

Section 36 – Fund accounting

Scope of this Section

- G36.1 Fund accounting is one of the key concepts in this Guidance. All income and expenses are recorded against a fund to allow balances on a fund to be presented. As such, NPOs will have at least one fund. This fund can be known by a variety of terms, such as the general fund, accumulated fund, or general reserve. INPAS uses the term general fund. Unless other funds exist, the general fund will contain all the historic surpluses and deficits of an NPO.
- G36.2 This section sets out the characteristics of a fund for the purposes of INPAS and how each fund shall be presented in the **general purpose financial statements**.

Characteristics of a fund

- G36.3 A pre-requisite for fund accounting is an understanding by an NPO of the different funds it holds. A fund other than the general fund may exist for a variety of reasons. Most commonly it will be:
- (a) an operating choice by an NPO about how it manages itself;
 - (b) a requirement because of jurisdictional law relating to NPOs;
 - (c) a legal or equivalent requirement arising from arrangements with grantors or donors; or
 - (d) a result of the publicly communicated actions by the NPO that have created reasonable expectations that an NPO will use resources for a specific purpose.
- G36.4 For the purposes of INPAS a separate fund will exist where:
- (a) there is a legal or equivalent requirement to separately track resources and the use of those resources; or
 - (b) there are reasonable expectations by an individual stakeholder or a group of stakeholders that an NPO will track resources used for a specific set of activities.
- G36.5 An NPO shall keep separate accounting records for sets of activities identified in paragraph G36.4, comprising each fund's **income, expenses, non-financial assets, non-current liabilities** and any **assets or liabilities** relating to delivery obligations. An NPO shall track other current assets and current liabilities where the information is available without undue cost or effort. Maintaining separate accounting records allows an NPO to track resources.
- G36.6 An NPO shall determine whether it has only one fund or multiple funds. An NPO that does not identify any additional funds after applying paragraph G36.4 will have one fund which will be the general fund.
- G36.7 The income, expenses, assets, and liabilities recorded against each fund shall only relate to the activities undertaken to further the specific purposes of the fund. These can include direct costs, shared costs and support costs as defined in **Section 24** Part II.
- G36.8 Where a fund exists in accordance with paragraph **G36.4** it shall be presented as either a **restricted fund** or an **unrestricted fund**. An assessment shall be carried at each

reporting date to determine whether each individually identified fund shall be presented as a restricted funds (see paragraphs G36.9–G36.16) or an unrestricted funds (see paragraphs G36.17–G36.21).

Restricted funds

- G36.9 An NPO shall present a fund as a restricted fund when one of the following criteria are met:
- (a) use of the resources in the fund is limited to a specific purpose or activity because of an externally imposed legal or equivalent requirement. This includes the acceptance of privately communicated terms by the grantor or donor that limit the use of resources to a specific purpose or activity; or
 - (b) an NPO has made an externally communicated public commitment at or before the launch of a fundraising campaign that the NPO will use the resources obtained through the campaign for a specific purpose, creating a valid expectation on the use of resources.
- G36.10 Generally, revenue from contracts with customers will be part of an unrestricted fund and the transaction on its own will not be sufficient to create a restricted fund. However, a restricted fund may include multiple sources of funds including revenue from contracts with customers.
- G36.11 It is possible that an NPO has many individual funds that have restrictions. The number of funds will be determined by the operational requirements of each NPO. Figure IG36.1 sets out the key decision points.
- G36.12 A reasonable allocation of support costs associated with managing a fund shall be presented as part of a fund, even if inclusion of such costs is ineligible under the terms of any grant agreement that has resulted in the creation of a fund, or where such a grant agreement is part of a fund.
- G36.13 A restricted fund shall show all the transactions related to its specific purpose. The legitimate expenses attributable to a restricted fund shall be presented as part of the fund even if there is an insufficient balance on that fund at that time to fund all the expenses. An NPO shall only charge such expenses to the fund if the specific purpose for which the fund was created is not yet complete.
- G36.14 Negative balances shall be reviewed at the reporting date to determine if there is a temporary shortfall that will be addressed in a future **reporting period** or whether there is a permanent shortfall .
- G36.15 Where there is a realistic expectation that the NPO will receive future income to cover a shortfall or that it will incur additional expenses, the NPO shall carry forward the balance. Where future income is not likely to be received to cover the shortfall, the NPO shall make good the shortfall from its unrestricted funds and disclose the reasons for this shortfall in line with paragraph G36.26(c).

- G36.16 When a fund that was previously presented as a restricted fund is no longer required because the reason it was established no longer exists (eg purpose achieved or all funds used), any balance on the fund whether positive or negative shall be transferred to unrestricted funds and the fund closed where this is legally allowed. Where not currently legally allowed the NPO will continue to report the balance on the fund until it can be closed.

Unrestricted funds

- G36.17 Unrestricted funds are those funds that the governing body of an NPO can use at its discretion to further the NPO's missional purposes. The general fund is an unrestricted fund.
- G36.18 An NPO's governing body can internally designate funds for a specific purpose. This can include setting aside funds for a future project or commitment, such as investment in new equipment to deliver the NPO's missional objectives. The NPO shall present these internally designated funds as unrestricted funds as the NPO's governing body has the discretion to alter any such allocations.
- G36.19 Unrestricted funds shall include:
- (a) any fund that an NPO's governing body has created by internal designation by; and
 - (b) any other fund that is not presented as an unrestricted fund.
- G36.20 An NPO may receive a grant or donation where the grantor expresses a form of non-binding preference as to the use of the funds, which falls short of imposing a legal or equivalent requirement. Where this does not create a reasonable expectation on the use of the resources by the stakeholder, the NPO shall include the funds as part of unrestricted funds.
- G36.21 Reserves that result from the application of other sections of INPAG, such as the revaluation of **property, plant and equipment**, form part of an NPO's funds. NPOs shall treat these reserves as unrestricted unless any reserve movement relates to a restricted fund. In these circumstances an NPO shall split the reserve to show any element that is restricted. NPOs shall show these reserves separately to restricted funds and unrestricted funds.

Transfers between funds

- G36.22 A transfer between funds may only be made where this is legally permissible.
- G36.23 An NPO may make a transfer between restricted funds and unrestricted funds for several reasons, including:
- (a) to make good the shortfall on a restricted fund;
 - (b) to transfer a non-current asset that the NPO now holds for a general rather than a restricted purpose from a restricted fund;

- (c) where the grantor or donor releases the balance on a restricted fund to be used for any purpose; or
- (d) where the NPO can use the balance on a restricted fund for an alternative purpose without legal or regulatory consequences.

G36.24 The total transfers recorded between restricted funds and unrestricted funds in the reporting period shall always net to nil.

