prior notification?
1	Yes, if this involves auditing the use of budget resources.
2	Yes, if the organization has not responded to the STO written inquiry for 10 days.
3	Yes, if criminal proceedings have been instituted against the management of the enterprise that had economic relations with the organization.

IX	An organization was audited by STO bodies (the audit report is signed by the organization management, including comments on the facts and conclusions contained in the report). What date should be put on an STO decision as to charging additional tax amounts?
1	Within 10 business days of registration of the audit report
2	Within 3 business days following the day on which objections were reviewed and the organization's written response was given.

X	STO officers intend to confiscate the organization's accounting records. What document warranting their right to confiscate the records should they produce to the organization's management?
1	Records confiscation statement.
2	Records confiscation warrant
3	A representative of the taxpayer should be acquainted with a court ruling on the sequestration of assets.

XI	Within what time following the audit and how should STO bodies return the earlier confiscated records to the organization?
1	Within 20 days to the director personally.
2	STO body head makes a decision to return the records. The confiscated records are handed over to the organization against acknowledgement (receipt).

XII	As per written notification, a planned on-site audit is to be conducted jointly by STO and auditing department officers. Are these auditing bodies entitled to conduct such an audit during different periods of time?
1	No. A planned on-site audit is conducted simultaneously by all auditing bodies.
2	Yes. If it has been negotiated and agreed on with the organization to be audited.

XIII	May the auditing bodies write the following in their report "the chief accountant falsified", "misappropriated", "committed fraud"?
1	Yes. If such instances really occurred.
2	Yes. If criminal proceedings have been initiated against the chief accountant and such wordings are demanded by law enforcement authorities.
3	No, under no circumstances.

XIV	The organization's management disagrees with some facts contained in the audit report, regarding inaccurate charge of tax amounts. How should one act in this situation?
1	Not to sign the report.
2	Sign a separate statement of refusal to sign the audit report and wait for the audit report to be mailed.
3	Sign the audit report making a note that objections to the report will be sent to STO within 3 days.

XV	An audit is being conducted in the organization. An employee notices that the auditors are handling the documents that they are examining in a careless manner, which may lead to the loss of documents. May the employee videotape this process?
1	Yes, but taping can be done only with the auditors' consent.
2	Yes, taping does not warrant the auditors' consent.

XVI	In 2007 an organization did not meet the staffing norms for the disabled. Is the Fund for Social Security for the Disabled entitled to impose administrative sanctions on 11.20.2009?
1	Yes, administrative sanctions can be applied without limitation of action.
2	No, recourse to an administrative court is possible within 1-year period.

Training wrap-up

- **Objectives:**
  1. Summarize the training.
  2. Review the material.
  3. Complete post-training evaluation forms.

- **Time**

1 hour

- **Materials**

  Flipchart paper; markers; tape, 10x10 cm cards, ball and a soft toy

- **Steps**

1. Small group work (4). Topics for review:

- NGO taxation (profit tax), passive incomes and taxation
- Types of contracts
- List and define all types of budgets
- Factors of NGO financial viability

2. Presentation – groups will present the topics they have prepared

3. Training close – "Microphone" - Trainees form a semi-circle, and passing one another an imaginary "microphone", they try to finish the phrase "after this training I are sure to use..."

4. Completion of post-training evaluation forms.

Dear training participants!

Please fill out this questionnaire, which will help us improve work in future.

1. **Please, evaluate your post-training knowledge of the following topics:**

Topic	I did not receive information on this topic	I did not receive enough information	I received information, but I need additional explanations	I have enough information to impart it to others
1. **NGO financial viability. Financial goals and their connection with the strategy. Financial management. Key concepts and tools**				
2. **Unprofitability codes. Types of incomes exempt from profit tax for various types of NGO.**				
3. NGO core activity. Legal aspects of charged services delivery.				
4. Economic aspects of charged service delivery.				

5. Budget management				
6. **Classification of costs. Administrative costs. Drawing up an administrative budget**				
7. **Cost optimization through a system of contracts**				
8. **Drawing up project and cash flow budgets.**				
9. **Control and audit – reporting**				
10. **Control and audit – the cost common accounting mistakes.**				

2. **Please rate different aspects for the training, using a 5-point scale (1 – totally disagree – 5 – totally agree).**
   If you have additional comments or observations, please write them in the blank row.

A. Training content	**1**	**2**	**3**	**4**	**5**
The information was new to me					
The information was useful for my organization					
The information was interesting					
Additional comments and observations					

B. Training organization	**1**	**2**	**3**	**4**	**5**
The venue was convenient					
You are satisfied with accommodation and meals					
Additional comments and observations:					

3. To what extent did the training meet your expectations?

_____

_____

4. Which sessions were the most interesting for you and why?

_____

_____

5. Which sessions were the least useful for you and why?

_____

_____

6. Are there topics that you would add to the training agenda? If yes, what are they?

_____

_____

7. What activities do you plan to conduct after your participation in this training:

SUPPLEMENTARY MATERIALS

#	Title
№1	CHARITY CONTRACT
№2	LETTER OF THE STATE TAX ADMINISTRATION OF UKRAINE "ON GRATUITOUS TRANSFER OF FIXED ASSETS (EXTRACT)"
№3	LETTER OF THE STATE TAX ADMINISTRATION OF UKRAINE "ON SPECIFIC ISSUES OF TAX LEGISLATION APPLICATION"
№ 4	LABOR CONTRACT
№ 5	EDUCATIONAL SERVICES CONTRACT
№ 6	COMMISSION CONTRACT
№7	LICENSE AGREEMENT ON USING A SCIENTIFIC WORK
№8	CASH LIMIT CALCULATION

#1

CHARITY CONTRACT

Ensk "_____"_____ 200_ .

A registered charitable organization (full name), represented by (position, full name), who acts on the basis of the statute, hereinafter referred to as the Charity, as the party of the first part, and (organization name), represented by (position, full name), hereinafter referred to as the Sponsor, as the party of the second part, hereinafter referred to as the Parties, have entered into this contract and agreed upon the following:

Clause 1. Subject matter

1.1. The Parties agree that the Sponsor in conjunction with the Charity is taking part in a charity provision program for (variants: poor residents of Ensk, workers of the enterprise X, persons with a specific disease) through free provision of services listed in Annex 1 hereto.

1.2. The charity program, endorsed by the decision of the Charity general meeting as of 00.00.200_, hereinafter referred to as the Program is part of this contract (Annex 2).

1.3. The subject matter of the contract does not involve any direct or indirect profit to be earned by either party.

Clause 2. Program implementation site

The city of Ensk is the program implementation site unless otherwise is stipulated by subsequent agreement.

Clause 3. Charity's obligations:

The Charity undertakes to ensure program implementation, specifically:

- familiarize the Sponsor and its representatives with relevant documentation related to the program and this contract;
- ensure implementation by obtaining state authorizations and licenses, registering legal acts and property related to the program implementation and provision of free services;
- single-handedly provide charitable aid to the recipients specified in the program;
- be responsible for other persons, whom the Charity has selected, providing free services;
- regularly determine forms, objects, subjects and scopes of charity support;
- at least once per quarter hold consultation with the Sponsor on program implementation issues.

