

## **ASBG 14 NON-PROFIT ASSOCIATIONS AND FOUNDATIONS**

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## OBJECTIVE AND BASIS FOR PREPARATION

1. The objective of this Accounting Standards Board guideline ASBG 14 “*Non-profit Associations and Foundations*” is to describe the accounting policies and the presentation of the financial statements of non-profit associations and foundations prepared in accordance with the Estonian financial reporting standard (hereinafter also *the financial statement*). Estonian financial reporting standard is a body of financial reporting requirements directed at the public and based on the internationally accepted accounting and reporting principles, which principal requirements are established by the Accounting Act and which is specified by a regulation of the minister responsible for the area established on the basis of subsection 34 (4) of the Accounting Act (hereinafter *guideline of the Standards Board* or for short *ASBG*).
2. IFRS for SMEs has been prepared first and foremost with having regard to business entities and does not regulate specifically the accounting and reporting of non-profit associations and foundations. The preparation of this guideline is based on the general principles described in IFRS for SMEs, International Public Sector Accounting Standards (IPSAS), considering also international practice. In areas where ASBG 14 does not specify a particular accounting method but that are regulated by IFRS for SMEs, it recommended to abide by the accounting method described in IFRS for SMEs.
3. The choice of an income statement format is based on sub-section 18 (4) of the Accounting Act according to which an accounting entity may use an income statement format other than that presented in the note of the Act in those areas where it is justified by the nature of its business activities.

## SCOPE

4. *ASBG 14 “Non-profit Associations and Foundations” shall be applied to organising the accounting of non-profit associations and foundations, the application of accounting policies and the preparation of the financial statements in accordance with the Estonian financial reporting standard.*

## DEFINITIONS

5. *The following terms are used in this guideline with the meanings specified:*

*A non-profit association is a voluntary association of persons the objective or main activity of which shall not be the earning of income from economic activity, the income of which may be used only to achieve the objectives specified in its articles of association and which shall not distribute profits among its members.*

*A foundation is an institution which has no members and which has been established to administer and use assets to achieve its statutory objectives.*

*Fees, donations and grants intended for specific purposes – fees, donations and*

*grants (including government grant), that should be used for acquiring a specific asset or for financing a specific project.*

**Fees, donations and grants not intended for specific purposes** – fees, donations and grants (including government assistance), whose usage is not limited to acquiring a specific asset or financing a specific project.

## **ORGANISING THE ACCOUNTING AND CHOOSING ACCOUNTING POLICIES**

6. Non-profit associations and foundations are accounting entities in accordance with section 2 of the Accounting Act. Inter alia, non-profit associations and foundations organise their accounting in accordance with sections 4-12 and prepare their annual reports in accordance with sections 13-31 of the Accounting Act.

***7. In choosing accounting policies and preparing the financial statements, non-profit associations and foundations use the policies described in the guidelines of the Accounting Standards Board, unless prescribed otherwise in this guideline.***

8. In most accounting areas, non-profit associations and foundations use exactly the same accounting policies as business entities. Such accounting policies are described in the guidelines of the Accounting Standards Board. This guideline describes the accounting for and recognition of business transactions primarily typical of non-profit associations and foundations (such as receipt of fees from members of an association, donations and grants).

## **ACCOUNTING POLICIES IN SPECIFIC AREAS**

### **Fees from Members of an Association**

9. To account for fees received from the members of an association, the following principles shall be adhered to:

a) membership and entrance fees as well as other non-specific-purpose fees from the members of an association (for example, maintenance fees and fees for the coverage of general expenses received from the members of an apartment association) shall be recognised as income in the period for which they were paid;

(b) fees intended for specific purposes from the members of an association (for example, fees paid by the members of an apartment association for repairs) shall be recognised as income after the fees have been received or when their collection is practically certain and conditions related to the fees are met (e.g., fees paid for repairs shall be recognised as income after repairs have been performed).

10. Fees receivable from members of an association shall not be recognised as revenue before the when the fees have been received or when their collection is practically

certain and conditions related to the fee are met. In case the receipt of fees is uncertain, the fees shall be recognised as income at the time of receipt or later (in case it is a prepayment for next periods).

