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International Non-Profit Accounting Guidance Part 3

Implementation Guidance

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[1] Status refers to whether the *IFRS for SMEs* Accounting Standard has been updated to reflect NPO specific requirements. Further explanation can be found in the Invitation to comment.

Section 12 – Fair value measurement

Illustrative examples

These examples portray hypothetical situations illustrating the judgements that might apply when an NPO measures assets and liabilities at fair value in different valuation situations. Although some aspects of the examples may be present in actual fact patterns, all the relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying Section 12.

Example 1 – Highest and best use (land)

An NPO receives land from a donor. The land is currently developed for industrial use as a site for a factory. The current use of the land is presumed to be its highest and best use unless market or other factors suggest a different use. Nearby sites have recently been developed for residential use as sites for high-rise apartment buildings. On the basis of that development and recent zoning and other changes to facilitate that development, the NPO determines that the land currently used as a site for a factory could be developed as a site for high-rise apartment buildings because market participants would take into account the potential to develop the site for residential use when pricing the land.

The highest and best use of the land would be determined by comparing both of the following:

(a) the value of the land as currently developed for industrial use (that is, the land would be used in combination with other assets, such as the factory, or with other assets and liabilities).

(b) the value of the land as a vacant site for residential use, taking into account the costs of demolishing the factory and other costs (including the uncertainty about whether the NPO would be able to convert the asset to the alternative use) necessary to convert the land to a vacant site (that is, the land is to be used by market participants on a stand-alone basis).

The highest and best use of the land would be determined on the basis of the higher of those values. In situations involving real estate appraisal, the determination of highest and best use might take into account factors relating to the factory's operations, including its assets and decommissioning or other liabilities.

Example 2 – Level 1 principal (or most advantageous) market

An asset is sold in two different active markets at different prices. An NPO enters into transactions in both markets and can access the price in those markets for the asset at the measurement date. In Market A, the price that would be received is CU26, transaction costs in that market are CU3 and the costs to transport the asset to that market are CU2 (that is, the net amount that would be received is CU21). In Market B, the price that would be received is CU25, transaction costs in that market are CU1 and the costs to transport the asset to that market are CU2 (that is, the net amount that would be received in Market B is CU22).

If Market A is the principal market for the asset (that is, the market with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, after taking into account transport costs (CU24).

If neither market is the principal market for the asset, the fair value of the asset would be measured using the price in the most advantageous market. The most advantageous market is the market that maximises the amount that would be received to sell the asset, after taking into account transaction costs and transport costs (that is, the net amount that would be received in the respective markets).

Because the NPO would maximise the net amount that would be received for the asset in Market B (CU22), the fair value of the asset would be measured using the price in that market (CU25), less transport costs (CU2), resulting in a fair value measurement of CU23. Although transaction costs are taken into account when determining which market is the most advantageous market, the price used to measure the fair value of the asset is not adjusted for those costs (although it is adjusted for transport costs).

Example 3 – Restriction on the sale of an equity instrument

An NPO holds an equity instrument (a financial asset) for which sale is legally or contractually restricted for a specified period (for example, such a restriction could limit sale to qualifying investors). The restriction is a characteristic of the instrument and, therefore, would be transferred to market participants. In that case the fair value of the instrument would be measured on the basis of the quoted price for an otherwise identical unrestricted equity instrument of the same issuer that trades in a public market, adjusted to reflect the effect of the restriction. The adjustment would reflect the amount market participants would demand because of the risk relating to the inability to access a public market for the instrument for the specified period. The adjustment will vary depending on all the following:

(a) the nature and duration of the restriction;

(b) the extent to which buyers are limited by the restriction (for example, there might be a large number of qualifying investors); and

(c) qualitative and quantitative factors specific to both the instrument and the issuer.

Example 4 – Restrictions on the use of an asset

A donor contributes land in an otherwise developed residential area to an NPO (neighbourhood association). The land is currently used as a playground. The donor specifies that the land must continue to be used by the association as a playground in perpetuity. Upon review of relevant documentation (for example, legal and other), the NPO determines that the fiduciary responsibility to meet the donor's restriction would not be transferred to market participants if the NPO sold the asset; that is, the donor restriction on the use of the land is specific to the NPO. Furthermore, the NPO is not restricted from selling the land. Without the restriction on the use of the land, the land could be used as a site for residential development. In addition, the land is subject to an easement (that is, a legal right that enables a utility to run power lines across the land). Following is an analysis of the effect on the fair value measurement of the land arising from the restriction and the easement:

(a) donor restriction on use of land: because in this situation the donor restriction on the use of the land is specific to the NPO, the restriction would not be transferred to market participants. Therefore, the fair value of the land would be the higher of its fair value used as a playground (that is, the fair value of the asset would be maximised through its use by market participants in combination with other assets or with other assets and liabilities) and its fair value as a site for residential development (that is, the fair value of the asset would be maximised through its use by market participants on a stand-alone basis), regardless of the restriction on the use of the land.

(b) easement for utility lines: because the easement for utility lines is specific to (that is, a characteristic of) the land, it would be transferred to market participants with the land. Therefore, the fair value measurement of the land would take into account the effect of the easement, regardless of whether the highest and best use is as a playground or as a site for residential development.

Example 5 – Donation of an asset that has a specification greater than required for operations

A donor provides the use of office space in a building that it owns, where the office space can only be used by the NPO. The building is in the centre of the town in a highly desirable location, which is not necessary for the NPO's operations. In other words, the specification of this office space is greater than is needed for the NPO's operations. The cost of this office space can be readily obtained as there is an active market for this type of office space.

As this office space cannot be sold or used by anyone else (sublet), the NPO cannot obtain revenue that approximates to the market value of the office space. The market value of the office space is therefore not relevant to the NPO and it is the service capacity that is relevant and needs to be measured. The fair value of the office space will therefore be determined with reference to office space that would meet operational needs of the NPO. The NPO is able to operate effectively with office space in an area of the town that is cheaper to lease. In this example, the NPO should use the market value of the office space that it would otherwise have used for operational purposes. The market value of the donated office space in this example is not relevant for the NPO in measuring the value of the donated office space.

Example 6 – Donation of services

A doctor based in country A uses some of their annual vacation to train a country B-based NPO on surgery techniques. The doctor based in country A donates this time and does not receive any remuneration from the NPO for this service.

The NPO determines the fair value of the service provided by the doctor with reference to the type of service provided (surgical training), location of the delivery (country B) and the timing (ie the year when it happened). The fair value should therefore reflect the salary/cost of a doctor with equivalent experience in country B. The actual salary of the doctor in Country A is not a factor in determining the fair value.

Section 19 – Business combinations and goodwill

Illustrative examples

The examples illustrate application of the guidance in paragraphs AG19.1–AG19.10.

Definition of a business (application of paragraph G19.3)

Example A – acquisition of real estate

Scenario 1 – Background

IG19.1 An NPO (Purchaser) acquires a portfolio of ten single-family homes that each have an in-place lease. The fair value of the consideration paid is equal to the aggregate fair value of the ten single-family homes acquired. Each single-family home includes the land, building and property improvements. Each home has a different floor area and interior design. The ten single-family homes are located in the same area and the classes of service users (for example, tenants) are similar. The risks associated with operating in the real estate market of the homes acquired are not significantly different. No employees, other assets, processes or other activities are transferred.

Scenario 1 – Application of requirements

IG19.2 Purchaser elects to apply the optional concentration test set out in paragraph AG19.3 and concludes that:

(a) each single-family home is considered a single identifiable asset in accordance with paragraph AG19.3 for the following reasons:

  (i) the building and property improvements are attached to the land and cannot be removed without incurring significant cost; and

  (ii) the building and the in-place lease are considered a single identifiable asset, because they would be recognised and measured as a single identifiable asset in a business combination.

(b) the group of ten single-family homes is a group of similar identifiable assets because the assets (all single-family homes) are similar in nature and the risks associated with managing and creating outputs are not significantly different. This is because the types of homes and classes of customers are not significantly different.

(c) consequently, substantially all of the fair value of the gross assets acquired is concentrated in a group of similar identifiable assets.

