AcSB
Accounting Standards Board

Contributions – Revenue Recognition and Related Matters

Responses to Consultation Paper

December 2020

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Subject: Comment on Document: AcSB-Contributions-CP
Date: Wednesday, August 5, 2020

A comment has been submitted:

Name: Alexander Levine
Organization: The Canada Life Assurance Company
Email: Alex.Levine@canadalife.com
Keep Private: No
Comments:
Comment regarding the current amortization rule where, in HB4433, a NPO must only report amortization when the average of the current and preceding fiscal year of revenue is in excess of $500,000. This should be based on the value of the NPO's capital asset portfolio. Revenues do not directly tie to the NPO's ability to either purchase or receive tangible capital assets, maintain them and/or sell them. As an example, the standard could be revised to require a NPO to record amortization when the capital asset balance total balance is at or in excess of $1M for the current year. Also, the standard should simplify the method of amortization by using the straight line approach only. This will help simplify the standard and attempt to keep all NPOs on the same measurement basis.

SickKids FOUNDATION

November 4, 2020

Accounting Standards Board

Re: Consultation Paper, Contributions – Revenue Recognition and Related Matters

I am pleased to submit comments to the above noted consultation paper. In reading through the consultation paper, two questions were of particular interest.

Question 5: *Do you think applying the recognition concepts for revenue to restricted contributions (i.e., a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?*

I believe flexibility in recognizing restricted contributions is very important.

Looking at this from a Foundation perspective, we use the restricted fund method of accounting and recognize all restricted contributions as revenue when received. The Foundation is not an operating organization but rather a fundraising organization that receives contributions, holds fund balances and then disburses funds through grants. Recognizing all contributions and disclosing available fund balances (restricted, endowment, general) is very important as stakeholders wish to see the fund balances and the future flow of grants available from the Foundation. In some instances, grants from restricted contributions cannot be used by our grantees once received because of unforeseen delays in getting programs underway. The deferral of restricted contributions would cause increased complexity.

For operating organizations that receive and spend revenue under the deferral approach, it would make sense to defer revenue since those types of organizations would not want to show revenues that cannot be used in current operations.

Question 35: *For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?*

I believe it would be useful to disclose pledges because it is an indicator of financial strength. For SickKids Foundation, pledges have grown significantly over the last 10 years which demonstrates the financial stability of the organization. Disclosure in the notes to the audited financial statements is an option, but it would increase audit costs so I would recommend that pledges be disclosed in the organization's annual report, outside of the audited financial statements.

I appreciate the opportunity to provide input.

Regards,

Frank Andreacchi

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UNIVERSITY OF TORONTO

FINANCIAL SERVICES

December 2, 2020

Kelly Khalilieh, CPA, CA
Director, Accounting Standards
Accounting Standards Board
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Dear Ms. Khalilieh,

Thank you for the opportunity to comment to the Accounting Standards Board (AcSB) consultation paper on **Contributions – Revenue Recognition and Related Matters.**

The University of Toronto was established in 1827 and is Canada's largest university, recognized as a global leader in research and teaching. The University has over 93,000 full-time and part-time students, making it one of the largest universities in North American in terms of enrolment. The University's size and academic resources provide its students with a wide range of academic programs and courses, while its unique college system offers learning experiences enriched by individual cultures in a smaller community. The University consistently ranks among the top 25 universities in the world. Its distinguished faculty, institutional records of ground-breaking scholarship and wealth of innovative academic opportunities continually attract outstanding academics and students from around the world. The University is located on three campuses: St. George (downtown Toronto), Scarborough (UTSC) and Mississauga (UTM) and has revenues in excess of $3.6 billion.

As a not-for-profit organization (NFPO), the University of Toronto's financial statements are primarily used by lending agencies, credit-rating agencies, the Ontario Ministry of Colleges and Universities, donors, and from time to time the Ontario Ministry of Finance. Financial information is also provided to various departments of the U.S. government or other foreign government granting agencies. It should be noted that the majority of financial statement readers of Ontario university financial statements are within Canada and more specifically, Ontario. The Ontario university sector rarely, if at all, undertakes international financial statement comparability exercises. University financial statements are not typically used to make international grant or funding decisions.

It is understood that AcSB undertook this review of existing NFPOs' contribution recognition standards established in 1996 as a result of the lack of comparability of NFPOs financial statements since identical transactions are being recognized differently depending on the accounting policy choice applied.

Attached are responses to the specific questions posed in the consultation paper.

Sincerely,

Pierre Piché

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QUESTIONS POSED AND ANSWERS

WHAT IS A CONTRIBUTION

1. **Are there circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances?**

   No. Government funding is considered a contribution for accounting purposes. Government contract revenue would not be considered a contribution because it's a reciprocal transaction.

TYPES OF CONTRIBUTIONS

2. **Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? Is so, what are the issues and how might they be addressed?**

   No. Unrestricted contributions should always be recognized as revenue in the year received or receivable. Multi-year unrestricted government grants should be recorded as revenue in each of the years indicated in the funding agreement.

3. **Are there circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?**

   Yes. Issues can arise when the donor identifies a broad restricted condition for a contribution. An institution may or may not be following the practice of recording a restricted contribution as revenue immediately if the institution can identify that they have already met the restricted condition using other funding sources. For example, a donation that is provided for research conducted in the Faculty of Medicine (the broad purpose) may be recorded as revenue when received by a university since the institution can demonstrate that they have already spent other funds on research in their Faculty of Medicine while it can be deferred by another university as the institution chooses not to demonstrate that they have already spent funds on research in their Faculty of Medicine (revenue would not be recognized until incremental research expense have incurred to warrant revenue recognition).

FINANCIAL STATEMENT CONCEPTS

REVENUE RECOGNITION

4. **Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?**

   No. The guidance provided in Section 4410 is sufficient.

5. **Do you think applying the recognition concepts of revenue to restricted contributions (i.e. a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?**

   Yes. Recognizing a restricted contribution as revenue when the performance obligation are met does provide decision-useful information to readers of university financial statements as it ensures that the reported excess of revenue over expenses for the year represents funds available without restrictions.

DEFINITIONS OF ASSETS AND LIABILITIES

6. **Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liability are relevant considerations? If so, what are they?**

   No. The guidance in paragraph 1001.30 ensures that, while a contribution is not refundable, there is an obligation from a donor perspective to spend the fund in accordance to their wishes.

REVENUE RECOGNITION

RECOGNTION OF CONTRIBUTIONS

7. **Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?**

   Yes. The risk of default could be an additional characteristic that could be considered, especially when it comes to multi-year funding commitments. The university sector has recently faced multi-year funding commitments for capital projects that were eventually not honoured by government even after the university spent the funds on the agreed upon capital project.

8. **Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?**

   Yes, agreed.

9. **What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?**

   The key characteristics of contributions to consider when determining when to recognize a contribution as revenue is the time or purpose requirements imposed by the contributor.

Performance achievement characteristics to revenue recognition is important to readers to ensure that the annual excess of revenue over expenses reflects what is available to the institution for general purposes. The other characteristic that is important is the type and nature of contribution. For example, an externally endowed contribution should not be recorded as revenue when received as it can never be spent and therefore is more akin to an equity contribution.

The refundability criteria is problematic when it comes to donations in Canada, since CRA does not allow donations to be receipted if they are refundable.

10. In addition to an approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by the method be useful to financial statement users?

No.

11. Which approach for the recognition of revenue in Example 2 do you think provides financial statement users with the most decision-useful information and why?

Recognizing the (unrestricted) contribution as revenue as performance is achieved over time (Approach B) would provide the most decision-useful information to readers as the fundraising activity would be reported in the year in which it has been achieved instead of being recorded in a subsequent fiscal year when all the obligations in the contribution agreement are met.

12. Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options to how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where you think that some or all the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so, what circumstances?

The performance target is the receipt of the 500th separate donation, therefore revenue should only be recorded in the fiscal year in which this target is achieved. This will provide the most decision-useful information to readers.

SPECIAL TYPES OF CONTRIBUTIONS

13. Do you recognize contributed materials and/or services? If so, how to you measure them? If not, why not?

Contributions of materials and services are not recognized in the University's financial statements due to difficulty determining fair value and/or the cost associated with valuing and tracking such contributions.

14. **For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized? What, if any, disclosures would be useful when contributed materials and services are recognized?**

    Contributed materials and services would be useful to users when the contributions are an essential or significant part of the NFPO's operations.

15. **For users of NFP financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?**

    Disclosing the nature and significance of any significant contributed materials and services would be useful to users.

CAPITAL ASSET CONTRIBUTIONS

16. **What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial statements? For example, does amortizing the capital asset contribution provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?**

    Where a NFPO has debt covenants and/or key financial health performance metrics with funding implications that are dependent on the extent of its excess of revenue over expenses, it is most useful that capital asset contributions are recognized over the useful life of the asset (in correspondence with amortization) so that any variability in the excess of revenue over expenses are attributed to fluctuations in revenues or expenses other than from the recognition of capital contributions as revenue.

17. **What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increase in net assets would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?**

    Non-depreciable capital asset contributions, such as land, would be best recognized as direct increases in net assets so that the statement of operations is not subject to volatility due to the recognition of revenue that cannot be spent on general operations. Disclosing these contributions in the statement of changes in net assets provides decision-useful information to users.

18. **What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution immediately in**

revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed assets? If so, which types and why?

Recognizing the contributed capital assets immediately in revenue would not be useful to readers as it would overstate the excess of revenue over expenses in the year capital contributions are received and could effectively hide structural operating deficits in organizations for many years. This will also create volatility in the excess of revenue over expenses that is not useful for users.

19. **Are there other methods for recognizing capital asset contributions that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?**

    No.

ENDOWMENT CONTRIBUTIONS

20. **Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?**

    The current definition of an endowment provides adequate guidance to determine whether a contribution should be recognized as an endowment contribution.

21. **When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?**

    Recognizing endowment contributions as direct increases in net assets when using the deferral method provides decision-useful information to users because recognizing the endowment contributions in revenue would overstate the excess of revenue over expenses in the year when endowment contributions are received and could effectively hide structural operating deficits in organizations for many years. Also, endowment contributions by their nature are to be held in perpetuity and cannot be used for general operations of the NFPO.

22. **When does recognizing endowments immediately as revenue provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?**

    When the reporting focus of an organization is the extent of contributions received, the reporting of its financial statements using the restricted fund method, and the related endowment contribution as revenue in a separate fund would provide better information to users.

23. Are there other methods for recognizing endowments that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?

No.

24. Are there scenarios when it is difficult or costly to determine how to allocate income, expenses, gains, and losses (both realized and unrealized) on endowments for accounting purposes? If so, what are they scenarios or factors that makes this assessment difficult?

Accounting for income earned on endowments is particularly complex when an organization has endowments that are internally restricted and externally restricted subject to a preservation capital policy. The different method of accounting for income earned on internally and externally restricted endowments is confusing to readers.

25. Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?

Endowed donations should be broken out in the notes to the financial statements by those that are internally restricted by the organization and those that are externally restricted by the donor. This would provide useful information to users of the financial statements as to the extent of funds endowed by the organization.

BEQUESTS

26. Do you recognize bequests? Is so, under what circumstance are they recognized? If not, why not?

No, since bequests are simply a statement of intent and therefore fail to meet the criteria to be recognized as a receivable. However, revenue is recorded once a person is deceased and we are notified of the existence of the will (there is now a legal right to the assets) as long as the amount to be received can be reasonably estimated and the ultimate collection is reasonably assured.

27. As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?

Yes. As discussed in the response to question 26, a bequest can be recorded as revenue when the donor is deceased if the amount to be received can be reasonably estimated and the ultimate collection is reasonably assured.

28. **For financial statements users, what additional disclosures relating to bequests would be useful? Why?**

    No additional disclosure is needed.

29. **In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?**

    The University does have a number of different vehicles that donors use to transfer assets. These include life insurance policies, charitable remainder trusts and annuities. The timing and enforceability of a charity's entitlement to the asset depends on a number of factors for each of these vehicles. These factors help to determine the appropriate accounting treatment.

ASSET RECOGNITION

PLEDGES

30. **Do you track pledges? If so, how? If not, why not?**

    The University of Toronto solicits and tracks its pledges using fundraising software.

31. **Do you accrue pledges as a receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set up a provision for uncollectible amounts?**

    No, pledges are not recorded as a receivable as they are not legally enforceable in Canada. Pledges are recorded as contributions when the pledged assets are received.

32. **If you previously recognized pledges but no longer do so, why did you stop?**

    Not applicable.

33. **Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time, or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how, and what warrants different accounting treatment?**

    The nature of a pledge should not affect when a pledge is recognized. It should meet the recognition criteria.

34. **For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?**

    While it is understood that pledges are not legally enforceable in Canada, users of financial statements may find it beneficial that pledges are recorded as a receivable (after taken a provision for uncollectable promises and a reduction for the time value of money) as this would provide a more complete picture of fundraising activities during the year. Additional note disclosure as noted in the response to question 35 would also be useful.

35. **For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?**

    For users of financial statements, it would be useful to disclose the amount of pledges received by the organization and when the pledges are expected to be received. The disclosure could include pledges due in less than one year, from one to five years and more than five years with a provision for uncollectible promises and a reduction for the present value of pledges to take into account the time value of pledges to be received.

CAPITAL ASSET RECOGNITION EXEMPTION

36. **In addition to circumstance where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply capital asset recognition exemption? If so, what are those reasons?**

    None to note.

37. **For financial statement users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision-useful? If no, why not? If yes, is this only the case under certain circumstances? What are those circumstances?**

    The current information is sufficient.

38. **If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?**

    Yes, the revenue threshold is sufficient if the exemption is retained.

39. **If revenue is the appropriate metric to be used for an exemption, what is an appropriate dollar threshold to apply and why?**

    The current threshold is appropriate.

40. **Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues more than $500,000, capital assets must be recognized for the first time in accordance with Sections 4433 and 4434. How do organizations currently account for this transition? Are Sections 4433 and 4434 applied prospectively, retrospectively, or is another transition approach used?**

Not applicable to the University of Toronto.

PRESENTATION AND DISCLOSURE ISSUES

FUND ACCOUNTING

41. What are the benefits to fund accounting presentation, and what are the limitations?

Fund accounting presentation allows an organization to show to its users more transparent information about various segments of the organization.

42. Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?

None to note.

43. What challenges exist for NFPOs that prepare financial statements using fund accounting presentation?

None to note.

PRESENTATION OF NET ASSETS

44. Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted, and unrestricted? If so, what?

Consideration should be given to separately showing internally restricted endowments and externally restricted endowments in the net asset section of the balance sheet.

45. For financial statements users, what information about classes of net assets is useful?

See response to question 44.

46. Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?

No. The component of restricted net assets may cut across a number of assets categories and may not add any additional useful information to readers.

DISCLOSURE OF RESTRICTED CASH

47. Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?

No.

48. **For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What types of restrictions on cash and cash equivalents do users of financial statements want to be aware of?**

Users of NFPO financial statements are interested in any cash and cash equivalents that are subject to external restrictions. They are also interested in the amount of cash and cash equivalents held for general operations and therefore, the disclosure should only include cash and cash equivalents held for liquidity purposes and not include cash held for investment purposes.

49. **For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?**

None to note.

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December 8, 2020

Kelly Khalilieh, CPA, CA
Director, Accounting Standards
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Dear Ms. Khalilieh:

Subject: Exposure Draft – Contributions – Revenue Recognition and Related Matters (May 2020)

Grant Thornton LLP and Raymond Chabot Grant Thornton LLP (we) would like to thank you for the opportunity to provide comments on the Accounting Standards Board (AcSB or Board) Exposure Draft *Contributions – Revenue recognition and related matters*. We strongly support the AcSB's plan to revisit the accounting for Contributions and the amount of outreach and research that the Board is doing. We strongly believe that a model for revenue recognition that focuses on the underlying characteristics of a contribution is the appropriate direction to take. However, the guidance should provide sufficient practical guidance to ensure that two NPOs in the same scenario would apply the guidance and arrive at the same conclusion. Relying too much on the definition of a liability and the concept of a performance obligation without strong NPO-specific linkages could result in significant diversity in accounting for contributions.

As a result, please refer to the attached Appendix A for our responses to the specific questions in the ED.

If you wish to discuss our comments or concerns, please contact Rinna Sak (Rinna.Sak@ca.gt.com, 416-607-2712) and/or Gilles Henley (henley.gilles@rcgt.com, 514-393-4809).

Yours sincerely,

Rinna Sak, CPA, CA
Grant Thornton LLP

Gilles Henley, FCPA, FCA
Raymond Chabot Grant Thornton LLP

Appendix A – Responses to Exposure Draft questions

WHAT IS A CONTRIBUTION?

Question 1: Are there circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances?

We believe it should be considered a contribution in all cases, with no exceptions.

Governments are a major source of forgivable loans to NPOs and we believe that there is currently a lack of guidance in ASNPO to help entities assess whether a forgivable loan should be treated as a financial liability or as a contribution. There appears to be some diversity in practice, with some NPOs treating them as a contribution and some treating them as a liability until forgiven. Both Accounting Standards for Private Enterprises (ASPE) and Public Sector Accounting Standards (PSAS) have guidance (although PSAS is from the grantor perspective, but it could be looked to by analogy).

Types of contributions

Question 2: Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? If so, what are the issues and how might they be addressed?

We are not aware of issues in applying the current requirements.

Question 3: Are there circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?

Below are some circumstances in which it can be difficult to determine whether a contribution is externally restricted:

- Contribution agreements can be vague in their wording. There may be a restriction implicit in the way the funds were solicited or received. NPOs may need to consider the application submitted for the funding or other factors to determine whether there is an external restriction; as a result, judgment can be required and there can be diversity in views. Also, the more general the restriction the more judgment that may be required to determine if a contribution is externally restricted. For example, an agreement may contain stipulations that are so general such that it requires activities that fall within the NPO's overall mandate or mission. Lastly, if the funds are restricted to a program, but not specific expenses, it could result in differing judgment between NPOs as to what expenses qualify such that the timing of the revenue recognition may differ.
- Some agreements may have components that are contributions (i.e. non-reciprocal funding) and some that are services (e.g. naming rights agreement, employment services). There can also be judgment as to whether a sponsorship is a contribution or a service or both.

Financial statement concepts

Revenue recognition

Question 4: Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?

No, the guidance in Section 4410 and 4420 are quite thorough enough to arrive at a conclusion.

Question 5: Do you think applying the recognition concepts for revenue to restricted contributions (i.e., a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?

In current practice, the guidance in Section 4410 and 4420 for each method (deferral method and restricted fund method) are prescribed such that our NPO clients do not have to refer to the basic revenue recognition concepts (i.e., defer until performance obligations are met).

If the Board plans to base future guidance on the concept of a performance obligation, it should ensure there is sufficient NPO-specific guidance to apply it in actual practice to a contribution. For example, an NPO that receives a contribution to build a long-term care home could argue that there is a performance obligation not only to “build” the long-term care home, but also to ensure the building is operated as a long-term care home such that the performance obligation is satisfied over time. Some could argue that once it is built, there is no further performance obligation. Also, agreements can also be vague such that insufficient guidance could lead to significant diversity in practice.

There are some additional complications in terms of determining when a performance obligation is met. For example, there may be an external restriction, but the amounts were either not spent in accordance with the restriction or the program came in under budget. The funder may not have stated in the agreement, that the money must be returned or provided further guidance as to what the funds should be used for in such a situation. Currently, those amounts that were externally restricted may get “lost” and just sit on a statement of financial position for years. Over time, there is judgment as to when, or if, the funds may no longer be considered externally restricted such that the performance obligations are met. The answer could also differ depending in which province the NPO resides. For example, in Ontario, an NPO may have to go to the public guardian to obtain a release before it can spend funds as it wishes. Such legislation can differ between provinces.

Definitions of assets and liabilities

Question 6: Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liabilities are relevant considerations? If so, what are they?

The current guidance is extensive and quite prescriptive in that reference to the basic definitions of an asset and liability are generally not required. In developing any new guidance that may be based on the definition of a liability, explaining and expanding on the practical application of the concept "*embody a duty or responsibility to others that entails settlement by future transfer or use of assets, provision of services or other yielding of economic benefits, at a specified or determinable date, on occurrence of a specified event, or on demand*" will be necessary to ensure consistent application of the concepts to contributions and when a performance obligation has been met. We note that applying the liability definition to stipulations has been extremely problematic in the public sector and has resulted in diversity in practice.

Also, the concept of control is also very important in the determination as to whether to recognize a contribution receivable (e.g., bequests and pledges).

REVENUE RECOGNITION

Recognition of contributions

Question 7: Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?

We do not have additional characteristics other than the ones provided.

Question 8: Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?

Yes, we do.

Question 9: What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?

Below we provide our comments on each of the characteristics listed in the Consultation Paper:

(a) **Type and nature of the contribution**

We believe that the nature of the contribution should be a factor in determining when to recognize it as revenue. For example, the presence of an external restriction should have an impact. The source of the contribution (i.e. government or individual) or the type (pledge, bequest) should have no impact on revenue recognition.

(b) **The frequency of the contribution**

We believe that the timing of when a contribution is paid is irrelevant when determining when it should be recognized as revenue.

(c) **Time or purpose requirements imposed by the contributor**

We believe that this characteristic is a key determining factor in determining when to recognize contribution revenue. This concept would require recognition as a liability until used for the purposes specified. This is also an area that could have considerable judgment. Any guidance in this area would need to expand on how to apply the definition of a liability and the concept of a performance obligation. The guidance would have to balance the theoretical to allow the use of judgment but provide sufficient guidance such that it is not difficult to apply or results in significant diversity in practice.

(d) **Refundability of the contribution**

This characteristic provides strong evidence that a performance obligation has not been met. However, in practice, this characteristic is rarely clearly stated in an agreement or legislation. For agreements that do not outright state refundable conditions, it is not clear if the entity would assume that was the case, assume that was not the case, or have to look to other factors which then creates more judgment and a possibility of diversity. For example, an agreement may only state that the amounts must be used for a specified purpose, but not state what happens if they aren't used for that purpose. We note that the examples in the Consultation Paper had the refundability of the contribution as a factor which made them somewhat too simplistic to consider how it would apply in the actual NPO environment.

Other comments

- We also note that the Consultation Paper did not include a capital contribution example which is where there can be added complexity and judgment. How would the time or purpose criteria apply to a capital contribution? In the public sector, some entities argue there is a stipulation that a capital asset be used for the specified purpose such that revenue recognition happens over time, while others argue that a stipulation only exists until the related capital asset is acquired or constructed.
- We also note that despite the fact that the matching principle is no longer a part of the conceptual framework, it is still very important for many NPOs and their financial statement users. For others, such as foundations, what is important to their financial statement users is to show the amount collected in the statement of operations. Thus, the needs of the users of their financial statements vary and sometimes conflict.

Question 10: In addition to an approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by that method be useful to financial statement users?

We do not have any additional approaches to suggest.

Question 11: Which approach for the recognition of revenue in Example 2 do you think provides financial statements users with the most decision-useful information and why?

We believe that a modified Approach A is the most appropriate method. Under our proposed solution, the NPO would record the revenue as a receivable and revenue in its December 2028 financial statements. The reason for the difference from Approach A in the Consultation Paper is the fact that we believe the audit stipulation is most likely only an administrative or non-substantive requirement. Many funders require audited financial statements for the year in which the funds are provided as part of their funding agreement. Ultimately, the NPO should assess whether this requirement is substantive such that revenue should be recognized as a liability until the audited financial statements are released. One other consideration is whether the definition of an asset is met. For example, could the contributor back out of the agreement? If the agreement is not legally binding and the contributor could back out even when the terms were met, it is similar to a pledge whereby the NPO has no control over an asset until the funds are paid.

We believe that Approach B is much too complicated to apply and does not reflect the best way to apply the characteristics in the Consultation Paper to the scenario.

Question 12: Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options to how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where you think that some or all of the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so, what circumstances?

Please see our answer to Question 11 as we define a modified approach for Example 2 along with other considerations. .

We do not believe the $10,000 should be recognized over time or any earlier than when the 500th donation is received. This would add unnecessary complexity.

Special types of contributions

Contributed materials and services

Question 13: Do you recognize contributed materials and/or services? If so, how do you measure them? If not, why not?

We have clients that recognize contributed materials and services and, as required by the standard, they measure them at fair value. For those that do not, they generally do not because it is too costly, and they do not have the resources to determine the fair value and provide sufficient audit evidence to verify the measurement of those donated materials and services. The cost of recognizing the contributed material and services exceeds the benefit recognition would provide.

We note that there are some differing views on the guidance in Section 4420 which states: "*would otherwise have been purchased*". Some NPOs view it that the NPO would have to consider whether if it had received cash, it would it have otherwise purchased the item. Others believe the NPO should only consider whether it would have otherwise purchased the contributed materials or services to fulfil its mandate. These two different views could result in differing conclusions.

Question 14: For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized? What, if any, disclosures would be useful when contributed materials and services are recognized?

It is useful to recognize contributed materials and services when the amounts involved would have a significant impact on the financial statements, would have otherwise been purchased, and are essential to the activities of the NPO (e.g., donated audit services because an audit is a legislative requirement). This would also allow for better comparability between NPOs. Nevertheless, measuring those materials may be too costly to make it a mandatory requirement.

Question 15: For users of NFPO financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?

For users of NPO financial statements, disclosures that explain what materials and services were received, but not recognized, are useful to help them understand what costs would have to be incurred if the donated items were no longer received. For example, disclosures about the nature of free rent received by a daycare from a municipality would be useful for a user to understand the impact if that free rent was no longer received. The disclosures should include a description of the items and that the NPO would have otherwise purchased the items.

Capital asset contributions

Question 16: What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial statements? For example, does amortizing the capital asset contribution provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

In most cases, users focus on an NPO's statement of operations. Many NPOs want to demonstrate the matching of capital funding received with the related expense associated with the capital assets (i.e., amortization) to demonstrate they obtained sufficient funding for the item acquired. Despite the matching principle having been removed from ASNPO many years ago, this concept is still one that is very important to the majority of NPOs. We note that this treatment is also consistent with the current guidance for government grants in Section 3800 in ASPE. In the view of many NPOs, this method does not present large swings in the statement of operations (i.e., large surpluses in year one, and the expenses in future years). .

We do note that not all of our NPO clients feel that way, though they remain in the minority (e.g., foundations wish to present the amount of funds that were raised).

From a technical standpoint, if revenue recognition is tied to the liability definition and the concept of a performance obligation, any stipulations in the agreement with the funder that require the operation or maintenance of the asset in a certain manner for a period of time, or that the NPO cannot sell, lease or dispose of the asset, may suggest that there is a liability and revenue recognition may occur over time. The difficulty, however, lies in that agreements are not always clear about these requirements. The absence of these types of stipulations would suggest that all revenue recognition requirements are met once the item is acquired or constructed. However, for the reasons noted above, this accounting is considered problematic and not useful for users of many NPO financial statements.

One additional consideration may be where capital contributions are presented in the statement of operations such that they are segregated and presented separately to highlight the source (e.g., excess of revenue over expenses before capital contributions). This presentation may help to explain the large swings, however, many NPOs still prefer matching the revenues with the related capital asset amortization.

Question 17: What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increases in net assets would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

This type of contribution is also revenue. If the Board stays with a policy of allowing the deferral and recognition of capital asset contributions to allow matching and prevent the large swings in the statement of operations, then recognizing non-depreciable capital asset contributions in net assets also avoids the unwanted swings in net income that can confuse users of some NPO financial statements.

However, if the Board recognizes them in revenue, changes in presentation could help explain the swings in net income as a result of a large capital contribution (for example, by presenting the excess of revenue over expenses before capital contributions then presenting capital contributions). Overall, however, the feedback we received from a limited sample of our NPO client-base was that they believed that users do not always comprehend large swings in the statement of operations such that recognition in the statement of changes in net assets assists in reducing that confusion.

Question 18: What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution immediately in revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

One of the arguments for recognizing the amount immediately in net income is that as revenue, it shows what resources were received in the year. It allows some funders to reconcile what they paid to what is presented in the financial statements. However, the statement of operations and the annual surplus or deficit are a main focus for a significant majority of users of NPO financial statements such that recognizing these amounts immediately can cause confusion since there can be large surpluses in the year of the contribution followed by deficits in future periods that are not easily explained and can lead to incorrect conclusions as to appropriate governance.

Question 19: Are there other methods for recognizing capital asset contributions that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?

As mentioned previously, if the Board proceeds with recognizing these contributions immediately, they should consider presentation changes (i.e., excess of revenue over expenses before capital contributions).

Endowment contributions

Question 20: Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?

We do not believe there are such circumstances. The main issue that arises is that NPOs may be unaware that the legal definition may differ from the one under ASNPO. Thus, the larger issue is educating NPOs on the accounting definition to prevent misstatements as a result of categorizing and accounting for endowments improperly. For example, an NPO may recognize what they term a 15-year endowment as an endowment contribution under ASNPO and account for it accordingly. However, it would not be considered to be an endowment under ASNPO since it does not have to be maintained permanently.

There also appears to be some changing views in legal circles such that after certain periods of time endowment funds no long have to be maintained permanently. This would bring into question the classification of any of these amounts as an endowment as defined in ASNPO, since they would not have to be maintained permanently.

Question 21: When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

We believe that recognizing these amounts as direct increases in net assets provides the best information to most users of NPO financial statements since these are resources for which the entity will never be able to access and use for their own benefit. Recognition as revenue in the statement of operations would present an amount (i.e. the principal) they cannot use and provides a misleading impression that the amounts can be used for expenses.

Question 22: When does recognizing endowments immediately as revenue provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

Foundations are a type of NPO for which recognition as revenue immediately is useful to the users of their financial statements. For these types of entities, the focus is on conveying the amount of funds raised in the period more so than the surplus or deficit in the period. Recognizing all contributions, including endowments, as revenue immediately would achieve this objective, and ignores the type or restriction on the contribution.

Question 23: Are there other methods for recognizing endowments that should be considered? If so, what are they? Are there certain types of

NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?

We do not have any other methods to consider.

Question 24: Are there scenarios when it is difficult or costly to determine how to allocate the income, expenses, gains and losses (both realized and unrealized) on endowments for accounting purposes? If so, what are the scenarios or factors that makes this assessment difficult?

This issue arises frequently. A lack of clarity in endowment agreements as to the restrictions, if any, on any investment income, especially as it relates to unrealized losses can cause difficulties as to how to recognize the revenue. For example, an NPO receives $100 as an endowment contribution; the contributor states that any investment income is restricted to be used for research expense. The NPO measures its endowment investments at fair value. At the end of year 1, the fair value of the investments is $90. The issue is that the agreement specifies what to do with investment gains, but since the NPO also incurs unrealized losses, it is unclear how to treat them. Are losses only the responsibility of the NPO and expensed in the operating fund? Or should they draw down the endowment fund net assets to reflect what principal remains? Some NPOs have obtained legal interpretations to determine the impact on endowment principal when the fair value of an investment portfolio falls below the original endowment principal. There is currently significant diversity in this area. If an NPO should draw down the endowment principal for unrealized losses, there is also an added cost to track up swings in fair value and adjust the endowment balance on an ongoing basis.

In addition, NPOs do not always invest their endowment funds separately. As a result, an NPO has to determine how much of any investment income is allocated to its endowment funds and how much relates to its general operations, which can add complexity.

Question 25: Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?

There is a general lack of understanding as to the requirement to assess whether any related investment income on endowment funds has an external restriction such that it must be maintained permanently, is externally restricted, or is unrestricted. NPOs frequently record these balances inappropriately (in the wrong fund, in the wrong period).

Also, there is a lack of clarity, which may also be a legal issue, as to what happens when the contributing entity no longer exists many years down the road. Is there still a requirement to maintain the amounts permanently?

Some NPOs make internal transfers to endowment funds which can complicate the accounting and tracking as to what amounts are internally restricted and what amounts are endowment balances. After many years, the balances can become muddied.

Bequests .

Question 26: Do you recognize bequests? If so, under what circumstances are they recognized? If not, why not?

Given the considerable uncertainty surrounding both the timing of the receipt and the amount that will actually be received, it is rare for a bequest to be recognized because wills can always be changed or contested. However, one rare scenario we have seen relates to irrevocable trusts, which depending on how they are structured, could allow for recognition in advance of the receipt of the assets.

Question 27: As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?

As mentioned in the previous question, we have seen in very rare cases, structuring through an irrevocable trust such that the definition of an asset, and specifically the control criterion, was met to recognize a receivable.

Question 28: For financial statements users, what additional disclosures relating to bequests would be useful? Why?

We do not believe there is any necessity for disclosures other than what is currently required for contingent assets in Section 3290.

Question 29: In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?

We have seen irrevocable trusts that receive assets in advance of an individual's death; the structure allows the NPO to control (use and sell) the assets. However, the NPO does not have legal title and may not use any proceeds from sale prior to the date of the contributor's death.

ASSET RECOGNITION

Pledges

Question 30: Do you track pledges? If so, how? If not, why not?

Some of our NPO clients track pledges. The ones that do tend to be larger charitable organizations such as hospital foundations that have the staff and resources to do so within their donor database. Some of the reasons they track pledges is so they can follow up with that donor, if needed, and assess which campaigns are the most successful. For NPOs that do not track pledges, the reason is generally due to the fact they do not have the staff and resources and the cost of tracking exceeds the benefit.

Question 31: Do you accrue pledges as a receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set up a provision for uncollectible amounts?

The majority of our NPO clients do not accrue pledges as a receivable. In fact, more and more of our clients are no longer doing so since they find that, in the current economic climate, where NPOs are competing for fewer and fewer resources, it is becoming harder to reliably estimate the realizable value of pledges based on historical results. Consequently, it is difficult to conclude that ultimate collection is assured. Many NPOs view pledges as contingent assets.

For NPOs that recognize pledges as a receivable, they recognize what they expect to receive based on historical results. There are other scenarios, which are infrequent, where there are commitments before year end (e.g., government grant for which the government entity has already signed the contract that committed them to the funding or a large corporate donation where the amounts are received shortly after year end and the collection risk is very low) where a pledge receivable may be recorded.

Question 32: If you previously recognized pledges but no longer do so, why did you stop?

As we mentioned in our response to Question 31, we are seeing more and more of our NPO clients stop recording pledges for reasons that include (1) the cost and resources needed track pledges and measure the realizable amount and (2) the changing economic climate (e.g., Go Fund Me campaigns, fewer sources of revenues) such that it is harder to look to historical results as a predictor of future collection and estimate what will be received with an appropriate amount of precision.

Question 33: Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time period or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how and what warrants different accounting treatment?

In most cases, pledges that are recorded relate to cash contributions. The majority of the cases in which we see pledges recognized relate to large fundraising campaigns. However, occasionally some NPOs may record a pledge from a government or corporation on a one-off basis when there is clear evidence that the amount will be received or they are received shortly after year end.

The guidance in Section 4420 points to large, annual fundraising campaigns where entities may be able to record pledges receivable. As a result, that is when NPOs have tended to recognize pledge receivables. Other than the situation mentioned in the Section, many view the control criterion as not being met to recognize an asset for a pledge.

Question 34: For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?

For NPOs that recognize pledges receivable, this enables them to match the revenues with the related costs of the fundraising campaign to demonstrate how successful that campaign was.

Question 35: For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?

Since a pledge is essentially a contingent asset, having optional disclosures similar to those required in paragraph 3290.22 for contingent gains would be useful. For those NPOs that want to link their current campaign expenses to the related potential revenues that will not be recorded until a future period, disclosure would allow a way to convey the full picture of the results of their campaigns.

Capital asset recognition exemption

Question 36: In addition to circumstances where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply the capital asset recognition exemption? If so, what are those reasons?

For some entities, this treatment gets closer to a cash basis of accounting that allows them to match their cash inflows to their cash outflows.

Question 37: For financial statements users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision-useful? If no, why not? If yes, is this only the case under certain circumstances? What are those circumstances?

The information provides sufficient information. Generally, the NPOs that use this exemption do not have a lot of users of the financial statements such that the disclosures are enough.

Question 38: If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?

The revenue threshold is well understood and easy to apply. We would recommend that the Board revisit the threshold every few years to increase the figures to deal with inflation.

We also note that with the current accounting policy choice of deferral method versus the restricted fund method, the exact same entity could meet the revenue threshold under one accounting policy and not under the other since the amount of revenue they recognize in the two periods (which are used to determine the average revenue for purposes of the exemption test) could differ. One method of accounting would eliminate that possibility.

Question 39: If revenue is the appropriate metric to be used for an exemption, what is an appropriate dollar threshold to apply and why?

We believe the Board should decide what percentage of NPOs they would be okay with having use the exemption and determine the dollar threshold based on statistical data of NPOs' revenues on average, adjusting it every few years for inflation.

Question 40: Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues in excess of $500,000, capital assets must be recognized for the first time in accordance with Sections 4433 and 4434. How do organizations currently account for this transition? Are Sections 4433 and 4434 applied prospectively, retrospectively or is another transition approach used?

Sections 4433 and 4434 are not entirely clear, but we believe that the exemption is a policy choice and once the threshold is no longer met, the change of accounting policy would require applying the guidance in paragraphs 1506.13-.18.

PRESENTATION AND DISCLOSURE ISSUES

Fund accounting

Question 41: What are the benefits to fund accounting presentation, and what are the limitations?

The benefits to fund accounting presentation are as follows:

- The largest benefit is the information that it provides. Fund presentation allows NPOs to demonstrate stewardship of assets and use of resources for its individual programs or activities. Currently, they can even demonstrate it by restriction. This is very useful for NPOs that may have numerous different types of programs or activities and it can allow funders to see how their program resources were used.
- When it is used in the statement of financial position, it can convey when funds have been borrowed from a restricted fund to cover a shortfall in general operations.

Some of the limitations of fund accounting presentation include the following:

- Comparability – two NPOs that are virtually the same can end up with completely different results when they use fund accounting, but different methods of revenue recognition (deferral versus restricted fund method).
- Some NPOs take fund accounting too far and have too many funds, making it hard for financial statement users to understand the larger picture.
- The allocations of revenues and expenses between funds can become somewhat arbitrary (and may vary between similar organizations). There may also be an increased risk of manipulation arising from the importance a funder may place on the performance of a particular fund.
- The use of the terms "internally restricted fund" and "externally restricted fund" can be very confusing to financial statement users.

Question 42: Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?

Fund accounting is the most useful when there are a number of different programs or activities. It can allow funders to quickly see how the resources they provided were used. Foundations often use fund accounting presentation.

Question 43: What challenges exist for NFPOs that prepare financial statements using fund accounting presentation?

Some of the challenges include the following:

- Fund accounting may require a much more detailed chart of accounts and has an added cost to financial reporting. As NPO resources can be limited, this adds to the challenges.
- Some expenses may relate to numerous funds and determining an appropriate basis of allocation may require time and effort.

Presentation of net assets

Question 44: Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted and unrestricted? If so, what?

Some NPO financial statements do not correctly present what they should in those categories. For example, an NPO may present an endowment fund; it may have internally restricted amounts in the endowment fund, but it only presents the endowment fund balance rather than appropriately allocating the net assets between the externally restricted endowment net assets and internally restricted net assets. Also, for NPOs that begin transferring amounts between funds, the amounts are not always appropriately tracked to ensure the proper classification of the net asset balances.

Question 45: For financial statements users, what information about classes of net assets is useful?

We believe the current categories are essential (i.e., unrestricted, restricted (internal and external)) as they help financial statement users understand the financial condition of the NPO. Also, presenting the changes in those balances and any transfers in and out, along with explanations as to why the transfers were made, are important. A significant number of NPOs continue to present net assets invested in capital assets as a line item in net assets. Pulling that balance out of unrestricted net assets better conveys what resources are available to discharge existing liabilities or finance future operations.

Question 46: Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?

No, we do not believe that it is important for users to be able to reconcile those balances. However, we believe it is important to convey to users of the financial statements what assets are externally restricted and not available to discharge existing liabilities or finance future operations. We note that ASNPO does not currently contain a precise definition of a “restricted asset” (e.g., must be in separate balance account or must be used for specified purpose). If the AcSB decides to define these assets, it should involve assets that must be legally or regulatorily isolated from other assets of the NPO.

If an NPO has to reconcile restricted assets and restricted net assets, it could be a costly exercise (for example, if cash is all in one account or all of its investments are pooled (e.g., ,endowment and other)) It gets further complicated when an NPO may borrow restricted funds to finance general operations.

Disclosure of restricted cash

Question 47: Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?

Yes, some of our clients disclose items as restricted cash and cash equivalents. Some do it based on the external restriction while others base it on whether there was a legal or regulatory requirement to separate those assets from other assets. We have noted also that some Provincial Institutes have taken the position that cash that is internally restricted must be separately presented in the statement of financial position as non-current. Generally, if amounts are externally required to be separated from other assets, those are shown in a separate line item. If entities want to set aside amounts internally, in practice, that tends to be disclosed in a note. As stated, however, there seems to be some diversity in practice.

Question 48: For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What type of restrictions on cash and cash equivalents do users of financial statements want to be aware of?

This information is useful to users to convey when the cash or cash equivalents are not available for other purposes, specifically, when there is restricted cash driven by legal or regulatory requirements (e.g. pledged as security for assets or required to be held and cannot be spent immediately). Note disclosure to indicate that an NPO has restricted certain assets for certain purposes may also be useful.

In many cases, while a funder may give funds to be spent for a specific purpose, they do not legally require that those funds be set aside. While good governance would suggest that the funds remain in the NPO until used for the purposes specified, when all funds are put into a single bank account, it can be difficult to ascertain what amounts relate to which purpose.

Question 49: For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?

Similar to our answer to question 48, we believe that users would find it most useful to know when there is a legal or regulatory requirement to segregate the NPO’s assets such that they could not be used for general operations / until used for the purpose specified. Note disclosure to indicate that an NPO has restricted certain assets for certain purposes may also be useful.

GGFL

December 9, 2020

Kelly Khalilieh, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

Dear Ms. Khalilieh:

Enclosed is our response to the Consultation Paper concerning Contributions – Revenue Recognition and Related Matters.

I am the senior partner at GGFL,LLP in Ottawa, a firm of roughly 100 employees with partners and managers, many of whom have been volunteers and Board member in numerous NFPOs since the firm was established 75 years ago.

In addition to our volunteer activity, our firm has approximately 60 NFPO clients ranging in size and complexity with assets ranging from $50,000 to $60,000,000.

We appreciate that you have requested comments in responses to the specific questions included throughout the consultation paper and we will address each question in our response below; however, we would like to add a few general comments first which we believe are relevant to the overall concepts which are:

1. In paragraph number 3 of the paper, you comment that "the current accounting policy choice results in a lack of comparability of NFPO financial statements". In paragraph number 4 you add that "it also creates a lack of comparability for Canadian NFPO's that compete for funding internationally"

   You have to break out these two points separately. The vast majority of NFPO's in Canada do not compete for funding internationally and the users of their statements are primarily their members and occasionally financial institutions. These users have no concern of the comparability of their statements to other NFPOs. They are simply concerned with the viability of their NFPO.

   We agree that those entities that do compete internationally need to consider the users of their statements and should follow standards that allow their statements to compete internationally for funding. However, the funding agencies do have the ability to request further information and documentation from those NFPOs seeking funding, so it makes no sense to us that those few entities should be the reason that wholesale changes to the Canadian standards.

2. That does not mean that we are opposed to considering changes to our standards. For example we have no objection to eliminating the restricted fund method of accounting as a choice however, we also strongly oppose the concept of deferring and amortizing contributions for capital assets especially if there is no contingent requirement to pay back any portion of the contribution. The users of the statements being the members and potentially financial institutions consider these contribution to be equity to the organizations so why not record them as such.

3. While pledges may not be a legally enforceable liability, in our experience, and in particular, my own personal experience being over 40 years in the profession and my very significant involvement in the NFPO sector as both a volunteer chairing multiple campaigns and as a professional advisor, we have found that the moral and ethical obligation relating to pledges can be just as powerful and compelling as any legal liability. Wel will cover this in more depth in responding to specific questions.

Please see below and in the following pages our response to every question raised in the Consultation Paper.

If you have any questions or require further information, please contact us.

Yours very truly,

GGFL LLP
Chartered Professional Accountants

Jeffrey Miller

Per: Jeffrey Miller, FCPA, FCA, LPA, CFE, TEP
Partner

JNM/sf

Encl.

Specific questions and answers:

Question 1: Are there circumstances when non-reciprocal funding provided to an NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances?

Answer 1: None that we can envision.

Question 2: Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? If so, what are the issues and how might they be addressed?

Answer 2: We are not aware of any issues regarding unrestricted contributions.

Question 3: Are there circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?

Answer 3: In this case their may circumstances that an organization has made an appeal to donors for a specific use of funds such as for Covid relief, whereby the NFPO has identified exactly how the funds are to be used. We believe in this case that any contributions made to this fund are implicitly externally restricted.

Question 4: Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?

Answer 4: No we have not needed to consult the revenue recognition guidance.

Question 5: Do you think applying the recognition concepts for revenue to restricted contributions provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?

Answer 5: Yes. Regardless of the fact that you know the funds are to be coming, there is no logic in recording revenue when the funds have not been expensed.

Question 6: Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liabilities are relevant considerations. If so, what are they?

Answer 6: As mentioned above, the issue we have with restricted contributions to acquire asset is that so long as the contribution is not refundable, the amount should not be deferred and should be recognized as revenue when expended and added directly to net assets. Even if there is a potential of a portion of the restricted contribution to be refunded, it should be disclosed as a contingent liability. This removes any confusion for the primary users of NFPO statements.

Question 7: Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?

Answer 7: None that comes to mind.

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Question 8: Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?

Answer 8: Yes absolutely.

Question 9: What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?

Answer 9: As in the examples provided, the externally placed restriction that the funds had to be used for a specific purpose and that any unused funds had to be returned supports the fact that the revenue should not be recognized until expended on the purpose for which the funds were given. Again, if there are no requirements to refund the monies and they can be used by the NFPO for whatever purpose the entity needs, then in fact the funds are not externally restricted and therefore should be recognized as revenue as soon as the funder has committed to the grant. This would also mean that a receivable amount could be recognized if the commitment had been made and not received before the fiscal year end.

Question 10: In addition to the approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by that method be useful to financial statement users?

Answer 10: We are not aware of any other approach.

Question 11: Which approach for the recognition of revenue in example 2 do you think provides financial statement users with the most decision-useful information and why?

Answer 11 Primarily Approach B, recognize the revenue as progress toward the milestone is made. However that applies specifically to the $25,000 in matching funds as the milestone is each dollar of the $25,000 raised. Please understand that we do not believe the additional $10,000 amount should be recognized if the 500th separate donation was not committed before the fiscal year end and therefore that milestone had not been met.

Again we point out that the primary users of these statements are the members and the progress of this campaign is of importance to them. Whatever the goal is of the campaign this information is useful for the canvassers in the campaign to keep "moving the needle". We also believe it is also fair to say that the financial statements for the December year end will be completed by the end of February at the earliest in which case it would be known if the goals had been met by December 31.

We do believe in the concept that the balance sheet is to represent the assets and liabilities at a point in time, and if the $10,000 milestone had not been met then it should not be recorded. This is not the percentage completion method.

The completion of the audit is a condition for the payment of the pledge, not for the commitment of the pledge, so as long as the conditions for the commitment are met, then it should be reported as revenue of the NFPO.

Question 12: Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options to how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where you think that some or all of the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so what are the circumstances?

Answer 12: We believe that we have addressed this with our response to question 11. We would disagree with anyone who may suggest that you should recognize a portion of the $10,000 even if the 500th donor mark was attained after year end either before or after the financial statements were completed. We have means of disclosing subsequent events to the users through the notes which form an integral part of the financial statements.

Question 13: Do you recognize contributed materials and/or services? If so, how do you measure them? If not, why not?

Answer 13: Generally speaking, our NFPO clients do not recognize contributed materials and services. Only if a donor requests a donation receipt for their contributed products or professional services, then we advise our clients to have the donor issue an invoice for the goods or services billed so that the NFPO can pay the invoice and the donor can make a cash donation. We have never experience any volunteer asking for a receipt for their time and would advise any NFPO from even considering such a request.

If an NFPO accurately tracks and wishes to disclose in the statements the number of volunteers and/or volunteer hours, then we would disclose it in a note to the financial statements as information only.

Question 14: For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized? What, if any, disclosures would be useful when contributed materials and services are recognized?

Answer 14: The only purpose we can imagine is if the organization was so dependant of the contributed goods and services, that they can not survive and provide their services without them. We would say for example, that for a food bank organization, donated goods are an integral part of their services and how much they receive and distribute in donated goods would be required disclosure to truly identified what services they are providing to the community. Not reporting these would grossly understate the impact they have and the needs of the community they serve.

Question 15: For users of NFPO financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?

Answer 15: As mentioned above, we believe that for certain organizations, like a food bank, not including donated goods can seriously understate their financial statements. At a minimum it requires disclosure in the notes that the financial value is not determinable. We also believe that an organization that heavily relies on volunteer hours should include the information in the notes as it would be useful information to the members and user of the statements.

Question 16: What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial statements? Does amortizing the capital asset contribution provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so which types and why?

Answer 16: We don't perceive any benefit to amortizing the capital asset contribution. It has been our experience that this in fact confuses most financial statement users especially if the contribution is non-refundable. Perhaps if the contribution is refundable under certain conditions then amortizing the contribution would make sense if the unamortized balance equals to refundable amount.

Question 17: What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increases in net assets would provide decision-useful information in NFPO financial statements? Does recognizing the capital asset contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed assets? If so, which types and why?

Answer 17: The circumstances are the refundable portion of the contribution. If it is non-refundable it should be recognized as an increase to net assets. We prefer it be recognizes as income as opposed to a direct addition to net assets as most users understand the flow through the income statement but we are open to the concept of it being a direct addition to net assets as it is not income earned by the NFPO.

Question 18: What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? Does recognizing the capital asset contribution immediately in revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Answer 18: As noted above, recognizing the contribution immediately as revenue is a concept that all users understand and therefore is more meaningful to the users. The type of capital asset is irrelevant.

Question 19: Are there other methods for recognizing capital asset contributions that should be considered. Is so, what are they? Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?

Answer 19: As has been suggested, a direct contribution to net assets is a viable alternative to recognizing the contribution as revenue.

Question 20: Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?

Answer 20: We have not experienced this as an issue. Generally speaking, we have advised any NFPOs that receive endowments to create a Deed of Gift in which the terms of the endowment are clear.

Question 21: When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? Are there certain characteristics of endowments or types of NFPOs where using this method of accounting for endowments would provide better information for users? If so, what are they and why?

Answer 21: We believe it depends on the type of NFPO receiving the endowment. There are two types of Foundations, which are both registered charities. The first is one type that runs annual campaigns with the intent of disbursing the funds annually to Charitable Organizations who run the programs, and the second type accumulates endowments with the intent to disburse the annual investment income earned from the endowments. For any NFPO that is not this second type of Foundation, recognizing endowments as a direct increase in net assets makes sense as that is not the NFPOs main objective.

Question 22: When does recognizing endowments immediately as revenue provide decision-useful information in NFPO financial statements? Are there certain characteristics of endowments or types of NFPOs where using this method of accounting for endowments would provide better information for users? If so, what are they and why?

Answer 22: As noted in the answer to the question above, Foundations whose purpose is to build capital and actively solicit endowments with the goal of accumulating capital and disbursing the annual income generated to Charitable Organizations, reporting endowments received in the year as income is appropriate and is useful information for the users as one of the measures of how the NFPO performed in the year.

Question 23: Are there other methods for recognizing endowments that should be considered?" If so, what are they? Are there certain ty0pes of NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?

Answer 23: None that we would consider.

Question 24: Are there scenarios when it is difficult or costly to determine how to allocate the income, expenses, gains and losses (both realized and unrealized) on endowments for accounting purposes? If so, what are the scenarios or factors that makes the assessment difficult.

Answer 24: The scenario which would make the allocation of income to each endowment fund difficult would be if endowment fund dollars are co-mingled with non-endowment funds. Similarly, if each endowment fund was maintained in a segregated account, it would make the allocation of income easier but also far more costly to track. However, if all endowment funds are pooled then, it would not be difficult to allocate the income proportionately. Using market-to-market accounting for the portfolio makes the separation of realized and unrealized gains and losses irrelevant.

Question 25: Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?

Answer 25: We believe all issues related to endowments have been addressed.

Question 26: Do you recognize bequests? If so, under what circumstances are the recognized? If not, why not?

Answer 26: Yes, our clients recognize bequests but only when the organization has legal unchallenged right to the bequest and the amount to be received is known.

Question 27: As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?

Answer 27: The only characteristic issue of a bequest that could affect the accounting treatment of the bequest is if the bequest is to be endowed or not; however, this should not affect when the bequest should be recognized in the financial statements of the NFPO.

Question 28: For financial statement users, what additional disclosures relating to bequests would be useful? Why?

Answer 28: As donor can change their Wills, we don't believe and disclosure of future bequests are relevant and, in fact, could be misleading

Question 29: In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?

Answer 29: As mentioned in the consultation paper life insurance gifts are common as well. If they are policies owned by the donor and for which the NFPO is the named beneficiary or the donor has advised their intent to leave proceeds from a policy to an NFPO in their will, then these are no different from a bequest as the donor can always change their mind and change the beneficiary of the policy. However, there are circumstances where the insurance policy is actually owned by the NFPO and the NFPO is the beneficiary. In these cases, only the disclosure in the notes to the financial statements of the number of policies and the face value of them is appropriate.

Another instrument is a Charitable Remainder Trust in which the a Trust is settled by a donor with the settlor getting a donation receipt equal to the net present value of the gift as determined by an actuary and thereafter, the annual income earned by the Trust. The NFPO would be the capital beneficiary of the Trust. This is different than a bequest as the donor cannot change their mind and get the funds back from the Trust.

Question 30: Do you track pledges? If so, how? If not, why not?

Answer 30: Yes, pledges are recognized and recorded in the accounts of the NFPO. There is specific software programs that track both the pledges and payments of pledges.

Question 31: Do you accrue pledges as a receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set a provision for uncollectable amounts?

Answer 31: Yes, pledges for both annual campaigns and special campaigns are recorded as receivables. Based upon historic experience an allowance is set up being a small percentage of the current year's pledges, a large percentage of pledges that are one year in arrears plus 100% of any pledges in excess of one year.

Question 32: If you previously recognized pledges but no longer do so, why did you stop?

Answer 32: Not applicable in respect of the NFPOs for which we provide services.

Question 33: Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time period or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how and what warrants different accounting treatment?

Answer 33: As stated earlier in our response, although pledges are not legally enforceable, our experience is that the moral and ethical obligation that goes along with a pledge can be as compelling as a legal obligation when collectability of the pledge is in question. However, if an NFPO has little or no past experience in the collection of pledges, then we would consider in those cases only recording it revenue as received.

Question 34: For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?

Answer 34: In response to questions 21 and 22, we discussed Foundations, those that seek endowments and those that have annual campaigns. For those NFPOs that have annual campaigns, they also annually allocate the revenues from their campaign to beneficiary agencies. The users of the financial statements are vested and interested in how the campaigned performed and how much and to whom the campaign revenues will be allocated, all of which are reported in the annual financial statements of the NFPO. Similarly, the beneficiary agencies need to know what they can expect to receive in allocations in order to budget their own operations for the following year.

Question 35: For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? If the NFPO does not recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?

Answer 35: For the NFPOs we have described above, the only alternative is to recognize pledges as revenue. Note disclosure would not be sufficient.

Question 36: In addition to circumstances where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply the capital asset recognition exemption? If so, what bare those reasons?

Answer 36: The cost to the smaller NFPOs is the only reason of which we are aware for an NFPO to choose to apply the exemption.

Question 37: For financial statement users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision-useful? If no, why not? If yes, is this only the case under certain circumstances? What are those circumstances?

Answer 37: In our experience, unless the organization has significant capital assets with long-term value, such as a building, any other information of capital assets expensed which have no residual long-term value is of no importance and not decision-useful to the users of the financial statements.

Question 38: If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?

Answer 38: If an exemption in retained, it should be based on both the level of revenue and total assets of the NFPO. An NFPO can have millions in assets and less than $500,000 in revenues in which case we don't believe they should be entitle to the exemption.

Question 39: If revenue is the appropriate metric to be used for an exemption, what is an appropriate threshold to apply?

Answer 39: If the decision is to maintain the exemption, it might as well be maintained at the current amount.

Question 40: Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues in excess of $500,000, capital assets must be recognized in accordance with Sections 4433 and 4434. How do organizations currently account for this transition? Are sections 4433 and 4434 applied prospectively, retrospectively or is another transition approach used?

Answer 40: We have not come across this scenario and therefore have no experience with the matter. However if the standard is to be applied retroactively then the cost to do so would be significant which would be the only reason we would support it being applied prospectively.

Question 41: What are the benefits to fund accounting presentation, and what are the limitations?

Answer 41: The benefits to fund accounting is the ability to separate out operating activity from say capital asset activity and that each fund has its own assets and liabilities and, if used properly, users can easily see ascertain what comprises each fund. It also is an effective way to segregate cash, which is to be used only in a prospective fund, although that can be accomplished by the effective use of restrictive bank accounts. The challenge is when fund accounting is not used effectively within an organization and the funds end up being co-mingled. This can often result in large inter-fund balances, which may confuse the users.

