INTERNATIONAL FINANCIAL REPORTING FOR NON PROFIT ORGANISATIONS

Technical Advisory Group
Issue Paper

AGENDA ITEM: TAGFG04 – 02
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Section 36 Fund Accounting (Response to ED3 - way forward)

Summary	This paper provides an analysis of the consultation responses to the Specific Matters for Comment (SMCs) relating to Section 36 *Fund accounting* and sets out initial approaches and responses from the Secretariat.
Purpose/objective of the paper	The purpose of this paper is to provide an analysis of the responses to the SMCs on Section 36. It seeks the views of TAG members on the points raised in the feedback and the Secretariat's proposed response to this feedback. The responses to this paper will be used to make any amendments to Section 36 and the associated Implementation Guidance.
Other supporting items	N/A
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Actions for this meeting	**<u>Advise on</u>**: i. Whether to retain the proposal that funds with restrictions and funds without restrictions are not required on the face of the Statement of Income and Expenses; ii. Whether additional guidance and/or examples relating to the criteria for a fund should be added; iii. The approach to providing guidance on materiality for Section 36; and iv. The development of additional Implementation Guidance and Illustrative Examples.

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Section 36 Fund accounting (Response to ED3 - way forward)

1. Introduction

1.1 This paper:

- provides a summary of the consultation responses to the Specific Matters for Comment (SMCs) relating to Section 36 *Fund accounting* – see also Appendix A.
- sets out the options and proposals to address the feedback.
- seeks TAG members' advice on the issues raised in the feedback in order to finalise this Section.

2. Introduction

2.1 Section 36 *Fund Accounting* specifies the requirements for fund accounting. This is a new section that establishes criteria for any funds separate to the general fund. It requires that the income, expenses, assets and liabilities for a fund can be identified and tracked. Section 36 also proposes criteria to identify when a fund should be presented as a fund with restrictions and when it should be presented as a fund without restrictions.

2.2 In addition to these principles Section 36 provides guidance on which costs are to be charged against a fund, how to deal with transfers between funds and disclosure requirements.

2.3 Exposure Draft 3 included a Specific Matters for Comment (SMCs) with 7 sub questions that related to the proposals for fund accounting. The ED3 survey also included questions relevant to fund accounting. Feedback to the survey questions are summarised in Annex A and have been included in the relevant section of this report.

2.4 There was a significant amount of feedback to these SMCs. There was majority support for all of the proposals, but the degree of support varied between the questions. Sections 3-9 below set out the feedback to each SMC. Extracts from comments not specifically addressed in Sections 3-9 are included in Appendix E. One respondent disagreed with mandating fund accounting and provided this response to all of the questions.

3. Presentation of funds with and without restrictions on the Statement of Income and Expenses – SMC 1 a)

3.1 Section 36 proposed the inclusion of a new mandatory note that requires disclosure of the movements of material funds in the financial reporting period. The Movement in Funds note provides a breakdown of the income, expenses and other changes in material funds over the period. With this development, ED3 proposed that the mandatory requirement to show funds with restrictions and funds without restrictions on the face of the Statement of Income and Expenses be removed, although this can be presented where this provides information is useful to the users of an NPO's financial statements.

3.2 Thirty six respondents to SMC1a) (65%) supported the proposal that the mandatory requirement for funds with and without restrictions on the face of the Statement of Income and Expenses is removed. Eighteen respondents (33%) disagreed with the proposal with one further respondent (2%) who neither agreed nor disagreed. While a significant number of respondents disagreed with the proposal, the key points were about which approach best supports transparency around funds and having sufficient disclosures.

3.3 Eleven respondents that agreed, 13 respondents that disagreed and 1 respondent that neither agreed nor disagreed commented on matters relating to transparency. Those that agreed welcomed the simplification and were of the view that it would declutter the Statement of Income and Expense and together with the Movement of Funds note would aid transparency. The respondent that neither agreed nor disagreed noted that the revised proposal provides flexibility that enables an NPO to tailor their reporting to better meet the needs of the users of their financial statements. They also noted that this could impact the consistency and comparability of NPO financial information.

3.4 The respondents that disagreed cited reasons around the fundamental importance of restricted and unrestricted funds, that their presentation on the face of the Statement of Income and Expenses would aid transparency and not including them would have the potential to impact the 'fair and faithful presentation' of an NPO's results. Comments included concerns about the ability to explain the surplus or deficit in a period, the ability to understand the resources available to an NPO, having the information 'at a glance', and compliance with donor and regulatory requirements.

3.5 A respondent that agreed cautioned that a single surplus or deficit result for a reporting period could be misrepresented. They suggested that if the Statement of Changes in Net Assets was presented first this might mitigate the risk as it would provide early sight of the position on funds with and without restrictions. Another respondent requested that a summary of the composition of the funds is presented on the face of the Statement of Income and Expenses.

3.6 There is clearly a balance to be struck. Some respondents are of the view that transparency is improved by removing the mandatory requirement because it declutters the Statement of Income and Expenses and makes it easier for users to understand. Other respondents have the view that transparency is impacted by the removal of the mandatory requirement because not presenting information on fund performance on the face of the primary statement removes information that users may find useful to understand the result for the period.

3.7 The Secretariat has considered the feedback related to transparency. It is of the view that the Statement of Income and Expenses when taken together with the Movement of Funds note and disclosures related to individual funds (subject to the review of disclosures proposed by the Secretariat) provide sufficient transparency over funds with and without restriction. This information would allow also comparability.

3.8 However, given the feedback about possible misunderstanding and the desire to get an early high level view of funds with and without restrictions the Secretariat explored with the PAG the benefit to having a summary of funds with and without restrictions on the face of the Statement of Income and Expenses (as set out in Appendix B).

3.9 PAG members views included that introducing an additional table cluttered the Statement of Income and Expenses and a cleaner statement was preferable. A donor perspective was offered that suggested that donors might prefer information on the face of the Statement of Income and Expenses. One PAG member supported the reordering of the financial statements so that the Statement of Changes in Net Assets comes first. In a small survey of PAG members just over 40% supported the summary information, but less than a third supported that summary information should be mandatory. The majority of the PAG members that provided feedback in the meeting were of the view that any additional information should be optional, and that NPOs should consider how best to explain its financial results for the period.

3.10 Having considered the feedback from PAG members, the Secretariat does not propose to mandate any fund information on the Statement of Income and Expenses, but proposes to add further guidance to the Implementation Guidance to illustrate how an NPO could present financial information.

3.11 INPAG allows the financial statements to be presented in any order as long as they are given equal weight. The primary statements in the Illustrative Financial Statements are currently presented in the order in which they appear in INPAG. The Secretariat proposes to add a note the Illustrative Financial Statements to explain this approach and that NPOs should present their primary statements in an order that is most useful to the users of its financial statements.

3.12 Some respondents requested additional disclosures. Respondents requested more detailed information about the nature and purpose of restrictions and conditions. The Secretariat is of the view that these requests are substantially addressed in the Section 23 disclosure requirements as exemplified in the Illustrative Financial Statements. The Secretariat proposes to review the disclosures in Section 23 alongside the disclosures in this Section to ensure that collectively they appropriately address the concerns raised.

3.13 One donor respondent supported the proposals, particularly as they see their forward focus as a grant-maker being on an NPO's expenditure rather than on individual grants. This respondent expressed interest in additional non-financial information such as headcount information to support the expense information. The Secretariat is of the view that this can be considered in the development of narrative reporting. Another donor respondent requested more information on unrestricted donations.

Question 1: Do TAG members agree that the proposal to not require the presentation of any information about funds with and without restrictions on the face of the Statement of Income and Expenses?

Question 2: Do TAG members agree that the proposed approach to the ordering of the financial statements is sufficient? What are TAG members views on the location of disclosures, recognising that as currently drafted, information about funds could be in more than one place?

4. Identification of funds – SMC 1b)

4.1 Forty-five (83%) respondents to SMC 1 b) agreed that the guidance in Section 36 will ensure that material funds can be identified. Three respondents (6% respondents) disagreed and six respondents (11%) neither agreed nor disagreed. Nine respondents did not answer this question.

4.2 There were a number of supportive comments, including that Section 36 was robust and well-designed. Feedback related mostly to the criteria themselves, materiality and the application of the guidance to immaterial funds. Respondents suggested that the guidance could include more detailed examples, provide clearer definitions around subjective concepts, and offer additional tools for NPOs to follow when identifying and classifying funds.

4.3 The majority of respondents that commented on the definition of the criteria were of the view that the guidance would ensure that material funds can be identified. The decision tree was found to be helpful. One respondent that agreed noted that there is a risk of misapplication (particularly around reasonable expectations) and that more complex organisations may not identify, or misclassify funds.

4.4 Another respondent also provided feedback related to reasonable expectations. They raised the need to balance maintaining consistency over time with user needs. It is assumed that they are concerned that what is a 'reasonable expectation' may change over time. As overall the criteria had strong support and these concerns were only raised by two respondents, no changes are proposed to the approach of using reasonable expectations to identify funds. Comments on reasonable expectations are further considered further in paragraphs 6.8-6.9.

4.5 One respondent that neither agreed nor disagreed was of the view that equivalent arrangements should be clarified to include religious norms. They cited the example of Zakat funds, which is relevant in many Islamic jurisdictions. The norm for these funds is that they can only be distributed for consumption to specific recipients (even if the activities and timing are determined later) and that this creates a restriction. They were of the view that including an example would be helpful.

4.6 Another respondent that neither agreed nor disagreed proposed to replace 'equivalent requirement' with 'obligatory requirement' on the basis that this is more likely to be understood. This respondent also proposed amendments to the drafting of paragraphs G36.1, G36.4 a) and G36.4 b. The Secretariat does not support these suggestions, but they will be useful in the further development of implementation guidance about 'equivalent requirements'. The proposals and the Secretariat's detailed responses are in Appendix C. The Secretariat agrees that it would be helpful to provide an example of a Zakat Fund .