IG19.3 Therefore, Purchaser concludes that the acquired set of activities and assets (set) is not a business.

Scenario 2 – Background

IG19.4 Assume the same facts as in Scenario 1 except that Purchaser also acquires a multi-tenant corporate office park with six 10-storey office buildings that are fully leased. The additional set of activities and assets acquired includes the land, buildings, leases and contracts for outsourced cleaning, security and maintenance. No employees, other assets, other processes or other activities are transferred. The aggregate fair value associated with the office park is similar to the aggregate fair value associated with the ten single-family homes. The processes performed through the contracts for outsourced cleaning and security are ancillary or minor within the context of all the processes required to create outputs.

Scenario 2 – Application of requirements

IG19.5 Purchaser elects to apply the optional concentration test set out in paragraph AG19.3 and concludes that the single-family homes and the office park are not similar identifiable assets, because the single-family homes and the office park differ significantly in the risks associated with operating the assets, obtaining tenants and managing tenants. In particular, the scale of operations and risks associated with the two classes of customers are significantly different. Consequently, the fair value of the gross assets acquired is not substantially all concentrated in a group of similar identifiable assets, because the fair value of the office park is similar to the aggregate fair value of the ten single-family homes. Thus Purchaser assesses whether the set of activities and assets meets the minimum requirements to be considered a business in accordance with paragraphs AG19.4–AG19.10.

IG19.6 The set of activities and assets has outputs because it generates revenue through the in-place leases. Consequently, Purchaser applies the criteria in paragraph AG19.10 to determine whether any processes acquired are substantive.

IG19.7 Purchaser concludes that the criterion in paragraph AG19.10(a) is not met because:

(a) the set does not include an organised workforce; and
(b) Purchaser considers that the processes performed by the outsourced cleaning, security and maintenance personnel (the only processes acquired) are ancillary or minor within the context of all the processes required to create outputs and, therefore, are not critical to the ability to continue producing outputs.

IG19.8 After considering the only processes acquired, those performed by the outsourced cleaning, security and maintenance personnel, Purchaser also concludes that the criteria in paragraph AG19.10(b) are not met. Either of the following reasons justifies that conclusion:

(a) the processes do not significantly contribute to the ability to continue producing outputs.
(b) the processes are readily accessible in the marketplace. Thus, they are not unique or scarce. In addition, they could be replaced without significant cost, effort or delay in the ability to continue producing outputs.

IG19.9 Because none of the criteria in paragraph AG19.10 is met, Purchaser concludes that the acquired set of activities and assets is not a business.

Scenario 3 – Background

IG19.10 Assume the same facts as in Scenario 2, except that the acquired set of activities and assets also includes the employees responsible for leasing, tenant management, and managing and supervising all operational processes.

Scenario 3 – Application of requirements

IG19.11 Purchaser elects not to apply the optional concentration test set out in paragraph AG19.3 and therefore assesses whether the set meets the minimum requirements to be considered a business in accordance with paragraphs AG19.4–AG19.10.

IG19.12 The acquired set of activities and assets has outputs because it generates revenue through the in-place leases. Consequently, Purchaser applies the criteria in paragraph AG19.10.

IG19.13 Purchaser concludes that the criterion in paragraph AG19.10(a) is met because the set includes an organised workforce with the necessary skills, knowledge or experience to perform processes (ie leasing, tenant management, and managing and supervising the operational processes) that are substantive because they are critical to the ability to continue producing outputs when applied to the acquired inputs (ie the land, buildings and in-place leases). Furthermore, Purchaser concludes that the criterion in paragraph AG19.4 is met because those substantive processes and inputs together significantly contribute to the ability to create output. Consequently, Purchaser concludes that the acquired set of activities and assets is a business.

Example B – acquisition of a drug candidate

Scenario 1 – Background

IG19.14 An entity (Purchaser) purchases a legal entity that contains:

(a) the rights to an in-process research and development project that is developing a compound to treat diabetes and is in its final testing phase (Project 1). Project 1 includes the historical know-how, formula protocols, designs and procedures expected to be needed to complete the final testing phase.

(b) a contract that provides outsourced clinical trials. The contract is priced at current market rates and a number of vendors in the marketplace could provide the same services. Therefore, the fair value associated with this contract is nil. Purchaser has no option to renew the contract.

No employees, other assets, other processes or other activities are transferred.

Scenario 1 – Application of requirements

IG19.15 Purchaser elects to apply the optional concentration test set out in paragraph AG19.3 and concludes that:

(a) Project 1 is a single identifiable asset because it would be recognised and measured as a single identifiable intangible asset in a business combination.

(b) because the acquired contract has a fair value of nil, substantially all of the fair value of the gross assets acquired is concentrated in Project 1.

IG19.16 Consequently, Purchaser concludes that the acquired set of activities and assets is not a business.

Scenario 2 – Background

IG19.17 Assume the same facts as in Scenario 1 except that the acquired set of activities and assets also includes another in-process research and development project that is developing a compound to treat Alzheimer’s disease and is in its final testing phase (Project 2). Project 2 includes the historical know-how, formula protocols, designs and procedures expected to be needed to complete the final phase of testing. The fair value associated with Project 2 is similar to the fair value associated with Project 1. No employees, other assets, processes or other activities are transferred.

Scenario 2 – Application of requirements

IG19.18 Purchaser elects to apply the optional concentration test set out in paragraph AG19.3 and concludes that:

(a) Project 1 and Project 2 are identifiable intangible assets that would each be recognised and measured as a separate identifiable asset in a business combination.

(b) Project 1 and Project 2 are not similar identifiable assets because significantly different risks are associated with managing and creating outputs from each asset. Each project has significantly different risks associated with developing, completing and marketing the compound to customers. The compounds are intended to treat significantly different medical conditions, and each project has a significantly different potential customer base.

(c) consequently, the fair value of the gross assets acquired is not substantially all concentrated in a single identifiable asset or group of similar identifiable assets. Therefore, Purchaser assesses whether the set meets the minimum requirements to be considered a business in accordance with paragraphs AG19.4–AG19.10.

IG19.19 The acquired set of activities and assets does not have outputs because it has not started generating revenue. Thus, Purchaser applies the criteria in paragraph AG19.9. Purchaser concludes that those criteria are not met for the following reasons:

(a) the set does not include an organised workforce; and

(b) although the contract that provides outsourced clinical trials might give access to an organised workforce that has the necessary skills, knowledge or experience to perform processes needed to carry out the clinical trials, that organised workforce cannot develop or convert the inputs acquired by Purchaser into outputs. Successful clinical trials are a pre-condition for producing output, but carrying out those trials will not develop or convert the acquired inputs into outputs.

Consequently, Purchaser concludes that the acquired set of activities and assets is not a business.

Section 20 – Leases

Illustrative example

Example of applying paragraph G20.15(b):

NPO X operates in a jurisdiction in which the consensus forecast by local banks is that the general price level index, as published by the government, will increase by an average of 10% annually over the next five years. NPO X leases some office space from entity Y for five years under an operating lease. The lease payments are structured to reflect the expected 10% annual general inflation over the five-year term of the lease as follows

Year 1	CU100,000
Year 2	CU110,000
Year 3	CU121,000
Year 4	CU133,000
Year 5	CU146,000

NPO X recognises annual rent expense equal to the amounts owed to the lessor. If the escalating payments are not clearly structured to compensate the lessor for expected inflationary cost increases based on published indexes or statistics, then NPO X recognises annual rent expense on a straight-line basis: CU122,000 each year (sum of the amounts payable under the lease divided by five years).

Section 24 Part II – Classification of expenses

How should cost allocation be approached?

IG24.1 NPOs need to balance the benefits of greater accuracy with the costs involved when selecting methods of apportioning costs. A method should be reflective of the likely use of resources and made with reference to a quantifiable base.

IG24.2 Examples of bases for apportionment include:

- use of a resource or activity in terms of time taken, capacity used, or requests made;
- per capita, based on the number of people employed within an activity;
- floor area occupied by an activity; or
- time, where staff duties span more than one activity.