Example 1 - recognition of fees received from association members

Recognition of fees not intended for specific purposes:

- (a) At the end of 20X1, a gardening association receives a membership fee for 20X2. In the balance sheet for 20X1, such a membership fee shall be recorded as a prepayment (under liabilities and equity) and it shall be recognised as income during 20X2.
- (b) At the end of 20X1, one of the members of an apartment association has not paid a portion of a maintenance fee in the amount of 200 euros for 20X1. Assuming that the receipt of the fee is highly probable after the reporting date, the apartment association shall recognise the accrued receivable from its member with regard to the unpaid maintenance fee and shall also recognise it as income for 20X1.

Recognition of fees intended for specific purposes:

Fees for repair work received by an apartment association are recognised as income in the period in which they are used to make repairs. Fees and funds received are recognised on the balance sheet (under liabilities and equity) as deferred income until the time of being recognised as income.

**11.** In case a membership fee grants additional benefits to the members (e.g., an opportunity to purchase certain services from the non-profit association at a more favourable price), the membership fee shall be recognised as income during the period of the expected use of additional benefits.

### **Donations and Grants Received**

**12.** The following principles shall be adhered to when accounting for donations and grants received (incl. funds received from charity):

- (a) donations and grants not intended for specific purposes shall be recognised as income when the donation or grant has been received or when their collection is practically certain (taking into consideration the period for which they have been paid, if necessary);
- (b) donations and grants intended for specific purposes (incl. non-monetary donations and grants) shall be recognised in accordance with the accounting policies described in ASBG 12 “*Government Grants*” (i.e. are recognised as income after the donation or grant has been received or its collection is practically certain and the conditions related to the donation or grant are met; donations and grants intended for specific purposes received for acquiring assets may alternatively be recognised under the net method described in ASBG 12; the selected method must be applied consistently);
- (c) donations and grants which are essentially contributions into the net assets of a non-profit association or foundation shall not be recognised as income in the income statement but as a change in net assets in the balance sheet and in the statement of changes in net assets.

**13.** A donation or a grant which is intended to be used in a specific area but is not directly related to the financing of a specific project (e.g., operating grant received from the state budget), shall not be considered as a donation intended for specific purposes. (a) Such donations and grants shall be recognised as income at the time when the donation or grant has been received or its collection is practically certain, in conformity with sub-clause 12 (a) of this guideline.

**14.** Certain donations and grants can be similar in their nature to contributions into the net assets (into share capital or endowments) of a non-profit association or foundation, even if they have not been legally set up as such. Such donations and grants are frequently characterised by the fact that permanent limits have been set on their usage (e.g. they cannot be spent but often can be invested). Non-monetary contributions are also assets forming a substantial part of assets required by a non-profit association or foundation to attain its statutory objectives that are given free of charge into the net assets of the non-profit association or foundation. Pursuant to sub-clause 12 (c), such donations and grants shall not be recognised as income in the income statement but shall be recognised as a change in net assets in the balance sheet and in the statement of changes in net assets.

Example 2 – Recognition of donations and grants received

The following are examples of the application of principles described in clause 12.

Recognition of non-specific-purpose donations and grants

- (a) A donation received by a non-profit association (for example, a church) whose use shall be decided by the management of a non-profit association, shall be recognised as income when received.
- (b) Budget revenue of a foundation which is financed from the state budget in case specific conditions have not been set up for their use (e.g. they are not related to the financing of any specific asset or project and are not intended to cover the costs over a certain time period) shall be recognised as income at the time when they have been received or their collection is practically certain.
- (c) Assets received by a congregation through charity are recognised as income upon their receipt.

Recognition of donations and grants intended for specific purposes

- (a) Grants received for the distribution of specific scholarships by foundations shall be recognised as income in the same period in which the decision to pay these specific scholarships is made (at the same time scholarships to be paid out shall be recognised as an expense). Until this time the grant received shall be recognised in the balance sheet as deferred income.
- (b) Cash received by a non-profit association for the acquisition of a personal computer shall be recognised as a liability upon its receipt (deferred income). Upon the acquisition of a computer, the donation shall either be immediately recognised as income (if the entity has opted to use the general method described in sub-clause 12 (b) as its chosen method of accounting) or the donation shall be deducted from the cost of the computer (if the entity has opted to use the net method described in sub-clause 12 (b) as its chosen method of accounting).