4.7 One respondent that neither agreed nor disagreed agreed that internally designated funds are not restricted funds, but did not support the disclosure of internally designated funds. This was on the basis that internally designated funds are internal matters and management's ability to change its decisions may obscure other information presented. The Secretariat continues to be of the view that this is important information and as this was not raised by other respondents, does not propose to remove these requirements.

4.8 A number of respondents commented on the application of materiality. A respondent that disagreed was concerned that there was a risk that some funds wouldn't get identified and that further guidance was needed on materiality. A respondent that neither agreed nor disagreed also recommended additional guidance and illustrative examples to better explain how to apply materiality, aggregation and disaggregation principles, and undue cost and effort. This was also supported by respondents that agreed. An auditor respondent noted that an NPOs interpretation of what constitutes 'a material fund' could vary. Suggestions for specific illustrative examples and/or application guidance have been included in Appendix D.

4.9 The Secretariat considers materiality to be a pervasive issue and in principle is minded not to repeat materiality guidance across INPAG sections. Building on the discussion at the last TAG meeting, the Secretariat proposes that additional general guidance is included in Section 2 *Concepts and pervasive principles*, drawing on the IASB's Practice Note 2 on making materiality judgements. The Secretariat will consider whether there is specific materiality guidance that is relevant to the application of materiality for this section. The Secretariat will also consider illustrative examples to demonstrate the application of materiality in the context of this Section.

4.10 Respondents also commented on matters related to immaterial funds. A concern was raised that aggregation would obscure important restrictions tied to smaller funds. One respondent suggested that smaller funds be disclosed if they present a significant amount of fund activity, or that there is an aggregate disclosure of immaterial funds. One respondent suggested a threshold for aggregation of smaller funds.

4.11 INPAG allows the aggregate disclosure of immaterial funds and does not preclude detailed disclosure of smaller funds where this provides information that is useful to users of the financial statements. As noted in previous TAG discussions introducing a threshold is problematic. TAG advice has been to apply materiality rather than setting a threshold. As a consequence, the Secretariat does not support the introduction of a threshold for immaterial funds, but to use illustrative examples.

4.12 One donor respondent was of the view that trivial restricted funds could be kept with the general fund with disclosures made through the notes. The Secretariat notes the feedback on trivial funds. It was the intention in setting INPAG requirements that in specifying that income, expenses, assets and liabilities for a fund are tracked, that trivial funds would not be identified and disclosed. The Secretariat will review the Basis for Conclusions to ensure that this is clear.

4.13 One respondent identified inconsistencies and ambiguities in the drafting related to internally designated funds. This respondent also suggested that the balance of text between INPAG and the Basis for Conclusions should be reviewed. The Secretariat agrees and will review this as part of updating the Section.

Question 3: Do TAG members agree with Secretariat's responses to the feedback on the criteria and that no changes are required to the criteria for the establishment of a fund?

Question 4: Do TAG members support the approach to materiality and immaterial funds? Do TAG members have advice on the level of guidance that is useful to include in INPAG Sections rather than educational materials?

5. Tracking of income, expenses, assets and liabilities for each fund – SMC 1c)

5.1 Fifty-three respondents (93%) to SMC 1 c) agreed that income, expenses, assets and liabilities should be tracked for each fund. Four respondents (7%) disagreed. Six respondents did not answer this question. Survey respondents were asked how easy it would be to track assets and liabilities for each fund with restrictions. 81% of respondents said it was easy or manageable, with 18% saying it would be difficult or very difficult and 1% not sure.

5.2 Almost 75% of respondents to this question commented on accountability and transparency. Respondents cited benefits including:

- enhancing transparency, accountability, stewardship and promoting trust;
- more informed decision making, more effective allocation of resources to align with NPO goals and objectives supporting, better fundraising strategies;
- giving confidence that there is a sound financial management system, and supports value for money;
- compliance with donor and legal requirements, promotes relationships with donors;
- improved external reporting, simplify auditing, mitigation against money laundering.

5.3 There were also a significant number of comments about the cost/benefit of tracking assets and liabilities. While several respondents noted that donors require their assets to be tracked, that the proposals align with these requirements and would not result in significant burdens, this was not widely shared. Concerns were raised about the administrative burden, complexity and time required to track individual funds. Some of the detailed feedback is set out in Appendix E.

5.4 One respondent that agreed was of the view that the benefits would outweigh the costs, and another that costs and benefits may be misaligned. One donor respondent was of the view that appreciation by the donor community is needed of the administrative costs associated with tracking systems and will be key to facilitate NPOs' compliance with the guidance.

5.5 One respondent that agreed saw potential issues for larger NPOs that have greater complexity and requested a later adoption date, but the vast majority of feedback was about smaller NPOs. Respondents that both agreed and disagreed were particularly concerned about the administrative costs for smaller NPOs. Respondents noted that smaller NPOs have fewer resources to carry out monitoring, with a burden on finance teams to keep detailed information, which would be a drawback for smaller NPOs and make INPAG more inaccessible.

5.6 A respondent that disagreed and three respondents that agreed commented on the practical ability to separate some current assets and liabilities by fund. They 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. One respondent noted practical considerations where NPOs have many funding partners.

5.7 The respondent that disagreed proposed that it is essential to track non-current assets, but the requirement for current assets and liabilities should be removed. Another respondent proposed that property, plant and equipment only is required, and another noted that software systems better support the management and control of non-financial assets.

5.8 One respondent was of the view that income and expense is sufficient as the balance is often represented by cash and cash equivalents. This was supported by another respondent who was of the view that donors are more interested in income and expenses. They were of the view that that tracking assets and liabilities should be done by exception as segregating assets and liabilities would have practical implications for smaller funds and increase accounting burdens.

5.9 The practical issues that might be encountered in tracking all assets and liabilities was previously discussed with the TAG. TAG members were interested to understand the practical issues through responses to the consultation. This feedback supports a more nuanced approach. The Secretariat proposes that the requirement to track assets and liabilities is repositioned to require non-financial assets, assets and liabilities associated with enforceable grant obligations and non-current liabilities, with other assets and liabilities where this information is available.

5.10 Two respondents that agreed were of the view that tracking of assets and liabilities should be optional. Other respondents suggested limiting the requirement to track funds to only material funds as this would help balance resources particularly for smaller NPOs. One respondent suggested that limiting the requirements to material funds would be more practical and better for the financial statements.

5.11 A respondent that disagreed suggested that a fund is material if it is more than 10% of an NPOs prior year income and that all other funds should be aggregated. A respondent that agreed suggested that a fund is material if it is more than 5% of an NPO's cashflow. Three respondents proposed simplified reporting for smaller NPOs by allowing the aggregation of immaterial funds. Suggestions included expanding the criteria for aggregation and simplified tracking methods or templates for smaller NPOs to reduce burdens without compromising accountability or transparency.

5.12 In developing the proposals for Section 36 consideration had been given to the potential burdens. The requirement that assets and liabilities are tracked as well as income and expenses was designed in part to screen out immaterial funds. The Secretariat's response to materiality is included in paragraph 4.9.

5.13 Respondents noted software as a key consideration with the majority commenting on the practical considerations around capability either of finance teams or software packages (with the need for automation and more sophistication) and existing processes and procedures. The current picture provided in the feedback is mixed. One respondent shared that the accounting software packages currently available are not well designed to split income and expense whereas another commented that many software solutions have features to generate revenue and expense statements by fund. It was noted that systems capable of capturing fund requirements may be too expensive for smaller NPOs. Three respondents also referred to the need for additional training and resources to help implement the guidance effectively. A donor respondent recognised that the proposals require a suitable accounting system and human resources that not all NPOs can afford. The Secretariat notes this feedback and is planning to engage with software providers as the INPAG requirements are finalised to encourage the development of system solutions for the sector. Further materials will be considered as part or education materials but generally training and advice are outside of the scope of the publication.

5.14 There were a number of comments specifically about property, plant and equipment. One respondent was of the view that if an NPO has a significant amount of restricted and unrestricted property, plant and equipment they should be segregated in reserves. A donor respondent was of the view that disclosure of assets from donors by location is relevant to allow greater collaboration among donors, value for money, transparency as well as risks of double dipping. Another respondent was of the view that cumulative information about assets and liabilities might be useful. The Secretariat will consider this feedback alongside the feedback to Section 17 *Property, plant and equipment.*

Question 5: What are TAG members' view on amending the requirement to track assets to require non-financial assets, assets and liabilities associated with enforceable grant obligations and non-current liabilities and other asset and liabilities where the information is available?

Question 6: Do TAG members have any other comments on the feedback to this SMC?

6. Criteria for a fund with restrictions – SMC 1d)

6.1 Forty-eight respondents (88%) to SMC 1 d) agreed with the criteria for a fund to be a fund with restrictions. Three respondents (5%) neither agreed nor disagreed and a further four respondents (7%) disagreed. Eight respondents did not answer this question. Survey respondents were asked whether they agreed with the criteria for a fund to be a fund with restrictions and how easy it will be to identify them. Ninety percent agreed with the criteria, with three percent disagreeing. Ninety percent of respondents said it would be easy or manageable to identify funds with restrictions, with nine percent saying it would be difficult or very difficult.

6.2 Nine respondents commented that the proposals were aligned with sector expectations. They were clear, practical and promote consistency, which enhances comparability and transparency. One respondent was of the view that the criteria will help NPOs align financial practices with donor expectations and legal requirements.

6.3 A respondent was of the view that the first criterion is too ambiguous, as it arguably includes trading income from externally imposed legal or equivalent arrangements. This could be argued as restricted. The Secretariat agrees that this needs to be clarified and proposes the following paragraph:

Generally, revenue from contracts with customers will be part of unrestricted funds and on their own not sufficient to create a fund with restrictions. However, a fund with restrictions may include multiple sources of finance including revenue from contracts with customers. Revenue from contracts with customers is not expected to be material source of funding in a restricted fund.

