



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

International Non-profit Accounting Guidance (INPAG) Exposure Draft 2

Response template

Please use this form to record your responses to the Specific Matters for Comment relating to [INPAG Exposure Draft 2](#)

Comments are most helpful if they:

- a) Address the question asked;
- b) Contain a clear explanation to support the response provided, whether this is agreeing or otherwise with any proposals made;
- c) Propose alternatives for consideration, where responses are not in agreement with the proposal made;
- d) Specify the INPAG paragraphs to which any comments relate; and
- e) Identify any wording in the proposals that might not be clear because of how they translate.

The text boxes will expand as required. There is no size limit. There are 12 question areas, according to the various sections in INPAG. You do not need to answer all questions and can choose to answer as many or as few as you wish.

You may comment on any aspect of Exposure Draft, not just the specific matters identified. General comments should be added at the end of this document.

Responses must be received by **15 March 2024 and must be in English.**

Responses can be submitted to ifr4npo@cipfa.org or through the website at www.ifr4npo.org/have-your-say



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Respondent information:

First name:	Moulaye	Organisation: (who do you work for)	Humentum
Last name:	Camara	Response: Are you submitting your response <ul style="list-style-type: none"> • on behalf of my organisation • as an individual 	Organisation
Email:	Moulaye.camara@humentum.org	Country: (this should be the country in which you are based)	South Africa
Position:	Technical Director Funding & Financial Systems	Professional interest: please choose from: <ul style="list-style-type: none"> • NPO, ie preparer of financial statements, • auditor, • accounting standard setter, • professional accounting organisation, • regulator of NPOs, • donor, • academic, • civil society, • user of NPO services, • other (please state) 	Other – ecosystem organisation

Please indicate whether you wish to receive further information about this project and consent to being contacted at the email address provided.	Tick boxes Agree
--	----------------------------



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

This document has been designed purely to enable feedback to Exposure Draft 2. Participation is undertaken on an entirely voluntary basis. The responses will be used to shape the development of INPAG and not for any other purpose. We ask for your name and contact information to enable us to contact you if we should have any clarifications regarding your responses. Responses will be public, but personal contact information will not be disclosed. Personal information will only be held for the purposes of developing INPAG. You may withdraw your consent for us to hold any of your personal information at any time by contacting us at ifr4npo@cipfa.org



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Specific Matters for Comment

Question 1: Financial instruments		
<p>INPAG Section 11 provides guidance on the treatment of financial assets and financial liabilities. It has two parts, Part I that addresses simpler financial instruments and Part II that addresses more complex financial instruments. There are no significant changes other than alignment with other sections.</p>		
	References	Response
a) Do you agree that there are no significant alignment changes required to Section 11, other than those that have already been made? If not, set out the alignment changes you believe are required.	Section 11	Yes

Question 2: Inventories
<p>INPAG Section 13 provides guidance on the recognition, measurement and disclosure of inventories. Major changes have been made to broaden the scope of this section to include NPO specific inventory and set out their measurement, where inventories held for use or distribution to be measured at the lower of cost adjusted for any loss of service potential and replacement cost. It has been modified to allow the use of permitted exceptions where certain donated items are not recognised in inventories. It has also been amended to allow NPOs to expense services to be provided to service recipients for no or nominal amounts as incurred rather than as work in progress within inventories. Disclosures have been updated to address the use of permitted exceptions and where donated inventories cannot be reliably measured.</p>



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

	References	Response
a) Do you agree with the expansion of Section 13 <i>Inventories</i> to specifically include inventory held for use internally, for fundraising or distribution? If not, why not?	G13.1	Yes. This could include for example medical supplies which will be used in the provision of free medical services. Appropriate stock controls are important, which requires unused stock to be held on the balance sheet and subject to audit.
b) Do you agree with the permitted exceptions that allow for certain donated inventories and work in-progress that comprises services to be provided for no or nominal consideration to not be recognised as inventory? If not, what would you propose instead/.	G13.2, G13.5 (a)-(c)	Yes for donated services. No for donated inventory items. When services are capitalized as part of inventory in a for-profit context, it is for the purpose of proper calculation of cost of sales – such that the reduction in inventory is timed to match the sale. Where the inventory items are not held for subsequent sale, there is no benefit in this approach, hence the exemption is appropriate. Donated items of inventory ought to be capitalized until used, to be consistent with G13.1.
c) Do you agree that fair value should be used to value donated inventory? If not, what would you propose instead?	G13.7	Yes, in the absence of an alternative. But the definition of fair value should be modified and simplified and include reasonable estimates, without the need to spend funds on expensive valuations, especially in the absence of active markets.
d) Do you agree that inventories that are held for distribution at no or nominal consideration or for use by the NPO in meeting its objectives shall be measured at the lower of cost adjusted for any loss	G13.8	No. In a for-profit context, stock is valued at the lower of cost and net realizable value. If the stock will not be sold, then the 'net realizable value' would always be close to zero, so an alternative <i>is</i> needed.