Question 42: Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?

Answer 42: As noted above, if used effectively users can see the assets, liabilities and net assets of a capital fund versus and operating fund.

Question 43: What challenges exist for NFPOs that prepare financial statements using fund accounting presentation?

Answer 43: One challenge is generally that the comparative figures are often presented only on a combined basis so it may be difficult for a user to compare results of a particular fund for one year versus the prior year.

Question 44: Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted and unrestricted? If so, what?

Answer 44: Admittedly speaking, it can be confusing to non-sophisticated users of financial statements having multiple classifications of net assets; however, investing the time to explain the different classifications is worthwhile. The only classification that may be somewhat redundant and not necessary is endowments as that is simply a subset of externally restricted net assets.

Question 45: For financial statement users, what information about classes of net assets is useful?

Answer 45: The purpose and amount of each internally and externally restricted net assets.

Question 46: Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?

Answer 46: For internally restricted net assets, it may not be meaningful to identify the corresponding assets as they likely are not segregated. For externally restricted assets we believe it would important and useful information. Ideally, the funds would be in a segregated restricted account, but if they are not, then we believe it to be relevant information for the users of the financial statements.

Question 47: Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?

Answer 47: Absolutely if it is in a segregated account. The nature of the restrictions would be the externally imposed restrictions for which the proceeds were received. We would only recognize them as restricted if they were in segregated accounts. Too often, restricted cash and cash equivalents are not segregated.

Question 48: For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What type of restrictions on cash and cash equivalents do users of financial statements want to be aware of?

Answer 48: The information is useful to know that funds have not been co-mingled and are available for their intended purpose. The users would want to be aware of what is the purpose of the restricted funds.

Question 49: For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?

Answer 49: As noted above, the information is useful to know that funds are available for their intended purpose. For restricted investments, users would be interested in the liquidity and nature of the investment to ensure that the funds would be available when required and the risks associated with the invested funds.

ORDRE DES COMPTABLES PROFESSIONNELS AGRÉÉS DU QUÉBEC

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Montréal, le 10 décembre 2020

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Madame,

Vous trouverez ci-joint les commentaires des Groupes de travail techniques NCECF – Comptabilité financière – Partie II et OSBL – Comptabilité financière – Partie III, mis en place par l'Ordre des comptables professionnels agréés du Québec, concernant le document de consultation intitulé « Apports – Comptabilisation des produits et questions connexes ».

Nous vous serions reconnaissants de nous faire parvenir une copie de la traduction anglaise de nos commentaires.

Veuillez prendre note que l'Ordre des comptables professionnels agréés du Québec agit seulement à titre de facilitateur et ce document ne constitue pas une réponse de ce dernier, mais le point de vue des membres participant aux groupes de travail. De plus, ni l'Ordre des comptables professionnels agréés du Québec, ni quelque personne que ce soit ayant participé à la préparation des commentaires ne peuvent être tenus responsables relativement à leur utilisation et ils ne sont tenus à aucune garantie de quelque nature que ce soit découlant de ces commentaires, comme décrit dans le déni de responsabilité joint à la présente.

Veuillez agréer, Madame Khalilieh, nos salutations distinguées.

Annie Smargiassi, CPA auditrice, CA

Représentante des Groupes de travail techniques NCECF – Comptabilité financière – Partie II et OSBL – Comptabilité financière – Partie III, de l'Ordre des comptables professionnels agréés du Québec

p. j. Déni de responsabilité et commentaires

DÉNI DE RESPONSABILITÉ

Les documents préparés par les Groupes de travail techniques et sectoriels de l'Ordre des comptables professionnels agréés du Québec (Ordre) ci-après appelés les « commentaires », sont fournis selon les conditions décrites dans la présente, pour faire connaître l'opinion des groupes de travail sur des énoncés de principes, des documents de consultation, des exposés-sondages préliminaires ainsi que des exposés-sondages publiés par le Conseil des normes comptables, le Conseil des normes d'audit et de certification, le Conseil sur la comptabilité dans le secteur public, le Conseil sur la gestion des risques et la gouvernance et d'autres organismes.

Les commentaires fournis par ces comités ne doivent pas être utilisés comme substitut à des missions confiées à des professionnels spécialisés. Il est important de noter que les lois, les normes et les règles sur lesquelles sont émis les commentaires peuvent changer en tout temps et que, dans certains cas, les commentaires écrits peuvent être sujets à controverse.

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MANDAT DES GROUPES DE TRAVAIL DE L'ORDRE

Les Groupes de travail de l'Ordre des comptables professionnels agréés du Québec ont comme mandat notamment de recueillir et de canaliser le point de vue des praticiens exerçant en cabinet et de membres œuvrant dans les affaires, dans les services gouvernementaux et dans l'industrie ainsi que le point de vue d'autres personnes concernées œuvrant dans des domaines d'expertise connexes.

Pour chaque exposé-sondage ou autre document étudié, les membres des Groupes de travail mettent leurs analyses en commun. Les commentaires ci-dessous reflètent les points de vue exprimés et, sauf indication contraire, ces commentaires font l'objet d'un consensus parmi les membres des Groupes de travail ayant participé à cette analyse.

Les commentaires formulés par les Groupes de travail ne font l'objet d'aucune sanction de l'Ordre. Ils n'engagent pas la responsabilité de celui-ci.

COMMENTAIRES GENERAUX

Bien que les membres du groupe de travail aient lu avec intérêt la proposition d'une nouvelle méthode de comptabilisation des apports selon la méthode des caractéristiques, les membres précisent qu'à leur avis, le choix actuel de méthode de comptabilisation des produits relativement aux apports affectés convient bien et répond aux divers besoins des OSBL et de leurs utilisateurs. Aussi, selon leurs discussions avec des parties prenantes et des utilisateurs des états financiers des OSBL auprès desquels ils œuvrent, la majorité de ceux-ci comprend bien les deux méthodes et la façon de les appliquer. Ils ont donc de la difficulté à adhérer aux raisons qui poussent le CNC à vouloir éliminer ce choix. Plusieurs normes comptables permettent des choix de méthodes afin de mieux s'adapter aux différents contextes des organisations et mieux répondre aux besoins de leurs utilisateurs. Bien que ces choix réduisent la comparabilité des états financiers, ils se traduisent généralement par une pertinence accrue pour les utilisateurs concernés.

De plus, les membres ont soulevé que près de 90 % des OSBL au Canada disposent de moins de 500 000 $ de produits annuellement, ce qui ne les place pas dans une situation dans laquelle ils doivent se comparer avec des organismes ailleurs dans le monde. La comparaison à l'échelle internationale ne semble pas être une problématique suffisamment répandue pour expliquer le retrait d'un choix de méthode comptable.

Pour les membres, la méthode actuelle de comptabilité par fonds affectés est très pertinente pour certains organismes dont la vocation première est de lever des fonds et non de rendre compte des services ou des activités à la population. L'objectif des états financiers, pour ces entités, est davantage de donner au lecteur une vision des sommes levées et des montants redistribués. Pour un organisme qui procure des services ou des activités, l'objectif des états financiers est davantage de rendre compte au lecteur, des activités ou des programmes réalisés et d'y associer le financement de ces activités ou programmes. La méthode du report permet pour ceux-ci, de rapprocher les produits d'apports affectés aux charges qui sont générés pour ces activités.

Tel que mentionné précédemment, les membres sont d'avis, que des méthodes comptables propres à des secteurs d'activités particuliers côtoient régulièrement d'autres méthodes, dans le secteur privé ou public. Ainsi, selon eux, les deux méthodes actuelles pour comptabiliser les apports des OSBL répondent bien aux besoins des différents utilisateurs. Ils précisent que la méthode de comptabilité par fonds affectés est d'ailleurs assez rarement utilisée en pratique.

Ils terminent ces commentaires généraux en précisant que, du point de vue conceptuel, on doit considérer qu'une approche bilancielle n'est pas souhaitable pour les OSBL, car elle ne permet pas de bien répondre aux besoins des utilisateurs des états financiers de ce type d'entité qui veulent surtout rendre compte de leurs activités et des ressources financières pour financer ces activités.

Les membres ont aussi mentionné qu'ils sont disponibles pour discuter avec le CNC, si celui-ci désire approfondir les commentaires fournis, le cas échéant.

QUESTIONS SPÉCIFIQUES DU CNC

Apports

Question 1 : *Y a-t-il des circonstances dans lesquelles un financement public sans contrepartie ne devrait pas être considéré comme un apport à des fins comptables? Dans l'affirmative, quelles sont ces circonstances?*

Non, les membres ne sont pas d'avis qu'un financement public sans contrepartie doit être considéré autrement que comme un apport.

Question 2 : *Avez-vous connaissance de problèmes en lien avec les apports non affectés qui justifieraient le traitement de ce sujet dans le cadre de ce projet? Dans l'affirmative, quels sont les problèmes et comment pourraient-ils être réglés?*

Les membres sont d'avis que le mode de présentation des affectations internes pourrait être clarifié.

Pour les OSBL qui utilisent la méthode de comptabilité par fonds affectés tout comme ceux qui utilisent la méthode du report, un des problèmes en lien avec la comptabilisation des apports non affectés est l'impossibilité de pouvoir tenir compte de la disponibilité réelle des sommes dans les situations assez fréquentes où la réception ou la confirmation d'un apport se fait trop tardivement pour permettre son utilisation ou sa redistribution au cours de l'exercice courant. Cette situation peut se présenter lorsque les apports, par exemple des subventions gouvernementales, sont confirmés ou reçus à quelques jours de la fin d'exercice, même parfois le dernier jour de l'exercice ou encore confirmés et reçus après la fin de l'exercice et pour lesquels l'instance gouvernementale exige que l'OSBL les comptabilise dans l'exercice qui vient de se terminer. Dans ces situations, l'organisme ne peut habituellement pas utiliser ces ressources dans l'exercice visé. Les excédents souvent générés par ces rentrées de fonds imprévues créent une distorsion importante par rapport aux charges engagées et aux prévisions budgétaires dans l'exercice visé et entraînent une volatilité des résultats qui est mal comprise par les bailleurs de fonds ou les utilisateurs des états financiers en général. Ces excédents peuvent être perçus comme une incapacité de l'organisme à utiliser les fonds recueillis. Pour certains OSBL financés par le gouvernement, ces excédents peuvent être considérés comme des trop-perçus. Ils peuvent même, dans certains cas, entraîner l'obligation de remettre certaines subventions gouvernementales sans considérer que ces sommes puissent être affectées ou réservées à des activités particulières d'une autre façon par l'organisme (affectation interne par exemple).

Ainsi, les membres se demandent si la comptabilisation des apports non affectés devrait aussi tenir compte de la possibilité pour l'OSBL de disposer de ces sommes dans l'exercice visé et ainsi permettre le report dans les contextes où cela n'est pas possible.

D'autre part, pour les membres, il est aussi difficile de déterminer dans plusieurs circonstances si des sommes sont réellement grevées d'une affectation d'origine externe ou non lorsque les affectations sont vagues ou générales, de sorte qu'elles s'apparentent à la mission de l'organisme. Des sommes provenant d'une même entente ou d'un même bailleur de fonds, ou encore d'un même ministère pourraient être considérées comme affectées ou non selon que la mission de l'organisme change ou non. Par exemple, un apport pourrait être considéré comme n'étant pas grevé d'affectation d'origine externe au moment de sa réception puisque, conformément aux recommandations du paragraphe 4410.07, les restrictions imposées ne sont pas plus spécifiques que ne le prévoient les limites générales découlant de la nature et de la mission de l'organisme. L'organisme pourrait toutefois modifier et étendre la nature de ses activités au cours de l'exercice subséquent, de sorte que les sommes reçues (qui pourraient ne pas avoir été dépensées en totalité) pourraient maintenant être considérées comme étant grevées d'une affectation d'origine externe.

Question 3 : Y a-t-il des circonstances dans lesquelles il est difficile de déterminer si un apport est grevé d'une affectation externe? Dans l'affirmative, quelles sont ces circonstances?

Selon les membres, il est toujours assez facile de déterminer si un apport est grevé d'une affectation externe lorsqu'il s'agit d'un apport affecté à l'achat d'immobilisations. Pour les autres types d'apports, les ententes ne sont pas toujours assez claires, surtout quand l'apport semble affecté de manière très générale à la mission de l'organisme ou lorsque des subventions de fonctionnement contiennent des calculs d'enveloppe très détaillés.

Il est souvent difficile de différencier le mode de calcul d'une subvention et la présence réelle d'affectation externe. Les membres citent l'exemple d'ententes de subventions contenant des calculs très détaillés des sommes octroyées. Les coûts utilisés pour le calcul des montants de l'apport ne constituent pas en soi des affectations externes, mais elles pourraient sembler l'être.

Il est aussi courant pour les OSBL de procéder à des annonces officielles lorsque certains apports sont reçus. Ces annonces officielles font souvent état de l'utilisation qui sera faite des montants sans pour autant rencontrer les exigences d'une affectation externe. Il s'agit plutôt d'une intention de l'utilisation de l'apport qu'en fera l'organisme bénéficiaire.

Comptabilisation des produits

Question 4 : *Y a-t-il des circonstances dans lesquelles vous consultez les indications du chapitre 1001 relatives à la comptabilisation des produits pour déterminer le traitement comptable à appliquer à un apport affecté? Dans l'affirmative, quelles sont ces circonstances et comment appliquez-vous les indications du chapitre 1001?*

Les membres ne se réfèrent jamais aux indications du chapitre 1001 pour déterminer le traitement comptable à appliquer à un apport, ils se réfèrent plutôt spécifiquement au chapitre 4410.

Question 5 : *À votre avis, l'application des concepts en matière de comptabilisation des produits aux apports affectés (c'est-à-dire qu'un apport affecté ne devrait pas être comptabilisé à titre de produits jusqu'à ce que les obligations de prestation soient remplies et que l'évaluation et le recouvrement de la contrepartie soient raisonnablement sûrs) permet-elle de fournir des informations utiles à la prise de décision dans les états financiers d'OSBL? Pourquoi? Dans la négative, quelles caractéristiques ou quels concepts, selon vous, jouent un rôle important dans la comptabilisation des produits relativement aux apports affectés?*

Les membres croient que la répartition des prestations est problématique. Ils ont donné l'exemple d'un projet qui implique plusieurs sources de financement, dont des fonds propres de l'organisme. Lorsque les sommes sont utilisées, le calcul de la portion des apports à comptabiliser en produits en premier est un enjeu. Est-ce que ce sont les fonds propres ou les apports affectés qui seront comptabilisés en premier si les sommes ne sont pas toutes dépensées dans le même exercice? Sur quelle base doit-on répartir les prestations? En pratique, ce sont souvent les apports affectés qui sont utilisés en premier selon les membres, avant l'utilisation des fonds propres ou au prorata des différentes sources de produits tel qu'elles sont détaillées dans l'entente signée entre les parties.

Définition des actifs et des passifs

Question 6 : *Êtes-vous au courant d'autres aspects de la comptabilisation des apports affectés pour lesquels les définitions des actifs et des passifs constituent des points à considérer pertinents? Le cas échéant, quels sont ces aspects?*

Les membres mentionnent que la définition d'un passif n'est pas considérée lorsque la méthode du report est utilisée, puisque l'application de ces recommandations donne lieu à la comptabilisation d'apports reportés qui ne répondraient pas nécessairement, par ailleurs, à la définition d'un passif.

Selon eux, il serait important dans le futur d'éviter de se baser sur la définition d'un passif pour établir les critères de comptabilisation d'un apport. En d'autres mots, la comptabilisation des apports affectés ne devrait pas être basée uniquement sur les caractéristiques ou la définition des passifs, car cette définition présente des enjeux d'application importants en pratique.

Par ailleurs, de référer à la définition d'un actif pour la comptabilisation d'apports à recevoir présente également des enjeux d'application. Les membres précisent qu'ils réfèrent davantage aux recommandations du chapitre 4420 qu'à la définition d'un actif, notamment en raison de la caractéristique de contrôle (1001.25b)) qui est difficile à rencontrer lors de l'analyse de la comptabilisation d'un apport à recevoir.

Comptabilisation des apports

Question 7 : *Y a-t-il d'autres caractéristiques des apports qui sont couramment observées dans les ententes d'apport et que le CNC devrait examiner? Dans l'affirmative, quelles sont-elles et pourquoi devraient-elles être examinées?*

Dans un premier temps, les membres ont précisé que les protocoles d'entente, contrats ou autres ententes de financement ne sont pas toujours clairs et qu'une part de jugement sera toujours requise pour faire une analyse des critères et des modalités.

Ensuite, précisément sur les caractéristiques énoncées au paragraphe .24 des propositions, les membres sont d'avis que celle présentée à l'alinéa d), soit le caractère remboursable, pourrait faire partie des caractéristiques à analyser, mais ne devrait pas être une condition déterminante pour comptabiliser un apport. Selon eux, lorsqu'un organisme n'a pas encore satisfait aux conditions d'une entente de financement, le montant serait quand même reporté au passif et le critère remboursable n'aurait pas d'impact sur la décision ou l'analyse. De plus, selon eux, il est rare que les ententes prévoient des remboursements et il est plus fréquent que les donateurs acceptent que les montants soient utilisés à d'autres fins que celles qui étaient prévues au départ.

À l'inverse, pour certains secteurs, il semble que les protocoles d'entente incluent toujours une clause de remboursement, surtout lorsque les apports sont reliés à l'obtention de crédits budgétaires.

Les membres proposent d'élargir le critère de l'alinéa c) aux conditions d'obtention du financement, soit les stipulations ou critères d'admissibilité en plus des exigences d'utilisation (ou obligation de rendre des services) imposés par l'apporteur.

Certains membres sont d'avis que la caractéristique temporelle en c) devrait tenir compte de manière plus explicite des situations décrites précédemment i.e. les cas où les sommes sont reçues si près de la fin d'exercice de l'organisme qu'il est impossible de les utiliser avant la fin du dit exercice. Le critère tiendrait ainsi compte du fait que certaines sommes reçues ou confirmées trop près (ou même après) la fin d'exercice, ne sont pas disponibles pendant l'exercice pour réaliser la mission de l'organisme. Certains membres soulèvent toutefois qu'il pourrait être difficile en pratique d'évaluer ce type de condition. Pour tenir compte des situations où l'aide est reçue très près ou même le dernier jour de la fin d'exercice, il pourrait être intéressant de considérer et de s'inspirer de certaines indications du chapitre 3800 sur « l'aide gouvernementale imprévue ». Par exemple :

> *« C'est parfois dans un exercice postérieur aux événements qui la motivent que l'aide gouvernementale est octroyée à l'entreprise. (…) il faut la comptabiliser dans l'exercice au cours duquel on en fait l'estimation pour la première fois ».*

Il serait aussi possible de s'inspirer des concepts d' « actions et communications du cédant » qui existent à la date de fin d'exercice (dans SP 3410) pour déterminer si un apport à recevoir existe en fin d'exercice (est-ce qu'il y avait suffisamment d'éléments probants qui existaient en fin d'exercice, sous la forme d'actions et communications du cédant à défaut d'une entente de contribution en bonne et due forme) qui permettrait à l'organisme de considérer qu'il y avait une subvention à recevoir en fin d'exercice (par opposition à un apport qui est confirmé tellement tardivement qu'il devrait être uniquement considéré dans l'exercice ultérieur).

Les membres ont soulevé d'autres caractéristiques qui sont importantes selon eux et qui devraient être ajoutées ou analysées par le CNC :

- Pour les apports sous forme d'immobilisation, doit-on considérer l'obligation de conserver et de maintenir en état l'immobilisation comme une forme de condition ?
- Pour les apports conditionnels grevés d'affectations, les conditions auxquelles ils sont soumis.

Question 8 : *Croyez-vous qu'une méthode comptable qui prend en compte le type d'apport et ses caractéristiques permettrait de fournir des informations utiles à la prise de décision dans les états financiers d'OSBL? Dans la négative, pourquoi?*

Les membres sont d'accord avec cette proposition à la condition que le CNC prenne en compte les caractéristiques qu'ils ont proposées en réponse à la question précédente. Dans ce contexte, ils sont d'accord à l'utilisation d'une méthode différente des deux méthodes actuelles.

Toutefois, ils sont d'avis qu'on ne devrait pas appuyer le choix de la méthode sur des caractéristiques non substantielles ou négligeables incluses dans l'accord de contribution. Ils citent comme exemple l'exigence de soumettre un formulaire de reddition de compte à la fin d'un projet ou de se soumettre à des exigences d'audit. À ce sujet, un membre réfère au paragraphe 3856.A22 qui précise que « *les caractéristiques non substantielles ou négligeables ne sont pas prises en compte pour l'application des dispositions du présent chapitre …* », en concluant qu'on ne devrait pas le faire non plus dans d'autres circonstances comme la présente.

Question 9 *: Selon vous, quelles caractéristiques des apports est-il pertinent de prendre en compte pour déterminer à quel moment comptabiliser un apport à titre de produits, et pourquoi?*

Les membres sont d'avis que la caractéristique énumérée au paragraphe .24c) des propositions, soit les exigences de nature temporelle et relatives à l'utilisation est l'une des plus pertinentes pour déterminer à quel moment comptabiliser un apport à titre de produit.

De plus, selon eux, un critère basé sur certaines caractéristiques des actifs sous-jacents, par exemple une immobilisation corporelle amortissable, devrait être ajouté.

Cependant, ils sont d'avis qu'on devrait analyser l'ensemble des caractéristiques sans nécessairement répondre à toutes les caractéristiques, de façon à permettre l'utilisation du jugement professionnel lors de l'analyse.

Question 10 : *Outre une méthode comptable qui prend en compte le type d'apport et ses caractéristiques, quelles autres méthodes de comptabilisation des apports affectés à titre de produits permettraient de fournir des informations utiles à la prise de décision dans les états financiers d'OSBL? Quelles sont ces méthodes et en quoi les informations qu'elles permettent de fournir seraient-elles utiles aux utilisateurs des états financiers?*

Mis à part les deux méthodes actuelles qui servent bien le secteur des OSBL présentement selon eux, les membres sont d'avis que seule la méthode basée sur les caractéristiques permettrait de fournir une information utile, en autant que leurs commentaires précédents soient considérés. Ils n'ont pas fait d'autre proposition.

Question 11 : *Selon vous, quelle méthode de comptabilisation des produits de l'exemple 2 fournit aux utilisateurs des états financiers les informations les plus utiles à la prise de décision, et pourquoi?*

Les membres sont d'accord avec la conclusion de la méthode A, mais ne sont pas d'avis que cette conclusion doit considérer les exigences d'audit comme étant une caractéristique déterminante. Selon eux, il s'agit d'un élément administratif ou une caractéristique négligeable et non déterminante du droit au financement. Cette condition vise plutôt à déterminer le moment du décaissement, selon l'énoncé de l'exemple. Tenir compte de ce critère pour déterminer si un apport doit être comptabilisé laisserait selon eux trop de place à une manipulation possible des résultats.

La plupart des membres est d'avis qu'on devrait attendre la fin de la campagne de financement dans la majorité des circonstances pour des situations similaires. Toutefois, selon quelques membres, s'il s'agit d'un financement récurrent et que l'organisme maintient un historique de financement accordé annuellement, on pourrait se demander si une estimation des montants à recevoir pourrait être comptabilisée lorsque la fin d'exercice survient avant la fin de la campagne. C'est le cas actuellement dans les situations décrites au paragraphe .06 du chapitre 4420 *Apports à recevoir*. Si un organisme amasse régulièrement un montant de 500 000 $, le montant à atteindre n'est peut-être pas une caractéristique déterminante et essentielle.

Tel que mentionné précédemment, les membres suggèrent de considérer une autre caractéristique ou critère lié à la disponibilité des fonds, pour déterminer si l'on peut comptabiliser les apports dans l'exercice courant. Dans l'exemple 2, comme les fonds ne sont pas disponibles pour offrir des services au cours de l'exercice 2028, il serait plus pertinent pour les utilisateurs de ne pas comptabiliser de produits au cours de l'exercice 2028.

Les membres ne sont pas d'accord avec la méthode d'avancement proposée dans la méthode B, car elle ne prend pas en compte la disponibilité des sommes.

La question de savoir quelles sont les caractéristiques essentielles d'un accord de financement est affaire de jugement selon les membres et pourrait dépendre de nombreuses circonstances.

***Question 12 :** Outre la méthode envisagée par le CNC pour comptabiliser les apports selon leurs caractéristiques, existe-t-il d'autres options de comptabilisation pour le type d'apport examiné dans l'exemple 2? Dans l'affirmative, quelles sont ces options? Selon vous, y a-t-il des circonstances dans lesquelles une partie ou la totalité de l'apport supplémentaire de 10 000 $ devrait être comptabilisée avant la réception du 500e don distinct? Dans l'affirmative, quelles sont ces circonstances?*

Les membres n'ont pas proposé de méthode autre que celle qui permet de comptabiliser les apports selon leurs caractéristiques.

Apports de biens et de services

***Question 13 :** Comptabilisez-vous les apports de biens ou de services? Dans l'affirmative, comment les évaluez-vous? Dans la négative, pourquoi?*

En général, les membres comptabilisent des apports de biens et de services lorsqu'ils sont en mesure de les estimer de façon raisonnable et qu'ils répondent aux critères de comptabilisation du paragraphe .16 du chapitre 4410.

Plusieurs sont d'avis que si les apports ne sont pas comptabilisés dans les états financiers des organismes, les utilisateurs des états financiers ne sont pas nécessairement en mesure d'apprécier l'ensemble des activités des OSBL qui ont recourt massivement à ce type d'apports.

Pour d'autres, la comptabilisation des apports sous forme de biens et de services pose certains enjeux en pratique et peut mener à une manipulation des états financiers lorsqu'il est difficile d'obtenir des comparables, même en présence de pièces justificatives des fournisseurs.

Pour les membres, les exigences actuelles conviennent assez bien aux OSBL, mais ils ont apporté quelques commentaires ci-après concernant les critères de comptabilisation de ce type d'apport.

Plusieurs sont d'avis que l'un des critères de comptabilisation des apports sous forme de bien et de services devrait être clarifié ou assoupli, soit celui qui prévoit qu'ils « *auraient dû être achetés par l'organisme à défaut d'un apport.* ». Pour certains, ce critère est souvent appliqué de manière très restrictive en pratique.

Ainsi, ils proposent de revoir ce critère pour clarifier son objectif. Ils proposent d'ajouter des précisions ou de le remplacer par « auraient été achetés si l'organisme avait reçu une somme d'argent équivalente à la valeur des biens ou services reçus ». Ils ont donné 2 exemples pour illustrer leur propos :

A. Un OSBL qui distribue des vivres aux personnes dans le besoin reçoit de divers donateurs toutes les denrées nécessaires à ses activités. Il reçoit des fruits et des légumes d'un marchand et aussi du champagne et du caviar. Certains membres interprètent le critère actuel en concluant que ces organismes n'achèteraient jamais de denrées alimentaires n'eut été des apports en biens, puisque ceux-ci ne disposeraient pas du financement nécessaire pour procéder à ces achats. D'autres membres appliquent le critère en concluant que les fruits et légumes auraient probablement été achetés par l'organisme si ce dernier avait reçu un montant en argent équivalent à la valeur de ces apports. Toutefois, l'organisme n'aurait probablement pas acheté du champagne et du caviar s'il avait reçu une somme équivalente à la valeur de ces biens. Aussi, comme l'organisme ne reçoit pas de dons en argent, il n'aurait probablement jamais été en mesure d'acheter ni l'un ni l'autre dans le cadre de ses activités et faute d'apports sous forme de biens, aurait probablement cessé d'exister.
B. Un organisme reçoit comme apport une publicité sur un réseau très en demande et dont les publicités lui sont normalement hors de portée étant donné les coûts très élevés. L'organisme n'aurait pas acheté une telle publicité, même s'il avait reçu un montant d'argent équivalent à la valeur de cette publicité. Il aurait probablement acheté une publicité moins onéreuse et dépensé le solde autrement.

Des membres mentionnent que dans certains milieux, dont le milieu culturel, plusieurs fournisseurs de biens et de services qui procurent des factures pour permettre aux OSBL de comptabiliser de tels apports, ont tendance à fausser à la hausse les prix unitaires.

Les membres mentionnent que le bénévolat ne devrait jamais être comptabilisé, car il est difficile d'encadrer les pratiques et les calculs de juste valeur. De plus, ceci occasionne des difficultés lorsque vient le temps d'auditer ces montants.

En résumé, la majorité des membres est d'avis que si les biens et services reçus sous forme d'apports sont comptabilisés, que le 3^{e} critère devrait être assoupli pour ne pas être trop restrictif. Le défi pour la comptabilisation des apports en biens et services est également le recensement de ceux-ci puisque la documentation est souvent inexistante ou n'apporte pas suffisamment d'informations sur les biens et services reçus ainsi que leur valeur.

Question 14 : *Dans quelles circonstances la comptabilisation des apports de biens et de services est-elle utile aux utilisateurs des états financiers des OSBL? Le cas échéant, quelles informations seraient utiles lorsque les apports de biens et de services sont comptabilisés?*

Les membres sont d'avis que la comptabilisation des apports de biens et de services est toujours utile aux utilisateurs des états financiers des OSBL dans la mesure où les conditions actuelles qui permettent de procéder à leur constatation sont réunies, car elle permet d'obtenir un meilleur portait de l'ampleur des activités réalisées par l'organisme et de la façon dont celui-ci fonctionne dans sa collectivité. Elle permet aussi de faire un meilleur lien entre rapport annuel d'activités et les états financiers de l'organisme. Ils sont d'avis que les informations à fournir doivent être vérifiables pour être utiles.

De plus, certaines ententes impliquant par exemple plusieurs acteurs d'un milieu donné, prévoient que chacun apporte des biens et services à hauteur d'une certaine valeur en plus des sommes d'argent prévues à ladite entente. La comptabilisation de ces apports en biens et services apporte alors une information hautement pertinente pour les lecteurs des états financiers de l'organisme.

Toutefois, les membres sont d'avis qu'on devrait laisser un libre choix aux organismes et qu'on ne devrait pas obliger, sous quelque condition que ce soit, que des apports de biens et services soient comptabilisés.

Question 15 : *Quelles informations au sujet des apports de biens ou de services seraient utiles aux utilisateurs des états financiers des OSBL si les apports de biens et de services ne sont pas comptabilisés?*

Les membres sont partagés sur l'obligation de divulguer des informations lorsque ces apports ne sont pas comptabilisés. Selon la majorité des membres, si l'organisme ne comptabilise pas les apports sous forme de biens et de services, on ne devrait pas l'obliger à divulguer des informations autres que le choix de la méthode comptable retenue. Le choix de ne pas comptabiliser ce type d'apports reflète souvent une incapacité à en estimer la juste valeur de façon raisonnable. De plus, l'audit de ce genre d'information pose des défis, entre autres au niveau de leur intégralité.

Certains membres aimeraient qu'on exige des informations sur la nature et l'ampleur des biens et services reçus sous forme d'apports (tel le bénévolat) qui ne sont pas constatés (sans toutefois exiger d'en faire une évaluation basée sur la juste valeur de ces biens ou services), si ces informations sont importantes ou essentielles à la compréhension des activités de l'organisme, de façon à mieux apprécier ou à juger des activités des OSBL. Ils sont d'avis que cette information doit être mentionnée, car elle est souvent essentielle à la réalisation de la mission des organismes.

Apports en immobilisations

Question 16 : *Quelles sont les circonstances dans lesquelles l'amortissement de l'apport en immobilisations à mesure que les immobilisations sont amorties permettrait de fournir des informations utiles à la prise de décision dans les états financiers de l'OSBL? Par exemple, l'amortissement de l'apport en immobilisations permet-il de fournir des informations plus utiles à la prise de décision pour certains types d'OSBL ou certains types d'apports en immobilisations? Dans l'affirmative, quels types et pourquoi?*

Les membres sont d'avis que le fait d'amortir les apports en immobilisations au fur et à mesure que les immobilisations sous-jacentes sont amorties permet de mieux comprendre les coûts associés aux programmes et de mieux les relier aux budgets établis par les OSBL. Ces informations sont très importantes à la prise de décision.

Certains font remarquer que la comptabilisation d'un apport en immobilisations dans les produits, alors que les charges connexes ne sont pas encore engagées, crée une fausse impression chez l'utilisateur moyen que l'organisme a des surplus à dépenser pour les opérations courantes lors de la réception de l'apport. De plus, elle crée une situation de déficit pour les années subséquentes lorsque les charges reliées aux immobilisations, dont l'amortissement, sont comptabilisées.

Pour plusieurs membres, l'amortissement de l'apport en immobilisations à mesure que les immobilisations sont amorties permet également d'être cohérent avec l'exigence actuelle reliée à la comptabilisation des apports affectés au remboursement d'une dette, c'est-à-dire comme si l'apport lui-même était affecté aux fins pour lesquelles le financement a été utilisé, pour reprendre en partie le texte du paragraphe .41 du chapitre 4410.

Pour ces membres, l'amortissement de l'apport en immobilisations permettrait donc de fournir des informations plus utiles dans la quasi-totalité des circonstances. La seule exception pertinente se présenterait lorsque l'OSBL répond aux conditions lui permettant de choisir de comptabiliser ses immobilisations en charge, alors dans cette situation, l'apport serait comptabilisé dans les produits.

Des membres se demandent si les conditions qui devraient entraîner la comptabilisation d'un apport reporté afférent aux immobilisations ne devraient pas être similaires aux conditions proposées précédemment pour la comptabilisation des apports sous forme de services. Ainsi, il faudrait se demander s'il s'agit d'un actif que l'organisme se serait procuré par ailleurs pour son fonctionnement régulier, en lien avec sa mission, et qu'il ne s'agit donc pas d'un actif « superflu » ou excédentaire. En d'autres mots, cet actif aurait été acquis si l'organisme avait reçu un montant équivalent en argent. Dans la mesure où ces conditions ne seraient pas réunies, ces membres proposent s'il ne serait pas plutôt approprié de constater à titre de produit de l'exercice la juste valeur estimative de ces immobilisations corporelles.

Question 17 : *Quelles sont les circonstances dans lesquelles la comptabilisation d'apports en immobilisations non amortissables à titre d'augmentations directes de l'actif net permettrait de fournir des informations utiles à la prise de décision dans les états financiers de l'OSBL? Par exemple, la comptabilisation d'un apport en immobilisations à titre d'augmentation directe de l'actif net permet-elle de fournir des informations plus utiles à la prise de décision pour certains types d'OSBL ou certains types d'apports en immobilisations? Dans l'affirmative, quels types et pourquoi?*

Comme mentionné dans leur réponse à la question précédente, les membres indiquent que les utilisateurs des états financiers ont besoin d'associer les coûts des programmes aux produits comptabilisés et aux budgets prévus. Ainsi, ils indiquent que lorsque le coût des immobilisations n'est pas comptabilisé aux résultats, la comptabilisation des apports directement à l'actif net permet de rencontrer les besoins des utilisateurs. Les membres ne voient pas d'autres circonstances où ce traitement ne permet pas de fournir des informations plus utiles aux utilisateurs.

Comme il existe d'autres situations pour lesquelles la Partie III du Manuel exige une comptabilisation directement à l'actif net des OSBL, des membres proposent d'investiguer la pertinence de créer un état des gains et pertes distinct comme c'est le cas avec le résultat étendu en IFRS ou l'état des gains et pertes de réévaluation dans les normes du secteur public. Les positions sont partagées à ce sujet, car une grande majorité d'organismes sont de petites tailles et ce traitement pourrait représenter un coût qui excèderait les avantages. D'autres membres proposent de créer une section distincte à l'actif net pour détailler les différents éléments qui y sont comptabilisés au lieu de les cumuler sur une seule ligne.

Pour les OSBL qui se qualifient aux conditions permettant de choisir de comptabiliser les immobilisations en charges, la situation est toute autre, car la comptabilisation en produits permettrait de mieux relier les charges aux produits comptabilisés.

Pour d'autres membres, la forme que prend l'apport ne devrait pas avoir d'impact sur la façon de le comptabiliser. Ainsi, que celui-ci soit reçu sous forme d'immobilisation ou sous forme monétaire, il faudrait déterminer si l'apport est affecté ou non, i.e. si l'organisme a l'obligation de conserver cet apport ou de le maintenir dans le cadre de ses activités. Pour ces membres, le report d'un apport sous forme d'immobilisations ne devrait être fait que s'il existe une obligation de maintenir l'actif, de ne pas en disposer ou de l'utiliser dans le cadre des activités de l'OSBL.

Question 18 : *Quelles sont les circonstances dans lesquelles la comptabilisation immédiate d'apports en immobilisations à titre de produits permettrait de fournir des informations utiles à la prise de décision dans les états financiers de l'OSBL? Par exemple, la comptabilisation immédiate d'un apport en immobilisations à titre de produits permet-elle de fournir des informations plus utiles à la prise de décision pour certains types d'OSBL ou certains types d'apports en immobilisations? Dans l'affirmative, quels types et pourquoi?*

Les membres sont d'avis que seules les circonstances décrites ci-dessous permettent de fournir des informations utiles à la prise de décisions :

- Lorsque les immobilisations sont comptabilisées en charges par les organismes qui se qualifient de petits organismes;
- Lorsqu'une immobilisation reçue sous forme d'apport, n'aurait pas été acquise par l'organisme s'il avait reçu l'apport sous forme monétaire.

Question 19 : *Existe-t-il d'autres méthodes de comptabilisation des apports en immobilisations qui devraient être examinées? Dans l'affirmative, lesquelles? Ces autres méthodes permettraient-elles de fournir des informations plus utiles à la prise de décision pour certains types d'OSBL ou certains types d'apports en immobilisations? Dans l'affirmative, quels types et pourquoi?*

Les membres ne voient pas d'autres méthodes de comptabilisation des apports en immobilisations qui devraient être examinées par le CNC.

Dotations

Question 20 : *Si l'on applique la définition actuelle d'une dotation énoncée dans le chapitre 4410, y a-t-il des circonstances dans lesquelles il est difficile de déterminer si un apport affecté est une dotation à des fins comptables? Dans l'affirmative, quelles sont ces circonstances?*

Les membres sont d'avis que le fait qu'on utilise dans le chapitre 4410 un terme qui peut avoir une signification juridique différente, crée des difficultés dans la pratique. Les dotations d'un point de vue juridique ne sont pas nécessairement des dotations à perpétuité. Cette confusion dans la signification du terme dotation entraîne une certaine incompréhension du mode de comptabilisation des dotations et de leur présentation par plusieurs utilisateurs d'états financiers. Pour permettre de mieux refléter le caractère permanent des dotations et clarifier leur traitement comptable et leur présentation, les membre proposent d'utiliser l'expression « dotation à perpétuité » pour ce type de dotations à comptabiliser directement dans les actifs nets.

De plus, ils se sont questionnés sur le traitement comptable qui devrait être appliqué dans des situations où une dotation serait renversée ou encore lorsque des clauses de contrats permettent de modifier la dotation et/ou la perpétuité de celle-ci.

Finalement, ils sont d'avis qu'on devrait définir la notion de perpétuité, car il existe des questionnements et des interprétations différentes en pratique, par exemple des périodes de 99 ans pourraient-elles être considérées comme étant à perpétuité, si cela était le cas d'un point de vue légal ?

Question 21 : *Dans quelles circonstances la comptabilisation des dotations à titre d'augmentations directes de l'actif net permet-elle de fournir des informations utiles à la prise de décision dans les états financiers de l'OSBL? Par exemple, existe-t-il certaines caractéristiques des dotations ou certains types d'OSBL pour lesquels l'utilisation de cette méthode comptable pour les dotations permettrait de fournir de meilleures informations aux utilisateurs? Dans l'affirmative, quels sont-ils et pourquoi?*

Les membres sont d'avis que la comptabilisation des dotations à perpétuité directement dans l'actif net, permet toujours de fournir les informations les plus utiles à la prise de décision, car ces fonds ne sont pas disponibles et ne peuvent être utilisés par l'organisme.

Question 22 : *Dans quelles circonstances la comptabilisation immédiate des dotations à titre de produits permet-elle de fournir des informations utiles à la prise de décision dans les états financiers de l'OSBL? Par exemple, existe-t-il certaines caractéristiques des dotations ou certains types d'OSBL pour lesquels l'utilisation de cette méthode comptable pour les dotations permettrait de fournir de meilleures informations aux utilisateurs? Dans l'affirmative, quels sont-ils et pourquoi?*

Les membres sont d'avis que la comptabilisation des dotations à perpétuité dans les produits ne permet jamais de fournir des informations utiles à la prise de décisions, car cette présentation crée une distorsion entre les produits comptabilisés et les fonds disponibles pour le maintien des activités de l'organisme et ce, même si l'organisme utilise la comptabilité par fonds affectés.

***Question 23 :** Y a-t-il d'autres méthodes de comptabilisation des dotations qui devraient être examinées? Dans l'affirmative, lesquelles? Ces autres méthodes permettraient-elles de fournir des informations plus utiles à la prise de décision pour certains types d'OSBL ou certains types de dotations? Dans l'affirmative, quels types et pourquoi?*

Non, les membres ne voient aucune autre façon de comptabiliser des dotations qui devraient être examinées par le CNC.

***Question 24 :** Y a-t-il des scénarios où il est difficile ou coûteux de déterminer comment répartir les produits, les charges, les gains et les pertes (réalisés et latents) associés aux dotations à des fins comptables? Dans l'affirmative, quels sont les scénarios ou facteurs qui rendent cette évaluation difficile?*

Les membres indiquent qu'il est toujours lourd, complexe et donc coûteux de déterminer comment répartir les produits, les charges, les gains et les pertes associés aux dotations lorsqu'il existe plusieurs fonds, plusieurs portefeuilles d'actifs ou plusieurs actifs ou placements. Aussi, lorsque les placements, les actifs ou encore les revenus sur ces placements représentent des fonds affectés et des dotations, il est difficile de déterminer quels placements ou actifs sont liés aux dotations et quels sont ceux liés aux apports affectés.

Ils n'ont toutefois pas de solution à proposer pour alléger ce fardeau.

De plus, lorsque les placements d'un organisme sont comptabilisés à la juste valeur et que cette juste valeur devient inférieure au coût d'acquisition, il n'est pas clair pour eux si l'organisme doit renflouer le fonds de dotation par affectations d'origine interne. Une complexité additionnelle existe lorsque les actifs représentent des affectations et des dotations, et il devient difficile d'associer la perte latente aux dotations et aux affectations autres que les dotations.

***Question 25 :** D'autres questions se posent-elles dans la pratique au sujet de la comptabilisation des dotations? Dans l'affirmative, quelles sont ces questions et comment les résoudre?*

Selon les membres, il n'y a pas d'autres questions qui se posent en pratique au sujet de la comptabilisation des dotations.

Legs

Question 26 : *Comptabilisez-vous les legs? Dans l'affirmative, dans quelles circonstances sont-ils comptabilisés? Dans la négative, pourquoi?*

Les membres sont d'avis que les legs sont rarement comptabilisés, car il existe trop d'incertitude dans plusieurs circonstances et qu'il s'agit d'une promesse d'apport qui peut facilement être modifiée. Par exemple, un testament peut être modifié ou contesté. Ainsi, les legs sont rarement comptabilisés avant le décès du donateur. Après le décès du donateur, on regarde également les circonstances propres à chaque leg pour s'assurer que l'encaissement est relativement certain.

Certains legs très précis peuvent être comptabilisés, par exemple lorsqu'un OSBL est nommé bénéficiaire non révocable d'une police d'assurance-vie.

Des membres considèrent les legs comme des actifs éventuels et selon le chapitre 3290 *Éventualités*, ceux-ci ne sont pas comptabilisés.

Question 27 : *Comme il est indiqué plus haut, il existe différents types de legs et différentes caractéristiques. Les caractéristiques d'un legs influent-elles sur l'occurrence et le moment de la comptabilisation? Dans l'affirmative, quelles caractéristiques sont à l'origine d'un traitement comptable différent?*

Les membres sont d'avis que la nature du legs influe sur l'occurrence et le moment de la comptabilisation et devrait avoir un effet sur ceux-ci, comme le démontre les exemples qu'ils ont cités en réponse à la question 26.

Ils sont d'avis que les critères de comptabilisation devraient être les mêmes que ceux énoncés pour les autres types d'apports, sous forme de biens ou autre et dépendre des caractéristiques du leg.

Question 28 : *Quelles autres informations au sujet des legs seraient utiles pour les utilisateurs des états financiers? Pourquoi?*

Les membres ne croient pas que les informations sur les legs seraient utiles pour les utilisateurs des états financiers, car leur réception est trop incertaine.

Question 29 : *Outre les legs, quels autres types d'instruments de dons planifiés sont courants? En quoi ces autres instruments diffèrent-ils des legs?*

Les membres n'ont pas mentionné d'autres instruments de dons planifiés courants.

Promesses d’apports

***Question 30 :** Faites-vous le suivi des promesses d’apports? Dans l’affirmative, comment? Dans la négative, pourquoi?*

Les membres expliquent que les suivis des promesses d’apports sont faits en interne par les OSBL eux-mêmes et que ce suivi nécessite beaucoup de travail et de relance au sujet des montants promis.

***Question 31 :** Comptabilisez-vous les promesses d’apports à titre de montant à recevoir? Dans l’affirmative, dans quelles circonstances? Comment estimez-vous le montant à comptabiliser? Établissez-vous une provision pour les montants irrécouvrables?*

Pour plusieurs membres, les promesses d’apport ne répondent pas à la définition d’un actif, car l’entité ne contrôle ni la réception des sommes, ni les promesses elles-mêmes, car elles peuvent changer dans le temps. Ils sont d’avis qu’en absence d’interdiction de les comptabiliser, on ouvre la porte à des exceptions et des manipulations. Ces membres sont d’avis qu’une interdiction de comptabiliser les promesses d’apports réglerait ces préoccupations.

Pour les autres membres, les promesses d’apports qui sont comptabilisées sont principalement de deux types :

- Les ententes pluriannuelles de dons et de subventions;
- Les dons par ententes de retenues à la source.

Concernant les deux types d’ententes précédemment citées, les membres précisent qu’ils les comptabilisent lorsque les critères du paragraphe .06 du chapitre 4420 sont atteints, soit lorsque la réception finale est <u>raisonnablement</u> assurée et que le montant peut faire l’objet d’une estimation <u>raisonnable</u>. Les membres ont toutefois soulevé que le fait que ces ententes puissent être annulées en tout temps ou que les ententes précisent que celles-ci sont conditionnelles à l’approbation des crédits budgétaires lève un doute sur la comptabilisation d’actifs dont la réception pourrait être jugée trop incertaine. Des membres ont proposé de modifier le critère prévoyant que « la réception finale soit raisonnablement assurée » par un critère plus restrictif et basé sur une « quasi-certitude » de recevoir les sommes promises. Actuellement, pour déterminer si la réception est raisonnablement sûre, les membres se basent sur la crédibilité du donateur et sur l’historique des dons reçus.

Les membres ont fait un parallèle avec la comptabilisation des débiteurs dans le cadre de relations avec des clients et examiné les critères de comptabilisation des produits du chapitre 3400 *Produits*. À la base, pour comptabiliser un produit à recevoir, le chapitre exige des preuves convaincantes de l'existence d'un accord entre les parties et non uniquement la preuve d'un historique de montants reçus annuellement des clients (comme le prévoit le paragraphe .06 du chapitre 4420).

Les membres ont aussi proposé que le CNC définisse ce qu'est une « promesse d'apports », car actuellement il n'en existe aucune définition dans le chapitre 4420. La définition pourrait prévoir que l'intention de donner a été manifestée par le donateur ou qu'une entente ait clairement ou formellement été conclue entre les parties. Par ailleurs, des membres se sont demandé si une "promesse" de versement pluriannuel est assortie d'un engagement ferme ou d'une caution envers un tiers, est-ce que ceci répond encore à la définition d'une promesse d'apport ?

Concernant la façon de comptabiliser les révisions d'estimations au sujet des dons promis, comme dans le cadre des téléthons, les membres mentionnent qu'ils ne les comptabilisent pas par des comptes de provisions, mais plutôt au net directement dans les résultats.

Question 32 : *Si vous comptabilisiez les promesses d'apports auparavant, mais ne le faites plus, pourquoi avez-vous cessé?*

Les membres n'ont pas dénoté une telle tendance.

Ils ont tout de même précisé que la technologie a considérablement réduit la durée de la période d'attente et d'analyse de la réception des montants promis, car plusieurs dons se font maintenant en ligne avec carte de crédit.

Question 33 : *Les promesses d'apports peuvent être de nature diverse. Elles peuvent prendre la forme de trésorerie ou d'immobilisations et être ponctuelles ou se répéter pendant une période spécifique ou indéfiniment. La nature diversifiée des promesses d'apports influe-t-elle sur l'occurrence et le moment de la comptabilisation? Dans l'affirmative, comment, et qu'est-ce qui justifie un traitement comptable différent?*

Les membres précisent que dans la mesure où une promesse d'apport à recevoir répond aux critères de comptabilisation du chapitre 4420, la comptabilisation dépendra des caractéristiques de l'apport et du fait qu'il soit affecté ou non.

***Question 34 :** Dans quelles circonstances est-ce utile pour les utilisateurs des états financiers que les promesses d'apports soient comptabilisées avant leur réception, et pourquoi?*

Les membres sont partagés sur la question de la pertinence de la comptabilisation avant la réception.

Comme la réception de ces sommes est incertaine, des membres croient que la comptabilisation de ces sommes pourrait nuire à la prise de décisions. De plus, cette comptabilisation entraîne des enjeux d'audit, en l'absence d'une entente écrite ou d'une intention plus formelle.

***Question 35 :** Quelles autres informations, le cas échéant, au sujet des promesses d'apports seraient utiles pour les utilisateurs des états financiers, et pourquoi? Par exemple, si l'OSBL ne comptabilise pas les promesses d'apports, est-ce que des informations mentionnant l'existence de promesses d'apports permettraient de fournir aux utilisateurs des informations plus utiles à la prise de décision?*

Les membres sont partagés sur la question.

Pour certains, les informations fournies sur des promesses soulèvent des préoccupations, notamment au sujet de la vérifiabilité.

Pour d'autres, la distinction entre un apport à recevoir et une promesse d'apport est importante, car dans le cas d'un apport à recevoir il existe une entente formelle ou une intention minimale alors que dans le cas d'une promesse d'apport, il n'y a pas toujours une forme d'intention minimale.

Exemption relative à la comptabilisation des immobilisations corporelles

***Question 36 :** Outre les circonstances dans lesquelles le coût des informations dépasse les avantages pour les utilisateurs des états financiers, les OSBL ont-ils actuellement d'autres raisons pour choisir d'appliquer l'exemption relative à la comptabilisation des immobilisations corporelles? Dans l'affirmative, quelles sont ces raisons?*

Les membres sont d'avis que le choix d'utiliser l'exemption de capitaliser les immobilisations n'est pas relié au fait que le coût d'obtention des informations dépasse les avantages. En effet, les exigences du chapitre demandent tout de même de fournir des informations sur les immobilisations détenues par les petits organismes. De plus, les bonnes pratiques de gouvernance nécessiteront, pour fins d'assurances et de remplacement, qu'on en fasse un suivi assez détaillé.

Ils précisent que lorsque le choix est fait de comptabiliser les immobilisations en charge, l'objectif ou la raison justifiant ce choix est plutôt de permettre de mieux répondre aux besoins des utilisateurs de certains petits organismes. Dans certaines situations, le besoin est de synchroniser les données budgétaires avec les résultats réels et ainsi présenter les produits et les charges engagées dans le même exercice.

Question 37 : *Lorsque l'exemption relative à la comptabilisation des immobilisations corporelles est appliquée, les informations qui doivent être fournies sur les immobilisations corporelles sont-elles suffisantes et utiles à la prise de décision pour les utilisateurs des états financiers? Dans la négative, pourquoi? Dans l'affirmative, est-ce le cas seulement dans certaines circonstances? Quelles sont ces circonstances?*

Les membres trouvent difficile de répondre à cette question, car les organismes qui utilisent l'exemption ont des ressources et des immobilisations très limitées.

Pour certains membres, l'information exigée n'est pas très utile, car elle n'est pas assez détaillée bien qu'elle permette actuellement de voir le coût des actifs immobilisés comptabilisés en charges à travers le temps qui sont toujours utilisés par l'organisme.

Les membres précisent qu'à partir du moment où ces organismes acquièrent des immobilisations plus importantes tels des immeubles, qu'il y a présence d'un financement autre qu'avec des fonds propres de l'organisme, la convention comptable est souvent modifiée pour mieux mettre en relation les produits et les charges aux résultats, ou encore, car le bailleur de fonds qui finance les immobilisations l'exige.

Pour certains membres, l'exception n'est pas très utile et ne devrait pas être conservée alors que pour d'autres membres, l'exception devrait être maintenue pour les petits organismes qui n'ont pas de dettes relatives aux immobilisations. Pour certains membres, l'exemption pourrait être basée sur la nature des biens détenus, car souvent ce sont des immobilisations acquises avec des fonds propres de l'entité qui n'ont que peu de valeur. Pour les petits OSBL, le lien entre le budget et les résultats réels est très important.

Question 38 : *Si une exemption est conservée, devrait-elle être fondée sur un seuil de produits, comme elle l'est à l'heure actuelle? Dans la négative, quel paramètre devrait être utilisé et pourquoi?*

Les membres se sont demandé si le seuil ne devrait pas être basé sur un autre critère comme l'importance des immobilisations par rapport à l'actif total ou aux revenus totaux ou leur nature, ou demeurer encore basé sur une moyenne des produits. Ils ont expliqué leurs propos en citant l'exemple d'un petit OSBL qui normalement se qualifie à l'exemption, mais qui reçoit un don important imprévu (ou un legs) qui le fait basculer à un seuil plus élevé et le disqualifie définitivement à titre de petit OSBL, malgré une situation non récurrente et un intérêt à continuer de passer en charges les acquisitions d'immobilisations futures.

Question 39 : *Si les produits sont le bon paramètre à utiliser pour une exemption, quel serait le seuil en dollars approprié à appliquer, et pourquoi?*

Les membres mentionnent que le seuil a été établi dans les années `90, mais rien ne semble indiquer qu'il faille le changer, donc ils ne proposent pas de changement au seuil.

Question 40 : *Selon les indications actuelles, lorsque les produits d'un organisme qui appliquait auparavant l'exemption relative à la comptabilisation des immobilisations corporelles sont supérieurs à 500 000 $, les immobilisations corporelles doivent être comptabilisées pour la première fois conformément aux chapitres 4433 et 4434. Comment les organismes comptabilisent-ils actuellement la transition? Les chapitres 4433 et 4434 sont-ils appliqués prospectivement, rétrospectivement, ou une autre méthode transitoire est-elle utilisée?*

Les membres l'appliquent rétrospectivement au prix d'un effort raisonnable.

Comptabilité par fonds

Question 41 : *Quels sont les avantages de la comptabilité par fonds, et quelles en sont les limites?*

Selon les membres, le principal avantage de la méthode de comptabilité par fonds est de permettre de rendre compte de façon plus détaillée des activités et programmes spécifiques en distinguant les produits réalisés avec les coûts liés à ces programmes et activités. Il est ainsi possible de dégager des résultats et des coûts par programme, par activité ou par fonction spécifiquement.

Cependant, selon plusieurs membres, les exigences sur la répartition des charges entre les programmes, les activités ou les fonctions sont trop souples, ce qui crée un risque de manipulation des résultats et permet de mettre l'emphase sur certains projets sans égard aux résultats d'autres projets de l'organisme. Les exigences du chapitre 4470 *Ventilation des charges des OSBL* se limitent à la divulgation des clés de répartition de certaines des charges des OSBL, soit les charges de levées de fonds et de fonctionnement général, sans égard à la pertinence des clés de répartition elles-mêmes. De plus, aucune exigence ne vise les autres types de charges communes. Les membres proposent que les informations à fournir sur les charges réparties et les clés de répartition s'appliquent à toutes les charges réparties des OSBL et non uniquement aux charges de fonctionnement et de levées de fonds.

Bien que la norme ne voulait pas imposer des exigences de présentation supplémentaires aux organismes qui utilisent la comptabilité par fonds par rapport aux organismes qui n'utilisent pas la présentation par fonds, les membres se questionnent à savoir s'il serait opportun d'exiger la divulgation d'informations pour la répartition des charges entre les différents fonds, peu importe qu'elles soient présentées à l'état des résultats par objet, ou encore par activité, par programme ou par fonction. À leur avis, si les informations relatives à la répartition des charges entre les activités, les programmes ou les fonctions est utile pour les utilisateurs, il serait logique de l'exiger également lorsque l'organisme adopte un mode de présentation par fonds.

Question 42 : *Dans quelles circonstances la comptabilité par fonds permet-elle de fournir aux utilisateurs des états financiers des informations plus utiles que celles qui se trouvent dans des états financiers qui ne sont pas établis selon la comptabilité par fonds?*

Selon les membres, lorsque l'organisme présente plusieurs activités ou programmes qui font l'objet de financement spécifique, les avantages de la présentation par fonds sont identifiés à leur réponse à la question précédente.