6.4 A respondent that disagreed was concerned whether the first criterion covers all relevant cases such as implicit agreements or conditions which haven't been documented. Another respondent that agreed proposed widening this criterion to include any 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. A respondent that neither agreed nor disagreed requested clarification of how equivalent arrangements apply to religious norms. The Secretariat is of the view that the points raised are covered through 'equivalent arrangements'. It proposes to add examples of 'equivalent arrangements' to the Implementation Guidance to illustrate how this might be applied.

6.5 One respondent suggested that criterion 2 be redrafted. They suggested that it might be appropriate to widen a public commitment beyond fundraising, to grants received with other arrangements. The Secretariat is of the view that grant arrangements will be captured by criterion 1 and that there is no need to widen the scope of criterion 2.

6.6 A respondent requested a clarification of public commitment in criterion 2. In particular they queried the status of informal channels like social media or verbal commitments made in a public forum. The Secretariat agrees that an NPO will need to consider the reliance that the public places on these channels and will add implementation guidance to clarify this.

6.7 A respondent that neither agreed nor disagreed was of the view that the requirements for a fund to be a fund with restrictions should be based on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. They noted that 'A constructive obligation arises from the entity's actions, through which it has indicated to others that it will accept certain responsibilities, and as a result has created an expectation that it will discharge those responsibilities.' The Secretariat sees the relevance of these provisions where there is no legal or equivalent arrangement but notes that these provisions are focused on expenses. The Secretariat proposes to add text about constructive obligations into the Implementation Guidance as another factor to consider in terms of reasonable expectations. Tools and checklists will be considered as part of education materials to be developed after the publication of INPAG.

6.8 One respondent that neither agreed nor disagreed raised a concern that the use of reasonable expectations poses a risk that funds will be identified where the cost/benefit associated may be inappropriate because of complexities with the use of fund accounting. The Secretariat notes this risk. The Implementation Guidance provides support to NPOs in making a judgement about reasonable expectations.

6.9 This does not currently include the significance of reasonable expectations in relation to an NPO's activity, which was suggested as another factor. In response to SMC 1g), one respondent proposed to add the financial dependency on a specific stakeholder as a factor that would potentially create a 'reasonable expectation'. The Secretariat can see that this might create a reasonable expectation because of the relationship between the NPO and this stakeholder.

6.10 Respondents supported the provision of information about internally designated funds with one respondent expressing the view that some NPOs might want to account for these as restricted. The Secretariat remains of the view that internally designated funds should be classified as unrestricted as they are not legally binding and management has discretion over these funds.

6.11 A drafting suggestion was also made to G36.15 on the basis that an NPO's board may internally designate funds for an external purpose. The Secretariat accepts that an NPO's board can designate funds for an external purpose, particularly if a donor has expressed a non-binding preference and proposes to amend the draft to:

An NPO's governing body can internally designate funds for specific ~~internal~~ purposes.

6.12 Another respondent that neither agreed nor disagreed provided feedback on the drafting. This respondent noted the potential for confusion on the application of the steps to identify a fund and then whether that fund is a fund with restrictions. This is because of superficial similarities between the descriptions in G36.3, G36.4 and G36.9. The Secretariat accepts that there are similarities in the language, which arises from an overlap in the considerations for fund accounting. As this was not raised by other respondents the Secretariat does not propose to make a change.

6.13 This respondent also had reservations about whether all EGAs are funds with restrictions. They cited the example of where obligations relate to the general purpose of a charity even it that purpose is specified and suggested that an assessment should consider the substance of the arrangement. The Secretariat agrees that decisions about whether funds are funds with restrictions should consider the substance of the transaction and not solely the legal form. Updates will also be made to reflect the focus on obligations now being discussed in the redrafting of Section 23 Part I and Section 24 Part I, which may address these concerns.

6.14 Three respondents requested additional application guidance and illustrative examples, including illustrative examples showing the application of the criteria in different contexts, and where an organisation is working with different funding sources. These requests have been added to Appendix D (see paragraph 9.5).

Question 7: Do TAG members agree with the new paragraph to clarify that revenue from contracts with customers are not in themselves restricted funds?

Question 8: Do TAG members support the suggested additions to the factors to consider in determining if there are reasonable expectations and examples of 'equivalent' arrangements?

Question 9: Do TAG members agree to the proposed redrafting of internally designated funds?

7. Charging of expenses to a fund with restrictions – SMC 1e)

7.1 Forty-four respondents (80%) to SMC 1 e) agreed that all expenses should be charged against a fund with restrictions even if there are currently insufficient resources to cover the costs, or specific costs are not eligible. Three respondents (5%) neither agreed nor disagreed. Eight respondents (15%) disagreed. Eight respondents did not answer this question. Survey respondents were asked if they agreed that all relevant and legitimate expenses should be charged against a fund even if they are not eligible against a grant. 74% agreed or conditionally agreed, with 23% disagreeing and 3% unsure.

7.2 Almost half of the respondents (twenty) that provided comments on this question referred to matters relating to transparency or the completeness of information. Respondents feedback included that it:

- 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;
- enables comparison of NPOs efficiency; and
- would alert management to any shortfalls so that they can look at remediating.

7.3 Respondents that disagreed proposed that expenses that are not eligible or that exceed available resources should be charged to the general or unrestricted fund, with a detailed explanation of these adjustments provided in the notes to the financial statements. A respondent that disagreed was concerned that the balance on a fund does not accurately reflect the terms of an agreement. Two respondents noted that NPOs can [voluntarily] make their own contributions to funds in addition to grants and supported the recording of all expenses.

7.4 A donor respondent supported the need to review negative balances at each reporting date. Other respondents commented on the importance of disclosing plans to address permanent shortfalls, including how additional funds might be sought or proposals to reallocate resources from unrestricted funds. Another donor respondent commented on the importance of this to indicate that the situation is under control. G36.22 does not currently require fund balances to be explained. NPOs can, however, choose to provide this information as part of the disclosures or in the narrative report.

7.5 Two respondents identified ambiguities in paragraphs G36.12 and AG36.12 including whether expenses can be charged to a fund and not the Statement of Income and Expenses and if there are intended differences between whether a fund has a positive or negative balance. One respondent suggested adding detailed guidance on how to handle situations where restricted funds are overspent or inadequate.

7.6 The Secretariat will review the existing text to address these ambiguities and to make clearer what is required when a fund has a positive balance or negative balance. The Secretariat does not propose to require explanation of plans to address shortfalls. Instead, it proposes to describe in the Implementation Guidance why explanations of plans to address shortfalls can be useful and where they could be located.

7.7 Some respondents acknowledged that what is reported against a grant is different to what might be reported against a fund. However, it appears from some of the responses that there is potential confusion between grants, funds, programmes, projects and activities, with one respondent recognising that these terms can be used interchangeably. For example, three respondents that disagreed were of the view that ineligible expenses should not be charged to a fund as this would conflict with the restriction placed on the grant and another that costs should not be charged unless the donor agrees or there is a future inflow of cash that will cover it. This infers that the respondents were of the view that the grant and the fund were the same thing.

7.8 One respondent requested clarity on 'all the legitimate expenses'. The Secretariat noted that there is potential confusion about what is mean by 'ineligible costs' and 'legitimate costs'. The Secretariat intends to clarify that 'legitimate expenses' includes all of the cost that relate directly or indirectly to the delivery of the activities carried out for the purposes of the fund and that this will include direct costs, shared costs and support costs as defined in Section 24 Part II.

7.9 One respondent recommended that the Implementation Guidance be updated to include examples with fund names that include both the purpose and funding source. The Secretariat supports this proposal and proposes to include additional Implementation Guidance to assist users in navigating these terms.

7.10 A respondent that agreed noted that the proposals ensure reporting of the actual resource use, while three others stated that this information would provide a rational basis to communicate with donors regarding future funding requirements. However, another respondent raised concerned about creating the impression that an NPO is not complying with a grant agreement.

7.11 A donor respondent agreed with the proposals as this aligns to the 'fair share' principle where each funder should cover their fair share of expenses related to their funding. Another donor respondent was of the view that separate tracking of 'allowable' and 'unallowable' costs under the agreement would facilitate audits initiated by donors. A donor respondent that disagreed was concerned about the creation of discrepancies between the amounts recorded in the fund and the amounts reported to the donor, which would decrease the value to the donor of the information recorded in the financial statements. This respondent proposed either permitting an allocation of support costs only if permitted by the grant agreement, requiring support costs to be disclosed on a separate line or a separate expense category. Separating support costs was supported by other respondents.

7.12 G36.22 sets the minimum requirement of what must be disclosed about a fund and differences between what is charged to a fund and a grant can be addressed using a Supplementary statement in accordance with INPAG Practice Guide 1. As a consequence, to minimise burdens and allow flexibility of presentation, the Secretariat does not propose to require that support costs are separately disclosed.

Question 10: Do TAG members agree with the Secretariat's proposal to not require explanations of plans to address negative balances, but to provide additional Implementation Guidance and to not require that support costs are separately disclosed in this Section?

Question 11: Do TAG members agree with the proposed additional Implementation Guidance to assist the navigation of fund related terms and that no other changes are needed?

8. Fund disclosures – SMC 1f)

8.1 Fifty-one respondents (94%) to SMC 1 f) agreed with the disclosure requirements. Two respondents (4%) neither agreed nor disagreed and a respondent (2%) disagreed. Nine respondents did not answer this question. Survey respondents were asked about the importance of disclosures. 97% of respondents said it was very important or somewhat important to disclose restricted funds and the movement on each fund in the financial year, while 94% felt the same about disclosing unrestricted net current assets as a measure of financial sustainability.

