

# **University Grants Committee**

## **Statement of Recommended Practice**

**for**

**the UGC-Funded Institutions**

**September 2015**

## **PREFACE**

This new “Statement of Recommended Practice” (“SORP”) is an update from the existing Statement of Recommended Accounting Practice (published in October 2003) for Higher Education Institutions funded by the University Grants Committee in Hong Kong (“UGC-funded institutions” or “institutions”). The update was made in recognition of the developments of the accounting standards in Hong Kong and internationally and the accounting practice of the institutions in recent years.

In drawing up the new SORP, reference was made to the following documents:

1. The accounting standards, interpretations, amendments and annual improvements to the accounting standards, collectively known as Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants;
2. International Financial Reporting Standards; and
3. The Recommendations in the Financial Affairs Working Group Report.

The institutions are non-profit making tertiary education institutions whose main activities include teaching, research and services to the Hong Kong community. They differ in size and complexity and come from diversified backgrounds. They are public bodies incorporated through specific ordinances and therefore do not fall within the ambit of the Hong Kong Companies Ordinance.

In order to provide the stakeholders of the institutions with more information, an Annual Report, consisting of a report from the Council Members or senior management and the Financial Statements of the institutions, should be prepared on an annual basis. The Financial Statements of institutions should be prepared in accordance with accounting principles generally accepted in Hong Kong, in order to give a true and fair view of the financial position, financial performance and cash flows of the institutions. They should follow all relevant accounting standards in Hong Kong, including those introduced after the publication of this SORP. The SORP is not intended to cover all subjects of the HKFRS nor to prescribe accounting practice independent of or that diverges from HKFRS in Hong Kong but rather provide additional guidance to the institutions on areas which are unique and specific to them.

One of the aims of the SORP is to simplify guidance to avoid the need for frequent updates. However, should future accounting standards, practices or regulations be changed in a manner that materially impacts matters specific to the institutions, the need to review this SORP in response to those changes is also recognised.

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## Part 1 – Introduction

### Background

- 1.1 The main activities of the institutions include teaching, research and services to the community. There are, however, other auxiliary activities carried out by the institutions which are incidental to these objectives, e.g. investments, consultancy, the provision of student residences, catering facilities, etc.
- 1.2 Separate legal entities, e.g. limited companies, trusts or joint ventures etc. are usually established by the institutions to undertake these incidental activities which can be self-financing, income generating or entirely commercial in nature.
- 1.3 The main aims of issuing this SORP are:
  - i. to set out recommendations, intended to represent best practice, on the form and contents of the Annual Report of the institutions;
  - ii. to set out the requirements of the Report of the Council or senior management;
  - iii. to provide guidance on the applications of HKFRS in accounting for certain specific and unique transactions of the institutions; and
  - iv. to set out the accounting and disclosure requirements for transactions that are peculiar in nature to the institutions and are not covered by HKFRS.
- 1.4 This SORP is intended to complement HKFRS, covering only areas which are unique to the institutions. Whenever it is unclear whether any contradictions exist, or subsequent updates of HKFRS lead to inconsistencies with this SORP, HKFRS shall prevail. Full reference should be made to prevailing HKFRS, if a topic is not covered in this SORP.

### Funding

- 1.5 The institutions receive their funding mainly from the following major sources:
  - Government Subventions in the form of recurrent and non-recurrent grants, earmarked or otherwise, from the Government via the University Grants Committee or other Government Agencies;
  - research grants awarded by funding bodies, public sector bodies, Government departments other than the UGC and the private sector;
  - tuition fees, programme fees and incidental charges;
  - revenue for the provision of services, contract research and consultancy work, conference and accommodation facilities;
  - interest and investment income; and
  - bequest, endowments and donations.
- 1.6 Revenue can be grouped into two broad categories:
  - i. Revenue for general purpose: these are revenues that the institution can use for any of its activities at its discretion.
  - ii. Revenue for specific purposes: these are revenues that the grantor or donor has designated for specific purposes.

## Objectives of Annual Report

- 1.7 The Council and/or other governing body of an institution are responsible for the preparation and presentation of its Annual Report, consisting of a report of the Council or senior management of an institution and its Financial Statements. Report of the Council or senior management of an institution should provide information to the users to enhance their understanding of the strategy, institutional governance and operations of the institution. The Financial Statements should be prepared in accordance with accounting principles generally accepted in Hong Kong, in order to give a true and fair view of the institution's financial performance and cash flows during a specified period of time and its financial position at the end of that period.
- 1.8 The objectives of the Annual Report of the institutions are determined by the needs of users and potential users. However, it is not practical to satisfy the needs of all users. Therefore, the Annual Report will only focus on the information needs of main groups of users.
- 1.9 This SORP does not extend the responsibilities of an institution's external auditors in respect of the Annual Report beyond those included in Hong Kong Standards on Auditing or relevant ordinance.