IG24.3 A measurement basis that takes account of floor area might be suitable for the apportionment of utilities, whereas a measurement basis that takes account of the number of people employed within an activity might be more useful for certain IT costs.

Illustrative examples

Example 1 – cost allocation

NPO A occupies an office building on a long-term lease. The lease provides for a payment of CU1,000 per month. Monthly lease costs are allocated, based on square metres occupied, to the NPOs activities as follows:

Direct costs – The costs of space occupied by staff whose salaries are charged directly to an activity are charged directly to that activity.

Support costs – The costs of space occupied by staff whose salaries are not directly charged to activities are apportioned to those activities based on the percentage of the NPO's operational budget those activities comprise.

Twenty-five percent of the floor space is occupied by staff whose salaries are charged to Activity A, 25% of the floor space is occupied by staff whose salaries are charged to Activity B and the remaining 50% of the floor space is occupied by support staff. Activity A is 20% of the NPO's operational budget and Activity B is 80%.

Activity A is allocated CU350 of the monthly lease expense.

Source	Amount	Workings
	CU	
Direct costs	250	25% of the floor space at CU1,000 per month.
Support costs	100	50% floor space at CU1,000 month (CU500), allocated based on the operational budget (20% of CU500).
Total cost	350	

Activity B is allocated CU650 of the monthly lease expense.

Source	Amount	Workings
	CU	
Direct costs	250	25% of the floor space at CU1,000 per month.
Support costs	400	50% floor space at CU1,000 month (CU500), allocated based on the operational budget (80% of CU500).
Total cost	650	

Example 2 – ex gratia payment

NPO B receives a CU50,000 bequest from the estate of a supporter who has passed away. It is aware, however, from written records that the supporter was amending their will at the time of their death, to reduce the payment to CU10,000 so that they could direct the other funds to a family member who requires the money for medical treatment. Although the will had not been amended at the time of death, the board of NPO B have determined that they have a moral obligation to uphold the supporter's wishes and transfers CU40,000 of the bequest to the supporter's family member.

Section 33 – Related party disclosures

Are members of a governing body such as trustees or board members related parties?

IG33.1 Yes. It is a common feature of NPOs in many jurisdictions that oversight and control of the NPO is ultimately exercised not by executive officers who are members of staff of the NPO, but by a separate governing body that is formed of individuals, often volunteers, who are not employed by the NPO. These can be known as trustees, board members, or similar.

IG33.2 Whether an individual is employed by the NPO or not is irrelevant for the purpose of deciding whether they are a related party under Section 33 *Related party disclosures*. If those individuals are providing oversight and have the ability to control or exert significant influence over the NPO, then they are related parties and the disclosure requirements of Section 33 apply to them.

Is a director of an NPO a related party?

IG33.3 Yes. Related parties include all governing body members and key management personnel. These individuals have authority and responsibility for planning, directing and controlling the activities of the NPO, directly or indirectly, and given the positions they hold this will include trustees or any director (whether executive or otherwise) of the NPO.

Section 36 – Fund accounting

When might a stakeholder have 'reasonable expectations'?

IG36.1 Determining whether a fund should be presented as with restrictions when there is no legal or equivalent arrangement will in most cases rest on management's view about whether stakeholders have a reasonable expectation that resources will be separately tracked and presented.

IG36.2 Factors to consider in assessing whether a stakeholder has a reasonable expectation in relation to a grant or donation made will include:

(a) the extent of the commitments or intention by the NPO to act in a particular way and the way in which it is communicated;
(b) whether external communication of commitments or intentions to act occur before or after resources have been provided or promised by a stakeholder;
(c) the nature of any preferences expressed by a grantor and previous experience of working with specific grantors;
(d) past practice by an NPO for similar transactions;
(e) the level of discretion that the NPO has about the use of the resources.

IG36.3 For example, in certain circumstances a grantor may express a form of non-binding preference as to the use of the funds. As these are preferences rather than requirements, they are not likely to create a reasonable expectation on the use of the resources by the stakeholder. In this case the funds shall be included as part of funds without restrictions. The NPO's governing body may designate the funds internally to reflect the donor's preferences. If, however, previous experience with this grantor is such that in substance the preferences are requirements, it may be appropriate to separately track the resources and show them as part of funds with restriction.

Why should internally designated funds be disclosed if they aren't a fund with restrictions?

IG36.4 An NPO's governing body may decide to designate its funds without restrictions for specific purposes. Such designation may be helpful when explaining how funds without restrictions are intended to be used. It can also be useful to explain the levels of funds without restrictions held, particularly if funds are being accumulated for a specific purpose. It can also be useful to explain the policy for holding funds without restrictions and the degree to which they act as a buffer against, or are sensitive to, external factors.

Illustrative examples

Example 1 – grantor funds the purchase of a truck

NPO A enters into an other funding arrangement for a specific outreach programme. It is given a grant of CU10,000 to purchase a truck, which it does at the end of year 0. The grantor requires that the truck is used only on a programme that is due to last for five years. At the end of the programme the NPO can use the truck on other activities. The truck is depreciated on a straight-line basis and has an expected life of ten years. The grantor's right to require the asset to be used on a specific outreach programme mean that the truck is presented as with restrictions. This shows that the truck is not available for general usage.

The NPO has no other activity other than the outreach programme.

Accounting

	Asset	Depreciation	Revenue
On acquisition	10,000		(10,000)
Year 1	(1,000)	1,000	
Year 2	(1,000)	1,000	
Year 3	(1,000)	1,000	
Year 4	(1,000)	1,000	
Year 5	(1,000)	1,000	

Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Funds with restrictions – Truck						
Year 0		10,000				10,000
Year 1	10,000		(1,000)			9,000
Year 2	9,000		(1,000)			8,000
Year 3	8,000		(1,000)			7,000
Year 4	7,000		(1,000)			6,000
Year 5	6,000		(1,000)		(5,000)	0
Funds without restrictions – General fund						
Year 5	1,000,000				5,000	1,005,000

The asset is transferred from funds with restrictions to funds without restrictions at the end of the programme as permitted under the agreement.

The NPO may be able to group this truck with other non-current assets that have restrictions as part of a single fund for non-current assets. A decision to group assets needs to take account of external requirements.

Example 2 – grantor part funds the purchase of a truck

The scenario is the same as example 1 except that the grantor only provides half of value of the truck, ie the grantor provides CU5,000 and the NPO makes up the balance.

The asset is shown as part of funds with restrictions even though it has been part funded by the NPO. This is because of the grantor's right about how the asset is used during the programme. Similarly, all of the depreciation is charged to the fund with restriction as the NPO is not freely able to use the truck and there may be no value in the truck at the end of the outreach programme.

The NPO's contribution will be shown clearly in year 1.

Accounting

	Asset	Depreciation	Revenue	Cash
On acquisition	10,000		(5,000)	(5,000)
Year 1	(1,000)	1,000		
Year 2	(1,000)	1,000		
Year 3	(1,000)	1,000		
Year 4	(1,000)	1,000		
Year 5	(1,000)	1,000		

Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Funds with restrictions – Truck						
Year 0		5,000			5,000	5,000
Year 1	10,000		(1,000)			9,000
Year 2	9,000		(1,000)			8,000
Year 3	8,000		(1,000)			7,000
Year 4	7,000		(1,000)			6,000
Year 5	6,000		(1,000)		(5,000)	0
Funds without restrictions – General fund						
Year 0	1,000,000				(5,000)	995,000
Year 1	995,000					995,000
Year 2	995,000					995,000
Year 3	995,000					995,000
Year 4	995,000					995,000
Year 5	995,000				5,000	1,000,000

Example 3 – grantor fully funds a truck with a right of return (NPO controls the truck)

The scenario is the same as example 1 except that the grantor is able to decide at the end of the programme whether the truck can be retained by the NPO for use on other programmes or if it must be disposed of, with the proceeds returned to the grantor. At the end of year 5 the grantor decides that the NPO can keep the truck.

The NPO has determined that it controls the truck and treats the truck as its own asset from the point at which it was acquired. The NPO depreciates the truck over the life of the agreement (five years), which is the period that the NPO is certain that it will control the truck, even if its working life might be expected to be longer. At the end of the agreement the truck is transferred to the NPO's general fund at its remaining book value.