8.2 Ten of the respondents that agreed and one that disagreed raised comments related to transparency. The respondents that agreed were of the view that the disclosures would give users of the financial statements useful information on the various funds and they were essential for stewardship, transparency and accountability. Two respondents noted the usefulness of disclosures negative balances on funds, although one was of the view that explanations of such balances may have limitations for non-accountants.

8.3 The respondent that neither agreed nor disagreed raised concerns that the disclosures could impose excessive administrative burdens. This respondent proposed allowing the aggregation of smaller funds with similar purposes, reducing the level of detail for minor funds and providing clarification about transfers between funds when they are material. The Secretariat notes that paragraph G36.23 already allows for the aggregation of smaller funds.

8.4 Another respondent proposed modifications to the disclosure paragraphs (G36.21-G36.23). They were of the view that materiality thresholds should be introduced into G36.22 (b) to prevent the movement of funds statement from being overly detailed and overburdening the financial statements (and losing sight of more impactful funds), particularly where an NPO has a large number of funds. This was supported by another respondent. Materiality has been addressed in paragraph 4.9 in this paper.

8.5 This respondent was also of the view that the requirements of paragraph G36.22 (a) to list the purpose of each fund should be broadened to include a brief explanation of how each fund supports the NPO's broader objectives to help donors see the connection between restricted funds and the NPO's mission.

8.6 The same respondent also raised concerns that the disclosures required by paragraph G36.22 (e) relating to internally designated funds might not provide insight into the timeline or impact of these funds and suggested that such information be included.

8.7 One respondent agreed with all of the disclosure proposals except those required by paragraph G36.22 (d) which requires an explanation of balances on any fund with restrictions where the purpose of the fund has ceased and the balance has not or cannot be transferred to funds without restrictions. This respondent expressed the view that it might not always be appropriate to publicly disclose the explanation of a fund balance, where a fund has been closed.

8.8 The Secretariat sees the benefits in the suggestions made, but is of the view that the suggested additional information is best addressed by the narrative reporting requirements rather than through the introduction of additional requirements for the notes to the financial statements. This can be explained in the Implementation Guidance.

8.9 One respondent that agreed shared concerns about whether the disclosure requirements should apply to all NPOs, particularly smaller NPOs. This respondent raised the point that each jurisdiction can craft a threshold by turnover (or a mix of other parameters such as number of employees) to set a minimum requirement. While INPAG is not intended for the smallest NPOs, the Secretariat agrees that each jurisdiction is able to determine how to apply INPAG to NPOs in its jurisdiction.

8.10 A donor respondent agreed with the proposals, provided that NPOs have the option to present a fund that is individually immaterial with the general fund, along with additional disclosure for these amounts. They also proposed that G36.23, which allows small funds that are immaterial to be aggregated, includes additional guidance on 'similar purposes'. Another donor respondent suggested the addition of 'unless required by the respective funding source' to G36.23. The Secretariat is of the view that it is important to apply the criteria to all funds for accountability and transparency. If a fund has restrictions it is shown separately to funds without restrictions, but where it is immaterial it can be aggregated with other immaterial funds. The Secretariat does not support the inclusion of the suggested additional text around funding source as this is a decision for each NPO.

8.11 Five respondents that agreed proposed additional guidance or illustrative examples. These requests have been added to the list of requests in Appendix D (for further information see paragraph 9.5).

Question 12: Do TAG members agree with the Secretariat's proposed responses to the feedback provided?

9. Illustrative examples – SMC 1g)

9.1 Forty-nine respondents (94%) to SMC 1 g) agreed that the illustrative examples demonstrated the key concepts in fund accounting. Two respondents (4%) neither agreed nor disagreed and a further respondent (2%) disagreed. Eleven respondents did not answer this question.

9.2 While a number of respondents were of the view that the illustrative examples were easy to follow and did a commendable job in demonstrating the key concepts, there was a request for more. Respondents that agreed, and the respondent that neither agreed nor disagreed requested either additional guidance or illustrative examples.

9.3 Seven respondents commented on the complexity of the scenarios, with five respondents seeking more complex scenarios and two respondents seeking simpler scenarios more appropriate to smaller NPOs. One respondent was of the view that the current examples need to effectively cover various fund scenarios, decision points on fund classification, transfers, and disclosure practices. They considered that incorporating more comprehensive examples demonstrating real-world application would greatly improve understanding and implementation.

9.4 A balance needs to be struck between the examples included in the Implementation Guidance and the role of educational materials. One respondent suggested that educational material or a technical group be set up for practical guidance to be developed for a variety of types of entities that might be NPOs.

9.5 The Secretariat proposes to include additional examples where it illustrates a fundamental principle and to hold the remaining feedback for potential inclusion in education materials. The Secretariat is supportive of a technical group to support the development of educational materials. Appendix D lists the specific additional guidance and illustrative examples requested and the Secretariat's proposed response.

9.6 Two respondents that disagreed with the illustrative examples, disagreed because of the feedback that they provided on other SMCs related to fund accounting. This feedback, together with other feedback not addressed in paragraphs 9.1 to 9.6 above are set out in Appendix E.

Question 13: Do TAG members support the Secretariat's proposal that additional examples are added where it illustrates a fundamental principle, with remaining requests to be considered as part of future education materials? Do TAG members agree with the proposed responses in Appendix D?

10. Next steps

10.1 The Secretariat will update the core guidance, (including incorporating the application guidance into the core text), the Implementation Guidance and the Basis for Conclusions to reflect feedback from TAG members. The Secretariat also intends to hold a focus group in January 2025. The Secretariat plans to discuss materiality and the scope of the Implementation Guidance and Illustrative examples and any other key issues arising from TAG member feedback.

November 2024

INTERNATIONAL FINANCIAL REPORTING
FOR NON PROFIT ORGANISATIONS

Appendix A - Summary of Feedback Responses to SMCs for Fund accounting

ED3 SMC 1 a) Do you agree that the ED1 requirement to present funds with restrictions and funds without restrictions on the face of the Income and Expenses Statement should be removed? If not, why not?	Response	Number	% of those who responded
	Agree	36	65%
	Disagree	18	33%
	Neither agree nor disagree	1	2%
	No Response	8	
		63	100%

ED3 SMC 1 b) Do you agree that the guidance in Section 36 will ensure that material funds can be identified? If not, what changes would you propose? Is there a risk that funds are not identified?	Response	Number	% of those who responded
	Agree	45	83%
	Disagree	3	6%
	Neither agree nor disagree	6	11%
	No Response	9	
		63	100%

ED3 NSMC 1 c) Do you agree that income, expenses, assets and liabilities are tracked for each fund? What are the costs and benefits? What, if anything, would you change and why? What are the practical considerations?	Response	Number	% of those who responded
	Agree	53	93%
	Disagree	4	7%
	Neither agree nor disagree	-	-
	No Response	6	
		63	100%

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ED3 SMC 1 d) Do you agree with the two criteria for a fund to be a fund with restrictions? If not, what would you change and why?	Response	Number	% of those who responded
	Agree	48	88%
	Disagree	3	5%
	Neither agree nor disagree	4	7%
	No Response	8	
		63	100%

ED3 SMC 1 e) In order to provide transparency about the finances of an individual fund, do you agree that all the expenses should be charged against a fund with restrictions even if there are currently insufficient resources to cover these, or specific costs are not eligible under a grant arrangement? If not, what alternative would you propose and why?	Response	Number	% of those who responded
	Agree	44	80%
	Disagree	8	15%
	Neither agree nor disagree	3	5%
	No Response	8	
		63	100%

ED3 NSMC 1 f) Do you agree with the NPO funds disclosures requirements? If not, what would you change and why?	Response	Number	% of those who responded
	Agree	51	94%
	Disagree	2	4%
	Neither agree nor disagree	1	2%
	No Response	9	

ED3 NSMC 1 g) Do the Illustrative examples demonstrate the key concepts in fund accounting? If not, what would you change and why?	Response	Number	% of those who responded
	Agree	49	94%
	Disagree	2	4%
	Neither agree nor disagree	1	2%
	No Response	11	

Survey responses

	Very important	Somewhat important	Not important	Not sure
How important is it that INPAG requires disclosures about restricted funds, and the movements on each fund in the financial year?	82%	15%	3%	
How important is it to disclose unrestricted net current assets as a measure of financial sustainability?	69%	25%	4%	3%

	Yes	Yes, but…	No	Not sure
Do you agree with the criteria for a fund to be a fund with restrictions?	68%	22%	3%	7%
Do you agree that all relevant and legitimate expenses (eg support costs and FX losses) should be charged against a fund, even if they are not eligible against a grant?	56%	18%	23%	3%

	Easy	Manage-able	Difficult	Very difficult	Not sure
How easy will it be to identify funds with restrictions?	33%	57%	7%	2%	1%
How easy will it be to track assets and liabilities for each fund with restrictions?	24%	57%	16%	2%	1%

Appendix B – Statement of Income and Expenses (revised)

	Note	Year ended 31 December 20X2 CU000s	Year ended 31 December 20X1 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**

Analysis of the result for the period

	Note	Unrestricted 20X2 CU000s	Restricted 20X2 CU000s	Total 20X2 CU000s	Unrestricted 20X1 CU000s	Restricted 20X1 CU000s	Total 20X1 CU000s
Total income	4	1,672	516	2,188	2,205	300	2,505
Total expenses	4	(1,954)	(287)	(2,241)	(2,108)	-	(2,108)
Total other changes	4	1	-	1	2	-	2
Total surplus/deficit	4	(281)	229	(52)	99	300	399

Appendix C – Drafting changes proposed – not taken up

Para	Original text	Proposed text	Secretariat's Response
G36.1	Fund accounting is one of the key concepts in this Guidance. All 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. INPAG uses the term general fund. Unless other funds exist, the general fund will contain all of the historic surpluses and deficits of an NPO.	Fund accounting is one of the key concepts in this Guidance. All 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. INPAG uses the term general fund. Irrespective of other funds, (such as endowment funds, fixed assets funds, etc.,) all of the historic surpluses and deficits of an NPO will be contained in the General Fund.	The Secretariat does not see these amendments as critical to the understanding of the provisions of this paragraph. The Secretariat proposes instead to consider whether these suggested changes might be used to enhance the Implementation Guidance.
G36.4 a) and b)	For the purposes of INPAG 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 resources used for a specific set of activities will be tracked.	For the purposes of INPAG a separate fund will exist where: (a) there is a legal or obligatory requirement to separately track resources and the use of those resources; or (b) there are reasonable expectations (such as situations under section G36.3 a) and d) by an individual stakeholder or a group of stakeholders that resources used for a specific set of activities will be tracked.	The Secretariat does not see these amendments as critical to the understanding of the provisions of the paragraph. See above. The Secretariat does not support the change from equivalent requirement to obligatory requirement (see below).
Glossary		Obligatory requirement: A requirement that derives from an entity's actions where: (a) by an established pattern of past practice, published policies, or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities	The Secretariat is of the view that the term 'equivalent requirement' should be retained as this provides flexibility to include past practice and published policies. INPAG includes reasonable expectations as something different to 'equivalent requirement' and would want to avoid confusion with the proposed 'valid expectation'.