Clause 4. Sponsor's obligations

The Sponsor undertakes to take part in the program implementation through the reimbursement of all actual costs incurred by the Charity for the purposes of contract execution in the form of:

- one-time pecuniary donation (specify amount in hryvna, minus VAT);
- systematic pecuniary donations according to schedule (Annex 3).

Clause 5. Program implementation

1. In its relations with third parties the Charity is vested with the authority to commit legal acts for program implementation on behalf of the third parties.

2. In their relations with third parties, the Parties may not refer to the limitation of rights of the party that committed a legal act, except instances when they vindicate that at the time when the legal act was committed the third party was aware or should have been aware of the existence of such limitations.

3. A party that committed legal acts on behalf of all parties, whose right thereto had been limited, or that committed a legal act for the benefit of the parties in its own name, may seek the reimbursement of costs incurred if there are sufficient grounds for believing that these legal acts were warranted in terms of program implementation. Parties, which sustained losses as a result of such legal acts, may seek reimbursement thereof.

Clause 6. Documentation

1. The Parties agree that the program implementation is supported by technical and other documentation as required by laws of Ukraine and the program, specifically documentation specified in Annex 2.

2. The Parties agree that the documentation cannot be recognized as being restricted in its accessibility. This provision does not apply to legislative requirements to information about a recipient of charity support, which is deemed confidential or limitedly accessible.

3. Changes in the documentation must be mutually negotiated and agreed upon by the Parties in writing.

Clause 7. Guarantees

1. If the Parties recede from their rights and obligations, these rights and commitments rest with assignees.

2. The Sponsor cannot transfer any guarantees, rights or obligations contained herein to third parties without written permission from the Charity.

3. The Parties meet mutual obligations as to program implementation on the basis of a quarterly evaluation of the value of gratuitous services specified in Article 3 3.

4. The mix and cost of services provided in order to implement the program are specified in the annexes hereto and can be modified by subsequent agreement if substantial changes in the cost of such services occur.

5. The Sponsor is responsible for the Charity's exclusive right to use the moneys specified in Clause 4 of this Contract. The Sponsor will be responsible for the fact that third parties have no objections that may restrict the use of the moneys if such objections have not been provoked by actions of the Charity or beneficiaries.

Clause 8. Acceptance of property and service results

1. The Parties undertake to prevent the use of moneys and results of services provided hereunder for purposes other than those of the program, or in the interests of any other persons, except beneficiaries.

2. Service results are accepted via an acceptance report, which confirms that these results meet standards of quality, completeness and applicability. The acceptance report is signed by authorized agents of the Parties.

3. Flaws in quality, completeness or applicability, which are revealed during the acceptance procedure, must be reflected in the acceptance report. Within three business days the Sponsor must notify the Charity in writing of its refusal to accept the service results and specify detected flaws.

4. If for any reason the Sponsor has not provided the Charity with the acceptance report and has not notified the latter of detected flaws as prescribed by paragraph 3 of this clause, service results are deemed to have been accepted.

Clause 9. Control

1. The Sponsor may study all records related to program implementation. This provision may not be changed by subsequent agreement.

2. The Charity will provide the Sponsor with reports on the use of donated moneys and service results at least once per three months, and will provide explanations and reports on individually-determined services at the Sponsor's request, but no later than three business days of receipt of such a written request.

3. The Charity is responsible for operational accounting and bookkeeping, as well as statistical reporting, related to program implementation.

Clause 10. Contract duration

This contract is concluded for a period of (…) month. The Parties must fulfill their mutual obligations relating to program implementation even if the program is completed before the expiration of this contract.

Clause 11. Liability

Defaulting on this contract requires that a defaulting party pay damages in the amount equal to actual costs incurred by the other party, including default interest of 120% of the rate set by the National Bank of Ukraine.

Note: if this clause is absent, the Charity's liability will be limited to two tax-exempt minimum individual incomes (34 UAH)

Clause 12. Dispute settlement

Any disputes over the contract must be settled through mutual consultation and negotiations. If agreement cannot be reached, the Parties may refer the dispute to a competent economic court in accordance with Ukraine's law.

Clause 13. Act of God

1. Either of the Parties will not be responsible for full or partial default on this contract, if such default has been caused by a circumstance of insuperable force, and if either of the Parties has notified the other Party thereof within 10 days, with a written confirmation by a legitimately competent body.

2. Circumstances of insuperable force include: military hostilities, mobilizations, strikes, quarantines, fires, explosions, road accidents and natural calamities, as well as acts of state authorities and local self-governments, and other events recognized by a competent economic court as circumstances of insuperable force.

3. If an event of insuperable force lasts for more than 3 months, the Parties must negotiate program implementation actions to be taken. If within a 10-day period the Parties fail to reach agreement in an annex hereto, either Party may terminate the contract on condition that all moneys and property received hereunder have been reciprocally returned.

Clause 14. Contract termination

1. Contract termination results from:

- withdrawal of either Party from the contract or termination of the contract at the instance of the other party;
- expiration of the contract;
- achievement of the program goal, which is verified by a decision of a governing body of the Charity.

2. In the event of contract termination, the Sponsor's donations that have not been actually used for program purposes, must be returned to the Sponsor without a recompense.

Clause 15. Withdrawal from and termination of contract

Either Party must made a written statement regarding its withdrawal from the contract no later than three months prior to such withdrawal from the program and contract.

1. In the event of contract termination as a result of program goal achievement, either of the Parties may demand actual damages incurred due to contract termination by the other Party.

Clause 16. Final provisions

1. Any changes in and additions to this contract are valid if signed by the Parties as annexes hereto. Upon signature of the annex, previous written and verbal agreements, negotiations and correspondence become void unless the annex or the contract contain references thereto. Annexes are deemed to be integral part of the contract.

2. This contract is made in duplicate in Ukrainian, each having equal legal effect. The Charity and Sponsor must keep an original copy of the contract.

Sponsor	Charity
Address: _____	_____
Telephone\fax _____	_____
Account: _____	_____
_____	_____
Bank identifier code _____	
_____	
Unified state register of enterprises, organizations and institutions _____	
Signature	Signature
Seal	Seal

On gratuitous transfer of fixed assets (extract)

Letter of the State Tax Administration of Ukraine #5907/6/15-0316 of 05.26.2006, #10022/7/15-0316 of 05.26.2006

Important. In the event of donation of fixed assets, the donator's gross profits equal zero. And the recipient of such fixed assets is not entitled to accrual of depreciation.

<...>

Para 1.31 of Article 1 of the Law of Ukraine "On taxation of enterprise's profits" (hereinafter referred to as the Law) operations related to free provision of commodities (including fixed assets) are classified as sale of such commodities. Commodities, which are provided by a taxpayer under gift agreements or other agreements not involving pecuniary or other compensation for the cost of such tangible or intangible assets or return of such assets, or without conclusion of such agreements, are deemed to have been provided free of charge (paragraph 1.23 of Article 1 of the Law.

Pursuant to subparagraph 4.1.1 of paragraph 4.1 of Article 4 of the Law a taxpayer's gross income includes general return on sale of commodities. Since the Law does not define the tern "return" (on sale), given the provisions contained in paragraph 1.43 of Article 1 of the Law, the term "profit" is used as defined in paragraph 5 of Accounting regulations (standard) 15, approved by Ministry of Finance order #290 (of 11.29.99) and registered with the Ministry of Justice under #860/4153 on 12.14.99.

