

Technical Advisory Group

Issue Paper

AGENDA ITEM: TAGED14-08
28-29 September 2023 – Hybrid

Fund accounting and financial statement presentation

Summary	This paper provides TAG members with illustrative financial statements that show how the proposals for fund accounting and supplementary information might impact NPO general purpose financial reports.
Purpose/Objective of the paper	This paper brings together the NPO-specific presentation and disclosure proposals in INPAG and shows the impact on the primary financial statements and notes to the accountings. It also sets out proposals for the inclusion of supplementary information within INPAG. This information is separate to any additional supplementary information that NPO's choose to prepare and will sit outside of the general purpose financial statements.
Other supporting items	TAGED14-01, TAGED-03 and TAGED-07
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Actions for this meeting	Advise on: <ul style="list-style-type: none">i. the proposal that supplementary information at a whole of entity level can be included in INPAGii. the proposal that if supplementary information is included in INPAG it is done so by way of note rather than an additional primary statementiii. whether the illustrative financial statements that incorporate the proposals for fund accounting, disclosure of revenue and expenses and additional supplementary information support accountability and decision useful information.

Technical Advisory Group

Fund accounting and financial statement presentation

1. Introduction

- 1.1 This paper:
- Provides illustrative financial statements that bring together the NPO-specific proposals for the presentation of information using the fund accounting principles and proposed presentation and disclosure requirements; and
 - Sets out proposals for the inclusion of whole of NPO supplementary information as part of an NPO's general purpose financial report.

2. Background

- 2.1 As noted in TAGED14-01 there are interrelationships between the topics that will be shared in Exposure Draft 3. New material largely looks at NPO-specific presentation and disclosure requirements. As also noted, choices made in one aspect of the guidance, may have implications for other how other aspects of the guidance are framed.
- 2.2 Specifically, at this meeting, the following papers will impact the information in the financial statements:
- TAGED14-01 on ED3 key principles, that set out proposals for which transactions should be presented as part of funds with restrictions as part of INPAG;
 - TAGED14-02 on fundraising costs, that set out proposals as to how these should be scoped, calculated and disclosed;
 - TAGED14-03 on the classification of expenses, that set out proposals for analysis methods and the disclosure of certain minimum expense information; and
 - TAGED14-07 that proposed a recommended practice statement for NPOs that is not part of INPAG that would provide a standardised approach to the production of supplementary information.
- 2.3 These papers have not considered whether supplementary information at a whole of entity level should be included in an NPO's general purpose financial reports. The inclusion of such information, could impact other proposed disclosure and presentational requirements.

3. Supplementary information as part of general purpose financial reports

- 3.1 As noted in TAGED14-07 additional work was carried out to further examine the proposal for supplementary guidance. This included the development of options for the inclusion of supplementary information requirements in INPAG. These proposals were cognisant of the development of proposals for revenue, fund accounting and expenses as part of Exposure Drafts 2 and 3.

