This accounting policy paper is based on IPSAS 1 Presentation of Financial Statements and IPSAS 2 Cash Flow Statements, as adopted by the Treasury of the Republic of Cyprus.

Presentation of Financial Statements

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1. INTRODUCTION

1.1 COMPONENTS OF FINANCIAL STATEMENTS

A complete set of Financial Statements includes the following:

- Statement of Financial Position
- Statement of Financial Performance
- Statement of Changes in net assets/equity
- Cash Flow Statement
- Statement of Budget Execution
- Notes, comprising a summary of significant accounting policies and other explanatory notes

1.2 OBJECTIVES

The objective of this accounting policy is to prescribe the way the State's financial statements should be presented to ensure comparability with the State's financial statements of previous periods and with the financial statements of other States. The aim of this policy is to provide technical accounting guidance to the preparer of the financial statements, to ensure that these will give a true and fair view. The aforementioned policy is prepared following guidance from all relevant International Public Sector Accounting Standards (IPSASs).

1.3 SCOPE

This accounting policy applies both for the presentation of consolidated financial statements and the presentation of separate financial statements of the Republic of Cyprus and its consolidated entities, as these are defined in the relevant accounting policy.

1.4 PURPOSE OF FINANCIAL STATEMENTS

> *"**Financial statements** are a structured representation of the financial position and financial performance of an entity." (IPSAS 1)*

The objectives of financial reporting in the public sector is to provide information useful for decision making, and to demonstrate the accountability of the State for the resources entrusted to it by:

a) Providing information about the sources, allocation and uses of financial resources;

b) Providing information about how the State financed its activities and met its cash requirements;

c) Providing information that is useful in evaluating the State's ability to finance its activities and to meet its liabilities and commitments;

d) Providing information about the financial condition of the State and changes in it;

e) Providing aggregate information useful in evaluating the State's performance in terms of service costs, efficiency and accomplishments.

Financial statements can also have a predictive or prospective role, providing information useful in predicting the level of resources required for continued operations, the resources that may be generated by continued operations, and the associated risks and uncertainties. Financial reporting may also provide users with information:

a) Indicating whether resources were obtained and used in accordance with the legally adopted budget, and

b) Indicating whether resources were obtained and used in accordance with legal and contractual requirements.

1.5 RESPONSIBILITY FOR FINANCIAL STATEMENTS

The responsibility for the preparation of the financial statements and consolidated financial statements of the Republic of Cyprus, according to legislation, rests with the Accountant General of the Republic.

1.6 DEFINITIONS

Accrual basis means the basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities, net assets/equity, revenue and expenses.

An asset is a resource presently controlled by the entity as a result of a past event. A resource is an item with service potential or the ability to generate economic benefits.

Cash comprises of cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three (3) months or less from the date of acquisition.

Cash flows are inflows and outflows of cash and cash equivalents.

Control - An entity controls another entity when the entity is exposed, or has rights, to variable benefits from its involvement with the other entity and has the ability to affect the nature or amount of those benefits through its power over the entity.

Economic entity means, for financial reporting purposes, a group of entities comprising the controlling entity and any controlled entities.

Expense is the decrease in the net financial position of the entity, other than decreases arising from ownership distributions.

Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

Future economic benefits or Service potential - The term is used to encompass all the purposes to which assets may be put to achieve an entity's objectives. Assets that are used to generate net cash inflows are described as embodying future economic benefits. Assets that are used to deliver goods and services in accordance with an entity's objectives, but which do not directly generate net cash inflows, are described as embodying service potential.

Impracticable - Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so.

Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

A Liability is a present obligation of the entity for an outflow of resources that results from a past event.

Material - Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature and size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Net assets/Equity is the residual interest in the assets of the entity after deducting all its liabilities.

Notes contain information in addition to that presented in the statement of financial position, statement of financial performance, statement of changes in net assets/equity and cash flow statement. Notes provide narrative descriptions or disaggregations of items disclosed in those statements and information about items that do not qualify for recognition in those statements.

Operating activities are the activities of the entity that are not investing or financing activities. Cash flows from operating activities are primarily derived from the principal cash-generating activities of the entity. Examples of cash flows from operating activities can be found in ***Appendix 4*** of this accounting policy.

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

Revenue is increases in the net financial position of the entity, other than increases arising from ownership contributions.

Ownership contributions are inflows of resources to an entity, contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity.

Ownership distributions are outflows of resources from the entity, distributed to external parties in their capacity as owners, which return or reduce an interest in the net financial position of the entity.

Any other terms defined in other accounting policies that have been adopted by the government of the Republic of Cyprus, have the meaning presented in those accounting policies.

2. OVERALL CONSIDERATIONS

2.1 FAIR PRESENTATION AND COMPLIANCE WITH IPSASs

2.1.1 FAIR PRESENTATION

The Financial Statements shall present fairly the financial position, financial performance and cash flows of the State. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the accounting policies. The application of the accounting policies, with additional disclosures when necessary, is presumed to result in financial statements that achieve fair presentation.