Appendix D – Requests for additional guidance or illustrative examples

Classification of funds

Request for Guidance	**Secretariat Response**
we recommend that the application guidance and illustrative examples better explain how applying materiality, aggregation and disaggregation principles, undue cost and effort and the need to maintain consistency over the years should be balanced against user needs in identifying these "reasonable expectations".	The Secretariat agrees with this suggestion and will consider illustrative examples that show the application of the guidance to classify different funds and how they are presented.
Classification and Disclosure of Restrictions: Current Illustration: Must clarify the process of determining whether a fund is classified as restricted or unrestricted and how NPOs should present them in financial statements. Improvement: If this isn't clear, the examples should add specific scenarios where an NPO must assess whether public communication during a fundraising campaign creates restrictions. Examples should also demonstrate how restricted and unrestricted funds are disclosed separately in the notes to financial statements.	The Secretariat agrees to consider illustrative examples that shows the application of the guidance on the classification of different funds.
However, we suggest that further examples [of restricted funds] and clarifications be provided in the guidance to avoid ambiguity, especially for organizations that may be working with various types of funding sources and restrictions. This would help ensure uniformity in application across different organizations.	The Secretariat agrees to consider illustrative examples that shows the application of the guidance on the classification of different funds.
Separation of Funds: Current Illustration: Should provide scenarios where a non-profit organization (NPO) holds both restricted and unrestricted funds, illustrating the requirement to maintain separate accounting records for each. Improvement: If not adequately shown, more detailed examples should present cases where funds are legally restricted (due to grant agreements) versus internally designated unrestricted funds (like savings for a future project).	The Secretariat agrees to consider illustrative examples that shows the application of the guidance on the classification of different funds.
While the criteria are clear, I would suggest providing additional practical guidance on identifying situations where public commitments might not be formal but still create a valid stakeholder expectation. This would help NPOs avoid ambiguity in borderline cases where stakeholders might reasonably expect certain funds to be restricted, even if no explicit public commitment was made.	The Secretariat agrees to consider illustrative examples that shows the application of the guidance on the classification of different funds.

Shortfalls and transfers between funds

Request	**Secretariat Response**
The use of unrestricted funds to cover underfunded costs (eg support costs or salaries) or ineligible project expenses (eg FX	The Secretariat agrees to consider implementation guidance on the use of

losses or procurements where compliance procedures were not followed)	unrestricted funds to cover unfunded costs, including an illustrative example.
Transfers Between Funds. Current Illustration: Should explain the legal and operational reasons for transfers between restricted and unrestricted funds and how to disclose them in financial statements. Improvement: If this is weak, examples should include situations where a non-current asset purchased using restricted funds is reclassified as unrestricted due to changes in usage. The disclosure of these transfers in notes should be clear.	The illustrative examples specifically address grants provided for the purchase of capital assets and their availability for general use after the activity is completed. Paragraph G36.22(c) requires the disclosure of details for any transfers between funds with restrictions and funds without restrictions. The Secretariat does not propose any further action.
Fund with Temporary Negative Balances. Current Illustration: Should include cases where a fund with restrictions shows a negative balance and illustrates the required steps and disclosure until the shortfall is addressed. Improvement: If this is not covered well, examples should clarify whether the shortfall is temporary or permanent and how NPOs deal with negative balances.	The Secretariat agrees to consider implementation guidance on the use of unrestricted funds to cover unfunded costs, and the managing and reporting of negative balances including illustrative examples.
Response: The fund disclosure requirements are important for transparency, but can be improved with some examples and clarifications. Additional examples:- The guidance could include additional examples showing how the disclosure requirements apply in different contexts.- More information on restricted funds: Additional examples could be added on restricted funds, such as the reason for negative fund balances, and how these balances are managed.	The Secretariat agrees to consider implementation guidance on the use of unrestricted funds to cover unfunded costs, and the managing and reporting of negative balances including illustrative examples.
Yes, the disclosure requirements are comprehensive and enhance transparency. However, the inclusion of illustrative examples specific to different types of NPOs (e.g., small vs. large) would enhance understanding. These disclosures help users of financial statements understand how restricted and unrestricted funds are utilized. For instance, showing transfers between funds, the purpose of each fund, and any deficits or surpluses ensures there's no confusion regarding the financial health and accountability of the NPO. Transparency is crucial, especially for donor-funded organizations, where restricted funds are legally or contractually tied to specific activities. In case of more illustrations, for example, a small community-based NPO that receives grants for a specific project may need simpler examples of how to track restricted funds, whereas a large international NPO with multiple donors and projects could benefit from more complex illustrations that cover scenarios like multi-year projects or different funding periods.	The Secretariat proposes that illustrative guidance specific to different types of NPO is considered as part of education materials.

Alternative (more complex) scenarios

Request	Secretariat Response
While the examples are helpful, more complex scenarios involving smaller funds or funds with overlapping restrictions could be included to provide additional clarity	The Secretariat proposes that this is considered as part of education materials.
The implementation guidance of section 36 (about the truck for outreach program) is too simplistic. In the real world, the truck would be used for several type of activities programs. How should entity allocate cost of the truck to each fund in accordance with G 36-11 and G 36-12? INPAG need to have examples which relates with the real world problem. For example, examples could be added on: Transfers from restricted funds to unrestricted funds: How these transfers are accounted for and the different reasons for making them. Handling funds with negative balances: How funds with negative balances are managed and how they are reported in the financial statements. Examples of funds with different restrictions: How funds with different restrictions are classified and presented.	It is expected that a truck financed by a donor would only be used for the activities specified by the donor. Should the donor allow the truck to be used for other purposes, the NPO will need to consider whether it is appropriate to make an internal cross charge, which may be to another fund with restrictions or to funds without restrictions. The Secretariat will add this to the examples. The Secretariat agrees to consider the Implementation Guidance on the use of unrestricted funds to cover unfunded costs, and the managing and reporting of negative balances including illustrative examples. The Secretariat agrees to consider illustrative examples that shows the application of the guidance to classify different funds.
Yes, the examples provided are useful and demonstrate key concepts effectively. Adding more examples for NPOs with complex fund structures, such as multi-donor funded organizations, would further enhance the practical application of the guidance.	The Secretariat proposes that this is considered as part of education materials.
These examples could be improved by including more complex scenarios, such as handling multi-year grants or dealing with foreign currency funds, to cover a wider range of NPO activities.	The Secretariat proposes that this is considered as part of education materials.

Transaction examples

Request	Response
Inter-fund borrowing, eg using cash from a grant with restrictions, to pay for unfunded costs such as support staff salaries. Much as this is not recommended or best practice, it is common, and it would be good to understand how to do transparent accounting.	The Secretariat proposes that type of transaction is considered as part of education materials.
Accounting for grants given for capital assets, which should be recognized directly fund on initial recognition and released to statement of income and expenditure over the useful [life] as opposed to flowing through statement of income and expenses	The illustrative examples specifically address grants provided for the purchase of capital assets and the impact on the financial statements. The Secretariat proposes no further action.

However, it would have been good to use the fund to procure PPE to be restricted for specific activity and when the activity is over the PPE can be used for general purpose. Such kind of instances should be disclosed in detail for the user of financial statements to get more clarity and applicability	The illustrative examples specifically address grants provided for the purchase of capital assets and their availability for general use after the activity is completed. Paragraph G36.22(c) requires the disclosure of details for any transfers between funds with restrictions and funds without restrictions. The Secretariat does not propose any further action.
Closing a Fund with Restrictions. Current Illustration: Should show the steps to close a fund once its purpose is complete, including any remaining balance transfers. Improvement: If missing, include examples of how NPOs manage and report the closure of restricted funds in compliance with legal or donor requirements	The steps required to close a fund are going to be dependent on local legal and regulatory requirements and/or donor requirements. The Secretariat does not propose to add any further implementation guidance or illustrative example, but will consider whether education materials are needed in the future.
It would also be helpful if the standards clarified how to track or account for the flexible component of restricted funding. For example, indirect costs accrued as a fixed percentage of direct costs and reported to donors as a cost, but where the manner and timing of their spending are at the NPO's discretion.	The Secretariat proposes that this is considered as part of education materials.
My proposal: More clarification may be given with example about General Fund, Endowment Fund, Assets acquisition fund. While revenue is recognized as per expense then surplus is not shown in income expenditure account; only unspent fund is shown in the balance sheet,	The Secretariat will consider this feedback in the development of further implementation Guidance and illustrative examples.