Thus, according to this paragraph a profit is recognized when an asset is increased or a liability is decreased, which lead to an increase in owner capital (except when capital increased due to contributions from enterprise members), provided that the profit can be accurately appraised.

Therefore, when fixed assets are donated no pecuniary or other compensation of the value of such assets is provided, and no profit is generated since there are no criteria for its recognition.

To reflect the transaction associated with donation of fixed assets in tax accounting the donating taxpayer should be governed by subparagraphs 8.4.3, 8.4.4 of paragraph 8.4 of Article. 8 of the Law.

Thus, according to subparagraph 8.4.3 of paragraph 8.4 of Article 8 of the Law, if certain objects of Group 1 fixed assets are put out of operation as a result of their sale, the book value of Group 1 is depreciated by the book value of such objects. The sale proceeds amount in excess of the book value of specific fixed asset objects of Group 1 and intangible assets is included in the taxpayer's gross revenues, and the book value amount in excess of such sale proceeds is included in the taxpayer's gross expenditures.

If fixed assets of groups 2, 3 and 4 are put out of operation due to their sale, the group book value is depreciated by the fixed assets sale amount (cost of products, works, services received by the taxpayer through barter (exchange of commodities) transactions). If the value of fixed assets equals or exceeds the book value of a respective group, its book value is believed to be equivalent to zero, and the excess amount is included in the taxpayer's gross revenues for a respective period (subparagraph 8.4.4 of paragraph 8.4 of Article 8 of the Law).

As the value of fixed assets donated equals zero, the residual book value of group 1 fixed assets is included in the taxpayer's gross expenditures, while the book value of group 2,3,4 fixed assets remains unchanged.

As to depreciation charges for the donating taxpayer, we inform you of the following.

Pursuant to subparagraph 8.3.1 of paragraph 8.3 of Article 8 of the Law the depreciation amount for a quarter being calculated (calculation quarter) is determine through the application of depreciation rates set in paragraph 8.6 of this Article, to the book value of fixed asset groups at the beginning of such a calculation quarter.

Subparagraph 8.3.2 of paragraph 8.3 of Article 8 of the Law determines a formula for calculating the book value of a fixed asset group (specific group 1 fixed asset) at the beginning of a calculation quarter. Thus, this formula factors in the amount of fixed assets (group 1 specific fixed asset) put out of operation during the quarter preceding the calculation quarter, i.e. the amount of fixed assets (group 1 specific fixed asset) put out of operation influences the book value of a fixed assets group (group 1 specific fixed asset).

Therefore, when group 1 fixed assets are put out of operation for sale (in case of gratuitous transfer) the book value of group 1 fixed assets is depreciated by the book value amount of donated assets, i.e. the book value of such sold (donated) fixed assets is not factored in depreciation cost calculations for the donating taxpayer starting from a quarter following the quarter in which such sale was effected.

As to the putting out of operation of group 2,3, and 4 fixed assets for sale (donation), since the book value of these groups remains unchanged, the donating taxpayer may depreciate the value of such fixed assets after their sale.

Pursuant to subparagraph 4.2.15 of paragraph 4.2 of Article 4 of the Law the value of fixed assets, which were gratuitously received by the taxpayer for their legitimate operation, is not included in gross revenues:

– if such fixed assets were received on the basis of a decision by central executive authorities;

– if specialized operating enterprises acquire energy, gas, heat, water supply and sewerage facilities based on legitimate decisions by local executive authorities and executive bodies of councils;

– if public utility companies acquire social infrastructure facilities, specified in subparagraph 5.4.9 of paragraph 5.4 of Article 5 of this Law, which were owned and financed by other enterprises.

Fixed assets, which are received in instances specified in this subparagraph, are entered in the books at a book value.

The donation procedure for such fixed assets is established by the Cabinet of Ministers of Ukraine.

Therefore, as donation (gratuitous transfer) of fixed assets is effected on the basis of a decision of the Ministry of Transport and Communication of Ukraine, the recipient tax payer does not include the value of the fixed assets received in gross revenues.

According to subparagraph 8.1.1 of paragraph 8.1 of Article 8 of the Law, the term “depreciation” of fixed and intangible assets refers to a gradual application of acquisition, production or improvement cost of such assets to the reduction of a taxpayer’s profit adjusted within depreciation rates established by this Article.

Given the above, as according to subparagraph 8.1.1 of paragraph 8.1 of Article 8 of the Law depreciation is applied not to fixed assets but rather to expenditures on their acquisition, production or improvement, and if a taxpayer receives fixed assets on a gratuitous basis and does not incur the above expenditures, this payer is not entitled to depreciation of the value of gratuitously received fixed assets.

First Deputy Head H.OPERENKO

Letter # 197/2/15-0210 dated 05.28.2008 from the State Tax Administration of Ukraine

On specific issues of tax legislation application

Attn: Taxpayers

Subject to instruction #04-27/525 (of 05.15.2008) by the Verkhovna Rada Committee on Tax and Customs Policy, the State Tax Administration of Ukraine has examined a letter on specific issues of tax legislation application and informs of the following.

On the inclusion of charity support expenditures in enterprises' gross expenditures

Pursuant to subparagraphs 5.2.2 and 5.2 of Article 5 of the Law of Ukraine "On taxation of enterprises' profits" (hereinafter referred to as the Law) gross expenditures incurred by a enterprise profit taxpayer include pecuniary sums or cost of goods (works, services), which were voluntarily wired (transferred) during a reporting year to the National budget of Ukraine or local self-government budgets, to nonprofit organizations specified in paragraph 7.11 of Article 7 of the Law, pecuniary sums, which were wired to legal entities, including nonprofit organizations — founders of a standing arbitration court, in the amount that exceeds 2 percent, but not more than 5 percent of the taxable profit for a previous reporting year, with the exception of contributions, specified in subparagraphs 5.6.2 and 5.6 of this Article, and contributions specified in subparagraph 5.2.17 of this paragraph.

In other words, if an error is found in the calculation of the enterprise's taxable profit amount in a previous reporting year, the charity support amount should also be adjusted and included in gross expenditures of the current period.

On specific issues of application of paragraph 1.31 of Article 1 of the Law

Pursuant to paragraph 1.31 of Article 1 of the Law operations related to free of charge provision of commodities (including fixed assets) are classified as sale of such commodities. Commodities, which are provided by a taxpayer under gift agreements or other agreements not involving pecuniary or other compensation for the cost of such tangible or intangible assets or return of such assets, or without conclusion of such agreements, are deemed to have been provided free of charge (paragraph 1.23 of Article 1 of the Law.

Pursuant to subparagraph 8.4.3 of paragraph 8.4 of Article 8 of the Law, if specific Group 1 fixed assets are put out of operation as a result of their sale (including their donation) the book value of Group 1 is depreciated by the book value of such specific assets. The sale proceeds amount in excess of the book value of specific Group 1 fixed assets and intangible assets is included in the taxpayer's gross revenues, and the book value amount in excess of such sale proceeds is included in the taxpayer's gross expenditures.