Accounting

	Asset	Depreciation	Revenue
On acquisition	10,000		(10,000)
Year 1	(2,000)	2,000	
Year 2	(2,000)	2,000	
Year 3	(2,000)	2,000	
Year 4	(2,000)	2,000	
Year 5	(2,000)	2,000	

Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Funds with restrictions – Truck						
Year 0		10,000				10,000
Year 1	10,000		(2,000)			8,000
Year 2	8,000		(2,000)			6,000
Year 3	6,000		(2,000)			4,000
Year 4	4,000		(2,000)			2,000
Year 5	2,000		(2,000)		0*	0
Funds without restrictions – General fund						
Year 5					0*	0

Once the grantor has confirmed that the NPO can retain the truck, the NPO considers the remaining life of the truck and any residual value. If it determines that the life of the truck is longer, then there will be a lower depreciation charge in year 5. This will result in a balance on the asset, which would be transferred out of the fund for the truck into the general fund.

If the grantor had required the truck to be sold, any gain or loss would have been shown in other changes.

Example 4 – grantor fully funds a truck with a right of return (NPO does not control the truck)

The scenario is the same as example 3 except that the NPO determines that it does not control the truck. It therefore treats it as a leased asset. The NPO records an expense and a revenue in each final year such that the full cost of the truck is expensed over the period of the programme. At the end of the agreement the truck is transferred to the NPO at the fair value of the truck at that date. The fair value of the truck at the end of the agreement is CU4,000. The truck will be treated as a donation at the date it is transferred.

Accounting

	Income	Expense	Cash	Deferred revenue	Asset	Income
On acquisition			10,000	(10,000)		
Year 1	(2,000)	2,000		2,000		
Year 2	(2,000)	2,000		2,000		
Year 3	(2,000)	2,000		2,000		
Year 4	(2,000)	2,000		2,000		
Year 5	(2,000)	2,000		2,000	4,000	(4,000)

Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Funds with restrictions – Truck						
Year 0						
Year 1		2,000	(2,000)			0
Year 2		2,000	(2,000)			0
Year 3		2,000	(2,000)			0
Year 4		2,000	(2,000)			0
Year 5		6,000	(2,000)		(4,000)	0
Funds without restrictions – General fund						
Year 5	1,000,000				4,000	1,004,000

There will be no fund balances for the truck if the NPO does not control the truck as it has no asset.

Example 5 – Operating grant for outreach programme

NPO A enters into an other funding arrangement for an outreach programme. The NPO receives an operating grant of CU100,000 in each year to fund the programme. Expenses have a profile of CU50,000, CU80,000, CU125,000, CU135,000 and CU110,000 across the financial years.

Accounting

	Revenue	Expenses
Year 1	(100,000)	50,000
Year 2	(100,000)	80,000
Year 3	(100,000)	125,000
Year 4	(100,000)	135,000
Year 5	(100,000)	110,000

Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Funds with restrictions – Outreach programme						
Year 0						
Year 1		100,000	(50,000)			50,000
Year 2	50,000	100,000	(80,000)			70,000
Year 3	70,000	100,000	(125,000)			45,000
Year 4	45,000	100,000	(135,000)			10,000
Year 5	10,000	100,000	(110,000)			0

Example 6 – Operating grant and truck for the outreach programme are presented together

The scenario is a combination of example 1 and example 5, where as part of the same other funding arrangement there is a truck and a grant, which the NPO decides to present as one fund with restrictions.

Accounting for the truck and operational grant

	Asset	Depreciation	Revenue	Expenses
On acquisition	10,000		(10,000)	
Year 1	(2,000)	2,000	(100,000)	50,000
Year 2	(2,000)	2,000	(100,000)	80,000
Year 3	(2,000)	2,000	(100,000)	125,000
Year 4	(2,000)	2,000	(100,000)	135,000
Year 5	(2,000)	2,000	(100,000)	110,000

Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Funds with restrictions – Outreach programme						
Year 0		10,000				10,000
Year 1	10,000	100,000	(51,000)			59,000
Year 2	59,000	100,000	(81,000)			78,000
Year 3	78,000	100,000	(126,000)			52,000
Year 4	52,000	100,000	(136,000)			16,000
Year 5	16,000	100,000	(111,000)		(5,000)	0
Funds without restrictions – General fund						
Year 0	1,000,000					995,000
Year 1	995,000					995,000
Year 2	995,000					995,000
Year 3	995,000					995,000
Year 4	995,000					995,000
Year 5	995,000				5,000	1,000,000

The NPO is able to choose whether to present both parts of the grant together (operating grant and asset) or to separate out the assets so that it is in a separate fund. Separation of the truck from the operational activity may allow an NPO to explain what is happening in operational terms distinct from the related assets. Separating the assets may also allow the NPO to show how much of its property, plant and equipment or other assets are subject to restrictions.

Section 37 – Supplementary information

Why should I prepare a whole of NPO Supplementary statement?

IG37.1 Presentation of a whole of NPO information using the statement format included in INPAG Practice Guide 1 – Supplementary statements could be of benefit to many users. This presentation would include all supplementary information prepared under Section 37 and any other information already presented elsewhere in the general purpose financial statements.

Where does the information for a whole of NPO Supplementary statement come from?

IG37.2 The source of information to produce a whole of entity Supplementary statement will depend on how an NPO adopts the INPAG Guidance. Figure IG37.1 provides an illustration of the sources of information to meet the disclosure requirements.

Figure IG37.1

	Source
Income	
Grants and donations	Section 23 Part I
Other income *(by type)*	Section 5, Section 11, Section 23 Part II, Section 37
Total income	
Expenses	
Direct expenses	
Employment	Section 28
Travel and subsistence	Section 37 – if not separately disclosed in accordance with Section 24 Part II
Supplies and materials	Section 37 – if not separately disclosed in accordance with Section 24 Part II
Running costs, external services and other	Section 37 – if not separately disclosed in accordance with Section 24 Part II
Services in-kind and gifts in-kind	Section 23 Part I
Grants payable	Section 24 Part I
Support costs	Section 37 – if not separately disclosed in accordance with Section 24 Part II
Total expenses	
Foreign currency translation gains/losses	Section 5 and Section 30
Transfers	Section 36 and Section 37
Other financial movements	All sections
Change in grant [fund] balance	
Opening balance	Section 36
Closing balance	Section 36
Inventory and capital costs	
Total expenses	Section 24 Part I
Less: inventory expenses	Section 37 – if not separately disclosed in accordance with Section 24 Part II
Less: depreciation and/or amortisation charged	Section 17 and 18
Add: inventory costs incurred	Section 37
Add: capital costs incurred	Section 37
Expenses, inventory and capital costs	Section 37
Opening balance including inventory and capital costs	Section 37
Closing balance including inventory and capital costs	Section 37

Annex A – Illustrative financial statements

NPO A

Year ended 31 December 20X2

These financial statements have been prepared to illustrate common INPAG requirements for the primary financial statements and accompanying notes.

They do not illustrate all of the requirements of INPAG and do not cover all transactions or all types of NPO.

They should not be used as a checklist but as reference material to understand how the requirements of INPAG might be presented.