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

of service potential, and replacement cost? If not, what would you propose instead?		However, in the case where the replacement cost of stock is lower than the historical cost, we are not convinced that writing down of stock is necessary or provides useful information. We propose that such inventory simply be valued at cost adjusted for any loss of service potential.
e) Do you agree with the proposed disclosure requirements, particularly regarding the use of permitted exceptions and where donated inventories are not recognised because they cannot be reliably measured? If not, what would you propose instead?	G13.26 (e), G13.27	Yes The proposals are pragmatic, and the disclosure requirements mean that the appropriate information will none the less be available.

Question 3: Provisions and contingencies		
INPAG Section 21 provides guidance on the recognition, measurement and disclosure of provisions (being liabilities of uncertain timing or amount), contingent assets and contingent liabilities. All examples are located in the Implementation Guidance and have been updated to be more relevant to NPOs, including an example relating to onerous grant agreements.		
	References	Response
a) Do you agree that an illustrative example on warranties is removed from the Implementation Guidance, and a new example on onerous contracts is added? If not, why not?	Section 21, Illustrative example 3	Yes



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Question 4: Revenue

INPAG Section 23 has been expanded to specifically cover revenue from grants and donations. It comprises two parts with a preface that contains content that is common to both.

Part I is new material that has been written specifically for NPOs that sets out the requirements for the recognition, measurement and disclosure of revenue from grants and donations. The timing of revenue recognition is dependent on the existence of an enforceable grant arrangement (EGA), which must have at least one enforceable grant obligation (EGO). It follows the concepts in the 5 step model for revenue recognition used in international standards. Part I also describes permitted exceptions for the recognition of gifts in-kind and services in-kind.

Part II reflects the *IFRS for SMEs* Accounting Standard material for contracts with customers provides. It provides simplified guidance for less complex contracts.

	References	Response
a) Section 23 Part I and Section 24 Part 1 introduce new terminology relating to grant arrangements ¹ . Do you agree with the terms enforceable grant arrangement and enforceable grant obligations and their	G23.23- G23.30, G24.3-G24.4	No. 1. Enforceable There can be grant agreements that are enforceable, but are not EGAs. The INPAG definition of an EGA requires it to include deliverables (EGOs) that the grantee must fulfil, with consequences for non-fulfilment. 'Grant agreements' that are 'enforceable' but do not include an EGO, are NOT considered EGAs, which is confusing terminology. It is in fact that the obligation (EGO) that needs to be enforceable to create a present obligation, rather than agreement itself.

¹ Both sections include the following question, which you can answer under either section, or cover the grantor and grantee perspectives separately.



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

<p>definitions? If not, what alternative terms would you propose to achieve the same meaning? What are the practical or other considerations arising from these definitions, if any?</p>		<p>Where a grant arrangement does contain enforceable clauses, but is not an EGA, there could be considerable resistance to it being classified as an OFA, because of the implication that it is not enforceable in any respect.</p> <p>Example 1: a legally enforceable grant is made to fund activities that increase women employment. There is a target number of women, but failure to meet that target in full does not result in forfeiting right to the grant, or reduce the amount of funds awarded. The agreement includes restrictions in that the funds must be spent on the agreed activities (which may be changed by agreement to improve the chances of reaching the target), and prohibitions that funds may not be spent on alcohol or arms. Failure to provide accountability will result in funds being returned, irrespective of whether activities were carried out or targets reached.</p> <p>This is a grant agreement that is <i>enforceable</i>, yet under INPAG it would be classified as an ‘OFA with constraints’. The term EGA is confusing because not all ‘enforceable grant agreements’ (using common English) meet the INPAG definition of an EGA.</p> <p>Some of our members felt that the word ‘enforceable’ connotes power and control, which does not sit well with the concept of partnership, even if it is correct legal use of the term. Other NPOs expressed the opposite, that the INPAG requirement for an EGA, that <i>both</i> parties have rights and responsibilities meant that a grantor would have to accept obligations.</p> <p>However, it is common that agreements are enforceable by the grantor but not by the grantee. INPAG apparently does not explain what should be done in such cases. Presumably, the grantee</p>
--	--	--



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

	<p>of an EGA could recognize liabilities with respect to the agreement but not assets, and the grantor could recognize assets but not liabilities.</p> <p>INPAG states that an agreement can be considered enforceable even if it is enforceable in theory only, with actual legal recourse being unlikely or extremely rare. The fact that most grantors engage in risk assessment process, and adjust their remittance and reporting requirements accordingly, is a pragmatic approach to operating in an environment where legal recourse is not realistic, and recovery of funds is not guaranteed.</p> <p>The level of enforceability varies greatly in different jurisdictions, and is especially complicated for international grant agreements. If enforceability is the key to recognising a present obligation, the existence or not of a actual present obligation with respect to identical grant agreements might vary according to which jurisdiction(s) they are in. INPAG's assertion that they can be considered enforceable even if they are only enforceable in theory, starts with a model that works in jurisdictions where there is rule of law, and applies it to jurisdictions where rule of law may be less accessible to NPOs.</p> <p>This is of course also true for customer contracts and transactions in the for-profit context. We recommend that the secretariat consider any guidance about unenforceable contracts applicable to IFRS, and follow a similar approach.</p> <p>2. Grant Agreement</p> <p>It is common practice in the sector for donors to make awards in the form of either grants or contracts. Such 'contracts' might meet the INPAG definition of a grant rather than a customer contract, in that the payer does not directly benefit from the goods or services. According to</p>
--	--