Disclosures

G36.25 In deciding on the most suitable form of presentation, an NPO shall consider the volume and complexity of the funds held by the NPO.

G36.26 The **notes** to the **financial statements** shall disclose:

- (a) information on individual fund balances, including the purpose of each fund;
- (b) details of the movements on funds during the reporting period, showing as a minimum total income, total expenses, total other changes, and movements between funds disaggregated by each fund required in paragraph G36.26(a), and reconciling the opening and closing fund balances;
- (c) details of the reasons for any transfers between restricted funds and unrestricted funds;
- (d) an explanation of balances on any restricted fund where the purpose of the fund has ceased and the balance has not or cannot be transferred to unrestricted funds; and
- (e) details of the planned use of any designated funds (where disclosed), explaining the purpose of the designation.

G36.27 NPOs may aggregate small funds that are individually immaterial where they have a similar purpose. If it is not possible to aggregate small funds they shall be shown individually.

Section 36 – Fund accounting

History and background

- BC36.1 The presentation of information in the financial statements is particularly important when resources can only be used for specific purposes. This was included as Issue 7: Financial Statement Presentation in Part 2 of the IFR4NPO Consultation Paper. Views were sought on how unrestricted and restricted funds should be presented in the main financial statements and notes (including reserves), the role of fund accounting and how any requirements might align with donor reporting requirements.
- BC36.2 The Consultation Paper proposed three alternatives as set out in the Basis for Conclusions to [Section 3](#) *Financial statement presentation*. Although there was no consensus as to the preferred alternative, accountability and meeting users' needs were highlighted as important issues. Responses suggested that fund accounting is essential to ensure the stewardship of restricted funds and provide clarity regarding funds that can be used at an NPO's discretion. However, some respondents suggested that fund accounting often results in more complex financial statements that readers find difficult to understand, and that it may not be suitable for all NPOs. In developing the material for ED1, specifically [Section 2](#) *Concepts and pervasive principles* and Section 3, fund accounting and the need to separate restricted funds and unrestricted funds was included with a supporting rationale. Following the responses received, the thinking in this area has been taken forward, and revised proposals developed.
- BC36.3 Fund accounting fundamentally relates to the presentation of transactions that are expected to be recorded in the Statement of Income and Expenses (unless they are required to be recorded directly in the Statement of Changes and Net Assets) between restricted funds and unrestricted funds. Where no separate fund to the general fund exists, transactions are generally expected to be presented as part of the General fund.

Characteristics of a fund

- BC36.4 The key focus of [Section 36](#) is to enable an NPO to identify the types of funds that it has and whether the funds that it has are available for it to use at its discretion or whether there are limitations that mean that funds can only be applied to specific purposes. The guidance acknowledges that not all NPOs will have more than one fund and NPOs may not have any restricted funds.
- BC36.5 A principles-based approach considers both what constitutes a fund, and subsequently whether the funds identified should be presented as part of restricted funds, or unrestricted funds.
- BC36.6 Criteria were developed for a fund to exist. The first drafts of these criteria were focused on the ability of an NPO to separately track resources and be able to separately record transactions for a specific set of an NPO's activities, whether for an internal or external purpose. TAG members were concerned whether NPOs could effectively opt out of fund accounting, particularly where an NPO encountered difficulties in maintaining separate records. Consequently, the principles have been framed so that it is the legal or

equivalent requirements and the reasonable expectations of stakeholders which are the key determinants of whether a separate fund exists or not.

- BC36.7 For all funds identified, there is a requirement that assets and liabilities must be capable of being shown separately as well as income and expenses. The Secretariat acknowledged that an NPO might be unable to track assets and liabilities for each separate fund. There is a balance to be struck between the transparency that arises from separately reporting resources and any additional cost that this might create. This requirement developed to mitigate against the need for less material transactions to be separately tracked and to avoid creating too large a burden for NPO's was tested in Exposure Draft 3 (ED3).
- BC36.8 Respondents to ED3 supported the tracking of assets and liabilities for each fund but raised concerns about the practical ability to do this, particularly for some current assets and liabilities. Respondents cited examples such as payroll control accounts, pooled bank accounts, vendor accounts, cash advances (where the recipient might be working on multiple activities) and prepayments, for example, of fuel for pool cars. Consequently some respondents suggested that the requirement for tracking assets and liabilities should be limited to non-financial assets and non-current liabilities. Respondents also noted that donors, who are expected to be key users of NPO financial statements are more interested in income and expenses.
- BC36.9 Taking account of this feedback a more nuanced approach has been adopted. The requirement to track assets and liabilities has been repositioned to require non-financial assets, non-current liabilities and assets and liabilities associated with delivery obligations to be tracked. The requirement to track other current assets and current liabilities has been retained but is only expected to be provided where the information is available without undue cost or effort.
- BC36.10 The criteria for a separate fund to exist hinges on a legal or equivalent requirement to separately track resources and their use or reasonable expectations that resources used for a specific set of activities will be tracked. Respondents to ED3 sought clarification on what was intended to be captured as an equivalent requirement and what would give rise to a reasonable expectation.
- BC36.11 The Implementation Guidance was updated to clarify that an equivalent requirement will exist when there is a mechanism through alternative processes that has the same effect as a legal mechanism. An equivalent requirement can also arise from a formal agreement that creates binding restrictions, regulatory expectations or quasi-legal arrangements with enforceability linked to reputational damage and religious law where this has the same effect as a legal requirement.
- BC36.12 Augmentations were also made to the guidance on reasonable expectations to provide additional factors to consider. The guidance reinforces that the existence of reasonable expectations needs to be assessed on a case-by-case basis reflecting the stakeholders involved and the specific context.
- BC36.13 There were also comments specifically about property, plant and equipment, with views that disclosure should be made of the aggregate amounts in restricted and unrestricted funds. There was also a request for disclosure of donated assets by location to allow

greater collaboration among donors, value for money, and transparency. The Secretariat was of the view that additional disclosures should be considered for [Section 17](#) *Property, plant and equipment* rather than for fund accounting.

BC36.14 Respondents to ED3 raised concerns about the application of materiality to this Section. In particular there were requests for the inclusion of a threshold below which a separate fund would not be required. As noted in [BC36.7](#), the intention in setting the INPAS requirements is that trivial funds need not be separately identified and disclosed in the financial statements.

BC36.15 The introduction of a threshold is problematic to create an outcome that is suitable for all NPOs. Implementation Guidance has been added that points to the materiality guidance in [Section 2](#), and that this can be used by NPOs to set their own threshold for what is clearly trivial and to assess smaller funds for materiality.