- 3.2 The Secretariat were of the view that whole of NPO supplementary information could be relevant and useful for general purpose financial reporting. This is because it would provide information of relevance to a wide range of users of an NPO's financial statements and because it would provide an audited base to which more granular statements prepared outside of INPAG could be reconciled.
- 3.3 The options considered ranged from a mandatory requirement to provide an additional primary financial statement to cover supplementary information, to an optional note to the accounts to nothing at all with all supplementary information sitting outside of INPAG.
- 3.4 Essentially two presentation options were considered; an additional primary statement or an additional note with two levels of requirement; mandatory for all NPOs that have material funds with restrictions or permitted but not required. In all cases where information is provided there would be
- a requirement to follow the format in the SSIECC (in accordance with the proposed supplementary statement recommended practice statement);
 - for the information to cover all of the NPO activities; and
 - the ability to provide more granular information as long as it aggregates to a whole of NPO position.
- 3.5 Discussion was held with PAG member auditors to understand the potential audit and assurance challenges that may arise from each of these options. The auditors did not raise any objections to any of the options presented. They noted that the inclusion of supplementary information within the financial statements will increase the amount of work for both preparers and auditors and therefore audit costs. The audit costs for an additional primary statement could be higher. They also noted that for NPOs that are either moving to accrual accounting or a more demanding accounting framework, this additional information might generate an additional challenge.
- 3.6 The Secretariat considered these responses in developing further proposals. As noted in 3.2 above, the Secretariat is of the view that whole of entity level supplementary information could be useful in general purpose financial reports. Taking account of the input received, the Secretariat proposed a preferred option to a Focus Group, the PAG and the Supplementary Statement Working Group, who all held meetings at the beginning of the month.
- 3.7 The option proposed was for an optional segmental analysis note requiring that the format of the SSIECC is followed. This would show income, expenses, capital costs and the NBV of PPE related to funds with restrictions and funds without restrictions, with the option to breakdown funds further to show material programmes, projects and grants. The INPAG guidance would be drawn from the Supplementary Statement Recommended Practice Statement.
- 3.8 Any supplementary information provided would need to reconcile to the Statement of Income and Expenses and the proposed mandatory Movement in Funds note. This would tie together total income, total expenses, total funds with restrictions and total funds without restrictions.

- 3.9 The Focus Group and PAG, due to the time available, primarily focused on fund accounting proposals, and did not offer a significant level of advice on the proposal. However, the Supplementary Statement Working Group supported the inclusion of the note to the financial statements (and some a primary financial statement). There was also consensus that such information should be mandatory. All those who provided feedback supported the inclusion of supplementary information in general purpose reports and understood the need for this to be at a whole of entity level.
- 3.10 The Secretariat is therefore proposing to take forward the option for a segmental analysis. Further views will be sought before proposals are finalised on whether it should be mandatory for all NPOs, mandatory for all NPOs that have material funds with restrictions, mandatory for some other subset of NPOs to be defined or permitted given NPOs the choice as to whether the information is provided.

Question 1: Do TAG members agree with the proposal that whole of NPO supplementary information could be included in NPO general purpose financial reports?

Question 2: Do TAG members agree that where supplementary information is provided that it is prepared using the formats in the SSEICC recommended practice statement?

Question 3: Do TAG members agree that any supplementary information provided should be by way of note to the financial statements as a segmental analysis

4. Illustrative financial statements

- 4.1 Example illustrative statements are included in Annex A. These illustrative statements are based on the following:
- Only EGA and other funding arrangements subject to jurisdictional regulation are included in funds with restrictions;
 - The Statement of Income and Expenses provides totals for each year, with additional information about transactions that are included in funds with restrictions available from the notes to the accounts;
 - The Statement of Financial Position identifying material components of its accumulated funds
 - The proposed mandatory movement in funds note is produced;
 - Revenue and expenses disclosures are consistent with Section 23 and Section 24 with the proposed minimum expense information provided; and
 - A note providing segmental information in the format of the SSIECC is provided.
- 4.2 These examples have been produced in advance of the meeting and will be updated to reflect the outcome of discussions held and to reflect the full requirements of INPAG. These illustrative statements should however, enable a discussion about whether the financial statements support accountability and provide decision-useful information.

Question 4: What are TAG members views on these illustrative financial statements? In particular what are views on:

- i. Whether the financial statements support accountability
- ii. Whether the financial statements provide decision-useful information
- iii. Areas of significant duplication or omission
- iv. The practicality of the proposals

5. Next steps

- 5.1 The illustrative financial statements will be updated as part of a full set of illustrative financial statements for inclusion in ED3. The proposals for other sections of ED3 will be updated based on TAG member feedback and brought to future meetings ahead of finalisation for Exposure Draft 3.