Specific matter for comment	
Question 4:	**References**
(a) Do you agree that the illustrative financial statements cover the transactions that are prevalent for NPOs? If not, which prevalent transactions are missing and why do these need to be covered?	Illustrative financial statements

Statement of Income and Expenses

	Note	Year ended 31 December 20X2	Year ended 31 December 20X1
		CU000s	CU000s
Income			
Revenue from grants and donations			
Enforceable grant arrangements	4,5	124	0
Other funding arrangements with restrictions	4,6	380	300
Other grants and donations	6	990	1,385
Donations in-kind	7	142	225
		1,636	1,910
Revenue from goods and services			
Respite care	8	392	500
Educational activities	8	150	80
		542	580
Other income			
Interest income		10	15
Total income		**2,188**	**2,505**
Expenses			
Operating expenses			
Staff costs	9	1,216	1,103
Value of services provided by volunteers	7	80	75
Rent, rates and utilities		165	131
Medical supplies	13	315	335
Research and development		96	25
Depreciation and amortisation	12	77	40
Impairment of inventories	13	–	5
Other expenses		179	178
		2,128	1,892
Expenses on grants and donations			
Grants expenses	10	100	200
Other expenses			
Interest expense	16,17,18	13	16
Total expenses	11	**2,241**	**2,108**
Operating surplus/(deficit)		**(53)**	**397**
Gain/(loss) on disposal of property, plant and equipment	12	(4)	2
Foreign exchange gain/(loss)	5	5	–
Total surplus/(deficit)		**(52)**	**399**

Statement of Financial Position

	Note	As at 31 December 20X2	As at 31 December 20X1
		CU000s	CU000s
Non-current assets			
Property, plant and equipment	12	1,028	1,080
Intangible assets	12	55	50
		1,083	1,130
Current assets			
Inventory	13	57	50
Work in progress – enforceable grant arrangement (EGA)	5	150	–
Prepayment – EGA	10	50	–
Other receivables	14	64	32
Cash	15	357	729
		678	811
Current liabilities			
Liabilities – EGA	5	18	70
Receipts in advance	8	48	–
Other liabilities	16,17	86	223
		152	293
Non-current liabilities			
Members' shares	18	45	40
Long-term loan	18	250	250
		295	290
Net assets		**1,314**	**1,358**
Funds			
Unrestricted funds	4	692	973
Restricted funds	4	614	385
Revaluation reserve		8	–
Net assets		**1,314**	**1,358**

Statement of Changes in Net Assets

	Note	Unrestricted funds	Restricted funds	Total restricted and unrestricted funds	Revaluation reserve	Total net assets
		CU000s	CU000s	CU000s	CU000s	CU000s
Opening balance at 1 January 20X1	4	**874**	**85**	**959**	**–**	**959**
Total surplus/(deficit) in the year	4	99	300	399	–	399
Closing balance at 31 December 20X1	4	973	385	1,358	–	1,358
Opening balance at 1 January 20X2	4	**973**	**385**	**1,358**	**–**	**1,358**
Total surplus/(deficit) in the year	4	(286)	234	(52)	–	(52)
Revaluation gains and (losses)	12	–	–	–	8	8
Movements from all income and expenses		(286)	234	(52)	8	(44)
Movement between funds	4	5	(5)	–	–	–
Closing balance at 31 December 20X2	4	**692**	**614**	**1,306**	**8**	**1,314**

There were no transfers between funds in 20X1.

Statement of Cash Flows

Direct method (option)	Note	Year ended 31 December 20X2	Year ended 31 December 20X1
		CU000s	CU000s
Operating activities			
Receipts from grants and donations	5,6	1,442	1,605
Receipts from goods and services	8	558	560
Interest receipts		10	15
Staff costs	9	(1,323)	(1,055)
Rent, rates and utilities		(170)	(101)
Medical supplies		(272)	(230)
Research and development		(96)	(25)
Grants made	10	(150)	(200)
Interest payments	16	(16)	(16)
Other payments		(236)	(171)
Net cash inflow/(outflow) from operating activities		**(253)**	**382**
Investing activities			
Payments for property, plant and equipment (PPE)	12	(65)	(235)
Payments for intangible assets	12	(10)	–
Receipt of grants for PPE	6	–	150
Receipts from disposals	12	46	52
Net cash outflow from investing activities		**(29)**	**(33)**
Financing activities			
Repayment of borrowings	16,17	(100)	–
Member shares redeemed	18	–	(5)
Member shares issued	18	5	15
Net cash inflow/(outflow) from financing activities		**(95)**	**10**
Movement in cash		**(377)**	**359**
Opening cash and cash equivalents		729	370
Movement if cash and cash equivalents		(377)	359
Foreign exchange differences		5	–
Closing cash and cash equivalents	15	**357**	**729**

Statement of Cash Flows

Indirect method option	Note	Year ended 31 December 20X2	Year ended 31 December 20X1
		CU000s	CU000s
Operating activities			
Total surplus/(deficit)		(52)	399
Non-cash income and expenses			
Depreciation and amortisation		77	40
(Gain)/loss on foreign exchange		(5)	–
Donations of property, plant and equipment (PPE)		(12)	(80)
Cash flows included in investing activities			
Gain/(loss) on disposal of PPE		4	(2)
Capital grant		–	(150)
Changes in operating assets and liabilities			
(Increase)/decrease in inventories		(7)	40
(Increase)/decrease in WIP		(150)	32
(Increase)/decrease in other current assets		(82)	(32)
Increase/(decrease) in other current liabilities		(4)	50
Increase/(decrease) in operational creditors		(12)	37
Increase/(decrease) in accruals		(10)	48
Net cash inflow/(outflow) from operating activities		**(253)**	**382**
Investing activities			
Acquisition of PPE	12	(65)	(235)
Acquisition of intangible assets	12	(10)	–
Receipt of grants for PPE	6	–	150
Disposals	12	46	52
Net cash outflow from investing activities		**(29)**	**(33)**
Financing activities			
Repayment of borrowings	16,17	(100)	–
Member shares redeemed	18	–	(5)
Member shares issued	18	5	15
Net cash inflow/(outflow) from financing activities		**(95)**	**10**
Movement in cash		**(377)**	**359**
Opening cash and cash equivalents		729	370
Movement if cash and cash equivalents		(377)	359
Foreign exchange differences		5	–
Closing cash and cash equivalents	**15**	**357**	**729**

Notes to the financial statements

Note 1: General Information

NPO A is established to carry out research into respiratory diseases and to support individuals and families who suffer from these diseases. Most of its activities are carried out in Country Z but it also has operations in Country Y and Country X. Its registered office is at 100 Main Street, Capital City, Country Z. It has been established in accordance with the legal requirements in Country Z.

The financial reporting year is from 1 January to 31 December.

Note 2: Material accounting policy information

Basis of preparation and accounting policies

These financial statements have been prepared in accordance with the International Non-Profit Accounting Guidance (INPAG) as directed by Country Z's regulator. They are presented in the currency units (CU) of Country Z.

All amounts are rounded to the nearest one hundred thousand CU. Use of a '0' represents amounts rounded down to zero. Use of '–' represents nil amounts. Tables may not add in all instances due to rounding.

Revenue recognition

Revenue from grants and donations is recognised in accordance with the nature of the grant or donation. Where revenue can only be recognised after satisfying the obligations imposed by the grant agreement, revenue is recognised as each obligation is satisfied, which may be over time or at a point in time. Amounts received prior to the obligations being satisfied are reported as a liability until each obligation is satisfied. Costs incurred in satisfying each obligation prior to amounts being received are reported as work in progress, and recognised as an expense when the revenue is recognised.

Revenue from grants that do not have such obligations is recognised when the amounts are received.

Revenue from the sale of goods is recognised when the goods are passed to the purchaser. Revenue from the sale of services is recognised when the services are delivered. Revenue is measured at the fair value of the consideration received or receivable.

Services received from volunteers

Services are received from volunteers to run the telephone counselling service. These services are critical to our mission. Mission critical services are recognised as revenue and an expense at the point they are received. The volunteer's time is valued at its fair value by reference to the market salary of a junior counsellor.

Where voluntary services are received that are not critical to our mission, these are not recognised as revenue and an expense, but are disclosed in the notes to financial statements.

Grant expense recognition

Grant expenses are recognised in accordance with the nature of the grant provided. Grants made where the recipient has to satisfy obligations imposed in the grant agreement are recognised as each obligation is satisfied, which may be over time or at a point in time. Amounts paid prior to the obligation being satisfied are reported as a prepayment until each obligation is satisfied. A liability is recognised for obligations that have been satisfied, in whole or in part, prior to payment being made.

Grants made where the grantee does not have to satisfy specific obligations before being entitled to the grant are recognised when the amounts are paid.

Taxation

NPOs registered with the regulator in Country Z are not subject to income tax.

Borrowing costs

All borrowing costs are recognised in surplus or deficit in the period in which they are incurred.