## Users of Annual Reports

- 1.10 The main groups of users of the Annual Report of the institutions are considered to be:
- the governing bodies of the Institution;
  - the University Grants Committee, its sub-committees and the Research Grants Council;
  - the Government and the Legislative Council;
  - resource providers;
  - constituent groups – students, employees, alumni;
  - other UGC-funded institutions;
  - other educational institutions; and
  - the public.
- 1.11 These user groups may have different information needs, but certain key characteristics of the data and information, including the need for clarity, comparability and accountability, are common to all. In order to achieve the objectives stated in paragraph 1.7 above, suitable analyses of the following should be prepared:
- i. the revenue from all sources within the period of the Financial Statements;
  - ii. the expenditure on all activities within the period of the Financial Statements;
  - iii. the assets and liabilities of the institution, classified in suitable form;
  - iv. how the institution is performing financially, including the adequacy of the working capital; and
  - v. any known or probable circumstances which might significantly affect the financial position of the institution.
- 1.12 These main objectives, while not comprehensive, should guide the scope and broad presentation of the Annual Report and they imply a need for comparability between the Annual Reports of the institutions.

## Implementation Date

- 1.13 The provisions of this SORP should be adopted for accounting period commencing on 1 July 2015, with the exception of segment reporting, which is to be implemented for the accounting period commencing on 1 July 2016.

## Part 2 – Definitions

Definitions covered in this section will only include those having a unique meaning in the context of the UGC-funded institutions. Terms, which are defined in HKFRS or other accounting literature, are not repeated here and those sources should be referred to where necessary.

### **Auxiliary Services**

Auxiliary Services are services or activities conducted by the institutions, supplementary to and supporting the main functions of the institutions in teaching, research, and public service. Such services are often operated on a self-financing basis. Examples of these include residence halls, catering services, university press, retail stores, car parking and rental income from staff quarters.

### **Capital Grant**

A Capital Grant is a grant specifically designated by the UGC for meeting capital expenditure arising from improvement works, purchase, construction or development of buildings, including associated furniture and equipment. For the purpose of this SORP, the term “Capital Grant” includes Alterations, Additions, Repairs and Improvements (“AA&I”) block allocation.

### **Deferred Capital Fund**

A Deferred Capital Fund is the aggregate balance of grants for financing the capital expenditure of an institution, whose asset funded by which has a positive carrying value at the end of the reporting period. A Deferred Capital Fund however does not include a surplus arising from a revaluation of an asset, which should be accounted for as part of the Asset Revaluation Reserve.

### **Earmarked Grant**

An Earmarked Grant is a Government Subvention provided for a specific purpose, often carrying with it strict requirements on the scope of expenditure, accounting and reporting matters. Examples include Competitive Earmarked Research Grant and earmarked grants for Staff Housing Benefits.

### **Endowment Fund**

An Endowment Fund is a fund of the institution held with a stipulation that the long-term purchasing power or the principal of it be maintained, be it at the wish of the fund provider or otherwise. Such funds may also include restrictions on the manner in which the funds can be used.

### **General and Development Reserve Fund**

General and Development Reserve Fund is the fund set aside from the balance of recurrent grants from UGC which, according to prevailing rules and regulations promulgated by UGC, may be carried forward beyond their respective funding periods for the general use on the UGC-funded activities of the institution. The magnitude of this reserve is restricted to a limit promulgated by UGC. The rules governing the use of this reserve are often identical to those applicable to recurrent grants.

## **Government Subventions**

Government Subventions are grants provided by the Government and Government Agencies to support the academic, research and related activities of the institutions. Government and Government Agencies may include Government Secretariat, Government Departments and Agencies, University Grants Committee, Quality Education Fund and Hospital Authority. Grants provided by Government and Government Agencies but received through other institutions are regarded as Government Subventions. Government Subventions do not include payments from Government and Government Agencies which are primarily for the acquisition of services or goods from the institutions.

For the purpose of this SORP, the term "Grants from Government Agencies" include all grants from the Government and Government Agencies.

## **Overhead Recovery**

Overhead Recovery is the amount of fee cross-charged among different accounting entities within an institution for goods or services rendered to or for facilities provided among them. The different accounting entities are often determined by their main source of funding for the activities undertaken.

## **Restricted Fund**

A Restricted Fund is a fund held by the institution, whether generated by it or otherwise, designated to fund specific expenditure of the institution in the future. The ownership of Restricted Fund is conditional upon the occurrence of certain events, e.g. completion of a project, in which case the fund is a liability of the institution for the time being and should be treated as Deferred Income. Examples of Restricted Funds include unspent balance of research projects funded by non-earmarked funding.

## **Supplementary Grants and Pay Adjustments**

Supplementary Grants / Pay Adjustments are to meet the adjustment in costs arising from revisions of salaries and wages as a result of any revision in the civil service pay.