Deputy Head S.CHEKASHKIN

Commentary. Topical issues of tax accounting. Enterprises providing charity support

Taxpayers that occasionally provide charity support to other organization are aware that pursuant to subparagraph 5.2.2 of the Law on profit gross expenditures include:

(1) pecuniary amounts or value of goods (works, services) that were voluntarily transferred (donated) during a reporting year to the National budget or local self-government budgets, or to nonprofit organizations defined in paragraph 7.11 of the Law on profit;

(2) pecuniary amounts wired to legal entities, including nonprofits — founders of a standing arbitration court, in the amount that exceeds 2 percent, but not more than 5 percent of the taxable profit for a previous reporting year, with the exception of contributions, specified in subparagraphs 5.6.2 and in subparagraph 5.2.17 of the Law on profit.

To verify gross expenditures a donator should obtain a copy of the unprofitability code assignment certificate from a nonprofit. As the profits tax is calculated, a profits tax return is submitted to the State Tax Office every quarter on an accrual basis, and hence charity support expenses are included in gross expenditures on an accrual basis from the beginning of the year. If in the current quarter a charitable support amount is less than 2 percent of the taxable profit of

a previous reporting year, this does not mean that such expenses are “lost” in terms of enterprise tax accounting. Such expenses may accrue in ledgers and be included in gross expenditures as soon as the amount of such expenses exceeds 2 percent, without exceeding 5 percent of the taxable profit of a previous reporting year. However, how to handle such gross expenditures if the taxable profit amount is to be adjusted in subsequent reporting periods?

In the letter in question tax officials give quite a logical answer: if the taxable profit amount of a previous reporting period is subject to adjustment, the charity support amount, which is included in gross expenditures of the current period, is subject to adjustment as well. Note that in this situation the upper and lower limits of allowable gross expenditures are recalculated and compared with the amount of gross expenditures on charity, which was earlier reflected in accounting.

 # 4

LABOR CONTRACT # ____

_____ "__" _____ 200_ .

We, the undersigned, president _____ of the organization _____ , who acts on the basis of the Statute, hereinafter referred to as the **Employer**, as the party of the first part, and citizen _____, hereinafter referred to as the **Employee**, as the party of the second part, enter into this contract and agree upon the following:

1. **Employer** commissions and **Employee** undertakes to carry out _____ in Ukraine" in the position of an Accountant under the terms of a fixed-term labor contract according to the job description (Annex #1 hereto).
2. The labor contract is valid: from _____ until _____200_ .

3. **Employee** is taken on to the position of _____ _____ _____with a salary of _____UAH (monthly).

4. **Employer** must:
- assign a workplace to Employee;
- provide Employee with means requisite for work;
- brief Employee on occupational safety and health regulations;
- pay Employee a salary according to the terms specified in the labor contract.

5. **Employee** will report to **Employer** on the scope and quality of his/her performance once per _____.

6. **Employee** must notify **Employer** in writing of any possible performance delay that may occur through no fault of **Employee** in advance (no later than 15 days).

7. **Employee** must adhere to the Internal regulations and regulatory documents on labor safety, handle the university property with care, and comply with the management instructions in a diligent, timely and accurate manner and good faith

8. Legal relations pertinent to the performance of this contract are regulated by the labor law.

8.1.A leave at a place of a second job is granted simultaneously with a leave at a primary employment place

(based on the employee's application)

9. The Parties hereto bear responsibility as set forth in Ukraine's laws on labor.

10. The contract is made in duplicate; each copy of equal legal effect is kept by **Employer** and **Employee**.

Employer – _____ organization _____
Address _____
Bank details: _____
Employee – home address _____
passport _____
Date of birth _____
tax benefits _____
identification code _____

Employer	**Employee**
_____	_____
date	date

EDUCATIONAL SERVICES CONTRACT # ___

Kyiv 00_____200_ .

The charity (name), hereinafter referred to as the "Customer", represented by director (full name), acting on the basis of the Statute, and

the non-governmental organization (...), hereinafter referred to as the "Provider", represented by director (full name), acting on the basis of the Statute, hereafter referred to as the Parties, enter into this contract and agree upon the following:

Clause 1. Subject matter

1. Provider undertakes to provide educational services within the framework of its statutory core activity, i.e. at Customer's request prepare and conduct a seminar, and Customer undertakes to accept and pay for these services according to the terms set forth herein.

2. The seminar entitled ..., will last for *two* days in Kyiv *between ... and ... March* 2005.

Clause 2. Provider obligations

Provider undertakes to:

1) prepare and provide Customer with methodological and evaluation materials for seminar participants. At Customers request, Provider has these materials printed – a copy for each seminar participant;

2) conduct educational sessions according to the seminar plan agreed upon with Customer;

3) provide necessary explanations to seminar participants;

4) evaluate participants' compliance with the seminar plan;

5) submit a seminar report to Customer.

Clause 3. Customer obligations

Customer undertakes to:

1) ensure attendance and presence of at least ... seminar participants at the seminar;

2) ensure transportation and accommodation of Provider's representatives at, to and from the seminar site;

3) provide equipment and materials necessary for the seminar: *a flipchart, paper for drawing and colored markers in a sufficient quantity, as well as an overhead projector*;

4) desist from effecting any changes in the methodological and evaluation materials without Provider's consent, or any comments and explanations regarding these materials without Provider's consent.

***Clause* 4. Payments**

1. Customer will pay a consideration to Provider for the seminar, which is calculated as … (… UAH 00 kopeks) UAH per hour.

2. The size of consideration is determined on the basis of the time during which the services were actually rendered. The Parties agree that the duration of preparation of seminar methodological materials is *six* hours, and the duration of the seminar is no less than *thirteen* hours.

3. Consideration amounts will be wired to Provider's bank account specified in this contract, with a "VAT free" mark.

4. Consideration amounts will be wired within 5 business days of actual service provision. The Parties' performance of their obligations hereunder is certified with appropriate documents.

Clause 5. Responsibilities of Parties

1. The Parties are responsible for meeting their obligations under this contract according to Ukraine's law.

2. In the event of any dispute arising as to the conclusion, execution or termination of this Contract the Parties must negotiate and resolve such disputes in the most expeditious manner.

3. If the Parties fail to reach agreement, they must recognize the jurisdiction of the Kyiv city economic court to settle such differences.

Clause 6.

Contract termination

1. The Contract will take effect upon signature by the Parties.

2. The Contract is valid from ... until ... March 2005.

Clause 7.

Final provisions

1. Any changes and additions to this Contract are valid if signed by the Parties as annexes hereto. Upon signature of an annex any previous written or verbal agreements as well as correspondence will become null and void.

2. Annexes are deemed integral part of this Contract.

3. The contract is made in duplicate in Ukrainian, each copy is kept by Provider and Customer.

Legal addresses, bank details and signatures of the Parties

Customer	Provider
(full name, address, account, bank identifier code, code in the Unified register of enterprises, organizations and institutions, VAT payer code if applicable)	(full name, address, account, bank identifier code, code in the Unified register of enterprises, organizations and institutions, VAT payer code if applicable)

Customer _____ Provider _____

Seal Seal

 # 5a

Statement of performance of obligations under

Contract # ___ of ... March 200_ .

Kyiv 00 _____ 200__ .