Question 43 : *Quelles sont les difficultés auxquelles se heurtent les OSBL qui établissent leurs états financiers selon la comptabilité par fonds?*

Les membres ont d'abord indiqué que la terminologie utilisée crée de la confusion chez les utilisateurs et les professionnels en exercice. La « présentation par fonds », appelée « comptabilité par fonds » dans les NCOSBL est souvent interprétée comme étant la « méthode de comptabilité par fonds affectés » et inversement. Les membres suggèrent que le terme « comptabilisation ou comptabilité » ne soit pas utilisé pour faire référence au mode de présentation par fonds. Ces termes devraient être réservés lorsque l'on réfère aux méthodes de comptabilisation des apports.

Aussi, les diverses possibilités de présentation énoncées aux paragraphes .10 et .11 du chapitre 4400 *Présentation des états financiers des OSBL*, sont mal comprises en général. Des membres indiquent qu'on pourrait mettre plus d'emphase sur ces différentes possibilités qui peuvent être très pertinentes selon les circonstances.

Les membres mentionnent en effet qu'il y a beaucoup de confusion à savoir s'il est obligatoire de présenter l'ensemble des états financiers (bilan, état des résultats etc.) par fonds ou si les obligations sont limitées à l'état des résultats. La confusion est amplifiée par des exigences distinctes lorsqu'on parle de présentation par fonds ou de méthode de comptabilité par fonds affectés.

Il existe aussi une certaine confusion quant aux exigences relatives aux totaux et sous-totaux selon le type de méthode de comptabilité par fonds : avec la méthode du report ou selon la méthode de comptabilité par fonds affectés.

Présentation de l'actif net

Question 44 : *Le classement actuel de l'actif net (dotation, grevé d'une affectation externe, grevé d'une affectation interne, et non affecté) pose-t-il des problèmes dans la pratique? Dans l'affirmative, lesquels?*

Les membres sont d'avis que la présentation des affectations internes n'est pas suffisamment encadrée et que l'utilisation du terme « affectation » pour les affectations d'origine interne et externe crée de la confusion. Certaines affectations internes pour des projets futurs sont souvent confondues aux soldes investis en immobilisations ou sont perçues comme des affectations externes par des utilisateurs. Selon les membres, un changement dans la terminologie permettrait de faire une meilleure distinction entre ces différents concepts et ils ont proposé que le terme « affectation » soit réservé aux affectations d'origine externe et que les affectations internes soient renommées des « réserves », comme c'est le cas dans la partie II du Manuel de CPA Canada – Comptabilité, au chapitre 3260 *Réserves*.

Ils ajoutent que lorsque les actifs nets non affectés sont importants, les OSBL ont tendance à créer toute sorte d'affectations internes à des projets futurs afin de réduire les actifs nets non affectés. La création d'affectations internes devrait être mieux encadrée selon certains membres, afin d'éviter des manipulations.

Question 45 : *Quelles informations à l'égard des catégories de l'actif net sont utiles aux utilisateurs des états financiers?*

Les membres sont d'avis que les informations actuellement exigées à l'égard des catégories d'actifs nets sont utiles, mais que le CNC devrait ramener l'obligation de présenter les actifs nets investis en immobilisations distinctement. Selon eux, le fait de ne pas présenter séparément les actifs nets investis en immobilisations donne une fausse impression que l'OSBL a des ressources disponibles, alors que ces ressources ont été investies en immobilisations et ne sont donc pas disponibles à d'autres fins.

Ils notent que plusieurs OSBL ont tout de même décidé de maintenir la présentation distincte des actifs nets investis en immobilisations.

Question 46 : *Est-ce important aux yeux des utilisateurs de pouvoir rapprocher l'actif net affecté et l'actif net affecté correspondant dans le bilan? Dans la négative, pourquoi?*

Les membres ne croient pas que ce rapprochement est utile pour les utilisateurs. Ils sont d'avis que le rapprochement n'est pas toujours possible et qu'il pourrait être assez compliqué de le faire dans plusieurs circonstances.

Informations à fournir sur la trésorerie soumise à restrictions

Question 47 : *Présentez-vous des éléments à titre de trésorerie ou d'équivalents de trésorerie dont l'utilisation est grevée d'une affectation? Dans l'affirmative, quelle est la nature des affectations grevant les éléments présentés? Quelle distinction établissez-vous entre les éléments présentés à titre de trésorerie ou d'équivalents de trésorerie soumis à restrictions et ceux qui ne le sont pas?*

Les membres indiquent qu'ils présentent rarement les éléments de trésorerie ou d'équivalents de trésorerie grevés d'affectation. Ils précisent que certains bailleurs de fonds exigent expressément que les actifs relatifs à des affectations soient conservés distinctement des autres actifs (ex. : placements ou comptes bancaires distincts) afin d'éviter les situations de réserves « fictives » ou « occultes » et demandent que ces sommes soient présentées distinctement au bilan.

Par ailleurs, les membres ont soulevé plusieurs questions relativement aux actifs grevés d'une affectation, qui sont décrites dans les paragraphes suivants.

D'abord, lorsque les apports sont grevés d'une affectation, mais que l'affectation ne précise aucune exigence sur la gestion des sommes reçues (ex. : placement en fiducie), il n'est pas clair pour eux si la trésorerie reçue devrait automatiquement être considérée comme étant à usage restreint selon 1540.07. Selon eux, lorsqu'un organisme reçoit un apport affecté, l'organisme a généralement une certaine latitude quant à la manière de financer ou de payer (mode de paiement) les dépenses prévues selon l'affectation et cette affectation ne touche pas la trésorerie en elle-même. De manière générale, les exigences de l'affectation ne précisent pas comment doit être gérée la trésorerie elle-même dans la mesure ou des fonds sont expressément dépensés pour rencontrer les affectations imposées par les apporteurs. Autrement dit, pour les membres, une affectation n'est pas toujours synonyme d'usage restreint des sommes reçues. Ainsi, certains membres se demandent si les ententes doivent prévoir que les sommes doivent être placées en fiducie pour en arriver à cette conclusion (Voir réponse 48 également).

Les membres qui présentent séparément les sommes restreintes en se basant sur les critères du chapitre 1510 *Actifs et passifs à court terme* de la Partie II, se demandent aussi si les critères du paragraphe .07 sont suffisamment clair à ce sujet.

.07 *Doivent être exclues de l'actif à court terme :*

a) les sommes d'argent que des restrictions quelconques empêchent d'affecter aux activités courantes;

b) les sommes d'argent réservées à des fins autres que les activités courantes, à moins qu'elles ne soient la contrepartie d'une dette à court terme.

Pour un OSBL, les sommes pourraient être affectées à des activités de l'organisme ou des projets spéciaux qui cadrent avec les activités courantes. Aussi, le mot « affecter » cause de la confusion avec la terminologie utilisée dans les chapitres de la Partie III et certains membres aimeraient qu'on change la terminologie.

Le chapitre 1540 *État des flux de trésorerie* de la Partie II, reprend les exigences du chapitre 1510 de façon similaire :

.07 La trésorerie que des affectations empêchent d'utiliser pour les besoins des affaires courantes, par exemple les soldes compensateurs requis selon des ententes de prêt, n'est pas incluse dans la trésorerie et les équivalents de trésorerie. La trésorerie grevée d'affectations est classée dans le bilan en conformité avec le chapitre 1510, ACTIF ET PASSIF À COURT TERME, et ses augmentations et diminutions sont reflétées dans les flux de trésorerie liés aux activités d'investissement.

Selon les membres, des clarifications s'imposent, car il existe des pratiques variées et un manque d'uniformité.

Les membres sont d'avis que certaines situations sont préoccupantes, par exemple certains OSBL gèrent mal leurs ressources et manquent de fonds pour les projets pour lesquels des apports affectés ont été reçus antérieurement.

Question 48 : *Dans quelles circonstances les informations au sujet de la trésorerie ou des équivalents de trésorerie soumis à restrictions sont-elles utiles aux utilisateurs des états* *financiers des OSBL? Quels sont les types de restrictions touchant la trésorerie et les équivalents de trésorerie dont les utilisateurs veulent être au courant?*

Les membres sont d'avis que les informations au sujet de la trésorerie ou des équivalents de trésorerie soumis à restrictions sont utiles aux utilisateurs des états financiers des OSBL lorsqu'il existe de réelles restrictions imposées par des tiers, encadrées par des exigences légales i.e. quand ils ne sont pas disponibles pour des fins autres que celles précisées par des tiers ou encore lorsqu'il existe un risque qu'il y ait insuffisance des fonds pour respecter les affectations. Selon les membres, il faut que l'affectation soit précise sur la gestion des fonds ou des actifs eux-mêmes en plus de l'utilisation. Selon eux, si l'affectation n'est pas attachée à une obligation juridique de ne pas utiliser les sommes à d'autres fins entre temps, les actifs ne sont pas soumis à des restrictions comme telle. Pour eux, une affectation générale n'impose pas de conserver les actifs en fiducie. Si la gestion des sommes n'est pas précisée par l'apporteur, il pourrait y avoir une politique interne en place pour la gestion des sommes. Comme l'indique clairement le paragraphe .02 b)ii) du chapitre 4410 *Apports – comptabilisation des produits*, dans le cas des dotations, les actifs qui constituent l'apport peuvent changer de temps à autre, même en présence d'une affectation perpétuelle.

***Question 49 :** Dans quelles circonstances les informations au sujet des placements affectés sont-elles utiles aux utilisateurs des états financiers des OSBL? Quels sont les types d'affectations touchant les placements dont les utilisateurs veulent être au courant?*

Les membres sont d'avis que les informations au sujet des placements affectés seraient également utiles aux utilisateurs des états financiers des OSBL dans la mesure où des restrictions touchent la gestion de ces placements comme tel.

AUTRES COMMENTAIRES

Les membres aimeraient également formuler certains commentaires supplémentaires :

Présentation des produits

Le paragraphe .26 du chapitre 4410 exige de présenter les produits par source principale. Selon des membres, la présentation des produits serait plus pertinente si elle était faite selon la nature des apports. Les exigences d'information devraient viser la nature plutôt que la source pour mieux répondre aux besoins des utilisateurs.

De plus, les membres sont d'avis que les exigences du chapitre 4400 sur la présentation au brut ou au net à l'état des résultats devrait être clarifiée. En effet, bien que le chapitre 3400 *Produits*, de la Partie II ait été modifié et inclut maintenant plusieurs critères et indicateurs pour analyser si l'entité agit à titre de mandat ou de mandataire, le chapitre 4400 est plutôt muet à ce sujet. Selon les membres, il est fréquent pour certains OSBL de gérer des sommes qui sont vouées à être distribuées à d'autres OSBL. Les membres se basent actuellement sur les indicateurs du chapitre 3400 qui sont difficiles, voire impossibles à appliquer dans le contexte des OSBL et de leurs activités. Les membres croient que des indicateurs devraient être adaptés dans le chapitre 4400.

ORDRE DES COMPTABLES PROFESSIONNELS AGRÉÉS DU QUÉBEC

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Montréal, December 10, 2020

Kelly Khalilieh, CPA, CA
Director, Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

Ms. Khalilieh:

Please find enclosed the comments of the Technical working groups on ASPE and NFPOs (Financial accounting – Part II and Part III) of the Ordre des comptables professionnels agréés du Québec (the Order) on the Consultation Paper titled, “Contributions – Revenue Recognition and Related Matters.”

We would appreciate receiving a copy of the English translation of our comments.

Please note that the Order is only a facilitator, and that this document does not constitute a response by the Order, but the views of the working group members. Furthermore, neither the Order nor any of the persons involved in preparing the comments shall have any liability in relation to their use, and no guarantee whatsoever shall be provided regarding these comments, as specified in the following disclaimer.

Yours truly,

Annie Smargiassi, CPA auditor, CA

Representative of the Technical working groups on ASPE and NFPOs (Financial accounting – Part II and Part III) of the Ordre des comptables professionnels agréés du Québec

Encl. Disclaimer and comments

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Subject to the conditions described herein, the documents prepared by the technical and sector-specific working groups of the Ordre des comptables professionnels agréés du Québec (the Order), hereinafter referred to as the "comments", provide the opinion of working groups on statements of principles, consultation papers, associates' exposure drafts and final exposure drafts published by the Accounting Standards Board, Auditing and Assurance Standards Board, Public Sector Accounting Board, Risk Management and Governance Board, and other organizations.

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The terms of reference of the working groups of the Ordre des comptables professionnels agréés du Québec are to collect and channel the views of practitioners and members in business, industry, and government, as well as those of other persons working in related areas of expertise.

For each exposure draft or other document reviewed, the working group members share the results of their analysis. Consequently, the comments below reflect the views expressed and, unless otherwise specified, all of the working group members agree on these comments.

The Order does not act upon and is not responsible for the comments made by the working groups.

GENERAL COMMENTS

While the working group members read with interest the proposed new approach to account for contributions based on their characteristics, in their opinion, the current accounting policy choice for recognition of revenue from restricted contributions works well and accommodates the various needs of NFPOs and their users. Furthermore, according to the members' discussions with the stakeholders and users of NFPO financial statements with whom they work, most have a good understanding of the two methods and of how to apply them. The members therefore find it difficult to subscribe to the AcSB's reasons for eliminating this choice. Many accounting standards allow accounting policy choices that make it possible to adapt to organizations' different contexts and better meet users' needs. Although these choices reduce financial statement comparability, they generally improve relevance for the users concerned.

Furthermore, the members note that close to 90% of Canada's NFPOs have annual revenues of less than $500,000, so they are not in a position where they have to compare themselves with organizations elsewhere in the world. International comparison does not appear to be a common enough problem to merit the removal of an accounting policy choice.

The members believe that the current restricted fund method is very relevant for certain organizations whose primary purpose is to raise funds, not to report on services or activities for the public. For these entities, the purpose of their financial statements is mainly to inform readers about the funds raised and the amounts redistributed. For organizations that provide services or support activities, the primary purpose of financial statements is to report on their activities or programs and the associated funding. The deferral method allows them to reconcile revenue from restricted contributions with the expenses for these activities.

As mentioned above, in the members' opinion, industry-specific accounting approaches regularly coexist with other policies, in the private or public sector. So, they think that the two existing approaches for recognizing NFPO contributions accommodate the different users' needs. They also point out that the restricted fund method is rarely used in practice.

To conclude the general comments, the members add that, conceptually, it needs to be taken into consideration that a balance sheet approach is not advisable for NFPOs. It does not allow the financial statements of these entities, whose principal aim is to report on their activities and on the financial resources that fund them, to properly address users' needs.

The members also mention that they are available should the AcSB wish to further discuss these comments.

THE ACSB'S SPECIFIC QUESTIONS

Contributions

Question 1: *Are there circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances?*

No. The members are of the opinion that non-reciprocal government funding should only be considered a contribution.

Question 2: *Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? If so, what are the issues and how might they be addressed?*

According to the members, the presentation of internal restrictions could be clearer.

For NFPOs using the restricted fund method or the deferral method, one of the issues with recognizing unrestricted contributions is that it's impossible to consider the actual availability of amounts when contributions are received or confirmed too late to be used or redistributed in the current year. This fairly frequent situation can arise when contributions, government grants for example, are confirmed or received a few days before the end, on the last day or after the end of the fiscal year, and the government requires that the NFPO recognize them in the fiscal year that just ended. In such situations, the organization usually cannot use these resources in the period in question. These unexpected cash inflows often generate surpluses that create a significant distortion compared with the expenses incurred and the budget forecasts in the fiscal year concerned, and cause volatility in results that is in general misunderstood by funders and financial statement users. They may view these surpluses as an indication that the organization is unable to use the raised funds. For certain government-funded NFPOs, these surpluses may look like overpayments. In some cases, the organization may even have to return certain government grants, even though it may have otherwise restricted or reserved them for specific activities (internal restriction, for example).

The members therefore wonder if the accounting for unrestricted contributions should also take into account whether the NFPO is able to use the amounts in the fiscal year in question, allowing deferral when it cannot.

Also, in many circumstances, the members find it difficult to determine whether amounts are actually externally restricted or not, if the restrictions are vague or general, and in line with the organization's mission. Amounts received under the same agreement or from the same funder or government department could be considered restricted or unrestricted, depending on whether the organization's mission changes or not. For example, a contribution could be considered not to have an external restriction at the time it is received because, in accordance with paragraph 4410.07 recommendations, the restrictions are not more specific than broad limits resulting from the nature and the mission of the organization. However, the organization could change and expand the nature of its activities during the subsequent year, so the amounts received, which may not all have been spent, could then be considered externally restricted.

Question 3: *Are there circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?*

According to the members, it is always fairly easy to determine whether a contribution is externally restricted if it's a contribution restricted for the purchase of a capital asset. However, for other types of contributions, the agreements are not always clear enough, especially if the contribution appears to be restricted in a very general way to the organization's mission, or if operating grants have very detailed budget calculations.

It is often difficult to differentiate the method for determining a grant from an actual external restriction. The members gave agreements with very detailed calculations for grant amounts as an example. The costs used to calculate the contribution amounts are not external restrictions in and of themselves, but they may appear to be.

Furthermore, NFPOs often make official announcements when they receive certain contributions. These official announcements often explain how the amounts will be used without necessarily meeting the requirements of an external restriction. Rather, they convey how the recipient organization intends to use the contribution.

Revenue recognition

Question 4: *Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?*

The members never consult the revenue recognition guidance in Section 1001 to determine the accounting treatment for a contribution. Instead, they specifically consult Section 4410.

Question 5: *Do you think applying the recognition concepts for revenue to restricted contributions (i.e., a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?*

The members believe that allocation of contribution amounts as the performance obligations are being met poses a problem. As an example, they mentioned a project with several sources of funding, including the organization's capital. When the amounts are used, calculating the portion of the contributions to be recognized as revenue first is a challenge. If the organization doesn't spend all the amounts in the same fiscal year, which should it recognize first? Its own capital or the restricted contributions? On what basis should the contributions be allocated as the performance obligations are being met? According to the members, in practice, the restricted contributions are often used first, before the organization's capital, or prorated on the different sources of revenue, as detailed in the agreement between the parties.

Definitions of assets and liabilities

Question 6: *Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liabilities are relevant considerations? If so, what are they?*

The members mention that the definition of a liability is not considered when the deferral method is used, because applying these recommendations results in the recognition of deferred contributions that don't necessarily meet the definition of a liability.

In their opinion, in the future, it would be important to avoid establishing the recognition criteria for a contribution based on the definition of a liability. In other words, accounting for restricted contributions should not be based only on the characteristics or definition of liabilities, because in practice, this definition presents significant application challenges.

Furthermore, referring to the definition of an asset to recognize contributions receivable also presents application challenges. The members note that they refer to the recommendations in Section 4420 more than the definition of an asset, in particular because the control characteristic (1001.25(b)) is difficult to meet when analyzing the recognition of a contribution receivable.

Recognition of contributions

Question 7: *Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?*

First, the members point out that memorandums of understanding, contracts and other funding agreements are not always clear, and judgment is always required to analyze the criteria and terms.

Second, regarding the characteristics set out in paragraph 24 of the proposals, the members are of the opinion that (d) Refundability of the contribution could be a characteristic to be analyzed but should not be a determinative condition for recognizing a contribution. According to the members, if the organization has not yet met the conditions in the funding agreement, the amount would still be presented as a liability, and the contribution's refundability would have no impact on the decision or analysis. Furthermore, agreements rarely call for refunds; more often, donors accept that the amounts may be used for purposes other than those set out in the beginning.

In contrast, in certain sectors, memorandums of understanding appear to always have a repayment clause, especially if the contributions are related to the receipt of appropriations.

The members propose that paragraph (c) be expanded to include the conditions for obtaining funding, i.e. the eligibility criteria or stipulations in addition to the purpose requirements or the obligation to provide services imposed by the contributor.

Some members think that the time requirement in paragraph (c) should more explicitly take into account the previously described situations, i.e. cases where the organization receives amounts too close to year-end to be able to use them in the fiscal year in question. The requirement would therefore consider the fact that amounts received or confirmed too close to or after year-end are not available during the current period to help the organization fulfil its mission. However, some members mention that it could be difficult to assess such a condition in practice. To take into account situations in which assistance is received very close to year-end or on the last day of the fiscal year, it could be worthwhile to consider and draw inspiration from some of the Section 3800 guidance on unanticipated government assistance. For example:

> *"Occasionally, an enterprise becomes eligible to receive government assistance in a period subsequent to the occurrence of the events to which the assistance relates. […] the assistance shall be accounted for in the period when the estimate is first made."*

It would also be possible to look to the concept of transferor actions and communications at the period end date in Section PS 3410 to determine whether a contribution receivable exists at the end of the year. Was there enough evidence at year-end, in the form of transferor actions and communications in the absence of a formal contribution agreement, for the organization to consider that a grant was receivable at the end of the year (as opposed to a contribution confirmed so late that it should only be considered in the subsequent fiscal year)?

The members mention other characteristics that they deem important and that the AcSB should add or consider:

- For capital asset contributions, should the obligation to keep and maintain the asset be considered a condition?
- What conditions are imposed on contingent restricted contributions?

Question 8: *Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?*

The members agree with this proposal, provided that the AcSB consider the proposed characteristics in their response to the previous question. In this context, they agree with the use of an alternative to the two existing approaches.

However, in their opinion, the accounting policy choice should not be based on non-substantive or minimal features in the contribution agreement. They mention the obligation to submit an accountability report at the end of a project or to meet audit requirements as an example. A member refers to paragraph 3856.A22, which specifies that, "*Any non-substantive or minimal feature is disregarded in applying the classification provisions of this Section,*" concluding that this should be done in circumstances like these as well.

Question 9*: What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?*

In the members' opinion, the time and purpose requirements in paragraph 24(c) of the proposals are among the most relevant characteristics in determining when to recognize a contribution as revenue.

Furthermore, according to the members, a criterion based on certain characteristics of the underlying assets, a depreciable capital asset for example, should be added.

However, they are of the opinion that all the characteristics should be analyzed but not necessarily required, leaving room for professional judgment.

Question 10: *In addition to an approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by that method be useful to financial statement users?*

In the members' opinion, apart from the two existing approaches, which serve the NFPO sector well, only the approach that considers characteristics would provide decision-useful information, provided their previous comments are taken into account. They made no other proposal.

Question 11: *Which approach for the recognition of revenue in Example 2 do you think provides financial statements users with the most decision-useful information and why?*

The members agree with the conclusion of Approach A. However, they don't think the conclusion should consider audit requirements as being a determinative characteristic. According to the members, this is an administrative element, or a characteristic that is minimal and does not determine the right to funding. Instead, based on the wording of the example, the purpose of this condition is to determine when the contribution is paid. The members believe that taking this criterion into account to determine whether a contribution should be recognized would leave too much room for the potential manipulation of results.

A majority of members thinks that, in most circumstances, NFPOs should wait until the end of a fundraising campaign in similar situations. However, according to some members, if the funding is recurring and the organization keeps a record of the funding provided annually, the question arises of whether an estimate of the amounts receivable could be recognized if the fiscal year ends before the campaign does. This is currently the case in the situations described in paragraph .06 of CONTRIBUTIONS RECEIVABLE, Section 4420. If an organization regularly raises $500,000, the amount to be attained may not be a determinative and essential characteristic.

As mentioned earlier, the members suggest that another characteristic or criterion related to the availability of funds be considered, to determine whether contributions can be recognized in the current fiscal year. In Example 2, since the funds are not available for the provision of services in 2028, it would be more relevant for the users if the revenue were not recognized in the 2028 fiscal year.

The members do not agree with the percentage of completion method proposed in Approach B, because it does not take the availability of funds into account.

According to the members, determining which funding agreement characteristics are essential requires judgment and may depend on numerous circumstances.

Question 12: *Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options to how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where you think that some or all of the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so, what are those circumstances?*

The members propose no approach other than accounting for contributions based on their characteristics.

Contributed materials and services

Question 13: *Do you recognize contributed materials and/or services? If so, how do you measure them? If not, why not?*

In general, the members recognize contributed materials and services when they can be reasonably estimated and they meet the criteria in paragraph 4410.16.

Many members believe that if these contributions are not recognized in organizations' financial statements, the users of these financial statements may not be able to assess all the activities of NFPOs that rely heavily on such contributions.

However, other members think recognizing contributed materials and services poses certain challenges in practice and can lead to financial statement manipulation if comparable materials and services are difficult to obtain, even with source documents from suppliers.

According to the members, the current requirements suit NFPOs quite well, but they add the following comments on the criteria for recognizing this type of contribution.

Many are of the opinion that one criterion for recognizing contributed materials and services, i.e. that "*they would have otherwise been purchased*," should be clarified or relaxed. For some, in practice, this criterion is often applied very restrictively.

Therefore, they propose that the criterion be revised, with a view to clarifying its objective. They also propose that additional details be provided, or that it be replaced with, "they would have been purchased if the organization had received a monetary amount equivalent to the value of the materials or services received." They gave two examples to illustrate their remarks:

A. An NFPO that gives food to people in need receives all the necessary items for its activities from various donors. It receives fruits and vegetables from one vendor, as well as champagne and caviar. Some members' interpretation of the current criterion leads them to conclude that the organization would never purchase foodstuffs if it did not receive contributed materials, because it wouldn't have the necessary funding to make these purchases. For other members, applying the criterion leads them to conclude that the organization would likely purchase the fruits and vegetables if it received a monetary amount equivalent to these contributions. However, it probably wouldn't purchase champagne and caviar. Also, since the organization does not receive cash donations, it probably never would have been able to purchase any of these items in the course of its activities. Without contributed materials, it would probably cease to exist.
B. An organization receives a contribution in the form of an ad on a very popular network which it normally would not be able to afford. The organization would not have purchased such an ad, even if it had received a monetary amount equivalent to the ad's value. It probably would have purchased a more affordable ad and spent the rest of the money on something else.

Some members mention that, in certain sectors, including the cultural sector, many providers of materials and services that issue receipts so NFPOs can recognize the contributions tend to exaggerate unit prices.

The members mention that volunteering should never be recognized, because it's difficult to provide a framework for fair value calculations and practices. Furthermore, this causes problems when the amounts are audited.

In short, most members think that if contributed materials and services are recognized, the third criterion should be less restrictive. Another challenge in the recognition of contributed materials and services is identifying them. Documentation is often nonexistent or doesn't provide sufficient information on the materials and services received or their value.

Question 14: *For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized? What, if any, disclosures would be useful when contributed materials and services are recognized?*

In the members' opinion, recognizing contributed materials and services is always useful to users of NFPO financial statements, provided the current conditions allowing for their recognition are all met, because doing so provides a clearer picture of the scope of the organization's activities and of how it functions within its community. It also makes it easier to connect the organization's annual activity report with its financial statements. According to the members, for the disclosures to be useful, they need to be verifiable.

Furthermore, some agreements involving, for example, several players in a given sector stipulate that they each contribute materials and services of a certain value, in addition to monetary amounts. Recognizing these contributed materials and services therefore provides the readers of the organization's financial statements with highly relevant information.

However, the members think organizations should be free to choose whether they recognize contributed materials and services, and should in no way be required to do so.

Question 15: *For users of NFPO financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?*

The members had differing views on disclosure requirements when contributed materials and services are not recognized. A majority of members believes that if the organization does not recognize contributed materials and services, it should not be required to make disclosures other than its accounting policy choice. Often, a decision not to recognize this type of contribution stems from an inability to reasonably estimate fair value. Furthermore, auditing such disclosures is challenging, especially their completeness.

Some members would like disclosures related to the nature and extent of unrecognized contributed materials and services (such as volunteering) — without requiring a fair value measurement, however — if the information is important or essential to understanding the organization's activities. This would make it easier to assess or judge NFPO operations. In the members' opinion, this information must be disclosed, because it is often essential to mission fulfilment.

Capital asset contributions

Question 16: *What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial statements? For example, does amortizing the capital asset contribution provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?*

In the members' opinion, amortizing the capital asset contribution to revenue as the underlying asset is depreciated allows for a better understanding of program costs and how they relate to the NFPO's budget. This information is very important for decision-making.

Some members point out that recognizing a capital asset contribution as revenue when the related expenses have not yet been incurred creates a false impression for the average user that the organization has surplus funds to spend on routine transactions when it receives the contribution. Furthermore, it creates a deficit for subsequent years when the capital asset-related expenses, including depreciation, are recognized.

For many members, amortizing the capital asset contribution to revenue as the asset is depreciated also ensures consistency with the current requirement to recognize contributions restricted for the repayment of a debt as if the contribution itself were restricted for the same purpose as the debt financing was used, as worded in paragraph 4410.41.

These members think that amortizing the capital asset contribution would therefore provide more useful information in virtually all circumstances. The only relevant exception would be if the NFPO meets the conditions allowing it to expense its capital assets. In this situation, the contribution would be recognized as revenue.

Some members wonder whether the conditions that should lead to the recognition of a deferred capital asset contribution should be similar to the previously proposed conditions for recognizing contributed services. Therefore, the question arises of whether the organization would have otherwise purchased the asset for its regular operations, in connection with its mission, i.e. that it's not a redundant or surplus asset. In other words, the organization would have acquired the asset if it had received an equivalent monetary amount. If these conditions are not met, these members suggest that it might be more appropriate to recognize the estimated fair value of the capital assets as revenue for the fiscal year.

Question 17: *What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increases in net assets would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?*

As mentioned in their response to the previous question, the members point out that financial statement users need to associate program costs with recognized revenues and planned budgets. So, if the capital asset cost is not recognized in the statement of operations, recognizing the contribution as a direct increase in net assets makes it possible to meet the users' needs. The members see no other circumstances in which this treatment does not make it possible to provide more useful information to users.

Since Part III of the Handbook requires recognition as a direct increase in NFPOs' net assets in other situations, the members recommend looking into the relevance of creating a separate statement of gains and losses, as is the case with comprehensive income under IFRS, or the statement of remeasurement gains and losses in the public sector standards. The members' positions are split in this regard, because the vast majority of organizations are small, and the cost for this treatment could exceed the benefits. Other members propose that a separate section be created in net assets, to specify the different items recognized there instead of reporting a total on one line.

For NFPOs that meet the conditions to expense their capital assets, the situation is completely different, because recognition in revenue would make it easier to connect the expenses with the recognized revenues.

For other members, the contribution type should not have an impact on how it is recognized. Therefore, whether the organization receives a capital asset contribution or a monetary contribution, it would be important to determine if it's restricted or not, i.e. if the organization has an obligation to retain the contribution or maintain it as part of its activities. These members think capital asset contributions should only be deferred if the organization has an obligation to maintain the asset, not to dispose of it or to use it in its operations.

Question 18: *What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution immediately in revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?*

In the members' opinion, only the circumstances below would provide decision-useful information:

- When small organizations expense capital assets
- When the organization would not have purchased a contributed capital asset if it had received a monetary contribution instead

Question 19: *Are there other methods for recognizing capital asset contributions that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?*

The members see no other methods for recognizing capital asset contributions that the AcSB should consider.

Endowment contributions

Question 20: *Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?*

In the members' opinion, the use of a term in Section 4410 which can have a different legal meaning creates difficulties in practice. From a legal standpoint, endowments are not necessarily held in perpetuity. This confusion about the meaning of the word "endowment" leads to a lack of understanding of how endowment contributions are recognized and presented among many financial statement users. To better reflect the permanence of endowments and clarify their accounting treatment and presentation, the members propose that the term "endowment held in perpetuity" be used for this type of endowment to be recognized directly in net assets.

Furthermore, the members wonder what accounting treatment should be used in situations where an endowment is reversed, or when contract clauses allow changes to the endowment or its perpetuity.

Lastly, they think the concept of perpetuity should be defined, because it raises questions and is open to different interpretations in practice. For example, could 99-year periods be considered as being in perpetuity from a legal standpoint?

Question 21: *When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?*

The members are of the opinion that recognizing endowments held in perpetuity as direct increases in net assets always provides the most decision-useful information, because these funds are not available and cannot be used by the organization.

Question 22: *When does recognizing endowments immediately as revenue provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?*

In the members' opinion, recognizing endowments held in perpetuity as revenue never provides decision-useful information, because this presentation creates a distortion between the recognized revenues and the funds available to maintain operations, even if the organization uses the restricted fund method.

Question 23: *Are there other methods for recognizing endowments that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?*

No, the members see no other methods for recognizing endowments that the AcSB should consider.

Question 24: *Are there scenarios when it is difficult or costly to determine how to allocate the income, expenses, gains and losses (both realized and unrealized) on endowments for accounting purposes? If so, what are the scenarios or factors that makes this assessment difficult?*

According to the members, determining how to allocate the income, expenses, gains and losses on endowments is always arduous and complex, and therefore costly, when several funds, asset portfolios, assets or investments are involved. Also, when the investments, assets or investment income represent restricted funds and endowments, it is difficult to determine which investments or assets are related to endowments, and which are related to restricted contributions.

However, the members have no solution to ease this burden.

Furthermore, if an organization's investments are recognized at fair value, and this fair value becomes lower than the cost, it is unclear to the members if the organization must replenish the endowment fund through internal restrictions. When assets represent restrictions and endowments, it becomes difficult to associate unrealized losses with the endowments and other restrictions, introducing additional complexity.

Question 25: *Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?*

According to the members, there are no other issues in practice with accounting for endowments.

Bequests

Question 26: *Do you recognize bequests? If so, under what circumstances are they recognized? If not, why not?*

In the members' opinion, bequests are rarely recognized, because there is too much uncertainty in many circumstances, and bequests are pledges that can easily be changed. For example, a will can be amended or disputed. Therefore, bequests are rarely recognized before the donor's death. After the donor's death, the specific circumstances of each bequest are considered to ensure receipt is reasonably assured.

Some very specific bequests can be recognized, for example, when an NFPO is named as the irrevocable beneficiary of a life insurance policy.

The members consider bequests as being contingent assets, which, according to CONTINGENCIES, Section 3290, are not recognized.

Question 27: *As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?*

In the members' opinion, the nature of a bequest influences whether and when it is recognized, and should have an effect on whether and when a bequest is recognized, as the examples cited in the response to Question 26 demonstrate.

They think the recognition criteria should be the same as for other types of contributions, like contributed materials and so on, and depend on the bequest's characteristics.

Question 28: *For financial statements users, what additional disclosures relating to bequests would be useful? Why?*

The members do not believe that disclosures related to bequests would be useful for financial statement users, because receipt is too uncertain.

Question 29: *In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?*

The members mentioned no other common planned-giving instruments.

Pledges

Question 30: *Do you track pledges? If so, how? If not, why not?*

The members explain that NFPOs track pledges themselves internally, which requires a lot of work and follow-up on pledged amounts.

Question 31: *Do you accrue pledges as a receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set up a provision for uncollectible amounts?*

For many members, pledges do not meet the definition of an asset. The entity has no control over amount collection or the pledges themselves, because they can change over time. In their opinion, if recognition is not prohibited, the door is open to exceptions and manipulations. These members think prohibiting the recognition of pledges would address these concerns.

For the other members, recognized pledges are mainly of two types:

- Multiyear donation and grant agreements
- Donations through payroll deduction agreements

Concerning the two agreement types above, the members specify that they recognize the pledges when the criteria in paragraph 4420.03 are met, i.e. ultimate collection is <u>reasonably</u> assured, and the amount to be received can be <u>reasonably</u> estimated. However, the members point out that these agreements can be cancelled at any time or may stipulate that they are conditional upon appropriation approval, which casts doubt on the recognition of assets for which collection may be deemed too uncertain. The members propose that the "ultimate collection is reasonably assured" criterion be replaced with a more restrictive requirement that collection is virtually certain. Currently, to determine if collection is reasonably assured, the members consider the donor's credibility and the history of donations received.

The members draw a parallel with recording receivables in a client relationship context, and examined the revenue recognition criteria in REVENUE, Section 3400. Basically, for revenue receivable to be recognized, Section 3400 stipulates that persuasive evidence of an arrangement between the parties must exist, not just historical results showing amounts received annually from the clients (as specified in paragraph 4420.06).

The members also propose that the AcSB define the word "pledge", because Section 4420 doesn't. The definition could state that a donor has expressed the intention to donate, or that the parties have clearly or formally entered into an agreement. The members also ask, if a multiyear payment “promise” comes with a firm commitment or a third-party guarantee, is it still a pledge?

Regarding how to account for revised estimates relating to pledges, like with telethons, the members mention that they do not use an allowance account, but recognize them on a net basis directly in the statement of operations.

Question 32: *If you previously recognized pledges but no longer do so, why did you stop?*

The members have not noticed such a trend.

However, they mentioned that technology has significantly reduced the waiting and analysis period for the collection of pledged amounts, because many donations are now made online with credit cards.

Question 33: *Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time period or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how and what warrants different accounting treatment?*

The members point out that if a pledge receivable meets the criteria in Section 4420, recognition depends on the contribution’s characteristics and on whether it is restricted or not.

Question 34: *For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?*

The members' views on the relevance of recognizing pledges before they are received are mixed.

Since collection is uncertain, some members believe that recognizing these amounts could cloud decision-making. It also generates audit challenges in the absence of a written agreement or a more formal intention.

Question 35: *For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?*

The members have mixed responses to the question.

For some, disclosures relating to pledges raise concerns, about verifiability in particular.

For others, it is important to make a distinction between a contribution receivable and a pledge. Contributions receivable are based on a formal agreement or minimal intent, whereas a pledge does not necessarily involve an element of minimal intent.

Capital asset recognition exemption

Question 36: *In addition to circumstances where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply the capital asset recognition exemption? If so, what are those reasons?*

In the members' opinion, the choice to use the capital asset recognition exemption is not related to the fact that the cost of obtaining the information outweighs the benefits. In fact, the section requires that small organizations disclose information about their capital assets. Furthermore, good governance practices require detailed tracking for insurance and replacement purposes.

The members point out that some small organizations choose to expense capital assets to better meet users' needs. In some situations, the organization needs to match its budget figures with its actual results and therefore present the revenues and expenses in the same fiscal year.

Question 37: *For financial statements users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision-useful? If not, why not? If yes, is this only the case under certain circumstances? What are those circumstances?*

The members find it difficult to respond to this question, because organizations that use this exemption have very limited resources and capital assets.

For some members, the information required to be disclosed is not very useful because it isn't detailed enough, even though it provides a current snapshot of the cost of expensed capital assets over time for assets that are still in use by the organization.

The members point out that when these organizations begin to purchase more significant capital assets requiring funding beyond their own capital, like buildings, they often change their accounting policy to match reported revenues and expenses better, or to comply with a capital asset funder requirement.

Some members think the exception is not very useful and should not be kept, while others believe it should be maintained for small organizations that don't have any debt related to capital assets. For some members, the exemption could be based on the nature of the owned assets, because the capital assets are often of little value and purchased with the entity's capital. For small NFPOs, the relationship between the budget and the actual results is very important.

Question 38: *If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?*

The members wondered whether the threshold should be based on another criterion, like the significance of the organization's capital assets in relation to its total assets or revenue, or their nature, or whether it should remain based on average revenue. To explain, they cited the example of a small NFPO that is normally eligible for the exemption but receives a significant unexpected donation (or bequest), which bumps it up to a higher threshold and definitively disqualifies it as a small NFPO, even though the situation is non-recurring and the organization is interested in expensing future capital asset purchases.

Question 39: *If revenue is the appropriate metric to be used for an exemption, what is an appropriate dollar threshold to apply and why?*

The members mention that the threshold was established in the 1990s. However, nothing seems to suggest that it should be changed, so they do not propose a different threshold.

Question 40: *Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues in excess of $500,000, capital assets must be recognized for the first time in accordance with Sections 4433 and 4434. How do organizations currently account for this transition? Are Sections 4433 and 4434 applied prospectively, retrospectively or is another transition approach used?*

The members apply the sections retrospectively, recognizing capital assets at fair value when it can be reasonably determined.

Fund accounting

Question 41: *What are the benefits to fund accounting presentation, and what are the limitations?*

According to the members, the main benefit to fund accounting presentation is more detailed reporting on specific activities and programs, identifying the realized revenues with the costs related to these programs and activities. It is therefore possible to see the specific results and costs for each program, activity or function.

However, several members find the requirements for expense attribution between programs, activities or functions too flexible, which creates a risk of manipulation of the results and allows the organization to emphasize certain projects, without considering the results of its other projects. The requirements in DISCLOSURE OF ALLOCATED EXPENSES BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4470, are limited to disclosing the bases for attribution for certain NFPO expenses, i.e. fundraising and general support expenses, regardless of the relevance of the bases for attribution themselves. Furthermore, there are no requirements for other types of common expenses. The members propose that the disclosures about attributed expenses and bases of attribution apply to all the attributed expenses of NFPOs, not just fundraising and general support expenses.

Even though the standard was not meant to impose additional disclosure requirements on organizations using fund accounting presentation compared with those that do not, the members wonder whether it would be appropriate to require disclosures about the attribution of expenses between different funds, regardless of whether they are presented in the statement of operations by object, activity, program or function. In the members' opinion, if the disclosures about expense attribution between activities, programs or functions are useful to users, it would be logical to require them as well if the organization uses fund accounting presentation.

Question 42: *Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?*

According to the members, if the organization presents several activities or programs with specific funding, the benefits of fund accounting are identified in their response to the previous question.

Question 43: *What challenges exist for NFPOs that prepare financial statements using fund accounting presentation?*

First, the members indicate that the [French] terminology creates confusion among users and practitioners. The term "présentation par fonds" (reporting by fund), referred to as "comptabilité par fonds" (fund accounting) in the Accounting Standards for Not-for-Profit Organizations, is often interpreted as being the "méthode de comptabilité par fonds affectés" (restricted fund method), and vice versa. The members suggest that the words "comptabilisation" (recognition) and "comptabilité" (accounting) not be used when referring to "présentation par fonds" (reporting by fund). These words should only be used when referring to methods for recognizing contributions.

Also, the various presentation options in paragraphs .10 and .11 of FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4400, are poorly understood in general. Members indicate that greater emphasis could be placed on these different possibilities, which can be very relevant depending on the circumstances.

The members mention that determining whether fund accounting presentation is mandatory for all financial statements (balance sheet, statement of operations, etc.) or just the statement of operations causes significant confusion. This confusion is amplified by different requirements for fund accounting presentation and the restricted fund method.

The requirements of the two types of fund accounting methods, i.e. the deferral method and the restricted fund method, relating to totals and subtotals are also confusing.

Presentation of net assets

Question 44: *Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted and unrestricted? If so, what?*

In the members' opinion, the presentation of internal restrictions is not sufficiently well defined, and the use of the term "affectation" (restriction) [in French] for internal and external restrictions is confusing. Some internal restrictions for future projects are often confused with balances invested in capital assets or are perceived as external restrictions by users. According to the members, a terminology change would make it easier to distinguish between the different concepts. They propose that the term "affectation" (restriction) only be used for "affectations d'origine externe" (external restrictions), and that "affectations internes" (internal restrictions) be renamed "réserves" (reserves), as is the case in RESERVES, Section 3260 of Part II of the *CPA Canada Handbook – Accounting*.

They add that when unrestricted net assets are significant, to reduce them, NFPOs tend to create all manner of internal restrictions for future projects. According to some members, better guidance is needed for the creation of internal restrictions, to avoid manipulations.

Question 45: *For financial statements users, what information about classes of net assets is useful?*

In the members' opinion, the currently required information about classes of net assets is useful, but the AcSB should bring back the requirement to present net assets invested in capital assets separately. They believe that not presenting net assets invested in capital assets separately gives the false impression that the NFPO has available resources when these resources have been invested in capital assets and are therefore not available for other purposes.

They note that several NFPOs still present net assets invested in capital assets separately.

Question 46: *Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?*

The members do not believe that this reconciliation is useful to users. In their opinion, reconciliation is not always possible and could be quite complicated in many circumstances.

Disclosure of restricted cash

Question 47: *Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?*

The members say that they rarely disclose items as restricted cash and cash equivalents. They point out that certain funders expressly require that restricted assets be kept separate from other assets (e.g. different investments or bank accounts) to avoid “fictitious” or “hidden” reserve situations, and ask that these amounts be presented separately on the balance sheet.

The members also raised several questions relating to restricted assets, which are described in the following paragraphs.

First, when contributions are restricted, but the restriction includes no requirement on how the amounts received are to be managed (e.g. in-trust investment), it is unclear to them whether the cash received should automatically be considered subject to restrictions on its use, in accordance with paragraph 1540.07. According to the members, when an organization receives a restricted contribution, it generally has latitude in how to fund or pay for (payment method) the expenditures related to the restriction, and the restriction does not apply to the cash itself. Generally speaking, restriction requirements do not specify how the cash itself should be managed, provided that the funds are expressly spent to comply with the contributor’s restrictions. In other words, for the members, a restriction does not always mean that the amounts received are subject to restricted use. Therefore, some members wonder whether the agreements should stipulate that the amounts must be held in trust for this conclusion to be reached (see response to Question 48 as well).

The members who present restricted amounts separately according to the criteria in CURRENT ASSETS AND CURRENT LIABILITIES, Section 1510 in Part II, also wonder whether the criteria in paragraph .07 are sufficiently clear in this regard.

.07 The following shall be excluded from current assets:

(a) *cash subject to restrictions that prevent its use for current purposes; and*

(b) *cash appropriated for other than current purposes unless such cash offsets a current liability.*

For an NFPO, the amounts could be restricted to its activities or to special projects that coincide with current purposes. Also, the word “affecter” (“its use” in the passage above) causes confusion with the terminology used in Part III, and some members would like the terminology to be changed.

CASH FLOW STATEMENT, Section 1540 in Part II, reiterates the Section 1510 requirements in a similar way:

.07 *Cash subject to restrictions that prevent its use for current purposes, such as compensating balances required in accordance with lending arrangements, would not be included among cash and cash equivalents. Cash subject to restrictions would be classified on the balance sheet in accordance with CURRENT ASSETS AND CURRENT LIABILITIES, Section 1510, and increases and decreases would be reflected in cash flows from investing activities.*

According to the members, clarification is needed, because practices vary and there is a lack of consistency.

In the members’ opinion, certain situations are worrisome. For example, some NFPOs do not manage their resources well and lack funds for the projects for which they received restricted contributions.

Question 48: *For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What type of restrictions on cash and cash equivalents do users of financial statements want to be aware of?*

In the members' opinion, information about restrictions on cash and cash equivalents is useful to users of NFPO financial statements if actual restrictions are imposed by third parties and subject to legal requirements, i.e. when the cash or cash equivalents are not available for purposes other than those specified by the third parties, or if there is a risk of insufficient funds to comply with the restrictions. According to the members, the restriction must be specific as regards how the funds or assets themselves are to be managed and used. In their opinion, if the restriction is not tied to a legal obligation not to use the amounts for other purposes in the meantime, the assets are not subject to restrictions as such. The members think that a general restriction does not require that the assets be held in trust. If the contributor does not specify how the funds should be managed, an internal policy on how to manage such amounts could be established. As paragraph .02(b)(ii) of CONTRIBUTIONS – REVENUE RECOGNITION, Section 4410 clearly indicates, the constituent assets of endowment contributions may change from time to time, even with a perpetual restriction.

Question 49: *For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?*

In the members' opinion, information regarding restricted investments would also be useful to users of NFPO financial statements to the extent that restrictions affect management of the investments themselves.

OTHER COMMENTS

The members would like to add certain comments:

Presentation of revenue

Paragraph 4410.26 requires that revenues be presented by major source category. According to the members, revenue presentation would be more relevant if it were based on the nature of the contributions. Disclosure requirements should focus on the nature rather than the source, to better meet users' needs.

Furthermore, in the members' opinion, the Section 4400 requirements on gross versus net reporting should be clearer. Indeed, while REVENUE, Section 3400 in Part II has been amended to include several criteria and indicators to determine whether an entity is acting as a principal or as an agent, Section 4400 offers little on the topic. According to the members, certain NFPOs frequently manage amounts destined to be distributed to other NFPOs. The members are currently relying on the indicators in Section 3400, which are difficult or even impossible to apply to NFPOs and their activities. The members believe that indicators should be adapted in Section 4400.

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Kelly Khalilieh, CPA, CA
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Accounting Standards Board
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December 11, 2020

Dear Ms. Khalilieh,

RE: CONSULTATION PAPER: CONTRIBUTIONS – REVENUE RECOGNITION AND RELATED MATTERS

Thank you for the opportunity to provide our comments on the Accounting Standards Board ("AcSB") consultation paper with respect to Contributions – Revenue Recognition and Related Matters. We have previously shared in past responses that we believe the unique needs of the charitable and not-for-profit sector are best served by customized accounting standards that will support consistent reporting across the broader community.

We have read the above-mentioned Consultation Paper which was issued in May 2020 and we are pleased to have the opportunity to respond to your specific questions as outlined. In November 2020, we hosted a national webinar to educate organizations about various matters including the consultation paper. We have included perspectives received, via polling responses to select questions raised in the consultation paper, throughout our response. These responses have not been edited and may or may not align with our Firm's perspective, however, we trust you will value these comments in your future deliberations.

Sincerely,

Bobbi White

Bobbi White, CPA, CA
Partner
Not-For-Profit, National Industry Sector Leader
KPMG LLP

Opening Comments:

We concur with the AcSB's observation that the current options related to revenue recognition methodology give rise to complexity, lack of comparability and confusion for many of the diverse users of financial statements. It was thought provoking to read that the AcSB's research did not unearth any other jurisdictions that provide similar options.

Across the sector, although there are various other documents that are available to "tell their story", financial statements remain a key document for many stakeholders. Hence the underlying concepts of Accounting Standards for Not-for-Profit Organizations enforcing understandability, relevance, reliability, comparability are all germane to the pursuit of this consultation paper.

In addition, harmonization of the underlying concepts of the various Canadian standards for greater overall understandability and comparability, to the greatest extent possible, is an important consideration. These overall thoughts frame our response to the questions posed in the consultation paper.

What is a Contribution? Questions 1 through 6

Question 1: No circumstances identified.

Question 2: There are no considerations under which we would recommend inclusion of contributions that are determined to be unrestricted in the scope of the existing project.

Question 3: Yes, in practice we do encounter certain situations whereby management teams are challenged in determining if a contribution is restricted. These tend to be in situations whereby the contribution is received as a direct result of an event or verbal exchange whereby certain purposes are described to the donor that are other than general to the organization's mission. In such a situation, management is challenged in designating a contribution as unrestricted even though there are no written restrictions to evidence the agreed upon intent.

Based on the polling results on our national webinar, 26% of attendees responded - Yes (74% responded No) there are from time to time circumstances which challenge them in determining if a contribution is externally restricted. The examples cited are summarized as follows:

- *soft restrictions that are not written, verbal commitments when fundraising such as through an annual campaign that focuses on both general giving and capital campaign solicitation,*
- *insufficient written instructions and/or lack of communication from the fundraisers in the organization,*
- *when gifts are received and donors indicate a change in their expectations related to the restricted purpose,*

- *where the restricted purpose appears to align closely with the organization's general purpose,*
- *lack of clarity within written contribution agreements which then require interpretation by the Finance team,*
- *when donors verbally or passively indicate their expectations over the use of the contributions,*
- *ambiguity related to which appeal the donor directed their funding towards if there were multiple appeals ongoing.*

Question 4: Yes, we have encountered certain situations whereby management members consult Section 1001 related to the underlying fundaments of the framework, should they require additional guidance other than Section 4410. For contribution related matters, it is typically in consideration of the definition of a liability. Most notably Section 1001 paragraph 30 related to equitable or constructive obligations in circumstances whereby management does not have written restrictions available at the time of assessing the accounting for a contribution.

Question 5: We do agree that applying the recognition concepts of Section 1001 paragraph 42, provides decision-useful information. In such situations for example when the organization has not met performance obligations, in particular, the revenue has not been earned and does not meet the definition of revenue provided in Section 1001 paragraph 32. Similarly, if there are measurement or collectability uncertainties, we come to a similar conclusion as there is no increase in economic resources under these circumstances.

Based on the polling results on our national webinar, 75% of attendees responded - Yes (25% responded No) they do believe it is appropriate to defer a restricted contribution until it has been earned where there are performance obligations.

For the respondents that indicated yes to the deferral of revenue, their rationale, where provided are summarized as follows:
- *matching concept,*
- *the contribution has not been earned / does not meet the definition of revenue,*
- *assists in matching revenue to expenditures,*
- *there would have been no expenditures related to the contribution,*
- *restrictions have not been met, therefore, the entity has not earned it,*
- *deferring the revenue provides for greater certainty regarding the results/outcome*
- *feels logical, or the right thing to do ethically,*
- *there is still a performance outcome required,*
- *tells the readers the organization has a liability to meet.*

For the respondents that indicated No to the deferral of revenue, their rationale, where provided are summarized as follows:
- *should record when funds are received, i.e. increase in resources,*
- *rare for a donor to ask for funds back.*

Question 6: No additional aspects to share.

Revenue Recognition Questions 7 through 12

Question 7: We concur this is a robust listing of characteristics related to contributions.

Based on the polling results on our national webinar, 65% (26% responded Yes, 9% were unsure) of attendees responded – No they do not have any incremental characteristics to add to the list proposed in the consultation paper.

For those who responded yes, there are incremental considerations, unfortunately no examples were provided of additional characteristics when prompted for written input.

Question 8: Yes, we do concur that an accounting approach that takes into consideration the type of contribution and its characteristics would provide decision useful information to readers.

Question 9: We concur the characteristics outlined in paragraph 24 of the consultation paper are all relevant and appropriate considerations. In addition, collectability and measurability are key factors as identified in our response to Question 5.

Question 10: We have no further recommendations regarding alternative approaches.

Question 11: We concur with Approach B in the examples provided. In the example provided, although an audit is required to verify the results, the underlying terms of the matching eligibility have been met and hence the funds have been earned. The timing of audit reporting on the results is not the defining characteristic of the performance of the objectives of the private funder agreement.

Question 12: We are of the position that the incremental $10,000 specifically linked, in the example, to the 500th donation should not be recognized any earlier than as demonstrated in Approach B.

Special Types of Contributions:

Contributed Materials and Services Questions 13 through 15

In practice, we do work with organizations who choose to recognize contributed materials and services. It is extremely rare for organizations to opt to recognize the value of volunteer time in their financial statements, due entirely to valuation considerations.

We observe a greater percentage of organizations that opt not to recognize contributed materials and services, as compared to those that do. The organizations that choose not to, cite the cost benefit of the administration of tracking as well as the valuation complexities as being the number one consideration. The second most popular reason is the fact that the vast majority of the donated materials or services would not otherwise be purchased in order to undertake operations.

For those that do opt to record contributed materials and services, valuation tends to be received via direct input from the third party contributing the materials, corroborated by third party evidence as relevant or available.

For materials and services that are not recorded in the financial statements based on sound due diligence methodology over valuation, we do not feel that disclosure in the notes to the financial statements would provide additional value-added information. There are other documents and publications issued by organizations that may be a more appropriate opportunity to recognize and encourage similar donations such as an organization's website, annual reports, donor updates and other fundraising materials.

The valuation of contributed materials is a timely topic. Due to the pandemic environment, we have observed many organizations accepting donations of personal protective equipment, such as masks and hand sanitizers. Contributions that are required to continue operations in a safe and healthy environment.

Based on the polling results on our national webinar, 36% of attendees responded – Yes (64% responded No), they do record contributed materials and services.

For those who responded yes, the following is a list of common responses as to why they felt recording contributed materials and services provided useful information to readers of the financial statements:

- *useful only when there is accuracy surrounding value (fair market value),*
- *shows the costs involved in operations,*
- *when a tax receipt is issued only, as that is the only time the value is obtained,*
- *for large/material items that are relevant to operations and would have normally been purchased,*
- *when they would have been paid for if not donated,*
- *if a budgeted item and objectively valued*
- *only for materials never services as value is too difficult to get.*

For those that responded no, they do not record contributed materials and services, the most common response to explain was that the value is not determinable, often over-inflated and/or given budget pressures would not otherwise have been purchased.

- *One respondent indicated it would be helpful to have disclosures if not recorded in the instance whereby there are contractual, or funding arrangements documented for the contribution of materials and services. More so to provide the reader with details on the organization's commitments such as matching requirements.*

- *Other respondents indicated a note would not be useful if the information was not sufficient to be recognized. If disclosed, a detailed note regarding valuation methodology would be recommended, along with details if it is a related party contribution, nature of items and how used in operations.*

Capital Asset Contributions Questions 16 through 19

Question 16: We concur that there is value in amortizing deferred capital contributions over the life of the related asset, this approach provides valuable information to the readers of the statements. Our response is specific to long-lived assets that provide benefit over more than one period. Amortization of the asset is intended to provide information on the cost of the asset utilized in each reporting period as it provides benefit to the organization. As such, the related funding for the asset being recognized at the same time is appropriate. In addition, we recommend this ability be restricted to long-lived assets that will be used by the organization in operations. We have added this comment as from time to time, we have seen the contributions for instance of land and building to an organization which is left vacant, becomes a cost and is never used in operations.

Furthermore, a continuity of the opening balance, contributions received restricted for the purchase of capital assets, less amounts recognized, and funds not yet spent, all provide additional useful information to readers. This level of detail can be provided in a note to the financial statements if following deferral method. It is, to the most part, readily available to the reader in the presentation of the capital fund if following the restricted fund method of revenue recognition.