BC36.16 A TAG member was concerned about the potential for confusion about the relationship between fund accounting and reserves. Fund accounting is the requirement in INPAG to identify those funds that should be presented as part of restricted funds or unrestricted funds. Each fund includes the income and expenses related to the fund and any assets and liabilities. Consequently, it may have a brought forward and/or carried forward balance(s). The aggregated balances on these funds will be presented restricted funds or unrestricted funds in the accumulated funds (sometimes called reserves) of an NPO. INPAG therefore uses the term reserve only in connection with the specific sections of INPAG that require a reserve to be created. For example, a revaluation reserve will exist where an NPO uses the revaluation model for measuring its assets and it has valuation gains and losses. Similarly, a pension reserve will exist where an NPO has a defined benefit pension scheme to record changes in its values. These reserves are not able to be used for other purposes and are separate to the other funds held by an NPO.

Restricted funds

BC36.17 In developing this Section, consideration was first given to whether presentation could be determined from the type of arrangements defined in [Section 23](#) *Revenue* for the purposes of recognition, measurement and disclosure. [Section 23](#) distinguishes between grant agreements with delivery obligations, where the grant recipient has a present obligation to perform and grant agreements without delivery obligations, where the grant recipient does not have a present obligation to perform.

BC36.18 Initial proposals also looked at whether regulatory requirements should be a factor in determining whether transactions should be presented as restricted funds or unrestricted funds. This was discussed by a focus group established for this purpose and by the Practitioner Advisory Group. Both groups had concerns about such an approach. This was because requirements differ significantly globally and could lead to different treatments of similar activities across jurisdictions.

BC36.19 Both groups were concerned about whether the initial proposals would meet stakeholder expectations about which transactions appeared as part of restricted funds. Their feedback was that for stakeholders the substance of a transaction is more important than its form.

- BC36.20 Technical Advisory Group (TAG) members also had concerns about whether the type of arrangements in [Section 23](#) were a suitable basis to determine presentation. TAG members' concerns centred on obligations that don't create a present obligation but nevertheless limit how an NPO can use the resources provided.
- BC36.21 There were also questions about whether grant agreements with delivery obligations should be part of restricted funds as the rights and obligations are dealt with as part of assets and liabilities and do not create a fund balance. Given the substance of these obligations, the Secretariat's view is that grant agreements with delivery obligations are expected to be part of the restricted funds in the balance sheet, and that disclosure can be used to provide transparency over income and expense recognition. In addition, it is recognised that from time to time there may be an accounting balance related to a delivery obligation because there has been insufficient resources to fund the required activities or excess resources, which can then be applied to other purposes (where permitted to do so in accordance with the terms of the grant). Transparency of the impact of these types of arrangements is useful to users of the financial statements.
- BC36.22 TAG members discussed the moral and/or ethical requirements to use resources in a particular way. Some TAG members were concerned about the presentation of restricted or unrestricted funds being based on moral and/or ethical requirements. This is because NPOs have a moral and ethical requirement to use all of its resources for the NPO's missional objectives and practically it might be difficult to distinguish between different types of moral and/or ethical requirements. The Secretariat agreed with these concerns. TAG members subsequently agreed that the reasonable expectations of stakeholders would be a better way of distinguishing when resources should be separately identified and presented.
- BC36.23 TAG members agreed that where there is a legal or equivalent requirement over the use of resources in a fund that limits the purposes or activities for which these can be used, that it should be presented as part of restricted funds. This can include grants and donations where there is either a formal agreement or a private arrangement.
- BC36.24 There was significant discussion about the treatment of resources received from public fundraising campaigns for a specific purpose, particularly online campaigns and the nature of the obligation that arises. TAG members all agreed that there would be an expectation of separate treatment where a public commitment has been made that resources are to be used for the purpose for which the campaign was launched. Consequently, these should be included as part of restricted funds. The definition of eligible campaigns has been articulated so that it only applies where an externally communicated public commitment has been made and that commitment is made at or before the launch of the fundraising campaign.
- BC36.25 In the feedback from ED3, a respondent noted potential ambiguity around revenue from contracts with customers. The respondent noted that trading income from externally imposed legal or equivalent requirement, that meant that and NPO was required to provide specified goods and services could be argued as being (part of) a restricted fund. The intention in framing Section 36 was to focus the requirements on those transactions or arrangements where the grantor does not receive resources, goods or a services of approximately equal value in return for the resources provided. Fund accounting is

intended to provide transparency to the provider of these resources about how those resources are used. This is not necessary for a contract with a customer.

BC36.26 In considering this feedback it was noted that an NPO would be expected to have discretion about how it provides a good or service under a contract with a customer and how to apply the income earned. Even though the contract is legally enforceable, this discretion means that the revenue from this source is not considered restricted.

BC36.27 Showing all the expenses that are required to be incurred for the purposes of an individual fund is expected to provide important information to the users of an NPO's financial reports. Most respondents to ED3 agreed and were of the view that charging all legitimate expenses:

- provides a clear, complete and transparent view of the costs associated with the fund's specific purpose or activity for stakeholders and grantors;
- provides for proper accountability and allocation of expenses;
- provides clarity on cross subsidisation and direct financial support by the NPO;
- means stakeholders are aware of the total cost of implementing the activity.

BC36.28 Some respondents to ED3, however, raised concerns that including all such expenses might not be consistent with the expenses that are eligible for a grant agreement, and that by including these, this would have implications for reporting to donors. Some donor respondents were, however, of the view that including all legitimate expenses provides important information that is relevant for the ongoing dialogue between donors and grant recipients. These concerns also highlighted the potential for confusion between funds, grants and projects.

BC36.29 This terminology has been directly addressed in the Implementation Guidance. It makes clear that funds, grants and projects are different and that on occasion these can overlap in part or in full. TAG members recognised that this may provide practical challenges for NPOs if software limitations prevent the tagging of information for multiple purposes. Nevertheless, TAG members were of the view that being able to report against funds is necessary.

Unrestricted funds

BC36.30 The internal designation of reserves can typically be changed, subject to the approval of the governing body, and as such they do not create a permanent limitation on the use of resources by the NPO. INPAS allows for internally designated reserves to be identified as a fund but requires that such funds be presented as part of unrestricted funds.

BC36.31 Following feedback from respondents to ED3, the drafting relating to the internal designation of funds was revised to make clear that the internal designation can be made for any purpose. This means that the governing body can internally designate funds for a purpose internal to the NPO, or for an external purpose.

Disclosures

BC36.32 The information needs of users is a critical consideration. Feedback has been that it is important to understand the extent to which an NPO can use its funds for any of its

missional purposes (free reserves) and the extent to which resources can only be used for a specified purpose.