## **Tuition, Programmes and Other Fees**

Tuition, Programmes and Other Fees include fees from students and programme participants, covering all programmes of an educational nature, whether UGC-funded or otherwise e.g. conference, seminars and workshops. This item also includes testimonial fees, application fees etc.

## Part 3 – Report of the Council or senior management of an institution

- 3.1 The Annual Report of an institution should include a report from the Council or representatives of senior management of the institution presented alongside the Financial Statements. This report can be called Report of the Council or President's report etc and should include, as a minimum:
- i. the objectives of the institution and the strategy for achieving those objectives;
  - ii. commentary on the financial performance of the institution, significant developments during the reporting period and the institution's financial position at the end of the reporting period;
  - iii. commentary on expected future developments and prospects;
  - iv. a description of the principal risks and uncertainties faced by the institution, including the actions taken to monitor and mitigate them;
  - v. institutional governance arrangements, including details of the institution's management structure and committees' respective responsibilities. This should include:
    - names of the Council members, accompanied by a brief biography of each member;
    - names of the members of key committees;
    - particulars of any contract of significance for the provision of services or goods to the institution or the subsidiary of the institution (except for the employment contract with the institution or the subsidiary of the institution) subsisting during or at the end of the reporting period in which a Council member or committee member is or was materially interested, either directly or indirectly, or, if there has been no such contract, a statement to that effect.
    - a summary of the functions of each committee; and
    - the number of meetings of Council and key committees held during the reporting period and attendance statistics for members.
  - vi. a description of the procedures put in place to ensure that the institution maintains sound and effective internal controls and the measures taken to review their effectiveness.

The information required by paragraph 3.1 v, if disclosed elsewhere in an institution's Annual Report, can be excluded from the Report of the Council or senior management.

- 3.2 To fulfil this requirement, the report should be produced in accordance with the following principles:
- i. The report should be presented in a balanced manner, giving equal prominence to good aspects of performance and challenges faced by the institution;
  - ii. It should focus on matters that are relevant to the institution's key stakeholders;
  - iii. As well as presenting commentary on the reporting period in question, the report should also have a focus on the institution's future prospects and challenges in meeting its objectives; and
  - iv. The report should be comparable over time.

## Part 4 – Financial Statements

### Scope

- 4.1 The recommendations contained in this SORP are intended to be applicable to all UGC-funded institutions in Hong Kong. The provisions of this SORP should be read in conjunction with HKFRS and need not be applied to immaterial items.

### Financial Statements

- 4.2 A complete set of Financial Statements should be presented in accordance with HKFRS. Financial Statements for UGC-funded institutions should comprise the following:
- Statement of Comprehensive Income;
  - Statement of Financial Position;
  - Cash Flow Statement;
  - Statement of Changes in Fund Balances;
  - Principal Accounting Policies; and
  - Notes to the Financial Statements.
- 4.3 Where an institution is required to prepare consolidated Financial Statements, all of the above components should be prepared on a consolidated basis. In addition, a Statement of Financial Position and a Statement of Comprehensive Income with appropriate notes should also be prepared at an institutional level.

### Consolidation

- 4.4 An institution that controls one or more subsidiaries as defined by HKFRS should prepare consolidated Financial Statements.
- 4.5 Interest in joint arrangements (joint ventures or joint operations) and associates should be accounted for in the consolidated Financial Statements of the institution in accordance with HKFRS.

### Statement of Comprehensive Income

- 4.6 Statement of Comprehensive Income should be prepared to reflect the operation of the institution in the reporting period. An example of the Statement of Comprehensive Income is included in Appendix.
- 4.7 The underlying principle for the presentation of Statement of Comprehensive Income is to disclose all resources coming into and being consumed or retained by the institution in a reporting period.

### **Classification of Revenue**

4.8 Revenue should be classified according to its nature and be shown on the face of the Statement of Comprehensive Income while the Notes to the Financial Statements should provide further analyses as additional information to readers. The various sources of revenue should include :

- Government Subventions;
- Tuition, Programmes and Other Fees;
- Donations and Benefactions;
- Auxiliary Services;
- Interest and Investment Gain/Loss; and
- Other Income.

### **Government Subventions**

4.9 Government Subventions, including non-monetary grants at fair value, shall not be recognised until there is reasonable assurance that: (a) the institution will comply with the conditions attaching to them; and (b) the subventions will be received.

4.10 Government Subventions shall be recognised in the Statement of Comprehensive Income on a systematic basis over the periods in which the institution recognises as expenses the related costs for which the grants are intended to compensate.

4.11 Government Subventions received before the occurrence of the related expenses and capital expenditure other than depreciation expenses should be recognised as Deferred Income in the Statement of Financial Position.

4.12 Recurrent Grants should be recognised as revenue to the extent that obligations associated with the relevant agreements are satisfied. Other subventions, which are earmarked for specific purposes, should be recognised as revenue to the extent of the related revenue expenditure incurred during the reporting period.