Property, plant and equipment

All items of property, plant and equipment except vacant land are measured at cost less accumulated depreciation and any accumulated impairment losses. Vacant land is revalued every annually by a professional property valuer.

Depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives, using the straight-line method. Assets are depreciated over the following periods:

Buildings: 40–60 years

Vehicles: 1–10 years

Equipment: 3–6 years.

If there is an indication that there has been a significant change in useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

Intangible assets

Intangible assets are comprised of specialised software and are recognised at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised over their useful life where they have a finite life using the straight-line method, or assessed for impairment where they have an indefinite life. The useful life of intangible assets is 3–10 years.

Impairment of long-life assets

At each reporting date, property, plant and equipment and intangible assets are reviewed for indications that those assets have suffered an impairment loss. If any such indication exists, the value in use of any affected asset is estimated and compared with its carrying amount. This takes account of the service potential of the asset. If the estimated value in use is lower than the current carrying amount, it is reduced to its estimated value in use amount and an impairment loss is recognised immediately in surplus or deficit.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its value in use. However, the carrying amount is not increased in excess of the amount had no impairment loss been recognised for the asset (or group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in surplus or deficit.

Inventories

Inventories are measured at the lower of cost and selling price less costs to complete and sell (or cost, adjusted for any loss of service potential (adjusted cost) where they are held for distribution to service recipients at no or nominal consideration). Cost is calculated using the first-in, first-out (FIFO) method.

Inventories of medical supplies can be received through donations. These donations often have a short shelf life and may not be used before expiry. Consequently, these items are only recognised as revenue and an expense when they are distributed to service recipients, or otherwise used.

Inventories are assessed for impairment by comparing the carrying amount of each item of inventory (or group of similar items) with its selling price less costs to complete and/or sell or adjusted costs for inventory held for distribution at no or nominal consideration. If an item of inventory is impaired, its carrying amount is reduced, and an impairment loss is recognised immediately in surplus or deficit.

Receivables

Receivables are measured at cost (ie the amount invoiced or due to be invoiced), except when the amounts are not expected to be received within one year. In such instances, receivables are measured at amortised cost using the effective interest method.

Bank loans

Interest expense is recognised on the basis of the effective interest method.

Internally designated funds

The governing body may limit the use of otherwise unrestricted funds, by designating them for a specific purpose. While these funds are allocated, the governing body may reverse its decisions at any point and transfer funds back to the general fund. They are therefore included within funds without restrictions.

Note 3: Key sources of estimation uncertainty and critical judgements

In applying our accounting policies, the governing body is required to make judgements other than those regarding estimates that have a significant impact on the amounts recognised in the financial statements. The governing body is also required to make estimates concerning future events, impacting the NPO's accounting policies and the reported amounts of assets, liabilities, income and expenses that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Actual results may deviate from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Any revisions to estimates are recognised prospectively.

Information about judgements and estimates made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements is included in the following notes:

Notes 5 and 10: Revenue from enforceable grant arrangements – grants (both received and paid) may impose obligations on the recipient, with revenue or expenses only being recognised when or as the obligations are satisfied. The governing body has made a detailed assessment and an examination of the obligations and made judgements for grant recognition including when grants are recognised over time or at a point of time. For grants that are recognised over time, estimates have been made for the percentage of the obligation that has been satisfied. This has required careful estimation based on output measures such as achieving an objective.

Note 12: Non-current assets – as the governing body has yet to determine how the vacant land which has been donated to the NPO will be used, it has decided to present the economic benefits in the asset and to measure it at fair value. In measuring the fair value of the asset as discussed in note 12 the valuer uses inputs other than quoted prices that are observable either directly or indirectly ie using level 2 inputs.

Note 4: Movement in funds

	Opening balance at 1 January 20X0	Income	Expenses	Other changes	Transfers	Closing balance at 31 December 20X2
	CU000s	CU000s	CU000s	CU000s	CU000s	CU000s
Funds with restrictions						
Enforceable grant arrangements						
Longitudinal study – Pandemic	–	54	(80)	–	–	(26)
Research database	–	70	(75)	5	–	–
Other funding arrangements						
Asthma research	–	100	(50)	–	–	50
COPD campaign	–	230	(30)	–	–	200
IT development	–	50	–	–	–	50
Bronchitis research	100	–	(10)	–	–	90
Emphysema research	50	–	(10)	–	–	40
Equipment	150	–	(30)	–	–	120
Other	85	12	(2)	–	(5)	90
Total funds with restrictions	**385**	**516**	**(287)**	**5**	**(5)**	**614**
Funds without restrictions						
Designated funds						
Capital improvement works	250	–	–	–	–	250
IT development	–	–	–	–	100	100
General fund	723	1,672	(1,954)	(4)	(95)	342
Total funds without restrictions	**973**	**1,672**	**(1,954)**	**(4)**	**5**	**692**
Total funds with and without restrictions	**1,358**	**2,188**	**(2,241)**	**1**	**–**	**1,306**

The balance on the enforceable grant arrangement for the longitudinal study is expected to be recovered. Any irrecoverable amount will be funded from funds without restrictions.

The transfer between restricted and unrestricted funds relates to a vehicle where the use restriction has expired.

	Opening balance at 1 January 20X1	Income	Expenses	Other changes	Transfers	Closing balance at 31 December 20X1
	CU000s	CU000s	CU000s	CU000s	CU000s	CU000s
Funds with restrictions						
Other funding arrangements						
Bronchitis research	–	100	–	–	–	100
Emphysema research	–	50	–	–	–	50
Equipment	–	150	–	–	–	150
Other	85	–	–	–	–	85
Total funds with restrictions	**85**	**300**	**–**	**–**	**–**	**385**
Funds without restrictions						
Designated funds						
Capital improvement works	250	–	–	–	–	250
General fund	624	2,205	(2,108)	2	–	723
Total funds without restrictions	**874**	**2,205**	**(2,108)**	**2**	**–**	**973**
Total funds with and without restrictions	**959**	**2,505**	**(2,108)**	**2**	**–**	**1,358**

Note 5: Revenue from enforceable grant arrangements

Revenue recognised in the year

	20X2 CU000s	20X1 CU000s
Longitudinal study – Pandemic	54	–
Research database	70	–
Total EGA revenue	**124**	**–**

On 1 April 20X2 a grant of CU1,000,000 was awarded by the government for a ten-year longitudinal study to examine the longer-term outcomes of the global pandemic. CU72,000 is payable on 1 April of each year to cover staff costs. The balance will be paid when the final report is accepted by the government. Revenue of CU54,000 (9/12 of the year) is recognised over time as it relates to staff employment.

A grant of CX50,000 was received on 1 December 20X1 from County X (CX being Country X's currency) for the development of a research database. The database was completed on 30 June 20X2. A change in the exchange rate between receipt and the date of completing the enforceable grant obligation (EGO) resulted in a foreign exchange gain of CU5,000.

Enforceable grant arrangement liabilities

	Research database CU000s	Longitudinal study CU000s
Balance 1 January 20X1	–	–
Amounts received in advance of EGOs being met	70	–
Balance 31 December 20X1	**70**	**–**
Amounts received in advance of EGOs being met	–	72
Revenue recognised when EGOs have been met	(70)	(54)
Balance 31 December 20X2	**–**	**18**

Work in progress

	CU000s
Balance 1 January 20X2	–
Expenses incurred on EGOs not yet complete	150
Balance 31 December 20X2	**150**

A government grant of CU300,000 was awarded in 20X2 to research the short-term impact of high pollution levels. This grant is payable once the report has been accepted by the government. At the end of 20X2 researchers estimated that the work was 75% complete. The report is expected to be accepted by December 20X3. Costs of CU150,000 have been incurred and these have been included as an EGA asset (work in progress). Work in progress is reviewed each year for impairment.

Note 6: Revenue from other funding arrangements (grants and donations)

Grants and donations with restrictions

	20X2 CU000s	20X1 CU000s
Asthma research	100	–
Bronchitis research	–	100
Emphysema research	–	50
Equipment	–	150
COPD campaign	230	–
IT development	50	–
Total grants and donations with restrictions	**380**	**300**

Funding for asthma research, bronchitis research and website development has been provided through restricted grants. The grant funding, and associated expenses, are reported in separate funds.