A fair presentation also requires an entity:

a) To select and apply accounting policies in accordance with the accounting policy on Accounting Policies, Changes in Accounting Estimates and Errors.

b) To present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.

c) To provide additional disclosures when compliance with the specific requirements in the accounting policies is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

In extremely rare circumstances management may conclude that compliance with a requirement in an accounting policy would be so misleading that it would conflict with the objective of financial statements set out in this policy. This would apply in the case when an item of information does not represent faithfully the transactions, other events and conditions that it either intends to represent or could reasonably be expected to represent and, consequently, it would be likely to influence decisions made by users of financial statements. When assessing whether complying with a specific requirement in an accounting policy would be so misleading that it would conflict with the objective of financial statements as set out in this policy, management considers:

a) Why the objective of financial statements is not achieved in the particular circumstances; and
b) How the entity's circumstances differ from those of other entities that comply with the requirement. If other entities in similar circumstances comply with the requirement, there is a rebuttable presumption that the entity's compliance with the requirement would not be so misleading that it would conflict with the objective of financial statements as set out in this policy.

2.1.2 Qualitative Characteristics of Financial Reporting

Qualitative characteristics are the attributes that make the information provided in financial statements useful to users. The four principal qualitative characteristics are understandability, relevance, reliability and comparability.

Understandability

Information is understandable when users might reasonably be expected to comprehend its meaning. For this purpose, users are assumed to have reasonable knowledge of the entity's activities and the environment in which it operates, and to be willing to study the information.

Information about complex matters should not be excluded from the financial statements merely on the grounds that it may be too difficult for certain users to understand.

Relevance

Information is relevant to users if it can be used to assist in evaluating the past, present or future events or in confirming, or correcting, past evaluations. In order to be relevant, information must also be timely.

The relevance of information is affected by its nature and materiality. Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statements. Materiality depends on the nature or size of the item or error, judged in the particular circumstances of its omission or misstatement.

Reliability

Reliable information is free from material error and bias, and can be depended on by users to represent faithfully what it intends to represent or could reasonably be expected to represent. Reliable information has the following characteristics:

- Faithful representation/ Substance over form: For information to represent faithfully transactions and other events, it should be presented in accordance with the substance of the transactions and other events, and their economic reality, and not merely their legal form. The substance of transactions is not always consistent with their legal form.

- Neutrality: Information is neutral if it is free from bias. Financial statements are not neutral if the information they contain has been selected or presented in a manner designed to influence the making of a decision or judgement in order to achieve a predetermined result or outcome.
- Prudence: Prudence is the inclusion of a degree of caution in the exercise of the judgements needed in making the estimates required under conditions of uncertainty, such that assets or revenue are not overstated and liabilities or expenses are not understated. However, the exercise of prudence does not allow, for example, the creation of hidden reserves or excessive provisions, the deliberate understatement of assets or revenue, or the deliberate overstatement of liabilities or expenses.
- Completeness: The information in financial statements should be complete within the bounds of materiality and cost.

Comparability

Information in financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports.

Comparability applies to the comparison of financial statements of different entities, as well as the comparison of the financial statements of the same entity over periods of time.

Users need to be informed of the policies applied for the preparation of financial statements, changes to those policies, and the effects of those changes.

2.1.3 Compliance with IPSASs

An entity whose financial statements comply with IPSASs shall make an explicit and unreserved statement of such compliance in the notes. Financial statements shall not be described as complying with IPSASs unless they comply with all the requirements of IPSASs.

In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this policy, the entity shall depart from that requirement in the manner set out below, if the relevant regulatory framework requires, or otherwise does not prohibit, such a departure. Specifically, the entity shall disclose:

a) That management has concluded that the financial statements present fairly the entity's financial position, financial performance and cash flows;

b) That it has complied with applicable IPSASs, except that it has departed from a particular requirement to achieve a fair presentation;

c) The title of the Standard from which the entity has departed, the nature of the departure, including the treatment that the Standard would require, the reason why that treatment would be so misleading in the circumstances that it would conflict with the objective of financial statements set out in this policy and the treatment adopted; and

d) For each period presented, the financial impact of the departure on each item in the financial statements that would have been reported in complying with the requirement.

Departures from the requirements of an IPSAS in order to comply with statutory/ legislative financial reporting requirements do not constitute departures that conflict with the objective of financial statements as outlined above. If such departures are material, an entity cannot claim to be complying with IPSASs.

When a departure from the requirements of a Standard incurred in a prior period, and that departure affects the amounts recognized in the financial statements for the current period, the entity shall make the disclosures set out in paragraph 2.1.3 (c) and (d) above.