Other

Request	**Response**
Request	Secretariat Response
We recommend that the Implementation Guidance be updated to include guidance or examples, such as fund names that include both the purpose and funding source ('Project A – Donor X', 'Project A – unrestricted', and / or use of sub-funds. It would also be helpful to have clarity about when to charge a cost to its expenditure line code, and when to post a transfer between funds, and how the transaction level accounting interacts with the financial statement presentation.	The Secretariat agrees that adding examples that show both the purpose and funding source or a restricted fund to the Implementation Guidance will be helpful. The Secretariat proposes that the clarifications requested are addressed in educational materials.
Addition to that concept for accounting treatment against grant in kinds and its valuation should be demonstrated.	The accounting for in-kind transactions are dealt with in Section 23 Part I. The Secretariat will feed this response into wider work to look at the illustrative examples for these sections.
Allocation of Shared and Support Costs: Current Illustration: It should demonstrate the allocation of shared and support costs between funds (as per Section 24 Part II) and include guidance on charging legitimate costs even when grant arrangements restrict fund usage. Improvement: If lacking,	Section 24 Part II provides implementation Guidance to support cost allocation judgements. It is not proposed to repeat this is Section 36.

examples should detail how these costs are allocated and reported across different funds, particularly if one fund has a shortfall.	
They are generally helpful – the example Note 4 is particularly important, though it would be much clearer with the unrestricted funds appearing first – and I would also refer to see the General Fund prior to listing Designated Funds. However, the examples seem to be lacking a clear explanation of the purpose of each fund as required by G36.22(a). Although the names of the funds give some idea of their purpose, the names are not sufficient to enable a reader to appreciate the overall purpose of each fund	The Secretariat proposes to clarify that the ordering of the rows in the disclosure table is a matter for the NPO to decide. The remaining feedback will be considered alongside the other feedback to the SMC on the illustrative financial statements.

Appendix E - Extracts from feedback on fund accounting that are not specifically addressed in the main TAG paper

SMC 1a) Removal of the requirement to separately disclose restricted and unrestricted fund on the face of the Statement of Income and Expenses	
Comments from those that agreed	**Response**
The Resource Group agrees with the proposed guidance to this section, with limited proposed changes as follows: • Include more detailed disclosure requirements for restricted and unrestricted funds. This could involve specifying the nature and purpose of restrictions and any conditions attached to the funds. • Separately disclose, on either the face of the financial statements or in the notes, Funds without Restrictions and Funds without Restrictions - Board Designated. Include details of this distinction on the Decision Tree (Figure AG36.1).	The Secretariat notes this feedback and will carry out a review of disclosures about grants across Section 23 and Section 36. Aggregate funds with and without restrictions are required on the Statement of Financial position and the Statement of Changes in Net Assets. The Movement of Funds note also requires disclosures about material individual grants including internally designated fund. Clarity about internally designated funds will be clarified on the decision tree.
I am happy for this requirement to be removed, but there should be a statement clarifying that, if this information is not presented on the face of the Statement of Income and Expenses, it should be disclosed in the Notes to the Financial Statements.	The Secretariat will review the wording to make sure that this is clear.
Yes- this is a helpful simplification that will benefit most users of the financial reporting; it will lead to NPOs having to explain apparent surpluses/ deficits in narrative and notes. Good to have the option though to show the two types with a total.	The Secretariat agrees that NPO's will need to determine how best to explain surpluses and deficits and believes that INPAG provides the flexibility in how to do this.
We agree with this. Our preference would have been to have a distinction between restricted and unrestricted funds on the income and expenditure statements and backed by notes to the financials. However, we have learnt that there is a mandatory note to the financial statements which has been referred to as the "Fund accounting note" which will also provide the restricted / non restricted segregation in more details including the names, income, expenses, and balances for restricted donors. What would be useful would be to have a disclosure of who the main unrestricted donors are since this appears as a one liner in the mandatory note to the financial statements	The Secretariat notes this feedback and intends will carry out a review of disclosures about grants across Section 23 and Section 36 including consideration of information about donors who provide unrestricted funds.
Comments from those that disagreed	**Response**
I don't agree that the requirement to present funds with restrictions and funds without restrictions should be removed, for the reason being that in recent times NPOs face huge deficit on funds without restrictions and these are the funds that are used to support an NPO's capacity building in most cases. By presenting that information a Donor will be	Although NPOs are not required to, they can present a split of funds with and without restrictions on the face of the Statement of Income and Expenses if it is useful to the users of their financial statements. The Movement of Funds note

able to see that there is need to fund an NPO to build up capacity where needed if the funds without restrictions are almost nonexistence. I feel that more clarity should be given to that section to avoid the confusion. I note the concerns of the TAG and PAG etc members	and the disclosure of funds with restrictions on the Statement of Financial Position and Statement of Changes in Net Assets will also assist.
We do not agree that this requirement be removed. We believe it is very important for the users of the financial statements to be able to know the proportion of funds that are restricted and those that are unrestricted - for purposes of transparency but also it provides a clear demonstration of usage and source of funds which aids better presentation. Stakeholders may then use this information to find out more about the issues relating to particular restrictions. A thorough disclosure should then be expected in the notes for each fund with a deeper disclosure of the source and conditions so attached, and the extent of recognition of the funds based on satisfaction of the funds. We observed that, unlike other frameworks where the restricted funds are further split into permanent and temporary funds, ED3 tends to avoid the use of the term endowment fund to take into consideration of such funds where only the income generated can be used, not the principal amount. This should be catered to.	The Secretariat notes this feedback but is of the view that the mandatory requirements are sufficient and that NPOs can disclose additional information if it is useful to the users of their financial statements. The Secretariat notes the point about endowments and will include this in the Implementation Guidance.

SMC 1b)	
Comments from those that agreed	**Response**
We agree that the guidance in Section 36 will ensure that material funds can be easily identified. However, we believe that further guidance may be required to clarify where in certain circumstances the donor may make an expression of a non-binding preference as to the use of the funds, which expression in principle may fall short of imposing any legal Response restrictions…..	The possibility of a non-binding preference is considered in the Implementation Guidance, with the treatment depending on the circumstances.
The new guidance in Section 36 is helpful, but I feel the principles in this Section will be of little value in practice unless NPOs are required to separate the funds on the Statement of Income and Expenses	The Secretariat does not support mandating the presentation of separate funds on the Statement of Income and Expenses. The Secretariat is of the view that the Movement of Funds note provides the necessary disclosures.
Yes, I agree that the guidance in Section 36 provides an effective approach to ensure ….. that NPOs can accurately identify and distinguish material funds with and without restrictions. Yes, there are many risks especially in the definition of material funds. do we need a special trail balance for each fund as per Fund accounting? what about	The Secretariat notes the practical points identified and proposes to address this in future education materials.

the interfund transactions? Or it is only representation and disclosure?	
Yes, I agree that the guidance in Section 36 is adequate for identifying material funds. The clear definitions and criteria provided for restricted and unrestricted funds allow for a structured approach to fund identification. The example in Figure AG36.1 also enhances understanding of fund categorization. However, in large and complex NGOs, there may still be a risk of smaller, immaterial funds being overlooked. Strengthening the internal control processes to regularly review all funds could mitigate this risk.	The Secretariat notes this feedback and will include the recommendation about strengthening controls in future education materials.
Comments from those that disagreed	**Response**
No. Some times donor provide grants to NPOs in kinds and values are unknow to NPOS. But it has a significant values and project main objects depends on grants in kinds. So without accounting of grants in kinds, NPOs financial information may not be fruitful to stakeholders. Its may hamper the project objectives	INPAG requires the recognition of donations in-kind where they can be reliably measured. This requirements is expected to address the concern raised.
Comments from those that neither agreed nor disagreed	**Response**
An unrestricted fund can become restricted in the later days and vice versa. The guidance in Figure AG16.1 should be applied every reporting date not only in the beginning of the fund recognition. For example, a charity organization may received cash donor without restriction but later on the organization made a public announcement that such fund would be use to build a mosque. The fund then can become with restriction. With the current guidance, I am afraid the “zakat fund” will be fall under “without restrictions” where all the current practices in Indonesia and Malaysia are fund with restrictions. The restrictions for zakat fund are the type of recipients and the purpose (for consumption), but the timing and the activities may be determined later. INPAG need to have more examples to include Zakat fund.	The Secretariat agrees that funds can be reclassified and that they are to be reviewed at each reporting date. The Secretariat will clarify this requirement. The Secretariat agrees to include an example with the Zakat fund.

SMC 1c)	
Comments from those that agreed	**Response**
It can be reasonably argued that income, expenses, liabilities and assets must be identified because these four elements are commonly encountered in the context of non-profit organisation (NPO) financial transactions. Furthermore, the profit and loss statement for an NPO is not an appropriate financial instrument. The name of the report should be replaced with "activity report.	The Secretariat notes the support for tracking income, expenses, assets and liabilities. In accordance with Section 3 the name of a financial statement can be amended as long as its title is not misleading.
The practical consideration is ensuring that the officers within the NPO are fully aware of the need to track these activities against specific fundings so they put systems in place to do the tracking.	The Secretariat notes this feedback and the need for education and training to support implementation.