As for immediate recognition rather than deferring and amortizing such contributions, we can see merit in this approach in light of the fact pattern that such contributions are rarely, if ever donated with an obligation to return funds the donor. As such, they do not meet the definition of a liability. This method would reduce complexity in financial reporting. However, this will also significantly increase volatility should donations be recognized immediately, with the related asset amortized over the useful life. Should this guidance be the one ultimately adopted, clear characteristics of those donations that do or do not meet the test of a liability should be included in the ultimate handbook section amendment.

Based on the polling results on our national webinar:

- *62% of respondents indicated deferral of contributed capital and contributions restricted for the acquisition of capital with amortization in line with the related asset, provides more useful information to readers,*
- *30% of respondents indicated immediate recognition in revenue,*
- *7% of respondents indicated immediate recognition in net assets,*
- *1% of respondents indicated they would recommend an alternative approach, when prompted for examples none were provided.*

Questions 17 and 18: We recommend that only contributed long-lived assets that are non-depreciable be recorded as a direct increase in net assets, as is currently the case for instance for land. We do not recommend that the value of a contributed asset that is non-depreciable be recorded as revenue immediately as it is not being fully consumed in the one-year reporting period reported on in the statement of operations.

The immediate recognition of capital contributions in revenue may provide useful information to readers where capital assets are not a critical driver or cost of the undertaking operations. We recognize for those following restricted fund method of revenue recognition, this is the current approach taken.

Question 19: We have no alternative recommendations to provide in this respect.

Endowment Contributions Questions 20 through 25

Question 20: This is an area where we see a high level of misunderstanding across the not-for-profit sector. Often there are complexities such as inappropriately worded documents which create confusion, lack of tracking of purpose of the endowed funds, missing historical documents for aged agreements, a mixture of restrictions in funder agreements which create confusion or the perspective of management concerning their ability to repurpose endowed funds should the original intended purpose no longer be able to be met by the organization.

We often see endowment policies, approved by Board of Directors, that do not correspond to the legal or accounting definitions. Or, historical agreements that had lengthy time restrictions, after which funds are accessible and they have been treated as endowments for accounting purposes.

A further complexity arises when a Board of Directors, "internally" endows funds or approves a policy for preservation of endowed capital.

Based on the polling results on our national webinar:

- *46% of respondents indicated there are circumstances under which it is difficult to determine whether a restricted contribution is an endowment in accordance with the current accounting guidelines in Section 4410,*
- *45% of respondents indicated they do not feel there are difficulties,*
- *9% of respondents indicated they were unsure or have not encountered endowments in their organization.*

Ignoring current practice and guidance, we inquired with respondents what accounting approach provides the most useful information to users related to the recognition of endowment contributions:

- *44% of respondents indicated direct increase to net assets,*
- *40% of respondents indicated immediate recognition as revenue,*

- *16% of respondents indicated other, however, the qualitative responses to this question reiterated the challenges in determining an endowment and further touched on the complexities of income derived on the principal funds. No concrete alternative suggestions other than those currently offered in the guidance were indicated.*

Question 21 and 22: Due to the nature of endowed principal never being available for use, in other words it can never been accessed or earned by the entity, there is a lack of control over the principal value and as such we concur it should not be recorded as revenue. It is more appropriate to record these gifts as a direct increase in net assets which provides the reader with a summary of the equity held/accumulated by the organization. This should only be applicable for endowments to be held in perpetuity, full stop.

As noted previously, there are often restrictions or stipulations included in written agreements which confuse whether or not a contribution meets the definition of an endowment. We recommend the recognition of contributions that may be called endowed funds, but are really time or otherwise restricted, be recognized in revenue when earned, if they are not required to be held in perpetuity.

Question 23: We have no alternative recommendations to provide in this respect.

Questions 24 and 25: In practice, we have observed some organizations that have been challenged in determining how to allocate income, expenses, gains/losses (realized and unrealized) on endowments for accounting purposes as typically the tracking for these transactions is performed in excel spreadsheets outside the financial reporting software. Often these issues arise due to the lack developed terms within the deed of gift specific to the allocation of income, leading to uncertainties in accounting subsequent to signing. Hence such manually tracked spreadsheets are prone to unintentional calculation/formula errors, lack of timely update, change in methodology based on judgement when there is a change in management members etc. Also, we have observed challenges when the endowed principal across various funds is comingled with different investment portfolios, creating greater complexity and risk of error when tracked manually.

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Bequests Questions 26 through 29

Questions 26 to 28:

Respondents to our national webinar poll were asked to indicate if they do or do not recognize bequests as a receivable, and to indicate a qualitative response to their approach and rationale. Results are summarized as follows:

- *4% of respondents indicated Yes, they do record bequests as receivable,*
- *92% of respondents indicated No, they do not record bequest as a receivable,*
- *4% of respondents indicated, not applicable to their organization.*

For respondents that indicated they do not record a receivable for bequests the qualitative responses to explain their approach are summarized as follows:

- *Encountered many legal challenges,*
- *Cannot verify value with certainty until receipt,*
- *Do not consider the amount available to us for use until received,*
- *Timing of receipt is often lengthy which creates uncertainty,*
- *Legal title not considered received until funds are received.*

One responded, who indicated in the affirmative for recording bequest receivable indicated that they have a model for projected value expected. They record a receivable on that basis.

Questions 29: We are observing greater complexity in the area of bequests, as noted in the consultation paper. Complexities related to life insurance contracts as well as loans against life insurance contracts to provide funds for current chartable / not-for-profit undertaking are current examples of such. Guidance related to measurement basis for live insurance contracts, such as actuarial valuation, cash surrender value etc. does not exist. As well, many of these agreements may have specific legal complexities such as being irrevocable.

Asset Recognition:

Pledges Questions 30 through 35

Respondents to our national webinar poll were asked to indicate if they do or do not track pledges, and to indicate a qualitative response to their approach and rationale. Results are summarized as follows:

- *49% of respondents indicated Yes, they do track pledges,*
- *46% of respondents indicated No, they do not track pledges,*
- *5% of respondents indicated, not applicable to their organization.*

For respondents that indicated they do track pledges, we asked a further question to determine if they account for pledges as they are tracked. Results are as follows:

- *Of the 49% of respondents that indicate they do track pledges, only 4% account for them. The remainder of the population does not.*

Qualitative responses regarding why they choose not to track:

- *Way too uncertain as to receipt,*
- *Not useful until we get it,*
- *Not legally enforceable, no legal right to collect,*
- *Not under our control until we receive,*
- *Sometimes when the donor is well known, only for follow up,*
- *Difficult to track reliably and obtain accurate information,*

- *One respondent provided greater insight as follows "used to account for pledges and a pledge loss %, have ceased for two reasons. 1 when donors gift through different platforms or organizations insufficient, incomplete, missing information is received related to whether the gift is one time or more. 2 greater inconsistency in the year to year look at the pledge loss assessment, too much uncertainty and no longer seen as accurate".*

Qualitative responses regarding method of tracking are summarized as follows:

- *Use Raisers Edge software, DonorPerfect software,*
- *In our donor database / donor management system,*
- *Manually by donor pledge card,*
- *Through a separate data software and never in our accounting software.*

Question 33: We do not anticipate any of the noted items in Question 33 would impact the timing of recognition of a pledge other than providing sporadic reliability of information in some cases, however, not on a consistent basis.

Capital Asset Recognition Exemption Questions 36 through 40

We have not observed any issues arising for organizations that currently qualify and opt for the capital asset recognition exemption and feel there is no need to examine this further. The underlying intent of this exemption does meet the benefit versus cost constraint perspective found in Section 1001.13 and does not offend the qualitative characteristics found in Section 1001 paragraphs 15 through 21.

In discussion with various stakeholders, there is fairly strong sentiment that although this is administrative relief for smaller organizations, that it would not be overly onerous to appropriately capitalize assets. As such the exemption should be removed.

Question 40: In the instance whereby an organization no longer meets the criteria of the capital asset exemption, we have observed the transition being treated as a change in accounting policy on a retrospective basis. This is a rare occurrence, and typically the assets are nominal in smaller entities and/or would have otherwise been fully amortized due to the nature of the assets. However, we can see an argument for such a transition being applied on a prospective basis in some cases as well.

Presentation and Disclosure Issues:

Fund Accounting Questions 41 through 43

We concur that there is significant confusion as it relates to the matters raised in paragraph 56 of the consultation papers. There is fairly wide-spread confusion across the sector related to restricted fund method of revenue recognition versus fund accounting presentation.

There are notable benefits to fund accounting presentation, especially in instances whereby management internally tracks information and makes decisions by established funds. Tracking by fund allows for the reader to clearly see the pillars of the operational structure, resulting revenues generated as well as expenditures incurred regardless of whether the revenue recognition policy is restricted fund or deferral method.

It is beneficial that the existing guidance allows for management to choose to present on a fund basis in select statements as allowable under Section 4400 paragraph 11. We recommend this practice continue to be available.

Limitations of fund accounting presentation are observed when management does not have an appropriate method to track transactions by Fund, inclusive of appropriately allocating expenses by Fund. This is the greatest challenge that we observe in assisting clients utilizing the fund accounting presentation option. Under these circumstances, the resulting financial reporting does not provide users with an appropriate level of precision for decision making purposes.

Presentation of Net Assets Questions 44 through 46

We do not have any recommended changes to the current guidance to present net assets, broken down by categories being endowed, externally restricted, internally restricted and unrestricted. These categories are clearly defined and provide meaningful information regarding the nature of restrictions as well as flexibility for internal decision making.

Although helpful to be able to reconcile restricted net assets to the restricted assets to which they relate, it is not a mandatory presentation matter. It is however a good indicator of due diligence over financial decision making. We do perceive in most instances sufficient information is available to the reader to approximate the connection.

Disclosure of Restricted Cash Questions 47 through 49

In practice, we have observed the presentation of restricted cash/cash equivalents in two instances:

- Cash balances that have corresponding external restrictions. Example, funds held on account as deposits in trust with a financial institution or required to be held in separate bank accounts due to external restrictions. Clearly disclosed as externally restricted.
- Cash balances that have a corresponding Board motion of restriction for a specific use and it aligns with the disclosure of internally restricted funds in the notes to the financial statements. Clearly disclosed as internally restricted.

The above noted examples are useful in understanding the nature of the restriction and if flexible at the discretion of the organization, such as in the case of an internally imposed restriction.

In practice, there are inconsistencies as to how organizations report investment portfolios when presented in a classified balance sheet format. Many disclose based on intent, i.e. the full portfolio as long term versus by nature of the investment vehicle even if short term. There is an industry standard of disclosing cash balances as long term (included in the disclosure of long-term investments) if held within a long-term investment portfolio and not accessible for current working capital.

Similar to cash and cash equivalent restrictions, it is useful to readers to understand any externally or internally imposed restrictions and the nature of the restrictions. It is important for readers to understand when and how such assets can be used to undertake the mission or if restricted, if such restrictions may impact the financial health, going concern or overall ability for the organization to meet its mandate.

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December 11, 2020

Kelly Khalilieh, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Welling Street West
Toronto, Ontario, M5V 3H2

Dear Ms. Khalilieh,

Thank you for the opportunity to comment to the Accounting Standards Board (AcSB) consultation paper on **Contributions – Revenue Recognition and Related Matters.**

As a member of the Council of Ontario Financial Officers (COFO) representing 21 universities across our sector the enclosed responses relate mainly to this area of practice. Some of the enclosed responses relate more specifically to University of Windsor's current accounting policies.

It is understood that AcSB undertook this review of existing Not-for-Profit Organization (NFPO) contribution recognition standards established in 1996 that are no longer comparable with international contribution revenue recognition practices. Further, that the lack of international comparability is a concern for AcSB and possibly Canadian NFPOs that compete for funding internationally. The thesis by AcSB is that the current flexibility associated with contribution revenue recognition results in Canadian NFPO financial statements are not comparable internationally, overly complex, and less easily understood by readers consequently.

Within Ontario the users of the financial statements are primarily university debt financing parties, credit-rating agencies, the Ministry of Colleges and Universities, and from time to time the Ministry of Finance or other readers at large. In a few cases, the Ontario universities may file results with US or other foreign government granting agencies, however adjustments for international financial reporting standards are rarely, if at all, required. The financial statements are not typically used in relation to international grant or funding competitions, which instead rely on research specific proposals.

Sincerely,

Gillian Heisz, CPA, CA
Associate Vice-President, Finance
University of Windsor

Copy: Sandra Aversa, CPA, CA, Vice-President Finance and Operations (Interim)
Rachel McRae, CPA, CA, Controller
Paige Sowerby, CPA, CA, Manager Restricted Funds
Jenifer Gritke, CPA, CMA, Senior Accountant

QUESTIONS POSED AND ANSWERS

WHAT IS A CONTRIBUTION

1. **Are there circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances.**

   Yes. Where the contribution is considered insignificant and difficult to measure, or the cost to doing would prohibit the benefit of such recognition. This circumstance would be rare.

TYPES OF CONTRIBUTIONS

2. **Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? Is so, what are the issues and how might they be addressed?**

   No. Unrestricted contributions are effectively recognized as revenue in the year of receipt.

3. **Are there circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?**

   Yes. However infrequent, where the contribution documentation is extremely vague and can be interpreted differently by various readers. This occurs in practice on occasion, for example, when a donation is provided by an estate and described in the will in a way that is vague. In these circumstances, consultation with legal is required and results in a direction.

FINANCIAL STATEMENT CONCEPTS

REVENUE RECOGNITION

4. **Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?**

   Yes. The guidance in Section 4410 is generally sufficient, section 1001 is useful in reference.

5. **Do you think applying the recognition concepts of revenue to restricted contributions (i.e. a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?**

   Yes. Performance achievement is a key component to revenue recognition timing. The matching concept of recognizing revenues as earned to expenditures as incurred is simple for users to understand. The financial statements provide reasonable disclosure to the readers of cash received in the year compared to revenue recognized for performance (usage of funds). Recognizing a restricted contribution as revenue before the performance obligation is met may mislead readers of university financial statements in believing excess revenue over expenses represents funds available without restrictions.

DEFINITIONS OF ASSETS AND LIABILITIES

6. **Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liability are relevant considerations? If so, what are they?**

   Yes. There are times with contributions that are complex, linked to performance, reporting or other milestones that if not met could trigger a liability.

REVENUE RECOGNITION

RECOGNTION OF CONTRIBUTIONS

7. **Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?**

   Yes. In addition to the characteristics identified in the Consultation Paper, the university sector also faces cancellation of a contribution ('risk of default') without recourse risk imposed by some contributors.

8. **Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?**

   Yes. Whereby, the accounting approach by type of contributions adopted by the NFPO would be disclosed in its notes on accounting policy (typically note 1).

9. **What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?**

   Performance achievement is a key characteristic to revenue recognition because some donations for specific purposes are material to the annual results of the NFPO and without matching recognition to the year of related expense the annual results could be misleading to the financial statement reader.

10. **In addition to an approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by that method be useful to financial statement users?**

    The approach to capital asset depreciation relates to the consideration of contribution recognition timing. Recognition of restricted capital contributions linked to the underlying capital asset life allows the financial statements to not be otherwise variably impacted by other methodology choices. Thus, allowing the financial statement users to ascertain financial health without the impact of mismatched contributions and asset amortization expense.

11. **Which approach for the recognition of revenue in Example 2 do you think provides financial statement users with the most decision-useful information and why?**

Recognizing the (unrestricted) contribution as milestones are met (Approach B), assuming collectability is reasonably assured, is better than waiting for completion of an audit, which in the example defers recognition of earned contributions into a future period. Rationale is that this is a contract to contribute matching funds received by a charity, therefore is it not a pledge, which would be otherwise not be recognized until cash is collected.

12. **Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options to how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where you think that some or all the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so, what circumstances?**

    The performance target is the receipt of the 500th separate donation, therefore revenue should only be recorded in the fiscal year in which this target is achieved. This will provide the most decision-useful information to readers.

SPECIAL TYPES OF CONTRIBUTIONS

13. **Do you recognize contributed materials and/or services? If so, how to you measure them? If not, why not?**

    Contributions of non-depreciating assets are recorded through net assets in the year of receipt based on third party valuations. Contributions of materials that will be capitalized as assets (tangible gifts such as books or equipment) are recorded into the statement of operations at the same rate as the depreciation expense of the related asset. Contributions of services are not recognized in the financial statements.

14. **For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized? What, if any, disclosures would be useful when contributed materials and services are recognized?**

    Note disclosure identifying the accounting policy for contributed materials and services is useful.

15. **For users of NFP financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?**

    Only the policy to not recognize should be disclosed along with rationale why the NFPO is not recognizing the contribution, such as difficulty in measuring and/or cost prohibitive nature to measuring and recognizing.

CAPITAL ASSET CONTRIBUTIONS

16. **What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial statements? For example, does amortizing the capital asset contribution provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?**

It is useful to users of NFPO financial statements that capital asset contributions are recognized over the useful life of the asset (in correspondence with amortization) so that annual financial results are not skewed by any differences from contribution recognition and related expense timing. Amortizing capital asset contributions related to items meeting the definition of capital assets by type and useful life by asset class is ideal.

17. **What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increase in net assets would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?**

    In all circumstances non-depreciable capital asset contributions, such as land, would be best recognized as direct increases in net assets so that the statement of operations is not subject to volatility due to contributed non-depreciable capital. This also provides transparency as to what assets have been donated to a NFPO rather than acquired. The statement of changes in net assets is a transparent statement to disclose direct increases from contributed capital.

18. **What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution immediately in revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed assets? If so, which types and why?**

    We cannot identify a decision-useful circumstance for immediate revenue recognition of contributed capital assets. Recognition of contributed capital assets immediately will make financial statement comparability year over year impossible. This would also affect net income/loss ratios, cash flow as a measure of net operating revenues, interest burden, and possibly primary reserve and viability ratios. Introducing immediate contribution recognition into revenue that relates to future expenses will create volatility that will require additional explanation, disclosure and potentially adjusted financial health metrics.

19. **Are there other methods for recognizing capital asset contributions that should be considered? If so, what are they?**

    None that would be considered more decision-useful than current practice.

    Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?

    Not applicable.

ENDOWMENT CONTRIBUTIONS

20. **Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?**

No. The current definition of an endowment provides adequate guidance to determine whether a contribution should be recognized as an endowment contribution.

21. **When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?**

    Yes. Recognizing endowment contributions as direct increases in net assets is ideal for reasons mentioned under capital asset contributions. Other alternatives such as the statement of operations would introduce volatility and would not match the nature of an endowment contribution (a permanent contribution of capital to the institution).

22. **When does recognizing endowments immediately as revenue provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?**

    When the reporting focus of an organization is the extent of contributions received, the reporting of its financial statements using the restricted fund method, and the related endowment contribution as revenue in a separate fund would provide better information to users.

23. **Are there other methods for recognizing endowments that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?**

    No. Using the statement of changes in net assets to reflect cash and non-cash contributions is an effective and transparent method of recognition.

24. **Are there scenarios when it is difficult or costly to determine how to allocate income, expenses, gains, and losses (both realized and unrealized) on endowments for accounting purposes? If so, what are they scenarios or factors that makes this assessment difficult?**

    Generally, no. Accounting for income earned on endowments is particularly complex when an organization has endowments that are internally restricted and externally restricted subject to a preservation capital policy. The different method of accounting for income earned on internally and externally restricted endowments can be confusing to readers not typically used to reviewing university financial statements.

25. **Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?**

    No.

BEQUESTS

26. **Do you recognize bequests? Is so, under what circumstance are they recognized? If not, why not?**

No, since bequests are simply a statement of intent and therefore fail to meet the criteria to be recognized as a receivable. Due to collectability and timing concerns, revenue in this case is typically not recognized until it is received.

27. **As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?**

    Yes. As discussed in the response to question 26, a bequest can be recorded as revenue when the donor is deceased if the amount to be received can be reasonably estimated and the ultimate collection is reasonably assured.

28. **For financial statements users, what additional disclosures relating to bequests would be useful? Why?**

    We do not believe that additional disclosures relating to bequests would be useful. It is very difficult to validate the completeness of such a disclosure.

29. **In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?**

    The University has a number of different vehicles that donors use to transfer assets. These include life insurance policies, charitable remainder trusts and annuities. The timing and enforceability of a NFPO entitlement to the asset depends on a number of factors for each of these vehicles. These factors help to determine the appropriate accounting treatment.

ASSET RECOGNITION

PLEDGES

30. **Do you track pledges? If so, how? If not, why not?**

    Yes. Using fundraising software outside of our general ledger system.

31. **Do you accrue pledges as a receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set up a provision for uncollectible amounts?**

    No. Pledges from fundraising are recorded in the year when the funds are collected. Pledges are not recorded as a receivable as they are not legally enforceable in Canada.

32. **If you previously recognized pledges but no longer do so, why did you stop?**

    Not applicable.

33. **Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time, or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how, and what warrants different accounting treatment?**

Pledges do not meet the revenue recognition criteria.

34. **For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?**

    The lack of reasonable assurance surrounding pledges makes recognition upon receipt more efficient and does not create assets on the financial statements which will be frequently impaired.

35. **For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?**

    It depends. If pledge revenues are fairly consistent from year to year, then additional disclosure of future pledges would not improve decision-useful information. However, if the NFPO has a high degree of variability around donation revenues from year to year, if may be useful to disclose the amount of pledges the NFPO has collectible for the next 12 months and beyond the next 12 months. As discussed with bequests, it could be difficult to audit the completeness of this disclosure. Overall, additional disclosure in the notes should be a choice for NFPOs wanting to enhance decision-useful information.

CAPITAL ASSET RECOGNITION EXEMPTION

36. **In addition to circumstance where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply capital asset recognition exemption? If so, what are those reasons?**

    Not applicable to our sector, so we will elect to not answer this question.

37. **For financial statement users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision-useful? If no, why not? If yes, is this only the case under certain circumstances? What are those circumstances?**

    Not applicable to our sector, so we will elect to not answer this question.

38. **If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?**

    Not applicable to our sector, so we will elect to not answer this question.

39. **If revenue is the appropriate metric to be used for an exemption, what is an appropriate dollar threshold to apply and why?**

    Not applicable to our sector, so we will elect to not answer this question.

40. **Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues more than $500,000, capital assets must be recognized for the first time in accordance with Sections 4433 and 4434. How do organizations currently account for**

this transition? Are Sections 4433 and 4434 applied prospectively, retrospectively, or is another transition approach used?

Not applicable to our sector, so we will elect to not answer this question.

PRESENTATION AND DISCLOSURE ISSUES

FUND ACCOUNTING

41. What are the benefits to fund accounting presentation, and what are the limitations?

Fund accounting presentation provides the reader of the financial statements a better understanding of the accounting balances and activities by each fund within a NFPO. In the case of universities, fund accounting can provide for a better comparison of actual results to budget and can provide helpful information regarding the size of the research enterprise for readers, for example.

One commonly discussed limitation for users is that transfers between Funds can be difficult to disclose in a clear and concise manner. This can create confusion for users.

42. Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?

Please refer to the answer to question 41.

43. What challenges exist for NFPOs that prepare financial statements using fund accounting presentation?

Challenges may exist where fund accounting presentation is not an automated solution requiring manual adjustments to produce where books are maintained electronically in other formats. Further, clearly communicating the nature of fund transfers to users is difficult and often creates confusion.

PRESENTATION OF NET ASSETS

44. Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted, and unrestricted? If so, what?

Yes. In some instances, funding agencies have erroneously assumed internally restricted net assets can be easily drawn upon to supplement current year operating expenditures in lieu of normal funding support for the NFPOs purpose. The issue lies in the fact that internally restricted net assets can include funds to settle future unfunded obligations that if liquidated create inter-generational inequities. Further, if funding agencies reduce funding forcing NFPOs to draw on internal reserves meant for future obligations two consequences arise, one is net assets are drawn down impairing credit ratings and financial health, which in turn increases the cost of capital when debt financing. Second, elimination of savings for obligations existing in this generation will pass on a burden to future employed generations.

45. For financial statements users, what information about classes of net assets is useful?

Full disclosure in the notes of each net asset category and in the case of internally restricted assets, full disclosure of the reserve held, its purpose, its target amount and timing for its use. More information regarding NFPO reserve best practices is summarized in ***Appendix A: Net Assets Internally Restricted Funds – July 2019.***

46. **Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?**

    No. The component of restricted net assets may cut across a number of assets categories and may not add any additional useful information to readers.

DISCLOSURE OF RESTRICTED CASH

47. **Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?**

    No.

48. **For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What types of restrictions on cash and cash equivalents do users of financial statements want to be aware of?**

    As long as internally restricted net asset disclosure is detailed, along with clear disclosure of other restricted holdings such as deferred research contributions or capital for infrastructure not yet developed, the reader of the financial statements should be able to determine the extent to which cash is restricted.

49. **For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?**

    Additional details regarding restricted investments is useful in the notes to the financials, ideally to help a reader understand the purpose of such restrictions, for example, an externally restricted investment for the repayment of a debt.

Appendix A: Net Assets Internally Restricted Funds – July 2019

Higher Education
Internal Reserves (or Appropriations) Disclosure Practices

Background

Higher education institutions have a practice of carrying internal reserves for various purposes, such as use within Faculties or departments, capital commitments, benefit and/or post retirement obligations, or other future oriented obligations. Internal reserves disclosure practices are institution specific and vary across the industry. The absence of fulsome internal reserves disclosures carries the risk of a lack of transparency allowing readers to misinterpret certain holdings as unencumbered. This memo serves to outline best practices for the disclosure of internal reserves held to fund or offset future obligations.

Primary Reserve Ratio

External parties typically calculate Expendable Resources[1] to determine an institution's available financial resources. This calculation is applied to measures such as the primary reserve and viability ratios,[2] which quantifies an institution's financial viability. Given the broad definition of expendable resources, stakeholders may misrepresent resources as available without effective communication and transparency on key internal restrictions linked to unavoidable existing obligations. An organization may want to consider establishing a policy for reporting internal reserves by explicitly defining an alternative calculation quantifying its available expendable resources. This reporting can be further enhanced by disclosing the percentage of reserves internally restricted that may not be immediately expendable. Hence, reporting an adjusted primary reserve or viability ratio.

Internal Reserves Policy

The adequacy of reserves held will depend on each University's unique circumstances and the number of financial commitments it may have. The Government Finance Officers Association (GFOA)[3] recommends having a policy identifying each category of reserves held, explaining the rationale for each holding, target funding level, period over which to accumulate the target and use funds, including any associated risks. Where a policy is used it should allow funds to fall below targeted thresholds or to be adjusted to match any new economic circumstances. Further, GFOA recommends that no less than two months of regular operating revenues or expenditures are held in unrestricted reserves. Key factors that may have an organization prudently set-aside reserves include:

1. Predictability and stability of revenues and expenditures;
2. Exposure to significant one-time outlays (benefits, capital, budget cuts);
3. Potential drain on other expected sources of funds (ancillary operations, margin declines due to legislative changes, etc.);
4. Impact of bond rating changes and increased borrowing costs; and
5. Commitments (future oriented obligations either non-cancellable or difficult to reduce).

If funds fall below targeted levels for a specific reserve, an organization should consider whether the funds can be replenished within one to three years.

Governance

Where a policy approach is used for internal reserves, an organization may consider using a disciplined approach of monitoring and reporting on the status of each reserve held. Internal processes may include regular tracking, reporting, and risk analysis. Some organizations already have reporting mechanisms in place for internally restricted

[1] Expendable resources is defined as unrestricted net assets + internally restricted net assets + internally restricted endowments.
[2] Primary Reserve and Viability Ratios are a measures of financial viability, it is a measure of whether there are sufficient flexible resources to support an organizations mission. The Primary Reserve Ratio measures available expendable resources in the context of an organizations operating size (expendable net assets compared to total expenditures). The Viability ratio measures available expendable resources in the context of an organizations outstanding long-term liabilities. Neither ratio adjusts internally restricted net assets to reflect internal restrictions.
[3] Government Finance Officers Association, Fund Balance Guidelines for the General Fund https://www.gfoa.org/fund-balance-guidelines-general-fund

endowments, however broader application of monitoring and reporting for all internal reserves will enhance transparency around an organization's truly available expendable resources.

Budget

Consistent with the budget disclosure recommendations of the GFOA, summarized in the University Manager's article entitled ***27 Criteria for Excellence in Budgeting*** [4] , the consolidated budget document should include concise detail of each reserve held, including purpose and targeted holding, particularly if related to a future oriented obligation. Further, where a reserve is monitored using third party measurement methodologies and presented to a University governance body this additional information may help solidify the importance of the holding and its direct connection toward the future settlement. For example, a sinking fund held to settle a future debenture.

Annual Reporting of Reserves

The annual financial statements and the supplemental annual financial report provide two additional places whereby a University can provide clear transparent information regarding the types of reserves held.

Financial Statements

The net assets section includes internally restricted reserves, these amounts can be broken down into key categories either in the statements and/or notes to the statements. Common sub-categories: Faculty and department, Capital, Employee Benefits, Specific Purpose (Research, Ancillaries, Sinking Funds, Facilities projects, etc.). Providing a detailed list of internally restricted funds in the notes along with a short description of each holding is an optimal way to ensure funds held for specific costs are clear[5]. Further, an important connection is to link each reserve, where possible, to a future commitment outlined in the commitment notes to the financial statements. For example, debenture maturities are a financial commitment with a known payment date and amount, thus, a sinking fund reserve can be connected to this commitment.

Annual Financial Report

The supplement to the audited financial statements is the annual financial report, which typically provides additional information about the organization's strategic direction, its performance against plans and/or targets, variance explanations, and key risks. In some cases, the report will provide comparative information about trends or benchmarks of similar institutions.

The annual financial report can enhance reporting of internal reserves by including concise descriptions of funds held in accordance with University policy, it can enhance understanding by using charts or figures to summarize the value of each reserve against established targets or the present value of future obligations, and identify associated risks for each fund. Risks may include investment returns and market volatility, or in the case of pensions interest, mortality and other demographic changes over time. Supplemental reporting can enhance understanding of internally restricted funds used to mitigate future financial risks of an organization. For example, Faculty and department reserves not otherwise committed to a project may be reflected with each Faculty and department's share of the unfunded pension or post retirement obligations netted against it to demonstrate the potential claim on those funds should payments become immediately due.

Other considerations

The decision to establish internal reserves requires thoughtful consideration and intentional setting aside of funds for specific purposes. An over-allocation toward internally restricted funds could understate an organization's financial capacity and carry an opportunity cost associated with other strategic priorities not pursued. Saving funds

[4] Summary: University Manager, Fall 2017, pages 29 – 31.

[5] See example: University of Toronto, April 30, 2018 Financial Statements, note 11, page 46; https://finance.utoronto.ca/wp-content/uploads/2018f.pdf also, University of Western Ontario deploys a similar disclosure practice.

for specific obligations or uses can be a wise organizational choice. However, a balance is required since over-allocation without clear uses does not represent good stewardship.

Further Guidance

The Auditor General of Ontario issued a report in 2017 *Toward Better Accountability – Quality of Annual Reporting*[6], whereby the key recommendations for public sector organizations is to increase transparency of reporting using the annual report. The annual report, according to the findings, should include the organizations strategy linked to the budget and actual results, including highlights of strategic and performance related targets, providing an explanation for variances within the reporting period, and identifying key risks associated with the organization achieving its objectives, including key risk mitigations. The Auditor General of Ontario references the Public Sector Accounting Standard Board's (PSAB) Statement of Recommended Practice (SORP-2), *Public Performance Reporting*. Noting that many of the Ontario universities follow part III of the not-for-profit section of the handbook and may not typically refer to the PSAB guidance. The 2017 Auditor General's report received comment from the Treasury Board, the authority body that prescribes broader public sector directives, suggesting that it will pursue strengthening the content of performance reports focused on annual reports. Consideration by the Treasury Board suggests providing guidance, directives, supporting materials, outreach and education. However, no new directives related to such content have been issued at this time.

Finally, additional guidance on performance reporting released by the Accounting Standards Board, December 2018 entitled *Framework for Reporting Performance Measures*[7] provides considerations for performance measure setting that can also be applied to the decisions associated with reserve holdings. The Framework adoption is voluntary and non-authoritative, however its concepts and applicability to each reserve holding decision can help frame policy content, materiality decisions, cost-benefit considerations, and communication strategies. In particular, Appendix C focuses on Disclosure Considerations for performance measures that can be applied to reserves.

Acknowledgement Contributors & Reviewers

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[6] Auditor General of Ontario, Chapter 4, Toward Better Accountability – Quality of Annual Reporting, 2017. Pages 748-777.
[7] The Framework can be accessed via: https://www.frascanada.ca/en/acsb/news-listings/framework-for-performance-measures

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December 15, 2020

Kelly Khalilieh, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Welling Street West
Toronto, Ontario, M5V 3H2

Dear Ms. Khalilieh,

Thank you for the opportunity to comment to the Accounting Standards Board (AcSB) consultation paper on **Contributions – Revenue Recognition and Related Matters.**

As a member of the Council of Ontario Financial Officers (COFO) representing 21 universities across our sector the enclosed responses relate mainly to this area of practice. Some of the enclosed responses relate more specifically to McMaster University's current accounting policies. McMaster University is a not-for-profit organization (NFPO) established in 1887. McMaster is the most research-intensive university in Canada with over 30,000 full-time and part-time students operating campuses in Hamilton, Niagara, and Kitchener. McMaster is the only university in Canada operating a nuclear reactor on its Hamilton campus for education, research, and medical supplies, and has annual revenues more than $1.2 billion.

It is understood that AcSB undertook this review of existing Not-for-Profit Organization (NFPO) contribution recognition standards established in 1996 that are no longer comparable with international contribution revenue recognition practices. Further, that the lack of international comparability is a concern for AcSB and possibly Canadian NFPOs that compete for funding internationally. The thesis by AcSB is that the current flexibility associated with contribution revenue recognition results in Canadian NFPO financial statements are not comparable internationally, overly complex, and less easily understood by readers consequently.

Within Ontario the users of the financial statements are primarily university debt financing parties, credit-rating agencies, the Ministry of Colleges and Universities, and from time to time the Ministry of Finance or other readers at large. In a few cases, the Ontario universities may file results with US or other foreign government granting agencies, however adjustments for international financial reporting standards are rarely, if at all, required. The financial statements are not typically used in relation to international grant or funding competitions, which instead rely on research specific proposals.

Sincerely,

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QUESTIONS POSED AND ANSWERS

WHAT IS A CONTRIBUTION

1. **Are there circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances.**

   Yes. Where the contribution is considered insignificant and/or difficult to measure, or the cost to doing would prohibit the benefit of such recognition.

TYPES OF CONTRIBUTIONS

2. **Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? Is so, what are the issues and how might they be addressed?**

   No. Unrestricted contributions are effectively recognized as revenue in the year of receipt, except in the limited cases applying to response to question 1.

3. **Are there circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?**

   Yes. However infrequent, where the contribution documentation is more vague and can be interpreted differently by various readers.

FINANCIAL STATEMENT CONCEPTS

REVENUE RECOGNITION

4. **Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?**

   Yes. The guidance in Section 4410 is generally sufficient, section 1001 is useful in reference. NFPOs particularly match revenues to "performance achievement", along with measurement capability, and collectability. In practice, performance achievement is linked to when related expenses are incurred, which can often differ from year cash receipt.

5. **Do you think applying the recognition concepts of revenue to restricted contributions (i.e. a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial**

statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?

Yes. As noted with response 4., performance achievement is a key component to revenue recognition timing. The financial statements provide reasonable disclosure to the readers of cash received in the year compared to revenue recognized for performance (usage of funds). Recognizing a restricted contribution as revenue before the performance obligation is met may mislead readers of university financial statements in believing excess revenue over expenses represent funds available without restrictions.

DEFINITIONS OF ASSETS AND LIABILITIES

6. **Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liability are relevant considerations? If so, what are they?**

   Yes. There are times with contributions are complex, linked to milestones that if not met could trigger a liability. Therefore, some contributions require addition examination of performance, asset, and liability considerations to decipher or interpret the most appropriate accounting treatment in the circumstance. Where different interpretations exist consultation can additionally occur with the contributor and/or external accountant/auditor.

REVENUE RECOGNITION

RECOGNTION OF CONTRIBUTIONS

7. **Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?**

   Yes. In addition to, type and nature of the contribution, frequency of the contribution, time or purpose requirements imposed by the contributor, and refundability of the contribution, the university sector also faces cancellation of a contribution without recourse risk imposed by some contributors. For example, for university NFPOs a provincial contribution commitment may exist whereby, type and nature of the contribution is known, frequency is known, time/ purpose imposed by the contributor is known, milestones are met, and refundability was not contemplated as a risk, but the contributor cancels contribution funding mid-way through the commitments and the NFPO has no recourse, even if spend commitments exist relative to cancelled contributions. The risk of default is an additional characteristic that could be considered, especially when it comes to multi-year funding commitments.

8. **Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?**

   Yes. Whereby, the accounting approach by type of contributions adopted by the NFPO would be disclosed in its notes on accounting policy (typically note 1).

9. **What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?**

   Performance achievement is a key characteristic to revenue recognition because some donations for specific purposes are material to the annual results of the NFPO and without matching recognition to the year of related expense the annual results could be misleading to the financial statement reader.

   For example, in the case of a $100 million donation for a centre of pain management, the expenses incurred may be year 1 $8 million for two endowed chairs in pain management, year 2 $50 million for a centre's infrastructure asset with a 40 year life and in years 3-10 for the centres other operating expenses of 6 million per year. In this case only $95 million will be flowed through the annual NFPO results as years 3-10 $7.25 million and years 11-40 as $1.25 million. In this case, performance is defined by when the activity is recognized in the annual results, in the situation of a capital asset performance is the proportion of the capital asset used during the year. This approach ensures that final University excess of revenue over expenses reflects funds available without further restriction.

10. **In addition to an approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by the method be useful to financial statement users?**

    As illustrated in the example under question 9, the approach to capital asset depreciation / amortization relates to the consideration of contribution recognition timing. Recognition of restricted capital contributions linked to the underlying capital asset life allows the financial statements to not be otherwise variably impacted by other methodology choices. Thus, allowing the financial statement users to ascertain financial health without the impact of mismatched contributions and asset amortization expense.

11. **Which approach for the recognition of revenue in Example 2 do you think provides financial statement users with the most decision-useful information and why?**

    Recognizing the (unrestricted) contribution as milestones are met (Approach B), assuming collectability is reasonably assured, is better than waiting for completion of an audit, which in the example defers recognition of earned contributions into a future period. Rationale, is that this is a contract to contribute matching funds received by a charity, therefore is it not a pledge, which would be otherwise not be recognized until cash is collected.

12. **Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options to how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where you think that some or all the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so, what circumstances?**

The performance target is the receipt of the 500th separate donation, therefore revenue should only be recorded in the fiscal year in which this target is achieved. This will provide the most decision-useful information to readers.

SPECIAL TYPES OF CONTRIBUTIONS

13. Do you recognize contributed materials and/or services? If so, how to you measure them? If not, why not?

Contributions of materials, most commonly contributions of art or tangible gifts, are recorded in operating results in the year of receipt based on third party valuations. Contributions of services are not recognized in the financial statements due to difficulty determining fair value and/or the cost associated with valuing such contributions.

14. For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized? What, if any, disclosures would be useful when contributed materials and services are recognized?

Note disclosure identifying the accounting policy for contributed materials and services, including disclosure of the amounts, if any, recognized in operations for the year and preceding year is useful.

15. For users of NFP financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?

Only the policy to not recognize should be disclosed along with rationale why the NFPO is not recognizing the contribution, such as difficulty in measuring and/or cost prohibitive nature to measuring and recognizing.

CAPITAL ASSET CONTRIBUTIONS

16. What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial statements? For example, does amortizing the capital asset contribution provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Where a NFPO has debt covenants and/or key financial health performance metrics linked to funding agencies it is useful that capital asset contributions are recognized over the useful life of the asset (in correspondence with amortization) so that annual financial results are not skewed by any differences from contribution recognition and related expense timing. Amortizing capital asset contributions related to items meeting the definition of capital assets by type and useful life, such as by building, site improvement, library materials, computing systems, equipment, computing equipment, and leasehold improvements is ideal.

17. **What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increase in net assets would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?**

    In all circumstances non-depreciable capital asset contributions, such as land, would be best recognized as direct increases in net assets so that the statement of operations is not subject to volatility due to contributed non-depreciable capital. The statement of changes in net assets is a transparent statement to disclose direct increases from contributed capital and the notes to the financial statements for capital assets can provide additional disclosures needed by financial statement users.

18. **What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution immediately in revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed assets? If so, which types and why?**

    It is difficult to identify a decision-useful circumstance for immediate revenue recognition of contributed capital assets. Immediate revenue recognition would require additional disclosures both in the year of initial revenue recognition and over the capital asset useful life. Recognition of contributed capital assets immediately will affect net income/loss ratios, cash flow as a measure of net operating revenues, interest burden, and possibly primary reserve and viability ratios. Overall, each NFPO may have different financial health metrics it may need to adhere to for debt and/or funding agency needs. Introducing immediate contribution recognition into revenue that relates to future expenses will create volatility that will require additional explanation, disclosure and potentially adjusted financial health metrics.

19. **Are there other methods for recognizing capital asset contributions that should be considered? If so, what are they?**

    None that would be considered more decision-useful than current practice.

    Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?

    Not applicable.

ENDOWMENT CONTRIBUTIONS

20. Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?

Yes. Where the external restriction appears more general in nature or requires judgment to determine whether the external terms are in fact a restriction at all. In cases that are more difficult to ascertain working with external accountant/auditor and or legal support help guide the interpretation.

21. When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

Yes. Recognizing endowment contributions as direct increases in net assets is ideal for reasons mentioned under capital asset contributions. Most financial health metrics and debt covenants related to the statement of operations, therefore running any contribution activity through the statement of operations without a matching offset will skew the annual results and introduce volatility requiring additional explanation and potentially note disclosure.

22. When does recognizing endowments immediately as revenue provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

When the reporting focus of an organization is the extent of contributions received, the reporting of its financial statements using the restricted fund method, and the related endowment contribution as revenue in a separate fund would provide better information to users. For University's this may be problematic causing financial statement preparers to undertake additional work to overlay and explain "normal" operations adjusting one-time revenues or related expenses so that readers understand the results from normal operations within the year. The adjustments would be needed to normalize results because often the expenses related to contributions would not otherwise exist in the absence of the contribution.

Immediate recognition without future expenses will call into question the future results and financial viability of NFPOs as these future expenses may drive deficit results due simply to one-time historical immediate windfall contribution recognition. If anything, immediate recognition makes the work of administrators explaining the results more difficult and increases the complexity for readers trying to understand the annual results and whether the NFPO has a going concern issue.

23. Are there other methods for recognizing endowments that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?

No. Using the statement of changes in net assets to reflect cash and non-cash contributions is an effective and transparent method of recognition that does not impact financial metrics that are typically linked to the statement of surplus or deficit.

24. Are there scenarios when it is difficult or costly to determine how to allocate income, expenses, gains, and losses (both realized and unrealized) on endowments for accounting purposes? If so, what are they scenarios or factors that makes this assessment difficult?

Generally – No. Accounting for income earned on endowments is particularly complex when an organization has endowments that are internally restricted and externally restricted subject to a preservation capital policy. The different method of accounting for income earned on internally and externally restricted endowments is confusing to readers.

25. Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?

Yes. It is difficult when the NFPO is required to make a matching contribution into the endowed fund from funds that would otherwise be recognized in the statement of surplus or deficit in the year. In these cases, the accounting policy will determine that funds received in the year for operations will, in some NFPOs, be directed to the endowment without flowing the income. This is problematic but generally occurring on a small scale and immaterial to the results. If material, it may be resolved by allowing the operating contribution match to flow through the statement of operations as surplus and then be internally restricted as a match to the external endowment. Endowed donations should be broken out in the notes to the financial statements by those that are internally restricted by the organization and those that are externally restricted by the donor. This would provide useful information to users of the financial statements as to the extent of funds endowed by the organization.

BEQUESTS

26. Do you recognize bequests? Is so, under what circumstance are they recognized? If not, why not?

No, since bequests are simply a statement of intent and therefore fail to meet the criteria to be recognized as a receivable. However, revenue is recorded once a person is deceased and we are notified of the existence of the will (there is now a legal right to the assets) as long as the amount to be received can be reasonably estimated and the ultimate collection is reasonably assured.

27. As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?

Yes. As discussed in the response to question 26, a bequest can be recorded as revenue when the donor is deceased if the amount to be received can be reasonably estimated and the ultimate collection is reasonably assured.

28. For financial statements users, what additional disclosures relating to bequests would be useful? Why?

The answer would depend on materiality of the bequest. If material, the financial statement notes would be more useful to identify the size of the bequest(s), the external purpose (if one exists), and how the initial contribution is reflected in the statements and how future recognition will be shown. This treatment for material bequests helps a reader differentiate these cash flows from otherwise normal activities of the NFPO.

29. In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?

More recently gifts come in the form of spend-down externally restricted trusts, whereby the donor wants to see use of the funds in his/her lifetime. This contribution is different from both an endowment, which lasts in perpetuity, and a bequest, which is typically received from an estate of a deceased donor. The spend-down trust is a gift meant for use typically over a minimum of 10 years or longer. The restrictions on the gift determine whether the contribution s treated like an externally restricted endowment.

ASSET RECOGNITION

PLEDGES

30. Do you track pledges? If so, how? If not, why not?

Yes. Using fundraising software.

31. Do you accrue pledges as a receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set up a provision for uncollectible amounts?

No. Pledges from fundraising are recorded in the period funds are collected. Pledges are not recorded as a receivable as they are not legally enforceable in Canada.

32. If you previously recognized pledges but no longer do so, why did you stop?

Not applicable.

33. **Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time, or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how, and what warrants different accounting treatment?**

    The variable nature of collection and the cancellability of the pledge makes accounting for pledges earlier than receipt complex, time consuming, and cumbersome. Pledges are not recorded as a receivable as they are not legally enforceable in Canada.

34. **For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?**

    Using a consistent approach to account for pledges once received ensures pledge revenues reflected in the period are accurate without impairment / bad debt risk (because received). To recognize pledges before receipt would require assumption of bad debts and cancellations. Pledges can also be made for a future period but take longer to collect than originally committed. The lack of reasonable assurance surrounding pledges makes recognition upon receipt more efficient method and does not impair the financial statements (it is a conservative approach).

35. **For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?**

    It depends. If pledge revenues are fairly consistent from year to year, then additional disclosure of future pledges would not improve decision-useful information. However, if the NFPO has a high degree of variability around pledge revenues from year to year, if may be useful to disclose the amount of pledges the NFPO has collectible for the next 12 months and beyond the next 12 months, along with history of pledge write-offs. Overall, additional disclosure in the notes should be a choice for NFPOs wanting to enhance decision-useful information.

CAPITAL ASSET RECOGNITION EXEMPTION

36. **In addition to circumstance where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply capital asset recognition exemption? If so, what are those reasons?**

    Not applicable to Ontario universities. For small NFPOs, the capital asset exemption was designed in 1997 to assist NFPOs with the accounting guidelines adoption and transition. The relevance for the exemption is diminished.

37. **For financial statement users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision-**

useful? If no, why not? If yes, is this only the case under certain circumstances? What are those circumstances?

Yes. The disclosure of accounting policy used for capital assets, categories of capital not recorded, and amount expensed in the current period is sufficient.

38. **If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?**

    Ideally the exemption will be removed or remain at the same threshold and therefore increasingly loose its relevance over time (due to diminishing purchasing power amount). The small size exemption was introduced for the NFPO transition, the rationale is no longer relevant therefore time should not be spent examining ways to retain the exemption.

39. **If revenue is the appropriate metric to be used for an exemption, what is an appropriate dollar threshold to apply and why?**

    The exemption should either be eliminated as no longer relevant as a transitionary matter or the amount should remain the same to reduce use/relevance further over time.

40. **Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues more than $500,000, capital assets must be recognized for the first time in accordance with Sections 4433 and 4434. How do organizations currently account for this transition? Are Sections 4433 and 4434 applied prospectively, retrospectively, or is another transition approach used?**

    The approach used should be disclosed in the notes to the financial statements. If the data is available to adjust the opening prior year than retroactive is a relevant consideration and provides the lease disruption to the current year results. If the data is not sufficiently available to retroactively adjust, then the change should be prospective with note disclosure helping readers understand the current year impact of the change in accounting policy. Ideally, the approach adopted, and disclosure used is sufficient to assist readers of the financial statements to understand the impact associated with the change in accounting policy as differentiated from the other normal operating results.

PRESENTATION AND DISCLOSURE ISSUES

FUND ACCOUNTING

41. **What are the benefits to fund accounting presentation, and what are the limitations?**

    Fund accounting presentation provides the reader of the financial statements a better understanding of the accounting balances and activities by each area or fund within a NFPO. Not all Ontario universities report financial statements using a fund accounting presentation format, one of the key limitations is the complexity of maintaining the accrual basis of accounting presentation using a segregated fund basis of presentations. For example, many internal fund accounting records are on a cash basis for simplified internal budgeting and reporting; these cash basis funds are then adjusted at a consolidated level to accrual basis financial statements. To maintain accrual basis fund accounting presentation may present additional work for the NFPO that does not offer value more than the preparation cost.

42. Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?

The need for an NFPO to present fund accounting financial statements may relate more so to the NFPOs specific funding agents (e.g. those interested in funding capital or research may be more interested in examining the financial position of segregated funds). Generally, credit rating agencies and debt lenders rely on consolidated financial statements and financial health of an NFPO as a whole making the needs to prepare financial statements by fund superfluous.

43. What challenges exist for NFPOs that prepare financial statements using fund accounting presentation?

Challenges may exist where fund accounting presentation is not an automated solution requiring manual adjustments to produce where books are maintained electronically in other formats.

PRESENTATION OF NET ASSETS

44. Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted, and unrestricted? If so, what?

Yes. In some instances, funding agencies have erroneously assumed internally restricted net assets can be easily drawn upon to supplement current year operating expenditures in lieu of normal funding support for the NFPOs purpose. The issue lies in the fact that internally restricted net assets include funds to settle future unfunded obligations that if liquidated create inter-generational inequities. Further, if funding agencies reduce funding forcing NFPOs to draw on internal reserves meant for future obligations two consequences arise, one is net assets are drawn down impairing credit ratings and financial health, which in turn increases the cost of capital when debt financing. Second, elimination of savings for obligations existing in this generation will pass on a burden to future employed generations.

45. For financial statements users, what information about classes of net assets is useful?

Full disclosure in the notes of each net asset category and in the case of internally restricted assets, full disclosure of the reserve held, its purpose, its target amount and timing for its use. More information regarding NFPO reserve best practices is summarized in ***Appendix A: Net Assets Internally Restricted Funds – July 2019.***

46. Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?

No. The component of restricted net assets may cut across a number of assets categories and may not add any additional useful information to readers.

DISCLOSURE OF RESTRICTED CASH

47. Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?

No.

48. For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What types of restrictions on cash and cash equivalents do users of financial statements want to be aware of?

As long as internally restricted net asset disclosure is detailed, along with clear disclosure of other restricted holdings such as deferred research contributions or capital for infrastructure not yet developed, the reader of the financial statements should be able to determine the extent to which cash is restricted. Separating cash balances between restricted and unrestricted holdings is a level of granularity unnecessary given balances are often inter-mingled and internally levered to some extent. A quick study of the balance sheet and cash flows should provide a sufficient sense of restricted and unrestricted balances.

49. For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?

Additional details regarding restricted investments is useful in the notes to the financials, ideally to help a reader understand the differences between non-cash assets or investments that are more illiquid than other forms of investments. Generally, helping a reader understand what is restricted internally or externally and what is liquid and illiquid is helpful to avoid misunderstandings.

Appendix A: Net Assets Internally Restricted Funds – July 2019

Higher Education
Internal Reserves (or Appropriations) Disclosure Practices

Background
Higher education institutions have a practice of carrying internal reserves for various purposes, such as use within Faculties or departments, capital commitments, benefit and/or post retirement obligations, or other future oriented obligations. Internal reserves disclosure practices are institution specific and vary across the industry. The absence of fulsome internal reserves disclosures carries the risk of a lack of transparency allowing readers to misinterpret certain holdings as unencumbered. This memo serves to outline best practices for the disclosure of internal reserves held to fund or offset future obligations.

Primary Reserve Ratio
External parties typically calculate Expendable Resources[1] to determine an institution's available financial resources. This calculation is applied to measures such as the primary reserve and viability ratios,[2] which quantifies an institution's financial viability. Given the broad definition of expendable resources, stakeholders may misrepresent resources as available without effective communication and transparency on key internal restrictions linked to unavoidable existing obligations. An organization may want to consider establishing a policy for reporting internal reserves by explicitly defining an alternative calculation quantifying its available expendable resources. This reporting can be further enhanced by disclosing the percentage of reserves internally restricted that may not be immediately expendable. Hence, reporting an adjusted primary reserve or viability ratio.

Internal Reserves Policy
The adequacy of reserves held will depend on each University's unique circumstances and the number of financial commitments it may have. The Government Finance Officers Association (GFOA)[3] recommends having a policy identifying each category of reserves held, explaining the rationale for each holding, target funding level, period over which to accumulate the target and use funds, including any associated risks. Where a policy is used it should allow funds to fall below targeted thresholds or to be adjusted to match any new economic circumstances. Further, GFOA recommends that no less than two months of regular operating revenues or expenditures are held in unrestricted reserves. Key factors that may have an organization prudently set-aside reserves include:

1. Predictability and stability of revenues and expenditures;
2. Exposure to significant one-time outlays (benefits, capital, budget cuts);
3. Potential drain on other expected sources of funds (ancillary operations, margin declines due to legislative changes, etc.);
4. Impact of bond rating changes and increased borrowing costs; and
5. Commitments (future oriented obligations either non-cancellable or difficult to reduce).

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[1] Expendable resources is defined as unrestricted net assets + internally restricted net assets + internally restricted endowments.

[2] Primary Reserve and Viability Ratios are a measures of financial viability, it is a measure of whether there are sufficient flexible resources to support an organizations mission. The Primary Reserve Ratio measures available expendable resources in the context of an organizations operating size (expendable net assets compared to total expenditures). The Viability ratio measures available expendable resources in the context of an organizations outstanding long-term liabilities. Neither ratio adjusts internally restricted net assets to reflect internal restrictions.

[3] Government Finance Officers Association, Fund Balance Guidelines for the General Fund https://www.gfoa.org/fund-balance-guidelines-general-fund

If funds fall below targeted levels for a specific reserve, an organization should consider whether the funds can be replenished within one to three years.

Governance

Where a policy approach is used for internal reserves, an organization may consider using a disciplined approach of monitoring and reporting on the status of each reserve held. Internal processes may include regular tracking, reporting, and risk analysis. Some organizations already have reporting mechanisms in place for internally restricted endowments, however broader application of monitoring and reporting for all internal reserves will enhance transparency around an organization's truly available expendable resources.

Budget

Consistent with the budget disclosure recommendations of the GFOA, summarized in the University Manager's article entitled ***27 Criteria for Excellence in Budgeting***[4] , the consolidated budget document should include concise detail of each reserve held, including purpose and targeted holding, particularly if related to a future oriented obligation. Further, where a reserve is monitored using third party measurement methodologies and presented to a University governance body this additional information may help solidify the importance of the holding and its direct connection toward the future settlement. For example, a sinking fund held to settle a future debenture.

Annual Reporting of Reserves

The annual financial statements and the supplemental annual financial report provide two additional places whereby a University can provide clear transparent information regarding the types of reserves held.

Financial Statements

The net assets section includes internally restricted reserves, these amounts can be broken down into key categories either in the statements and/or notes to the statements. Common sub-categories: Faculty and department, Capital, Employee Benefits, Specific Purpose (Research, Ancillaries, Sinking Funds, Facilities projects, etc.). Providing a detailed list of internally restricted funds in the notes along with a short description of each holding is an optimal way to ensure funds held for specific costs are clear[5]. Further, an important connection is to link each reserve, where possible, to a future commitment outlined in the commitment notes to the financial statements. For example, debenture maturities are a financial commitment with a known payment date and amount, thus, a sinking fund reserve can be connected to this commitment.

Annual Financial Report

The supplement to the audited financial statements is the annual financial report, which typically provides additional information about the organization's strategic direction, its performance against plans and/or targets, variance explanations, and key risks. In some cases, the report will provide comparative information about trends or benchmarks of similar institutions.

The annual financial report can enhance reporting of internal reserves by including concise descriptions of funds held in accordance with University policy, it can enhance understanding by using charts or figures to summarize the value of each reserve against established targets or the present value of future obligations, and identify associated risks for each fund. Risks may include

[4] Summary: University Manager, Fall 2017, pages 29 – 31.

[5] See example: University of Toronto, April 30, 2018 Financial Statements, note 11, page 46; https://finance.utoronto.ca/wp-content/uploads/2018f.pdf also, University of Western Ontario deploys a similar disclosure practice.

investment returns and market volatility, or in the case of pensions interest, mortality and other demographic changes over time. Supplemental reporting can enhance understanding of internally restricted funds used to mitigate future financial risks of an organization. For example, Faculty and department reserves not otherwise committed to a project may be reflected with each Faculty and department's share of the unfunded pension or post retirement obligations netted against it to demonstrate the potential claim on those funds should payments become immediately due.