In the extremely rare circumstances in which management concludes that compliance with a requirement in a Standard would be so misleading that it would conflict with the objective of financial statements set out in this policy, but the relevant regulatory framework prohibits departure from the requirement, the entity shall, to the maximum extent possible, reduce the perceived misleading aspects of compliance by disclosing:

a) The title of the Standard in question, the nature of the requirement, and the reason why management has concluded that complying with that requirement is so misleading in the circumstances that it conflicts with the objective of financial statements set out in this policy; and

b) For each period presented, the adjustments to each item in the financial statements that management has concluded would be necessary to achieve a fair presentation.

2.2 GOING CONCERN

An assessment of the entity’s ability to continue as a going concern shall be made when preparing financial statements. This assessment shall be made by those responsible for the preparation of financial statements. Financial statements shall be prepared on a going concern basis unless there is the intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so.

When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. When financial statements are not prepared on a going concern basis, that fact shall be disclosed, together with the basis on which the financial statements are prepared and the reason why the entity is not regarded as a going concern.

In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial statements take into account all available information about the future, which is at least, but not limited to, twelve months from the approval of the financial statements.

The determination of whether a going concern assumption is appropriate is primarily relevant for individual entities rather than for the government as a whole. For individual entities, in assessing whether the going concern basis is appropriate, those responsible for the preparation of financial statements may need to consider a wide range of factors, before it is appropriate to conclude that the going concern assumption is appropriate, relating to:

a) Current and expected performance;
b) Potential and announced restructurings of organizational units;
c) Estimates of revenue or the likelihood of continued government funding; and
d) Potential sources of replacement financing.

2.3 CONSISTENCY OF PRESENTATION

The presentation and classification of items in the financial statements shall be retained from one period to the next unless:

a) It is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate having regard to the criteria for the selection and application of accounting policies in the relevant accounting policy; or
b) An accounting policy requires a change in presentation.

An entity changes the presentation of its financial statements only if the changed presentation provides information that is reliable and is more relevant to users of the financial statements, and the revised structure is likely to continue, so that comparability is not impaired. When making such changes in presentation, an entity reclassifies its comparative information in accordance with paragraph 2.6 below.

2.4 MATERIALITY AND AGGREGATION

Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately, unless they are immaterial. The financial statements present condensed and classified data, which have been aggregated into classes according to their nature or function, and form line items on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, cash flow statement or in the notes.

If a line item is not individually material, it is aggregated with other items, either on the face of the financial statements or in the notes. An item that is not sufficiently material to warrant separate presentation on the face of the financial statements may nevertheless be sufficiently material for it to be presented separately in the notes.

Applying the concept of materiality means that a specific disclosure requirement in an accounting policy need not be satisfied if the information is not material.

2.5 OFFSETTING

Assets and liabilities, and revenue and expenses, are reported separately and shall not be offset unless required or permitted by an accounting policy.

An entity undertakes other transactions, in the course of its ordinary activities, that do not generate revenue but are incidental to the main revenue-generating activities. The results of such transactions are presented by netting any revenue with related expenses arising from the same transaction, when this reflects the substance of the transaction. For example, gains/ losses on the disposal of non-current assets are reported by deducting from the proceeds on disposal the carrying amount of the asset and the related selling expenses.

Gains and losses arising from a group of similar transactions are reported on a net basis, unless they are material.

2.6 COMPARATIVE INFORMATION

The entity shall present comparative information in respect of the preceding period for all amounts reported in the financial statements. It shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements. When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable.

When comparative amounts are reclassified, the entity shall disclose:

a) The nature of the reclassification;
b) The amount of each item or class of items that is reclassified; and
c) The reason for the reclassification.

When it is impracticable to reclassify comparative amounts, the entity shall disclose:

a) The reason for not reclassifying the amounts; and
b) The nature of the adjustments that would have been made if the amounts had been reclassified.

3. STRUCTURE AND CONTENT

3.1 IDENTIFICATION OF THE FINANCIAL STATEMENTS

The financial statements consist of:

a) the Statement of Financial Position,
b) the Statement of Financial Performance,
c) the Statement of Changes in Net Assets/Equity,
d) the Cash Flow Statement,
e) the Statement of Budget Execution, and
f) the Notes to the financial statements.

The reporting entity is the Republic of Cyprus and the financial statements' reporting period is the financial year from 1 January to 31 December.

The financial statements shall be presented in Euros (€). Amounts in the financial statements shall be presented rounded to the nearest Euro.

The financial statements shall be issued and submitted for audit to the Auditor General of the Republic within six (6) months from the reporting date, or by the date required by legislation in Cyprus, if earlier. The Minister of Finance approves and publishes the audited financial statements.

The financial statements shall be clearly identified and distinguished from any other information of the same document.