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

	<p>INPAG proposals, the legal form of the arrangement (customer contract or EGA) is not consequential from an accounting perspective, therefore we propose that it would be better to use the neutral term 'award' in place of grant. Replacing the word 'grant arrangement' with 'award' removes potential conflict between the legal form of an award framed as a contract vs INPAG terminology of EGA (grant).</p> <p>Example: USAID awards a 'contract for services', to a foreign NPO to carry out election monitoring in that country. USAID classifies the award as a contract for services, because they decide the deliverables unilaterally, and the deliverables serve their own national interest, albeit indirectly. INPAG proposals would categorise the award as an EGA (grant).</p> <p>3. Grant obligation</p> <p>The meaning of 'EGO' in INPAG is a 'grant recipient's undertaking to achieve an objective, carry out an activity, or use or transfer resources for a specified purpose'. There is high risk for EGOs to be confused with restrictions or constraints, and because the word 'obligation' is not specific enough and can easily be confused with compliance obligations (eg reporting or procurement process requirements).</p> <p>4. Restrictions, constraints and prohibitions</p> <p>There is a lack of clarity about the meaning of the term 'restrictions' used in ED1 vs 'constraints' used in ED2. It is understood that ED3 will provide further clarity. It is our view that there is no need for the two separate terms 'restriction' and 'constraint', and that one word only (restriction) should be used to denote situations where grantees MUST spend funds for a particular cause, activity or geographic region etc.</p>
--	---



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

		<p>INPAG does not seem to provide a term or clarify the accounting treatment with respect to grant arrangements that contain prohibitions rather than restrictions. (Where a restriction describes what funds MUST be spent on, a prohibition is what it MUST NOT be spent on, eg alcohol or fire arms in the example above). We recommend that a term be introduced and defined in INPAG, and the implications with respect to accounting treatment set out. Presumably prohibitions, like restrictions, are not grounds for income deferral, but a liability may arise upon breach.</p> <p>Terminology Proposals</p> <ol style="list-style-type: none"> 1. Replace 'Enforceable Grant Agreement (EGA)' with 'Funding Agreement with Enforceable Deliverables (FED)', which is an 'agreement between funder and grantee with enforceable consequences for non-delivery of agreed activities, outputs or outcomes'. 2. Replace 'Enforceable Grant Obligation (EGO)' with 'Enforceable Deliverable'. The definition should include references to enforceable consequences for non-delivery. The deliverables should be defined as a grant recipient's promise to provide specified goods and services, including achieving an objective, or carrying out an activity. The description should make clear that signing an FED creates a present obligation on the NPO. The technical accounting language of present 'obligation' should be in the description and definition of the term, rather than the term itself. 3. Introduce a third grant category, 'Funding Agreement with Purpose Restrictions' for enforceable agreements for specific purposes that are not FEDs. These would follow the same recognition approach as an OFAs, but the terminology is easier for users and will result in better application. 4. Replace 'grants and donations' with 'funding arrangements'. Some funders give money in the form of contracts for services, where they themselves are not the direct beneficiary.
--	--	--



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

		<p>We appreciate that FEDs are also funding agreements with restrictions, so the addition of the word 'purpose' helps to clarify the nature of the restriction, distinct from enforceable deliverables.</p> <p>We propose that the definition of 'enforceable deliverable' within a FED be tighter than the current definition of an EGO within an EGA. It should be a 'promise' rather than an 'undertaking', should refer to 'provision of goods and services', and exclude the internal use of funds for a particular purpose.</p> <p>The reason for the proposal to narrow the definition, is to exclude funding arrangements where NPOs undertake to carry out activities with the intention of achieving specific agreed goals, even if these occur within the context of <i>grant agreements</i> that are <i>enforceable</i>. We do not believe that such undertakings create a 'present obligation' in the accounting sense. This tighter definition of a Funding Agreement with Enforceable Deliverables (FED) also limits it to arrangements where application of the 5-step model is theoretically viable.</p> <p>We agree with the term 'Other Funding Arrangement (OFA)'.</p> <p>We are aware that some stakeholders are worried about fluctuating surpluses and deficits when Other Funding Arrangements (OFAs), or Funding Agreements with Purpose Restrictions (FPR) are recognized when received / receivable rather than matched to expenditure. This is a very real concern in jurisdictions that may view surpluses as taxable. However, we believe such misunderstandings by users are best addressed with commentary in the narrative report, and</p>
--	--	---