The charity ..., hereinafter referred to as the "Customer", represented by director (full name), acting on the basis of the Statute, and the non-governmental organization ..., hereinafter referred to as the "Provider", represented by director (full name), acting on the basis of the Statute, have executed this statement of performance upon the following:

That as per educational service provision contract #___ of March___ 200___, concluded by the Parties, Provider prepared and conducted for Customer a seminar on ... with actual duration of thirteen hours.

A consideration amount due is 0000 UAH 00 kopeks (in words hryvna 00 kopeks), VAT exempt.

The Parties have no mutual claims or objections concerning their obligations under contract # ___ of March ... 200_ .

Customer _____ Provider _____

Seal Seal

Annex # 6

COMMISSION CONTRACT

Ensk "_____"_____ 200_ .

The charity (name) represented by (position, full name), acting on the basis of the statute, hereinafter referred to as the Grantor, as the party of the first part,
and …, represented by director general, Mr.. …, acting on the basis of the statute, as the party of the second part, hereinafter referred to as the Agent, hereinafter referred to as the Parties, have entered into this contract and agreed upon the following:

Clause 1. Terminology

The following terminology is used in this Contract in the following meanings:
Program – a charitable program (full title), contained in Annex 1;
Funds – Ukraine's national currency or currency valuables that are provided to a funding recipient as charitable aid;
Funding recipients – (a list or categories of persons who act according to a charitable program).

Clause 2. Subject matter

The subject matter of this contract is Agent's performance of legal acts for the benefit of Grantor, which are associated with the transfer of funds to recipients designated by Grantor given the said special conditions of the program.

Clause 3. Contract performance site

The contract will be implemented in the city of Ensk.

Clause 4. Agent's obligations

1. Agent, unless otherwise stipulated herein, undertakes to:
i) act on Grantor's instructions as well as provisions contained in this contract and program;
ii) receive funding at current accounts in the national and foreign currency for proper performance of this contract and program;
iii) use the funds provided by Grantor exclusively according to its instructions for the performance of this contract and program;
iv) designate (position and name) as a person responsible for this contract performance, who will act on the basis of Grantor's power of attorney;
v) properly prepare and furnish Grantor with requisite documentation concerning contract and program performance;
vi) at the instance of Grantor provide any other information related to the performance of Grantor's instructions and assignments;
vii) negotiate and agree on the contract performance procedure with Grantor on a monthly basis;
viii) submit a report to Grantor along with financial and other supporting documents upon completion of an assignment or contract termination.
2. Agent must not present any other proof of its powers vested by Grantor, except this contract, unless a competent economic or arbitration court decides thus, or when a case is considered in a competent court. Agent is not a partner or participant in joint activity with Grantor. Agent may not represent itself before third parties in terms of this contract performance by any party other than Grantor's Agent.
3. Agent may refuse to take actions specified in paragraph 1. In such a case Agent must forthwith notify Grantor thereof and return everything received from Grantor. Funds and documentation must also be immediately returned to Grantor upon expiration of this power of attorney, its cancellation, or liquidation of Agent. Agent may not desist from the said actions if such actions are urgent and are intended to safeguard Grantor and funding recipients against losses.

Clause 5. Grantor's obligations

Grantor undertakes to:
i) grant Agent an exclusive right to perform the assignment in the territory of Ukraine in the course of this contract;
ii) properly prepare and furnish Agent with necessary instructions and documentation on contract and program performance;
iii) provide Agent with funding in amounts and within terms appropriate for contract and program performance;
iv) reimburse Agent for losses incurred as a result of performance of Grantor's assignments related to the contract and program, on the basis of validating vouchers;
v) accept without delay any deliverables from Agent produced in accordance with the contract and program;
vi) bear all risks and losses associated with the reimbursement of amounts of its civil liability for contract and program performance, throughout the duration of this contract.

Clause 6. Transfer of funds

1. Grantor must transfer funds to Agent on the contract performance site or at Agent's last known legal address in a manner acceptable to Agent and in accordance with Ukraine's law.
2. Agent must within 5 business days notify Grantor of its refusal to accept funds citing cause.
3. If for any reason Agent has not accepted funds and has not notified Grantor of the reasons for that as is stipulated in paragraph 2, the funds are deemed to have been accepted.
4. If Agent has established that the amount of funding for performance of the program and Grantor's assignments is not sufficient, and this insufficiency could not be ascertained at the time of transfer, Grantor must transfer the remaining amount of funding to Agent within the terms specified in the contract or annexes hereto.

Clause 7. Documentation

4. Funding is used and the program is implemented on the basis of documentation required by Ukraine's laws and the project. Specifically, such documentation includes (but not limited to) plans, minutes, reports, specifications and research findings or any other records related to contract and program performance, as specified in Annex 1.
5. Grantor submits documentation necessary for the use of funds in accordance with Clause 6 within the terms specified in the contract or annexes hereto.
6. The Parties may produce or commission at their own expense required quantities of copies or translations of documentation.
7. The Parties agree that documentation may be recognized as being restrictedly accessible. This limitation does not apply to Ukraine's legislation requirements to information the accessibility of which may not be restricted based on the Parties' agreement.
8. The Parties agree on changes in the composition and contents of documentation in annexes hereto.
9. A copy of each document that Agent is to prepare and provide in the course of the contract and program, must be returned to Grantor in any case upon expiration or termination of this contract.
10. The Parties store contract performance documentation for 5 years since contract termination.

Clause 8. Technical assistance

The Parties will take joint action, if need arises, with a view to implementing the program efficiently:

i) exchange of experts and consultations on issues related to contract and program implementation;
ii) timely exchange of information related to program implementation and not given in this contract or annexes hereto;
iii) participation in seminars, conferences and other meetings, including those attended by funding recipients;
iv) professional preparation of persons who are involved in the program implementation process;
v) translation of documentation related to program implementation.

Clause 9. Guarantees

1. Grantor guarantees that upon this contract taking effect Grantor may provide funding and that it does not have any information on any rights of third parties to these moneys, which may be violated as a result of use of funds under this contract and project.
2. Grantor guarantees that the funds specified in the contract are not pledged or sequestered, and that Grantor's rights to dispose of the said funds are not restricted on other grounds.
3. The Parties undertake to prevent misuse of funding for purposes other than those of the program, as well as for the benefit of any persons except project funding recipients.
4. The Parties may not provide any guarantees, devolve rights and obligations hereunder upon third parties without prior written notification of the other party.
5. The Parties may change the composition and value of the funds specified in the annexes hereto in the event of substantial changes in the value of the funds or funding recipients' needs.

Clause 10. Right of ownership

1. The funds will remain in Grantor's ownership throughout the duration of this contract.
2. Differences in the exchange rate and other revenues or losses associated with these funds are calculated in Grantor's balance sheet.
3. Agent may not commit the funds under other liabilities except those specified herein. In the event of any threat of breach of Grantor's right of ownership by third parties, Agent must notify Grantor thereof immediately.

Clause 11. Control

4. Officials, employees and other representatives of Agent must provide verbal or written explanation to Grantor as to how the funds are used and the Grantor-funded program is implemented.
5. Agent will submit such reports to Grantor at least once per months, and will submit explanations and reports on the use of specific portions of funding at the instance of Grantor, but no later than 5 business days of receiving such a request in writing.
6. Grantor or its proxy may at their own expense and in any time acquaint themselves with or copy Agent's documentation on the use of funds and contract and program performance.