3.2 Reporting Period

Financial statements shall be presented annually. In case of a change in the reporting date and the financial statements are presented for a period longer or shorter than one year, the entity shall disclose, in addition to the period covered by the financial statements:

a) the reason for using a longer or shorter period; and

b) the fact that comparative amounts for certain statements such as the statement of financial performance, statement of changes in net assets/equity, cash flow statement and related notes are not entirely comparable.

3.3 Statement of Financial Position

3.3.1 Distinction Between Current and Non-current

Current and non-current assets, and current and non-current liabilities shall be presented as separate classifications on the face of the statement of financial position. For each asset and liability line item that combines amounts expected to be recovered or settled (a) no more than twelve (12) months after the reporting date, and (b) more than twelve (12) months after the reporting date, the entity shall disclose the amount expected to be recovered or settled after more than twelve (12) months.

3.3.2 Current Assets

An asset shall be classified as current when it satisfies ***any*** of the following criteria:

a) It is expected to be realised in, or is held for sale or consumption in the entity's normal operating cycle;
b) It is held primarily for the purpose of being traded;
c) It is expected to be realised within twelve (12) months after the reporting date; or
d) It is cash or a cash equivalent, unless it is restricted from being exchanged or used to settle a liability for at least twelve (12) months after the reporting date.

All other assets shall be classified as non-current.

3.3.3 Current Liabilities

A liability shall be classified as current when it satisfies ***any*** of the following criteria:

a) It is expected to be settled in the entity's normal operating cycle;
b) It is held primarily for the purpose of being traded;
c) It is due to be settled within twelve (12) months after the reporting date;
d) The entity does not have an unconditional right to defer settlement of the liability for at least twelve (12) months after the reporting date.

All other liabilities shall be classified as non-current.

3.3.4 Information to be Presented on the Face of the Statement of Financial Position and/or in the Notes

The face of the Statement of Financial Position shall include the line items, headings and subtotals which are relevant to understand the entity's financial position. The items to be presented on the face of the Statement of Financial Position are indicatively shown in ***Appendix 1.***

The entity shall disclose, in the notes to the financial statements, further sub classifications of the line items presented, classified in a manner appropriate to the entity's operations. The detail provided in sub classifications depends on the requirements of the relevant accounting policies and on the size, nature and function of the amounts involved.

When an entity has no share capital, it shall disclose net assets/equity on the face of the Statement of Financial Position, showing separately:

a) Contributed capital, being the cumulative total at the reporting date of contributions from owners, less distributions to owners;

b) Accumulated surpluses or deficits;

c) Reserves, including a description of the nature and purpose of each reserve within net assets/equity; and

d) Non-controlling interests.

When an entity has share capital, in addition to the disclosures of the previous paragraph, it shall disclose the following in the notes to the financial statements:

a) For each class of share capital:

   i. The number of shares authorised;

   ii. The number of shares issued and fully paid, and the number issued but not fully paid;

   iii. Par value per share, or that the shares have no par value;

   iv. A reconciliation of the number of shares outstanding at the beginning and at the end of the year.

   v. The rights, preferences and restrictions attaching to that class, including restrictions on the distribution of dividends and the repayment of capital;

   vi. Shares in the entity held by the entity or by its controlled entities or associates; and

vii. Shares reserved for issue under options and contracts for the sale of shares, including the terms and amounts; and

b) A description of the nature and purpose of each reserve within net assets/equity.

3.4 STATEMENT OF FINANCIAL PERFORMANCE

3.4.1 SURPLUS OR DEFICIT FOR THE PERIOD

All items of revenue and expense recognised in a period shall be included in surplus or deficit, unless an accounting policy requires otherwise.

3.4.2 INFORMATION TO BE PRESENTED ON THE FACE OF THE STATEMENT OF FINANCIAL PERFORMANCE AND/OR IN THE NOTES

The face of the Statement of Financial Performance shall include the line items, headings and subtotals which are relevant to an understanding of the entity's financial performance. The items to be presented on the face of the Statement of Financial Performance are indicatively shown in ***Appendix 2***. When items of revenue and expense are material, their nature and amount shall be disclosed separately either on the face of the Statement of Financial Performance or in the notes.

The entity shall disclose, on the face of the Statement of Financial Performance, a sub classification of total revenue, classified in a manner appropriate to the entity's operations, as well as an analysis of expenses using a classification based on the nature of expenses.

When the entity provides a dividend or similar distribution to its owners and has share capital, it shall disclose, on the face of the Statement of Changes in Net Assets/Equity, the amount of dividends or similar distributions recognised as distributions to owners during the period, and the related amount per share.

3.5 STATEMENT OF CHANGES IN NET ASSETS/EQUITY

3.5.1 CHANGE IN NET ASSETS/EQUITY

The overall change in net assets/equity during a period represents the total amount of surplus or deficit for the period, other revenues and expenses recognised directly as changes in net assets/equity, together with any contributions by, and distributions to, owners in their capacity as owners. Transactions with owners are frequent and it is important to assess whether owners in substance act in their capacity as owners to determine the appropriate accounting treatment of such transactions. Judgement is required in making this determination.