Other considerations
The decision to establish internal reserves requires thoughtful consideration and intentional setting aside of funds for specific purposes. An over-allocation toward internally restricted funds could understate an organization's financial capacity and carry an opportunity cost associated with other strategic priorities not pursued. Saving funds for specific obligations or uses can be a wise organizational choice. However, a balance is required since over-allocation without clear uses does not represent good stewardship.

Further Guidance
The Auditor General of Ontario issued a report in 2017 *Toward Better Accountability – Quality of Annual Reporting*[6], whereby the key recommendations for public sector organizations is to increase transparency of reporting using the annual report. The annual report, according to the findings, should include the organizations strategy linked to the budget and actual results, including highlights of strategic and performance related targets, providing an explanation for variances within the reporting period, and identifying key risks associated with the organization achieving its objectives, including key risk mitigations. The Auditor General of Ontario references the Public Sector Accounting Standard Board's (PSAB) Statement of Recommended Practice (SORP-2), *Public Performance Reporting*. Noting that many of the Ontario universities follow part III of the not-for-profit section of the handbook and may not typically refer to the PSAB guidance. The 2017 Auditor General's report received comment from the Treasury Board, the authority body that prescribes broader public sector directives, suggesting that it will pursue strengthening the content of performance reports focused on annual reports. Consideration by the Treasury Board suggests providing guidance, directives, supporting materials, outreach and education. However, no new directives related to such content have been issued at this time.

Finally, additional guidance on performance reporting released by the Accounting Standards Board, December 2018 entitled *Framework for Reporting Performance Measures*[7] provides considerations for performance measure setting that can also be applied to the decisions associated with reserve holdings. The Framework adoption is voluntary and non-authoritative, however its concepts and applicability to each reserve holding decision can help frame policy content, materiality decisions, cost-benefit considerations, and communication strategies. In particular, Appendix C focuses on Disclosure Considerations for performance measures that can be applied to reserves.

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[6] Auditor General of Ontario, Chapter 4, Toward Better Accountability – Quality of Annual Reporting, 2017. Pages 748-777.
[7] The Framework can be accessed via: https://www.frascanada.ca/en/acsb/news-listings/framework-for-performance-measures

Pennylegion|Chung LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

December 15, 2020

Ms. Kelly Khalilieh, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario, M5V 3H2

Dear Ms. Khalilieh,

Thank you for the opportunity to comment on the Accounting Standards Board (AcSB) consultation paper on **Contributions – Revenue Recognition and Related Matters.**

Our firm provides assurance services to over 200 small-to-medium not-for-profit organizations in the Greater Toronto Area. Our clients represent a wide variety of organizations within the not-for-profit sector and include day care centres, member-based organizations, arts organizations, and social services organizations. Based on our experience and discussions with management, Boards of Directors, independent bookkeepers and funders, the current accounting standards are well understood and applied consistently with comparable organizations.

Our clients are typically serviced by a single bookkeeper or in-house accountant and the current deferral method is the most widely understood method of accounting for contributions for users, such as contributors. Users of the deferral method would agree that the most important aspect of their financial statements is excess (deficiency) of revenue over expenses. This number is the most relevant indicator in evaluating the fiscal year. We have a small number of clients who use the restricted fund method. These organizations are typically foundations that do not have significant operating activities. For these organizations, the total amount fundraised in the year is the most important metric to communicate to their users, which is why they commonly use the restricted fund method.

We believe that the questions posed in the consultation paper need to be considered from the perspective of both types of organizations noted above. Recommendations related to the accounting for contributions should permit the reporting needs of both types of organizations to be met. If not, contributors are likely to request organizations to present unaudited information that better meets their needs rather than request audited statements that do not meet these needs. This reduction in assurance provided will not be in the public interest.

We also encourage the AcSB and members of Not-for-Profit Advisory Committee to take into consideration the information needs and resources of small-and-medium not-for-profit organizations, as they represent the largest component of the sector. The current accounting standards are understood by our clients and any proposed changes must be for the purpose of creating more meaningful financial statements and not for the sake of having comparability between incomparable organizations within the not-for-profit sector.

We would be pleased to discuss any of our comments and share our perspective with you.

Stephanie Chung CPA, CA and Brendan Pennylegion CPA, CA

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Question 1: Are there circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances?

We cannot think of any circumstances when non-reciprocal government funding would not be considered a contribution for accounting purposes.

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Question 2: Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? If so, what are the issues and how might they be addressed?

In paragraph 17, the commentary associated with this question states that “currently all unrestricted contributions are recognized as revenue when received.” This statement is inconsistent with the statement in Paragraph 1001.43 that states “Unrestricted contributions …. are generally recognized when received or receivable”. It also doesn’t recognize the guidance in Section 4420 that sets out when contributions receivable are recorded. We believe there are issues related to when unrestricted contributions should be set up as receivable. These issues are covered below in questions 30 to 35 which address issues related to pledges.

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Question 3: Are there circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?

There are a number of circumstances that may make it difficult to determine whether a contribution is externally restricted. The most common issue is when documentation may not clearly define the restriction associated with the contribution. This situation is often associated with a contribution where the details of the restriction have been discussed with the contributor but not completely documented by the contributor.

Another example of where there is diversity in practice is when a contributor indicates that their contribution can be used for the highest priorities of the organization. This contribution is treated by some organizations as being restricted. However, since the organization has discretion about how the contribution is spent, a strong argument can be made that it is unrestricted.

A further example of a situation where there could be diversity in practice is when the donor of an unrestricted gift is provided with recognition that might be interpreted that it is restricted.

There are also circumstances where the appropriate accounting for the restricted contribution may not be clear. For example, the contribution can be used for both the purchase of capital assets and their maintenance.

The commentary related to this question indicates that a contribution imposed through a policy posted by management or the board of directors on an organization’s website would not be considered externally imposed. We do not agree with this statement. For example, if a website clearly describes restrictions associated with net proceeds associated with an event and someone buys a ticket to that event, the contributor is entitled to believe that the net proceeds of the event will be used for the restricted purpose stated on the website. There are other circumstances when there are references to a purpose in communications but not a clear indication that the net proceeds will only be used for that purpose.

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Question 4: Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?

We do not typically consult Section 1001. The comments in Section 4410 provide the necessary guidance.

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Question 5: Do you think applying the recognition concepts for revenue to restricted contributions (i.e., a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?

As noted in the introduction, there are two types of NFPOs. For those where the bottom line is a critical measure, the recognition concepts noted in the question are very relevant to provide decision-useful information in NFPO financial statements. These principles are understood by readers and help ensure that the bottom line provides a meaningful reflection of the financial results of the organization by recognizing contributions in the same period as the expense incurred to fulfill the restricted purpose. If restricted contributions are recorded in a different period from the associated expenses, the bottom line does not provide a meaningful picture of the operating results of the organization.

As noted in the introduction, there are other NFPO's where the recognition concepts noted in the question will not provide decision-useful information, such as foundations. It is important that the AcSB recognizes the unique needs of these organizations in developing standards used by NFPO's.

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Question 6: Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liabilities are relevant considerations? If so, what are they?

See comments below in question 9.

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Question 7: Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?

An additional characteristic that could be considered relates to what action justifies the recording of the revenue. For example, when an organization outsources the activities required to satisfy the restriction to a third party, should the revenue be recorded when the funding is sent to the third party or when the third party spends the funds to satisfy the restricted purpose.

As noted in the response to Question 9, we do not believe that refundability of the contribution is a relevant consideration.

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Question 8: Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?

We agree that an accounting approach that considers the type of contributions and its characteristics provides decision-useful information in NFPO financial statements.

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Question 9: What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?

We agree that the type and nature of the contribution, the time or purpose requirements imposed by the contributor and whether the contribution has been received or is receivable are characteristics that should be considered in determining whether to recognize a contribution as revenue. The commentary related to this question suggests that, if a contribution is not refundable, it does not meet the definition of a liability. It is not clear to us why being refundable is a necessary condition to conclude that a liability exists and therefore justify recording a restricted contribution as a liability.

We do not agree that refundability of the contribution is generally a relevant consideration to determine whether a contribution should be recorded as a liability or as revenue. The definition of a liability as defined in Paragraph 1001.28 is "obligations of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future". Three essential characteristics are identified in paragraph 1001.29:

- they embody a duty or responsibility to others that entails settlement by future transfer or use of assets, provision of services or other yielding of economic benefits, at a specified or determinable date, on occurrence of a specified event, or on demand. An organization receiving a restricted contribution has an obligation to the donor that will be settled in the future by using assets (cash paid out for expenses incurred to satisfy the restriction);
- the duty or responsibility obligates the entity leaving it little or no discretion to avoid it. By accepting the restrictions imposed by the contributor, the organization must honour the restrictions, there is no discretion in the matter; and
- the transaction or event obligating the entity has already occurred with receipt of the contribution.

We believe that the definition of a liability in Section 1000 is met when, subsequent to receipt of a restricted contribution, the purpose has not been fulfilled. The contribution should therefore not be recorded as revenue.

Suggesting that to be a liability an amount must be refundable is particularly problematic for Canadian NFP's that receive donations. The rules imposed by CRA for a donation to be eligible for a donation receipt explicitly disallow the contribution to be refundable. Presumably donors would want their contributions to be refunded if they were not able to be used for the stated purpose. However, no repayment is permitted since the donor has received the benefit of a tax receipt for the donation. Charities must go to court to get permission to change the purpose if they are not able to use donations for the original purpose. They are not legally able to refund the donation to the donor. The interpretation of the liability definition with respect to NFPOs needs to recognize this externally imposed restriction on being able to refund restricted contributions that are not used for the restricted purpose.

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Question 10: In addition to an approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by that method be useful to financial statement users?

As described in the introduction, there are NFPO's where users are most interested in information about the total amount of contributions received and investment income earned. The restricted fund method provides this information by allowing both restricted and unrestricted amounts to be recorded on the revenue line. The restricted nature of contributions is communicated by including separating the amounts in columns between restricted and endowment funds.

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Question 11: Which approach for the recognition of revenue in Example 2 do you think provides financial statements users with the most decision-useful information and why?

Of the two options presented, we believe approach B makes most sense. The critical conditions are the amount and number of donors. The audit condition just confirms those terms have been met. If the terms have been met, then the contribution has been earned.

However, this example does not provide information to assess whether the contribution represents an enforceable claim and therefore whether there is support for recording it as a receivable. It could represent a pledge and therefore its recognition needs to consider any guidance related to pledges.

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Question 12: Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options to how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where you think that some or all of the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so, what circumstances?

Assuming it is appropriate to set up a receivable, we do not believe there is another option for the matching donation. The $10K is an all or nothing condition so should not be recognized until the 500th donation has been received.

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Question 13: Do you recognize contributed materials and/or services? If so, how do you measure them? If not, why not?

In our experience almost no organizations outside of food and clothing distribution charities recognize contributed materials and services unless the contributions are essential to the NFPO's operations and/or represent a significant portion of their resources. As noted in the commentary related to this question, thrift shops and, food banks are examples of organizations that do recognize contributed materials. They typically use a unitized measurement unique to their sector.

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Question 14: For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized? What, if any, disclosures would be useful when contributed materials and services are recognized?

For users of NFPO financial statements , it may be useful for contributed materials and services to be recognized when the contributions are essential to the NFPO's operations and/or represent a significant portion of their resources. Their statements would understate the scope of their operations if these contributions were omitted.

However, providing organizations with a choice is still important. There are other ways for organizations to provide this information if they choose not to include values in their financial statements.

Useful disclosures when contributed materials and services are recorded in the accounts would include what the contributed items/services are, how they have been valued, and the monetary value included in the financial statements.

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Question 15: For users of NFPO financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?

The nature and significance of any material contributed materials and services would be useful. Continuing the requirement in 4460.07(b) to disclose contributions from related parties not recorded in the accounts is important because it is a way for an NFPO with related parties able to fund certain expenses to look better than its peers who do not have related parties able to make this type of contribution.

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Question 16: What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial statements? For example, does amortizing the capital asset contribution provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Amortizing the capital asset contribution to revenue as the asset is depreciated should provide decision-useful information in all NFPO financial statements. We are not aware of any situations when this approach would be misleading to users of the financial statements. The alternative approach of recording the contributions in a different period from the depreciation of the asset could result in a statement of operations that provides a misleading bottom line and not provide decision-useful information. This would depend on the significance of the amounts involved.

This approach to accounting for contributions restricted for the purchase of capital assets in the 4400 series produces the same bottom line result as either of the options provided for in Parts I and II of the CPA Handbook for similar contributions.

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Question 17: What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increases in net assets would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Recognizing non-depreciable capital asset contributions as direct increases in net assets provides decision-useful information in all NFPO financial statements. We are not aware of any situations when this approach would be misleading to users of the financial statements.

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Question 18: What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution immediately in revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

We are not aware of any circumstances in which recognizing a contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements.

The value of a contributed asset that does not meet the definition of a capital asset (i.e. it is not intended to be used in the ordinary course of operations) and is therefore being held as an investment property or to be sold should be recorded as revenue to provide decision-useful information.

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Question 19: Are there other methods for recognizing capital asset contributions that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?

Parts I and II provide the option of netting a contribution for the purchase of capital assets against the cost of the asset. Because capital assets funded by contributions tend to be so much more significant in the NFP sector, we do not support giving this option to NFPOs.

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Question 20: Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?

The definition of an endowment for accounting purposes provides adequate guidance to determine whether a contribution should be recognized as an endowment contribution.

We are not clear why the commentary related to this question suggests that there is a difference between the legal definition of an endowment and the accounting definition. It is a legal question whether the contribution must be held in perpetuity . If the contribution meets the legal tests to be held in perpetuity, then the contribution meets the accounting definition of an endowment.

The commentary correctly points out that some contributions are currently accounted for as endowments when they do not meet the Section 4410 definition. That is generally the result of bad practice and preparers not following the recommendations of the standard. It is not because the definition in the standard is flawed.

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Question 21: When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

For an organization using the deferral method, recognizing endowments as direct increases in net assets will always provide decision-useful information in NFPO financial statements. As noted in the commentary, when a contribution meets the definition of an endowment, the contribution cannot be used for operating purposes. Recording it as revenue suggests it is available to meet the obligations of the organization. We think the most relevant comparison for endowment contributions is that they are similar to trust funds (in fact many endowments meet the legal definition of a trust). Under PSAB these funds are not included in the financial statements.

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Question 22: When does recognizing endowments immediately as revenue provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

For an organization that uses the restricted fund method of accounting for revenue because users are most interested in the amount of contributions received, recognizing the endowment contributions in a separate fund that highlights their nature provides decision-useful information.

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Question 23: Are there other methods for recognizing endowments that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?

One possible other method would be to recognize endowments in a section apart from liabilities and net assets. They do not meet the definition of a liability. As well, recording them as net assets may mislead some readers who do not realize that the balance in externally endowed net assets is not available to the organization.

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Question 24: Are there scenarios when it is difficult or costly to determine how to allocate the income, expenses, gains and losses (both realized and unrealized) on endowments for accounting purposes? If so, what are the scenarios or factors that makes this assessment difficult?

Accounting for the income associated with endowments is the most complex issue related to the accounting for endowments. It is particularly complex if there are balances included in endowments that are internally rather than externally endowed. The income related to internally endowed funds needs to be accounted for differently since this income is not subject to any restrictions.

The commentary suggests that it is important to be able to identify the original principal amount of externally restricted endowments that is to be permanently maintained. Most endowments must be managed consistent with trust law and interpretations provided by the courts. This framework has no requirement to maintain the amount of the original donation. Trust law provides that the original donation is the capital and that investment gains and losses are added or subtracted from this amount. Therefore, investment losses can cause the capital balance of the endowment to be less than the original contribution. Trust law provides that income represented by dividends and interest is available for spending. The approach used for investing today has resulted in many organizations taking approaches for managing endowments that work within the spirit of this framework but are more responsive to today’s investment alternatives and better suited to maintaining the purchasing power of the original donation.

A common approach used today for managing endowments is to define what is considered the long-term real rate of return that can be expected on the funds and to use this percentage to calculate how much income is available for spending. This amount is a proxy for the income that trust law says can be spent. The excess/deficiency of total investment income, including realized and unrealized gains, interest and dividends, over the amount calculated as being available for spending is added to/subtracted from the endowment balance as a proxy for investment gains/losses.

To determine the accounting for income associated with externally endowed funds, accountants need to go back to basic principles to determine how to account for the income.

****

Question 25: Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?

As noted in the commentary in this section, organizations will sometimes transfer funds into endowments. It needs to be made clear that amounts that are not subject to external restrictions requiring them to be held in perpetuity need to be added to the endowment balance through transfers. As well, the financial statement should disclose the composition of endowment balances by breaking out the amounts that are internally vs externally endowed.

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Question 26: Do you recognize bequests? If so, under what circumstances are they recognized? If not, why not?

The commentary refers to two types of bequests. A provision in the will of someone who is still alive only represents the intent of the person at a point in time since wills can be changed. As a result, there would be no support for recording these amounts as revenue. With respect to bequests associated with provisions of the will of a deceased person, the contribution is very different from a bequest in the will of someone still alive. Once a donor is dead a bequest is no longer a statement of intent. It has become an enforceable contract. As a result, the bequest should be recorded as revenue if the contribution meets the criteria in Section 4420.03 (i.e. the amount to be received can be reasonably estimated and the ultimate collection is reasonably assured.)

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Question 27: As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?

We agree that the characteristics of a bequest affect whether and when they are recognized. The decision about when they are recognized is based on whether they meet the criteria for recognition set out in Section 4420.03. If they do not meet these criteria, they would not be recognized until received.

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Question 28: For financial statements users, what additional disclosures relating to bequests would be useful? Why?

Section 4420.08 requires NFPOs to disclose the amount of a bequest recognized as an asset at the reporting date and the amount recognized as revenue in the period. In practice, organizations recognize the amount of a bequest in assets if received and as receivable if not received at the reporting date. They do not generally disclose separately the amount of a bequest recorded in revenue.

We do not believe that there need to be additional disclosures for bequests unless there is a material amount recorded as an asset that would justify a separate line on the balance sheet or an amount broken out of a larger balance in a note to the financial statements.

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Question 29: In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?

There are a number of different vehicles that donors use to transfer assets to a charity. These include life insurance policies, charitable remainder trusts and annuities. The timing and enforceability of a charity's entitlement to the asset depends on a number of factors for each of these vehicles. These factors will help determine the appropriate accounting treatment.

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Question 30: Do you track pledges? If so, how? If not, why not?

Any organization that actively solicits pledges will track these promised gifts in order to get credit for obtaining the pledges and to be able to follow up with donors to remind them of when their pledges are due.

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Question 31: Do you accrue pledges as a receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set up a provision for uncollectible amounts?

As noted in the commentary, in most cases in Canada there is no legal right to collect pledges should the donor not honour them. As a result, it is very unusual for organizations to record donation pledges as receivable since they generally do not represent enforceable claims. They are simply statements of intent at a point in time.

The one type of organization that has recorded pledges are United Ways with an annual campaign where they have good evidence of collectability and believe they are able to reliably estimate the amount they will receive.

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Question 32: If you previously recognized pledges but no longer do so, why did you stop?

N/A

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Question 33: Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time period or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how and what warrants different accounting treatment?

Whether pledges are recognized should generally be based on whether they meet the recognition criteria.

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Question 34: For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?

We do not believe that pledges should generally be recorded in the accounts since, in most cases, they are only indications of intent rather than enforceable claims. Again, pledges should be recognized to the extent that they meet the recognition criteria.

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Question 35: For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?

Section 4420.08 requires NFPOs to disclose the amount of pledges recognized as assets at the reporting date and the amount recognized as revenue in the period. In practice, organizations recognize the amount recorded as receivable. They don't generally disclose separately the amount of pledges recorded in revenue.

We do not believe that there needs to be additional disclosures about pledges unless there is a material amount recorded as an asset that would justify a separate line on the balance sheet or broken out of a larger balance in a note to the financial statements.

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Question 36: In addition to circumstances where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply the capital asset recognition exemption? If so, what are those reasons?

Some organizations use the exemption since they have concluded that the information is not material to the financial statements and not information that is useful for readers.

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Question 37: For financial statements users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision-useful? If no, why not? If yes, is this only the case under certain circumstances? What are those circumstances?

We believe the information is sufficient.

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Question 38: If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?

If the exemption is retained, we believe the revenue threshold is an appropriate metric.

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Question 39: If revenue is the appropriate metric to be used for an exemption, what is an appropriate dollar threshold to apply and why?

The current threshold is reasonable.

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Question 40: Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues in excess of $500,000, capital assets must be recognized for the first time in accordance with Sections 4433 and 4434. How do organizations currently account for this transition? Are Sections 4433 and 4434 applied prospectively, retrospectively or is another transition approach used?

N/A

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Question 41: What are the benefits to fund accounting presentation, and what are the limitations?

Fund accounting is a way for NFPOs to provide segmented information to readers. For NFPO's with very different types of operations within a legal entity, fund accounting can provide greater transparency and allows them to communicate more meaningful information about the different segments to users.

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Question 42: Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?

See answer to question 41.

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Question 43: What challenges exist for NFPOs that prepare financial statements using fund accounting presentation?

We are not aware of any challenges.

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Question 44: Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted and unrestricted? If so, what?

We believe the current net asset presentation requirement in Section 4400 remains fit-for-purpose for both preparers and users of NFPO financial statements. The one change we would recommend is that the standards should acknowledge the existence of internally endowed funds and require that they be separately disclosed from externally endowed funds.

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Question 45: For financial statements users, what information about classes of net assets is useful?

For the net asset presentation to be useful to readers, we believe they need to be able to distinguish externally restricted funds from internally restricted funds.

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Question 46: Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?

Since NFPOs frequently comingle funds held for unrestricted and restricted purposes, it can be misleading in these circumstances to describe assets as being restricted if they are not segregated from unrestricted assets. However, we do believe it is important that assets are classified between current and non-current in a way that is consistent with the classification of the credit on the balance sheet. Otherwise, the working capital position may be misleading. Therefore, assets should be classified as non-current equal to the total of any deferred contributions classified as non-current liabilities, unspent deferred capital contributions and endowments. This provides a reader with meaningful information about the working capital available to the organization.

If there is negative working capital or there are not enough assets to classify as non-current to offset credits that are outside current liabilities, a reader will understand the NFPO has used resources that were provided for restricted purposes to fund current operations.

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Question 47: Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?

As noted above, we believe that only cash that is segregated should be described as restricted. Cash held for endowments or other credits classified as non-current liabilities should be classified as non-current and would not be part of operating cash and cash equivalents in the cash flow statement.

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Question 48: For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What type of restrictions on cash and cash equivalents do users of financial statements want to be aware of?

Users of NFPO financial statements are interested in any cash and cash equivalents that are subject to external restrictions. They are also interested in knowing that cash and cash equivalents held for credits not classified as current are not included in current assets since working capital is overstated by including amounts that are being held for endowments and other amounts not classified as current liabilities.

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Question 49: For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?

See answer to question 48.

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Other comments

We have provided below some observations related to two comments included in the overview related to the reasons for the project. We think it is important to highlight these comments since they do not reflect our experience, in case they are significant in developing future recommendations.

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Paragraph 4 - It also creates a lack of comparability for Canadian NFPOs with their international peers. This is an issue for Canadian NFPOs that compete for funding internationally.

We do not believe that lack of comparability for Canadian NFPOs with their international peers is a significant consideration. First of all, most granting organization require grantees to provide financial information in formats defined by the granting organization. Audited financial statements of the organization are generally not the document used to assess whether funds should be granted and whether funds have been spent in accordance with any restrictions. Even if audited financial statement are used, since the rules related to the recognition of contributions are not consistent across jurisdictions, it is unlikely that whatever Canadian guidance is implemented will be consistent in all respects with the rules used by charities in other jurisdictions. As well, if the guidance continues to offer a choice, international charities can select the option that makes their statements most comparable to other charities with whom they are competing for funding. This is not a valid reason for removing the choice for other charities.

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Paragraph 5 - The Board thinks that a different accounting approach for recognizing revenue from restricted contributions could produce financial statements that are less complex, more comparable and will communicate information more clearly to users

We are not clear what evidence the AcSB has to make this statement. We are not aware that users have raised issues about complexity, comparability and the need for clearer information as a result of the ability of organizations to choose their approach for the timing of recognition of revenue from restricted contributions. Some of the issues are caused by how the organization chooses to present the information, not the fact that they have a choice of methods.

As we mentioned before, our clients are a diverse representation of the NPO sector; however, within each type of NPO organization, there is comparability. For instance, all of our day care clients have comparable financial statements. However, we would never compare a day care to a foundation, nor would a funder or a banker as their business models are completely different.

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December 11, 2020

Ms. Kelly Khalilieh, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario, M5V 3H2

Dear Ms. Khalilieh,

Thank you for the opportunity to comment on the Accounting Standards Board (AcSB) consultation paper on **Contributions – Revenue Recognition and Related Matters.**

My interest in responding is because of my longstanding involvement with organizations that have applied the existing contribution recommendations in the CPA Canada Handbook. Before my retirement from EY, I was responsible for the audits of many NFPOs, ranging from some of the largest organizations in the country to some of the smallest. I have also been involved on the boards and, in particular, finance committees of NFPOs for over 40 years. I currently chair or sit on the finance committees of 12 NFPOs and over the years approximately 20 other organizations.

As AcSB has acknowledged, there are a wide variety of NFPOs. One way of classifying them is by what financial statement numbers are most relevant to users. For many NFPOs, the bottom line is one of the most significant numbers relied on by users. These are generally organizations that carry out various operating activities. The deferral method, which is most consistent with the model used by private sector companies and is understood by most readers, generally results in these organizations preparing financial statements that provide users with relevant information. The success of other NFPOs, generally charitable foundations, is judged based on individual line items rather than the bottom line. For example, the amount of total contributions is a key measure of success. The use of the deferral method to recognize revenue does not result in meaningful financial statements for these organizations.

I believe that the questions posed in the consultation paper need to be considered from the perspective of both types of organizations noted above. The ultimate recommendations related to the accounting for contributions should permit the reporting needs of both types of organizations to be met. If not, organizations are likely to present unaudited information that better meets the needs of their users rather than present audited statements that do not meet these needs.

If you have any questions, please do not hesitate to get in touch with me.

Yours sincerely,

Martha Tory

Martha J. Tory FCPA CA ICD.D

Question 1: Are there circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances?

I cannot think of any circumstances when non-reciprocal government funding would not be considered a contribution for accounting purposes.

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Question 2: Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? If so, what are the issues and how might they be addressed?

In paragraph 17, the commentary associated with this question states that "currently all unrestricted contributions are recognized as revenue when received." This statement is inconsistent with the statement in Paragraph 1001.43 that states "Unrestricted contributions …. are generally recognized when received or receivable". It also doesn't recognize the guidance in Section 4420 that sets out when contributions receivable are recorded. I believe there are issues related to when unrestricted contributions should be set up as receivable. These issues are covered below in questions 30 to 35 which address issues related to pledges

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Question 3: Are there circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?

There are a number of circumstances that may make it difficult to determine whether a contribution is externally restricted. The most common issue is when documentation may not clearly define the restriction associated with the contribution. This situation is often associated with a contribution where the details of the restriction have been discussed with the contributor but not completely documented by the contributor. Another common issue is when a contribution is received for a purpose where unrestricted funds have already been used or plans were in place to fund expenses that are consistent with the restriction. Based on guidance provided after the release of the 4400 series, some organizations will record restricted contributions received in a year to the extent that any expenses consistent with the restriction have been incurred. Others will defer the contribution when the expenses have been covered by unrestricted revenues.

Another example of where there is diversity in practice is when a contributor indicates that their contribution can be used for the highest priorities of the organization. This contribution is treated by some organizations as being restricted. However, since the organization has discretion about how the contribution is spent, a strong argument can be made that it is unrestricted.

A further example of a situation where there could be diversity in practice is when the donor of an unrestricted gift is provided with recognition that might be interpreted that it is restricted.

There are also circumstances where the appropriate accounting for the restricted contribution may not be clear. For example, the contribution can be used for both the purchase of capital assets and their maintenance.

The commentary related to this question indicates that a contribution imposed through a policy posted by management or the board of directors on an organization's website would not be considered externally imposed. I do not agree with this statement. For example, if a website clearly describes restrictions associated with net proceeds associated with an event and someone buys a ticket to that event, the contributor is entitled to believe that the net proceeds of the event will be used for the restricted purpose stated on the website. There are other circumstances when there are references to a purpose in communications but not a clear indication that the net proceeds will only be used for that purpose.

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Question 4: Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?

I do not typically consult Section 1001. The comments in Section 4410 provide the necessary guidance.

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Question 5: Do you think applying the recognition concepts for revenue to restricted contributions (i.e., a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?

As noted in the introduction, there are two types of NFPOs. For those where the bottom line is a critical measure, the recognition concepts noted in the question are very relevant to provide decision-useful information in NFPO financial statements. These principles are understood by readers and help ensure that the bottom line provides a meaningful reflection of the financial results of the organization by recognizing contributions in the same period as the expense incurred to fulfill the restricted purpose. If restricted contributions are recorded in a different period from the associated expenses, the bottom line does not provide a meaningful picture of the operating results of the organization.

As noted in the introduction, there are other NFPOs where the recognition concepts noted in the question will not provide decision-useful information. It is important that the AcSB recognizes the unique needs of these organizations in developing standards used by NFPOs.

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Question 6: Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liabilities are relevant considerations? If so, what are they?

See comments below in question 9.

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Question 7: Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?

An additional characteristic that could be considered relates to what action justifies the recording of the revenue. For example, when an organization outsources the activities required to satisfy the restriction to a third party, should the revenue be recorded when the funding is sent to the third party or when the third party spends the funds to satisfy the restricted purpose.

As noted in the response to Question 9, I do not believe that refundability of the contribution is a relevant consideration.

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Question 8: Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?

I agree that an accounting approach that considers the type of contributions and its characteristics provides decision-useful information in NFPO financial statements.

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Question 9: What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?

I agree that the type and nature of the contribution, the time or purpose requirements imposed by the contributor and whether the contribution has been received or is receivable are characteristics that should be considered in determining whether to recognize a contribution as revenue. The commentary related to this question suggests that, if a contribution is not refundable, it does not meet the definition of a liability. It is not clear to me why being refundable is a necessary condition to conclude that a liability exists and therefore justify recording a restricted contribution as a liability.

I do not agree that refundability of the contribution is generally a relevant consideration to determine whether a contribution should be recorded as a liability or as revenue. The definition of a liability as defined in Paragraph 1001.28 is "obligations of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future". Three essential characteristics are identified in paragraph 1001.29:

- they embody a duty or responsibility to others that entails settlement by future transfer or use of assets, provision of services or other yielding of economic benefits, at a specified or determinable date, on occurrence of a specified event, or on demand. An organization receiving a restricted contribution has an obligation to the donor that will be settled in the future by using assets (cash paid out for expenses incurred to satisfy the restriction);
- the duty or responsibility obligates the entity leaving it little or no discretion to avoid it. By accepting the restrictions imposed by the contributor, the organization has no discretion to not honour the restrictions; and
- the transaction or event obligating the entity has already occurred. The receipt of the contribution has already occurred.

I believe that the definition of a liability in Section 1001 is met when the purpose of a restricted contribution has not been fulfilled and the contribution should therefore not be recorded as revenue.

The definition refers to the provision of services. I understand that, in the private sector, amounts received in advance of receiving services may not be refundable but would be set up as liabilities since there is an obligation to provide future services.

Suggesting that to be a liability an amount must be refundable is particularly problematic for Canadian NFPOs that receive donations. The rules imposed by CRA for a donation to be eligible for a donation receipt explicitly disallow the contribution to be refundable. Presumably donors would want their contributions to be refunded if they were not able to be used for the stated purpose. However, no repayment is permitted since the donor has received the benefit of a tax receipt for the donation. Charities must go to court to get permission to change the purpose if they are not able to use donations for the original purpose. They are legally not able to refund the donation to the donor. The interpretation of the liability definition with respect to NFPOs needs to recognize this externally imposed restriction on being able to refund restricted contributions that are not used for the restricted purpose.

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Question 10: In addition to an approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by that method be useful to financial statement users?

As described in the introduction, there are NFPOs where users are most interested in information about the total amount of contributions received and investment income earned. The restricted fund method provides this information by allowing both restricted and unrestricted amounts to be recorded on the revenue line. The restricted nature of contributions is communicated by including the amounts in columns for restricted and endowment funds.

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Question 11: Which approach for the recognition of revenue in Example 2 do you think provides financial statements users with the most decision-useful information and why?

Of the two options presented, I believe approach B makes most sense. The critical conditions are the amount and number of donors. The audit condition just confirms those terms have been met. If the terms have been met, then the contribution has been earned.

However, this example does not provide information to assess whether the contribution represents an enforceable claim and therefore whether there is support for recording it as a receivable. It could represent a pledge and therefore its recognition needs to consider any guidance related to pledges.

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Question 12: Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options to how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where you think that some or all of the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so, what circumstances?

Assuming it is appropriate to set up a receivable, I do not believe there is another option for the matching donation. The $10K is an all or nothing condition so should not be recognized until the 500th donation has been received.

An interesting related example would have been the need to reach a total amount of donations before the matching was effective. What if the total required wasn't reached before year end but you knew before the financial statements were approved that the total was achieved? Could you record the amount of matching dollars that had been earned by year end?

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Question 13: Do you recognize contributed materials and/or services? If so, how do you measure them? If not, why not?

Based on my experience, most organizations do not recognize contributed materials and services unless the contributions are essential to the NFPO's operations and/or represent a significant portion of their resources. As noted in the commentary related to this question, thrift shops and food banks are examples of organizations that do recognize contributed materials. They typically use a unitized measurement unique to their sector.

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Question 14: For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized? What, if any, disclosures would be useful when contributed materials and services are recognized?

For users of NFPO financial statements , it may be useful for contributed materials and services to be recognized when the contributions are essential to the NFPOs operations and/or represent a significant portion of their resources, Their statements would understate the scope of their operations if these contributions were omitted.

However, providing organizations with a choice is still important. There are other ways for organizations to provide this information if they choose not to include values in their financial statements.

Useful disclosures when contributed materials and services are recorded in the accounts would include what the contributed items/services are, how they have been valued, and any monetary value included in the financial statements.

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Question 15: For users of NFPO financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?

The nature and significance of any material contributed materials and services would be useful. Continuing the requirement in 4460.07(b) to disclose contributions from related parties not recorded in the accounts is important because it is a way for an NFPO with related parties able to fund certain expenses to look better than its peers who do not have related parties able to make this type of contribution.

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Question 16: What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial statements? For example, does amortizing the capital asset contribution provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Amortizing the capital asset contribution to revenue as the asset is depreciated should provide decision-useful information in all NFPO financial statements. I am not aware of any situations when this approach would be misleading to users of the financial statements. The alternative approach of recording the contributions in a different period from the depreciation of the asset would generally result in a statement of operations that produces a misleading bottom line and not provide decision-useful information.

This approach to accounting for contributions restricted for the purchase of capital assets in the 4400 series produces the same bottom line result as both of the options provided for in Parts I and II of the CPA Handbook for similar contributions.

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Question 17: What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increases in net assets would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Recognizing non-depreciable capital asset contributions as direct increases in net assets provides decision-useful information in all NFPO financial statements. I am not aware of any situations when this approach would be misleading to users of the financial statements.

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Question 18: What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution immediately in revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

I am not aware of any circumstances in which recognizing a contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements.

The value of a contributed asset that does not meet the definition of a capital asset (i.e. it is not intended to be used in the ordinary course of operations) and is therefore being held as an investment property or to be sold should be recorded as revenue to provide decision-useful information.

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Question 19: Are there other methods for recognizing capital asset contributions that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?

Parts I and II provide the option of netting a contribution for the purchase of capital assets against the cost of the asset. Because capital assets funded by contributions are generally so much more significant in the NFP sector, I support not providing this option to NFPOs.

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Question 20: Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?

The definition of an endowment for accounting purposes provides adequate guidance to determine whether a contribution should be recognized as an endowment contribution.

I am not clear why the commentary related to this question suggests that there is a difference between the legal definition of an endowment and the accounting definition. It is a legal question whether the contribution must be held in perpetuity. If the contribution meets the legal tests to be held in perpetuity, then the contribution meets the accounting definition of an endowment.

The commentary correctly points out that some contributions are currently accounted for as endowments when they do not meet the Section 4410 definition. I believe that this issue is generally the result of bad practice and preparers not following the recommendations of the standard. It is not because the definition in the standard is flawed.

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Question 21: When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

For an organization using the deferral method, recognizing endowments as direct increases in net assets will always provide decision-useful information in NFPO financial statements. As noted in the commentary, when a contribution meets the definition of an endowment, the contribution cannot be used for operating purposes. Recording it as revenue suggests it is available to meet the obligations of the organization. I think the most relevant comparison for endowment contributions is that they are similar to trust funds (in fact many endowments meet the legal definition of a trust). Under PSAB these funds are not included in the financial statements.

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Question 22: When does recognizing endowments immediately as revenue provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

For an organization that uses the restricted fund method of accounting for revenue because users are most interested in the amount of contributions received, recognizing the endowment contributions in a separate fund that highlights their nature provides decision-useful information.

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Question 23: Are there other methods for recognizing endowments that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?

One possible other method would be to recognize endowments in a section apart from liabilities and net assets. They do not meet the definition of a liability. As well, recording them as net assets may mislead some readers who do not realize that the balance in externally endowed net assets is not available to the organization.

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Question 24: Are there scenarios when it is difficult or costly to determine how to allocate the income, expenses, gains and losses (both realized and unrealized) on endowments for accounting purposes? If so, what are the scenarios or factors that makes this assessment difficult?

Accounting for the income associated with endowments is the most complex issue related to the accounting for endowments. It is particularly complex if there are balances included in endowments that are internally rather than externally endowed. The income related to internally endowed funds needs to be accounted for differently since this income is not subject to any restrictions.

The commentary suggests that it is important to be able to identify the original principal amount of externally restricted endowments that is to be permanently maintained. Most endowments must be managed consistent with trust law and interpretations provided by the courts. This framework has no requirement to maintain the amount of the original donation. Trust law provides that the original donation is the capital and that investment gains and losses are added or subtracted from this amount. Therefore, investment losses can cause the capital balance of the endowment to be less than the original contribution. Trust law provides that income represented by dividends and interest is available for spending. This framework was defined many years ago by the courts. The approach used for investing today has resulted in many organizations taking approaches for managing endowments that work within the spirit of this framework but are more responsive to today’s investment alternatives and better suited to maintaining the purchasing power of the original donation.

A common approach used today for managing endowments is to define what is considered the long-term real rate of return that can be expected on the funds and to use this percentage to calculate how much income is available for spending. This amount is a proxy for the income that trust law says can be spent. The excess/deficiency of total investment income, including realized and unrealized gains, interest and dividends, over the amount calculated as being available for spending is added to/subtracted from the endowment balance as a proxy for investment gains/losses.

To determine the accounting for income associated with externally endowed funds, accountants need to go back to basic principles to determine how to account for the income.

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Question 25: Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?

As noted in the commentary in this section, organizations will sometimes transfer funds into endowments. It needs to be made clear that amounts that are not subject to external restrictions requiring them to be held in perpetuity need to be added to the endowment balance through transfers. As well, I believe the financial statement should disclose the composition of endowment balances by breaking out the amounts that are internally vs externally endowed.

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Question 26: Do you recognize bequests? If so, under what circumstances are they recognized? If not, why not?

The commentary refers to two types of bequests. A provision in the will of someone who is still alive only represents the intent of the person at a point in time since wills can be changed. As a result, I do not believe there would be any support for recording these amounts as revenue. With respect to bequests associated with provisions of the will of a deceased person, the contribution is very different from a bequest in the will of someone still alive. It is no longer a statement of intent. It has become an enforceable contract. As a result, the bequest should be recorded as revenue if the contribution meets the criteria in Section 4420.03 (i.e. the amount to be received can be reasonably estimated and the ultimate collection is reasonably assured.)

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Question 27: As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?

I agree that the characteristics of bequests affect whether and when they are recognized. The decision about when they are recognized is based on whether they meet the criteria for recognition set out in Section 4420.03. If they do not meet these criteria, they would not be recognized until received.

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Question 28: For financial statements users, what additional disclosures relating to bequests would be useful? Why?

Section 4420.08 requires NFPOs to disclose the amount of bequests recognized as assets at the reporting date and the amount recognized as revenue in the period. In practice, organizations recognize the amount recorded as receivable. They don't generally disclose separately the amount of bequests recorded in revenue.

I do not believe that there needs to be additional disclosures about bequests unless there is a material amount recorded as an asset that would justify a separate line on the balance sheet or broken out of a larger balance in a note to the financial statements.

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Question 29: In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?

There are a number of different vehicles that donors use to transfer assets to a charity. These include life insurance policies, charitable remainder trusts and annuities. The timing and enforceability of a charity's entitlement to the asset depends on a number of factors for each of these vehicles. These factors will help determine the appropriate accounting treatment.

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Question 30: Do you track pledges? If so, how? If not, why not?

Any organization that actively solicits pledges will track these promised gifts to get credit for obtaining the pledges and to be able to follow up with donors to remind them of when their pledges are due.

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Question 31: Do you accrue pledges as a receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set up a provision for uncollectible amounts?

As noted in the commentary, in most cases in Canada there is not a legal right to collect pledges should the donor not honour them. As a result, it is very unusual for organizations to record donation pledges as receivable since they generally do not represent enforceable claims. They are simply statements of intent at a point in time.

The one type of organization that has recorded pledges are United Ways with an annual campaign where they have good evidence of collectability and believe they are able to reliably estimate the amount they will receive.

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Question 32: If you previously recognized pledges but no longer do so, why did you stop?

N/A

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Question 33: Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time period or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how and what warrants different accounting treatment?

Whether pledges are recognized should generally be based on whether they meet the recognition criteria.

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Question 34: For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?

I do not believe that pledges should generally be recorded in the accounts since, in most cases, they are only indications of intent rather than enforceable claims. Again, pledges should be recognized to the extent that they meet the recognition criteria.

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Question 35: For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?

Section 4420.08 requires NFPOs to disclose the amount of pledges recognized as assets at the reporting date and the amount recognized as revenue in the period. In practice, organizations recognize the amount recorded as receivable. They do not generally disclose separately the amount of pledges recorded in revenue.

I do not believe that there needs to be additional disclosures about pledges unless there is a material amount recorded as an asset that would justify a separate line on the balance sheet or broken out of a larger balance in a note to the financial statements.

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Question 36: In addition to circumstances where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply the capital asset recognition exemption? If so, what are those reasons?

Some organizations use the exemption since they have concluded that the information is not material to the financial statements and not information that is useful for readers.

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Question 37: For financial statements users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision-useful? If no, why not? If yes, is this only the case under certain circumstances? What are those circumstances?

I believe the information is sufficient.

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Question 38: If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?

If the exemption is retained, I believe the revenue threshold is an appropriate metric.

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Question 39: If revenue is the appropriate metric to be used for an exemption, what is an appropriate dollar threshold to apply and why?

The current threshold is reasonable.

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Question 40: Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues in excess of $500,000, capital assets must be recognized for the first time in accordance with Sections 4433 and 4434. How do organizations currently account for this transition? Are Sections 4433 and 4434 applied prospectively, retrospectively or is another transition approach used?

N/A

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Question 41: What are the benefits to fund accounting presentation, and what are the limitations?

Fund accounting is a way for NFPOs to provide segmented information to readers. For NFPOs with very different types of operations within a legal entity, fund accounting can provide greater transparency and allows them to communicate more meaningful information about the different segments to users.

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Question 42: Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?

See answer to question 41.

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Question 43: What challenges exist for NFPOs that prepare financial statements using fund accounting presentation?

I am not aware of any challenges.

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Question 44: Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted and unrestricted? If so, what?

I believe the current net asset presentation requirement in Section 4400 remains fit-for-purpose for both preparers and users of NFPO financial statements. The one change I would recommend is that the standards should acknowledge the existence of internally endowed funds and require that they be separately disclosed from externally endowed funds.

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Question 45: For financial statements users, what information about classes of net assets is useful?

For the net asset presentation to be useful to readers, I believe they need to be able to distinguish externally restricted funds from internally restricted funds.

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Question 46: Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?

Because NFPO's frequently comingle funds held for unrestricted and restricted purposes, it can be misleading in these circumstances to describe assets as being restricted if they are not segregated from unrestricted assets. However, I do believe it is important that assets are classified between current and non-current in a way that is consistent with the classification of the credit on the balance sheet. Otherwise, the working capital position may be misleading. Therefore, assets should be classified as non-current equal to the total of any deferred contributions classified as non-current liabilities, unspent deferred capital contributions and endowments. This provides a reader with meaningful information about the working capital available to the organization.

If there is negative working capital or there are not enough assets to classify as non-current to offset credits that are outside current liabilities, a reader will understand the NFPO has used resources that were provided for restricted purposes to fund current operations.

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Question 47: Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?

As noted above, I believe that only cash that is segregated should be described as restricted. Cash held for endowments or other credits classified as non-current liabilities should be classified as non-current and would not be part of operating cash and cash equivalents in the cash flow statement.

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Question 48: For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What type of restrictions on cash and cash equivalents do users of financial statements want to be aware of?

Users of NFPO financial statements are interested in any cash and cash equivalents that are subject to external restrictions. They are also interested in knowing that cash and cash equivalents held for credits not classified as current are not included in current assets since working capital is overstated by including amounts that are being held for endowments and other amounts not classified as current liabilities.

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Question 49: For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?

See answer to question 48.

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Other comments

I have provided below some observations related to two comments included in the overview related to the reasons for the project. I think it is important to highlight these comments since they do not reflect my experience in case they are significant in developing future recommendations.

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Paragraph 4 - It also creates a lack of comparability for Canadian NFPOs with their international peers. This is an issue for Canadian NFPOs that compete for funding internationally.

I do not believe that lack of comparability for Canadian NFPOs with their international peers is a significant consideration. First of all, most granting organization require grantees to provide financial information in formats defined by the granting organization. Audited financial statements are generally not the document used to assess whether funds should be granted and whether funds have been spent in accordance with any restrictions. Even if audited financial statement are used, since the rules related to the recognition of contributions are not consistent across jurisdictions, it is unlikely that whatever Canadian guidance is implemented will be consistent in all respects with the rules used by charities in other jurisdictions. As well, if the guidance continues to offer a choice, international charities can select the option that makes their statements most comparable to other charities with whom they are competing for funding. I do not believe this is not a valid reason for removing the choice for other charities.

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Paragraph 5 - The Board thinks that a different accounting approach for recognizing revenue from restricted contributions could produce financial statements that are less complex, more comparable and will communicate information more clearly to users

I am not clear what evidence the AcSB has to make this statement. I am not aware that users have raised issues about complexity, comparability, and the need for clearer information as a result of the ability of organizations to choose their approach for the timing of recognition of revenue from restricted contributions. Some of the issues are caused by how the organization chooses to present the information, not the fact that they have a choice of methods.

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December 14, 2020

397303

Kelly Khalilieh, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Kelly Khalilieh:

RE: Consultation Paper: Contributions – Revenue Recognition and Related Matters

Thank you for the opportunity to provide comments on the consultation paper: *Contributions – Revenue Recognition and Related Matters*. The views expressed in this letter reflect the views of the Government of the Province of British Columbia, including central agencies, ministries and entities consolidated into the British Columbia Summary Financial Statements. The Summary Financial Statements of the Province are prepared in accordance with Canadian Public Sector Accounting Board (PSAB) standards. We have an interest in the development of the contribution standards for Not-for-Profit Organizations (NFPOs) as it may influence PSAB in future standard setting activities. We strongly believe that continuity in conceptual consistency between private sector and public sector standards is important.

The Province of British Columbia does not classify any organizations within the Government Reporting Entity (GRE) as Government Not-For-Profit Organizations (GNFPO); we classify organizations as Taxpayer-supported or Self-supported. Taxpayer-supported organizations in the GRE, such as school districts, universities, colleges, institutes and health organizations, are required by regulation to report using PSAB standards without the PS 4200 series. This is necessary to fulfill the public accountability obligation of government to have all financial reports prepared consistently, to manage the fiscal plan, and to support direct comparability at every level of operations.

The consultation paper lists financial statement comparability as one of the main goals of the project. It is our understanding that a large proportion of entities that follow Part III of the CPA Canada Handbook include school districts, universities, colleges, institutes and

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health organizations in other Provinces. These entities have similar purposes and operations; however, they have been established under various pieces of legislation resulting in a difference in control and consequently, different financial reporting frameworks. Alignment, where applicable, of revenue recognition principles and related matters between Part III and PSAS would contribute to greater comparability between entities within Canada. We are encouraged the Accounting Standards Board (AcSB) is working collaboratively with the PSAB in considering users' needs and will consider stakeholders' feedback where relevant to private sector NFPOs.

We recognize that certain issues identified in the paper, such as endowments, are challenging, but they are a challenge for all entities who are in receipt of endowments, bequests and pledges. We have not identified any special characteristics of a subset of entities that would warrant a separate accounting treatment.

The inclusion of guidance addressing revenue recognition for capital transfers is important. Determining when a liability exists when a capital contribution is received can be a significant challenge. Capital contributions are usually provided to support the entity's service delivery or fundraising initiative to acquire assets. In a non–exchange transaction, the obligation to provide services can be implicit. For example, a contribution to build classroom space comes with a reasonable expectation that education programs and services will be delivered. Identifying the liability (i.e. unearned revenue) provides users with an understanding of where the funding comes from and what the present obligation of the recipient is for that contribution.

In our view, it is appropriate for a proportion of revenue to be deferred and recognized over a period of time when the NFPO recipient is expected to continually maintain or support the capital asset acquired and deliver service under the terms of the contribution. If an NFPO is required to recognize revenue in full when capital contributions are received or acquired, this may artificially constrain cash for entities operating within a balanced budget framework.

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Responses to specific questions posed in the consultation paper are attached. Should AcSB have any comments or questions, please contact me at: 250-387-6692 or via e-mail: Carl.Fischer@gov.bc.ca, or Diane Lianga, Executive Director, Financial Reporting and Advisory Services Branch, at 778-698-5428 or by e-mail: Diane.Lianga@gov.bc.ca.
On behalf of the Government of British Columbia,

Sincerely,

Carl Fischer, CPA, CGA
Comptroller General
Province of British Columbia

Encl.

cc: Michael Pickup, FCPA, FCA
Auditor General
Province of British Columbia

Diane Lianga, Executive Director
Financial Reporting and Advisory Services
Office of the Comptroller General

Comments Requested

What is a contribution?

1. **Are there circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances?**

No, we are not aware of any circumstances.

2. **Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? If so, what are the issues and how might they be addressed?**

No, we are not aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic.

3. **Are there circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?**

We are not aware of any circumstances under which it is difficult to determine a distinction between unrestricted and externally restricted. We have come across instances where it is difficult to determine whether or not the earnings on externally restricted investments are unrestricted or not.

Revenue Recognition

4. **Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?**

Not applicable. Organizations within the GRE are required by regulation to report using PSAB standards without the PS 4200 series.

5. **Do you think applying the recognition concepts for revenue to restricted contributions (i.e., a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?**

Yes, recognizing restricted contributions once performance obligations are met and measurement and collectability of the contribution is reasonably assured provides decision useful information. Presenting unearned revenue, a liability, on the Statement of Financial Position provides users with the information about how future programs will be funded. When the revenue is recognized in the same period as the performance obligation is satisfied, this communicates to the user how the activities of the year were financed.

Assets and Liabilities

6. **Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liabilities are relevant considerations? If so, what are they?**

Yes. The definition of a liability is a relevant consideration when determining whether an entity can defer revenue recognition for externally restricted contributions received. The definition of a liability should be flexible enough to encompass constructive obligations, or present obligations (as addressed in IPSASB ED 71 – Revenue without performance obligations). A constructive obligation may be present if there is an implicit expectation for a restricted asset (e.g. building) to be maintained and operated by the recipient and used to deliver programs and services.

Recognition of Contributions

7. **Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?**

Yes. An additional characteristic to consider is the "repurposing" of a contribution. Contribution agreements may include conditions where if the funds received are not all spent on a specified activity or an eligible expenditure within the time restriction stated in the agreement, the recipient must pay the unspent funds to the transfer provider. The transfer provider may choose to "repurpose" the funds for another use or provide a time extension allowing the recipient additional time to utilize the funding.

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Example 1: Accounting for contributions based on their characteristics

8. **Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?**

Yes. Providing information to the user about the restrictions (if any) associated with a contribution will allow users to gain a better understanding of where funding came from, and why the entity may or may not have spent the funds on a different purpose.

9. **What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?**

Restrictions and stipulations attached to a contribution are important characteristics to consider. For NFPO's, communicating how activities during the year were funded provides users with useful information. It would not be useful for an NFPO to show significant artificial volatility in revenue, resulting in large surpluses one year, and potential deficits in other years based on the immediate recognition of restricted revenue.

10. **In addition to an approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by that method be useful to financial statement users?**

No comment.

Example 2: Accounting for different types of restrictions

11. **Which approach for the recognition of revenue in Example 2 do you think provides financial statements users with the most decision-useful information and why?**

Approach A provides the most decision useful information because pledges are not legally enforceable and therefore do not meet the definition of a liability. Instead a note disclosure, similar to a contingent asset, should be made if significant.

12. **Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options to how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where**

you think that some or all of the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so, what circumstances?

No comment.

Contributed materials and services

13. Do you recognize contributed materials and/or services? If so, how do you measure them? If not, why not?

Yes, the Province of BC recognizes donated materials but not services. Where the value of the donation justifies the administrative costs, the fair market value is established by an appraisal as it is important that any assets donated can withstand the scrutiny of an audit.

Contributed services are not recognized as they are difficult to measure and provide limited value to the users of the financial statements.

14. For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized? What, if any, disclosures would be useful when contributed materials and services are recognized?

We support the current option to recognize contributed materials and services outlined in paragraph 4410.16. Providing an option for entities to recognize contributions of materials provides useful information to users, such as recognizing the cost of goods provided or consumed during the year. It is more difficult, and subject to bias, to recognize contributed service (e.g. volunteer hours). Additional guidance on how to recognize contributed service would be useful.

If contributed materials and services are recognized, it would be useful for the note disclosures to provide a summary of the amount of goods and services contributed and recognized throughout the year.

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15. For users of NFPO financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?

If contributed materials and services are not recognized, a general description of what has been contributed during the year would be useful if it is disclosed (e.g. volunteer hours, or clothing donations). This would provide users with information whether or not contributed materials and services are included or not and would allow users to understand how the entity achieved its objectives during the year.

Capital Contributions

16. What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial statements? For example, does amortizing the capital asset contribution provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

The inclusion of guidance addressing revenue recognition for capital transfers is important. Determining when a liability exists when a capital contribution is received can be a significant challenge. Capital contributions are usually provided to support the entity's service delivery or fundraising initiative to acquire assets. Sometimes the obligation to provide services is implicit. For example, a contribution to build a classroom space comes with a reasonable expectation that education programs and services will be delivered. Identifying the liability (i.e. unearned revenue) provides users with an understanding of where the funding comes from and what the present obligation of the recipient is.

In our view, it is appropriate for a proportion of revenue to deferred and recognized over a period of time when the NFPO recipient is expected to continually maintain or support the capital asset acquired and deliver service under the terms of the contribution.

If an NFPO is required to recognize revenue in full when capital contributions are received or acquired, this may artificially constrain cash for entities operating within a balanced budget framework.

17. What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increases in net assets would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Alternatively, contributions for non-depreciable assets could be shown on the Statement of Operations as a separate line item above the annual surplus. This would help users see that the revenue received for the non-depreciable asset is not part of the general revenues received by the NFPO year-over-year.

18. What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution immediately in revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

We do not believe recognizing the contributed capital asset immediately in revenue in all circumstances would provide decision-useful information in NFPO's and their financial statements. This accounting treatment does not consider whether there is a liability associated with the receipt of the capital contribution, including an implicit obligation to maintain and operate the capital asset during its lifetime. This may also result in large increases in revenue in the year the donation is received that the entity cannot spend. It may also restrict cash flow in future years when the entity is required to operate on a balanced budget but must recognize amortization expense on the contributed capital asset.

19. Are there other methods for recognizing capital asset contributions that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?

The Board should consider recognizing revenue from capital asset contributions systematically over the life of the asset. This revenue recognition method is consistent with our view on restricted contributions for the purpose of acquiring/building capital assets. It is appropriate for a proportion of revenue to be deferred and recognized over a period of time when the NFPO recipient is expected to continually maintain or support the capital asset acquired and deliver service under the terms of the contribution. If an NFPO is required to recognize revenue in full when capital contributions are received or acquired,

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this may artificially constrain cash for entities operating within a balanced budget framework.

Endowment Contributions

20. Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?

On occasion, it can be difficult to determine if the earnings on endowments is considered restricted.

21. When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

We are not aware of any situations where recognizing endowments as direct increases in net assets provides decision-useful information. For transparency, it is recommended that all endowment transactions are not direct increases/decreases to net assets. It should be transparent to users reading the financial statements why and how the balance of endowments increased or decreased over the year. This is best reported through the Statement of Operations.