Clause 12. Payments

1. Grantor will make final payments to Agent within 30 days of receipt of Agent's finalized report. The report must be verified by Agent's written guarantee of assignment completion, which certifies to Grantor that:

(i) all contract and program-related costs and all other losses and outstanding amounts associated with contract and program performance, for which an action may be brought or which may be seized, were covered;

(ii) Grantor's funds not subject to any sequestrations, claims or liabilities (as well as exemptions or waiver of sequestrations demanded by Grantor, exemptions or waivers of any claims due to performance of the agreement by any parties or state authorities and local self-governments, on behalf of which such sequestrations and claims may have been or were made);

(iii) Agent has properly discharged his obligations hereunder as is verified by the final report of Grantor's representative.

2. Grantor's payment under this final invoice must constitute final acceptance of a carried out assignment. The receipt of this final payment by Agent constitutes remission of any claims to Grantor, which relate to or arise from this contract.

Clause 13. Publications and public relations

1. Nothing of what is contained in the contract may be deemed permission for Agent to use Grantor's name in advertisements or official announcements in the mass media without Grantor's prior written permission.
2. When making public information related to contract performance Agent must indicate that… .
3. Agent must notify Grantor of any public exposure of information specified in paragraph 1, and other public events associated with contract and program implementation, at least 5 business days in advance. Agent must provide Grantor with at least one copy of any publication made in connection with contract and program implementation.

Clause 14. Ensuring confidentiality

1. Agent will guarantee that it will ensure the confidentiality of the information on the funds and documentation received from Grantor. Full or partial disclosure of this information or its exposure to third parties without Grantor's prior written permission will be deemed breach of this contract unless otherwise is stipulated in laws or international treaties Ukraine is a party to.
2. A list of persons, including Agent's employees, who can be granted access to this information and documentation, is agreed upon by the Parties in an annex hereto.
3. The Parties must ensure confidentiality also at least during one year of contract termination.
4. This Clause applies to third parties who are familiar with the information and documentation pursuant to paragraph 2.

Clause 15. Protection of transferred funds

1. In the event that a third party files a suit or other claims in the territory of Ukraine, which may deprive the Parties of the possibility to fully or partly use the funds and documentation in accordance with this contract and program, the Parties must take immediate action to safeguard the funds, and if need arises, appeal against the third parties' actions.
2. The Parties must immediately notify each other of any claims or suits pertinent to the use of funds and documentation in the territory of Ukraine, take joint action to resolve such claims and take adequate remedies.
3. The Parties agree that Agent will not share any losses or expenses with Grantor, which are related to the resolution of third party claims as to the use of funds in the territory of Ukraine.

Clause 16. Parties' liabilities

4. The Parties assume contract and program performance liabilities in accordance with Ukraine's law.
5. The Parties at their own discretion ensure that they or their proxies obtain necessary permits, licenses and other authorizations that may be used in performance of this contract and program.
6. The Parties at their own discretion are responsible for reimbursing tax payments, legal expenses, state duty and lawyer fees that are pertinent to the performance of the contract and program, except those specified herein.
7. The Parties will not be responsible before each other for specific incidental or subsequent damages that include but are not limited to the loss resulting from exchange rate differences or loss of other revenues generated from the said funds.

Clause 17. Limitation of Parties' responsibility before third parties

1. Agent confirms and states that it must reimburse, safeguard, and hold Grantor harmless from any claims that may arise in connection with performance of legal acts under this contract.
2. Agent assumes exclusive responsibility for legal remedies against any suits if:

(i) Agent cannot resolve any suit against Grantor without Grantor's prior written consent;

(ii) Grantor had every reason to give such consent;

(iii) Grantor may take part in any court proceedings at its own expense.

3. If any such suit considerably deteriorate Agent's performance of the contract, Agent may timely and at its own expense acquire a right to continue fulfilling its obligations hereunder in such a manner that this right may not compromise the performance schedule.

Clause 18. Contract duration

1. This contract will be valid for 6 months from the moment Grantor transfers a portion of funds to Agent.
2. Agent must begin fulfilling its obligations hereunder not later than 5 business days of receipt of any portion of funds from Grantor.

Clause 19. Settlement of disputes

1. The Parties agree that in the event of different interpretation of the provisions contained herein such differences must be settled through mutual consultations and negotiations.
2. If agreement cannot be reached within the terms that do not interfere with the contract and program performance, the Parties will refer any dispute about the performance, breach, termination or nullity of the contract to an economic court that has appropriate jurisdiction in accordance with Ukraine's law.
3. In the event of any conflict or discrepancy between various provisions contained in the contract, annexes or other contract and program-related documentation, the terms and reservations contained in the annexes must define, except for Annex 2, what document has more legal effect in case of discrepancies between specific provisions.

Clause 20. Act of God

1. The Parties agree that they will not seek reciprocal reimbursement of losses due to deferred or improper performance of any contractual terms by the other Party, except disbursement of funds, if this was due to Act of God.
2. Either Party prevented from fulfilling its obligations by Act of God must notify the other of such insuperable circumstances in the most expeditious fashion. Within 10 days either of the Parties must add a written confirmation by a competent body in accordance with Ukraine's law of the fact of Act of God occurrence.
3. If Act of God lasts for more than 30 days, the Parties must agree upon actions related to contract performance and make reasonable effort to remedy the situation as promptly as possible. If during 10 days the Parties fail to reach agreement in an annex hereto, either of the Parties may withdraw from the contract.

Clause 21. General terms of contract termination

The Parties agree that the contract will terminate as a result of:

i) formal resolution to liquidate either of the Parties;
ii) contract expiration;
iii) prolonged Act of God as defined in Clause 20.

Clause 22. Contract termination consequences

In the event that this contract is terminated on the grounds of Clause 21, Agent must:

(i) immediately stop any current performance and to the extent specified in such notification;
(ii) not transfer new funds to or receive new funds from project funding recipients;
(iii) take timely and reasonable action to terminate any arrangements related to the transfer or receipt of funding on terms acceptable fro Grantor;
(iv) hand in to Grantor all program implementation documentation prepared according to this contract, which Grantor may reasonably demand and which was paid by the Grantor; including all drawings, plans, specifications, studies, reports and other documents prepared hereunder; as well as:
(v) carry out the instructions to the extent determined Grantor and which are essential to preserving and safeguarding the funds belonging to Grantor, as well as funds wired but not yet received from or by Grantor.

Clause 23. Special terms of contract termination

Grantor may terminate the contract by notifying Agent in writing thereof 15 days prior to such termination if:

i) Agent acts on Grantor's instructions in such a manner that precludes normal use of funding according to the contract and program;
ii) Agent uses the funding to carry out activities or reach goals that are not specified in Annex 1;
iii) Agent has been declared bankrupt, liquidated or otherwise reorganized, and Agent's successors do not guarantee Grantor that the contract will be implemented;
iv) Agent fails to submit documentation or meet its other obligations hereunder for 10 business days following a written warning from Grantor;
v) Agent refuses to eliminate the consequences of its default within 5 days of receiving Grantor's written notice. The Parties will forfeit all the rights gained on the basis of this contract upon termination hereof.