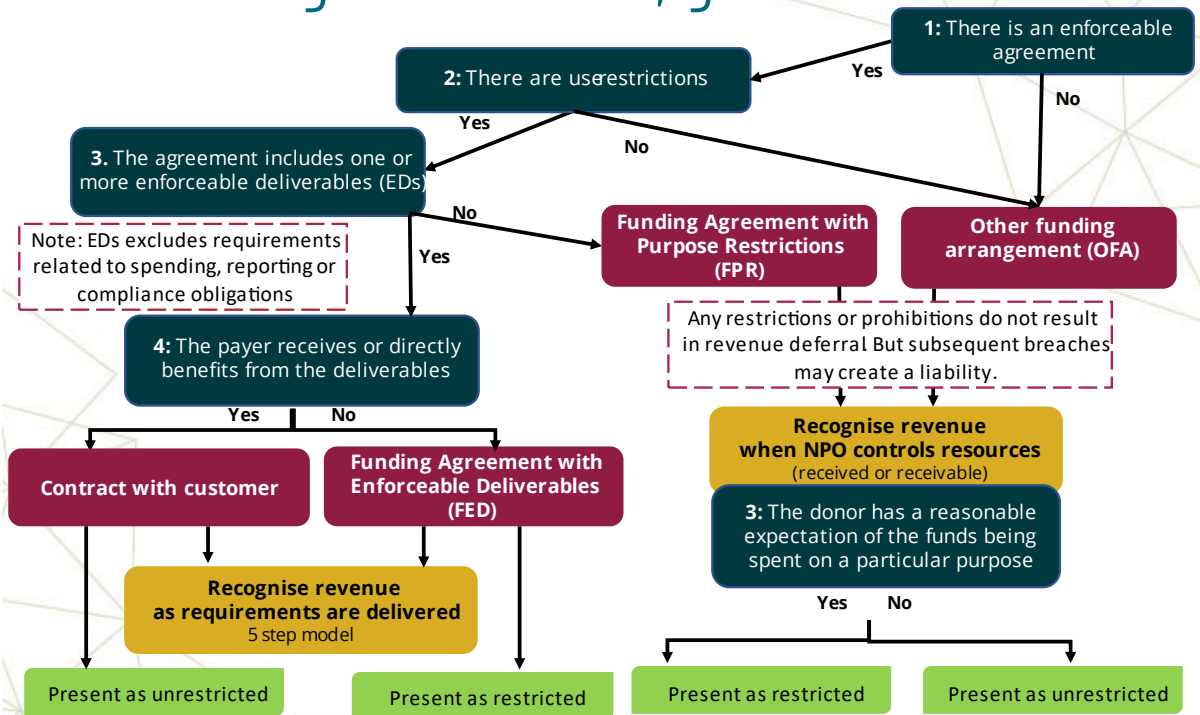
INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

		<p>general awareness raising about how to interpret financial statements prepared in accordance with INPAG, coupled with direct advocacy and engagement with tax authorities where relevant.</p> <p>For clarity, the decision tree below incorporates 'contracts with customers' and the aspect of restriction, in addition to the core proposals about grant revenue recognition.</p>
--	--	--



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Accounting for contracts, grants & donations





INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

<p>b) Do you agree with the structure of Section 23, with Part I focused on grants and donations, Part II focused on contracts with customers and a preface that brings together the key principles and information about how to navigate the guidance? If not, what changes would you make and why?</p>	<p>Section 23</p>	<p>Yes</p> <p>As demonstrated by the flow chart above, there are good arguments to be made for having the 2 parts split according to EGAs/FEDs (which apply the 5 step model) and those that don't.</p> <p>However, from a user perspective we feel it is better to keep Part 2 unchanged from IFRS for SME, with Part 1 added to provide guidance for funding agreements and donations.</p>
<p>c) Do you agree that revenue is only deferred where the grant recipient has a present obligation in relation to the revenue received? If not, in what other circumstances could revenue be deferred and what is the conceptual basis for this proposal?</p>	<p>G23.27, G23.41- G23.59</p>	<p>Yes</p> <p>But we don't think that funding for activities that are intended to achieve agreed goals (ie grants that could meet the definition of EGAs but are not Funding Agreements with Enforceable Deliverables as defined above) gives rise to a present obligation in the accounting sense.</p> <p>Example: An Agency awards a 3-year grant to an NPO to work towards decommission all 4 orphanages in one district of Rwanda, as well as setting up alternative care systems such as resettlement, fostering and adoption schemes. The decision to decommission orphanages is made by government rather than the NPO, but the strategies employed in other countries show promise. The budget has direct costs including project staff & benefits, travel costs, meeting costs, making videos and developing training materials, as well as indirect costs including premises and governance. There is an understanding that plans will need to change and be responsive to the Government's actions, and the NPO is expected to use the funds towards the overall goal in an agile and contextually appropriate way. This might involve changing the model of what alternative care bases systems look like exactly in the context of this district.</p>