22. When does recognizing endowments immediately as revenue provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

We do not believe recognizing endowments immediately in operating revenue in all circumstances would provide decision-useful information in NFPO's and their financial statements. This accounting treatment does not consider the restricted nature of the revenue received. This may also result in large increases in revenue from operations in the year the endowment is received that the entity cannot spend. If an NFPO's purpose is to raise funds for endowment purposes (i.e. Scholarship fund), then it would be appropriate to report these contributions as revenue.

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We would suggest endowment contributions be reported on a separate line item above the annual surplus/deficit from operations. An example of this financial reporting model can be found in the University of British Columbia Financial Statements.

23. Are there other methods for recognizing endowments that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?

No comment.

24. Are there scenarios when it is difficult or costly to determine how to allocate the income, expenses, gains and losses (both realized and unrealized) on endowments for accounting purposes? If so, what are the scenarios or factors that makes this assessment difficult?

It may be difficult to account for endowments that are required to be reported at fair market value. Over-time, it may be difficult to track the portion of realized and unrealized gains and losses that are restricted or are no longer restricted based on the terms of the endowment contribution.

25. Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?

Other issues in practice are displaying what is restricted principal versus amounts available to spend. It is important for users to understand the cash available to spend. Additionally, concerns over presentation at fair value arise when temporary marked changes erode endowment principle.

Bequests

26. Do you recognize bequests? If so, under what circumstances are they recognized? If not, why not?

Bequests are not applicable to the Province of BC.

27. As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?

No, we do not believe the characteristics of a bequest affect when it can be recognized. We agree with the accounting treatment discussed in the consultation paper. Unrestricted contributions that NFPOs receive in the form of a bequest that do not meet the criteria for recognition of a receivable would not be recognized as revenue until the cash or asset is received or collection can be reasonably assured.

28. For financial statements users, what additional disclosures relating to bequests would be useful? Why?

When considering additional disclosures relating to bequests, such as material bequests by living individuals, it is important to consider:

- privacy issues;
- ability for preparer to collect sufficient audit evidence to support the note disclosure; and
- whether it is appropriate to require disclosures for future events.

29. In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?

Other types of planned-giving instruments are not applicable to the Province of BC.

Pledges

30. Do you track pledges? If so, how? If not, why not?

Pledges are not applicable to the Province of BC.

31. Do you accrue pledges as a receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set up a provision for uncollectible amounts?

Pledges are not applicable to the Province of BC.

32. If you previously recognized pledges but no longer do so, why did you stop?

Pledges are not applicable to the Province of BC.

33. Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time period or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how and what warrants different accounting treatment?

Pledges are not applicable to the Province of BC.

34. For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?

Pledges are not applicable to the Province of BC.

35. For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?

Pledges are not applicable to the Province of BC.

Capital Asset Recognition Exemption

36. In addition to circumstances where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply the capital asset recognition exemption? If so, what are those reasons?

Capital asset tracking and stewardship is important for all organizations of all sizes. We encourage the board to consider removing capital asset recognition exemptions.

37. For financial statements users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision-useful? If no, why not? If yes, is this only the case under certain circumstances? What are those circumstances?

Capital asset recognition exemption is not applicable to the Province of BC.

38. If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?

Capital asset recognition exemption is not applicable to the Province of BC.

39. If revenue is the appropriate metric to be used for an exemption, what is an appropriate dollar threshold to apply and why?

Capital asset recognition exemption is not applicable to the Province of BC.

40. Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues in excess of $500,000, capital assets must be recognized for the first time in accordance with Sections 4433 and 4434. How do organizations currently account for this transition? Are Sections 4433 and 4434 applied prospectively, retrospectively or is another transition approach used?

Capital asset recognition exemption is not applicable to the Province of BC.

Fund accounting

41. What are the benefits to fund accounting presentation, and what are the limitations?

Fund accounting is not applicable to the Province of BC.

42. Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?

Fund accounting is not applicable to the Province of BC.

43. What challenges exist for NFPOs that prepare financial statements using fund accounting presentation?

Fund accounting can increase the complexity and thus increase the risk of error. This occurs when there are decisions on which fund a contribution should be recorded in. If the general fund is selected, when the contribution is for other matters, the contribution could get buried in the general account and spent before realizing this error. This may lead to poor management of operations and cash available to spend.

Furthermore, users may not be familiar with the fund accounting presentation layout as they are likely more familiar with for-profit statements.

Presentation of Net Assets

44. Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted and unrestricted? If so, what?

The Province of BC follows Public Sector Accounting Standards for guidance on presentation of Net Assets.

45. For financial statements users, what information about classes of net assets is useful?

The Province of BC follows Public Sector Accounting Standards for guidance on presentation of Net Assets.

46. Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?

The most useful information for users would be whether the net assets are restricted or unrestricted. This provides the most meaningful information and would be most cost-effective approach for preparers.

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Disclosure of restricted cash

47. Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?

The Province of BC follows Public Sector Accounting Standards PS 3100 for guidance on presentation of restricted assets and revenues. Endowments restricted by external parties are currently reported under this standard.

48. For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What type of restrictions on cash and cash equivalents do users of financial statements want to be aware of?

Information regarding restricted cash and cash equivalents is useful in explaining what cash is available for spending, and the amount of cash that is not available for spending. If users are not aware of the amount of restricted cash, they may interpret a large balance of cash available for general purposes. This could impact donations to the entity if it appears "cash rich", when in fact, it is unable to fund any programs.

Amounts available to spend/Cash on hand

49. For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?

It is useful for users to be aware of the resources that are restricted and the amount of resources available for general operations.

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December 14, 2020

Re: AcSB Consultation Paper – Contributions – Revenue Recognition and Related Matters

Dear Ms. Khalilieh,

We have read the above-mentioned Consultation Paper that was issued in May 2020 and are pleased to have the opportunity to provide responses to your specific questions as outlined below. In developing our response, we consulted with partners and staff from across our firm to obtain their feedback and understand what they were hearing from not-for-profit clients and stakeholders in regards to private sector not-for-profit organizations. In providing our responses below, we have not responded to questions directed specifically at users of not-for-profit financial statements.

1. *Are there circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances?*

   There are no such circumstances that we are aware of at this time.

2. *Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? If so, what are the issues and how might they be addressed?*

   There are no such issues that we are aware of at this time.

3. *Are there circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?*

   The Consultation Paper outlines specific examples in paragraph 16 to illustrate whether a contribution is considered to be externally restricted or internally restricted. Sometimes NFPOs find it confusing that contributions with internal restrictions (i.e. restrictions by the Board) are not considered externally restricted contributions under ASNPO. As a result, we believe it would be helpful for the Board to consider including clear examples in the Handbook of what would and would not be a considered an externally restricted contribution and what factors organizations would consider in making this determination.

The examples provided in paragraph 16 of the Consultation Paper are very clear cut, however NFPOs run their organizations in order to carry out their mission. They do not always operate in a way that provides explicit clarity on whether or not funds received would be considered externally restricted under the accounting standards. We believe it would be important for the AcSB to keep this in mind when considering this contributions project. Below are some examples of instances where NFPOs can find it difficult to determine whether contributions are truly externally restricted or are just internally restricted by the Board:

- An NFPO holds an annual fundraiser gala. Each year a project is highlighted during the gala and it is stated that funds raised during the gala are for that specific project. Donors give throughout the event, but there is no documentation from donors that clearly states the funds collected are to be used for that specific project and cannot be used for general operations.
- A donor gives "capital" funds to an NFPO. Sometimes the donation receipt is clear that the funds were given for a specific capital project, while other times the donation receipt is not clear as to whether these funds could be used for general capital projects.
- An NFPO runs a broad campaign to raise funds for the organization. It is often not clear if the funds raised from donors during this campaign are truly externally restricted for specific projects or are unrestricted funds.
- An NFPO applies for funding from a government organization for its next fiscal year and as part of the application process has to submit a plan for how it intends to spend the funds. The plan submitted is very general and the NFPO is awarded the funds just prior to its current year end. There are no follow up reporting/other requirements for the NFPO to show that the funds are spent in accordance with the plan submitted.

4. *Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?*

   We look to Section 4410, *Contributions – Revenue Recognition,* for guidance on recognizing restricted contributions. We do not refer to Section 1001.

5. *Do you think applying the recognition concepts for revenue to restricted contributions (i.e., a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?*

We agree that applying the recognition concepts for revenue to restricted contributions provides decision useful information in NFPO financial statements. However, we do not believer performance obligations for NFPOs related to restricted contributions should be considered exactly the same way as they would be under a typical revenue recognition scenario in ASPE. This is because a performance obligation related to a non-reciprocal restricted contribution does not arise from the typical sale of goods or rendering of services.

Instead, the performance obligation is based on use of the restricted contribution for the purpose required by the restriction, which may be the provision of services or purchase and use of an asset. Only once the contribution has been used for the purpose required by the restriction has the NFPO actually fulfilled the performance obligation and "earned" the contribution revenue.

This is supported by the definition of a liability as set out in paragraphs .28-.30 of Section 1001, *Financial Statement Concepts for NPOs,* (emphasis added):

> .28 Liabilities are obligations of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future.
>
> .29 Liabilities have three essential characteristics:
>
> (a) they embody a duty or responsibility to others that entails settlement by future transfer or use of assets, provision of services or other yielding of economic benefits, at a specified or determinable date, on occurrence of a specified event, or on demand;
>
> (b) the duty or responsibility obligates the entity leaving it little or no discretion to avoid it; and
>
> (c) the transaction or event obligating the entity has already occurred.
>
> .30 Liabilities do not have to be legally enforceable provided that they otherwise meet the definition of liabilities; they can be based on equitable or constructive obligations. An equitable obligation is a duty based on ethical or moral considerations. A constructive obligation is one that can be inferred from the facts in a particular situation as opposed to a contractually based obligation.

A restricted contribution would meet the definition of a liability until it is used for the purpose for which the funder/donor intended it to be used. The definition of a liability is met as:

- In using the contribution as intended the NFPO will provide services or purchase and use assets on a specific date or over a period of time.
- The NFPO has a duty to the funder/donor to use the contribution for the purpose intended. In some cases, the contribution may need to be refunded if it is not used as intended. However, even when a restricted contribution is not refundable an NFPO has little discretion to avoid using the contribution for the purpose intended. If the NFPO did not use the funds as specified this could significantly damage its relationship with the funder, as well as, its reputation, which could result in the

NFPO receiving less funding in the future and could ultimately result in the NFPO no longer being able to carry out its mission and remain a going concern.

- The transaction or event obligating the NFPO occurs once the contribution agreement is entered into or the contribution funding is received.

Additionally, paragraph .30 explains that liabilities do not have to be legally enforceable to meet the definition of liability, they can also be equitable or constructive obligations. Even when the NFPO does not have the legal requirement to refund the restricted contribution if it is not used as intended, the NFPO has an equitable and constructive obligation to use the contribution funds for the purpose the funder intended. Until it used for the purpose the NFPO has not settled the performance obligation.

6. *Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liabilities are relevant considerations? If so, what are they?*

   Refer to our response to question 5 above related to the relevance of the definition of a liability when accounting for restricted contributions.

7. *Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?*

   There are no other additional characteristics of contributions commonly seen in contribution agreements in addition to those described in the Consultation Paper that we believe the AcSB should consider at this time.

8. *Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?*

   We think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements.

   We would caution the AcSB that such an approach may take some time for financial statement prepares and users to get familiar with as often the preparers of NFPO financial statements are volunteers and users of NFPO financial statements would not be anticipating these changes since the NFPO standards have not had significant changes in many years. If the Board decides to pursue this approach, the guidance in the standard should be very clear and illustrative examples should be included.

   A decision tree illustrating the type of contribution, the characteristics that would be considered and the timing of revenue recognition may be particularly helpful. Additionally, an education process would need to be undertaken by the Board before a new/revised standard becomes effective to ensure funders specifically understand the change in how contribution revenue is accounted for under the revisions to ensure this does not cause negative implications for NFPOs in relation to funding agreements.

9. *What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?*

   We believe the following characteristics of contributions are relevant to consider when determining when to recognize a contribution as revenue and we also believe they should be ranked in the following order of importance.

   - Purpose requirement – We believe for NFPO's the purpose requirement imposed by the contributor is the most important characteristic that should be considered when determining when to recognize a contribution as revenue. An NFPO has an obligation to the funder/donor to use the funds in the manner for which they are intended. Until they have been used for that purpose the NFPO has not fulfilled its performance obligation to the funder/donor.
   - Time requirement – Similar to purpose requirements we believe time requirements imposed by the contributor are also a very important characteristic that should be considered when determining when to recognize a contribution as revenue. An NFPO has an obligation to the funder/donor to use the funds during the period of time for which they are intended. Until the funds have been used as intended during that time period the NFPO has not fulfilled its performance obligation to the funder/donor.
   - Refundability – We also believe refundability of the contribution is an important characteristic to consider when determining when to recognize a contribution as revenue. If a contribution is refundable until certain conditions have been met, the NFPO has not fulfilled the performance obligation until it has met those conditions.

     While we believe refundability is an important characteristic, we do not believe that refundability is the only characteristic that should be considered, and when there are purpose/time requirements but no refundability criteria, the absence of refundability criteria should not result in revenue being recognized immediately up front.

     Instead, the revenue should not be recognized until the purpose/time requirements are met, as even though a contribution is not refundable the funder still expects the NFPO to use it for the purpose specified and the NFPO still has an obligation to do so. Refer to our response to question 5 for further comments related to satisfying performance obligations.

   In terms of the nature of the contribution, if the Board decides to move down the path of recognizing revenue from contributions based on the characteristics of the contribution, we do not believe the nature of the contribution (whether unrestricted, restricted, endowment) would necessarily be as important of a characteristic itself. Instead, it would be the characteristics of that type of contribution, including the purpose, time and refundability characteristics of the contribution that would be more relevant to consider.

   It is currently the purpose and time characteristics that ultimately determine if contributions are currently classified as unrestricted, restricted or endowments under ASNPO, and as outlined above we believe those characteristics themselves would still be important in determining when to recognize revenue from contributions more so than the labelling of a contribution as unrestricted, restricted or endowment (i.e. the nature of the contribution is already reflected in the purpose and time requirements – for example, if the contribution was not required to be spent for a specific purpose and had no time requirement and no refundability criteria it would be unrestricted and revenue would be recognized up front as there is no performance obligation associated with the contribution).

Additionally, we believe the following characteristics of contributions are not relevant and should not be considered when determining when to recognize a contribution as revenue:

- Frequency of the contribution – Whether a contribution is a one-time payment or a series of payments is not relevant for determining when to recognize a contribution as revenue.
- Type of contribution – We do not believe whether a contribution is a donation, grant or bequest is relevant for determining when to recognize a contribution as revenue. Often the terms donation and grant are used interchangeably by contributors as well.

10. *In addition to an approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by that method be useful to financial statement users?*

If the Board believes there should be one method of recognizing revenue from restricted contributions under ASNPO and an approach that considers the characteristics of a contribution is not used, then we believe the Board should consider one of the existing methods currently used under Section 4410, *Contributions – Revenue Recognition*, as these are methods with which prepares and funders are already familiar.

We have clients who use the deferral method and other clients who use the restricted fund method. The method is chosen based on what best meets the needs of the organization and its funders. There are benefits and drawbacks to both approaches. However, an approach based on the deferral method may be acceptable to a wider range of users than an approach based on the restricted fund method. This is because the deferral method currently correlates revenue recognition with when the funds are used for their intended purpose and the related expenses are incurred.

This recognition method is also often easier for users to understand. Often users find it quite confusing for an NFPO to recognize a surplus in the year when it has not yet used the funds for their intended purpose and then to recognize a deficit in the following year(s) when the funds are used for their intended purpose, as occurs under the restricted fund method.

While the use of fund accounting under the restricted fund method assists with this confusion, using fund accounting can be quite complex and onerous for many NFPOs (refer to our response to question 43).

NFPOs that use the current restricted fund method find that this method is helpful in telling their story as they can show all funds received during the year as revenue in the appropriate restricted fund, which allows them to show the results of fundraising efforts. This would not be permitted if the current deferral method was used for all entities. However, allowing entities to include disclosure in the notes to the financial statements of all the funds raised during the year may help.

11. *Which approach for the recognition of revenue in Example 2 do you think provides financial statements users with the most decision-useful information and why?*

    We believe approach B provides financial statement users with the most decision useful information. This is because XYZ Charity and the contributor have a signed agreement and the key requirements of the agreement that must be met are receiving the donations that qualify for matching and receiving the 500th separate donation. We do not believe the audit requirement is a substantive term that should be considered. We believe the audit requirement should be viewed as more of a protective term that is there to verify the donations received, but it does not relieve the private contributor of making the $25,000 matching and $10,000 additional donation once the terms related to those donations have been met by XYZ Charity.

12. *Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options to how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where you think that some or all of the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so, what circumstances?*

    An alternative to recognizing contributions based on characteristics is using one of the current methods allowed under Section 4410, *Contributions – Revenue Recognition* as outlined in our response to question 10.

    We do not believe there are any circumstances where some or all of the $10,000 additional contribution should be recognized before the 500th separate donation is received. Receiving the 500th separate donation is the requirement that must be met in order for the private contributor to have to pay the $10,000. Until that milestone is achieved the private contributor is not obligated to pay XYZ Charity anything and it would not be appropriate for XYZ Charity to recognize revenue before this point as no revenue recognition criteria would be met and the definition of an asset for the related receivable would also not be met.

13. *Do you recognize contributed materials and/or services? If so, how do you measure them? If not, why not?*

    Approximately less than 10% of our NFPO clients recognize contributed materials. For contributed services other than rent (for example volunteer hours) very few of our NFPO clients recognize contributed services due to the difficulty in tracking these services provided and in determining fair value. For contributed/free rent, approximately less than 25% of our NFPO clients recognize this contributed service. Our clients that recognize contributed materials and services measure them at fair value as required by Section 4410, *Contributions - Revenue Recognition*.

14. *For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized? What, if any, disclosures would be useful when contributed materials and services are recognized?*

    N/A

15. *For users of NFPO financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?*

    N/A

16. *What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial statements? For example, does amortizing the capital asset contribution provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?*

    We believe amortizing the capital asset contribution to revenue as the asset is depreciated provides decision useful information to NFPO financial statement users in all situations other than for non-depreciable assets (refer to our response to question 17 below for non-depreciable assets). We believe this approach reflects the NFPO fulfilling the performance obligation associated with the restricted contribution by using the asset over its useful life as intended (refer to our response to question 5 for further comments related to performance obligations).

    If contribution revenue is not recognized over the asset's useful life, but instead is recognized all up front once the asset is purchased or constructed, this can result in the NFPO having a large surplus in the first year and then appearing to run deficits in the following years (due to amortization expense related to the capital asset but no related revenue). This can create budgeting issues for NFPOs and create decision making difficulties for the board of directors. A financial statement user may believe that the NFPO is not stewarding its resources appropriately, when in reality that is not the case since amortization expense is a non-cash item.

    However, many users of the financial statements would not consider that no cash is being used and instead would focus on the net deficit reported on the statement of operations. This distortion of the financial statements could be detrimental to an NFPO when it is applying for funding/donors are considering donating if funders/donors believe the NFPO is not appropriately stewarding its finances.

17. *What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increases in net assets would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset*

contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

We believe it would provide decision-useful information to recognize a non-depreciable capital asset contribution as a direct increase in net assets in all situations. This method of recognition does not create volatility in the financial statements, which can be difficult for financial statement users to fully understand. Otherwise, if a contribution related to a non-depreciable capital asset is recognized in revenue all up front when the non-depreciable capital asset is purchased/contributed, this can create a large surplus in the statement of operations. However, the entity did not receive funds that can be used for general operations, they either received funds that were required to be used to purchase a non-depreciable capital asset, such as land, or received a contribution of the asset itself. Users of the financial statements would not always understand this and as a result they may believe that the NFPO is not stewarding its resources appropriately as outlined in question 16 above or funders may think that the NFPO is not in need of funding to carry out its operations when that would not be the case.

18. *What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution immediately in revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?*

There are no circumstances in which we believe recognizing the contributed capital asset immediately in revenue would provide decision useful information in NFPO financial statements. However, if the AcSB does not believe it is appropriate for non-depreciable capital asset contributions to be recognized as a direct increase in net assets, then we believe the next best option would be for such contributions to be recognized in revenue once the funds have been used to purchase the non-depreciable asset or the non-depreciable asset itself has been contributed to the NFPO, with appropriate presentation on the statement of operations and disclosure so a financial statement user could understand the impact of this contribution as outlined in our response to question 19 below.

19. *Are there other methods for recognizing capital asset contributions that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?*

One alternative would be for NFPOs to recognize capital asset contributions in revenue once the contribution has been used to purchase the capital asset. However, we do not think this is the best alternative due to the performance obligation related to that contribution not being completely fulfilled at that point as the contributor would intend for contribution to be used to purchase the asset and for the NFPO to use the asset over its useful life. This option would also introduce significant volatility into the financial statements, which causes challenges for NFPOs when budgeting and can create the appearance of poor stewardship as previously discussed in question 16 above. Such volatility can significantly impact decisions of funders and donors and ultimately the funding an NFPO relies on to carry out its mission.

However, if this alternative is chosen by the AcSB we believe the presentation of the revenue related to the capital asset contributions should be presented on the statement of operations separate from revenue and net income from regular operations. We also believe disclosure should be added explaining the nature of the capital funding. This presentation and disclosure would help a user of the financial statements to better understand the reasons for the volatility in the financial statements and would help the reader to understand that the NFPO is still properly stewarding its resources.

Additionally, we believe if this approach was to be chosen that net assets invested in capital assets should be required to be segregated from unrestricted net assets. This is important, because otherwise an NFPO could have a deficit from operations that is hidden by the capital asset contributions recognized in revenue that year, which could lead to poor decision making by the NFPO.

Another alternative would be for NFPOs to have the option to net the contribution received against the cost of the capital asset, similar to the option permitted under Section 3800, *Government Assistance,* in ASPE. This option would not result in the volatility and stewardship concerns outlined in question 16 above. However, this option may not provide the most decision useful information to the NFPO's financial statement users as they would not have a true understanding of the nature and extent of the NFPOs capital assets and future maintenance requirements or capital needs.

Overall, if the AcSB is going to change the way that contributions related to capital assets are accounted for, it is important to keep in mind that the new method that is chosen while needing to be conceptually sound also needs to be useful to funders and users of NFPO financial statements for making decisions. If the new method is not useful to financial statement users, then we will be trading the current complex methods for accounting for capital asset contributions for another complex and confusing method.

20. *Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?*

While the existing definition of an endowment in Section 4410 makes it clear that an endowment must be subject to external restrictions specifying that the resources contributed be maintained permanently there are circumstances that we see in practice where there is confusion among prepares and users of NFPO financial statements as to whether or not a restricted contribution is actually an endowment.

One area where there is significant confusion in practice is where the resources contributed must be maintained for a specific number of years (for example 20 years), but then can be used by the NFPO after that time. In this situation, such a contribution is not an endowment, but in practice many preparers and users of NFPO financial statements think this meets the criteria to be an endowment. Part of this seems to stem from prior CRA requirements where a gift needed to have a 10-year restriction in order to not be included in an NFPOs disbursement quota calculation. Due to the CRA requirement, many contributions had restrictions of 10 or more years and many entities treated these as endowments. CRA's requirements have now changed, but the confusion around treatment of contributions restricted for a period of time still persists.

Another area where there is confusion in practice is in the area of internally restricted contributions. Often entities internally restrict funding that comes in and call it an endowment because the intention is to maintain that amount permanently. However, there is no actual external restriction requiring the funds to be permanently maintained. Additionally, if the funds are needed in the future, at that point the NFPO wants to change the restriction. Such funds are not an endowment but are often treated as such by NFPOs due to the confusion surrounding endowments.

As a result, it would be helpful for the AcSB to include additional examples of what would/would not meet the definition of an endowment in the ASNPO Handbook. Additionally, preparer and user educational resources in this area would also be very helpful.

21. *When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?*

    We believe recognizing endowments as direct increase in net assets always provides decision useful information in NFPO financial statements. Endowment contributions are different than other contributions an NFPO receives as the NFPO is never entitled to use the principal. As such it would not be appropriate to recognize the endowment as revenue in the financial statements since the NFPO has not "earned" the revenue nor fulfilled the performance obligation related to the endowment. Instead, endowments are more in the nature of funds held in trust. If endowment funds are to be recognized in an NFPOs financial statements, it provides more decision useful information to financial statement users when they are recognized directly in net assets with appropriate disclosure explaining their nature and restrictions.

22. *When does recognizing endowments immediately as revenue provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?*

    There are no situations we can identify when recognizing endowments immediately as revenue provides decision-useful information. Additionally, under Public Sector Accounting Standards (PSAS), for public sector NFPOs following PSAS without the PS 4200 series of standards, there is no option for these entities to recognize endowments as a direct increase in net assets. Instead, endowment contributions technically need to be recognized as revenue immediately. This has been raised as a substantial issue in PSAS as it significantly distorts an NFPO's revenue in the year the contribution is received and makes it appear that the NFPO has received a contribution that it can spend however it wants when in reality the NFPO has no ability to use the principal. The Public Sector Accounting Board is currently looking for an alternative method for recognizing endowments to rectify this issue. We would encourage the AcSB not to change the accounting for endowments under Section 4410 and end up creating an issue where one does not currently exist.

Additionally, if NFPOs want to provide information on endowment funds received during the year this information can be provided via note disclosure.

However, if the AcSB did go down the road of recognizing endowments as revenue then we believe revenue from endowments should be presented on the statement of operations separately from revenue and net income from general operations. Note disclosure should be included to clearly identify that these funds are permanently restricted and cannot be used by the NFPO. If this separate presentation and disclosure is not explicitly clear this would cause significant confusion for NFPO users, including funders, and could lead to an NFPO not receiving funding and not being able to carry out its mission, because funders think the NFPO has significant resources and is not in need of funding.

23. *Are there other methods for recognizing endowments that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?*

There are no other methods for recognizing endowments that we believe the AcSB should consider at this time.

24. *Are there scenarios when it is difficult or costly to determine how to allocate the income, expenses, gains and losses (both realized and unrealized) on endowments for accounting purposes? If so, what are the scenarios or factors that makes this assessment difficult?*

It can be difficult to determine how to appropriately allocate unrealized gains and losses on endowment funds that are invested. It is also difficult to determine how to appropriate allocate realized losses as often endowment agreements are not specific enough to say what needs to occur when a loss is realized (e.g. when a loss is realized is the NFPO responsible for covering that loss and thus should record a liability payable back to the endowment fund, or is the endowment fund principal just reduced).

25. *Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?*

Another issue we have seen arise in practice in accounting for endowments arises when an NFPO transfers the endowments it has received to a community foundation. This typically occurs because the community foundation is larger and is able to achieve better returns from investing the endowment funds than the NPFO can on its own. In some cases, the community foundation acts solely as an investment manager and the NFPO can request the principal of its endowment funds back at any time. In this scenario, the NFPO clearly maintains control of the endowment funds and would continue to record the endowment funds in its own financial statements.

However, in other situations the NFPO gives the endowment principal to the community foundation irrevocably. In this scenario, the NFPO receives an annual return from the investment income earned on the endowment funds. However, the income stream is not guaranteed or predicable and is within the control of the community foundation. In such cases there is diversity in practice on whether or not the NFPO continues to record the endowment funds. This is a situation that is becoming more common in practice that the AcSB may want to consider issuing accounting guidance on in the future.

26. *Do you recognize bequests? If so, under what circumstances are they recognized? If not, why not?*

    Our clients do not recognize bequests until received, as typically they do not meet the revenue recognition or asset criteria under ASNPO until that time since often the agreement allows the donor to change the bequest up until death.

27. *As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?*

    We do not believe the characterises of a bequest affects whether and when they are recognized. We believe an NFPO should only recognize a bequest when the organization is entitled to it/has a legal right to receive the assets and thus the definition of an asset is met. This is especially true when a donor is still alive and can change their mind or there is the opportunity for a will to be contested.

28. *For financial statements users, what additional disclosures relating to bequests would be useful? Why?*

    N/A

29. *In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?*

    Other types of planned giving instruments that are common in our client base are life insurance gifts, gifts of investment portfolios and gifts of property upon death of the donor.

30. *Do you track pledges? If so, how? If not, why not?*

    The majority of our clients do not track or record pledges. For those clients that do track pledges they have signed pledge agreements and use excel or accounting software to track pledges similar to how an organization would typically keep an accounts receivable subledger.

31. *Do you accrue pledges as a receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set up a provision for uncollectible amounts?*

    The majority of our clients do not accrue pledges as a receivable. The small portion of our clients that do record pledges as a receivable do so related to annual fundraising campaigns for which they have a number of years of historical data. They use this data along with pledge agreements to estimate the amount of the pledges to be recognized and recognize a provision for estimated uncollectable amounts based on past history.

32. *If you previously recognized pledges but no longer do so, why did you stop?*

    Our clients that previously recognized pledges but no longer do so stopped because, pledges are unpredictable and there is no guarantee they will receive the cash. Also, tracking pledges can be onerous.

33. *Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time period or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how and what warrants different accounting treatment?*

    We do not believe it is the nature of the pledge that is as important as the past history. If a pledge of a capital asset was made and there was no history with the donor, in most situations it would be unlikely the pledge would be recognized before the NFPO obtained control of the asset. Where a monetary pledge is made as part of an annual fundraising campaign for which the NFPO has good history, it is more likely that the pledge would meet the recognition criteria under Section 4420.

    Additionally, the longer the time frame in which the NFPO is to receive the pledge, for example a pledge to be received in five years or a multi-year pledge, the less likely it would be for the pledge to meet the recognition criteria as it would be very difficult to determine that collectability is reasonably assured, especially when there is no or limited history with the donor.

34. *For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?*

    N/A

35. *For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?*

    N/A

36. *In addition to circumstances where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply the capital asset recognition exemption? If so, what are those reasons?*

    We are not aware of any additional reasons why NFPOs currently choose to apply the capital asset recognition exemption.

37. *For financial statements users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision-useful? If no, why not? If yes, is this only the case under certain circumstances? What are those circumstances?*

    N/A

38. *If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?*

    If an exemption is retained, we agree that it should continue to be based on a revenue threshold as it is a basis NFPOs are already familiar with that is fairly stable and it is not complex for NFPOs to calculate whether or not they qualify for the exemption.

    However, we believe the exemption should be removed. As the Consultation Paper pointed out most respondents to the previous AcSB and PSAB Joint Statement of Principles agreed with removing the exemption as well. We believe all NFPOs should recognize capital assets in their financial statements. However, we believe NFPOs should be able to apply this change prospectively or the AcSB should provide simplified transitional provisions. Such a change would enhance comparability among NFPOs going forward and provide decision useful information for financial statement users without being onerous to small NFPOs.

39. *If revenue is the appropriate metric to be used for an exemption, what is an appropriate dollar threshold to apply and why?*

    If the AcSB decides to keep the exemption and revenue continues to be used as the metric for the exemption, we believe an increase in the current exemption amount of $500,000 should be considered since this arbitrary amount was set almost 25 years ago and has not been increased for inflation or the nature of NFPOs today. An increase to $1,000,000 may be a more reasonable threshold as the majority of small NFPOs in Canada have revenues under this amount and these would be the NPOs the AcSB would be looking to reach with this exemption.

    However, if the threshold is raised this could result in some issues as many NFPOs that are already recognizing capital assets on their financial statements may now meet the criteria to not recognize capital assets due to the higher threshold. As a result, we believe it should be clear in the Handbook that NFPOs in this situation should continue recognizing their capital assets going forward, as it would not provide more useful information for users of the financial statements if these NFPOs started taking capital assets off their books.

40. *Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues in excess of $500,000, capital assets must be recognized for the first time in accordance with Sections 4433 and 4434. How do organizations currently account for this transition? Are Sections 4433 and 4434 applied prospectively, retrospectively or is another transition approach used?*

    Under the existing guidance, this transition is usually applied retrospectively as required under Section 1506, *Accounting Changes*. However, retrospective application can be quite onerous for NFPOs depending on the amount of capital assets they have, the nature of those assets, and the age of the assets. NFPOs, especially small NFPOs often have a significant amount of turnover of finance staff/volunteers and as a result often do not have historical records of capital assets purchased in the past, which can make retrospective application onerous. As a result, we believe it would be very helpful for the Board to provide transitional provisions such as being able to recognize capital assets prospectively or via a simplified transitional method.

41. *What are the benefits to fund accounting presentation, and what are the limitations?*

    The benefits to fund accounting presentation are that it allows an NFPO to track the assets, liabilities, revenues, expenses, and net assets that are related to specific purposes separately, which better reflects how the NFPO manages its operations and can provide more transparency. This information can be particularly useful to financial statement users, especially when an NFPO has multiple programs/streams of operations. Depending on the breakdown of how the funds are presented, when fund accounting is used some funders may not need NFPOs to produce additional special reporting information.

    The limitations of fund accounting presentation are that accounting for information in multiple funds can be very complex and this information may still not provide funders with the information they need. Refer to our response to question 43 below for more challenges with fund accounting.

42. *Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?*

    As outlined in our response to question 41 above, fund accounting provides more useful information to financial statement users when an NFPO has multiple programs/streams of operations.

    Additionally, some NFPOs have endowments that are legally required by the NFPOs bylaws or other restrictions in the endowment agreement to be maintained in a distinct fund. In such cases, presenting the endowment funds separately on the financial statement provides useful information to the users of the financial statements and also assists the NFPO with meeting the requirements of its bylaws/the endowment agreement.

43. *What challenges exist for NFPOs that prepare financial statements using fund accounting presentation?*

As outlined in our response to question 41 above, the main challenge of fund accounting presentation is that accounting for information in multiple funds can be very complex. This is true for NFPOs of all sizes, but especially for smaller NFPOs that may not have the appropriate staff resources, as not all prepares of financial statements have a good understanding of fund accounting.

Also, not all NFPOs record similar funds. For example, some NFPOs present a separate capital asset fund, while other NPFOs include capital assets within the general fund. Similarly, not all NFPOs present related expenses in funds the same way. For example, some NFPOs record maintenance expenses related to capital assets in the capital asset fund, while other NFPOs record maintenance expenses related to capital assets in the general fund even when a separate capital asset fund exists. It would be helpful for the AcSB to consider adding additional guidance on the proper application of fund accounting to ASNPO as this would enhance comparability amongst NFPOs.

Fund accounting presentation is also something that not all financial statement users are familiar with as well, particularly users who are familiar with reading private company financial statements.

Additionally, the accounting software that many NFPOs use is not set up to easily accommodate fund accounting, which can make recording transactions and ensuring funds are balanced challenging.

From a practical perspective it can be difficult to fit all the funds an NFPO may want to track onto the pages of its financial statements, which can sometimes make the financial statements confusing for users to follow.

44. *Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted and unrestricted? If so, what?*

As outlined in our response to question 19, we believe it would be helpful for the invested in capital assets component of net assets to be required to be split out from unrestricted net assets (either via presentation or disclosure), since not splitting this amount out can cause the issues outlined earlier in our response. However, if this was done we believe additional guidance on what should be included in this portion of net assets should be included in ASNPO, as currently there is diversity in practice on what is included in this balance for NFPOs that have continued to present it as a separate component of net assets.

Additionally, NFPOs can often find it confusing on when transactions should be recorded as interfund transfers (for example when they are confused about whether there is an internal or external restriction on a contribution). We believe it would be helpful for the Board to include additional guidance on when interfund transfers should be used and how they should be accounted for under ASNPO potentially in the form of an illustrative example.

45. *For financial statements users, what information about classes of net assets is useful?*

    N/A

46. *Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?*

    N/A

47. *Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?*

    Our clients disclose items of restricted cash and cash equivalents when there are specific external restrictions on the items, such as when the funds are required to be kept in a separate bank account.

48. *For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What type of restrictions on cash and cash equivalents do users of financial statements want to be aware of?*

    N/A

49. *For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?*

    N/A

Thank you for your consideration of the above-noted responses. We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me at 705-945-0990 extension 4017 or via email at sbarton@bdo.ca.

Yours sincerely,

Sayja Barton, CPA, CA, MAcc
Director National Accounting Standards
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1. We believe that the term "non-reciprocal" should be better defined. In our opinion, when a government gives a grant to an organization, this is so that the government can separate themselves from the operations of an objective they want to achieve. It is currently argued that the government has paid this as a grant instead of classifying it as a payment for the services related to this project (As an example, it could be argued that a Daycare's annual grant is simply a fee for service arrangement with a private NPO to run a service that would otherwise need to be run by the government – The definition of non-reciprocal would definitely need to be clearly defined to avoid these types of arguments). To simply classify all "non-reciprocal" revenue in the year received, net annual surplus or deficit could bounce around by large amounts in any year. If revenues were recorded in this manner, it would be impossible to compare year over year operations. This would make it impossible for users to evaluate results and provide useless information. COVID has shown us that there are times when program funds can be received by an organization that do not have specific terms of repayment to the government (if any terms of repayment), but then the organization does not have the ability to use those funds in a year for things out of their control. To simply classify these amounts as revenue, without the specific requirement for restriction in a separate fund would be inordinately misleading because the whole amount wo uld sit in accumulated surplus and then the following year would have a large deficit..
2. Our firm has a significant number of NFPO's that have funding agreements that have holdback portions (10% as an example) whereby they get the rest of their operating agreement funds when they send in their annual reports. We have always set these up as receivable. We also have several organizations who have signed agreements, and the government is late on their payment schedule. These become inordinately more complicated when the organization's year end date does not coincide with the government year end or the funding agreement period (A client with a July year end who has a funding agreement with a period of April – March). To simply record revenue as received would be inordinately misleading because expenses and revenue would not be matched. In larger organizations where one funding agreement among several is like this, it would not be material. However, for a smaller organization with one funding agreement, this could be significantly misleading.
3. It is sometimes difficult to determine whether private donations can legitimately be classified as externally restricted. Sometimes there isn't a specific legal agreement that spells out exactly what the funds "MUST' be used for, and whether there are implications if the organization uses it for something else (Someone may donate funds for a program in their will, but if the organization doesn't want to run that program, they may not be legally obligated to use it for that purpose. Without any legal ramifications for using it for something else, was it "really" externally restricted? Another example could be with grants from a controlling entity. Is this funding externally restricted because a separate entity gave the funds, or is it internally restricted because the same entities control the funds?

4 &5. The matching principal is as, if not more important in a NFPO. If a 2 year agreement is entered into, and the funds are all paid in the first year, then the first year will have a large surplus and the second year will have a large deficit. Many board members for smaller NFPO do not have a firm grasp on financial statements, but they do understand the concept of current year surplus of deficit. With many organizations changing board members on a regular basis (With term limits), it would be very difficult to explain how current year deficits are created because of prior

year surpluses, due to timing of payments of grants. This becomes increasingly more difficult to explain when an organization has multiple funding agreements with multiple organizations, especially when all of the agreements don't run for the same period. To reiterate a comment from above, in a year like 2020 where an organization may not have been able to run specific programs due to COVID, there would be surpluses in most agreements, and there could be several years of deficits as these funds are spent and programs can eventually be run. Additionally, auditors can change over. Without a direct requirement to track these through specific restricted funds or deferred revenue, information relating to what created these will be lost.- re – Q5 - could something be added regarding the recognition of revenues when rec'd rather than performance obligation satisfied would be misleading to users of the FS? If the financial statements are prepared for the users, would it not be more beneficial for the information to be presented in a way the *best* describes the operations of the organization for that period. If the organization were to receive funding to run a program that was not provided, and the amount was recognized when received, it would be misleading to users to see these amounts on the statements, as they illustrate events that did not actually materialize.
It could also do more harm to organizations where users and management are not as financially literate as some who associate surpluses with excess cash flows who then may overspend to prevent funding cuts. The assumption to this is that funders and users understand the changes that are being made. Our experience is that many funders and very few users of financial statements for smaller organizations understand the basics of accounting, never mind creating multiple funds to track and report information. Furthermore, some funding agreements will have a clause to create liability. Therefore, the statements will sometimes have deferred revenues, as well as restricted funds and an operating fund. This is a whole new level of confusion for these people.

6. We would argue that the performance obligation is a more legitimate argument because if the performance was not completed satisfactorily, future funding could be in jeopardy. Therefore, there is still a future financial impact to the organization if they do not meet the performance measures set out by the funder. This is a substance over form qualitative argument.

7. There may not be a "legal" obligation to repay, but there is an impact on whether funding in the future will continue if performance obligations of the current period aren't met.

   Should consider timing of grant period vs organization year end, as well as timing of when payments have been received, or even timing of when it is practical to run a program (ie. Program is on hold until COVID restrictions are lifted). -

8. Of course the type of contribution is important

9. Timing of grant, timing of when expenses will occur, restrictions on what funds can be spent on – recourse after the fact (We have seen several funding agreements that do not specifically cite repayment requirements, but then the funders or governments end up clawing amounts back anyway? Under the proposed standard, what would happen if a program had a $100,000 agreement to perform services. However, there was a 10% holdback. All expenses for the year were $100,000. Do we record the $10,000 that had not been collected? It would be very odd to say we can record receivables for amounts that would be collectible but would not record liabilities for money that had not yet been spent. This is inconsistent.

10. Users of NFPO financial statements have a variety of things they deem useful in financial statements. The current methodology and standards allow for organizations to prepare statements and accounting information in a way that is most useful for them. Our firm has NFPO clients that have in excess of 20 funding agreements. To group all of these in one category called "restricted funds" to show the total revenues and surplus of all restricted funding agreement would not be useful information. To have a separate fund report that shows the revenue and expenses by category for each funding agreement would create a overly-complex financial statement. Currently, revenue is matched to when expenses for program are incurred for restricted funds, and it is known that surplus or deficit is directly related to unrestricted funds only. This is much less complex for boards and funders to wrap their head around. To do otherwise would require 20 schedules to the financial statements to show each program. This would create increased fees, and increased complexity. The primary file I am thinking of has less than $2,000,000 in revenue, but would require a 30+ page financial statement. This is far more complex than necessary.

    Moving to a system of only recording revenue when received, unless the funding agreement specifically cites a liability when not spent, means that boards will now be required to understand that revenue is recorded in a restricted fund when there is no liability in the funding agreement, and in deferred revenue when there is a liability in the funding agreement. This would make it far too confusing for boards of small organizations to understand. There would effectively be 3 methods of accounting in one set of statements

    - Unrestricted funds in the general fund;
    - Restrcited funds recognized as revenue in the restricted fund; and
    - Restricted funds that have a liability component in the agreement being recognized as a liability.

    This seems inordinately complex for a small organization and ridiculously complex for a board of that organization to understand.

11. The scenario for example 2 does not stipulate whether there are any expenses incurred in the fundraising event. Our answer could depend on ensuring revenue recognized matched the period in which the related expenses were incurred. If for example advertising or employee time devoted to the project is key. If $10,000 in employee time was spent up to December and $5,000 was spent in January to the end of the campaign, it would affect our decision on how to record the transaction because the matching principal is an important consideration.

    If there are $0 expenses (Which is highly improbable), then we would lean towards the second scenario for revenue recognition. We have seen several real life scenarios where the final criteria is the Province accepting the final report submitted. Sometimes it has taken well over a year for the government to accept a report after submission (Which can be up to a year after year end). To only record revenue up to 2 years after the completion of a project is not reasonable. Revenue should be recognized when reasonably assumed that it has been earned.

The final criterial of a completed audit or government acceptance of the report must be based on the estimate that these are minor in comparison to the entire project.

12. The answer to this question would depend on whether the organization has already performed the work necessary to earn the revenue. As an example, if the entirety of work for the organization was related to an ad campaign that occurred before December 31, and funds received after year end were just based on this ad campaign, then the $10K in revenue should be recognized as revenue prior to December 31, based on the fact that subsequent events indicate that it was earned. If there are other costs related to earning the revenue, then this answer could change to match revenues with the costs that earned that revenue.

13. Contributed materials are occasionally recognized if amounts can be reliably measured. In many cases this is very difficult to determine. Even more difficult to determine is the value of contributed services.

14. It is always useful information for contributed services or materials to be disclosed when they are with related parties. However, when amounts are difficult to measure, it is hard to disclose values for the amounts. I personally spend a significant number of hours being a member of boards. I do not track my hours or useful time allocated to the board meetings I attend (sometimes a board meeting can be 2 hours long, and I might spend 15 minutes on discussing financial information – would this be valued at my full billout rate? Would the full 2 hours be considered valuable or only the 15 minutes spent on financial information? Would each board member have a different value? What if they aren't professionals who charge billable time? What is their time worth?

15. additional disclosures surrounding the types of donated services might be useful in some cases, but the types of activities may be difficult for organizations that require multiple types of volunteers.

16. It may be useful to record capital assets and the amortization of those assets when the types of assets donated are those that will be replaced in the future. –

17 – 19 any donation of a capital asset is the equivalent of someone donating cash and then that cash being used to purchase the capital asset. It is simply a non-monetary transaction that should be recorded at full value in revenue and in capital asset. To do otherwise would muddy the water in what is classified as a donation and would pose unnecessary questions from CRA (if an individual donated a piece of land to a charity, and that charity did not classify it as revenue of that year, CRA could question why donation receipts issued were in excess of revenue for the year.

Government contributions for capital assets should continue to be recorded as liabilities that are amortized using the same rates and methods as the related capital asset. If they were recorded on a net basis, many NFPO's would not have any capital assets recorded. Most smaller organizations can only purchase capital assets through specified funding.. - does this also not show the true cost of the organization (transparency). I'm thinking if the organization would otherwise have bought the asset in question there would either be a reduction in cash or increase in debt on the BS. Showing the remaining balance illustrates a clear picture of the organization at that time.

20. Individual endowments can be difficult to determine whether they are endowment funds or other restricted contributions (or even restricted to begin with). Many of these contributions are given without consultation of legal representation, and are therefore somewhat grey in interpretation.

21-23. As long as users of the statements have a way to disclose specific endowment contributions through the notes or other mechanism, we do not have any particular clients who would likely care if we recorded these amounts through revenue or through direct increases to endowment equity.

24-25. Other than if principal is unclear or if investments are not specifically segregated into clear accounts between funds, we do not have any additional scenarios to mention

25-29 In general, we only have revenues for bequests being recorded when the amounts are actually received. Any other methodology would not make sense since wills can be changed at any point in time.

30-35 We do not have any files where pledges are recorded as receivable. In general, our thoughts are that pledges should only be recorded as receivable where a long history of collectability of amounts recorded have been shown to be collectible, or amounts can be reasonably determined. Other pledges, where not recorded could be note disclosed like any other contingent receivable that isn't recorded if users deem the information useful.

36-40 There are several reasons why a small NPO may decide to not record capital assets

- Cost outweighs benefit
- In several circumstances, Funders specifically state that they do not fund capital (The agreements do not necessarily consider the fact that computers are necessary, but accounting rules would deem them to be capital – we had a client who was deemed to be in non-compliance of their funding agreement because we deemed their purchase of computers to be capital assets. The funder specifically said that although computers were an allowable purchase, the fact that we called them a capital asset made the purchase ineligible. When funders cannot even wrap their head around this concept, how can we expect small clients to do so (in this case the funder was a department of the Federal Government)
- It complicates the accounting records for organizations that are small and primarily think of their operations in context of funds in, funds out, and funds left over.
- In many cases when these organizations exceed the $500,000 threshold, we are forced to qualify the financial statements, potentially into perpetuity if the assets are material enough and values at inception cannot be re-created. Consideration to any changes to this section should definitely remove the need to record historical assets when the threshold is met.

- For the most part, with the exception of buildings, many NFPO receive funding to purchase their capital assets. Therefore the amortization of these assets and the recognition of the deferred capital grants mostly offset each other. It is an accounting process that makes it inordinately more confusing than necessary. Smaller organizations with less than $1,000,000 generally do not have excess capacity to purchase these assets without specific funding to do so. Therefore any capitalization for organizations with less than this amount in revenue seems like a process in accounting rather than useful information.

41-43 Fund accounting allows an organization to show general operations separate from that of funding they receive for specific projects outside of normal operations. It also allows an organization to show funds available for future operations that have not been restricted for internal purposes, or by external funders or even funds that are not tied up in capital assets (By using net assets invested in capital assets). An understanding of what funds are unrestricted or not tied up is very important to most management and directors. Fund accounting presents challenges in that many smaller NFPO's do not have staff who have the requisite knowledge to appropriate account for information in this way. -

44-46 We do not see any specific issues in the current classification methods required. With explanation, most boards find this breakdown inordinately useful, and many funders require it. Reconciliation of all separate net assets to the balance sheet is extremely important

47-49 Restricted cash, much like any other asset or liability is generally separated out when it has been put into a separate account by the client. Assets and liabilities that can be directly linked to a restricted fund are treated as part of that fund, with the resulting difference being recorded to an interfund liability or asset. Certain funding agreements enforce the use of separate accounts for the restricted assets. In general we see the separation of these assets as important for non-financially educated users of financial statements. When everything is put together and not separated into restricted assets, it is difficult for these people to see what is remaining for general operations

December 15, 2020

Kelly Khalilieh, CPA, CA
Director
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

Dear Ms. Khalilieh:

Re: Contributions – Revenue Recognition and Related Matters

Thank you for the opportunity to provide input to the Accounting Standards Board (AcSB) on the above noted document.

We have reviewed the Consultation Paper issued by the AcSB and set out below our response.

Question 1: Are there circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances?

We are not aware of any such circumstances.

Question 2: Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? If so, what are the issues and how might they be addressed?

We are not aware of any such issues.

Question 3: Are there any circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?

Occasionally the terms of a funding agreement may be vague, for example the specific nature of expenses for which the funds can be used, or the time frame, may not be clear. An increased application of professional judgment is required to adequately understand the restrictions of the contribution and assess whether these restrictions are specific enough to result in a deferral or are broad in relation to the nature of the organization and its environment (s.4410.07). Furthermore, a contribution may not be wholly relevant to a particular restricted fund, as some contributions may be permitted to be utilized for purposes which relate to multiple funds (i.e., permitted expenses fall within the general fund in addition to various restricted funds; however, the proportion of funds to be spent in each fund is not dictated by the funding agreement).

In addition, there is discrepancy in practice in interpreting which restrictions are internal, and which are external. We agree that if a donor specifies funds be used for a specific purpose, those funds are clearly externally restricted as the donor has restricted the use. Further, if an NFPO has established an internal policy for the use of non-restricted funds, we agree those funds are clearly internally restricted, as the policy can be changed at any time. Discrepancy arises in the manner which an organization communicates its plans and goals to potential donors (e.g., through advertising campaigns, material provided to donors, and messaging on its website). An NFPO may solicit donations for general purposes while also communicating its plans and goals for a period of time. In comparison, an NFPO may solicit donations by communicating to the donor a specific use of the funds. While an NFPO can change its messaging at anytime, at the time of donation specific information has been communicated to a donor and the donor relied on those communications in making the decision to contribute. This communication may create an expectation of the donor, restricting the use of the funds. As an added complexity, some NFPOs communicate a specific purpose for the donated funds with a caveat that excess funds raised may be used for other purposes, or that a certain portion of the fundraising campaign funds will be used for administrative and other purposes.

Question 4: Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?

In our response to Question 3 we described the difficulties in assessing an internal versus external restriction. In some cases, an argument is raised that no external restriction exists if the NFPO is not legally obligated to use the funds for the purpose which was communicated to the donor at the time of receipt. In these situations, we would refer to Section 1001.30, which states that a liability need not be legally enforceable and can be based on equitable or constructive obligations. That is, if an NFPO has solicited funds to be used for a specific purpose (by way of messaging on its website or advertisements for a particular fundraising drive), and donors have provided funds under this context, there is a reasonable expectation by the donor that their contribution will be used for the communicated purpose and an external restriction exists.

Question 5: Do you think applying the recognition concepts for revenue to restricted contributions (i.e., a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?

We believe that a restricted contribution approach, providing information about the restrictions on the NFPO's ability to exert discretion in the use of the contributed funds is the most decision-useful information for financial statement users.

As noted in our response to Question 3, generally when difficulties arise in assessing recognition timing of restricted contributions, the difficulties relate to determining whether a restriction exists and, if so, whether it has been satisfied. Section 1001 provides limited guidance on recognition of revenue, which we do not believe addresses the difficulties expressed in our response to Question 3. Specifically, s.1001.42 recognizes revenue when performance is achieved, and reasonable assurance of measurement and collectability of consideration exists. Section 1001.43 states that restricted contributions are recognized based on the nature of the related restriction.

There are significant inherent differences between a reciprocal revenue transaction (in which the entity earning the revenue must meet performance conditions to the benefit of the party making payment) and a non-reciprocal contribution transaction (in which the contributor's concern is that funds are used for the purposes the contributor intended them to be used for). We believe restricted contribution recognition requirements under a deferral method would best meet financial statement user and preparer needs if it is focused on guidance which follows current deferral methodology and helps to establish when a restriction exists and when a restriction is satisfied (i.e., further guidance on broad vs. specific restrictions).

Question 6: Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liabilities are relevant considerations? If so, what are they?

We have not identified any other aspects of accounting for restricted contributions for which we need to refer to the definitions of assets and liabilities.

Question 7: Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?

We have not identified any additional characteristics of contributions which are relevant when considering when to recognize a contribution as revenue.

Question 8: Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?

We believe that the two accounting policy choices currently available for restricted contributions do consider important characteristics of the contribution (type and nature of contribution, and the time or purpose requirements imposed) and provide decision-useful information needed by NFPO financial statement users.

In theory, a single accounting approach would allow for comparability of NFPO financial statements, which, under the current methods (restricted fund vs. deferral method) could look drastically different. Most financial statement users do not fully understand the different accounting policy choices and how to reconcile between two sets of financial statements using the different options.

However, given the unique individual needs of NFPOs and their funders, strong arguments have been raised by NFPO financial statement users and preparers in support of each method, indicative of a preference to continue with an accounting policy choice which allows each individual NFPO to choose the most appropriate method for its financial statement users.

Question 9: What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?

If choosing to recognize contributions based on the characteristics of the contribution, we believe that the most relevant characteristics are the restrictions on the NFPO's ability to exercise discretion in the nature of expenditure it can utilize the funds for, and discretion over the timing of incurring the expenditure (i.e., type and nature of contribution, and time or purpose requirements). As discussed in our response to Question 5, we believe contributors are most concerned with whether the funds donated have been used for the purpose the contributor intended.

As discussed in our response to Question 33, we believe current guidance doesn't adequately address how the frequency of the contribution (one-time payment versus series of payments) impacts the timing of contribution recognition. Therefore, we agree that the frequency of a contribution is a key characteristic that should be considered when recognizing contribution revenue.

We do not believe that the refundability of the contribution is a key consideration in contribution recognition timing. Contributors to NFPOs are generally not expecting to have amounts refunded; rather, they are expecting the amounts to be used for the specified purpose. If the amounts have not been used for the specified purpose or within the specified time period, there is generally an expectation that the NFPO and contributor will come to an agreement on either an alternative use or timing of use.

Question 10: In addition to an approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by that method be useful to financial statements users?

Some NFPOs choose to apply the restricted fund method as the timing of when a contribution is received, or receivable, is most important for purposes of presenting revenue in the financial statements. Fund raising is a key performance indicator for many NFPOs as to whether they have achieved their goals for a period (fundraisers, pledge drives, and giving campaigns all generally have a target donations threshold).

These NFPOs have assessed that their users benefit from being presented with total inflows of contributions (and contributions receivable) as revenue, with the subsequent management of the restrictions over the contributed funds being best represented by the unspent surplus that is managed in each restricted fund.

However, one of the most substantial issues causing confusion amongst preparers and users of NFPO financial statements is that, when applying the restricted fund method, contributions which do not fall within a particular restricted fund, but which have restrictions, are recognized as a deferred liability in the general fund until the restrictions are met. This results in an inconsistent timing of revenue recognition within the same set of financial statements. This issue could be resolved through requiring an NFPO applying the restricted fund method to recognize only non-restricted contributions in the general fund, and to create a fund for "other restricted contributions" to recognize (with appropriate disclosure to the extent of materiality requirements) the many one-off or smaller restricted contributions which do not get reported in their own separate restricted fund.

Question 11: Which approach for the recognition of revenue in Example 2 do you think provides financial statement users with the most decision-useful information and why?

In Example 2, there are no restrictions on the use of the funds once received. In assessing whether the criteria in Section 4420.03 to accrue a receivable have been met (amount can be reasonably estimated, and collection reasonably assured), the Section provides limited guidance. In this example, Approach B would appear to provide the most decision-useful information to users. At year-end the NFPO knows with certainty that it has met the donor's criteria which were outside its control (dollar-for-dollar amount and number of individual donors). Given the limited fact pattern, the criteria which is within the NFPO's control (audit requirement) is not a significant hurdle to overcome, and at year-end it would be reasonably certain the NFPO will comply with this requirement and ultimately collect the contribution from the donor which was pledged before year-end. Generally, when a fundraising campaign has secured such a matching donor, this fact is utilized in deriving contributions from the general public during the campaign. Such public contributors who subsequently read the financial statements of the NFPO would benefit from seeing their contribution along with the matching donor funding in the same fiscal period.