- BC36.33 As a consequence, disclosure requirements have been designed to show for each fund the income and expenses in the year as well as any brought forward and/or carried forward balances. These disclosures are intended to provide transparency about resources received and how they have been used. They also show any shortfalls or excesses on a fund and how such balances have been addressed together with an appropriate explanation. NPOs have consistently provided feedback on the importance of such information, particularly when shortfalls are funded from unrestricted funds.
- BC36.34 These disclosures will be important for NPOs that receive resources in one financial reporting period and use them in another financial reporting period or periods. With these disclosures, NPOs will be able to demonstrate the impact of such transactions on their surplus or deficit for the financial reporting period.
- BC36.35 Respondents to ED3 made various comments about additional disclosures that could be mandated. There is a risk that adding further disclosure requirements create a burden. The narrative report and the option to make voluntary additional disclosures that respond to an NPO's assessment of the needs of the users of its general purpose financial report can address this need. The intent of INPAS is to provide a minimum, consistent level of disclosure that is necessary for the primary users of an NPO's financial statements, and that reflects the cost benefit.
- BC36.36 Respondents to ED3 also commented on the disclosure of immaterial funds. This included whether aggregation would obscure important information. Guidance about immaterial funds, particularly focusing on the needs of the users of an NPO's general purpose financial report has been added to the Implementation Guidance.
- BC36.37 TAG members had mixed views about whether internally designated funds should be required to be separately identified on the face of the financial statements or in the notes. Given the potential usefulness of this information, internally designated funds have been included within the scope of the proposed disclosure requirements. This is because it can be useful for an NPO to show that it has set aside funds for a particular purpose and to show how it subsequently uses those funds.

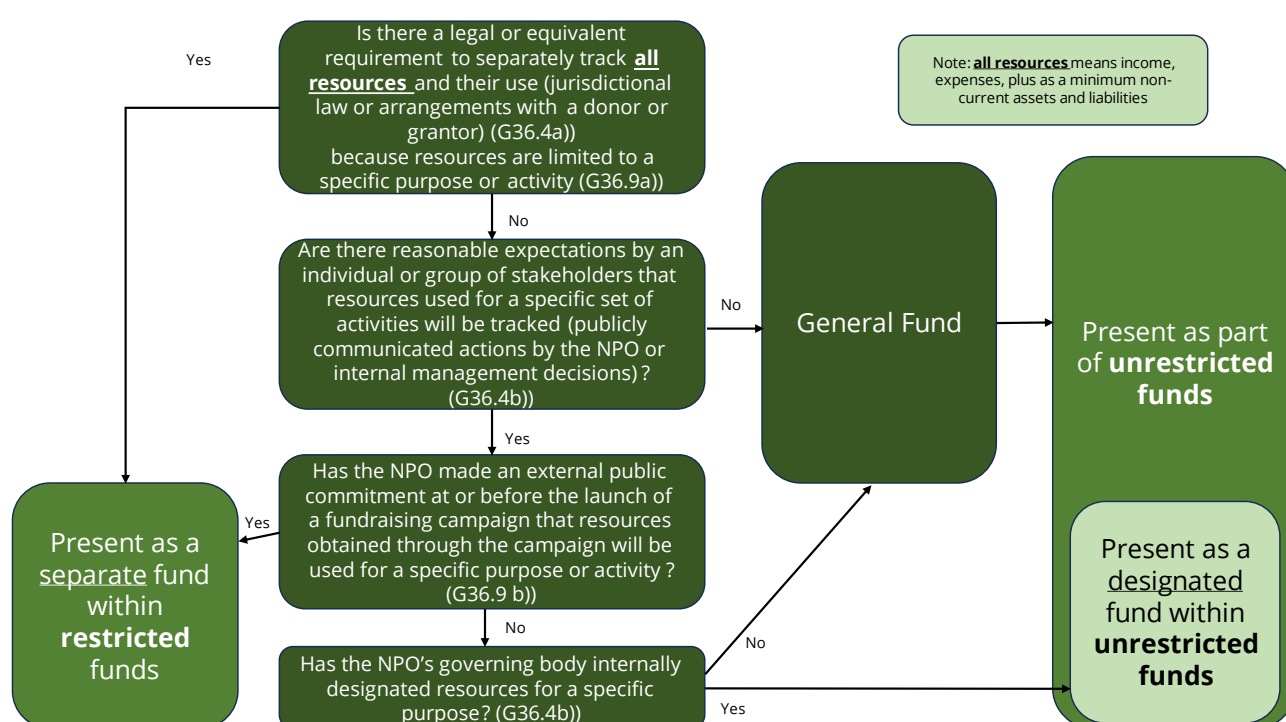
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Characteristics of a fund

When does a separate fund exist?

IG36.1 All of an NPOs income and expenses must be recorded against a fund. For simple organisations only a general fund may exist. NPOs needs to determine whether they have funds other than the general fund. It also needs to determine whether or not any of the funds it has identified are restricted funds. The decision tree in Figure Fig IG36.1 can assist in making the decisions.

Fig IG36.1 – Decision tree for the identification and classification of funds



IG36.2 Critically, an NPO will need to assess whether transactions that might require a separate fund are material. The guidance in paragraphs IG2.x to IG2.x of Section 2 Concepts and pervasive principles should be used to assess materiality.

IG36.3 In applying the guidance on materiality an NPO may set a financial threshold for transactions that might be clearly trivial for the purposes of determining whether a separate fund should be established. Setting such a threshold may assist in the application of the guidance, but NPOs will still need to consider if any of these transactions are material by nature and therefore need to be recorded separately.

IG36.4 Applying the materiality guidance will assist NPOs identifying where a smaller (but not clearly trivial) fund exists and aid decisions about whether a separate fund should be created.

IG36.5 A separate fund does not need to be established for each individual grant (see paragraphs IG36.3 to IG36.4), however, an NPO may choose to establish a separate fund for each grant, particularly if this simplifies reporting requirements if the criteria for a fund are met.

Is there a difference between funds, grants and projects?

IG36.6 NPOs can be asked for reports for a fund, a grant or a project. In INPAS there is only a requirement to report on a fund. However, to meet the requirements of INPAS, NPOs will need to record grants, and determine when and how to recognise grant revenue and grant expenses. INPAS Practice Guide 1: Supplementary information for donor reporting (Practice Guide 1) can be used to report on an individual grant or grouping of grants to an individual stakeholder. Use of Practice Guide 1 can provide transparency about the use of a grant and use of other resources needed to meet the purposes of a fund. A grant is not the same as a fund.