The fundraising campaign for research associated with chronic obstructive pulmonary disease (COPD) was launched in September 20X2. As part of the campaign, we committed to only using the funding raised for research on COPD. As a consequence the funds raised and the associated expenses are shown in a separate fund.

In 20X1, a donor provided funding to be used to purchase equipment to be used in medical research. The grant was used to fund the purchase of equipment in 20X1 (note 12).

Grants and donations without restrictions

	20X2 CU000s	20X1 CU000s
Government grants	315	1,135
Public donations	675	250
Total grants and donations without restrictions	**990**	**1,385**

Government grants have been provided to support our recurring expenditure. Government grants also include the effects of the interest free loan (see note 18). An additional grant of CU900,000 was provided in 20X1 as a consequence of the pandemic.

Public donations have been received through various means outside of campaigns for specific purposes. These donations may be used for any part of our mission.

Note 7: Donations in-kind

	20X2 Income CU000s	20X2 Expenses CU000s	20X1 Income CU000s	20X1 Expenses CU000s
Vacant land	–	–	80	–
Asthma medication	50	50	70	70
Counsellors	80	80	75	75
Minibus	12	2	0	0
Total donations in-kind	**142**	**132**	**225**	**145**

- **Vacant land –** A piece of land was donated in 20X1 to be used on any missional objective. There are no restrictions over how this land may be used and no decision has yet been made on whether the land will be used or sold.
- **Asthma medication –** 10,000 units of asthma medication were donated in 20X2 (20X1: 20,000 units). 8,000 units of medication were used and valued with reference to the market price, which reduces as the expiry date gets closer. Expenses are reported as part of medical supplies.
- **Counsellors –** Fifteen (20X1: 15) volunteers provide the counselling service. These volunteers operate on a rota overseen by a member of staff. Their services are critical to the provision of counselling to those suffering with respiratory diseases. As a consequence, the time donated by volunteers is recognised in the financial statements.
- **Minibus –** A minibus with a value of CU12,000 was donated to transport members to and from respite care. It is included in a fund with other grant funded assets that have restrictions in funds with restrictions. Depreciation of CU2,000 has been recognised as an expense in 20X2.

Amounts not recognised in the financial statements:

An overseas researcher provided voluntary services for three months during 20X2. We estimate that if this time had been provided by a local researcher the cost would have been approximately CU7,000.

Note 8: Revenue from goods and services

Revenue recognised in year	20X2	20X1
	CU000s	CU000s
Respite care	392	500
Education services	150	80
Total revenue from goods and services	**542**	**580**

Respite care is provided at a subsidised rate to members. Respite care is charged at a day rate. Some contracts for long-established clients are invoiced in arrears. Where contracts are invoiced in arrears, a contract asset (work in progress) is recognised for a proportion of the costs (based on the level of subsidy), with the remaining costs expensed as they are incurred. Once a period of respite care is complete, work in progress is recognised as a receivable.

Education courses and other education services related to our mission are also provided. While contracts are negotiated individually, all are charged at an agreed day rate, which are paid in advance of the services being provided.

Contract liabilities

	Respite care	Education services
	CU000s	CU000s
Balance 1 January 20X1	20	–
Amounts received	280	80
Amounts recognised as revenue	(300)	(80)
Balance 31 December 20X1	**–**	**–**
Amounts received	220	150
Amounts recognised as revenue	(172)	(150)
Balance 31 December 20X2	**48**	**–**

Note 9: Staff costs

	20X2	20X1
	CU000s	CU000s
Salaries and wages	875	750
Taxes	263	265
Pension costs	70	60
Other employee benefits	8	28
Total staff costs	**1,216**	**1,103**

Other employee benefits are for one-off bonuses made to members of staff for excellence. Bonuses in 20X1 were higher reflecting the exceptional performance during the global pandemic.

Note 10: Grant expenses

Grants made

	20X2	20X1
	CU000s	CU000s
Residential adjustment grants	50	200
Pollution research	50	–
Total grants made	**100**	**200**

Grants of CU50,000 (20X1: CU200,000) were made to qualifying individuals to purchase equipment to assist with residential adjustments for their ongoing wellbeing.

Enforceable grant arrangement assets

	Pollution research: Country Y	Pollution research: Country X
	CU000s	CU000s
Balance 1 January 20X2	–	–
Entitlements – payments made	50	50
Amounts recognised as expense (purpose met)	(50)	–
Balance 31 December 20X2	**–**	**50**

We entered into a grant arrangement in 20X2 with NPO B in Country X and NPO C in Country Y to carry out research into the short-term impacts of pollution in individuals with pre-existing respiratory diseases in Country X each for CU50,000. Payment of the grants was made when the agreements were signed. NPO B's grant requirements have not yet been satisfied and no expense has been recognised. The report by NPO C had been accepted and the expense has been recognised in full.

Note 11: Operating expenses

The Statement of Income and Expenses provides an analysis of expenses by nature.

Fundraising costs

Fundraising costs include CU30,000 (20X1: CU40,000) for the costs of the public campaign to raise funds for research associated with chronic obstructive pulmonary disease (COPD). These costs covered a social media campaign and a limited print media campaign with an advertorial in local newspapers and a limited TV advertising campaign in off-peak times. These costs have been funded from the donations received from the campaign. The costs comprise CU20,000 (20X1: CU37,000) of direct costs and CU10,000 (20X1: CU3,000) of shared staff costs based on time sheet recording.

Fundraising costs also include CU5,000 (20X1: CU22,000) for the cost of preparing applications for grants. During the year, six (20X1: ten) applications for grants were made, four (20X1: three) of which were successful. In none of these cases could the application costs be charged against the grant awarded. The costs were all shared staff costs based on time sheet recording.

All fundraising costs related to activities to raise donations, gifts, grants and similar transfers. There were no fundraising activities related to commercial trading or investment management and hence no costs. All fundraising costs were for the purpose of raising funds, but there were incidental benefits in terms of awareness raising. These cannot be quantified without undue cost or effort.

Losses, write offs and special payments

During 20X2 a non-contractual payment was made to a former employee. The employee has raised a grievance, which was subject to mediation processes. This was not successful. The governing body decided to settle the grievance without going through the full legal process based on the likely costs and the uncertainty of the outcome. No legal liability was accepted and a payment of CU10,000 was made.

Additional expense analysis[1]

	20X2	20X1
	CU000s	CU000s
Missional activities	2,052	1,912
Fundraising costs	35	62
Support costs	154	134
Total expenses	**2,241**	**2,108**

Missional activities are those activities that directly benefit those that use the services provided or activities that develop the understanding of respiratory diseases and their impact on individuals and their families. The main activities in 20X2 were as follows:

	20X2	20X1
	CU000s	CU000s
Respite care programme	413	575
Education and counselling services	150	80
Research into respiratory diseases	1,202	1,057
Research related to pandemic	205	–
Other	82	200
Total missional activities	**2,052**	**1,912**

Support costs include the costs of the finance, HR, facilities and IT teams as well as senior management. Support costs only include those costs that cannot be allocated to a missional activity or fundraising costs and are costs that support the entire operation of the NPO.

[1] This additional expense analysis is optional. It is an example of additional expense information that can be provided. This type of information is helpful to understand the cost of services on respite care and education services that have been subject to external charges.