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

		<p>The above example is an EGA with EGOs of decommissioning orphanages and establishing alternative care systems, but entitlement to the grant is not dependent on carrying out specific activities or achieving a specified outcome.</p> <p>Using a tighter definition of Funding Agreement with Enforceable Deliverables (FEDs rather than EGAs) would result in more grants being classified as OFAs (or Funding Agreements with Purpose Restrictions), therefore recognized as received / receivable, presented as within restricted funds. This is simpler accounting and provides useful information from fund balances.</p> <p>It is useful for readers of the financial statements to have information about amounts the NPO is obligated to spend. These could be found in two places on the balance sheet:</p> <ol style="list-style-type: none">1) Liabilities (present obligations including deferred EGA/FED income)2) Restricted fund balance <p>To a lay reader of the financial statements, the distinction between these two different types of balance sheet credits is quite technical.</p> <p>If the income deferral accounting method (5-step model) is applied to EGAs that are not FEDs (such as the example above) it is excessively onerous, and does not provide additional useful information to users of the financial statements. Tightening definition from EGA to FEDs means the amounts which would have been shown in liabilities (had such grants been classified as FEDs), instead show up in restricted fund balances.</p>
--	--	---



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

		<p>It may be necessary to clarify the treatment for country offices of INGOs that a separate legally registered entities and are required to prepare separate financial statements. Funds may be remitted from HeadQuarters (HQ) to offices, for various uses, including FEDs, restricted grants and unrestricted funds. However, the country office itself usually does not have a legal agreement with HQ with respect to each grant arrangement. The amount remitted may be calculated based on estimated cash needs in relation to active projects, but presumably does not give rise to a liability for the country office, unless the grant agreement is held by that country office.</p> <p>It may also be necessary to clarify treatment where an INGO country office is the legal holder of the grant agreement (this is becoming more common under localization trends), but is required (by the HQ that controls it) to remit overheads to HQ. We believe that in such instances the country office could have a present obligation to HQ, even in the context of a Funding Agreement with Purpose Restrictions (FRP) or OFA.</p> <p>For multi-year OFAs received in advance, it is agreed that any obligation would be future rather than present. Yet recognition in full in the year of receipt may cause confusion from a grant management and monitoring perspective. It could be helpful if the implementation guidance suggested the option of creating separate funds for each funding year for tracking purposes.</p>
<p>d) The revenue recognition model for enforceable grant arrangements requires that revenue is allocated where there is more than one enforceable grant obligation. Do you agree</p>	<p>G23.53- G23.56, G23.125- G23.138, AG23.52- AG23.59</p>	<p>Yes. If the definition of EGAs is narrowed to 'Funding Agreement with Enforceable Deliverables (FED)', the analogy to for-profit contract accounting holds, and the 5-step model is theoretically workable.</p>



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

<p>with the allocation methods identified? If not, what methods would you propose? What are the practical considerations?</p>		<p>However, if the budget associated with an FED is not easily split into deliverables, or there are multiple cost types associated with the award as a whole, but which are not directly attributable to specific deliverables, this becomes excessively complex in practice.</p> <p>In such cases, there should be an option to use the method of recognising income to the extent that expenditure is incurred, as an appropriate proxy.</p> <p>There does not seem to be guidance in INPAG about situations where an EGO has been satisfactorily met, but at lower overall cost than the standalone amount. If the grant agreement requires unspent funds to be returned, presumably the amount of income recognized should be the lower of the standalone amount and the amount spent to achieve that EGO?</p>
<p>e) Do you agree with the permitted exceptions that allow the recognition of some gifts in-kind, either when sold, used or distributed, and that these permitted exceptions cannot be used where donations are received as part of an enforceable grant arrangement? If not, what would you propose instead and what is the rationale?</p>	<p>G23.36, G23.37</p>	<p>Yes If donations in-kind are received as part of an EGA / (FED), recognition becomes essential. The permitted exceptions for OFAs are welcome.</p>
<p>f) Do you agree that services in-kind are not required to be</p>	<p>G23.36, G23.38,</p>	<p>Yes</p>