Where an organisation has significant fixed assets restricted or unrestricted, this may obscure the true flexible reserves. Also where a significant asset or assets have been capitalised and depreciation running off against it, without segregating this fixed asset in reserves, presentation of the operational net income/expenditure is less visible. It merges an accounting concept (depreciation/amortisation) with operational. As a user of the accounts I would like to be able to see what is in the current general reserves separately, as it shows those reserves which are free for use, illustrating financial health.	The Secretariat can see the benefit in whole of entity information about fixed assets that have restrictions. This feedback and will be considered in the evaluation of responses to Section 17 *Property, plant and equipment.* The Secretariat does not propose to impose more detailed disclosures at fund level, but NPO's can disclose this information at a fund level if it chooses.
Local laws and regulations: It is important for the NPO to comply with local laws and regulations that may apply to fund accounting.	The Secretariat agrees and INPAG is not intended to override local laws and regulation.
We generally agree with this requirement. It would be good practice to do so as this would enhance transparency, accountability, and effective financial management. We believe that the decision to track each fund should be based on the NPO's specific circumstances, including regulatory obligations, donor expectations, and internal management needs	The Secretariat agrees that NPOs will need to apply judgement in identifying its funds and will need to take account of its specific circumstances.
Answer: From an auditor's perspective, I believe that recording the income, expenses, assets and liabilities of each fund is essential to ensure transparency and accountability of the NPO and fundamentally to comply with the correct exposure of the different donors, in a specific way. Complexity: Presentation of financial statements may be more complex. Complexity of operations: NPOs with complex operations may need more resources to conduct this monitoring. Benefits:- Transparency: allows users to better understand the NPO's financial situation and how resources are used. - Informed decision-making: Detailed information about each fund facilitates informed decision-making by users, including donors and other stakeholders.	The Secretariat notes this feedback, which is being considered by the TAG. The Secretariat acknowledges the risk that financial statements may become more complex. G36.21 requires NPO to consider the volume and complexity in the presentation of its disclosures. On balance the Secretariat is of the view that the additional information is worth the potential risk.
For property and equipment, we propose that a disclosure would be adequate. For other assets and liability, we proposed that only enforceable grant arrangement asset and liability which should be shown separately on the face of statement of financial position. All the other assets and liability tracking should not be mandatory except for cash and cash equivalent, which needs to be restricted on the cash flow statement.	The Secretariat notes the feedback on property, plant and equipment and EGA assets and liabilities. The tracking of assets and liabilities is being considered by the TAG.
Yes, I agree that income, expenses, assets, and liabilities should be tracked for each fund, especially in the context of nonprofit organizations (NPOs) using fund accounting. This practice ensures transparency, accountability, and compliance with donor and legal requirements. Donor Communication: NPOs must communicate fund restrictions	The Secretariat notes this feedback. The costs and benefits are being considered by the TAG.

clearly with donors and stakeholders to avoid misunderstandings and ensure compliance with donor wishes. Balancing Transparency with Efficiency: While tracking is important, organizations need to balance detailed reporting with efficiency. In conclusion, while the tracking of income, expenses, assets, and liabilities for each fund is essential for NPOs, it's important to consider ways to minimize administrative costs and complexity while maintaining transparency and compliance. Practical solutions such as software automation, staff training, and thoughtful fund aggregation can help mitigate some of the costs.	Engagement with software providers is anticipated once the INPAG proposals become final.
There will be a need in disclosures and templet for fixed asset registers where required. This could be developed with supplementary resources and software developments	The Secretariat will consider such resources as part of outreach with software providers.
Cost: more man-hours of the organization's volunteers or administrative staff dedicated to the proper monitoring of the use of these funds	The Secretariat notes the feedback on costs, which is being considered by the TAG.
For smaller NPO, it might expensive to subscribe to a large ERP that has the capabilities to capture many funds at once. The solution would be some form of a cloud system or various NPO coming together to subscribe for an ERP so that they can share the costs.	The Secretariat notes this feedback and will raise this as part of future engagement with software providers.
However, smaller NPOs may face practical challenges due to resource limitations. Providing a simplified tracking method or templates for smaller organizations would reduce costs while maintaining accountability. Smaller organizations may struggle to track this data due to limited resources or technical expertise. INPAG acknowledges the varying capacities of NPOs. A streamlined, simpler version of fund tracking (perhaps using templates or simplified tools) for smaller NPOs would help them comply without incurring high administrative costs. While tracking is necessary, it must be balanced with the capacity of the organization. Providing smaller NPOs with simplified solutions reduces costs and makes the standard more accessible, without sacrificing accountability	The Secretariat notes this feedback, which is being considered by the TAG.
In addition, the financial statements of NPOs in Indonesia on endowment socio-religious institutions should include the receipt of both permanent and temporary assets, as well as the impact of asset remeasurement, whether due to depreciation or other factors. Then add asset management and development (in this element, it can be presented how much profit share from the invested assets, dividend receipts, or profits on asset releases, increase and decrease in investment value and input on the burden of asset management and development as well as share rights that can be received by the manager).	The Secretariat notes this feedback. This will be further considered for inclusion in the development of educational materials

Comments from those that disagreed	Response
No to each fund. I am of the opinion we consider tracking only material funds and thus could consider saying "... income, expenses, assets and liabilities shall be tracked for each material fund. A fund is material if it accounts for 10% or more of an NPOs prior fiscal year's total income. All other restricted funds shall be aggregated under on column "other restricted funds"". This will balance the resources in put into tracking because some funds granted are really small. I have seen grants with restrictions as small as USD10,000! I base 10% on the fact that the grantors of the funds already receive some form of specific funds accountability reports from the NPOs. This will also make the spreadsheet analysis of a reasonable size to include on the A4 sized paging on which most general purpose financial statements are designed.	The Secretariat notes this feedback and subject to feedback from the TAG proposes to include additional implementation guidance to support the application of the proposals. The Secretariat does not support a single threshold as each NPO will need to assess materiality based on its own context.

SMC 1d)	
Comments from those that agreed	**Response**
A third way funds may be restricted is by way of decisions made by the board. If unallocated funds are available, and the board decides that a certain project requiring funding is to receive the available funds they are then moved from unrestricted to restricted.	The Secretariat agrees that such decision made by an NPO's board may result in an internally fund. The Secretariat does not agree that this fund is restricted as management has discretion to reallocate resources.
Agree The recognition and disclosure requirements differ from funds without restrictions. The concept is similar to IPSAS 47.	The Secretariat notes this response.
Comments from those that neither agreed not disagreed	**Response**
Whilst the identification of funds appears to depend on the tracking of the use of resources, determining whether those identified funds are funds with restrictions appears to depend on restrictions over the use of those resources. We also note that proposed paragraph G36.5 refers to records of the income, expenses, assets and liabilities of a fund, which may not be the same as tracking the use of resources, and may lead to a lack of clarity over whether certain funds are funds with restrictions.	The Secretariat notes this feedback and will consider clarification in redrafts to this Section.
We note that proposed paragraph AG36.17 refers to a 'legal restriction' rather than a 'legal or equivalent restriction'. The latter would seem more consistent with proposed paragraph G36.9(a) and the omission of 'or equivalent' may create ambiguity	The Secretariat notes this point and will amend the drafting.
We have some reservations about the definition of funds with restrictions as proposed in ED3, and consider that the definition may be problematic from a UK perspective. INPAG proposes a wider definition of funds with restrictions compared to the definition applied in the UK under Trust law	The Secretariat notes this point and that the implications of applying INPAG will vary from jurisdiction to jurisdiction. INPAG does not intend to override local law and this will be clarified in the Preface.

in respect of restricted funds, so may require further consideration at jurisdictional level for some NPOs. Furthermore, in the UK there are strict rules and regulations governing the use of restricted funds, how these are managed and whether they may be transferred to unrestricted funds. In some cases, permission is required from the NPO's sector regulators or the Court to move funds out of restricted funds to unrestricted funds. Therefore, such entities would need to apply a high degree of caution in adopting a wider definition of 'funds with restrictions' as proposed under INPAG, to avoid any legal pitfalls or consequences	
Proposed paragraph AG36.7 states that 'OFAs can result in a separate fund that is assessed as being a fund with restrictions'. We think this could be clearer. Presumably 'can' means 'may, or may not'. It could be clearer whether the intended reading is: (i) that an OFA may or may not result in a separate fund, and if it results in a separate fund that fund may or may not be a fund with restrictions; (ii) that if an OFA results in a separate fund, that fund will be assessed as a fund with restrictions; or (iii) something else	The Secretariat notes this feedback and will consider in the redraft of this Section.

SMC 1e)	
Comments from those that agreed	**Response**
I agree, if the funds are insufficient then raise a receivable	The Secretariat notes this comment, but is of the view that it might not always be appropriate to raise a receivable. A judgement will need to be made at each reporting date.
This provides a more complete picture to stakeholders and ensures accountability in fund management. However, I see many challenges regarding the difference of currency and the explanation of the deficits in the fund?	The Secretariat notes this feedback. The Secretariat intends to address these concerns through Implementation Guidance and education materials.
Yes, I agree. However, a paragraph may be added as follows: For ease of accounting and prompt, accurate closing of individual funds, programs, and projects, the grantor and recipient shall ensure that the total grant amount covers all expenses and is not in short or excess.	The Secretariat notes this comment. The Secretariat will emphasise the importance of communication with donors to enable the prompt closure of funds.
Yes: Expenses that are not eligible under a grant arrangement should be included but labelled as such so that the donor can exclude them. It is important to see how much the activity/project costs in total. Allowable expenses should be charged even if there are currently insufficient resources to cover these.	The Secretariat notes these comments. NPOs can provide information about costs that are not eligible under a grant arrangement in a Supplementary statement, through notes to the financial statements or in the narrative report as appropriate.
We agree. It is only prudent that legitimate expenses attributable to a restricted fund be charged to the fund even	The Secretariat notes this feedback. It becomes more important where an NPO