Note 12: Non-current assets

	Land	Land (vacant)	Buildings	Vehicles	Plant and equipment	Total property, plant and equipment	Intangible assets
	CU000s	CU000s	CU000s	CU000s	CU000s	CU000s	CU000s
Cost or value							
As at 1 January 20X2	250	80	600	100	500	1,530	60
Additions	–	–	–	12	50	62	10
Revaluation gains/(losses)	–	8	–	–	–	8	–
Disposals	–	–	–	–	(100)	(100)	–
As at 31 December 20X2	250	88	600	112	450	1,500	70
Accumulated depreciation/amortisation							
As at 1 January 20X2	–	–	(100)	(50)	(300)	(450)	(10)
Charge for the year	–	–	(10)	(10)	(52)	(72)	(5)
Disposals	–	–	–	–	50	50	–
Closing balance 31 December 20X2	–	–	(110)	(60)	(302)	(472)	(15)
Net book values							
Brought forward at 1 January 20X2	250	80	500	50	200	1,080	50
Carried forward at 31 December 20X2	**250**	**88**	**490**	**52**	**148**	**1,028**	**55**

	Land	Land (vacant)	Buildings	Vehicles	Plant and equipment	Total property, plant and equipment	Intangible assets
	CU000s	CU000s	CU000s	CU000s	CU000s	CU000s	CU000s
Cost or value							
As at 1 January 20X1	250	–	510	90	450	1,300	60
Additions	–	80	90	10	150	330	–
Disposals	–	–	–	–	(100)	(100)	–
As at 31 December 20X1	250	80	600	100	500	1,530	60
Accumulated depreciation/amortisation							
As at 1 January 20X1	–	–	(90)	(42)	(328)	(460)	(10)
Charge for the year	–	–	(10)	(8)	(22)	(40)	0
Disposals	–	–	–	–	50	50	–
Closing balance 31 December 20X1	–	–	(100)	(50)	(300)	(450)	(10)
Net book values							
Brought forward at 1 January 20X1	250	–	420	48	122	840	50
Carried forward at 31 December 20X1	**250**	**80**	**500**	**50**	**200**	**1,080**	**50**

Vacant land was measured at fair value on recognition (1 September 20X1) and on 1 December 20X2 using professional property valuers ABC Valuers, Capital City, Country Z. There has been no significant change in land values between 1 December 20X2 and 31 December 20X2.

The fair value of land (vacant) uses inputs other than quoted prices that are observable either directly or indirectly and have therefore been categorised as using level 2 inputs.

	Level 1	Level 2	Level 3	Total
	CU000s	CU000s	CU000s	CU000s
Land (vacant)				
As at 31 December 20X2	–	88	–	88
As at 31 December 20X1	–	80	–	80

Vehicles include a minibus donated in 20X2 for the transport of members to and from respite care. This vehicle is limited to those purposes until it cannot economically function. The estimated value of the minibus when it was donated was CU12,000 and it has a net book value of CU10,000 at 31 December 20X2. The use restriction on another vehicle expired in 20X2. The net book value (CU5,000) of the vehicle has been moved from a fund with restrictions to a fund without restrictions.

Additions to intangible assets in 20X2 were funded by a donation by a corporate donor for the purposes of developing a new IT application as part of systems development. This is shown as a separate fund in Note 4 to the financial statements. Additions to equipment in 20X2 CU50,000 (20X1: CU50,000) for specialised medical equipment was funded by a specific grant. These are shown as a separate fund in Note 4. Cumulative depreciation/amortisation of these assets is CU11,000 (20X1: CU5,000).

In 20X2, assets with a net book value of CU50,000 were disposed of. Sales proceeds were CU46,000. In 20X1 the equivalent amounts were CU50,000 (net book value) and CU52,000 (proceeds).

In 20X1 the remaining useful lives of intangible assets was reviewed, with an extension of the lives previously used. The amortisation charge for 20X1 was less than CU1,000 and has been rounded to 0.

Note 13: Inventories

	Medical supplies	Consumables	Total
	CU000s	CU000s	CU000s
As at 1 January 20X2	40	10	50
Purchases	257	25	282
Donations	50	–	50
Utilised	(300)	(25)	(325)
As at 31 December 20X2	**47**	**10**	**57**
As at 1 January 20X1	75	15	90
Purchases	215	30	245
Donations	70	–	70
Utilised	(320)	(30)	(350)
Impairment	–	(5)	(5)
As at 31 December 20X1	**40**	**10**	**50**

Inventories are held solely for consumption in the provision of services.

2,000 units (20X1: 1,000 units) of donated inventory were approaching their expiry date and it is not certain they can be used. Consistent with the accounting policy they are not recognised until and unless they are used and are therefore not included within donated inventory in the year.

Note 14: Other receivables

	31-Dec-X2	31-Dec-X1
	CU000s	CU000s
Receivables from customers	64	32
Total other receivables	**64**	**32**

Note 15: Cash

	31-Dec-X2	31-Dec-X1
	CU000s	CU000s
Cash in foreign bank accounts	–	70
Cash at bank	357	659
Total cash	**357**	**729**

Note 16: Reconciliation of liabilities arising from financing activities

	Short-term loan	Long-term loan	**Total borrowing**
	CU000s	CU000s	**CU000s**
Balance at 1 January 20X1	103	250	**353**
Cash payments	(6)	(10)	**(16)**
Interest	6	10	**16**
Balance at 31 December 20X1	**103**	**250**	**353**
Cash payments	(106)	(10)	**(116)**
Interest	3	10	**13**
Balance at 31 December 20X2	**–**	**250**	**250**

Note 17: Other current liabilities

	31-Dec-X2	31-Dec-X1
	CU000s	CU000s
Borrowings	-	103
Operational payables	45	72
Accruals	41	48
Total other current liabilities	**86**	**223**

Note 18: Non-current liabilities

	31-Dec-X2	31-Dec-X1
	CU000s	CU000s
Balance 1 January	250	250
Interest expense	10	10
Interest paid	(10)	(10)
Balance 31 December	**250**	**250**

A ten-year bank loan of CU250,000 was taken out in 20X0 at a fixed rate of 4%. The loan is repayable in 20Y0.

Members shares

	31-Dec-X2	31-Dec-X1
	CU000s	CU000s
Members shares at 1 January	40	30
New shares	5	15
Refunds	–	(5)
Members shares at 31 December	**45**	**40**

Members shares provide the holder of those shares with the ability to access respite care and educational services and the right to appoint members to the governance board. Members shares do not give holders any rights to the net assets of the organisation. The value of the share is refunded when the holder leaves the respite scheme.

Note 19: Supplementary information

The whole of the entity supplementary information is set out below:

	Note	20X2 CU000s	20X1 CU000s
Income			
Grants and donations	4,5,6	1,636	1,910
Other income – sales of goods and services	8	542	580
Other income – interest income		10	15
Total income		**2,188**	**2,505**
Expenses			
Direct expenses			
Employment		1,216	1,103
Travel and subsistence		25	22
Supplies and materials		340	360
Running costs, external services and other		274	144
Services in-kind and gifts in-kind	7	132	145
Grants payable	10	100	200
Support costs	11	154	134
Total expenses		**2,241**	**2,108**
Foreign currency translation gains/losses	5	5	–
Other financial movements		4	2
Change in fund balances		**(44)**	**399**
Opening balance		**1,358**	**959**
Closing balance		**1,314**	**1,358**
Inventory and capital costs (optional)			
Total expenses		**2,241**	**2,108**
Less: inventory expenses		–	–
Less: depreciation or amortisation charged	12	(11)	(5)
Add: inventory costs incurred		–	–
Add: capital costs incurred		60	50
Expenses, inventory and capital costs		**2,290**	**2,153**
Opening balance including inventory and capital costs		**1,313**	**959**
Closing balance including inventory and capital costs		**1,220**	**1,313**

Supplementary statements that have been produced in accordance with INPAG Practice Guide 1 – Supplementary statements are published separately.

Note 20: Contingent liabilities

During 20X2, a service recipient initiated proceedings following an adverse reaction to medication provided during respite care. The claim is for CU20,000.

Legal advice is that the claim has no merit and it is being contested. No provision has been recognised in these financial statements as management has not deemed it probable that a loss will arise.

Note 21: Events after the reporting date

On 25 January 20X3 there was a flood in the respite care building storage area. The cost of refurbishment is expected to be CU36,000. The reimbursements from insurance are estimated to be CU16,000.

Note 22: Related party transactions

The total remuneration of key management personnel in 20X2 (including salaries and benefits) was CU105,000 (20X1: CU98,000).

Governing body members were not remunerated and had no out of pocket expenses in 20X2 or 20X1.

Note 23: Approval of financial statements

These financial statements were approved by the Board and authorised for issue on 10 March 20X3.

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