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

<p>recognised unless they are mission critical? If not, on what basis should services in-kind be recognised and what is the rationale?</p>	<p>G23.63, AG23.35- AG23.36</p>	<p>The definition of mission critical is quite subjective. It would be good to have some examples to demonstrate this. It should be clarified that the definition of mission critical should be from the perspective of the NPO, not the volunteer or donor organisation.</p> <p>However, services in-kind that relate to administration or operations (such as finance, fundraising, IT, HR, governance, strategic planning, legal, compliance, audit etc) should not be singled out and distinguished from programmatic services in kind as being 'administrative' and therefore not mission critical.</p>
<p>g) Do you agree that donations in-kind (both gifts in-kind and services in-kind) should be measured at fair value? If not, what would you proposed instead?</p>	<p>G23.31- G23.32, G23.35- G23.38</p>	<p>Yes But the definition of fair value should be simplified and include 'reasonable estimate', that can be made in the absence of a ready market.</p>
<p>h) Do you agree that administrative tasks are generally not separate individually enforceable obligations, but a means to identify or report on resources in an enforceable grant arrangement? If not, provide examples of where administrative tasks are an enforceable obligation.</p>	<p>G23.49</p>	<p>Yes, but.... In the sector, what INPAG refers to as 'administrative tasks' are often called 'compliance obligations.' So there is considerable risk of confusion with these terms that will not be rectified simply by providing definitions.</p> <p>Our proposals to use of the term 'required deliverable' instead of 'enforceable obligation' would remove the potential for confusion between 'administrative tasks' and 'compliance obligations'.</p> <p>We recommend the term 'administrative tasks' be replaced with 'compliance obligations', to be more intuitive and aligned to language used in the sector.</p>



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

i) Do the proposals for disclosure of grant revenue provide an appropriate level of transparency? If not, what would you propose and what is the rationale for your proposal?	G23.61- G23.70	Yes
j) Part I is written for simpler grant arrangements and Part II includes a paragraph for simpler contracts with customers. For more complex grant arrangements, additional guidance is provided about how to apply Part II in the NPO context. Do these proposals successfully remove duplication, help understandability and the ability to implement? If not, what would you change and why?	G23.42- G23.59, G23.73, AG23.37- AG23.40, AG23.62	Yes we would keep the guidance for simple contracts and for simple EGAs / FEDs that have just one deliverable.
k) Do you have any other comments on the proposals in Section 23, including whether the full content of the IFRS for SMEs section on revenue from contracts with customers in Part		The full text of IFRS for SME section 23 on revenue from contracts with customers is necessary because NPOs can engage in commercial transactions from contracts just like any other for-profit business.



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

<p>It is necessary for NPOs? If so, provide the rationale for the comment and cross reference to the relevant paragraphs.</p>		
---	--	--

Question 5: Expenses on grants and donations

INPAG Section 24 is new and covers accounting for expenses. Part 1 of this Section covers Expenses on grants and donations. Guidance covers the recognition, measurement and disclosure of grants that an NPO makes to other entities or individuals. As with Section 23 Part I, it has a model for recognising expenses on grants and donations that depends on the existence of an EGA.

	References	Response
<p>a) Section 24 Part I and Section 23 Part 1 introduce new terminology relating to grant arrangements². Do you agree with the terms enforceable grant arrangement and enforceable grant obligations and their definitions? If not, what alternative terms would you propose to achieve the same meaning? What are the practical or other considerations arising from these definitions, if any?</p>	<p>G24.3-G24.4, G23.23-G23.30,</p>	<p>No. As per 4a above</p>

² Both sections include the following question, which you can answer under either section, or cover the grantor and grantee perspectives separately.



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

<p>b) Do you agree that all expenses on grants and donations can be classified as an enforceable grant arrangement or as an other funding arrangement? If not, provide examples of which expenses on grants or donations would not fit in either of these classes, and why not?</p>	<p>G24.3-G24.6</p>	<p>No As per section 4 above</p>
<p>c) Enforceable grant arrangements are required to be enforceable through legal or equivalent means. Do you agree that regulatory oversight and customary practices can be sufficient to create an enforceable grant arrangement? If not, why not? What weight should be applied to these mechanisms?</p>	<p>G24.3, AG24.9, AG24.13-AG24.15</p>	<p>Yes. In certain jurisdictions and circumstances, it is possible for grantors and grantees to enter into enforceable agreements. In practice, grantors often mitigate risk with remittances (limiting their exposure to losses), and grantees are rarely able to enforce payment from a grantor that defaults.</p> <p>Arrangements that involve funding for activities that are intended to achieve agreed goals rarely occur in environments where grantees can enforce payment by grantors by legal or equivalent means.</p> <p>While it is true that EGAs (or indeed FEDs) MUST be enforceable, it is not the case that all OFAs are unenforceable, particularly OFAs with constraints.</p>
<p>d) Do you agree that the full amount of the grant (including where it covers multiple years) should be recognised as an expense if the grant-provider has no realistic means to avoid the expense? If not, under what circumstances should a</p>	<p>G24.17-G24.18, AG24.24-AG24.27</p>	<p>Yes. Also, consideration should be given to splitting the grant expense line between amounts paid and payable, and relating to current vs future years. This could be optional, or a requirement in certain circumstances, and could be on the face or in the notes.</p>