IG36.7 In INPAS these terms are used as follows:

Fund – all NPO transactions are recorded against a fund. A fund separate to the general fund exists where the criteria in IG36.4 have been met. **A fund is used to present accounting information.**

Grant – a grant arises where a grantor provides, or is obliged to provide, resources to a grant recipient (which may be an entity or individual) by transferring cash or a service, good or other asset to that grant recipient without directly receiving any cash, service, good or other asset in return. These requirements are often documented in a grant agreement that requires past or future compliance with specified terms. This can include requirements relating to activities or deliverables. **A grant results in one or more accounting transactions.**

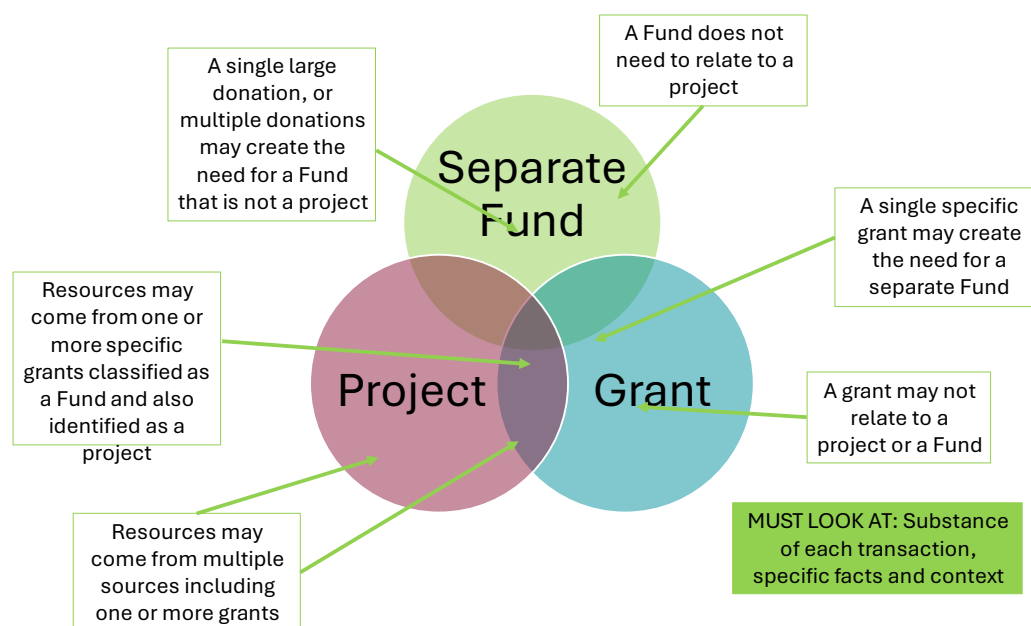
Project – a project is a time-bound endeavour that comprises a set of tasks or activities to arrive at a deliverable or to achieve specific goals. **A project is an internal reporting mechanism to report to an NPO's management.**

IG36.8 With these terms used for a specific purpose it is possible that:

- a single transaction may only need to be presented as a fund, recorded as a grant, or included in a project report
- a single transaction is a grant that is also part of a fund
- a single transaction is a grant that is part of a project
- transactions in a fund are being reported as part of a project
- a single transaction is a grant that is part of a fund that is being reported as a project.

The Venn diagram in Fig IG36.2 describes these relationships.

Fig IG36.2 – Relationship with funds, grants and projects



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When does an equivalent requirement exist?

- IG36.9 Consistent with a legal requirement, an equivalent requirement places obligations on at least one party to a transaction or arrangement. An equivalent requirement can arise from various mechanisms. These mechanisms may be through alternative processes that have the same effect as a legal mechanism. An equivalent requirement can arise from a formal agreement that creates binding restrictions even if not strictly legal restrictions, such as regulatory expectations or quasi-legal arrangements with enforceability linked to reputational damage. An equivalent requirement can arise from religious law where this has the same effect as a legal requirement.
- IG36.10 An equivalent requirement with respect to a grant agreement depends on the parties involved and the jurisdictions in which they are based. The practices and processes for establishing grant agreements, for example, vary across legal frameworks, jurisdictions, sectors and entities. In addition, they may vary within an NPO (for example, they may depend on the grantor or the nature of the requirements on the grant recipient).
- IG36.11 For a grant agreement to have an equivalent requirement to a legal requirement, the presence of an enforcement mechanism outside the legal system that is similar to the force of law without being legal in nature is required. This enforcement mechanism should establish the rights of both parties to complete their agreed obligations or be subject to remedies for non-completion.
- IG36.12 In some jurisdictions, NPOs may be subject to a form of regulatory oversight which, regardless of the legal basis, requires NPOs to act in accordance with defined rules and directives or potentially face censure. This broader regulatory oversight, with an ability to appeal to the regulator, may provide an enforcement mechanism that is equivalent to a legal requirement, even if the specific agreement is not legally enforceable.

- IG36.13 While regulators may act in this way in some jurisdictions, the existence of a regulator in itself may not lead to arrangements in these jurisdictions creating an equivalent requirement. This will depend on its remit and how it acts.
- IG36.14 In some jurisdictions public sector entities are not legally able to enter into agreements in their own name, only that of the government. Alternative processes with equivalent effect to legal arrangements such as executive orders or ministerial directives are in place to ensure that agreed-upon obligations in an agreement are enforceable.
- IG36.15 Public bodies may also have long-established policies and practices that create a legitimate expectation of how they will behave. These legitimate expectations will usually be enforceable through legal mechanisms such as a court ruling that means a public body will be required to act in a certain way.
- IG36.16 Oral agreements may arise from discussions between parties, such as where a grantor offers to transfer cash, goods, services, or another asset to a grant recipient, who has accepted the requirement to meet an obligation. Depending on the substance of the agreement, in some jurisdictions an oral agreement can be legally binding or be equivalent to a legal arrangement.

What information needs to be kept about a separate fund?

- IG36.17 Although each fund is not a separate **reporting entity**, separate accounting records must be kept within an NPO's accounting system. An NPO must be able to present each fund separately, even if it uses the ability to aggregate small funds as set out in paragraph **G36.27**. An NPO will be able to demonstrate its tracking of the use of resources in a fund through regular management reporting.
- IG36.18 Many grant agreements may meet the criteria to be a fund. Where a grant does meet the criteria to be accounted for as a separate fund, it is expected that an NPO is able to identify non-financial assets, work in-progress, and other grant specific asset and liabilities associated with each grant.
- IG36.19 Payables, receivables and **cash** associated with each fund should also be tracked where the information is available. While it may be possible to separately track payables, receivable and cash associated for each fund, to do so would require undue cost or effort that would outweigh the benefit to the users of the financial statements.
- IG36.20 NPOs will need to make an assessment about whether it can separate this information for each fund and the cost and effort of doing so. This is particularly relevant where at the end of the grant agreement it is possible that any remaining cash or other assets will need to be returned to the grantor or it needs to be identified so that it can be made available for other purposes.