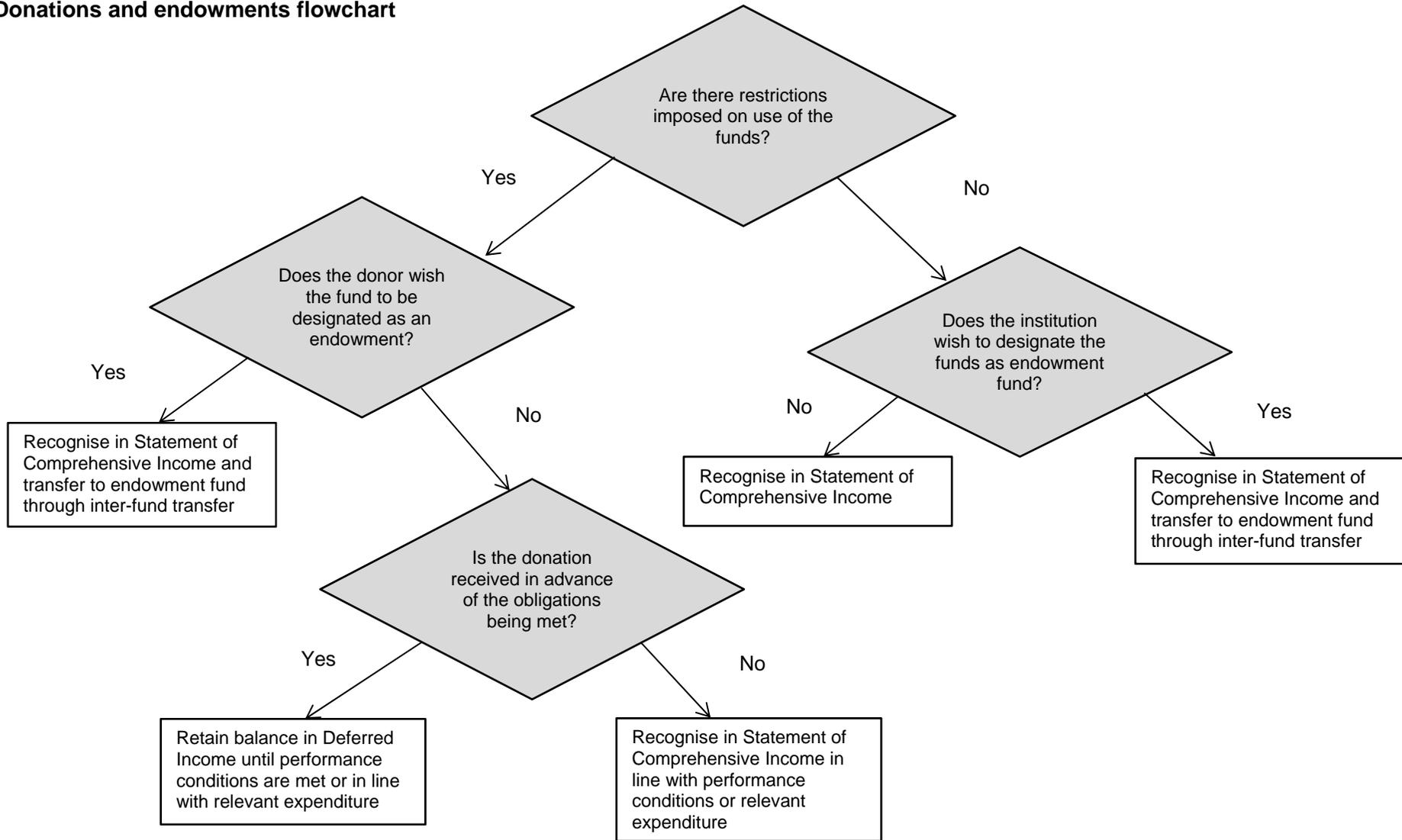
4.13 Government Subventions related to assets, including non-monetary grants at fair value, shall be presented in the Statement of Financial Position either by setting up the grant as Deferred Capital Fund or by deducting the grant in arriving at the carrying amount of the asset upon the completion of the asset in accordance with HKFRS.

4.14 For collaborating projects amongst institutions, the amount of subvention to be recognised as revenue should be limited to the extent of expenditure incurred by that institution. Grants which are received and paid by one institution to another should not be recognised as revenue of the "flow-through" institution.