3.5.2 Information to be Presented on the Face of the Statement of Changes in Net Assets/Equity and/or in the Notes

The face of the Statement of Changes in Net Assets/Equity shall include the line items, headings and subtotals which are relevant to an understanding of the changes in the entity's net assets/equity between two reporting dates. The items to be presented on the face of the Statement of Changes in Net Assets/Equity are indicatively shown in ***Appendix 3***.

The entity shall disclose, on the face of the Statement of Changes in Net Assets/Equity, the following information:

a) The amounts of transactions with owners acting in their capacity as owners, showing separately distributions to owners;

b) The balance of accumulated surpluses or deficits at the beginning of the period and at the reporting date, and the changes during the period;

c) To the extent that components of net assets/equity are separately disclosed, reconciliation between the carrying amount of each component of net assets/equity at the beginning and the end of the period, separately disclosing each change.

3.6 Cash Flow Statement

3.6.1 Objective and scope

The objective of the Cash Flow Statement is the provision of information about the historical changes in cash and cash equivalents of the entity, classifying cash flows during the period from operating, investing, and financing activities. The Cash Flow Statement identifies the sources of cash inflows, the items on which cash was expended during the reporting period, and the cash balance as at the reporting date. (IPSAS 2)

Information about the cash flows of the entity is useful to users of the financial statements because it provides information for both accountability and decision-making purposes. Specifically, cash flow information may be useful to users of the financial statements in (a) assessing the entity's cash flows, (b) assessing the entity's compliance with legislation and regulations (including authorised budgets), and (c) making decisions about whether to provide resources to, or enter into transactions with, the entity.

3.6.2 Reporting cash flows from operating activities

The entity shall report cash flows from operating activities using the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

The direct method provides information that (a) may be useful in estimating future cash flows, and (b) is not available under the indirect method.

3.6.3 Reporting cash flows from investing and financing activities

The entity shall report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities, except to the extent that cash flows are reported on a net basis, as per paragraph 3.6.4 below.

3.6.4 Reporting cash flows on a net basis

Cash flows arising from the following operating, investing or financing activities shall be reported on a net basis:

a) Cash receipts collected and payments made on behalf of customers, taxpayers or beneficiaries when the cash flows reflect the activities of the other party rather than those of the entity. Examples of such cash receipts and payments are:

   i. the collection of taxes by one level of government for another level of government, not including taxes collected by a government for its own use as part of a tax-sharing agreement;

   ii. the acceptance and repayment of demand deposits of a public financial institution;

   iii. funds held for customers by an investment or trust entity;

   iv. rents collected on behalf of, and paid over to, the owners of properties;

b) Cash receipts and payments for items in which the turnover is quick, the amounts are large, and the maturities are short. Examples of such cash receipts and payments are:

   i. the purchase and sale of investments;

   ii. other short-term borrowings, e.g. with a maturity period of three months or less.

Cash flows arising from each of the following activities of a public financial institution shall be reported on a net basis:

a) Cash receipts and payments for the acceptance and repayment of deposits with a fixed maturity date;

b) The placement of deposits with, and withdrawal of deposits from, other financial institutions; and

c) Cash advances and loans made to customers and the repayment of those advances and loans.

3.6.5 Information to be Presented on the Face of the Cash Flow Statement and/or in the Notes

The face of the Cash Flow Statement shall report cash flows during the period classified by operating, investing and financing activities. The items to be presented on the face of the Cash Flow Statement are indicatively shown in ***Appendix 4***.

The entity shall disclose the following information:

a) *Foreign currency cash flows (disclosed in the notes to the financial statements)*

Cash flows arising from transactions in a foreign currency shall be recorded in the entity's functional currency by applying the exchange rate applicable at the date of the cash flow.

Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows. However, the effect of exchange rate changes in cash and cash equivalents is reported in the cash flow statement in order to reconcile cash and cash equivalents at the beginning and the end of the period. This amount is presented separately from cash flows from operating, investing and financing activities, and includes the differences, if any, if those cash flows had been reported at end of period exchange rates.

b) *Interest and dividends or similar distributions (disclosed on the face of the Cash Flow Statement)*

Cash flows from interest and dividends or similar distributions received and paid shall each be disclosed separately. Each shall be classified in a consistent manner from period to period as either operating, investing, or financing activities.

Interest paid and interest and dividends or similar distributions received are usually classified as operating cash flow for a public financial institution. For other entities, however, interest paid and interest and dividends or similar distributions received may be classified as financing cash flows and investing cash flows respectively, or as operating cash flows, because they enter into the determination of surplus or deficit.