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

grant-provider not recognise the full expense and what is the rationale?		
e) Do you agree that grants for capital purposes are expensed by the grantor using the same principles as other grants? If not, why not? What would you propose instead?	AG24.30-AG24.35	Yes
f) Do the proposals for disclosure of grant expenses, which include a sensitive information exemption, provide an appropriate level of transparency? If not, what would you propose and what is the rationale for your proposal?	G24.32-G24.41	Yes
g) Do you agree that a grant-providing NPO with an OFA can only recognise an asset at the point that a grant recipient has not complied with a constraint on the use of funds provided? If not, what would you propose instead?	G24.11	Yes
h) Do you have any other comments on the proposals in Section 24, including that administrative tasks in an enforceable grant arrangement are generally not an enforceable grant obligation but a means to identify or report on resources. If so,	Section 24 IG24.21	If the monitoring burden associated with recognition of grant expenses applies only to Funding Agreements with Enforceable Deliverables (FEDs / EGAs), and not to arrangements that involve funding for activities that are intended to achieve agreed goals, then this could be workable, although there are real costs in terms of time and expenses for both grantors and grantees.



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

<p>provide the rationale for any comments and cross reference to the relevant paragraph.</p>		<p>The level and timing of monitoring efforts is more effective and efficient when based on risk levels and programmatic needs, rather than on the accounting and reporting needs of grantors.</p> <p>When a prime makes a grant to a sub, it is common practice for the prime to recognize the sub's expense on a line-by-line basis, so that a consolidated grant report can be submitted to the donor. In INPAG, funds given to the sub are classified as 'grant expenses' and not consolidated on a line-by-line basis. Equally, the timing of recognition of the sub's expenses would normally be when they have accounted for it rather than when it is remitted. In short, this means that the process of producing consolidated prime + sub expenditure for the report will have to take place outside the ledger, which is time consuming, inefficient & error prone.</p>
--	--	--

<p>Question 6: Borrowing costs</p>		
<p>INPAG Section 25 specifies the accounting for borrowing costs. There are no significant changes with modifications made to align with other sections.</p>		
	<p>References</p>	<p>Response</p>
<p>a) Do you agree that there are no significant alignment changes required to Section 25, other than the terminology changes that have been made? If not, set out the alignment changes you believe are required.</p>	<p>Section 25</p>	<p>Yes</p>



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Question 7: Share-based payments

INPAG Section 26 specifies the accounting for share-based payments. As share-based payment transactions are considered highly unlikely for NPOs this section has been removed and a paragraph included to explain why it is not part of INPAG.

	References	Responses
a) Given the characteristics of NPOs, do you agree that guidance on share-based payments is not required? If not, provide examples of share-based payments and explain how they are used.	Not applicable	Yes

Question 8: Employee benefits

INPAG Section 28 covers all forms of consideration given by an employing NPO to its employees. Changes have been made to this Section to remove references to share-based payments and to profit-sharing arrangements as these are not expected to be part of NPO remunerations structures. Amendments describe how a controlling NPO providing benefits to employees of controlled entities in the group can apply its provisions.

	References	Responses
a) Do you agree that profit sharing and share-based payments are removed from Section 28 <i>Employee benefits</i> to reflect that employees of NPOs are very unlikely to be incentivised by sharing in the surpluses made by an NPO? If not, provide	G28.3, G28.27	Yes



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

examples of such arrangements used by NPOs.		
b) Do you agree that in-year changes to the value of post-employment benefits can be shown on either the Statement of Income and Expenses or Statement of Changes in Net Assets? If not, why not?	G28.21	We don't understand why there would be an option or choice in this case, but we think it would be better for there to be clear guidance about it going in either one place or the other. The Statement of Income and Expenses would seem more applicable than the Statement of Changes in Net Assets.

Question 9: Income tax

INPAG Section 29 addresses the accounting for income tax including current and deferred tax. Minor editorial amendments have been made to align with other Sections. Amendments include the removal of the exclusion relating to government grants as this is now replaced, and to allow the tax expenses to be shown in the Statement of Income and Expenses or Statement of Changes in Net Assets as appropriate.

	References	Responses
a) Are there any elements of Section 29 <i>Income taxes</i> that are not required by NPOs? If so, explain which elements are not needed and why.	Section 29	No , Section 20 is needed for jurisdictions where NPOs have to pay tax (other than employment taxes).

Question 10: Foreign currency translation

INPAG Section 30 describes how to include foreign currency transactions and foreign operations in the financial statements. This Section has been amended to require that the exchange rate gains or losses on monetary items are presented consistently with the transaction to which they relate.