### **Donations and Benefactions**

- 4.15 Donations without conditions in cash or cash equivalents or other investment instruments should be recognised as revenue when received or are receivable from the donors. Outstanding pledges should not be recognised as revenue unless a constructive obligation on the donor can be established by the institution.
- 4.16 Donations received with a specific purpose should be treated in a consistent manner to Earmarked Grants, that is, they should be recognised as revenue to the extent of the related expenditure incurred during the reporting period.
- 4.17 Donations of property, plant and equipment should be recognised on a consistent basis as Government Subventions relating to assets. Where no reliable valuation can be obtained or where the cost of obtaining a valuation is greater than the benefit to the users of the Financial Statements, the donation should be recorded at nominal value and disclosed in the Notes to the Financial Statements.
- 4.18 Endowments should be recognised in accordance with the principles of revenue recognition, that is, they should be recognised when received or receivable and conditions or obligations attached to them are fulfilled. Where the institution decides to designate certain funds as part of its Endowment Fund subsequent to the receipt of the donation with no imposed requirement by the donor, the donation received should be recognised as revenue initially and be subsequently transferred to Endowment Fund via the Statement of Changes in Fund Balances.
- 4.19 Funds from benefactors without constraints are at the full disposal of the institution and such funds are of a revenue nature and should be recognised as revenue of the institution. The balance of funds received in advance of relevant obligations being fulfilled should be held as Deferred Income.

### Donations and endowments flowchart



### **Other Income**

- 4.20 Major items that are normally included under “Other income” include:
- i. Contract Research;
  - ii. Service Income, e.g. consultancy fees, management fees from subsidiary companies; and
  - iii. Miscellaneous Income, e.g. income from staff outside practice, rental income, disposal of property, plant and equipment, insurance claims and exchange gain/loss.

### **Classification of Expenditure**

- 4.21 Expenditure should be classified by function on the face of the Statement of Comprehensive Income.
- 4.22 Expenditure for each major function should include all readily identifiable costs in the appropriate cost centres, including but not limited to staff costs, housing, passage, office expense and depreciation.
- 4.23 Expenditure items of an institution should be shown on the face of the Statement of Comprehensive Income under the following headings and sub-headings:
- i. Teaching, Learning and Research
    - Teaching and Research;
    - Library;
    - Central Computing Facilities; and
    - Other Academic Services
  - ii. Institutional Support
    - Management and General;
    - Premises and Related Expenses;
    - Student and General Education Services; and
    - Other Activities.

### **Teaching, Learning and Research**

- 4.24 Expenditure on “Teaching” and “Research” should be shown as a single item on the face of the Statement of Comprehensive Income as they cannot be easily distinguished from each other without subjective accounting judgment. Detailed analysis for material sub-categories should be disclosed by way of Notes to the Financial Statements.
- 4.25 Teaching and Research should include operating expenditure of academic departments, laboratories, language centres, museums, eye centres, faculty offices and research centres. It should also include expenditure for studentships, postgraduate awards and conference expenses. The cost of non-academic staff in academic departments should be included if it is immaterial in the context of the institution concerned.
- 4.26 Other Academic Services should cover operating expenditure of units providing direct support to teaching and research functions, such as registry, research offices, graduate school, academic link and academic exchange.

### ***Institutional Support***

4.27 Management and General Expenses are operating expenses for the overall administration of the Institution, which are often undertaken by centralised units. They should include Auditors' Remuneration. Where the cost of staff medical and dental benefits is readily identifiable with individual staff, they should be included under their respective functional heading; otherwise they should be included under Institutional Support.

4.28 Premises and Related Expenses should include:

- depreciation of the institution's premises, including Residence Halls;
- government rent and rates;
- operating expenditure of the units responsible for the maintenance and up-keep of the buildings and physical infrastructure of the institution, whether within campus or otherwise;
- premises rental;
- property insurance;
- repair and maintenance;
- staff quarters (including repairs and maintenance, notional rental); and
- utilities, cleaning and security services.

4.29 Student and General Education Services should include:

- careers and counselling services;
- grants to student societies;
- medical and dental care of students;
- scholarships and financial aids;
- operating expenditure for the units responsible for the support of extra-curricular activities and welfares of the students;
- residence halls (other than depreciation); and
- student/extra-curricular activities.

4.30 The cost of operating health clinics, which are for both staff and students, should, as far as possible, be segregated into staff and student portions. However, if it is not possible, or immaterial to do so, then the total of such costs should be included under Student and General Education Services.

4.31 Major items that are normally shown under "Other Activities" include:

- Catering Services;
- University Press;
- Consultancy; and
- Miscellaneous.

### ***Overhead Recovery***

4.32 All specific overhead recovery should be netted off from their respective expenditures and should not be shown as a separate line item in the Statement of Comprehensive Income.

### **Statement of Financial Position**

4.33 The presentation of the Statement of Financial Position of an institution should follow the requirements of HKFRS. A suggested presentation is set out in Appendix.