Dividends or similar distributions paid may be classified as a financing cash flow, because they are a cost of obtaining financial resources. Alternatively, they may be classified as a component of cash flows from operating activities, in order to assist users to determine the entity's ability to make these payments out of operating cash flows.

c) *Taxes on net surplus (disclosed on the face of the Cash Flow Statement)*

Cash flows arising from taxes on net surplus shall be separately disclosed and shall be classified as cash flows from operating activities, unless they can be specifically identified with financing and investing activities. When tax cash flows are allocated over more than one class of activity, the total amount of taxes paid is disclosed.

d) *Investments in controlled entities, associates and joint ventures (disclosed on the face of the Cash Flow Statement)*

Only cash flows between the entity and the investee, for example dividends or similar distributions and advances, are reported in the cash flow statement of the investing entity with an investment in an associate, a joint venture or a controlled entity accounted for by use of the equity or cost method. An entity that reports its interest in an associate or joint venture using the equity method includes in its cash flow statement the cash flows in respect of its investments in an associate or joint venture, and distributions and other payments or receipts between it and the associate or joint venture.

e) *Acquisitions and disposals of controlled entities and other operating units (disclosed in the notes to the financial statements)*

The aggregate cash flows arising from acquisitions and from disposals of controlled entities or other operating units shall be presented separately and classified as investing activities. The entity shall disclose, in aggregate, in respect of both acquisitions and disposals of controlled entities or other operating units during the period, each of the following:

i. The total purchase or disposal consideration;

ii. The portion of the purchase or disposal consideration discharged by means of cash and cash equivalents;

iii. The amount of cash and cash equivalents in the controlled entity or operating unit acquired or disposed of; and

iv. The amount of the assets and liabilities, other than cash and cash equivalents, recognised by the controlled entity or operating unit acquired or disposed of, summarised by each major category.

f) *Non-cash transactions (disclosed in the notes to the financial statements)*

Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from the cash flow statement (for example, acquisition of assets by means of a finance lease). Such transactions are disclosed elsewhere in the financial statements in a way that provides all the relevant information about these investing and financing activities.

g) *Components of cash and cash equivalents (disclosed in the notes to the financial statements)*

The entity shall disclose the components of cash and cash equivalents, and shall present a reconciliation of the amounts in its cash flow statement with the equivalent items reported in the statement of financial position.

h) *Other disclosures (disclosed in the notes to the financial statements)*

The entity shall disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity. This information may include:

i. The amount of undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities; and

ii. The amount and nature of restricted cash balances.

3.7 STRUCTURE OF THE NOTES TO THE FINANCIAL STATEMENTS

1. The notes shall:

a) Present information about the basis of preparation of the financial statements and the specific accounting policies used;

b) Disclose the information required by the accounting policies, and provide additional information, that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, or cash flow statement, but is relevant to get an understanding of any of them.

2. Notes shall, as far as practicable, be presented in a systematic manner. Each item on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, and cash flow statement shall be cross-referenced to any related information in the notes.

3. Notes will be presented on the following order:

a) A statement of compliance with IPSASs;

b) A summary of significant accounting policies applied;

c) Supporting information for items presented on the face of the statement of financial performance, statement of financial position, , statement of changes in net assets/equity, or cash flow statement, in the order in which each statement and each line item is presented; and

d) Other disclosures, including:

i. Contingent liabilities and unrecognized contractual commitments; and

ii. Non-financial disclosures, for example the entity's financial risk management objectives and policies.

4. DISCLOSURE

4.1 DISCLOSURE OF ACCOUNTING POLICIES

The financial statements shall disclose in the summary of significant accounting policies:

a) The measurement basis (or bases) used in preparing the financial statements, for example historical cost, current cost, net realizable value, fair value, recoverable amount or recoverable service amount;

b) The extent to which the entity has applied any transitional provisions in any IPSAS; and

c) The other accounting policies used that are relevant to the nature of the entity's operations and the understanding of the financial statements, for example accounting policy for recognition of taxes, donations and other forms of non-exchange revenue, measurement of goodwill and non-controlling interests in other entities.

d) The judgements, apart from those involving estimations, management has made in the process of applying the entity's accounting policies that have the most significant effect on the amounts recognized in the financial statements, for example judgements made in determining:

- Whether assets are investment properties;
- Whether agreements for the provision of goods and/or services that involve the use of dedicated assets are leases;

- Whether, in substance, particular sales of goods are financing arrangements and therefore do not give rise to revenue; and
- Whether the substance of the relationship between the reporting entity and other entities indicates that these other entities are controlled by the reporting entity.

4.2 KEY SOURCES OF ESTIMATION UNCERTAINTY

The entity shall disclose in the notes information about:

a) The key assumptions concerning the future; and

b) Other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of their nature and of their carrying amount as at the reporting date.