September 2023

Annex A - Extracts from illustrative financial statements

Statement of Income and Expenses		
	31 March 2022	31 March 2021
	CU,000	CU,000
Revenue		
Grants and donations	8,870	9,542
Sales of goods and services	404	372
Other	10	4
Total revenue	9,283	9,918
Expenses		
Cost of generating funds	1,004	1,008
NPO missional activity	7,419	8,551
Total expenses	8,423	9,559
Gains/losses on investments	37	-
Net surplus/deficit for period	823	359

Statement of Changes in Net Assets			
	Funds without Restrictions	Funds with Restrictions	Total
	CU,000	CU,000	CU,000
Opening balance 1 Apr 2021	2,905	1,785	4,690
Net surplus/deficit for period	439	384	823
Transfers between funds	-	-	-
Closing balance 31 Mar 2022	3,344	2,169	5,513

Statement of Financial Position

	31 March 2022	31 March 2021
	CU,000	CU,000
Tangible fixed assets	146	150
Investments	960	-
Total fixed assets	1,106	150
Current assets	8,219	9,640
Creditors - amounts falling due within one year	3,812	5,100
Net current assets	4,407	4,539
Net assets	5,513	4,690
Funds		
Funds with restrictions	2,169	1,785
Funds Without restrictions:		
Designated funds	1,881	1,645
Constrained Funds	383	643
General funds	976	514
Revaluation reserve	103	103
Total unrestricted funds	3,344	2,905
Total Funds	5,513	4,690

Cash flow statement

Cash flows from operating activities	CU000
Surplus for the year	823
Adjustments for non-cash income and expenses:	
Non-cash donations	(255)
Depreciation of property, plant and equipment	54
Change in value of investment	37
<i>Changes in operating assets and liabilities</i>	
Decrease (increase) in receivables	(210)
Increase (decrease) in payables	(1,289)
Net cash from operating activities	840
Cash flows from investing activities	
Investment transactions	(5)
Net change in borrowings	1,000
Purchases of equipment	245
Net cash used in investing activities	1,240
Net increase (decrease) in cash and cash equivalents	400
Cash and cash equivalents at the beginning of the year	8,778
Cash and cash equivalents at the end of the year	9,178

Notes to the financial statements

Note 1. Movement of funds.					
	At 1 April 2021	Income	Expenditure	Transfers	At 31 March 2022
	CU,000	CU,000	CU,000	CU,000	CU,000
Funds with restrictions					
Restricted Fund 1	50	203	196	-	57
Restricted Fund 2	268	150	404	-	15
Restricted Fund 3	243	455	270	-	429
Other restricted fund	1,223	5,922	5,477	-	1,669
Funds with restrictions total	1,785	6,731	6,346	-	2,169
Funds without restrictions:					
Revaluation reserve	103	-	-	-	103
Designated Funds	1,645	-	264	500	1,881
Constrained Fund 1	340	100	373	-	67
Other constrained Fund	303	958	945		316
General reserves	514	1,494	532	(500)	976
Funds without restrictions total	2,802	2,552	2,114	-	3,240
Total Funds	4,690	9,283	8,460	-	5,513

Note 2: Segmental analysis			
	Without Restrictions	With Restrictions	Total Funds
Income	CU,000	CU,000	CU,000
Grants and donations	2,146	6,468	8,614
Donations in kind	7	248	255
Other income	398	15	413
Total income	2,552	6,731	9,283
Expenses			
Direct expenses			
Employment	180	1,203	1,383
Travel and subsistence	45	125	170
Supplies and materials	830	2,716	3,546
Running costs, external services / other	365	950	1,315
Donations in kind	75	248	323
Grants payable	85	255	340
Support costs	496	850	1,346
Total expenses	2,077	6,346	8,423
Foreign currency gains /losses	-	-	-
Transfers	-	-	-
Other financial movements	(37)	-	(37)
Change in grant [fund] balance	439	384	823
Opening fund balance	2,905,	1,785	4,690
Closing fund balance	3,344	2,169	5,513
Capital			
Total expenses before capital costs	45	165	210
Less: depreciation or amortisation charged	(10)	(45)	(55)
Add: capital costs incurred	43	201	245
Total expenses and capital costs	2,110	6,503	8,613
Opening balance including capital costs	2,905	1,785	4,690
Closing balance including capital costs	3,310	2,013	5,323