Clause 24. Final provisions

4. All changes in and additions to the contract are valid if the Parties have signed them as separate annexes hereto. Upon signature of an annex previous written and verbal agreements, negotiations and correspondence will become null and void unless they are directly referred to in a respective annex.
5. Annexes are deemed integral part of the contract.
6. The contract is made in duplicate of equal legal effect in Ukrainian, each copy for Agent and Grantor.

Clause 25. Legal addresses, banking details and signatures of the Parties' representatives

Agent	Grantor
Address: _____	_____
Telephone \ fax _____	_____
Account: _____	_____
_____	_____
Bank identifier code _____	
_____	
Code in the unified register of enterprises, organizations and institutions _____	
Identification code _____	_____
Taxpayer code _____	_____
Signature	Signature

Annex # 7

LICENSE AGREEMENT
ON USING A SCIENTIFIC WORK

Ensk "_____" _____ 200_ .

A registered non-governmental organization (name), hereinafter referred to as Licensee, represented by (position, full name), who acts on the basis of the statute, and author of a work (full name), hereinafter referred to as the Licenser, entered into this agreement and agreed upon the following.

1. Licenser will grant Licensee an (non-) exclusive right to use the scientific work that it has created, entitled "..." (hereinafter referred to as the work), in the territory of the Enska oblast, for a period of... months, and Licensee pays royalties to Licensor for granting the said right.
2. Licenser guarantees that it owns copyright to the work which is transferred under this agreement. If Licensee has revealed flaws in specific parts of the work, which could not be revealed at the time of transfer, Licensor must provide proper amendments within 10 days of Licensee's written notice regarding such flaws.
3. Licenser will entitle Licensee to:

- use the work under Licensee's name and branding on condition that each copy of the work must bear a copyright protection sign and Licenser's name written as follows _____;
- reproduce the work, also with automated systems, in the quantity of _____ copies;
- adapt the work to other works, technical documentation and other supplementary materials;
- demonstrate the work for informational and educational purposes.

4. Licenser undertakes to provide Licensee with consultations and information regarding the use of the work. Licenser may inform itself of Licensee's documentation about Licensee's profits earned as a result of using the work.
5. Licensee must pay a fee to Licenser hereunder; acquaint Licenser with documentation on its revenues generated from the use of the said work.
6. Licensee undertakes not to make any changes in the work, its title and Licenser's name without Licenser's prior permission, as well as not to add any illustrations, forewords, epilogues, commentaries or explanations to the work.
7. The license fee will be paid to Licenser on a one-time basis, no later than 00 day of the month following the quarter (month), in which the right to use the work was transferred. A bank wire transfer (cash) can be a mode of payment.
8. The Parties will be responsible for breaching this agreement to the tune of damages sustained by the other party, and must pay default interest in the amount of damages caused. If the Parties cannot agree on or calculate the damages amount, they agree that the affected party may seek a penalty at a rate of 5 percent of the agreement amount.
9. The agreement may be terminated early by the Parties' mutual agreement, and also in case of: (a) Licensee rejecting the work; (b) Licenser not having copyright on the work; (c) impossibility of publishing the work due to Act of God; (d) Licensee breaching its obligation to pay Licenser the license fee within 5 days of receiving a written notice; (e) Licensee disseminating the work beyond the territory stipulated herein.
10. The Parties will settle disputes arising from this agreement though consultations. Failure to reach accord will warrant dispute resolution in accordance with laws of Ukraine.
11. All changes in and additions to the agreement are valid if the Parties have signed them as annexes hereto. Upon signature of an annex previous written and verbal agreements, negotiations and correspondence will become null and void. Annexes are deemed an integral part hereof.
12. The agreement is made in duplicate of equal legal effect, each copy for Licensee and Licensor.

Licensee	Licensor
(address, code in the Unified register of enterprises,	
organizations and institutions, bank account,	
bank identifier code)	(passport data, address, identification code)
representative's signature seal	signature

CASH LIMIT CALCULATION

In commercial organizations the cash limit is calculated for the most part on the basis of incoming cash volumes; however, the "Regulations on cash handling operations in the national currency of Ukraine", approved by National Bank of Ukraine directive #637 as of 12.15.2004) provide for the possibility of calculating the cash limit based on cash payment volumes.

Trade, public catering and community service enterprises base their cash limits on the calculation of the average daily cash inflow. Other organizations base their cash limits on the calculation of the average cash inflow or average daily cash outlay, as decided by the enterprise director or his/her proxy.

If one discounts *trade, public catering and community service enterprises*, **all other enterprises may, if the director decides so, calculate their cash limit based on cash outlay volumes. This entitlement of an enterprise is also reflected in a standard form: "Calculation of cash limit", approved by the Cabinet of Ministers' directive #637. The first two lines of its section one "Cash flows" should specify data necessary for calculating cash limit based on cash inflow, and line three and four should specify data necessary for calculating cash limit based on cash outflow.**

Cash limit calculation based on outlay volumes

As such a possibility exists, it is reasonable to ask how one should determine the period for which cash outlay data are obtained, and what cash amounts are included in the total cash outlay amount for a respective period in order to calculate the cash limit.

As to the calculation period, in this case nothing changes. Likewise, *three consecutive months are taken, during which average daily cash outlay have been the most considerable, for the last 20 months preceding the month in which the cash limit is determined.*

Pursuant to the last paragraph of item 5.4 of Directive #637, *the cash limit is determined on the basis of actual cash outlay during a specific period (see above), minus payments associated with labor costs, stipends, pensions and dividends.* **In this context the amounts to be taken into account are not determined accurately enough. In my opinion, the following should be excluded from the overall cash outlay amount, except for payments specified above:**

1. transactions between cash accounts, when an enterprise or its affiliate, for which the cash limit is set, has several cash accounts (the principal one and operational ones) and transfers cash from one account to another, then for a cash account from which cash is transferred to another account, this cash is not calculated for cash limit purposes and is not included in the cash outlay amount for three calculation months,

2. all returnable outlay of cash, which was erroneously received (no matter for what reason) at the cash account. This cash, which was issued from the account, is a result of erroneous inflow. Consequently, neither the inflow nor outflow of such cash should be taken into consideration. After this we should deduct all earlier erroneously issued and returned cash from the obtained cash outlay amount, except for cash erroneously issued to pay labor costs, stipends, pensions and dividends inasmuch as these are not actually outlay per se.

Having done such calculation for all cash accounts of the enterprise or its affiliate, for which a separate cash limit is determined, and having added them up, we will obtain the target sum, by dividing which by the number of days as determined above, we will obtain the amount of average daily cash outlay, which serves as a basis for determining the cash limit.

Here is an example of all these calculations.

1000 UAH was received in monthly membership fees. 3,600 UAH was used to cover administrative and travel expenses. 1,500 UAH was paid in salary. 570 UAH were provided as pecuniary aid. Cash delivery term - 2 banking days. *Assignment*: calculate the cash limit and fill out **Annex 2**

Note that along with the calculation of the cash limit a term of delivery of cash to the bank to be credited to the enterprise's account is also set. The cash delivery term is agreed upon with the bank and is specified in the bank account agreement that is concluded by the enterprise and the bank.

Similar Calculations are done not only when the cash limit is determined and the cash delivery term is set, but also when the cash limit or cash delivery term are revised.