Accounting for donations and grants whose use is restricted by permanent limitations

and which are essentially contributions to the net assets of a non-profit association or a foundation

- (a) A donation is made to the sub-fund set up at the foundation that cannot be paid out directly as a grant but the income earned from investing this donation shall be paid out annually. Such donations are not recorded as income in the income statement, but as an increase of net assets in the statement of changes in net assets (similarly to the contributions into the endowments of a foundation). Income earned from investing funds in the sub-fund as well as the expense incurred for their distribution shall be recognised in the income statement.
- (b) A local government has established a hospital as a foundation operating in a building owned by the local government. The local government decides to transfer the building to the hospital free of charge. The transaction shall be recognised as a contribution to the hospital's endowment because the hospital building comprises a significant part of the assets needed to achieve its statutory objectives.

### **Grants and Donations to be distributed**

**15.** Grants and donations to be distributed (incl. scholarships granted) shall be recognised on an accrual basis as a liability and an expense at the time when the decision regarding their payment is made. Upon payment, the respective liability shall be extinguished.

### **Intermediation of Services and Payments**

**16.** Certain non-profit associations or foundations may be engaged in intermediation of services or payments (incl. loans) to their members or third parties. An apartment association may intermediate payments for utilities between the provider of a service (e.g., a water or energy company) and apartment owners. Another non-profit association may also receive cash from its members to organise an event for its members (and not those of the association). A foundation may in its turn lend funds lent to it. If a non-profit association or foundation does not bear the risks or obtain the rewards resulting from the intermediation of services and payments (e.g. liability towards the end consumer of the service), it shall not recognise the amounts paid as expense or amounts obtained as income but shall instead recognise them respectively as receivables and payables. If necessary, only the net income earned from intermediation or the net expense incurred shall be recorded in the income statement.

## **REPORTING IN THE MAIN STATEMENTS**

### **Balance sheet**

**17.** Non-profit associations and foundations use the balance sheet format provided in Note 1 of the Accounting Act and, if necessary, submit additional sub-items in the notes and specify the titles of existing items. Balance sheet items that are not relevant for the description of the financial position of an association or institution need not be presented.

**18.** It may be expedient to add the following (sub-) items to the balance sheets of non-profit associations and foundations:

(a) assets:

(i) "Receivables from members" (amounts due with regard to membership fees and other fees from the members of an association or an institution);

(ii) "Donations and grants receivable" (a receivable with regard to donations or grants recognised on an accrual basis but not yet received by the reporting date);

(b) regarding liabilities:

(i) "Donations and grants payable" (donations, grants and scholarships that have been decided to be distributed but not yet paid out by the reporting date);

(ii) "Deferred income from grants intended for specific purposes", i.e. fees, grants and donations received but not yet recognised as income by the reporting date (e.g. repair fees received but not yet used).

**19.** In the balance sheet of a non-profit association or a foundation, the term "net assets" is generally used instead of the term "equity", which normally consists of the following items:

(a) share capital, reserve capital or endowment (in a foundation), which for example, can be divided into sub-funds (in case of a foundation);

(b) reserves in case they have been established (net assets with permanent limitations that cannot be distributed);

(c) accumulated surpluses and deficits;

(d) surplus (deficit) for the accounting period

### **Income Statement**

**20.** When preparing an income statement, we recommend to take as basis the format provided in Note to this guideline (see Note – Description of entries in income statement). The titles of items presented in the format can be specified in the notes to the financial statements, also, additional items or sub-items can be added if it makes for greater clarity and legibility of the income statement.

### **Cash Flow Statement**

**21.** Receipts and disbursements of a non-profit association or a foundation in an accounting period shall be recorded in the cash flow statement, grouped in accordance with their objective either as cash flow from operating, investing or financing activities.

**22.** Cash flow generated to achieve the statutory objectives of a non-profit association or a foundation is considered as cash flow from operating activities. It is recommended to record cash flow from operating activities under the direct method (for example,

“Grants received”, “Distributions as donations and grants”). The bases for recording the cash flow from investing and financing activities are provided in ASBG 2 “Requirements for Presentation in the Financial Statements”.

### **Statement of Changes in Net Assets**

**23.** Changes that have occurred in all the items of net assets of a non-profit association or a foundation during the accounting period shall be recorded in the statement of changes in net assets, pursuant to the principles used in the statement of changes in equity described in ASBG 2. The statement of changes in net assets shall contain donations and grants made to a non-profit association or a foundation that in accordance with sub-clause 12 (c) have not been recognised as income in the income statement because permanent limitations have been set on their use (for example, establishment of sub-funds in a foundation).