if there is an insufficient balance on that fund at that time to fund all the expenses. Our observation is raised in the spirit of circumstances where an NPO may be found to only have restricted funds. In such instances you will find that donor restrictions may vary with no donor agreeing to let their fund cover up particular specific costs are not eligible under a grant arrangement? If not, what alternative would you propose and why? Response; expenses from other projects or activities. The only option being to charge expenses to each fund irrespective of whether they are sufficient funds or not specific costs are not eligible under a grant arrangement? If not, what alternative would you propose and why?.	has no or limited funds without restrictions to provide transparency about the cost of delivering activities. This will aid future conversations with grantors about the actual cost of delivering activities.
To ensure transparency, it is important to show detailed information about restricted funds. However, when reporting to donors, we should charge expenses to unrestricted funds and present a clear, consolidated report. This approach will help strengthen our relationship with donors by providing a transparent and simplified overview of fund utilization.	The Secretariat notes that through use of Supplementary statements NPOs can transparently show how much of the activities have been funded by a donor and how much from an NPO's unrestricted funds.
.....However, we acknowledge that for management reporting purposes, an NPO may wish to monitor the full cost of delivering the relevant activity and therefore may include support costs.	The Secretariat agrees that knowing the full cost of an activity is important for management reporting. The Secretariat is of the view that it is also useful in audited financial statements.
This approach could allow the NPO to allocate costs of inefficiencies (such as renting unnecessary office spaces, expensive facilities, or operating with limited capacity) while the shared costs could have been used for other projects or activities if the NPO had strived to bring in more activities during the period.	The allocation of costs in the financial statements will be within the scope of the audit of the financial statements and should reduce the risk of double dipping. The Secretariat is of the view that transparency of these costs can contribute to removing inefficiencies.
Yes, and the remaining deficit should be covered by an unrestricted fund as a first option. 2nd option to cover with part of another restricted fund with a specific purpose as similar as possible to the one that ran out of resources.	The Secretariat is of the view that an NPO will need to assess how the shortfall on a funds should be addressed. Any options need to be legally permissible.
We also find para G36.11 confusing. The use of articles 'a' and 'the' was not appropriate. That is, the first mention of words 'the fund' (in this para) gives an impression of a defined or known fund (that is, the restricted fund). However, the second mention of 'a fund' gives an impression of an unknown fund (which could mean any other fund other than the restricted fund). This may be corrected by adopting the use of 'the' throughout.	The Secretariat notes this feedback and will address this in updating this Section.
If an alternative were proposed, it could involve segregating ineligible or uncovered costs into a separate line item in the financial disclosures. This would provide clarity on which costs were outside the scope of the fund but still allow for full transparency and avoid the appearance of mismanagement or overspending within a restricted fund.	The Secretariat agrees that an NPO can separately identify these costs. As noted in the main body of the TAG report, the Secretariat does not propose to mandate this requirement.

Comments from those that disagreed	**Response**
No, we do not agree that legitimate expenses be charged to the fund. We propose that the same be accounted through enforceable grant arrangement asset, which will be subsequently be tested for impairment. Having a negative fund does not present the fair view of the fund. If the organization is working a reimbursable basis, then the reimbursable cost should be recognized as enforceable grant arrangement asset where the grant income is recognised to the extent that it is receivable. It is our view that the only negative fund should be the general fund.	The Secretariat notes this comment, but is of the view that it might not always be appropriate to create an asset. A judgement will need to be made at each reporting date. The Secretariat does not agreed that a negative balance can only appear on the general fund.
No – Costs should never be charged to a fund that fall outside the restrictions on a fund. That would represent a breach of trust in jurisdictions where trust law principles apply. Where there are insufficient resources in a fund at a given point in time it may be permissible for a restricted fund to show a negative balance if the governing body is satisfied that there is a high likelihood of additional income being received for the fund in future periods – but only if the expenses fall within the purpose of the fund and if the rationale for the negative balance is explained in a note. (Example: A project has substantial start-up costs in year 1 but there are committed donors who may be expected to support the project in future years, but without a sufficiently formal commitment to justify advance recognition of that income).	The Secretariat agrees that costs should not be charged where they fall outside the purposes of a fund. The Secretariat agrees that there may be a negative balance in the circumstances described.
Comments from those that neither agreed not disagreed	**Response**
This depends because for restricted funds expenses can only be charged when the funds are available or the NPO is sure that the funds will be reimbursed by the specific project Funding Partner. If the NPO is not sure or does not have a written commitment then they can only charge if they have enough unrestricted funds to cover these expenses when the Funding Partner doesn't come through.	The Secretariat does not agree that expenses can only be charged where there are funds available. The Secretariat is of the view that it is important that the actual costs of meeting the purposes of a fund are transparent. The Secretariat agrees that unrestricted funds can be used to support the purposes of a fund with restrictions.
There are many instances where funds provided to a grantee are re-granted to other organisations, barring a portion of the re-granters support costs. In these instances, additional cost information is required from the organisation completing the charitable activity and the expenditure they are incurring, which the current statement does not provide. There is interest in obtaining information relating to regranting performance, e.g. 'average sub grant value', average grant duration, number of grants. Again, although not pivotal to the success of the project this could also be a useful topic to explore further at the donor reference group	The Secretariat notes this feedback. The financial statements are not intended to directly report on the detailed costs of a sub-grantee. The Supplementary statements may provide a mechanism for this reporting.

G36.11–G36.12 . When making a decision on whether to charge a cost to a specific fund or not, given that there are insufficient resources to cover it at a given moment, it can be proposed that an evaluation of the probability of the future recoverability of an expense is made.	The Secretariat agrees that an evaluation of a negative balance on a fund is made at each reporting date

SMC 1f)	
Comments from those that agreed	**Response**
Yes however for the disclosure to have a complete picture of the fund you should consider combining part of note 5 of illustrative notes, • Column showing Receipts, refunds, enforceable grant arrangement asset • Release of unrestricted funds e.g. NICRA • Transfer to enforceable grant arrangement liability	The Secretariat will consider the holistic disclosures required by INPAG as outlined in response to SMC 1a)
Generally, we agree with the NPO fund disclosure requirements, and we note that proposed Section 36 of INPAG does not contain requirements to report assets and liabilities for each fund. However, the 'proposal development' box on page 7 of the invitation to comment suggests that there is such a requirement: 'Discussion also focused on whether asset and liability information needs to be fund-specific. This requirement has been included in ED3 to mitigate against the need for immaterial transactions to be separately tracked and create a burden disproportionate to the benefits'. Proposed paragraph G36.22 does not appear to contain any requirement to disclose any breakdown of the assets or liabilities included in a fund. If such disclosure is required by other sections, it may be helpful to cross-refer accordingly. However, as noted earlier in this response, we do not agree with the requirement of proposed paragraph G36.22(e), because we consider information on any designated funds is better presented in the narrative report.	The Secretariat notes the feedback about the disclosure of assets and liabilities. The Secretariat does not propose that assets and liabilities are separately disclosed on individual funds and this is not required by other INPAG Sections. The Secretariat notes the feedback on internally designated funds. Many stakeholders have identified the importance of such information in understanding the financial resilience of an NPO and how it intends to use its unrestricted funds.
I agree with this. However in some organisations in Indonesia they also use the term "increase and decrease" of Net Asset	The Secretariat notes this feedback.
Yes, I agree. However, a note on assets and liabilities on an individual fund basis may be disclosed for more information	As noted above the Secretariat does not propose to require asset and liability information for each fund.
Comments from those that disagreed	**Response**
I do not agree with the mandated requirement to present funds with restrictions and funds without restrictions, given the extra costs that will be involved, the likely disputes with auditors on classification (as restrictions are not linked only to enforceable grant obligations), and issues in relation to reduced information when funds are combined.	Fund accounting is strongly supported by respondents to ED3. The Secretariat acknowledges the points raised and will work across the sector to mitigate these risks.

SMC 1g)	
Comments from those that agreed	**Response**
Yes it does illustrate it with the difference scenarios, will such workings be part of the guidance or will be a separate document as it will greatly help especially for smaller NPOs	The Implementation Guidance will be provided as a separate document.
The illustrative examples demonstrate the key concepts in fund accounting. Disclosure should be made for funds with and without restriction to the extent that these disclosure meet the qualitative and quantitative requirements of financial statements.	Section 2 *Concepts and pervasive principles* sets out the characteristics of financial information. These are pervasive across INPAG and so will apply to Section 36.
Add the stipulations of Funds Without Restrictions - Board Designated to the Decision Tree. Illustrative examples adequately help NPOs identify funds with restrictions.	The decision tree says that a fund can exist as a result of management decisions. However, it will fail the criteria to be a restricted fund. The Secretariat is of the view that it is currently addressed by the decision tree.
Yes, as mentioned above it is also important to include when sustainability is affected, and sustainability is reflected in the financial statements as in the case of social work and environment which are subsidised	The Secretariat notes the feedback. The Secretariat is of the view that this can be addressed by the narrative reporting requirements.
Cost allocation drivers must be developed for use to allocate funds i.e. cost allocation policy is required. I see it difficult to develop standard/global cost allocation policies due to the nature and contextual operational differences. And hence, good to develop internal polices to allocate shared costs/exp taking relevant factors into account	The Secretariat agrees that it is difficult to develop standard/global cost allocation policies and these will need to be developed by each NPO based on its individual context. Section 24 Part II provides guidance on cost allocation.
Example #5 needs clarification that it is a scenario where there is no donor-imposed condition attached to each year's grants of 100,000, i.e., unspent funds are eligible for spending in subsequent years.	The Secretariat will clarify this example and align the terminology with that used in Section 23 Part I.
Comments from those that disagreed	**Response**
No- it omits the classification of trading income from exchange transactions	The Secretariat notes this feedback and will address it in the response to feedback on SMC 1d)
In our view, the examples provided do not demonstrate the key concepts in fund accounting in the best possible manner. For instance, the movement in funds in Note 4 separately discloses designated funds. In our view, as highlighted above in our response to Question 1(b), information on how funds are earmarked by an NPO as part of its overall strategy is best placed in other information as part of the narrative reporting in the annual report, as opposed to the notes to the financial statements.	The Secretariat notes this feedback. This will be considered when the TAG has had the opportunity to consider the feedback on SMC 1b).