### **Property, Plant and Equipment**

- 4.34 The funding for acquisition or construction of property, plant and equipment should be recorded in accordance with paragraph 4.13 of this SORP.
- 4.35 Donated property, plant and equipment recognised in accordance with paragraph 4.17 above should be accounted for at fair value on initial recognition in the Statement of Financial Position less any subsequent provision for depreciation and accumulated impairment losses. Where the donated assets are recorded at a nominal value in the absence of reliable valuation or benefit to users of the Financial Statements, a disclosure in the Notes to the Financial Statements should be made.
- 4.36 Land lease or right to use land is granted by the Government from time to time to an institution. Such lease or right is often granted at a nominal rent or lease payment, carrying with it strict conditions in the use of land, with virtually no resale value.
- 4.37 Where an institution enjoys the use of an asset which it does not own and for which no annual or nominal rental is paid, whether or not such use is regulated by a licence or lease, the institution should disclose the fact in the Notes to the Financial Statements. This requirement does not apply to one-time or occasional arrangement for facility sharing.
- 4.38 Expenditure should be capitalised to the extent that it meets the definition of an asset i.e. it is probable that future economic benefits associated with the item will flow to the institution and the cost of the item can be measured reliably. Expenditure that does not meet this definition should be expensed i.e. expenditure on repairs and maintenance.
- 4.39 The depreciable amount of an asset should be amortised over its estimated useful life, including assets which are funded by a grant for a research project.

### **Investment property**

- 4.40 Property held for the purpose of supporting education activities shall not be classified as investment property and shall instead be classified under property, plant and equipment.
- 4.41 Institutions should determine whether the primary purpose of a certain property is for education. This is of particular relevance where a property derives an element of external income.
- 4.42 Mixed use property should be separated between investment property and property, plant and equipment. If the fair value of the investment property component cannot be measured reliably without undue cost or effort, the entire property shall be accounted for as property, plant and equipment.
- 4.43 Investment property should be accounted for in accordance with HKFRS.

### **Restricted Funds**

- 4.44 The aggregate balance of all Restricted Funds at the end of reporting period should be disclosed on the face of the Statement of Financial Position, with the following information to be disclosed in the Notes to the Financial Statements:
- i. a description of the nature and purpose of each broad category of Restricted Funds; and
  - ii. the balance of each broad category of Restricted Funds at the beginning and the end of the reporting period, and the movements of those Funds during such period.

### **UGC Funds**

- 4.45 As a minimum, the balance of UGC Funds (including but not limited to General and Development Reserve Fund) should be separately disclosed on the face of the Statement of Financial Position.

### **Other Funds**

- 4.46 The aggregate balance of all other funds at the end of the reporting period should be separately disclosed on the face of the Statement of Financial Position, with an analysis of the individual funds showing the balance at the beginning and end of the reporting period, and the movements during such period in the Notes to the Financial Statements. Where appropriate, further analysis may be given on Endowment Funds and other operation reserve funds with suitable narratives on the nature of the funds.
- 4.47 The unspent balance of any fund at the end of a reporting period earmarked for research projects with a condition imposed by the fund contributor to refund any excess at the end of the project should be shown as Deferred Income in the Statement of Financial Position.

### **Deferred Capital Fund**

- 4.48 Upon receipt of the government grant or donation for property, plant and equipment before the construction, such fund should be classified as Deferred Income. During the construction phase of property, plant and equipment, the corresponding amount of such fund should be classified as Deferred Capital Fund which is shown separately in the Statement of Financial Position or deducted from the carrying amount of the asset (see paragraph 4.13). Once the relevant property, plant and equipment is completed and ready for use, the same amount of the Deferred Capital Fund is reduced and recognised as revenue as and when the depreciation of the related property, plant and equipment is charged to the Statement of Comprehensive Income.

### **Cash Flow Statement**

- 4.49 A Cash Flow Statement should be prepared at the consolidation level only in accordance with HKFRS.

### **Statement of Changes in Fund Balances**

- 4.50 An institution should present, as one of the primary statements of its Financial Statements, a Statement of Changes in Fund Balances at the consolidation level in lieu of the Statement of Changes in Equity showing:
- i. Total comprehensive income for the period;
  - ii. Each item of revenue and expense, gain or loss which, as required by HKFRS, is recognised directly in fund balances, and the total of these items; and
  - iii. The cumulative effect of changes in accounting policy and the correction of fundamental errors.
- 4.51 The Statement should adopt a format similar to the example in Appendix.
- 4.52 The concept of owners' equity, which is commonly found in business corporates, is not so relevant in the context of the institutions. Institutions did not start off with any owner's equity capital, but have funds in the form of endowments, grants and benefactions. Changes in an institution's fund balances between the dates of the end of two reporting periods reflect the increase or decrease in its net assets during the period, under the particular measurement principles adopted and disclosed in the Financial Statements.

### **Transfer**

- 4.53 All transfers between funds should be shown in the Statement of Changes in Fund Balances as Inter-Fund Transfer. Transfers to and from funds of different nature should be separately disclosed in the Notes to the Financial Statements and an explanation provided for material transfers.

### **Notes to the Financial Statements**

- 4.54 The Notes to the Financial Statements should provide supplementary information necessary for the readers to understand the Financial Statements where such information is not presented elsewhere in the Financial Statements but are required by HKFRS or this SORP.