### **COMPARISON WITH IFRS FOR SMES**

**24.** IFRS for SMEs does not separately regulate the accounting and reporting of non-profit associations and foundations. The policies prescribed in ASBG 14 are in compliance with general policies of IFRS for SMEs, except with regard to grants related to assets, for which IFRS for SMEs does not offer the option to recognise grants under the net method.

**NOTE – DESCRIPTION OF ENTRIES IN INCOME STATEMENT**

Depending on the nature of activities of a specific non-profit association or a foundation it may be necessary to change the titles or contents of certain items or add additional items or subdivisions of items in the notes to financial statements under the assumption that it makes for greater clarity and legibility of the income statement.

Items that are not relevant for presenting the results of an association or an institution need not be presented. Subdivisions of line items (marked with letters in the table) are presented in the notes.

<b>Income</b>	
Fees received from members	Fees regularly received from the members of an association
(a) membership fees and other fees not intended for specific purposes	Membership and entrance fees and other fees not intended for specific purposes (e.g. maintenance fees of an apartment association) received from the members of an association for the accounting period
(b) fees intended for specific purposes	Amounts received from members of an association for the acquisition of specific assets or the financing of projects and recorded as income for the accounting period (e.g., repair fees received by an apartment association and recorded as income for the accounting period)
Donations and grants	Donations and grants recorded as income in the accounting period (incl. funds received from the state budget), except for fees received regularly from the members
(a) donations and grants not intended for specific purposes	Donations and grants without limitations set for their specific use
(b) donations and grants intended for specific purposes	Donations and grants with limitations set for their specific use
Net proceeds from financial investments	Net proceeds earned on financial investments in case investing is one of the main activities of an accounting entity (e.g. in case of a foundation that invests the donated funds and pays the earned income as a grant). Income is accounted for in accordance with ASBG 3 “Financial Instruments” (incl. profit (loss) on the sale of financial investments; interest and dividend income; gains (losses) from revaluation to fair value). A more detailed classification of income according to types of income and investments is disclosed in the notes to the financial statements.
Business income	Income received from the sale and intermediation of products, goods and services in the accounting period. In case business activities are an ancillary activity for the accounting entity, income and expenses received from business operations can be recorded as a net amount. A more detailed classification of income and expenses shall be disclosed in the notes to the income statement.
Other income	Other irregular income, incl. gain from the sale of property, plant and equipment; fines and interest on arrears received

<b>Expenses</b>	
Direct expenses of projects financed from fees for specific purposes	Expenses directly related to such projects that have been financed from the specific-purpose fees received from members of an association or other donations and grants intended for specific purposes (for example, expenses related to the repairs carried out from repair funds by an apartment association)
Donations and grants distributed	Donations, grants and scholarships distributed and recorded as expenses in the accounting period
Other operating expenses	Operating expenses incurred for administrative and other purposes (the cost of bookkeeping services, consulting expenses, office expenses, maintenance costs, advertising expenses, insurance, foundation and research costs, costs related to establishing provisions, cost of the allowance for doubtful receivables)
Staff costs	
a) wages and salaries	Wages, bonuses, holiday pay and other monetary and non-monetary compensation to employees regardless of whether they have been paid out or not
b) social security taxes	Social security tax calculated on the payments described in the previous subcategory and unemployment insurance premium paid by the non-profit association or foundation
Depreciation and impairment of non-current assets	Depreciation/amortisation calculated from property, plant and equipment and intangible assets as well as the expense arising from the impairment of assets (write-downs and/or write-offs)
Miscellaneous expenses	Other irregular expenses, incl. loss from the sale of property, plant and equipment; fines and interest on arrears paid
<b>Surplus (deficit) from operating activities</b>	
Profit (loss) from subsidiaries	Profit (loss) from the sale or impairment of subsidiaries and profit (loss) calculated under the equity method
Profit (loss) from associates	Profit (loss) from the sale or impairment of associates and the profit (loss) calculated under the equity method
Gain (loss) from financial investments	Profit (loss) from long-term or short-term financial investments, incl. sale and revaluation to fair value.
Interest income	Interest income on loans, bonds, finance lease agreements and other interest-bearing borrowings
Interest expenses	Interest expenses on loans, bonds, finance lease agreements and other interest-bearing borrowings
Other financial income and expenses	Profit (loss) arising from exchange rate changes of receivables and liabilities denoted in foreign currencies and related to financing and investing activities (e.g. loans given and received), interest income and other financial income and expenses not related to subsidiaries or associates or other financial investments
<b>Surplus (deficit) for financial year</b>	