When might a stakeholder have 'reasonable expectations'?

- IG36.21 A fund may exist where stakeholders have a reasonable expectation about how specific resources will be used. An external stakeholder will have a reasonable expectation that the use of resources will be separately accounted for where there is a legal or equivalent

requirement or where such an expectation can be derived from a specific public commitment.

- IG36.22 An internal stakeholder (those with authority within the NPO such as the governing body) will have a reasonable expectation on the use of resources when decisions have been made to designate funds for a specific purpose. This may create a separate fund even though it is not a restricted fund.
- IG36.23 Determining whether a fund should be presented as a restricted fund 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.
- IG36.24 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, including whether these actions have resulted in the recognition of a constructive obligation;
 - 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;
 - f) NPO's practice in communicating with the public including its use of social media and verbal commitments made in public;
 - g) financial dependency on a specific stakeholder (taking account of past practice or the nature of the relationship).
- IG36.25 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 unrestricted funds. The NPO's governing body may internally designate the funds 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 restricted funds.
- IG36.26 An NPO may use social media to promote its mission. An NPO will need to assess whether announcements or messages on social media create reasonable expectations by those using the social media channel. Whether a reasonable expectation is created will depend on how social media is used by the NPO and the reliance place on it. For example, does social media form a connection to the majority of the NPO's key stakeholders, does the NPO normally use social media for making its announcements, who has made the social media post and their position in the NPO. Social media is frequently used to amplify announcements made through other channels but may not in all cases be sufficient on its own to create reasonable expectations. This will need to be assessed on a case by case basis.

IG36.27 The same is true of verbal commitments made in a public forum. It is the ability to rely on such announcements that is key. If an NPO regularly uses public forums to announce its intentions, but this frequently does not result in a follow up action, stakeholders are less likely to be able to rely on these. However, if a public forum is used to launch a campaign and this is followed up by additional activities, such as a 'sign up' page on a website, this may be sufficient.

IG36.28 Whether stakeholders could have formed a reasonable expectation on the use of resources requires professional judgement. It needs to be assessed on a case-by-case basis reflecting the stakeholders involved and the specific context/fact pattern.

Restricted funds

When does a restriction arise?

IG36.29 INPAG [Section 2](#) defines restricted funds as:

Funds that are required to be expended, invested or retained by the NPO for a specific purpose or activity because of externally imposed legal or equivalent arrangements placed on the NPO by a resource provider, or arising from an external public commitment in relation to a specific fundraising campaign.

IG36.30 As a consequence a restriction arises where resources can only be lawfully used for a specific purpose or a grantor or donor requires that the resources it provides are applied to specific purposes, activities, assets or resources. Grant agreements with delivery obligations impose such restrictions.

IG36.31 These requirements limit in varying degrees the choices that an NPO can make about how to achieve its missional objectives. Grant agreements without delivery obligations may or may not include constraints that reduce an NPO's operational choices.

IG36.32 Grant agreements without delivery obligations may or may not result in a separate fund that may or may not be assessed as being a restricted fund. It is the substance of a transaction rather than legal form that will determine whether it is presented as a restricted fund. The presentation requirements are independent of the accounting treatment, which is dependent on the existence of a present obligation.

IG36.33 Where an NPO makes an external public commitment about the use of resources at or before fundraising commences, the campaign shall be shown as a restricted fund. This commitment creates a valid/reasonable expectation and places a specific moral and/or ethical obligation on the NPO to treat the resources as part of restricted funds. In some jurisdictions it may also result in a regulatory obligation. Where an external public commitment is not made at or before fundraising commences, any fund created is not likely to be a restricted fund.

IG36.34 The existence of an external public commitment to use resources generated through a fundraising campaign for a specific purpose shall not on its own create a **contingent liability**. For a contingent liability to exist the criteria for the creation of a contingent liability as set out in [Section 21](#) *Provisions and contingent liabilities* must be met.

IG36.35 Non-current assets may be funded through a fundraising campaign, or through a grant or donation. NPOs will need to consider whether such assets are part of a restricted fund or an unrestricted fund, based on any terms attached to the acquisition of the asset. This includes whether the terms require an asset to be held on an on-going basis for a specific purpose, or whether the restrictions are met once the specified asset is acquired. Where the terms are met once the asset is acquired and it can subsequently be used for any purpose, the asset will be transferred from a restricted fund to an unrestricted fund where legally allowed.

Does revenue from a contract with customers result in a restricted fund as meeting the obligation results from a legal requirement?

IG36.36 NPOs will get its resources from several sources. This includes revenue from sales that it makes. This income will come from a contract for the provision of goods or services rather than a grant agreement. The NPO usually has discretion about how it provides the good or service and how to apply the income earned. Even though the contract is legally enforceable, this discretion means that revenue from this source would not create a restricted fund.

IG36.37 There may be occasions where revenue from a contract with a customer is applied to a restricted fund, because the restricted fund has multiple sources of funding. The allocation of this revenue to the restricted fund will be at the NPO's discretion rather than a requirement.

What expenses can be recorded against an individual fund?

IG36.38 The costs recorded against each fund can include direct, shared and support costs associated with the activities undertaken. The allocation of shared costs and support costs follows the principles set out in Section 24 Part II *Classification of expenses*. As set out in [G36.13](#) legitimate costs need to be allocated even where grant agreements define certain costs as ineligible. Including all legitimate costs provides transparency about the total costs of the activities in a fund.

IG36.39 Different terms can be used to describe expenses. This can include allowable costs, eligible costs, ineligible costs and legitimate costs. In INPAS these terms are used as follows:

Allowable costs: Permitted, eligible and allocable expenses for the purposes of delivering the requirements in the contract or grant.

Eligible costs: Costs that qualify for funding under a specific grant, contract, or funding agreement. Eligibility is determined by the grantor or donor and is usually outlined in funding guidelines. However, even if a cost is eligible, it must still meet allowability rules to be reimbursed.

Ineligible costs: Expenses that have been incurred that are specifically excluded from being claimed under a grant or other funding agreement.

Legitimate costs: Costs properly (lawfully) and reasonably incurred in connection with a project or a fund. Legitimate costs include the direct, shared and support costs associated with a project or fund.

IG36.40 Allowable costs, eligible costs and legitimate costs that relate to a fund's purpose are expected to be included in the transactions for that fund. Costs that are ineligible for the purposes of a grant agreement may be a legitimate cost for presentation and inclusion as part of a fund. Ineligible costs that are not legitimate costs cannot be included in a fund.