The nature and extent of the information provided with the above disclosures vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures made are:

a) The nature of the assumption or other estimation uncertainty;

b) The sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;

c) The expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

d) An explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

When it is impracticable to disclose the extent of the possible effects of a key assumption or another key source of estimation uncertainty at the reporting date, the entity discloses that it is reasonably possible, based on existing knowledge, that outcomes within the next financial year that are different from assumptions could require a material adjustment to the carrying amount of the asset or liability affected. In all cases, the entity discloses the nature and carrying amount of the asset or liability (or class of assets and liabilities) affected by the assumption.

4.3 CAPITAL

The entity shall disclose information that enables users of its financial statements to evaluate the entity's objectives, policies and processes of managing capital. This information includes:

a) Qualitative information about its objectives, policies and processes for managing capital, including (but not limited to):

    i. A description of what it manages as capital;
    ii. When an entity is subject to externally imposed capital requirements, the nature of those requirements and how those requirements are incorporated into the management of capital; and
    iii. How it is meeting its objectives for managing capital.

b) Summary quantitative data about what it manages as capital, for example if it includes forms of subordinated debt as part of capital.

c) Any changes in (a) and (b) from the previous period.

d) Whether during the period it complied with any externally imposed capital requirements to which it is subject.

e) When the entity has not complied with such externally imposed capital commitments, the consequences of such non-compliance.

4.4 OTHER DISCLOSURES

1. The entity shall disclose in the notes to the financial statements:

a) The amount of dividends, or similar distributions, proposed or declared before the financial statements were authorized for issue, but not recognized as a distribution to owners during the period, and the related amount per share; and
b) The amount of any cumulative preference dividends, or similar distributions, not recognized.

2. The entity shall disclose the following, if not disclosed elsewhere in information published with the financial statements:

a) The domicile and legal form of the entity, and the jurisdiction within it operates;
b) A description of the nature of the entity's operations and principal activities;
c) A reference to the relevant legislation governing the entity's operations;
d) The name of the controlling entity and the ultimate controlling entity of the economic entity (where applicable); and
e) If it is a limited life entity, information regarding the length of its life.

5. TRANSITIONAL PROVISIONS

1. The financial statements that are prepared following the first-time adoption of accrual basis IPSASs, will not present comparative information. Instead, the first IPSAS financial statements presented in accordance with IPSAS 33 First-time adoption of accrual basis IPSASs, shall include:

a) One statement of financial position, and an opening statement of financial position at the date of accrual basis IPSAS;

b) One statement of financial performance;

c) One statement of changes in net assets/equity;

d) One cash flow statement;

e) A statement of budget execution for the current year as a separate additional financial statement or as a budget column in the financial statements;

f) Related notes and the disclosure of narrative information about material adjustments.

2. The notes to the first IPSAS financial statements shall present:

a) A reconciliation of its net assets/equity reported in accordance with the previous basis of accounting to the opening balance of net assets/equity at the date of adoption if IPSASs; and

b) A reconciliation of its surplus or deficit in accordance with the previous basis of accounting to the opening balance of surplus or deficit at the date of adoption if IPSASs.

3. The above transitional provisions do not affect fair presentation and compliance with accrual basis IPSASs during the period of adoption.

6. EFFECTIVE DATE

This rule shall be effective for annual financial statements covering periods beginning on or after 1 January 2023.

7. REFERENCES

This accounting policy is based on the following IPSAS standards:

IPSAS 1 Presentation of Financial Statements

IPSAS 2 Cash Flow Statements

IPSAS 33 First – time Adoption of Accrual Basis IPSASs

The Applicability of IPSASs

8. APPENDICES

Appendix 1: Indicative Statement of Financial Position

	Note	20X2	20X1
		€	€
ASSETS			
Non-current assets			
Property, plant and equipment			
Investment property			
Service concession arrangements			
Intangible assets			
Investments in controlled entities			
Investments in associates and joint ventures			
Loans receivable			
Other financial assets			
Receivables from non-exchange transactions			
Receivables from exchange transactions			
Current assets			
Inventories			
Loans receivable			
Other financial assets			
Receivables from non-exchange transactions			
Receivables from exchange transactions			
Cash and cash equivalents			
Assets held for sale			
TOTAL ASSETS			
Non-current Liabilities			
Payables from exchange transactions			
Transfers payable			
Social benefits			
Social welfare benefits			
Employee benefits			
Pension liability			
Borrowings			
Other financial liabilities			
Financial Guarantees			
Provisions			
Current Liabilities			
Payables from exchange transactions			
Transfers payable			
Social benefits			
Social welfare benefits			
Employee benefits			
Pension liability			
Borrowings			
Other financial liabilities			
Financial Guarantees			
Provisions			
TOTAL LIABILITIES			
NET ASSETS			
EQUITY			
Accumulated surpluses/ (deficit)			
Other Reserves			
TOTAL EQUITY			