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

<p>This Section also requires that deficits or surpluses arising as a consequence of changes in exchange rates for grant arrangements that are included as part of funds with restrictions are disclosed. This is to provide transparency of exchange rate exposures relating to grant arrangements.</p>		
	References	Response
a) Do you agree that grants and donations should be considered when setting the functional currency? If not, why not?	G30.3 (c), G30.5 (b), G30.5 (d)	No We don't think the funder currency should be relevant to the functional currency. Even if all the funding is one currency and the spending is in another, it is the spending currency that should be the functional currency. However, the impact of hyper-inflation should be considered in the decision.
b) Do you agree with the principle that exchange gains and losses are shown as part of funds without restrictions unless they relate to a transaction that is to be shown as restricted? If not, why not?	G30.12, G30.20 (c)	Yes
c) Do you agree with the proposal to require exchange gains and losses that contribute to a surplus or deficit on grant arrangements presented as funds with restrictions to be disclosed? If not, why not? What would you propose instead?	G30.30	Yes
d) Do you have any other comments on Section 30, including whether there are any NPO-specific recognition and measurement issues associated with	Section 30	Yes Re-translating balances may be necessary when restricted fund balances are denominated in local currency but pertain to a foreign currency grant. For instance, an enforceable restricted purpose grant requires the expenditure of all received funds in



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

<p>foreign currency translation? If so, explain your comments and the NPO-specific recognition and measurement issues.</p>		<p>foreign currency and the return of unutilized amounts. Although fund balances are not technically liabilities as they do not represent present obligations, proper tracking of these balances holds significant importance from a management and risk perspective.</p> <p>We know that in ED3, the Practice Guide will introduce a Supplementary Statement facilitating the presentation of grants in local and donor currencies. The example below uses this presentation format to illustrate an exchange loss due to the retranslation of fund balances where spending or returning foreign currency is mandated.</p> <p>While Section 30 addresses the retranslation of assets and liabilities held in foreign currencies, it does not cover restricted fund balances held in foreign currencies, which we believe it should address. When the retranslated fund balance in local currency is lower than in foreign currency, it may give rise to a present obligation (liability) within the framework of an enforceable grant that is not an EGA.</p>
--	--	--



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Restricted fund balances in foreign currency

	Local Currency	Donor currency	Comment
Grant income	2,000	1,000	At 2.0 on date of receipt
Grant expenses	(7,140)	(3,400)	At average rate of 2.1
Surplus / deficit	(5,140)	(2,400)	
Opening fund balance	6,000	3,000	At previous BS rate 2.0
Closing fund balance	960	600	
Capital expenditure	(630)	(300)	At average rate of 2.1
Closing fund balance after capex	330	300	
	(726)	(300)	Revalue at closing rate 2.2
	(396)	-	Exchange loss



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

<p>INPAG Section 31 describes the requirements where an NPO is operating in a hyperinflationary economy. Minor editorial changes, including those relating to the structure and names of the financial statements have been made.</p>		
	References	Responses
<p>a) Do you agree that there are no significant alignment changes required to Section 31, other than the terminology changes that have already been made? If not, describe any further alignment changes required.</p>	<p>Section 31</p>	<p>Yes</p>

<p>Question 12: Events after the end of the reporting period</p>		
<p>INPAG Section 32 sets out the principles for recognising, measuring and disclosing events that happen after the end of the reporting period. Minor amendments have been made to include grant providers as a source of bankruptcy, to remove some references including to profit sharing and dividends. Those with the power to amend the financial statements after they have been issued has also been widened given the nature of NPOs.</p>		
	References	Responses
<p>a) Do you agree that there are no significant changes required to Section 32, other than those that have already been made for alignment purposes? If not, describe any further alignment changes required.</p>	<p>Section 32</p>	<p>No Section 32.8 refers to distributions to holders of equity claims. We question why this is necessary given the removal of IFRS for SMEs section 26 on share-based payments from INPAG.</p>



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

General Feedback	
<p>Please share any other comments that you wish to raise on Exposure Draft 2. When providing additional feedback please reference the paragraph numbers, where possible and provide a short explanation to support your comments.</p>	<p>1 Humentum welcomes this Exposure Draft We are fully in support of the objectives of the project and are impressed by the quality and thoughtfulness of INPAG ED2.</p> <p>2 Guidance where the donor is making a grant, but the NPO needs to recognize it as a sale. There is no guidance for this situation. Eg a donation to bursary (or contribution to a bursary fund) for a non-profit school.</p> <p>In our experience, this is often accounted for as a restricted grant or donation income initially. Then when the bursary is allocated to a child, there is an inter-fund transfer from restricted to unrestricted according to the 'price' of the school fees 'paid for' by the bursary fund.</p> <p>A note to the accounts can then show that total lessons income relates to the Fees in the income section plus the transfers in – which enables reconciliation to number of students etc.</p> <p>3 Problems with the definition of grant/donation The distinction between 'contracts with customers' and 'grants from donors' is predicated on the western notion of altruism – the donor does not benefit directly from a grant (non-exchange transaction), but the customer does benefit directly from a contract (exchange transaction).</p> <p>While low value general donations from members of the public might meet this definition, the addition of constraints, restrictions and required deliverables certainly muddy the waters. On the one hand, the idea of donors benefitting from their own generosity is seen as distasteful. On the</p>



INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

	<p>other hand, the idea that government funding agencies don't get anything in return from their grant making is naïve.</p> <p>Recommendation – reconsider if there are other fundamental distinctions between customers/contracts and donors/grants that might provide alternative ways to guide users of the Guidance to Part 1 or Part 2.</p>
--	--