This analysis presumes that at December 31st it is also reasonably certain the donor will follow through with the pledge, that the NFPO has maintained appropriate audit documentation to permit an audit to be conducted, and that the NFPO has the means to engage an auditor. For example, numerous NFPOs receive periodic funding from a contributor with restrictions on nature and timing of use, in addition to a requirement to provide the funder with audited financial information as to the use of the funds. In these cases, the audit requirement is technically a requirement on use of the funds; however, NFPOs recognize the revenue in accordance the nature and timing of expenditures, not based on timing of having the audit on use of expenditures conducted.

Question 12: Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where you think that some or all of the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so, what circumstances?

We agree that the dollar-for-dollar funding should be accrued as donations are raised, up to the maximum. Each time a donation is received, as discussed in our response to Question 11, there is reasonably certainty of collection of the corresponding matching dollar-for-dollar donation. We do not believe it would be appropriate to recognize the $10,000 amount on a progress basis as individual donations come in. Each of the first 499 separate donations do not provide reasonable certainty that the 500th separate donation will be received. The NFPO has no control over how many separate donations it receives, therefore, until the 500th separate donation is received there is insufficient certainty on the collection of the $10,000 to accrue any portion of it.

Question 13: Do you recognize contributed materials and/or services? If so, how do you measure them? If not, why not?

We have various clients that recognize contributed materials and/or services. Typically, these are measured at fair value, where materials and/or services can typically be linked to an invoice, quote or market price that supports the value of said materials and/or service. For those that don't recognize contributed materials and/or services, the reasons are primarily due to onerous nature of tracking volunteer time, or an inability to determine fair value of a material or service.

Question 14: For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized? What, if any, disclosures would be useful when contributed materials and services are recognized?

Current disclosures are adequate (i.e., accounting policy, nature and amount of contributed materials and/or services recognized in the financial statements). However, disclosure of how fair value was determined could be beneficial to financial statement users. For example, in many routine situations we would expect such methodology to be consistent amongst NFPOs; however, in situations where significant estimation uncertainty exists, this fact and the estimation methodology would be useful to financial statement users.

Question 15: For users of NFPO financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?

In theory, disclosure of the nature and amount of the contributed materials and services would be useful to users as it provides information about the amount of operations for which the NFPO did not have to use cash or funds. However, this information may be difficult or onerous for some NFPOs to track. Therefore, limiting disclosure requirements to the nature of donations for which recognition has not occurred would provide balance between user information needs and financial reporting effort.

Question 16: What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial statements? For example, does amortizing the capital asset contribution provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

We agree with Section 4410.35, that the deferral of contributions restricted for the purchase of capital assets that will be amortized provides an appropriate means to match such contributions with the benefits provided by the capital assets acquired. Financial statement users are concerned with an NFPO's ability to use their capital assets to perform services. Reflecting the capital contributions and expense of capital assets with concurrent timing provides this decision-useful information to users. Contributors may also be concerned with the expenditure of the contributed funds. However, we do not believe that the large operating surplus that would result from recognizing revenue on acquisition of the capital asset would provide decision-useful information. The information pertaining to the timing of the acquisition of the capital asset is provided to users in the statement of cash flows, changes in net assets and note disclosures.

Question 17: What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increases in net assets would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Please refer to our response to Question 16 for additional context. We agree with Section 4410.35 that when a capital asset will not be subject to amortization because it has an unlimited useful life, it is not possible to match the contribution with the benefits provided since these benefits are unlimited.

Therefore, we agree that contributions restricted for the purchase of capital assets that will not be amortized should be recognized as direct increases in net assets. This method allows the financial statements to present the asset on the statement of financial position, while not impairing a user's understanding of current year operations by excluding the inflow from current year income. The magnitude of donations of this kind are adequately presented to users in the statement of changes in net assets.

Question 18: What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution immediately in revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

The current methods for recognizing capital asset contributions are appropriate and provide sufficient decision-useful information to the users of the financial statements.

Question 19: Are there other methods for recognizing capital asset contributions that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?

The current methods for recognizing capital asset contributions are appropriate.

Question 20: Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?

Endowments are uncommon within our client base. More typically, we have seen clients with investments that are required to be held in perpetuity to generate investment income. We have not noted any specific circumstances in which it is difficult to determine whether a restricted contribution is an endowment.

Question 21: When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

In theory, as endowment funds are not available for use, presenting them as a direct increase in net assets will provide decision-useful information to users that the organization has those assets, but those inflows are not a current period revenue available to cover expenses. However, in practice, the flexibility of an accounting policy choice (i.e., reporting endowments as revenue in an endowment fund) should be maintained. As described in our response to Question 10, this alternative method also provides decision-useful information.

Question 22: When does recognizing endowments immediately as revenue provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

As described in our response to Question 10, the flexibility of an accounting policy choice should be maintained. One method does not necessarily provide more reliable or relevant decision-useful information than the other, as this determination would be highly dependent on the NFPO's nature, extent of operations and financial statement users' needs.

Question 23: Are there other methods for recognizing endowments that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?

We have not identified any other methods for recognizing endowments we believe should be considered.

Question 24: Are there scenarios when it is difficult or costly to determine how to allocate the income, expenses, gains and losses (both realized and unrealized) on endowments for accounting purposes? If so, what are the scenarios or factors that makes this assessment difficult?

Generally, when we do encounter NFPOs with endowments, the endowment funds are held in a separate investment account from the NFPO's other investments, resulting in minimal effort to allocate income and costs to the endowment funds.

The difficulty and cost of tracking unrealized gains is largely dependant on the types of investments made by the NFPO and the reporting provided by the investment manager. In some scenarios where the investment statements indicate only a current market value and do not provide the original cost of the investments, the tracking can be onerous for the NFPO's accounting staff.

Question 25: Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?

Other than the issues raised in the questions above, we have not frequently encountered any other issues in practice with accounting for endowments.

Question 26: Do you recognize bequests? If so, under what circumstances are they recognized? If not, why not?

Some of our clients do recognize bequests while many others do not. NFPO clients who do not recognize bequests often lack the necessary information to assess bequests given that they are uncertain by nature. Significant judgement is required to assess a bequest, and we concur with the existing standard that in many cases, since the amount to be received and the timing of receipt is often uncertain, bequests may not meet the criteria to be recognized as a receivable and as such should be recognized as revenue when and if received.

Question 27: As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?

Bequests by nature are significantly different than pledges. Bequests are often larger, infrequent, and the experience of one bequest does not necessarily translate to the next. For pledges, many NFPOs have significant experience in pledge drives – individual donations are relatively small per individual, and past pledge experience generally translates to the outcome of the current population of pledge receivables.

Bequests which indicate a certain percentage of an individual's estate will be donated have a large amount of uncertainty in determining the amount of the ultimate donation. Those which specify a dollar amount also have uncertainty in the amount that will be donated, as information regarding the available funds in the donor's estate and the priority of distribution may be unknown. Situations in which a bequest can arise may also be susceptible to legal dispute, creating further uncertainty regarding the amount and collectability of the contribution.

If an NFPO chooses to record bequests, we believe that the revenue recognition criteria for a bequest should follow the existing contributions receivable guidance. However, financial statement preparers and auditors would benefit from additional guidance as to the indicators to assess whether the amount and collectability are reasonably certain.

Given the complexity and the difficulty recognition of bequests creates for some NFPOs, it would be beneficial to provide an accounting policy choice to choose not to recognize bequests receivable. Instead, information could be disclosed about this policy choice and the information about bequests which is available to the NFPO, with recognition of bequest revenue occurring upon collection.

Question 28: For financial statements users, what additional disclosures relating to bequests would be useful? Why?

Current disclosures are adequate because they allow financial statement users to understand the nature and significance of these uncollected amounts to the organization's financial position.

Question 29: In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?

Among our clients, other planned-giving instruments would include pledges discussed in the next section, and instances where an NFPO will be named as the beneficiary of a life insurance policy.

Question 30: Do you track pledges? If so, how? If not, why not?

Some of our clients do recognize pledges while others do not. Because of the non-reciprocal nature of contributions, there may considerable uncertainty surrounding collectability.

Generally, NFPOs that recognize pledge receivables perform large pledge drives regularly and have historical experience to assess the ultimate collectability of the population of pledges. These NFPOs have fundraising targets and view the amount that was pledged in a certain period to be decision-useful information to users. When canvasing for pledges in the current year, it is beneficial for an NFPO to be able to present in its most recent financial statements the amount of pledges that resulted from the prior year's campaign.

For other NFPOs where pledges occur on a more ad-hoc basis, they do not have the resources nor historical trend or other information to track or adequately estimate collectability of pledges. Therefore, for these NFPOs, recognition of pledges would not be reliable information for financial statement users.

Question 31: Do you accrue pledges as a receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set up a provision for uncollectible amounts?

Please refer to our response for Question 30.

Question 32: If you previously recognized pledges but no longer do so, why did you stop?

We understand that many, particularly small, NFPOs lack the resources to adequately track pledges.

Question 33: Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time period or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how and what warrants different accounting treatment?

Some larger NFPOs may have pledges which are received in monthly payments. Where the use of the funds is not restricted, a question arises as to timing of revenue recognition. For example, in a pledge drive two donors commit to a $120 donation each, one committing to mail in a cheque, the other donor opting for a $10 monthly direct debit over the next 12 months. Financial statement preparers would benefit from guidance which ties together Section 4420 and Section 4410. While a donation paid over time may have reasonably certain collection under Section 4420, is the agreed timing of donation an inherent restriction on the timing of its use under Section 4410?

Question 34: For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?

As discussed in our response to Question 30, in practice it is more likely that it is useful for pledges to be recognized before they are received for larger NFPOs, that have the resources to track, and sufficient experience and expertise to assess, whether a pledge can be recognized. These larger NFPOs conduct large pledge drives and the amount pledged (if amount and collectability are reasonably certain) is decision-useful information for users of financial statements.

Question 35: For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?

As pledges receivable are a significant estimate, in addition to the amount of assets and revenue recognized for pledges receivable, it would be useful to provide financial statement users with the details of the total amount of uncollected pledges in current year, the allowance for uncollectible pledges, and the amount of revenue/expense recognized in current year for the difference between the prior year's allowance and the ultimate collection.

Where an NFPO does not recognize pledges receivable, it would be useful to inform readers of financial statements that the NFPO recognizes pledges receivable when collected. However, as these NFPOs do not recognize pledges receivable due to the inherent uncertainty of them, the disclosure should not provide any amount of unrecognized pledges. Disclosure of total amount of unrecognized pledges without reliable information about the expected allowance for uncollectible pledges would be misleading to financial statement readers.

Question 36: In addition to circumstances where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply the capital asset recognition exemption? If so, what are those reasons?

We concur with the position of the Advisory Committee and other stakeholders that removing the capital asset recognition exemption would disproportionately negatively impact smaller NFPOs that lack the resources to perform such a financial reporting analysis for their few assets.

Question 37: For financial statements users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision-useful? If no, why not? If yes, is this only the case under certain circumstances? What are those circumstances?

The current disclosure requirements are sufficient.

Question 38: If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?

The current revenue threshold is appropriate.

Question 39: If revenue is the appropriate metric to be used for an exemption, what is an appropriate dollar threshold to apply and why?

The current revenue threshold of $500,000 is appropriate. In practice, organizations that have proportionately more revenue are more likely to have more and/or complex assets for which recognition in the financial statements provides more useful information to financial statement users.

Question 40: Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues in excess of $500,000, capital assets must be recognized for the first time in accordance with Sections 4433 and 4434. How do organizations currently account for this transition? Are Sections 4433 and 4434 applied prospectively, retrospectively or is another transition approach used?

Most small NFPOs would apply the Sections prospectively, and not apply the option to make an adjustment to opening net assets at the date the Section is first applied. Some NFPOs however, may choose, and benefit from, the adjustment to opening net assets.

The choice made would depend on how material or significant to the entity the capital assets are, as well as the amount and reliability of information which is available. Lastly, the effort and resources available to the NFPO to compile the information would weigh into the decision.

Question 41: What are the benefits to fund accounting presentation, and what are the limitations?

The benefits and limitations of fund accounting presentation are discussed in Questions 42 and 43, respectively.

Question 42: Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?

Fund accounting is most beneficial when an NFPO is operating significantly different programs or divisions and the presentation assists users in assessing the management and governance of those programs or divisions and stewardship over their assets. In many other cases, the use of fund accounting is driven by funders requesting the NFPO apply fund accounting for ease of the funder identifying the resources they have contributed and the use thereof separately from the remainder of the NFPOs operations.

Some financial statement users are interested only in segregation into funds on the statements of operations and changes in net assets, while others are also interested in information regarding fund segregation on the statement of financial position.

In instances where an NFPO does not have significantly different programs or divisions, or specific reporting requirements from funders, fund accounting is generally not utilized.

Therefore, we maintain that one method does not necessarily provide more useful information than the other, and as such the accounting policy choice should be maintained.

Question 43: What challenges exist for NFPOs that prepare financial statements using fund accounting presentation?

In practice, the most apparent challenge is assessing which aspects of the NFPO to aggregate into funds for financial statement presentation. Too many funds presented provides information overload for users and creates difficulty in assessing the overall position and performance of the NFPO, while too few funds does not provide financial statement users with the key segregations which governance and management of the NFPO use for key strategic decision making.

We agree with the current approach, whereby an organization self-assess which funds to present and which information to aggregate as the key factors in making such decisions can vary from NFPO to NFPO.

Question 44: Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted and unrestricted? If so, what?

We believe that the current segregations provide decision-useful information regarding the governance of the NFPOs resources.

Question 45: For financial statements users, what information about classes of net assets is useful?

Financial statement users need to be able to understand the restrictions on use of the net assets which have been segregated into classes. This information is useful to determine an NFPO's ability to conduct its mandate in the future.

Question 46: Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?

As described in our response to Question 42, depending on the nature of the NFPO and its financial statement user's need, segregating the balance sheet items by restriction, beyond the total restricted net assets in each category, would have a varying degree of importance. Where specific assets have specific restrictions, reconciliation may provide some added benefit to allow users to understand the restrictions on each specific asset. However, in practice, such reconciliation may not add sufficient value to the users' understanding of the financial statements in comparison to the added effort this will require in financial statement preparation.

Question 47: Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?

Restricted cash and cash equivalents are disclosed when there is an external restriction on the use of the cash – for example, cash related to a deferred contribution liability, or to externally restricted net assets. In some cases, NFPOs also disclose the amount of cash and cash equivalents which is restricted for and supports the internally restricted net assets, such as internal reserve funds.

Restricted cash and cash equivalents may be distinguished through disclosure in the notes to the financial statements or presented as separate line items on the financial statements with appropriate note disclosure. The note disclosure which explains the restrictions on the cash provides reference to the additional information elsewhere in the financial statements relating to the restriction (e.g., deferred contribution liability disclosure, or the statement/schedule of net assets).

Question 48: For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What type of restrictions on cash and cash equivalents do users of financial statements want to be aware of?

Information regarding the amount and nature of restrictions over cash and cash equivalents is useful for readers. Readers of financial statements are most concerned with external restrictions which the NFPO must follow. Readers would have a secondary concern with internal restrictions on cash and cash equivalents which, while they can be changed by the entity, are representative of the NFPO's goals and governance process.

Question 49: For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?

Financial statement readers have the same concerns and information requirements for restricted investments as they do restricted cash and cash equivalents, as described in our responses to Questions 47 and 48. In addition, restricted investments are commonly in the form of endowments for which current disclosure requirements are appropriate. These disclosures provide users with information about the amount of restricted investments and the nature of the investment, which allows the user to assess how much income the restricted investment may expect to generate on an annual basis. This information helps users make decisions on how that income can be spent, and the quantity of other contributions the organization requires in the future.

We would be pleased to offer our assistance to the AcSB in further exploring issues raised in our response or in finding alternative solutions to meet financial statement users' needs.

MNP LLP is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, Indigenous, medical and legal professionals, not-for-profit organizations, municipalities and other public sector entities. In addition, our client base includes a sizable contingent of publicly traded companies.

Yours truly,

MNP LLP

Jody MacKenzie

Jody MacKenzie, CPA, CA
Director, Assurance Professional Standards Group

Please note: This is a reply from my perspective as the main financial accountant and financial statement preparer for a large NFPO, the University of Regina.

Question 1: Are there circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances?

> **Response 1:** No, I can't think of any.

Question 2: Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? If so, what are the issues and how might they be addressed?

> **Response 2:** I am not aware of any reason to scope-in unrestricted contributions.

Question 3: Are there circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?

> **Response 3:** No.

Question 4: Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?

> **Response 4:** No. We use Restricted Fund method in our financial statements. We recognize restricted contributions as revenue in the appropriate restricted fund when received or receivable.

Question 5: Do you think applying the recognition concepts for revenue to restricted contributions (i.e., a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?

> **Response 5:** No. I do not think this is useful or helpful for either the internal employees trying to manage this money or for the external users of NFPO financial statements. NFPO's should all be using the Restricted fund method, and should disclose the amount

of net assets that are externally restricted. This is not a difficult concept for users to understand. Users should not expect NFPO financial statements to be the same as For-profit financial statements, and I don't know why there is an expectation that they should be. Instead, users should be educated as to what a restricted fund balance means. That balance is just as meaningful as a deferred contribution balance, which is actually a more difficult concept to understand. From an internal perspective, we (at the University) need to record the revenue when it becomes available to spend. We can't wait until it has been spent, and then record it. This makes no sense to the people managing this money. The University of Regina has around 1,300 individual self-balancing restricted research funds, all being managed by individual researchers. These people look at revenues and expenses. They don't understand a balance sheet. They want to see the money, then they know they can spend it. Yes, it is true that we can run our internal accounting this way, and then make the appropriate adjustments for year end. These researchers won't be able to help us make those "appropriate adjustments" and we don't have enough research accounting staff to go through each of those 1,300 research fund contracts at each year-end just to move some of the balance from restricted fund balance to Deferred contribution balance. With respect to Restricted Expendable Trust Funds (contributions with terms of reference stating they can be spent for specific purposes), there are close to 800 individual self-balancing funds to be spent for 800 different purposes. Again, if there is revenue in one of these funds, we know it can be spent. It is in nobody's mindset that we should first spent the money, then record the contribution that we have already received. We would end up creating a set of financial statements that in no way looks like our actual books of record as we would not internally change our methods of tracking any of these restricted contributions.

Again, NFPO's should have different-than-business financial statements that include restricted funds if they are being provided with restricted contributions. And if they don't have a restricted fund in their financial records, they should create one or more for financial statement reporting. This wouldn't be much different than what a restricted-fund organization like U of R would have to do…to create several "fake" (but still auditable) funds in the background to record our year-end entries so that we can change over to using a deferral method for financial statement purposes when our internal books of account have many separate funds using a restricted fund method.

Question 6: Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liabilities are relevant considerations? If so, what are they?

Response 6: No. But if we are now considering ethical and moral duty as a reason to record a liability in our financial statements when we are not legally bound to refund a contribution, whose definition of ethical and moral should be used? Also, would this concept create an inconsistency with the Asset Retirement Obligation section in Part II where an ARO is set up only when there is a legal requirement to remediate or clean up something at some future date? There are likely many moral and ethical obligations to do future asset-area clean-up that nobody has yet been able to codify into law, but we are only required to record these ARO's when that legal obligation exists.

Question 7: Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?

> **Response 7:** A contribution can have 2 types of restrictions at the same time. For example, we often receive Research grants (so, restricted for research), but the grant specifies it is to be used only to purchase the equipment to be used in the research (so, restricted for Capital). We have both a Restricted Research fund and a Restricted Capital Fund. We have to choose, so we record this in the Restricted Research fund.

Question 8: Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?

> **Response 8:** Unless there is going to be extensive note disclosure on all the different types, along with the dollar value and timing of the different types, this accounting approach will provide no more decision-useful information than simply recording the restricted contributions as revenue in a restricted fund, and then observing the restricted fund balance.

Question 9: What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?

> **Response 9:** Is the money available to spend? Then record it as revenue so people know they have money to spend. Financial statement users will also then know that the organization has this restricted money still to spend.

Question 10: In addition to an approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by that method be useful to financial statement users?

> **Response 10:** Our users are interested in knowing how much money we are "bringing in" for research purposes. This includes our researchers, who would not understand at all a concept of deferred contributions. They would want to see the revenue recorded immediately. They would understand the concept that restricted fund balance means money on hand that can be used for research (even if some of that balance was created by a receivable). I firmly believe that a restricted fund method provides the most useful information for our users. Even if we used just a fund-accounting presentation, but not a restricted fund method of recording contributions, I feels users would be even more confused. Our main granting department of the provincial government is also quite interested in seeing money given to us as revenue. I have had phone conversations with them as they try to understand the revenue in our Capital fund, for example, and be able to tie in what they provided. I will say that recording a restricted grant when

received or receivable has some draw-backs. Our funder is on a March year-end, and we are on an April year-end. So when they vote on their April to March budget, and approve capital (restricted) funding, it becomes receivable to us, and we record it as revenue and contributions receivable in our fiscal year ending April, because it became receivable before April 30. So they provide it for their April 2020 - March 2021 fiscal year, for example, and we record it as revenue in our May 2019 - April 2020 fiscal year. The one fiscal year when they did not vote approval on their budget until May, we had no capital grant recorded in the previous fiscal year, and two year's worth of capital grant recorded the next year. However, this is still a preferred method. Our annual capital grant is called a Preventative Maintenance and Renewal (PMR) grant. It can flow into 30 or 40 or more different capital project funds which may or may not be capitalized. The project may be not started, may be partially underway, or may be complete within a fiscal year, it may be treated as not capital in nature, or may be recorded as work-in-progress, or may be capitalized. It may also have funding sources other than the PMR grant. Again, it might be a renovation at the request of a Faculty or Department, when some PMR money is put in to redo some HVAC and lighting, for example. I'm sure our main funder would not want to try to understand all the details and transactions that would have to take place to create that deferred contribution balance and the amount of revenue recognized for the year using the deferral and matching to amortization approach.

Question 11: Which approach for the recognition of revenue in Example 2 do you think provides financial statements users with the most decision-useful information and why?

Response 11: There is nothing in this Example #2 on page 13 of the Consultation Paper that gives any indication that these contributions are restricted for any purpose. If it is an annual campaign as stated, then the money is likely to be used for operations, and are unrestricted in nature. Therefore, it should be recorded when received, including the amount from the private contributor, which only has terms on <u>when</u> the money will be given, but no terms on <u>what</u> the money will be used for. This amount from the private contributor is just a pledge until paid after the campaign results were audited. So the question is actually more about what policy XYZ Charity uses to record pledges. And, unrestricted contributions are not a focus of this consultation paper.

Question 12: Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options to how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where you think that some or all of the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so, what circumstances?

Response 12: No comment.

Question 13: Do you recognize contributed materials and/or services? If so, how do you measure them? If not, why not?

Response 13: We do not recognize contributed materials except archival materials (fonds) of value for future research which is occasionally donated to the library, fair valued, and tax receipted. We do not recognize contributed services. We do not track these things, and the value, in any case, is likely to be quite immaterial.

Question 14: For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized? What, if any, disclosures would be useful when contributed materials and services are recognized?

Response 14: Perhaps for very small NFPO's whose main business is run mostly by volunteers dealing with donated materials, financial statement users would like to see contributed materials and services recognized to help them understand the scope of the work being carried out by that NFPO. However, if they are quite small, they likely don't have the capacity to track, value and record such things which are likely being run by various small committees reporting to other committees.

Question 15: For users of NFPO financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?

Response 15: Likely just the types of such materials and services and how those are used in the NFPO.

Question 16: What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial statements? For example, does amortizing the capital asset contribution provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Response 16: I'm assuming "capital asset contribution" in this question means either cash or the asset itself. Amortizing it into revenue might provide decision-useful information for a very small NFPO that doesn't use fund accounting, because having that amount sitting as positive net assets when it has already been spent, or can't be spent because it is a physical asset, might lead users/possible donors to think the organization already had enough money. Of course, disclosure of this piece of net assets as "invested in capital assets" would also get around that issue, and avoid the extra burden of trying to track each contribution relative to each asset, and of developing and disclosing a deferred contribution reconciliation in the financial statements. I would like to express my concern that it will be extremely difficult for a large NFPO with multiple funds and multiple funding sources, which uses the Restricted Fund method, to change to an approach where capital contributions, of either the cash or the asset itself, are tracked to the individual asset and amortized into revenue over the life of its related asset. There may also be a lack of data to support any form of retroactive restatement. We currently have 3 amortizing buildings, and 50 amortizing Site Improvement assets on our books that were built prior to our current Enterprise Resource Planning system, which we implemented in 1997. We would have no records to determine how each building or site improvement was funded (debt, grant, donation, unrestricted). We also have 375 separately capitalized, and still amortizing, buildings, upgrades, renovations, revitalizations, and site improvements, each of which may have been funded by donations, capital grants or internal transfers, or a mixture. We have just over 1200 individual, still amortizing assets that were purchased with money from a research fund. We can't tell without much more work if they were externally restricted research funds or internally restricted research funds. For all research assets, the research fund transfers money to the capital asset fund for any capitalized assets, and those assets amortize into the Capital asset fund. The revenue was in the Research fund, but the amortization is in the Capital fund. For another concern, if a Research contribution agreement allows for the purchase of assets to accomplish the required research, but overall, the goal is the research, would the contribution be amortized into revenue only when the research goals have been met, or when the asset is amortizing, which might have a longer life than the research project (ex. 3-year research project, but 8 year life for research lab equipment, which will continue to be used by the organization after the research project has finished).

Basically, what I'm trying to say is that prescribing the approach where Capital Contributions are amortized into revenue as the asset purchased with that contribution is amortized into expense will create a huge burden on larger NFPO's with high volumes and varieties of asset. We might be large, but we still are a NFPO with very limited resources and no great abundance of research or other accountants to try to implement this or keep it going into the future.

Question 17: What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increases in net assets would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Response 17: Recognizing non-depreciable capital asset contributions as direct increase in net assets would provide decision-useful information, or would at least be less misleading, when an organization does not use fund accounting. When an organization uses fund accounting, and has a capital asset fund, it makes no different.

Question 18: What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution immediately in revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Response 18: I'm assuming the two different terms in the question - "contributed capital asset" and "capital asset contribution" - are both intended to mean either cash or the asset itself. Recognizing these contributions immediately in revenue provides decision-useful information when an NFPO uses fund accounting. Anyone looking at research revenue, for example, would want to see as revenue the money brought in for spending on research, even if some of that money is to purchase the research assets used to carry out the research. It also would be useful information for a main funder, such as the provincial government, who wants to see that the organization is trying to find other sources of resources/income.

Question 19: Are there other methods for recognizing capital asset contributions that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?

Response 19: Other than a deferral method or immediate recognition method, I don't know of any others that should be considered.

Question 20: Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?

Response 20: No. It is not difficult.

Question 21: When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

Response 21: It should make no difference (direct increases in net assets vs revenue) as long as it is consistent for all endowment items for a given entity, and disclosed.

Question 22: When does recognizing endowments immediately as revenue provide decision useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

Response 22: It should make no difference (direct increases in net assets vs revenue) as long as it is consistent for all endowment items for a given entity, and disclosed.

Question 23: Are there other methods for recognizing endowments that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?

Response 23: I can't think of any.

Question 24: Are there scenarios when it is difficult or costly to determine how to allocate the income, expenses, gains and losses (both realized and unrealized) on endowments for accounting purposes? If so, what are the scenarios or factors that makes this assessment difficult?

Response 24: It is quite tricky for our organization, but we have methods and policies in place that help. We currently have around 390 separate Endowment Funds and 556 Expendable Endowment (Trust) funds that are managed all together for investment purposes. Each of the 390 Endowment funds has a sister Expendable Endowment fund where the expendable investment income would be recorded. Monthly, the investment income/gain/loss, realized and unrealized together, net of expenses, is allocated to the 556 Expendable funds based on the prorata balance in each fund plus the balance in the sister endowment fund if it has one.

Question 25: Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?

Response 25: We have some endowments that were donated, to be held permanently, and are to be used for emergency student loans. Sometimes the students default, meaning we have to write off the loaned amount, which actually creates an expense in an endowment fund…generally not something that should happen. This is rare, and the amounts are immaterial when it does happen. In other cases, we sometime receive a donation, and therefore under the restricted fund method have to record it, but our Advancement Office is still working out the donor agreement and nobody is quite sure whether the donor wants it to be Endowment or fully expendable etc. We record it as Expendable (in restricted Trust fund) until we know, and then, if a year-end takes place in between, use an interfund transfer to move it to Endowment. I'm not sure how to resolve this one…if we don't know. We feel it is better to record it this way than to record it first in Endowment and then have to interfund transfer it over to Expendable Trust.

Question 26: Do you recognize bequests? If so, under what circumstances are they recognized? If not, why not?

Response 26: We don't recognize bequests until the money or items have been received. We most often don't know the amount, or the fair value if a gift-in-kind, of what we will be receiving. We have many bequests in the works, but this is all under the oversite of a development/fundraising area who is also dealing with hundreds of pledges at the same time. The Finance area has never asked them to look at each bequest one at a time to try to determine what state it is in, what they estimate the actual amount received will be, and when they expect it.

Question 27: As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?

> **Response 27:** We have some people that purchase life insurance for themselves with the University as the Beneficiary. We record the premiums as the donation, but not any expected proceeds, as these are usually annual premiums that must be paid, and if the donor doesn't pay, we would get nothing. (at least that is my understanding).

Question 28: For financial statements users, what additional disclosures relating to bequests would be useful? Why?

> **Response 28:** None, other than that some bequests may exist.

Question 29: In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?

> **Response 29:** No comment.

Question 30: Do you track pledges? If so, how? If not, why not?

> **Response 30:** Yes. The University has a major piece of software that now includes a Customer Relationship Management (CRM) piece as well as donation and pledge tracking by individual and corporate donor. It has been in place now for 2 years. We previously used a module in our main ERP system, but it did not have the CRM piece and did not have as much reporting capability.

Question 31: Do you accrue pledges as a receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set up a provision for uncollectible amounts?

> **Response 31:** No. We do not record pledges receivable except for one large, 5-year corporate pledge where the contribution agreement has a clause making it appear to be legally binding.

Question 32: If you previously recognized pledges but no longer do so, why did you stop?

> **Response 32:** We used to record all corporate pledges payable up to 5 years into the future as pledges receivable using the justification that these are all major businesses that would honour their pledges and would not default as it would be "bad publicity". After about 3 years in a row of corporate "changes in direction" resulting in millions of dollars of pledge write-offs, we determined we could in no way be assured of the collection of such pledges. We stopped adding new pledges receivable, and slowly reduced the ones we had recorded as they were received (or written off) over the 5

years following that decision. With respect to pledges from individuals, I am not aware if our Development office has any collection rate statistics from annual campaigns or if they even have regular annual campaigns. I haven't had the need to ask for this as annual campaigns generally target individuals, and we have never recorded pledges from individuals. What I usually see are pledges created more often from special campaigns for special purposes, and often include corporate pledges following a period of gathering pledges from "the family" or university faculty and staff.

Question 33: Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time period or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how and what warrants different accounting treatment?

Response 33: We are now keeping our eye out for pledges that have clauses that look like they would be legally binding and enforceable and would record these pledges as receivable. I'm concerned with blending this concept of recording pledges receivable with the concept of deferring a contribution if it hasn't been spent yet for the required purpose. We would just be messing around on the balance sheet. I can't see how it would provide better information for any user to have receivables grossed up and deferred contributions grossed up (since we can't record it as revenue if it hasn't been spent yet). This is also excessive work for the people trying to prepare the financial statements and many others in the organization for very limited value to the end user who can just as easily look at note disclosure describing the amount of outstanding pledges.

Question 34: For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?

Response 34: I don't think it is any more useful to recognize pledges in the financial statements than to disclose the amount of unrecorded pledges. I also think it is incorrect. It's almost like recording a contingent gain, which we of course don't do based on Part II Section 3290.17 Contingencies, even if the receipt of such a gain is measured as "likely". The receipt of pledges is contingent on each person or corporation's future ability to pay and whims, and, it is like a gain to an organization because it is not based on an exchange of goods. Even if an organization can use past history to estimate an amount that is likely to be collectible, this is still a "likely" measurement of uncertainty, and should be treated the same as required by the Contingencies section 3290.

Question 35: For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?

Response 35: It might be useful not only to disclose the amount of unrecorded pledges, but maybe to disclose the dollar value of pledges that are from corporations and the amount from individuals, at least for larger NPOs.

Question 36: In addition to circumstances where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply the capital asset recognition exemption? If so, what are those reasons?

Response 36: I think that this exemption should not exist. If an organization is that small, they likely have only a few assets, which should not be too difficult to track, and if they actually have many assets, then financial statement users should know this.

Question 37: For financial statements users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision-useful? If no, why not? If yes, is this only the case under certain circumstances? What are those circumstances?

Response 37: I haven't really paid any attention to what the disclosure requirement for this is. What I do know, after having had dealings with a joint venture that uses "accounting rules as set by the joint venture partners", and those rules did not require asset capitalization or disclosure, is that this is a horrible state for a set of financial statements to be in. The user has absolutely no line of site as to the assets owned by such an organization, and I'm not sure the organization has a line of site either. It could be millions of dollars of assets, and the only way to try to determine this data is to go back through years and years of financial statements looking for purchases of assets and try to add these up.

Question 38: If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?

Response 38: No comment.

Question 39: If revenue is the appropriate metric to be used for an exemption, what is an appropriate dollar threshold to apply and why?

Response 39: No comment.

Question 40: Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues in excess of $500,000, capital assets must be recognized for the first time in accordance with Sections 4433 and 4434. How do organizations currently account for this transition? Are Sections 4433 and 4434 applied prospectively, retrospectively or is another transition approach used?

Response 40: No comment.

Question 41: What are the benefits to fund accounting presentation, and what are the limitations?

Response 41: It is beneficial that users can focus in on the areas that are most important to them (see response to Question 42). The Board can also focus on those areas most consuming of their decision-making time…the General funds and the Capital Fund. The limitation is that I don't have enough space in the page and the numbers in the statements can get quite small. I don't see other limitations, other than that users of such statements really have to put on their Not-for-profit hat…they need a basic understanding of why a set of financial statements might look like this.

Question 42: Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?

Response 42: It is more useful when an organization truly has distinct types of funds that users are interested in knowing about. Students are interested in know what our Trust funds (expendable endowment) look like, as they are mostly for scholarships. Many of our users are keenly interested in seeing research funds separately and in comparing between Universities. We have users quite interested in seeing our Ancillary funds as separate from our other General, unrestricted funds. We also have a category of funds called Special Project Funds, which are part of our General Funds, but whose fund balances are treated as Internally restricted at each year end. At our most recent year-end, there were just over 400 individual Special Project funds in this grouping. It is more useful to see these distinct types of funds shown separately than all grouped into one column. Donors and the Board want to see the capital fund and what type of physical repair or expansion activities are taking place. We also have a separate Vacation Pay and Pension Accrual Fund in our General Fund to purposely segregate and highlight the impact of these accruals that will need to be funded in future years and not have them blended into our Operating fund creating a large negative fund balance at the current time.

Question 43: What **challenges** exist for NFPOs that prepare financial statements using fund accounting presentation?

Response 43: Interfund transfer disclosure is a lot of work, and quite a challenge. We spend hours and hours working with the data. At our most recent year-end, when we pulled the data of all line items of interfund transfers for the year, we had just over 3,300 rows of interfund transfers. Since we provide disclosure on transfers between the 3 main funds (General, Restricted, Endowment), we first review those 3,300 rows of data to remove transfers back and forth within an individual group. For example, there might be transfers in the General Fund between the Operating Fund and the Special Projects fund…we remove that from the datadump. Once we narrow it down to just the transfers between the 3 main groups, we had around 2,500 rows. Then, each row of transfers gets looked at and classified into categories of transfers, such as Support for Grad Scholarships, or Admin Support from Research, or Support for Research, or Support for Student Aid, or Asset purchases recorded in Restricted Fund, etc. Regardless of the effort, I still think this is valuable information, and would be missed if we were using a 1-column approach with no visible interfund transfers and no need for interfund transfer disclosure.

Question 44: Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted and unrestricted? If so, what?

Response 44: Although no longer required, U of R also discloses “Invested in Capital Assets” as a category of internally restricted assets. We still believe this is an important category of disclosure. This can be a tricky calculation when new building construction or large revitalizations to buildings are underway as funding (cash used to pay the bills) might include both internal resources and some from debt financing. We must exclude the debt-funded portion from “Invested in Capital Assets”. Determining the externally restricted portion vs internally restricted portion of net assets in the Restricted Capital Asset fund is also tricky. At the most recent year-end, we had around 260 individual, self-balancing, capital project funds with a net asset balance. If the project is funded by way of interfund transfer from another University Fund, it is considered internally restricted. This happens, for example, when a Faculty or Admin Department wants something renovated, such as a main office overhaul. They transfer the funding from their operating funds into a specific capital project fund, where the work is carried out. The projects funded internally and the projects funded by external grants or donations are not separated into different fund-groups, but are intermingled in our Chart of Accounts. At year-end, we must go through them to determine how each one was funded to classify the balance as either externally or internally restricted. The other types, such as endowments, externally restricted research, externally restricted expendable endowment (i.e. Trust), and their internally restricted counterparts all have separate groupings for the individual Funds, so there are no issues in practice with categorizing net assets into these groups.

Question 45: For financial statements users, what information about classes of net assets is useful?

Response 45: Our main funder, the provincial government, is most likely interested in the non-restricted and the internally restricted net asset balances. We do extra reporting for them and meet with them to help them understand the composition of these net assets and what the planned future uses are. As noted in Response 44, we also still think that Invested in Capital Assets is important disclosure for financial statement users since that balance is around four times the balance of the remaining Internally restricted fund balance. To just leave that balance as Internally restricted is misleading to users. It leads them to believe that money is available to spend. I still don’t feel that an amount invested in capital assets should be considered Internally Restricted. It has already been spent. If the assets are sold, and money brought in, then that money could be considered internally restricted.

Question 46: Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?

Response 46: I don't know. A user has never asked us for this information.

Question 47: Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?

Response 47: Our statement of cash flows is broken down by General, Restricted, and Endowment. The Restricted fund column reconciles opening and closing cash in the restricted fund. We don't describe the composition of this balance anywhere else in the financial statements (such as how much relates to Research, or Expendable Endowment, or capital assets).

Question 48: For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What type of restrictions on cash and cash equivalents do users of financial statements want to be aware of?

Response 48: I would imagine that if an NFPO was small, and liquidity was a regular issue, it would be important for users to understand if any of the cash that appears to be present is actually restricted and can't be spent.

Question 49: For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?

Response 49: I think users need to know simply that they are restricted, but I'm not sure what is meant in the question by "type of restriction". Our Statement of Financial Position is one column with all investments recorded together. There is then note disclosure on the types of investments, and disclosure of the balance of investment in each of Endowment, Trust (ie expendable endowment) and Capital. If by "type" of restriction, you mean Endowment, or Trust etc, then, yes, this is likely something users want to be aware of. However, this doesn't mean the investments can't be liquidated. We could liquidate all the Endowment Investments as our choice of action, with the cash then belonging to the Endowment fund as restricted cash. So care should be taken when describing restricted investments to not lead a user to thinking an entity is restricted from liquidating the investments.

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Kelly Khalilieh, CPA, CA
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December 15, 2020

Dear Ms. Khalilieh:

Ernst & Young LLP ("EY" or "we") welcome the opportunity to provide comments to the Accounting Standards Board ("AcSB") on the consultation paper on Contributions – Revenue Recognition and Related Matters (the "Consultation Paper"). Our responses to the specific questions posed in the Consultation Paper are included below.

Comments on Specific Questions Requested by the AcSB

1. Are there circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances?

   No, we are not aware of any circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes.

2. Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? If so, what are the issues and how might they be addressed?

   Yes, we are aware of issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project.

   We have identified inconsistencies relating to when unrestricted contributions should be recognized as receivable. While Section 4420.30 provides specific guidance as to which criteria must be met in order for contributions receivable to be recognized as an asset, this is not referred to in relation to paragraph 17 of the Consultation Paper, whereby the commentary states "all unrestricted contributions are recognized as revenue when received". This is further inconsistent with the guidance provided in Section 1001.43, which states that "such revenues are generally recognized when received or receivable". We believe further clarification and consistency should be made relating to when unrestricted contributions receivable should be set up as an asset, specifically as it relates to pledges. We have provided our comments on the issues we have identified relating to the recognition of pledges as receivable in the pledge-specific questions, 30-35.

3. Are there circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?

   Yes, we have identified circumstances under which it is difficult to determine whether a contribution is externally restricted.

   Paragraph 16 of the Contribution Paper states that "Restrictions imposed through a policy posted by management or the board of directors on an organization's website would also not be considered externally imposed". However, in circumstances under which an organization has clearly indicated *on their website what the purpose of the contributions will be and what the intended restrictions associated with the proceeds are, it would be reasonable for the contributor to believe that his or her contribution will used exclusively for the purpose identified by management or the board on the website, thereby acting as a restricted contribution.*

Additionally, we have identified numerous instances in practice whereby the restrictions associated with a contribution have been verbally communicated between an organization and a contributor, however, the contribution itself does not contain sufficient detail as to the nature of the restrictions. In these situations, there has been difficulty in assessing whether a contribution is externally restricted, resulting in variability in practice.

Another frequent situation where difficulties have been identified in determining whether a contribution is externally restricted relates to the recognition of restricted contributions specified for certain expenditures when there are available unrestricted contributions to fund such costs. We have identified variability among organizations whereby some organizations will recognize restricted contributions to the extent that the associated expenses have been incurred, while others will utilize the unrestricted contributions first and then defer the restricted funding to future periods.

Furthermore, we have identified difficulties in determining whether a contribution designated for use by an organization for priority initiatives should be considered externally restricted, as some NFPOs view this as an external restriction due to the imposition of a requirement as to what the contributions can be used towards, whereas other NFPOs have concluded that because the organization ultimately has the discretion as to how the contribution is used, the contribution is unrestricted in nature.

Additional circumstances where it is difficult to determine whether a contribution is externally restricted, or where there is a lack of clarity as to how the restricted contribution should be accounted for include when an unrestricted contribution is provided to an NFPO, to which the donor is provided some form of recognition, for example, when an organization names a building containing the donor's name. Such an action could result in the perception that the contribution is restricted for a specific use, such as for ongoing maintenance of the named building.

4. Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?

   No, there are no circumstances under which we consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution. Section 4410 provides sufficient guidance.

5. Do you think applying the recognition concepts for revenue to restricted contributions (i.e., a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?

   Yes, we believe that the application of the recognition concepts for revenue to restricted contributions provides decision-useful information based on the type of NFPO in question. Users of NFPO financial statements that place greater emphasis on the bottom-line of operations are more *likely to find the application of the recognition concepts for revenue to restricted contributions relevant and decision-useful. These concepts provide users with meaningful information as to the operating results of an organization whereby restricted contributions are recognized in the same period as the associated expenses incurred. We tend to see these types of organizations using the deferral method for presentation. However, for those NFPOs where individual line items within the financial statements are of greater importance to users of the financial statements (for example, charitable foundations), these recognition concepts are not as meaningful in providing decision-useful information as they do not align with the measures of success that are relevant for users of these financial statements, such as total contributions received by an NFPO by fund. We tend to see these organizations using the restricted fund method for presentation.*

6. Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liabilities are relevant considerations? If so, what are they?

   No, we are not aware of any other aspects of accounting for restricted contributions for which the definition of assets and liabilities are relevant considerations.

   However, as the commentary discusses in paragraph 22, there are alternative views on how the definition of a liability is to be applied to restricted contributions, specifically in relation to paragraph 1001.23, which highlights that obligations do "not have to be legally enforceable provided they otherwise meet the definition of liabilities; they can be based on equitable or constructive obligations".

   The definition of a liability from Section 1001 Paragraph 1001.28 defines a liability as an "obligation of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services, or other yielding of economic benefits in the future".

   When an NFPO receives a restricted contribution, they are agreeing to the associated restrictions and therefore have an obligation to the contributor to utilize the proceeds received for the purpose specified, with no discretion to spend the proceeds otherwise. The settlement of the costs incurred to satisfy the restricted purpose will occur at a future date through the use or transfer of assets. Therefore, we believe that the definition of a liability is met once the restricted contribution has been received and the associated restrictions have not yet been met, regardless of whether the restricted contribution has a condition of refundability.

7. Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?

   Yes, there are additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider.

   The additional characteristics that the Board should consider include consideration of the actions that must be performed by an organization in order to meet the recognition criteria for revenue, such as in the circumstances whereby an organization provides the contribution received by a contributor to a third party to perform the activities associated with restrictions of the contribution. We believe that additional consideration should be given as to whether revenue should be recognized at the *time of the transfer of funding, or at the time the third party incurs the costs and satisfies the restrictions set out by contributor.*

8. Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?

   Yes, we concur that an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements.

9. What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?

   We agree with the preliminary characteristics identified by the Board that could be relevant when considering when to recognize a contribution as revenue, apart from the criteria for the refundability of the contribution in paragraph 24 of the Contribution paper, as noted in Question 6, as we do not believe that refundability is a relevant determinant of when to recognize a contribution as revenue as long as the contribution has been received and the restrictions imposed have not yet been satisfied.

   Likewise, in addition to our comments in Question 6, we believe consideration should also be given to the definition of a liability when an externally imposed restriction on the refundability of restricted contributions exists. For example, contributions provided to Canadian NFPOs are not permitted to be refunded in circumstances where a charitable donation tax receipt is provided to the contributor for income tax purposes, as set out by the rules defined by the Canada Revenue Agency. Therefore, in these situations, restricted contributions cannot be refunded regardless of whether or not the restrictions have been met.

10. In addition to an approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by that method be useful to financial statement users?

    The financial statement presentation approach using the restricted fund method of accounting for contributions is an approach that provides decision-useful information in NFPO financial statements. The use of specific funds for the presentation of restricted contributions, endowment funds and unrestricted funds allows users of NFPO financial statements who are most interested in individual financial statement line items, such as total contributions received, to view all contributions recorded within the revenue line.

11. Which approach for the recognition of revenue in Example 2 do you think provides financial statements users with the most decision-useful information and why?

    We believe that that Approach B for the recognition of revenue in Example 2 provides financial statement users with the most decision-useful information. The main characteristics that signify the completion of a performance obligation and that the contribution has been earned are related to the number of discrete donations received and the value of total donations received, whereas the audit requirement characteristic of the agreement reaffirms that the actual performance characteristics have been achieved. The donation, however, could represent either a pledge or a receivable *depending on whether an enforceable claim exists, and as such would be required to adhere to the applicable guidance based on the nature of additional information outside this example.*

12. Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options to how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where you think that some or all of the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so, what circumstances?

    No, we do not believe there are other options on how the contribution in Example 2 could be recognized. The characteristics of the agreement make clear that a minimum of 500 separate donations must be received during the campaign in order to receive the additional $10,000 contribution. If this amount is not received, regardless of how close XYZ Charity is to receiving 500 donations, no additional contribution will be received. Therefore, without knowing if XYZ Charity will reach this target, no amounts should be recognized.

13. Do you recognize contributed materials and/or services? If so, how do you measure them? If not, why not?

    No, contributed materials and/or services are not typically recognized. The main instances in which we have seen organizations recognize contributed materials and services are when the materials and services represent a significant portion of the NFPO's resources, or when the receipt of contributed materials and/or services are essential to the NFPO's operations. In these instances where an organization recognizes materials and/or services, measurement is based on the fair value of the contributed materials and/or services, and is also usually based on a unit of measure that is applicable to the NFPO's industry.

14. For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized? What, if any, disclosures would be useful when contributed materials and services are recognized?

    We believe that although a policy choice should continue to be available for NFPOs for recognizing contributed materials and services, the recognition of contributed materials and services would be more useful when they represent a significant amount of an NFPO's resources and/or are essential to the operations of the organization. The recognition of contributed materials and services would demonstrate the importance and significance of these contributions to the operations of such an NFPO.

    The associated disclosures that would be useful to users of NFPO financial statements when materials and services are recognized include a description of the type and nature of the contributed materials and services, the measurement basis used, and the amount recognized in the financial statements.

15. For users of NFPO financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?

    The disclosures related to contributed materials and/or services that would be useful if contributed materials and services are not recognized include the type and nature of any materials and services contributed, as well as the significance of those contributions to the organization. Additionally, we *believe that related party disclosures required under Section 4460.07(b) are of particular significance as they provide users of NFPO financial statements with greater transparency and enhanced comparability of operating results and funding mechanisms for expenditures among NFPOs that have contributed materials and services from related parties and those that do not.*

16. What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial statements? For example, does amortizing the capital asset contribution provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

    We do not believe that there are any circumstances under which amortizing capital asset contributions to revenue as the asset is depreciated would not provide decision-useful information in NFPO financial statements. We believe anything contrary to this approach would result in information that is not decision-useful to the users of NFPO financial statements and results in a consistent operational impact as accounting for similar contributions in Parts I and II of the CPA Canada Handbook.

17. What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increases in net assets would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

    We have not identified any circumstances in which recognizing non-depreciable capital asset contributions as direct increases in net assets would not provide decision-useful information in NFPO financial statements.

18. What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution immediately in revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

    We have not identified any circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements. Only those contributed assets that do not meet the definition of a capital asset should be recorded immediately in revenue. This would provide more decision-useful information to users of NFPO financial statements to demonstrate that the NFPO does not intend to use the contributed asset in the ordinary course of operations.

19. Are there other methods for recognizing capital asset contributions that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?

    No, there are no other methods for recognizing capital asset contributions that we believe should be considered. We have given consideration to Part I and Part II of the CPA Canada Handbook – Accounting, which provide an organization with the option of recording a contribution for the purchase of capital assets against the cost of the asset itself; however, we believe this option should *not be considered for NFPOs given that the frequency and significance of contributions relating to the purchase of capital assets is often of a greater magnitude than for entities in the for-profit sector.*

20. Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?

    No, we do not believe that there are circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes.

    However, in reference to paragraph 37, we do not believe that there is a difference between the legal definition of an endowment and the accounting definition. If the contribution must be held in perpetuity for legal purposes and meets the legal requirements to do so, then the contribution would meet the definition of an endowment for accounting purposes as well. Additionally, we believe that contributions that are currently being accounted for as endowments, despite not meeting the definition of such per Section 4410, are not a reflection of additional circumstances for which consideration should be given, but rather the incorrect application of the guidance within the standard.

21. When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

    We believe that recognizing endowments as direct increases in net assets provides decision-useful information in NFPO financial statements for all NFPOs that use the financial statement presentation using the deferral method of accounting, due to the nature of endowment contributions being restricted from use in operating activities of the organization. A direct increase in net assets provides decision-useful information by illustrating that the contributions are not available for use to satisfy the NFPO's operating activities, as opposed to if the contributions were to be recognized in revenue. We believe that the nature of endowment contributions is similar to that of trust funds, and therefore that the recognition of endowment contributions as direct increases in net assets for financial statements presented using the deferral method of accounting is comparable to the exclusion of trust under administration from recognition in financial statements prepared in accordance with the CPA Canada Public Sector Accounting Handbook.

22. When does recognizing endowments immediately as revenue provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

    Recognizing endowments immediately as revenue provides decision-useful information in NFPO financial statements for NFPOs that use the financial statement presentation using the restricted fund method of accounting. Users of these financial statements place a greater emphasis on the aggregate contributions received by fund type to evaluate the performance of an NFPO rather than the bottom-line, and therefore, segregating endowment contributions received into a separate fund within revenue provides decision-useful information on the nature of the endowment contributions.

23. Are there other methods for recognizing endowments that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?

    Yes, there is another method for recognizing endowments that we believe should be considered.

    Recognizing endowments in a section of the balance sheet that is separate from liabilities and net assets would provide decision-useful information. This would illustrate that the contributions are externally endowed and therefore not available for use by the NFPO for operating activities, as well as demonstrate that they do not meet the definition of a liability.

24. Are there scenarios when it is difficult or costly to determine how to allocate the income, expenses, gains and losses (both realized and unrealized) on endowments for accounting purposes? If so, what are the scenarios or factors that makes this assessment difficult?

    Yes, there are scenarios where it is difficult or costly to determine how to allocate the income, expenses, gains and losses on endowments for accounting purposes.

    One complex scenario where we have identified difficulties is related to endowment balances that contain internally endowed amounts. This is because internally endowed funds are not restricted, and therefore the income earned must be accounted for separately.

    We note that trust law provides a framework for which most endowments are maintained, under which there is no specification as to the maintenance of the original principal amount. This adds complexity for accounting purposes as the capital balance of the investment may be less than the original principal amount of the endowment, as a result of the capital amount being adjusted by any gains and losses in accordance with trust law, with dividends and interest being available to use.

    Additional complexities arise with how organizations invest in today's environment in different alternative investments, and then try to determine investment gains and losses vs dividends and interest available for spending. For this reason, many organizations today have taken a different approach to this by determining what a reasonable long-term rate of return is on investments, and then use this as a proxy to calculate what the amount available for spending is on an annual basis. The excess or deficiency of total investment income (including realized and unrealized gains/losses, interest and dividends) over the amount calculated as available for spending is then added or subtracted from the endowment balance as a proxy of what the gains/losses would otherwise have been under trust law.

    Therefore, the framework provided by trust law for the management and maintenance of endowment funds results in income associated with endowments that are different than those required for accounting purposes, resulting in difficulties and costliness for the accountant to recalculate the amount of investment income for accounting purposes.

25. Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?

    Yes, there are other issues in practise with accounting for endowments, specifically those addressed in paragraph 37 of the Contribution Paper. We believe that amounts transferred into endowments which are not subject to external restrictions and do not meet the definition of an endowment *contribution for accounting purposes should be presented or disclosed as transfers to the endowment balance, with separate disclosures of amounts internally and externally endowed.*

26. Do you recognize bequests? If so, under what circumstances are they recognized? If not, why not?

    Yes, bequests should be recognized depending on the circumstances involved. When the bequest relates to a person who is alive, a bequest should not be recognized as no transfer of assets will occur until the person has passed and their will becomes enforceable, and also because their will may be changed at any point during their life. As such, the criteria in Section 4420.03 regarding reasonable assurance of ultimate collection may not be met. In contrast, for bequests left by a person who has passed, the bequest should be recognized as revenue in accordance with the recognition criteria of 4420.03 as an enforceable right exists.

27. As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?

    Yes, the characteristics of a bequest affect whether and when they are recognized. In addition to our comments in Question 26, the primary characteristic of a bequest that would affect whether it should be recognized is whether it meets the revenue recognition criteria in Section 4420.03.

28. For financial statements users, what additional disclosures relating to bequests would be useful? Why?

    We do not believe that any additional disclosures relating to bequests would be useful for financial statement users.

29. In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?

    The other types of common planned-giving instruments which are often donated include life insurance policies, charitable remainder trusts and annuities. These other instruments contain different characteristics and factors for which the timing and recognition criteria must be assessed on an individual basis.

30. Do you track pledges? If so, how? If not, why not?

    Yes, pledges are frequently tracked, particularly by those NFPOs that solicit pledges. Tracking is performed in order to follow up with donors on pledged amounts and receive the benefits of such when they become due.

31. Do you accrue pledges as a receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set up a provision for uncollectible amounts?

    No, in general, pledges should not be accrued as a receivable as there is no enforceable agreement in place to collect the pledged amount.

    The only instances in which we have identified accrued receivables in relation to pledged amounts relates to pledges that have been received by the audit report date, as there is sufficient evidence of collectability of the pledged amounts, whereby a reasonable and reliable estimate can be made.

32. If you previously recognized pledges but no longer do so, why did you stop?

    We have not identified instances in which pledges were previously recognized but no longer are.

33. Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time period or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how and what warrants different accounting treatment?

    Yes, the varying nature of the pledges will affect how and whether they are recognized. Each pledge that has been made should be separately assessed for whether the recognition criteria have been met.

34. For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?

    We believe that pledges should generally not be recognized before they are received, as pledges do not represent an enforceable right to collect amounts pledged. Therefore, we believe that pledges should only be recognized before they are received if the recognition criteria have been met,

35. For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?

    We do not believe that any additional disclosures relating to pledges would be useful to users of financial statements. We believe that the existing disclosure requirements are sufficient when appropriately applied.

36. In addition to circumstances where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply the capital asset recognition exemption? If so, what are those reasons?

    In addition to circumstances where the cost of the information outweighs the benefits to financial statement users, the only other circumstances that we have identified where NFPOs currently choose to apply the capital asset recognition exemption is when an organization has concluded that the impact of such exemption would not be material to the users of the NFPO financial statements.

37. For financial statements users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision-useful? If no, why not? If yes, is this only the case under certain circumstances? What are those circumstances?

    Yes, we believe that the information required to be disclosed about capital assets is sufficient and decision-useful for financial statement users, and that this is applicable under all circumstances.

38. If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?

Yes, we believe that if the exemption is retained, it should continue to be based on a revenue threshold.

39. If revenue is the appropriate metric to be used for an exemption, what is an appropriate dollar threshold to apply and why?