IG36.41 A fund may have resources contributed from more than one source. This could include grants that limit the use of resources, and grants that have no limitations on the use of resources as well as from the NPO's own resources (unrestricted funds). Any fund that meets either of the criteria in paragraph G36.9 will be a restricted fund irrespective of the source of funds.

What if there is a balance on a restricted fund at the financial reporting date?

IG36.42 There may be circumstances where there is a difference between the income and expenses recognised against a fund. Where there is a realistic expectation that future income will be received to cover a shortfall or that additional expenses will be incurred, the balance will be carried forward.

IG36.43 If additional expenses beyond the original resources provided are required to complete the specific purpose for which the fund was established, these shall be charged to the fund, even if it may take several years to complete the activities for which the specific fund is established.

IG36.44 Where there is a positive balance on a fund, this is expected to be carried forward to the next financial reporting period until the activities in the fund have ceased (see IG36.x).

Transfers between funds

What if there is a balance on a restricted fund when all the activities are complete?

IG36.45 If a grant covers all expenses and there is no shortfall or excess on a fund, this will enable a fund to be promptly closed when the activities are complete. Communication with the grantor will be important to enabling the prompt closing of funds where a balance remains.

IG36.46 Where there is an excess on a fund an NPO will need to confirm with the grantor whether the balance can be used for any other purpose. Where the grantor agrees that the NPO can use the excess for any purpose, the balance will be transferred to an unrestricted fund.

IG36.47 Where there is a shortfall on a fund an NPO will need to approach the grantor to ascertain whether it will provide additional funds to cover the shortfall. If the grantor declines to cover the shortfall, the NPO will need to determine whether it can find alternative funding from another grantor. If the NPO obtains an additional grant to cover the shortfall, it can assess the shortfall as temporary and carry forward the balance until the additional grant is paid and the shortfall removed. However, if no alternative source of funding is likely, then the NPO will need to transfer funds from its unrestricted funds to make up the difference, where this is legally allowed.

IG36.48 In some jurisdictions, legislation or regulations may prevent the transfer of any surplus or deficit on a restricted fund to an unrestricted fund. Where this is the case any balance on a restricted fund cannot be transferred until the NPO can legally make such a transfer.

Disclosures

How do the disclosures assist users of the financial statements?

IG36.49 The existence of a balance on a fund can provide important information to the users of the financial statements. NPOs can choose how to order the information to meet the needs of the users of its financial statements. For example, it might be more important to present unrestricted funds before restricted funds or the other way around.

IG36.50 Although explanations are not required of all restricted fund balances at the financial reporting date, providing explanations might be useful. Disclosures related to restricted funds will enable an explanation of **timing differences** between the recognition of income and expenses. NPOs are encouraged to use these disclosures to explain an NPO's **surplus or deficit** for the period.

IG36.51 Explanations of how an NPO plans to address a shortfall on a fund, including how additional funds might be sought or proposals to reallocated resources can be useful. This can provide assurance to stakeholders such as donors that the NPO has good financial management processes in place.

IG36.52 NPOs are expected to have a policy in place that targets what it needs for financial resilience, including to unexpected events. Transparency over unrestricted funds is likely to play an important role to understand the financial resilience of an NPO and may form part of calculations carried out for these purposes. This can feed into an important part of the narrative about an NPO's financial situation.

IG36.53 The disclosure set out the minimum information that an NPO needs to provide in relation to funds, the movements on funds and the balances on funds at the financial reporting date. NPOs can go beyond these disclosures where this provides information that the NPO has assessed as being useful to the users of its general purpose financial report. Disclosures can be made in the financial statements or can form part of the narrative report. An NPO will need to consider how any additional information is presented to maximise its value to the users of its general purpose financial report.

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

IG36.54 An NPO's governing body may decide to designate its restricted funds for specific purposes. Such designation may be helpful when explaining how restricted funds are intended to be used. It can also be useful to explain the levels of unrestricted funds held, particularly if funds are being accumulated for a specific purpose. It can also be useful to explain the policy for holding unrestricted funds and the degree to which they act as a buffer against, or are sensitive to, external factors.

Are there additional disclosures if a restricted fund relates to a grant agreement with delivery obligations?

IG36.55 Delivery obligations in a grant agreement that meet the criteria for a fund are expected to be presented as part of restricted funds because of the requirements in the grant agreement. Transactions associated with delivery obligations that are yet to be satisfied, will be included within assets and liabilities.

IG36.56 Disclosure of the income and expenses relating to delivery obligations in the movement on funds note provides transparency over the delivery obligations met in the reporting period. Information about material delivery obligations is required to be disclosed in accordance with **Section 23 Part I Revenue from grants and donations**.

When should funds be aggregated for disclosure in the financial statements?

IG36.57 NPOs are permitted to aggregate small funds that are individually immaterial where they have a similar purpose. An NPO may decide that where a fund would be individually immaterial to not establish a separate fund in the first instance. However, a separate fund may be required where the fund is material by nature and also an NPO may choose to establish a fund for immaterial amounts.

IG36.58 Where an NPO only has small funds, a single aggregation may not provide useful information to the users of the financial statements, even if the funds have a similar purpose. NPOs need to consider what information would be useful to the users of its financial statements when determining how to aggregate small funds.

IG36.59 NPOs need also to consider whether any restrictions that relate to a small fund are individually significant and therefore need to be separately disclosed.

Illustrative examples

Classification of funds

Context: NPO A has averaged income and expenses of CU 8 million over the last 5 years. Amounts vary by year but have never been lower than CU 6 million or higher than CU 10 million. It provides support to impoverished communities including through education, food aid and water security.

The NPO has identified several transactions where a separate fund may be required. The NPO first assesses whether the transaction is material. For any transactions assessed as immaterial, no further analysis is required, however, an NPO may choose to establish a fund. For material funds the NPO assesses whether there is a legal or equivalent requirement or whether there are reasonable expectations. Based on this assessment the NPO determines if there is a fund and if so whether it is restricted. The assessment may depend on other factors, which need to be considered before a final assessment is made.