Documents (regulatory documents, the enterprise's internal documents (calculations), which are endorsed (signed) by the director or his/her proxy and based on which the cash limit and cash (proceeds) delivery term were revised, should be enclosed with respective orders (instructions) and bank account agreements of the enterprise.

In conclusion, it should be noted that enterprises that have not determined their cash limit and have not submitted the Calculation to the bank, the cash limit is considered to equal zero. Therefore, such enterprises have to deliver all cash balance at the end of a business day to the bank, or each kopek remaining in the cash account will be considered as above-limit with all ensuing consequences.

Annex 2
to the Regulations on cash handling operations in the national currency of Ukraine

Calculation of the cash balance limit

(name of enterprise) (location of enterprise)

1. Cash flows

#	Indicators	Within any 3 consecutive months out of the last 20 months preceding the cash limit calculation (revision) period [1]
1	Cash proceeds (cash inflow, except amounts received from banks)	
2	Average daily cash inflow (divide row 1 by the number of the enterprise's business days during 3 months)	
3	Cash disbursed to cover various needs (except for payments to cover labor costs, pensions, stipends and dividends)	
4	Average daily cash outlay (divide row 3 by the number of the enterprise's business days during 3 months)	

Indicator	Set by enterprise
1. Cash balance limit	

Indicator	Cash (proceeds) delivery term is defined and details of bank account agreements are specified
2. Cash (proceeds) delivery term	Once per _____

Director of enterprise **Chief (senior) accountant**

„___" _____ 200__ **„___" _____ 200__**

Seal

Key to accounting and taxation tests, contained in Annex 6.3 to Session 6

Completion of Part I of the Tax return on the use of funds according to the example 1 conditions

Table 1

Indicators	Row code	On accrual basis from start of fiscal year
1	**2**	**3**
Part I		
Incomes of nonprofits that are included in the Register of non-profit institutions and organizations according to item "f" of subparagraph 7.11.1 of paragraph 7.11 of Article 7 **(unprofitability code 0015)** **Row. 7 = row. 7.1 + row. 7.2**	7	**259000,0**
Revenues that such nonprofits get to meet their core activity needs **Row. 7.1 = row. 7.1.1 + row. 7.1.2 + row. 7.1.3**	7.1	**258300,0**
contributions	7.1.1	**65400,0**
amount (187,0 + 5,9 = 192,9 thousand UAH)	7.1.2	**192900,0**
Property value	7.1.3	
Passive incomes, i.e. incomes received as interest, dividends, insurance payments and indemnities, royalty	7.2	**700**
Total amount of financed spending of the nonprofit institution (organization), **Row. 9 = row. 9.1 + row. 9.2**	9	**259000,0**
Total expenditures on the upkeep of the nonprofit institution (organization), except budget-funded, within its budget estimate (21,6 + 42,9 + 0,9 = 65,4 thousand UAH)	9.1	**65400,0**
Expenses incurred by the nonprofit institutions (organization) to achieve statutory objectives (implement core activities) **Row. 9.2 = sum of rows (from 9.2.1 to 9.2.9)**	9.2	**193600,0**
to carry out charitable activities	9.2.1	**2900,0**
to carry out environmental activities	9.2.2	**1700,0**
to carry out health promotion activities	9.2.3	-
to carry out educational activities	9.2.4	-
to carry out amateur sporting activities	9.2.5	**2000,0**
to carry out awareness-raising activities	9.2.6	-
to carry out cultural activities	9.2.7	-
to carry out scientific activities	9.2.8	-
Expenditures on other needs specified in the charter documents	9.2.9	**187000,0**

As you can see, the amount of expenditures incurred by the "Komunalka" tenement co-owners association for 3 quarters of the current year equals the total amount of incomes received.

Table 2

Completion of Part II of the Tax return on the use of funds according to the example 1 conditions

1	2	3
Part II		
Amount of Incomes from other sources subject to the profit tax. Normally, **VAT** is excluded from the amount of received incomes if the nonprofit is a registered VAT payer (37,0 + 4,7 = 41,7 thousand UAH)	10	**41700,0**
Financed expenditures directly associated with taxable incomes received. These expenditures should be reflected in the same reporting period, like the incomes for which these expenditures were incurred and which are specified in row 10. The amount of expenditures cannot exceed the amount of incomes, i.e. row 10 = row 11. Depreciation amount is not included (7,1 + 9,8 = 16,9 thousand UAH)	11	**16900,0**
Taxable profit **Row. 12 = row. 10 - row. 11**	12	**24800,0**
Tax liabilities in the reporting tax period (as per paragraph 10.1 of Article 10 of the Law on profit the profit tax rate is **25** percent) **Row. 13 = row. 12 x 25 : 100**	13	**6200,0**
Amount of the profit tax charged for the previous taxation period in the current year. In a tax return for the 1st quarter, this row is blanked out; in a half-year tax return the amount of income for the 1st quarter is included; in a tax return for 3 quarters – data from the half year return, and in the yearly tax return data for three quarters are included **Row. 14 = row. 13 of the previous tax return in the current year**	14	**4100,00**
Profit tax amount charged for the reporting period. Nonprofits pay the tax on profits generated from their non-core activities on a common basis, for the taxation period during which these profits were earned **Row. 15 = row. 13 - row. 14**	15	**2100,0**

Therefore, the "Komunalka" tenement co-owners association should pay 2,100 in profit tax to the budget.

Tests

Test I
I-4, II-1, III-2, IV-1, V-3, VI – 1, VII-2, VIII-2, IX-2, X-1, XI-1, XII-1, XIII-2, XIV-2, XV-2, XVI-1.

Test II
I-1, II-1, III-3, IV-1, V-1, VI-2, VII-3, VIII-2, IX-4, X-2, XI-3.

Test III
I-4, II-1, III-3, IV-3, V-2, VI-3, VII-2, VIII-2, IX-2, X-3, XI-2, XII-1, XIII-3, XIV-3, XV-2, XVI-2.

SUPPLIMENTARY READING MATERIALS

- “Raising money from local sources. Raising private donations”, the “North Caucasian Resource Center” stand-alone nonprofit
- Overview of “Nonprofit agencies of Ukraine in the light of current Ukrainian legislation”, “Alliance” Donetsk NGO, 2007.
- “The third sector: legal regulation problems”, Anatolyi Tkachuk
- “Royalty upon your head”, Vladyslav Zymovets, Serhyi Zubyk
- “Survey of social enterprises in Ukraine. Final report. Variant for publication”, Eurasia Foundation, authors: Joe Lucas, Jeff Cox, Olha Vasylchenko, Andryi Vasylchenko
- “Practical manual on developing social entrepreneurship in Ukraine”, Oleksandr Vynnykov, 2006, M. Kyiv, Ukraine
- “Guide for NGO”, issue "Small business laboratory"
- “Social entrepreneurship: business for the poor or evolution of conscience”, O.Skipalskyi, “Dzerkalo tyzhnia” (Weekly Mirror) newspaper.
- “Better understanding of social entrepreneurship: Some important differences”, Jerry Boshi, Jim Maclurg
- “Events to raise private donations: successful models and experience”, the “North Caucasian Resource Center” stand-alone nonprofit, Stavropol, 2000