### **Basis of Preparation**

- 4.55 Institution should present information about the basis of preparation of the Financial Statements and the specific accounting policies selected and applied for significant transactions and events. The significant accounting policies should cover:
- i. Description of the nature and treatment of each revenue stream included in paragraph 4.8;
  - ii. Nature of funds and their recognition criteria, including any restrictions on use or recognition. As a minimum, this should include a description of the funds provided by the UGC and the applicable restrictions, including the General and Development Reserve Fund;
  - iii. Segment reporting, including the basis of allocation of costs between UGC-funded and non-UGC-funded activities; and
  - iv. Financial assets (such as loans and receivables, available-for-sale financial assets, financial assets at fair value through profit or loss, etc).

### **Segment reporting**

- 4.56 The segment reporting disclosure of institutions should follow this SORP. Institutions should increase the transparency of the operations of UGC-funded activities and non-UGC funded activities.
- 4.57 Reported segments should be defined by source of funding. Institutions should disclose by way of a note to the Financial Statements an analysis of revenue and expenditure recognised by UGC-funded activities and non-UGC funded activities. This note should include the following disclosure: "Disclosures regarding segment reporting are included as a requirement of the Statement of Recommended Practice for the UGC-Funded Institutions and are not designed to fully comply with the requirements of HKFRS 8 'Operating segments'".
- 4.58 The disclosures made should be reconciled to "Surplus/Deficit before share of joint ventures and associates" presented in the Statement of Comprehensive Income.
- 4.59 The following segments should be presented as a minimum:
- UGC-Funded Activities
  - Non-UGC-Funded Activities
    - Self-financing Activities
    - Non-UGC-Funded Research Activities
    - Other Activities

For the purpose of segment reporting, the treatments of specific activities are set out in the Cost Allocation Guidelines and the Notes on Procedures.

- 4.60 Within non-UGC funded activities, the revenue and expenditure of material activities, such as continuous education, research, etc. should be separately disclosed. An activity of an institution is regarded as material if:
- i. Its reported revenue is 10 per cent or more of the revenue of the institution; or
  - ii. The absolute amount of its reported profit or loss is 10 per cent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.
- 4.61 Activities that do not meet any of the quantitative thresholds above may be separately disclosed, if the institution believes that information about the segment would be useful to the users of the Financial Statements.
- 4.62 If 10 per cent of revenue is generated in any places outside Hong Kong, those revenues should be disclosed separately.
- 4.63 This disclosure should be made at both the consolidated and institutional levels.
- 4.64 An example of the Segment Reporting Note is included in Appendix.
- 4.65 For the first reporting period of adoption of segment reporting in accordance with this SORP, the comparative figures are exempted but voluntary disclosure is encouraged.

## **Appendix – Illustrations**

This Appendix is illustrative only and does not form part of the SORP. The purpose of the Appendix is to illustrate how the application of the SORP to assist in clarifying its meaning. The order of presentation and the description used in the line items should be changed where necessary in order to give a true and fair view in each institution's particular circumstances.

The illustrative statements do not include the principal accounting policies and notes. However, institutions should include them in their published Financial Statements in accordance with the requirements of HKFRS.

**Consolidated Statement of Comprehensive Income  
For the Year Ended 30 June 201A**

(Expressed in thousands of Hong Kong dollars)

	Note	201A	201B
<b>Revenue</b>			
Government Subventions		X	X
Tuition, Programmes and Other Fees		X	X
Donations and Benefactions		X	X
Auxiliary Services		X	X
Interest and Investment Gain/(Loss)		X	X
Other Income		X	X
		<u>X</u>	<u>X</u>
<b>Expenditure</b>			
Teaching, Learning and Research			
Teaching and Research		X	X
Library		X	X
Central Computing Facilities		X	X
Other Academic Services		X	X
Institutional Support			
Management and General		X	X
Premises and Related Expenses		X	X
Student and General Education Services		X	X
Other Activities		X	X
		<u>X</u>	<u>X</u>
<b>Surplus/(Deficit) for the year before share of joint ventures and associates</b>		X	X
Share of surplus/(deficit) in joint venture		X	X
Share of surplus/(deficit) in associate(s)		X	X
<b>Surplus/(Deficit) for the year</b>		<u>X</u>	<u>X</u>
<b>Other comprehensive income</b>			
Items that may be recognised in surplus/(deficit):			
Retranslation exchange differences		X	X
Items that will not be recognised in surplus/(deficit)			
Actuarial gains/losses of defined benefit scheme		X	X
<b>Total comprehensive income for the year</b>		<u>X</u>	<u>X</u>

**Consolidated Statement of Comprehensive Income (continued)**  
**For the Year Ended 30 June 201A**  
*(Expressed in thousands of Hong Kong dollars)*