	Scenario	Material	Legal or equivalent requirement	Reasonable expectations	Possible classification
1	A grant agreement for CU250,00 with a requirement to deliver a distinct service. A report is required by the donor of expenses incurred.	Probable	Probable		Restricted
2	The NPO receives 10% of its income through zakat, mandatory funds provided annually by adult Muslims to help those less fortunate than themselves. Use of the funds is governed by Islamic law.	Probable	Yes		Restricted
3	The government has introduced a new law that all resources provided for water security must be separately tracked.	Yes	Yes		Restricted
4	Grants from several stakeholders plus a contribution of the NPO's own resources are being made for a project to develop an education programme for mental health. This is one of many projects being carried out.	Possible	Possible	Possible	Depends on the fact pattern
5	A grant agreement for CU30,000 with a requirement to achieve a specified outcome. A report is required by the donor of expenses incurred	Unlikely			Unrestricted (a separate fund is not required if not material)
6	The NPO's governing body decides to put aside CU3 million for the redevelopment of its estate to be spent over the next 5 years. The governing body has asked for quarterly updates on progress and the resources used.	Probable		Yes	Internally designated fund (unrestricted)
7	A donation of shares and cash is estimated to be worth CU750,000 by a donor that is actively involved in the NPO's network. The donor expressed a preference for their donation to be used to renovate facilities owned by the NPO.	Probable	No	Possible	Unrestricted if there are no reasonable expectations
8	a) A fundraising campaign announced with the purpose of raising funds for a specified natural disaster raised funds of CU2million. Funds not used for the natural disaster can be used by the NPO for any of the NPO's purposes.	Yes	No	No	Unrestricted
	b) As above except the NPO has specified that the funds can only be used for the specified natural disaster.	Yes	No	Yes	Restricted

Presentation of funds

Example 1 – grantor funds the purchase of a truck

NPO A enters into a grant agreement 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
Restricted funds – Outreach Programme Capital Asset Fund						
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
Unrestricted funds – General fund						
Year 5	1,000,000				5,000	1,005,000

The asset is transferred from restricted funds to unrestricted funds 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 so that it has one fund for all non-current assets with restrictions. A decision to group assets needs to take account of external requirements.

The use of a single fund for non-current assets may be useful where, for example, the grantor is funding several programmes and the truck can be used on any of these. Where the grantor allows the truck to be used for other unrelated purposes, the NPO will need determine whether the truck is in substance part of a restricted fund (for example, if the alternative use is incidental, it may in substance be restricted).

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 the value of the truck ie the grantor provides CU5,000 and the NPO makes up the balance.

The asset is shown as part of restricted funds 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 is shown 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
Restricted funds – Outreach Programme Capital Asset Fund						
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
Unrestricted funds – 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 it is 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
Restricted funds – Outreach Programme Capital Asset Fund						
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
Unrestricted funds– 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 results in a balance on the asset, which would be transferred out of the Outreach Programme Capital Asset Fund 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. Where it does not control the asset, the asset does not appear on its Statement of Financial Position. 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 is 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
Restricted funds – Outreach Programme Capital Asset Fund						
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
Unrestricted funds – General fund						
Year 5	1,000,000				4,000	1,004,000

There are no fund balances for the truck if the NPO does not control the truck as the NPO does not have an asset.

Example 5 – Operating grant for outreach programme (no shortfall)

NPO A enters into a grant agreement to provide 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, CU 80,000, CU125,000, CU135,000 and CU110,000 across the financial years. There are no donor imposed conditions other than the funds are to be spent on the outreach programme. Unspent funds in one year are eligible to be spent in subsequent years. This is a grant agreement without a delivery obligation for the grant recipient.

Accounting

	Revenue	Expenses
On acquisition	(10,000)	
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
Restricted funds – Outreach Programme Fund						
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

NPO A has a positive balance on the fund in years 1-4. The NPO reviews the balance at the end of the financial reporting period and carries it forward to the next financial reporting period as the purpose for the Fund is ongoing and the activities of the Fund are not yet complete.

Example 6 – Operating grant for outreach programme (shortfall)

NPO A enters into a grant agreement to provide an outreach programme. The NPO receives an operating grant of CU100,000 in each year to fund the programme. Expenses have a profile of CU120,000, CU 80,000, CU80,000, CU110,000 and CU120,000 across the financial years. There are no donor imposed conditions other than the funds are to be spent on the outreach programme. Unspent funds in one year are eligible to be spent in subsequent years. This is a grant agreement without a delivery obligation for the grant recipient.

Accounting

	Revenue	Expenses
On acquisition	(10,000)	
Year 1	(100,000)	120,000
Year 2	(100,000)	80,000
Year 3	(100,000)	80,000
Year 4	(100,000)	110,000
Year 5	(100,000)	120,000

Presentation

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Restricted funds – Outreach Programme Fund						
Year 0						
Year 1		100,000	(120,000)			(20,000)
Year 2	(20,000)	100,000	(80,000)			-
Year 3	-	100,000	(80,000)			20,000
Year 4	20,000	100,000	(110,000)			10,000
Year 5	10,000	100,000	(120,000)			(10,000)

NPO A has a negative balance on the fund at the end of year 1. The NPO reviews the balance at the end of the financial reporting period and concludes that the balance is because of start-up costs and the grants to be paid in future financial periods will be sufficient to cover the shortfall. At this point the NPO assesses that the total amount of the grant will cover all its costs.

Therefore, it determines that the shortfall is temporary and therefore the negative balance can be carried forward.

At the end of years 2-4 NPO has either nil balance or a positive balance. It carries this balance forward to the next financial reporting period as the purpose of the Fund is ongoing and the activities of the Fund are not yet complete.

At the end of the outreach programme in year 5, NPO A has a negative balance, with overall costs exceeding the grant paid. NPO A has approached the grantor to provide additional funds to cover the additional costs. The grantor has declined to pay the additional costs. NPO A has no realistic possibility of getting an alternative grant to cover these costs. If NPO A could have obtained an additional grant it could assess the shortfall as temporary and carry the balance forward. However, as no alternative source of funding is likely, NPO A determines that this is a permanent shortfall and transfers funds from its unrestricted funds to make up the difference.

	Opening balance	Income	Expenses	Other changes	Transfers	Closing balance
Restricted funds – Outreach Programme Fund						
Year 0						
Year 1		100,000	(120,000)			(20,000)
Year 2	(20,000)	100,000	(80,000)			-
Year 3	-	100,000	(80,000)			20,000
Year 4	20,000	100,000	(110,000)			10,000
Year 5	10,000	100,000	(120,000)		10,000	(10,000)
Unrestricted funds – General fund						
Year 5	1,000,000				(10,000)	900,000

Example 7 – 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 grant agreement there is a truck and an operating grant, which the NPO decides to present as one restricted fund .

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
Restricted funds – Outreach Programme Fund						
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
Unrestricted funds – General fund						
Year 0	1,000,000					1,000,000
Year 1	1,000,000					1,000,000
Year 2	1,000,000					1,000,000
Year 3	1,000,000					1,000,000
Year 4	1,000,000					1,000,000
Year 5	1,000,000				5,000	1,005,000

The NPO can choose whether to present both parts of the grant together (operating grant and asset) or to separate out the truck 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 asset. Separating the asset may also allow the NPO to better show how much of its property, plant and equipment or other assets are subject to restrictions.