Note 3. Revenue from Grants and Donations

	Without restrictions	With Restrictions	Total
	CU,000	CU,000	CU,000
Grants			
Enforceable grant arrangements	-	5,983	5,983
Other funding arrangements	1,051	485	1,536
Total Grants	1,051	6,468	7,519
Donations			
In-kind	7	248	255
Other	1,095	-	1,095
Total Donations	2,102	248	1,350
Total	2,153	6,716	8,870

(rounding difference)

The NPO has 3 material EGAs and 60 smaller EGAs that are individually immaterial. Revenue is recognised as the obligations in the EGAs are met. The material EGAs are as follows:

Restricted Fund 1	5 year grant agreement with the Ministry of Health for a local social care programme
Restricted Fund 2	Development of social care respite hubs
Restricted Fund 3	Community care programme to build opportunities

All obligations in current EGAs are expected to be satisfied in accordance with the terms of the respective agreement. Where an EGA has been paid in advance a liability has been recorded reflecting the obligations still outstanding. Where the terms of an EGA are for payment in arrears the amount outstanding is shown as an EGA asset. All amounts due are expected to be paid and there has been no impairment to the amount due.

All EGAs are on CU with no foreign currency exposures

	31 March 2022	31 March 2021
	CU,000	CU,000
EGA asset	750	650
EGA liability	2,169	1,785

Note 4. Expenses

	Direct	Support	Grants	Total
	costs	Costs	Payable	Costs
	CU,000	CU,000	CU,000	CU,000
Cost of generating funds	968	6	30	1,004
NPO missional activity A	4,969	540	225	5,734
NPO missional activity B	800	800	85	1,685
Total expenses	6,737	1,346	340	8,423

Support costs	Fundraising	Missional	Missional	Support
	Costs	Activity A	Activity B	Total
	CU,000	CU,000	CU,000	CU,000
Finance	1	100	180	281
Information Technology	2	150	225	377
Administration & Leadership	2	250	315	67
Governance	1	40	80	21
Support Total	6	540	800	1,346

Costs of generating funds are those costs incurred in attracting grants and donations including the direct costs of fundraising events and activities. It includes an allocation of support costs, with finance costs allocated on the number of finance transactions and all other support costs based on the staff time. It also includes costs incurred in trading activities that raise funds.

The costs of NPO missional activity consists of direct costs, grants payable and support costs. Direct costs include staff costs and costs paid to third parties for the delivery of services to achieve our objectives. Support costs include central functions which have been allocated to activities on the basis of the use of resources.

Grants payable consist of Enforceable Grant Arrangements (EGAs) and Other Funding Arrangements (OFAs). Expenses on EGAs are recognised when a grant recipient has satisfied its Enforceable Grant Obligations (EGOs). Expenses on OFAs are recognised when resources are transferred to the grant recipient.

Grants payable	EGAs	OFAs	Total
	CU,000	CU,000	CU,000
Cost of generating funds		30	30
NPO missional activity A	200	25	225
NPO missional activity B		85	85
Total grants expenses	200	140	340

The EGAs related to NPO missional activity A comprises a single grant to NPO X to support its humanitarian work in jurisdiction Z. This is a long-term grant to support NPO X in its mission to build emergency healthcare capacity in jurisdiction Z. Expenses this year have been recognised as NPO X has met an EGO to train healthcare workers in the jurisdiction.

NPO missional activity A's OFAs comprise a number of small grants to other NPOs in jurisdiction Z that are also engaged in building healthcare capacity provided as part of an annual funding round held in the jurisdiction.

NPO missional activity B's OFAs comprise a number of individual payments directly to families in jurisdiction Y. These payments provide emergency income support to those affected by flooding in the jurisdiction.

Note 5. Related Parties

Related party transactions took place between the NPO and organisations connected to the Trustees as follows:

	Membership Fees Received	Grants Paid
	CU	CU
Veronica ABC, Chair NPO x	2,050	36,229
Sonja XYZ, CEO, NPO y	8,688	50,696

All the above related party transactions were transacted on standard business terms. There were no outstanding balances at 31 March 2022



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