	Note	201A	201B
<b>Attributable to:</b>			
UGC Funds		X	X
Restricted Funds		X	X
Other Funds		X	X
Non-Controlling Interest		X	X
		<u>X</u>	<u>X</u>

## Consolidated Statement of Financial Position

As at 30 June 201A

(Expressed in thousands of Hong Kong dollars)

	Note	201A	201B
<b>Non-Current Assets</b>			
Property, Plant and Equipment		X	X
Investment Property		X	X
Intangible Assets		X	X
Held-to-maturity Financial Assets		X	X
Available-for-sale Financial Assets		X	X
Associates and Joint Ventures		X	X
Other Non-current Assets		X	X
Bank Deposits with Original Maturity over One Year		X	X
		<u>X</u>	<u>X</u>
<b>Current Assets</b>			
Inventories		X	X
Trade and Other Receivables		X	X
Held-to-maturity Financial Assets		X	X
Available-for-sale Financial Assets		X	X
Financial Assets at Fair Value Through Profit or Loss		X	X
Bank Deposits with Original Maturity over Three Months		X	X
Cash and Cash Equivalents		X	X
		<u>X</u>	<u>X</u>
<b>Current Liabilities</b>			
Borrowings		X	X
Trade and Other Payables		X	X
Deferred Income		X	X
Tax Payable		X	X
Provisions for Other Liabilities and Charges		X	X
		<u>X</u>	<u>X</u>
<b>Net Current Assets</b>		<u>X</u>	<u>X</u>
<b>Total Assets Less Current Liabilities</b>		<u>X</u>	<u>X</u>

**Consolidated Statement of Financial Position (continued)**

**As at 30 June 201A**

*(Expressed in thousands of Hong Kong dollars)*

	Note	201A	201B
<b>Non-Current Liabilities</b>			
Borrowings		X	X
Deferred Capital Fund		X	X
Post-employment Benefits		X	X
Provisions for Other Liabilities and Charges		X	X
		<u>X</u>	<u>X</u>
<b>Net Assets</b>		<u><b>X</b></u>	<u><b>X</b></u>
Represented by:			
UGC Funds		X	X
Restricted Funds		X	X
Other Funds		X	X
		<u>X</u>	<u>X</u>
<b>Total Funds</b>		<u>X</u>	<u>X</u>
<b>Non-Controlling Interests</b>		<u>X</u>	<u>X</u>

**Consolidated Statement of Changes in Fund Balances**  
**For the Year Ended 30 June 201A**  
(Expressed in Thousands of Hong Kong Dollars)

	UGC Funds (note X)	Restricted Funds (note Y)	Other Funds (note Z)	<b>Total</b>
<b>Balance as at 1 July 201B</b>	X	X	X	X
Transfer from/(to) Statement of Comprehensive Income	X	X	X	X
Inter-fund Transfer	X	X	X	X
<b>Balance as at 30 June 201A</b>	X	X	X	X
<b>Balance as at 1 July 201C</b>	X	X	X	X
Transfer from/(to) Statement of Comprehensive Income	X	X	X	X
Inter-fund Transfer	X	X	X	X
<b>Balance as at 30 June 201B</b>	X	X	X	X

(Disclosure notes should be included that provide an additional breakdown of each fund, including a reconciliation between opening and closing balances).

**Segment Reporting (to be provided in this format at consolidation and institution level)**

**For the Year Ended 30 June 201A**

*(Expressed in Thousands of Hong Kong Dollars)*

	UGC-Funded Activities	Non-UGC-Funded Activities			Sub-total	Inter-segment Transaction Elimination*	Net Total
		Self-financing Activities	Non-UGC-Funded Research Activities	Other Activities			
<b>Revenue</b>							
Government Subventions	X	X	X	X	X	(X)	X
Tuition, Programmes and Other Fees	X	X	X	X	X	(X)	X
Donations and Benefactions	X	X	X	X	X	(X)	X
Auxiliary Services	X	X	X	X	X	(X)	X
Interest and Investment Gain/Loss	X	X	X	X	X	(X)	X
Other Income	X	X	X	X	X	(X)	X
	X	X	X	X	X	(X)	X
<b>Expenditure</b>							
Teaching, Learning and Research							
Teaching and Research	X	X	X	X	X	(X)	X
Library	X	X	X	X	X	(X)	X
Central Computing Facilities	X	X	X	X	X	(X)	X
Other Academic Services	X	X	X	X	X	(X)	X
Institutional Support							
Management and General	X	X	X	X	X	(X)	X
Premises and Related Expenses	X	X	X	X	X	(X)	X
Student and General Education Services	X	X	X	X	X	(X)	X
Other Activities	X	X	X	X	X	(X)	X
	X	X	X	X	X	(X)	X
<b>Surplus/(Deficit) before share of joint ventures and associates</b>	X	X	X	X	X	-	X

\* A footnote should be included to provide an explanation of the nature of inter-segment income and expenditure if not provided elsewhere.