Appendix 2: INDICATIVE STATEMENT OF FINANCIAL PERFORMANCE

	Note	20X2	20X1
		€	€
REVENUE			
Taxes			
Transfers			
Social Contributions and Pension Contributions			
Other income			
Finance income			
TOTAL REVENUE			
EXPENSES			
Staff costs			
Operating expenses			
Social benefits			
Social welfare benefits			
Grants and other transfers			
Depreciation expenses			
Impairment and write-off of assets			
Other expenses			
Finance costs			
Provisions			
TOTAL EXPENSES			
Share of surplus/deficit of associates and joint ventures			
SURPLUS/ (DEFICIT) FOR THE YEAR FROM CONTINUING OPERATIONS			
DISCONTINUED OPERATIONS			
Profit/ Loss from discontinued operations			
SURPLUS/ (DEFICIT) FOR THE YEAR			

Appendix 3: Indicative Statement of Changes in Net Assets/Equity

	Other Reserves (Note XX) €	Accumulated Surpluses/ (Deficit) €	Total €
Balance 1 January 20X1			
Changes in accounting policy			
Adjusted balance			
Changes in equity			
Surplus/ (deficit) for the year			
Balance 31 December 20X1			
Balance 1 January 20X2			
Changes in accounting policy			
Adjusted balance			
Changes in equity			
Surplus/ (deficit) for the year			
Balance 31 December 20X2			

Appendix 4: Indicative Cash Flow Statement

	Note	20X2	20X1
		€	€
Cash flows from operating activities			
Cash inflows			
Tax			
Transfers			
Provision of goods and services			
Inflows from grants			
Inflows from repayment of loans			
Loan interest received			
Other inflows			
Cash outflows			
Staff costs			
Social benefits			
Social welfare benefits			
Purchase of goods and services			
Rents - leases			
Other operating expenses			
Grants			
Loans granted to third parties			
Outflows for public debt management			
Other outflows			
Net cash flows from operating activities			
Cash flows from investing activities			
Purchase / construction of property, plant and equipment			
Inflows from sale of property, plant and equipment			
Purchase of intangible assets			
Inflows from sale of intangible assets			
Purchase of investment property			
Inflows from sale of investment property			
Purchase of assets held for sale			
Inflows from sale of assets held for sale			
Purchase of investments			
Inflows from sale of investments			
Purchase of other financial assets			
Inflows from sale of other financial assets			
Interest received on investments in financial assets			
Dividends or similar distributions received			
Net cash flows from investing activities			

	Note	20X2	20X1
		€	€
Cash flows from financing activities			
Inflows from borrowings			
Repayments of loans			
Interest paid			
Inflows from issue of debt securities			
Repayments of debt securities			
Bank and finance charges			
Net cash flows from financing activities			
Net increase/ (decrease) in cash and cash equivalents			
Foreign Exchange differences			
Cash and cash equivalents at the beginning of the year			
Cash and cash equivalents at the end of the year			

Indicative Notes to the Cash Flow Statement

(a) *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:

(in thousands of Euros)	20X2	20X1
Cash on hand and balances with banks	X	X
Short-term investments	X	X
	X	X

The undrawn loan facilities that may be available for future operating activities and settlement of capital commitments amount to € XXX (2021: € XXX). Of these, € XXXX should be used in infrastructure projects. Restrictions on the use of the undrawn borrowing facilities concern….

(b) *Property, plant and equipment*

During the period, the economic entity acquired property, plant and equipment with an aggregate cost of X, of which X was acquired by means of capital grants by national government. Cash payments of X were made to purchase property, plant and equipment.

(c) *Reconciliation of Net Cash Flows from Operations with the Surplus/ (Deficit) of the year*

	Note	20X2 €	20X1 €
Surplus/(deficit) for the year			
Non-cash transactions:			
Depreciation expenses			
Impairment / write-off of assets			
Increase / decrease of payables			
Increase / decrease of employee benefits			
Increase / decrease of social benefits			
Increase / decrease of social welfare benefits			
Increase / decrease of pension liability			
Increase / decrease provision for bad debts			
Increase / decrease of other provisions			
Increase / decrease of receivables			
Increase / decrease of inventories			
Write-off of liabilities			
Income from donations			
Income from bequests			
Income from concessionary loans			
Expenses from concessionary loans			
Profit /(Loss) from the sale of investments			
Profit /(Loss) from the sale of other assets			
Profit /(Loss) from the sale of discontinued operations			
Profit /(Loss) from the sale of assets held for sale from discontinued operations			
Profit / (Loss) from revaluation of assets held for sale from discontinued operations			
Profit / (Loss) on revaluation of financial instruments			
Share of surplus/(deficit) of associates and joint ventures			
Profit /(Loss) from discontinued operations			
Cash transactions of investing and financing activities:			
Dividends and similar distributions from investments			
Interest income from finance leases			
Commissions from the provision of guarantees			
Unwinding of discount			
Foreign exchange gains			
Finance expenses			
Net cash flow from operations			