    We believe that the current thresholds for the revenue metric being used for the exemption are reasonable.

40. Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues in excess of $500,000, capital assets must be recognized for the first time in accordance with Sections 4433 and 4434. How do organizations currently account for this transition? Are Sections 4433 and 4434 applied prospectively, retrospectively or is another transition approach used?

    We have not encountered any organizations who have undergone this transition.

41. What are the benefits to fund accounting presentation, and what are the limitations?

    The benefits to fund accounting presentation is that the presentation allows users of the financial statements access to more transparent and disaggregated information by the different types of operations occurring within the NFPO.

42. Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?

    Fund accounting provides information to financial statement users that is more useful than financial statements not prepared using fund accounting when users of the NFPO financial statements are more interested in the various types of operations occurring in an organization.

43. What challenges exist for NFPOs that prepare financial statements using fund accounting presentation?

    We have not identified any challenges that exist for NFPOs that prepare financial statements using fund accounting presentation.

44. Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted and unrestricted? If so, what?

    No, we are not aware of any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted and unrestricted. However, we believe that it would provide addition transparency and decision-useful information if Section 4400 separately include reference to the existence of internal endowments, including additional disclosure of any such amounts.

45. For financial statements users, what information about classes of net assets is useful?

    For financial statement users, we believe that information that separately identifies externally restricted funds from those that are internally restricted would be useful.

46. Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?

It is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet when the assets are required to be segregated in accordance with the terms of the agreement. When funds do not have requirements to be segregated, restricted funds are held with unrestricted funds and therefore are often used on operating activities other than those specified under contribution agreements. As such, it may be misleading to users of the financial statements to reconcile restricted net assets to the corresponding restricted assets on the balance sheet when assets are held together, as users may believe amounts are being segregated when they are not.

However, in order to achieve fair presentation of the financial statements and to provide users with useful information as it relates to the working capital position of an NFPO, we believe that the current or non-current classification of assets should be consistent with the corresponding current or non-current liabilities and/or net assets. This would enable users to identify if contributions provided with restrictions are to be used for operations that are current in nature.

47. Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?

Consistent with our comments provided for Question 46, disclosure of items as restricted cash and cash equivalents should only be included when an organization segregates funding from restricted and unrestricted sources. As it specifically relates to cash and cash equivalents, any amounts classified as non-current to offset the classification of non-current liabilities and net assets for which the funding relates should not be included in operating cash and cash equivalents in the statement of cash flows.

48. For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What type of restrictions on cash and cash equivalents do users of financial statements want to be aware of?

The circumstances under which information regarding restricted cash and cash equivalents is useful for users of NFPO financial statements is when restricted cash and cash equivalents are segregated from other cash and cash equivalents. Additionally, users of NFPO financial statements are also interested in cash and cash equivalents that have externally imposed restrictions, and that cash relating to non-current liabilities and net assets is not classified as part of current assets.

49. For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?

Similar to our response to question 48, the circumstances under which information regarding restricted investments is useful for users of NFPO financial statements is when restricted investments are segregated from other cash and cash equivalents. Additionally, users of NFPO financial statements are also interested in investments that have externally imposed restrictions, and that investments relating to non-current liabilities and net assets are not classified as part of current assets.

In addition to the questions posed in the Contribution Paper, we would also like to provide the following additional comments on the Contribution Paper:

- In reference to Paragraph 4 of the Contribution Paper, whereby the AcSB "did not identify any other jurisdictions that provide NFPOs with a choice of accounting policies for the timing of recognition of revenue from restricted contributions", and that this creates "a lack of comparability for Canadian NFPOs with their international peers. This is an issue for Canadian NFPOs that compete for funding internationally", we do not believe that the lack of comparability of NFPOs with their international peers should be viewed as a significant consideration for the removal of the choice in accounting policy.

  We believe that under the current policy choice, an organization that is competing for international funding would be able to select the accounting policy choice that would make them the most comparable with other international organizations and in the format required by the international grantor. Likewise, as recognition criteria for contributions is not consistent in each jurisdiction, it is unlikely that any Canadian guidance implemented would be consistent globally. Additionally, the format in which most granting organizations request financial information to assess any possible funding is typically pre-defined and often not necessarily in the format of audited financial statements.

We would be pleased to discuss our comments with members of the AcSB or its staff. If you wish to do so, please contact Adam Rybinski, Associate Partner, Professional Practice, at 416-943-2711 (Adam.C.Rybinski@ca.ey.com) or Laney Doyle, Professional Practice Director, at 416-943-3583 (Laney.Doyle@ca.ey.com).

Yours sincerely,
ERNST & YOUNG LLP

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Carleton UNIVERSITY

Canada's Capital University

December 15, 2020

Kelly Khalilieh, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario, M5V 3H2

Dear Ms. Khalilieh,

Thank you for the opportunity to comment to the Accounting Standards Board (AcSB) consultation paper on **Contributions – Revenue Recognition and Related Matters.**

Carleton University was established in 1942 as a community based university to meet the needs of veterans returning from the Second World War. The university has grown annually to now serve more than 30,000 students, offers a wide range of interdisciplinary programs, and has revenues in excess of $650 million.

As a not-for-profit organization (NFPO), Carleton University's financial statements are primarily used by lending agencies, credit-rating agencies, the Ontario Ministry of Colleges and Universities, donors, and from time to time the Ontario Ministry of Finance. In a few cases, the Ontario universities may file results with US or other foreign government granting agencies, however adjustments for international financial reporting standards are rarely, if at all, required. The financial statements are not typically used in relation to international grant or funding competitions, which instead rely on research specific proposals.

It is understood that AcSB undertook this review of existing NFPOs' contribution recognition standards established in 1996 as a result of the lack of comparability of NFPOs financial statements since identical transactions are being recognized differently depending on the accounting policy choice applied.

Attached are responses to the specific questions posed in the consultation paper.

Sincerely,

Tim Sullivan, CPA, CGA
Assistant Vice-President (Financial Services)
Carleton University

QUESTIONS POSED AND ANSWERS

WHAT IS A CONTRIBUTION

1. **Are there circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances?**

   No. Government funding is considered a contribution for accounting purposes. Government contract revenue would not be considered a contribution because it's a reciprocal transaction.

TYPES OF CONTRIBUTIONS

2. **Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? Is so, what are the issues and how might they be addressed?**

   No. Unrestricted contributions should always be recognized as revenue in the year received or receivable.

3. **Are there circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?**

   Yes, on occasion, when the donor identifies a broad or vague restricted condition for a contribution. Also, an institution may record a restricted contribution as revenue immediately if they can identify that they have already met the restricted condition using other unrestricted funding sources.

FINANCIAL STATEMENT CONCEPTS

REVENUE RECOGNITION

4. **Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?**

   No. The guidance provided in Section 4410 is sufficient.

5. **Do you think applying the recognition concepts of revenue to restricted contributions (i.e. a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?**

Yes. Recognizing a restricted contribution as revenue when the performance obligation are met does provide decision-useful information to readers of university financial statements as it ensures that the reported excess of revenue over expenses for the year represents funds available without restrictions.

DEFINITIONS OF ASSETS AND LIABILITIES

6. **Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liability are relevant considerations? If so, what are they?**

   No. The guidance in paragraph 1001.30 ensures that, while a contribution is not refundable, there is an obligation from a donor perspective to spend the fund in accordance to their wishes.

REVENUE RECOGNITION

RECOGNTION OF CONTRIBUTIONS

7. **Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?**

   Yes. The risk of default should be considered as an additional characteristic, especially with multi-year funding commitments. The university sector has recently experienced the cancellation of multi-year funding commitments for capital projects by the government, even after the university spent the funds on the agreed upon capital project.

8. **Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?**

   Yes, agreed.

9. **What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?**

   The key characteristic to consider when determining when to recognize a contribution as revenue is the performance achievement. This is important to readers to ensure that the annual excess of revenue over expenses reflects what is available to the institution for general purposes. The other characteristic that is important is the type and nature of contribution. For example, an externally endowed contribution should not be recorded as revenue when received as it can never be spent and therefore is more akin to an equity contribution.

10. **In addition to an approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by the method be useful to financial statement users?**

None.

11. Which approach for the recognition of revenue in Example 2 do you think provides financial statement users with the most decision-useful information and why?

Recognizing the (unrestricted) contribution as revenue as performance is achieved over time (Approach B) would provide the most decision-useful information to readers. In this approach, the fundraising activity would be reported in the year in which it has been achieved instead of in a subsequent fiscal year when all the obligations in the contribution agreement are met.

12. Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options to how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where you think that some or all the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so, what circumstances?

The performance target is the receipt of the 500th separate donation, therefore revenue should only be recorded in the fiscal year in which this target is achieved. This will provide the most decision-useful information to readers.

SPECIAL TYPES OF CONTRIBUTIONS

13. Do you recognize contributed materials and/or services? If so, how to you measure them? If not, why not?

Contributions of materials and/or services are recorded in operating results in the year of receipt, where third party valuations or attestations are possible and feasible. Contributions of art work are not recorded in operating results, but as direct increases to net assets, based on third party valuations.

14. For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized? What, if any, disclosures would be useful when contributed materials and services are recognized?

Contributed materials and services are useful to users when the contributions are an essential or significant part of the NFPO's operations.

15. For users of NFP financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?

Disclosing the nature and significance of any contributed materials and services would be useful to users, along with the reasons why the contributions are not recognized, such as cost prohibitive or difficult to measure.

CAPITAL ASSET CONTRIBUTIONS

16. What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial

statements? For example, does amortizing the capital asset contribution provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Where a NFPO has debt covenants and/or key financial health performance metrics with funding implications that are dependent on the extent of its excess of revenue over expenses, it is most useful that capital asset contributions are recognized over the useful life of the asset (in correspondence with amortization) so that any variability in the excess of revenue over expenses are attributed to fluctuations in revenues or expenses other than from the recognition of capital contributions as revenue.

17. **What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increase in net assets would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?**

    Non-depreciable capital asset contributions, such as land or art work, would be best recognized as direct increases in net assets so that the statement of operations is not subject to volatility due to the recognition of revenue that cannot be spent on general operations. Disclosing these contributions in the statement of changes in net assets provides decision-useful information to users.

18. **What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution immediately in revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed assets? If so, which types and why?**

    Recognizing the contributed capital assets immediately in revenue would not be useful to readers as it would overstate the excess of revenue over expenses in the year capital contributions are received and could effectively hide structural operating deficits in organizations for many years. This will also create volatility in the excess of revenue over expenses that is not useful for users.

19. **Are there other methods for recognizing capital asset contributions that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?**

    No.

ENDOWMENT CONTRIBUTIONS

20. **Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?**

The current definition of an endowment provides adequate guidance to determine whether a contribution should be recognized as an endowment contribution.

21. **When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?**

    Recognizing endowment contributions as direct increases in net assets when using the deferral method provides decision-useful information to users because recognizing the endowment contributions in revenue would overstate the excess of revenue over expenses in the year when endowment contributions are received and could effectively hide structural operating deficits in organizations for many years. Also, endowment contributions by their nature are to be held in perpetuity and cannot be used for general operations of the NFPO.

22. **When does recognizing endowments immediately as revenue provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?**

    When the reporting focus of an organization is the extent of contributions received, the reporting of its financial statements using the restricted fund method, and the related endowment contribution as revenue in a separate fund would provide better information to users.

23. **Are there other methods for recognizing endowments that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?**

    No.

24. **Are there scenarios when it is difficult or costly to determine how to allocate income, expenses, gains, and losses (both realized and unrealized) on endowments for accounting purposes? If so, what are they scenarios or factors that makes this assessment difficult?**

    In most cases, no. It could be complicated if an organization has endowments that are internally restricted and externally restricted subject to a preservation capital policy. The different method of accounting for income earned on internally and externally restricted endowments is confusing to readers.

25. **Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?**

    Endowed donations should be broken out in the notes to the financial statements by those that are internally restricted by the organization and those that are externally restricted by the donor.

This would provide useful information to users of the financial statements as to the extent of funds endowed by the organization.

BEQUESTS

26. Do you recognize bequests? Is so, under what circumstance are they recognized? If not, why not?

No, since bequests are simply a statement of intent and therefore fail to meet the criteria to be recognized as a receivable. However, revenue is recorded once a person is deceased and we are notified of the existence of the will (there is now a legal right to the assets) as long as the amount to be received can be reasonably estimated and the ultimate collection is reasonably assured.

27. As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?

Yes. As discussed in the response to question 26, a bequest could be recorded as revenue when the donor is deceased and the amount to be received can be reasonably estimated and the ultimate collection is reasonably assured.

28. For financial statements users, what additional disclosures relating to bequests would be useful? Why?

No additional disclosure is needed, as most bequests would be immaterial to a university's financial statements.

29. In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?

The university does have a number of different vehicles that donors use to transfer assets. These include life insurance policies, charitable remainder trusts and annuities. The timing and enforceability of a charity's entitlement to the asset depends on a number of factors for each of these vehicles. These factors help to determine the appropriate accounting treatment.

ASSET RECOGNITION

PLEDGES

30. Do you track pledges? If so, how? If not, why not?

Yes, we track pledges using fundraising software.

31. Do you accrue pledges as a receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set up a provision for uncollectible amounts?

No, pledges are not recorded as a receivable as they are not legally enforceable in Canada. Pledges are recorded as contributions when the pledged assets are received.

32. If you previously recognized pledges but no longer do so, why did you stop?

Not applicable.

33. Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time, or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how, and what warrants different accounting treatment?

The nature of a pledge should not affect when a pledge is recognized. It should meet the recognition criteria.

34. For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?

Given that pledges are not legally enforceable in Canada, recording pledges before receipt would not be useful. Any amount recorded would be subject to ever-changing assumptions. Disclosure in the notes would better serve the user.

35. For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?

As noted above, for users of financial statements, it would be useful to disclose the amount of pledges received by the organization and when the pledges are expected to be received. The disclosure could include pledges due in less than one year, from one to five years and more than five years with a provision for uncollectible promises and a reduction for the present value of pledges to take into account the time value of pledges to be received.

CAPITAL ASSET RECOGNITION EXEMPTION

36. In addition to circumstance where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply capital asset recognition exemption? If so, what are those reasons?

None to note.

37. For financial statement users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision-useful? If no, why not? If yes, is this only the case under certain circumstances? What are those circumstances?

The current information is sufficient.

38. If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?

Yes, the revenue threshold is sufficient if the exemption is retained.

39. If revenue is the appropriate metric to be used for an exemption, what is an appropriate dollar threshold to apply and why?

The current threshold is appropriate.

40. Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues more than $500,000, capital assets must be recognized for the first time in accordance with Sections 4433 and 4434. How do organizations currently account for this transition? Are Sections 4433 and 4434 applied prospectively, retrospectively, or is another transition approach used?

Not applicable to us.

PRESENTATION AND DISCLOSURE ISSUES

FUND ACCOUNTING

41. What are the benefits to fund accounting presentation, and what are the limitations?

Fund accounting presentation allows an organization to show to its users more transparent information about various segments of the organization.

42. Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?

Fund accounting financial statements would more useful for funding agencies that provide funds for specific endeavors such as research or capital.

43. What challenges exist for NFPOs that prepare financial statements using fund accounting presentation?

None to note.

PRESENTATION OF NET ASSETS

44. Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted, and unrestricted? If so, what?

Consideration should be given to separately showing internally restricted endowments and externally restricted endowments in the net asset section of the balance sheet.

45. For financial statements users, what information about classes of net assets is useful?

In addition to question 44, further disclosure around internally restricted assets would be useful, and should include the purpose of the reserve and timing for its use.

46. Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?

No. The component of restricted net assets may cut across a number of assets categories and may not add any additional useful information to readers.

DISCLOSURE OF RESTRICTED CASH

47. Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?

No.

48. For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What types of restrictions on cash and cash equivalents do users of financial statements want to be aware of?

As long as internally restricted net asset disclosure is detailed, along with clear disclosure of other restricted holdings such as deferred research contributions or capital for infrastructure not yet developed, the reader of the financial statements should be able to determine the extent to which cash is restricted. Separating cash balances between restricted and unrestricted holdings is a level of granularity unnecessary given balances are often inter-mingled to some extent. A review of the balance sheet and cash flows should provide a sufficient sense of restricted and unrestricted balances.

49. For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?

Additional details regarding restricted investments could be useful in the notes to the financial statements, ideally to help a reader understand segregated purposes (if applicable).

December 21, 2020

Ms. Kelly Khalilieh, CPA, CA
Director, Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2

Dear Ms. Khalilieh:

Re: Contributions - Revenue Recognition and Related Matters *("Consultation Paper")*

We welcome the opportunity to comment on the Accounting Standards Board's ("AcSB" or the "Board") Consultation Paper, *Contributions - Revenue Recognition and Related Matters*.

Our responses to the specific questions in the Consultation Paper are included below.

What is a contribution?

Question 1: Are there circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances?

In most circumstances, we believe that considering non-reciprocal government funding a contribution for accounting purposes is appropriate.

However, there are instances where NFPO's receive funding from the government under programs that are also available to for-profit entities. An example of such a program is the Canadian Emergency Wage Subsidy (CEWS). The substance of these programs are to provide assistance to a broad range of entities, not just not-for-profit organizations. The receipt of the funds relate to characteristics of the entity (e.g. reduced revenue in the case of the CEWS) that do not directly relate to the mandate or purpose of the not-for-profit organization. Therefore, we believe it would be more representative to account for these in a manner similar to accounting for government assistance by for-profit entities which permits an organization to net the grant against the related cost, rather than requiring the entity to account for them in revenue as contributions.

Types of contributions

Question 2: Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? If so, what are the issues and how might they be addressed?

We are not aware of specific issues with respect to unrestricted contributions that would warrant inclusion of this topic within the scope of the project.

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Question 3: Are there circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?

We have identified the following circumstances under which it is difficult to determine whether a contribution is restricted:

- Circumstances where the restrictions on what the contribution may be spent on are broad - Sometimes it is challenging to determine whether the contribution actually restricts the NFPO to a specific purpose or time stipulation, or whether the mandate of the organization and the nature of the restriction are similar enough that there is no substance to the restriction. For example, some NFPOs exist solely to host specific events (such as arts or cultural events) on an annual or bi-annual basis, with no significant other activities. Contributions may be labelled as restricted for that event, or the next scheduled event, but this may not be a substantive restriction unless the donor has specified further restrictions on the specific nature of expenditures. Paragraph 4410.07 indicates that "Restrictions stipulate uses for the contributed resources that are more specific than broad limits resulting from the nature of the organization or the environment in which it operates." We believe that in assessing whether a donor has imposed an external restriction it is relevant to consider how broad any stipulation is relative to the mandate of the entity, but there are challenges with applying this in practice;
- Circumstances where an organization is fundraising for a specific purpose (for example, a specific capital project) - It is sometimes challenging to determine whether the communication to the donors at the time of fundraising is sufficient to create an implicit restriction. In addition, in many of these fundraising campaigns, it is unclear whether the donors would have any recourse if the contributed assets weren't used for the planned purpose;
- Donor-designated contributions, being circumstances where a donor indicates the area where they would like their contribution to be spent at the time of contribution - It is sometimes unclear whether or not the designation results in a restricted contribution. Some organizations include wording in the solicitation materials along the lines of "we will do our best to spend it in the area the donor has indicated, but the funds may be redirected at the discretion of the organization", which would indicate the contribution is not restricted. Other organizations may not provide this language, although it may be the intent of the organization that the contributions solicited are not restricted. In these cases, it is unclear whether the intent of the organization (being that the contribution is unrestricted) is consistent with the expectations of the donors.
- Donor-advised funds, being circumstances where the donor does not indicate where the contribution is to be spent until a point in time after the contribution has been received - This arises in NFPOs that act as intermediaries between donors and ultimate recipients. The NFPO receives the funds from the donor, with the expectation that the donor will provide direction for where the NFPO is expected to spend the funds at a future date. It is unclear whether a donor can impose a restriction on the contribution after the contribution has been given to the NFPO.
- In addition to the judgement required with fundraising and donor-designated contributions above, there are also circumstances where contributions are received based on information on a website at a specific point in time. Because the information on websites is subject to change, it may not be the same at the time the contribution is solicited / received as when the accounting analysis is completed. This can result in challenges in determining what information was communicated to the donor at the time of the contribution, and whether that information created a restriction on the contribution.

- Circumstances where an organization received contributions restricted for a specific project, and has completed that project, but has excess contributions remaining. For example, when an organization fundraises for a capital project, and ends up raising more than the ultimate amount required for that project. It is unclear whether the remaining contributions continue to be restricted - especially if there is no requirement to return unspent contributions, or where the contributions were received from numerous sources (so it is not practical / possible to contact those donors to obtain permission to reallocate the contribution).

Revenue recognition

Question 4: Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?

Under the current model for recognizing contributions in accordance with the guidance in Section 4410, we find we do not consult the revenue recognition guidance in Section 1001 to determine the accounting treatment of a restricted contribution.

Question 5: Do you think applying the recognition concepts for revenue to restricted contributions (i.e., a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?

Yes, we agree.

Definitions of assets and liabilities

Question 6: Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liabilities are relevant considerations? If so, what are they?

We are not aware of any other aspects of accounting for restricted contributions for which the definitions of assets and liabilities are relevant considerations, in addition to those already identified in the consultation paper.

Recognition of contributions

Question 7: Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?

In addition to the characteristics of contributions outlined in the paper, we also commonly see contributions that are to be held / invested for a specified period of time (for example, 10 or 20 years) after which the proceeds may be spent by the organization.

We believe it might also be relevant to consider the nature of the donor making the contribution - whether it be a government, corporation, or individual. Each of these types of donors have different characteristics, and different motivations for making the contributions. This might impact when it is appropriate to recognize a receivable related to a contribution that has been promised, but not yet received.

We also observe that some government funding may be variable, meaning that the funding covers eligible expenditures up to a certain limit in a certain time period, and if expenditures are lower, then the funding is often rolled forward to a future year's funding, or, in rare cases, cash is returned. We observe that such arrangements usually provide significant accountability mechanisms by the donor government, that do not usually exist in contributions from individuals or corporations. The level of accountability to the donor that is provided in the arrangements may be something that the AcSB should consider.

Question 8: Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?

Yes, we agree an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information.

Question 9: What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?

Once received, we believe the restrictions on the use of the contribution is the most relevant characteristic to consider in determining when to recognize a contribution as revenue.

We do not believe the refundability of a contribution should be considered a relevant characteristic for the purpose of revenue recognition. In practice, we note that refunds of contributions are rare, even in circumstances where the donor has the ability to request the contribution be refunded. As a result, we do not believe potential refundability is a substantive characteristic of contributions that should impact revenue recognition.

Question 10: In addition to an approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by that method be useful to financial statement users?

We have not identified an alternative approach for recognizing restricted contributions that we believe provides more decision-useful information in NFPO financial statements.

Question 11: Which approach for the recognition of revenue in Example 2 do you think provides financial statements users with the most decision-useful information and why?

Broadly speaking, we believe Approach B, recognizing revenue as progress towards the milestones are met, provides the more decision-useful information. We do not believe the completion of the audit is an important characteristic that reflects how the contribution is earned by XYZ Charity. Rather, it validates the information used (amount of contributions and number of donors) in determining the progress towards earning the contribution.

Question 12: Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options to how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where you think that some or all of the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so, what circumstances?

We have not identified an alternative approach to revenue recognition for the contributions in Example 2 that we believe provides better information than Approach B outlined in the paper.

We do not believe the $10,000 additional contribution should be recognized prior to the receipt of the 500th separate donation, for example using an approach similar to percentage of completion. Because the number of individual contributors is largely outside the control of the charity, and because of the non-reciprocal nature of the contribution, we believe it is more akin to a contingent gain that should be recognized once the contingency is resolved, rather than revenue from a long-term contract that would be earned as progress is made on the contract.

We observe in Example 2 that the conditions must be met prior to the donor giving the recipient the cash payment. As such, they appear to be eligibility criteria, rather than stipulations, and so should be considered in whether recognizing a receivable is appropriate prior to determining whether any corresponding credit would be recognized as revenue, or deferred revenue. We note that PS 3410 distinguishes between eligibility criteria and stipulations whereas Section 4410 does not. We believe the definition of *restrictions* in Section 4410.02 (c) is largely consistent with the definition of *stipulations* in PS 3410. We believe that an approach to Example 2 that reflects revenue being recognized as any pre-conditions to funding are met would be appropriate.

Contributed materials and services

Question 13: Do you recognize contributed materials and/or services? If so, how do you measure them? If not, why not?

Based on conversations with our engagement teams, there is mixed practice amongst our clients with respect to recognition of contributed materials and services.

For organizations that do recognize contributed materials and services, many entities obtain an invoice from a supplier showing what the item would have cost if it had been purchased. Some entities also do their own internal valuation to estimate what the cost of materials or services would have been.

We understand there to be several different reasons why an entity may choose not to recognize contributed materials and services. Factors that influence an entity's decision whether or not to record these include the level of difficulty to estimate the fair value of the items, the magnitude of the value of the item, whether or not the donor requests a donation receipt for the contribution, and management incentive compensation arrangements based on amounts of fundraising revenue.

Question 14: For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized? What, if any, disclosures would be useful when contributed materials and services are recognized?

Not applicable.

Question 15: For users of NFPO financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?

Not applicable.

Capital asset contributions

Question 16: What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial statements? For example, does amortizing the capital asset contribution provide more decision useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Based on our experience, the information that is most useful with respect to capital asset contributions does not depend on the nature of the NFPO or the nature of the contributed assets. Rather, it depends on the focus of management and other stakeholders in assessing the results of the organization.

In circumstances where management is focused on how much revenue inflows are generated in a particular period, they often find it more useful to recognize the capital asset contribution as the funds are spent (or at the point the capital asset is received). This may give stakeholders a better idea of how management has performed in generating new contributions to the entity in the period.

Alternatively, for organizations that are more focused on a net income measure, they find it more useful to amortize the contributions to the income statement in a manner that matches the amortization of the asset it was used to acquire, as this may give stakeholders a better idea of how management has managed existing resources in meeting the mandate and objectives of the NFPO in the period . While many capital intensive organizations (ie. social housing organizations that own many buildings) view contributions in this manner, this is not always the case.

In addition, some organizations find that the level of contributions recognized in a certain period impacts the amount of contributions received in a future period. For these organizations, matching the amortization of the contributions to the amortization of the associated capital assets avoids large fluctuations in revenue related to contributions that have already been spent (or designated to be spent) on capital asset acquisitions.

Lastly, based on discussions with our engagement teams, certain preparers and users find the deferral of contributions over the life of the capital assets confusing within the financial statements. This is especially the case when there are a large number of capital asset contributions being amortized.

Question 17: What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increases in net assets would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Please see our response to question 16 above.

Question 18: What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution immediately in revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Please see our response to question 16 above.

Question 19: Are there other methods for recognizing capital asset contributions that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?

In addition to the methods already articulated by the AcSB, an alternative approach would be to recognize contributions restricted for the purchase of capital assets as revenue at the point the contributions are spent on that capital asset (rather than at the point the contributions are received, or over the life of the associated capital asset). It differs from the restricted fund method, in that entities could show in their financial statements the extent of unspent restricted contributions, where they are committed to future expenditures, without the need to use fund accounting.

Endowment contributions

Question 20: Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?

Accounting for endowments is an area where there are often challenges. In many cases it's not necessarily the definition of "endowment" as specified in section 4410, but rather the application of that definition in specific circumstances, often when entities don't deal with endowments frequently. Some of the circumstances we've seen that have caused challenges include:

- Donor arrangements that are called endowments in the agreement, but only need to be held for a specific number of years (e.g. 10 or 20), rather than in perpetuity;
- Other arrangements that are called endowments by the donor, but do not meet the definition of an endowment under section 4410, because the principal can be spent by the organization;
- Fundraising campaigns undertaken by organizations to be used to set up an endowment; and
- Internally restricted amounts that the organization's Board has set aside as an endowment.

Question 21: When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

Based on discussions with our engagement teams, we believe that one potential characteristic that might impact whether it is more decision-useful to present endowments as a direct increase to net assets or immediately as revenue would be whether or not fundraising is the core business of the organization. For a foundation, where the core business is fundraising, presentation of endowments as revenue is useful information. For an organization that also provides services for a fee (such as a not for profit fitness centre), fundraising might be seen as a non-core activity, and presentation as a direct increase in net assets might provide more useful information.

Based on discussions with our engagement teams, we also believe that, given a choice, many organizations would prefer to present endowments as revenue rather than as a direct increase to net assets.

Question 22: When does recognizing endowments immediately as revenue provide decision useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

Please see our response to Question 21 above.

Question 23: Are there other methods for recognizing endowments that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?

We have not identified other methods of recognizing endowments that would provide more decision-useful information than the alternatives identified.

Question 24: Are there scenarios when it is difficult or costly to determine how to allocate the income, expenses, gains and losses (both realized and unrealized) on endowments for accounting purposes? If so, what are the scenarios or factors that makes this assessment difficult?

There are a number of circumstances that result in challenges in tracking income, expenses, gains, and losses related to endowments. These include:

- Many endowment agreements address the treatment of realized gains (ie. as restricted or unrestricted), but not unrealized gains or losses. This requires interpretation in determining the appropriate accounting for these unrealized amounts;
- Organizations sometimes encounter circumstances where realized and unrealized losses encroach upon the original principal of the endowment. Many agreements do not address these circumstances;
- Investments related to endowments are not always held separately from other investments of an organization. This requires allocation of investment income, expenses, gains and losses to the endowments;
- Organizations sometimes have many small endowments. These can be challenging and onerous to track, especially for smaller or less sophisticated organizations; and
- Many organizations lack appropriate processes or sufficient resources to track endowments separately.

Question 25: Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?

We have not identified any additional issues in practice with accounting for endowments.

Bequests

Question 26: Do you recognize bequests? If so, under what circumstances are they recognized? If not, why not?

Based on discussions with our engagement teams, due to the uncertainties involved, clients do not recognize bequests until they are received. Uncertainties regarding bequests, as well as other planned-giving instruments, relate to both the amount which will ultimately be received, as well as lack of knowledge of all arrangements under which the NFPO has been named as a beneficiary (ie. lack of completeness).

Question 27: As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?

Based on discussions with our engagement teams, we have not identified characteristics of bequests that impact the accounting treatment.

Question 28: For financial statements users, what additional disclosures relating to bequests would be useful? Why?

Not applicable.

Question 29: In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?

It is reasonably common that NFPOs are named as beneficiaries on a life insurance policy. Depending on the terms of the insurance policy, these may give rise to an asset for the cash surrender value of the policy, in addition to the NFPO receiving the insurance amount upon the passing of the insured, as long as premiums continue to be paid. There is no clear guidance in Part III regarding how to account for such instruments.

Pledges

Question 30: Do you track pledges? If so, how? If not, why not?

Not applicable

Question 31: Do you accrue pledges as a receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set up a provision for uncollectible amounts?

Based on discussions with our engagement teams, we have some clients that do recognize pledges receivable. This is generally in circumstances where they have undertaken similar fundraising activities in the past and have information on the collection history of the proportion of pledges ultimately received.

Another transaction, similar to pledges, that we see in practice is a contribution agreement that spans several years. We note that there is diversity in practice when recognizing contributions receivable with respect to these contribution agreements. For example, an organization might enter into a signed agreement to receive a specified amount from a donor each year over the next 5 years. In Canada, we understand that these agreements are not legally enforceable. There is significant judgement involved in assessing whether the contributions expected to be received meet the definition of an asset at the time the agreement is signed.

Question 32: If you previously recognized pledges but no longer do so, why did you stop?

We have noted circumstances where clients discontinue recognizing pledges receivable. This was generally due to the high level of effort and complexity involved in tracking the pledges actually received, to be able to estimate the pledges receivable. In addition, some organizations stopped recognizing pledges when they started using third party pledge processors, as the organization no longer receives the same level of information in order to calculate or support recognition of pledges before receipt.

Question 33: Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time period or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how and what warrants different accounting treatment?

Generally, the characteristics of the pledged item doesn't impact how or whether pledges are recognized. Rather, it depends on the historical experience of the organization with similar pledges.

Question 34: For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?

Not applicable.

Question 35: For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?

Not applicable.

Capital asset recognition exemption

Question 36: In addition to circumstances where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply the capital asset recognition exemption? If so, what are those reasons?

In our experience, the main reason NFPOs use the capital assets exemption is because the cost of the information outweighs the benefit.

Question 37: For financial statements users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision useful? If no, why not? If yes, is this only the case under certain circumstances? What are those circumstances?

Not applicable.

Question 38: If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?

We haven't identified a metric that would be more relevant than a revenue threshold, if the exemption is retained.

Question 39: If revenue is the appropriate metric to be used for an exemption, what is an appropriate dollar threshold to apply and why?

We haven't identified a specific dollar threshold that would be appropriate to apply for an exemption.

Question 40: Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues in excess of $500,000, capital assets must be recognized for the first time in accordance with Sections 4433 and 4434. How do organizations currently account for this transition? Are Sections 4433 and 4434 applied prospectively, retrospectively or is another transition approach used?

We have not identified circumstances where our clients have transitioned from applying the capital assets exemption, to applying Section 4433 and 4434. However, we believe this would be considered a change in accounting policy. In accordance with paragraph 1506.10(b) and 1506.14, this would need to be applied retrospectively unless it is not practicable to determine the impact.

Fund accounting

Question 41: What are the benefits to fund accounting presentation, and what are the limitations?

The largest benefit of fund accounting is the ability to present segregated financial information for separate components of an enterprise's operations.

There are several challenges with respect to the application of fund accounting:

- Even though it is meant to increase transparency, in many cases we understand that both preparers and users find it confusing. This is particularly the case where fund accounting is combined with the deferral method of revenue recognition;
- We understand that many find the restricted fund method of accounting confusing - specifically because there are two different accounting policies for revenue recognition of contributions within the same set of financial statements; and
- The lack of guidance around the application of fund accounting (being what is meant to be included in an individual fund, and what types of funds should be presented) leads to significant diversity in practice.

Question 42: Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?

Fund accounting is most useful when an organization has several different components to their operations. This provides information to users on the results of each of those individual components. However, we believe that the option to provide disclosure similar to segment disclosure provided by public entities, with guidance on how that disclosure should be presented, would be just as useful.

Question 43: What challenges exist for NFPOs that prepare financial statements using fund accounting presentation?

In many circumstances, the lack of specific guidance with respect to fund accounting makes it challenging for preparers of financial statements. While this is meant to provide flexibility for an organization to prepare statements in a manner that makes most sense for their operations, this often leads to challenges in practice. Funds are not always well-defined, which leads to uncertainty with respect to classification of certain items. In addition, even when the funds are well-defined there is no guidance for how items should be classified into funds. For example, an entity with a capital fund could also have debt and interest expense, asset retirement obligations, and repairs and maintenance expense. There is no guidance on whether these items should be included in the capital fund or not.

Presentation of net assets

Question 44: Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted and unrestricted? If so, what?

We have identified the following challenges when classifying net assets into components:

- Some entities choose to present net assets invested in capital assets as a form of internally restricted net assets (as contemplated by 4400.24B). However, it is sometimes unclear whether certain associated liabilities, such as asset retirement obligations and lease inducements, should also be included in the net assets invested in capital assets;
- We have observed circumstances where an entity has internally restricted a specified amount of net assets, but the remaining unrestricted net assets (or the operating fund, under the restricted fund method) is in a deficit position; and
- Many entities choose to internally restrict net assets for various reasons. However, given the ability for the organization's Board to unrestrict those net assets at any point, we question the usefulness of this presentation.

Question 45: For financial statements users, what information about classes of net assets is useful?

Not applicable.

Question 46: Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?

Not applicable.

Disclosure of restricted cash

Question 47: Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?

Based on discussions with engagement teams, many of our clients have restricted cash, for a variety of reasons. Generally, in order to present an item as restricted cash, we expect that there are external restrictions on the use of the cash, and it is segregated within a separate account.

Question 48: For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What type of restrictions on cash and cash equivalents do users of financial statements want to be aware of?

Not applicable.

Question 49: For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?

Not applicable.

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We would be pleased to respond to any questions you might have. Questions can be addressed to Celeste Murphy (celeste.k.murphy@pwc.com), Lucy Durocher (lucy.durocher@pwc.com), or Michael Walke (michael.walke@pwc.com).

Yours very truly,

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December 15, 2020

Kelly Khalilieh, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

Contributions – Revenue Recognition and Related Matters Consultation Paper Comments

Dear Kelly Khalilieh,

Thank you for providing us with the opportunity to share our perspective on the Consultation Paper regarding Contributions – Revenue Recognition and Related Mattes. Our comments were compiled from feedback and discussions provided by the following members of our firm's Professional Standards Department and NPO Sector Specialists, specifically Marika Hamalainen, Shannon Jackson, Shawn Kelso, Bryden McMaster, Umar Saeed, and myself.

We have provided our comments to the Consultation Paper's forty-nine questions and have determined that the following matters are likely to have the most impact on the not-for-profit organizations we work with:

- We believe the nature and characteristics of the restrictions should be the driving factor in revenue recognition for contributions. We also recognize that more guidance would be required to enhance consistency and clarify how to account for different types of restrictions.
- Fund accounting is a presentation option that is used by a large number of organizations as it assists in telling the entire story for the year. The ability to segment different activities and resources increases the understandability of the financial statements for the organization's various stakeholders.

Should you want to further discuss any of our comments, please do not hesitate to contact us.

Yours truly,

Welch LLP

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WHAT IS A CONTRIBUTION?

Question 1: Are there circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances?

No, if the agreement is truly for non-reciprocal funding, it meets the definition of a contribution for accounting purposes.

Types of contributions

Question 2: Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? If so, what are the issues and how might they be addressed?

No, the existing guidance surrounding unrestricted contributions is clear and appropriate

Question 3: Are there circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?

Yes, it is sometimes difficult to determine whether a contribution is externally restricted in the following circumstances:

1. When funds that are externally restricted, but restrictions are relatively consistent with the overall activities of the NPO.
2. Funds are restricted for a specific purpose but the agreement does not clearly outline the repayment provisions.
3. Government transfers in an attempt to obtain a certain outcome (as opposed to defining the purpose / use of funds).

Financial statement concepts
Revenue recognition

Question 4: Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?

No, the guidance in Section 4410 contains practical guidance that covers most scenarios.

Question 5: Do you think applying the recognition concepts for revenue to restricted contributions (i.e., a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts do you think are important for recognizing revenue from restricted contributions?

Employing a performance obligation approach, which is to say, ensuring the entity meets the definition of a liability in order to defer the recognition of revenue can be problematic in the not-for-profit sector. This approach stems from private sector GAAP and governs exchange transactions between two parties. We have already defined contributions to be non-reciprocal. They are not exchange transactions.

Contributions are often tri-party transactions. There is a donor that provides the contribution, an agent (the NPO), and the ultimate beneficiary. The NPO wants to show the donor that it is accountable for the use of funds, and it must do so by utilizing the funds to benefit the ultimate beneficiary.

If a government provides a $5M five-year grant to a non-profit child care centre for operating expenses and specifies that $1M should be used for each year, what is the performance obligation? It would appear the daycare simply operate for five years. Those who employ a strict performance obligation approach will ultimately conclude that the $5M revenue should be recognized immediately.

However, there is a stipulation with the funding. It has been earmarked ($1M to be used each year for five years). While this time restriction may not meet the definition of a performance obligation, it would appear that recognizing the revenues as they are spent each fiscal year would demonstrate accountability and stewardship over the funds.

Finally, when such an approach is applied, we are de-linking the timing of when revenue is recognized from the use of funds, which conflicts with Section 1001 conceptual framework. Recall, our objective is to show financial statement users how funds were used. This requires the ability for management to match the use of funds with the revenues in the same period to demonstrate accountability and stewardship.

Consistent with Section 1001.11 of Part III conceptual framework:

> Members and contributors also require information about how the management of an entity has discharged its stewardship responsibility to those that have provided resources to the entity. Information regarding discharge of stewardship responsibilities is especially important as resources are often contributed for specific purposes and management is accountable for the appropriate utilization of such resources.

We believe that external restrictions, and the degree of external restrictions, should drive the deferral of revenues. As restrictions are removed (time has lapsed, money is spent on specific activities, etc.), then revenue would be recognized accordingly.

Definitions of assets and liabilities

Question 6: Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liabilities are relevant considerations? If so, what are they?

Control over the funds and the present obligations of the restrictions are all relevant to accounting for restricted funds. To achieve more consistency in revenue recognition, what is needed is hierarchical guidance on how to account for varying degrees of control or varying degrees of obligations created by restrictions.

The definitions themselves are fine, but they do not in-and-of-themselves provide sufficient guidance in accounting for restricted contributions. There is too much room for interpretation. Concepts such as control and present obligation need to be developed further into specific accounting guidance that may be applied consistently.

The discussion below under Revenue Recognition is relevant. Conceptually, the control aspect of the definition of an asset and the present obligation aspect of the definition of a liability need to be closely tied to the specific discussion on how to recognize revenue to increase consistency in application.

We should not have one auditor looking at the definition of a liability arguing that there is none (and revenue should be recognized), while another auditor can look at the detailed revenue recognition guidance and argue that certain time restrictions have not been met so revenue should not be recognized.

REVENUE RECOGNITION

Recognition of contributions

Question 7: Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?

Yes. If the AcSB wants consistency in the application of revenue recognition principles, it must provide additional guidance on additional characteristics of contributions:

- Timing where funds can be carried forward / moved back
- Further to refundability, when funds can be repurposed under certain circumstances
- Cost share agreements
- Limits set on total contribution amounts (dependent on other factors)

- Multiple sources of funding with differing restrictions for the same project / program
- Accounting for items that could reduce payments at end of agreement

Question 8: Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?

Yes, this approach provides decision-useful information.

Question 9: What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?

- Time and purpose / use of funds requirements
- Refundability, ability to repurpose

We would like to note that "frequency" of contribution did not make sense to us or was not clear how the frequency of payments was relevant to the recognition of contributions.

Question 10: In addition to an approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by that method be useful to financial statement users?

We believe the nature and characteristics of the restrictions should be the driving factor in revenue recognition for contributions. We also recognize that more guidance would be required to enhance consistency and clarify how to account for certain types of restrictions versus others.

Question 11: Which approach for the recognition of revenue in Example 2 do you think provides financial statements users with the most decision-useful information and why?

Approach B provides the most decision-useful information as it enables users to evaluate the progress and performance of the fundraising campaign. Since there isn't significant judgment required for the first two conditions (the donations are received, not pledged, and receipts are issued), the audit requirement is not considered to be a significant characteristic.

Question 12: Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options to how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where you think that some or all of the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so, what circumstances?

We believe a hierarchical approach to accounting for restrictions may be the best comprehensive approach to streamlining the standards. Revenue recognition should systematically consider all the various types of restrictions that come with contributions.

For example, consider the following three-step approach:

1. Are there clear eligibility requirements that the NFPO must meet in order to qualify for funding or receive the funds. Revenue cannot be earned before these criteria are met. If these have been met (or there are no such criteria), then we apply test 2.

2. Are there identifiable performance obligations that determine the extent of the funding the NFPO will receive? This includes provisions where the recipient must return the funds (or claw-backs to total funds received). Once these have been met and the extent of the funding received (and kept) is estimable, then we will have met any / all performance obligations. However, we must apply one final test for revenue recognition that accounts for restrictions on how the funds are used.

3. Are there identifiable stipulations that specify how the funds must be used (what costs they are meant to cover, what period they should be applied, etc.)? Revenue is recognized as the contributed funds are used in accordance with the restrictions.

This approach is illustrative. To achieve consistency, it would be applied to each entity and to each contribution. An approach such as this can help unify many different accounting practices in the NFP sector.

We believe this would achieve a great deal of consistency with revenue recognition, as far as similar contributions would be treated similarly for accounting purposes.

Special types of contributions

Contributed materials and services

Question 13: Do you recognize contributed materials and/or services? If so, how do you measure them? If not, why not?

Generally, no (due to inherent valuation challenges). As auditors, we would require reliable documented valuations before recording them on the financial statements (ultimately representing “fair value” or what the value of these items would be in an open market.

Question 14: For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized?

Circumstances for recognizing contributed materials / services could include:

- When contributed materials and or services are central / critical elements of the operation;
- When they can be reliably measured;
- When they are significant to the financial statements;
- When they would otherwise have to be purchased in lieu of being gifted;

Question 15: For users of NFPO financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?

Suggested disclosures should include:

- Description of nature of the items
- Amount recognized in the F/S along with description of how the estimates were made including the related judgements
- Fair value broken down by each major type of contributed material/service and how it was determined
- Or indication that they are not recognized along with the supporting rationale

Capital asset contributions

Question 16: What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial statements? For example, does amortizing the capital asset contribution provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

There is a cost-benefit associated with tracking deferred capital contributions. Not all organizations believe this is beneficial to their users. Our experience shows that NPOs with an accountability to balance budgets or break-even prefer this treatment because it matches capital grant revenues with related amortization charges. This way, both capital and operating funds appear balanced. Perhaps more importantly, this accounting treatment avoids significant surpluses when contributions are received and ongoing losses when amortization is charged.

Question 17: What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increases in net assets would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

This would be an effective treatment for contributions to acquire land.

Question 18: What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution immediately in revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

We note that the contentious aspect of deferred capital contribution accounting has to do with showing amortization charges in future years with an offsetting revenue (to demonstrate accountability over the annual results).

The costs associated with tracking these charges for years, the confusion that arises with explaining what these large deferral obligations represent on the statement of financial position – all of this is for the benefit of being able to match future amortization charges with related contribution revenues.

With this in mind, recognizing capital contribution revenue immediately would only make sense when the immediate and ongoing results of operations can be presented while demonstrating accountability over annual results (balancing or breaking even), as this is what organizations that prefer this method of accounting are sensitive to.

We suggest that when capital contribution revenues be recognized separate from annual operating results (immediately or near-term presentation). Next, we suggest fund accounting presentation be maintained to present long-term results with the same accountability objectives in mind.

Question 19: Are there other methods for recognizing capital asset contributions that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?

We suggest the AcSB consider how suitable it would be to account for capital grants similar to how government grants are accounted for under ASPE (as a reduction to the cost of the asset). This may result in capital assets being recorded at nominal values, but it would also simplify the complicated presentational issues that arise with other treatments. The grossed-up values could be disclosed in the notes to the financial statements.

Endowment contributions

Question 20: Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?

It can be difficult to determine whether a restricted contribution is truly an endowment as this term is used loosely in the industry without the contributor necessarily meaning that the contribution be maintained permanently.

It is also difficult to determine how an endowment contribution should be treated when a contributor makes an endowment contribution to a third party, like a community foundation, for the benefit of the NFPO organization.

These aspects should be considered when developing additional guidance on endowments.

Question 21: When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

Recognizing endowments as direct increases in net assets is an effective method of presenting these contributions without convoluting the organization's operating results.

Question 22: When does recognizing endowments immediately as revenue provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

Organizations with a primary objective of fundraising, like foundations, might benefit from recognizing endowments immediately in revenue as the results of fundraising efforts are clearer to the stakeholders. However, in all other situations, recognizing endowments immediately as revenue does not provide decision-useful information

Question 23: Are there other methods for recognizing endowments that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?

No, we are not able to suggest any other suitable methods for recognizing endowments.

Question 24: Are there scenarios when it is difficult or costly to determine how to allocate the income, expenses, gains and losses (both realized and unrealized) on endowments for accounting purposes? If so, what are the scenarios or factors that makes this assessment difficult?

Often difficulties with accounting for endowments occur as a result of the terms and conditions associated with the endowments themselves rather than ASNFPO requirements. In particular, what constitutes capital preservation must be calculated before income can be determined. These are difficult issues that may not always be clear from the agreement – in which case accounting principles must provide appropriate and consistent guidance for organizations to account for this.

For instance, the terms may not contemplate a decline in the value of the assets. In such circumstances the terms of the endowment may infer that the investment income cannot be used for used for other purposes until the capital value is restored.

Question 25: Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?

Below are some of the other issues in practice we come across when accounting for endowments:

- Differentiating assets that originated from endowment contributions vs. board designations of net assets as endowments. One is externally restricted vs. internally restricted but they are comingled in net assets.

- Some organizations will transfer their endowment assets to a third party, like a community foundation, where they lose complete control over the asset but they are instead allocated a portion of the income (less fees) on an annual basis. Some organizations continue to show these as assets/net assets on their financial statements where others show no amounts and instead disclose the arrangement in the notes to the financial statements.

Bequests

Question 26: Do you recognize bequests? If so, under what circumstances are they recognized? If not, why not?

No, in our experience, wills are often contested and our regular recognition tests are typically not met However, we do not believe a special recognition test or criteria are necessary for bequests. Determining the collectability of a bequest may provide appropriate guidance in the application of professional judgement.

Question 27: As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?

We would ask that the AcSB consider:

- Likelihood to receive / collect (which encompass further considerations):
  - Measurement: Amount fixed / determinable (% of estate or % of income)
  - Timing: Date of receipt determinable
  - Restrictions: Stipulations on use of funds (toward specific costs, programs, activities or objectives?)

Question 28: For financial statements users, what additional disclosures relating to bequests would be useful? Why?

We would ask that the AcSB consider:

- If recorded, details of estimation / valuation (see our response to Question 27);
- Separate presentation of bequest vs. other fund raising / operating revenues;

Question 29: In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?

- Life insurance benefits. This is somewhat different from a bequest as the amount is known and the beneficiary title can be irrevocable.
- Monthly recurring contributions or employee deductions (i.e. Plan Canada, World Vision, United Way, etc.)

ASSET RECOGNITION
Pledges

Question 30: Do you track pledges? If so, how? If not, why not?

Most organizations we work with have their fundraising department track pledges to be able to evaluate against targets and follow up for ultimate collection.

Question 31: Do you accrue pledges as a receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set up a provision for uncollectible amounts?

The vast majority of our clients do not accrue as receivables.

A pledge is not a legally binding promise. Accounting standards should be wary of accounting for pledges as receivables, unless collectability is reasonably assured. The principles of conservatism should be applied in this context, given the nature of pledges.

Question 32: If you previously recognized pledges but no longer do so, why did you stop?

We have no comments on this matter.

Question 33: Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time period or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how and what warrants different accounting treatment?

The recognition of pledges should be driven by the legally binding nature of the pledge (not as important whether it is a pledge for cash or an asset, one-time or recurring). Perhaps symmetry would enlighten the accounting guidance for NFPOs? If the donor making the pledge would not record a liability under accounting standards, then we should not be recording a receivable?

Where additional guidance may be necessary is when donors have entered into an arrangement to either:

a) automatically charge a bank account on a monthly basis to donate; or
b) automatically have their employer deduct (as a payroll deduction) a donation from their gross pay each period.

In considering guidance, the AcSB should consider the behavioral incentives of management to recognize revenues and assets in advance of being earned. Commissions, bonuses, and other forms of compensation may depend on funds actually raised and often the audited accounting numbers are expected to represent actual results in the period.

In this case, perhaps looking to private sector guidance on the recognition of subscription-based services may provide insights as to what criteria would be relevant to revenue recognition.

Question 34: For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?

When we recognize pledges before we receive them, we create three sets of numbers:

1. Total number / $ value of pledges made
2. Total number / $ value of pledges *accrued for accounting purposes*
3. Total number / $ value of pledges received

Users of financial statements will find value in all three numbers, the 2nd one providing an estimate / likelihood of collection – a number that would be refined over time based on past experience and data history.

However, what may be more important that the decision-useful qualities of this number is whether or not the organization has behavioral incentives tied to an accurate estimate of pledges received at period end.

Consider how historical data can be manipulated. For example, if an NFPO has a 95% success rate at converting small discrete pledges to cash in the past, and it recently received one large pledge for $1,000,000 at a fundraiser right before year-end – should they record 95% of the pledge based on past history and a strong record of collections?

Question 35: For users of financial statements, what, if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?

As stated above, information about pledges is useful. They often indicate progress toward long term fund-raising goals and as much as information about the pledges, the likelihood of collectability, and pledges actually collected can be tied to the overarching program / organizational goals, the more useful.

Capital asset recognition exemption

Question 36: In addition to circumstances where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply the capital asset recognition exemption? If so, what are those reasons?

Many small organizations who use the capital asset recognition exemption, operate at a near break even basis. Expensing capital asset purchases avoids a recurring non-cash expense (amortization) on the statement of operations that may create future reporting losses.

In addition, capitalizing assets could create a reconciling difference between reporting to funders and the annual financial statements.

Question 37: For financial statements users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision-useful? If no, why not? If yes, is this only the case under certain circumstances? What are those circumstances?

Many organizations that use the capital asset recognition exemption are not capital intensive so the current disclosure requirements are sufficient and decision-useful.

Question 38: If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?

If this exemption is retained, it should be based on revenues as it is the simplest metric that provides insight into the organization's financial reporting complexities and resource capacity.

Question 39: If revenue is the appropriate metric to be used for an exemption, what is an appropriate dollar threshold to apply and why?

If the AcSB believes this is a valid exemption, consider if in 1996 the $500,000 threshold applied to revenue appropriately segregated what was a small NFPO from a large one (the underlying presumption being that the larger ones are more sophisticated and can handle / benefit from asset recognition).

If the AcSB believes all of that remains true, then the threshold needs to be adjusted for inflation.

Question 40: Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues in excess of $500,000, capital assets must be recognized for the first time in accordance with Sections 4433 and 4434. How do organizations currently account for this transition? Are Sections 4433 and 4434 applied prospectively, retrospectively or is another transition approach used?

Based on our experience, organizations who no longer qualify for the capital asset recognition exemption have addressed the matter using one of the following methods:

- Some continue to expense the capital assets (resulting in an audit opinion qualification for GAAP departure)
- Some will attempt to estimate/determine the value of its capital assets and account for the related amortization prospectively as the unrecorded net book value is often immaterial. For material assets, like land and buildings, retrospective application is often applied.

PRESENTATION AND DISCLOSURE ISSUES
Fund accounting

Question 41: What are the benefits to fund accounting presentation, and what are the limitations?

If we refer to section 1001 pf Part III, the benefits are that fund accounting presentation enables management to demonstrate accountability and stewardship over the use of all funds (past and present).

This is not only decision-useful, but fund accounting presentation also permits management to demonstrate its accountability over the funds that have been donated / contributed.

Benefits:

- Fund accounting is useful in circumstances where a certain component or project of an entity is of particular interest to stakeholders. They are interested in the financial performance and the financial position associated with that particular component or project;
- Very beneficial when an NFPO has a few major "streams" of operations that can be clearly segregated, especially when funding is usually received specific to only one of those streams/projects;
- Good presentation of funds means anyone (users, general public, etc.) can clearly see the funds – isolate assets needed to meet specific criteria and assets remain available to meet purpose;

Limitations:

- Too many funds. Management presenting too much information on an unconsolidated basis serves to confuse readers.
- Fund transfers can be unclear and too frequent – again leads to confusion.

Question 42: Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?

If the AcSB takes away certain accounting options (i.e. deferred capital contributions), then fund accounting and other presentational aspects of reporting become more important. We hope this linkage has been made clear in our response.

- Beneficial when operations can clearly be segregated and the results of various streams / programs are significant.
- See above answer to Question 41

Question 43: What challenges exist for NFPOs that prepare financial statements using fund accounting presentation?

- Can be complicated for preparers to track funds properly
- It is a matter of judgment what level of granularity is appropriate with funds and demonstrating the overall accountability relationship through external reporting
- Fund accounting systems setup / ongoing tracking / change implementation

Presentation of net assets

Question 44: Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted and unrestricted? If so, what?

In general, the classifications are clear and are useful to the users of the financial statements. However, the overuse of internal restrictions complicates the accounting and reduces the understandability for the users.

Question 45: For financial statements users, what information about classes of net assets is useful?

The classes of net assets allow users to be able to understand the plan for accumulated reserves through disclosing the nature of internal restricted net assets and it allows users to understand the amount of net assets that are not liquid and available for spending (i.e. invested in capital assets)

Disclosing the type of restriction (endowment, internal, etc.) and the describing the nature of the restrictions is useful information in the notes to the financial statements, as it aids in understanding the organization's resources.

Question 46: Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?

Yes, it is important to reconcile externally restricted net assets or endowments to the corresponding assets. If not readily apparent, it is also useful to reconcile net assets invested in capital assets as sometimes there are multiple components that should reconcile to that balance.

Disclosure of restricted cash

Question 47: Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?

Yes, where cash / cash equivalents are required to be held in a separate bank account. Circumstances would be disclosed, such as:

- Refundable deposits
- Held in escrow
- Minimum bank balance / liquidity requirements (tied to credit facility)
- Pledge collateral (for credit facility, derivatives, or insurance)

Question 48: For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What type of restrictions on cash and cash equivalents do users of financial statements want to be aware of?

- See circumstances above under Question 47
- Users may want to be aware of the length of restrictions, estimations and related judgements made (in addition to the nature and detail of the restrictions)

Question 49: For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?

Those restrictions affecting cash flows and liquidity such as investments attributable to endowments, for example.

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December 10, 2020

Ms. Kelly Khalilieh, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
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Dear Ms. Khalilieh:

Consultation Paper on Contributions – Revenue Recognition and Related Matters

This letter is in response to the consultation paper released in relation to Contributions – Revenue Recognition and Related Matters. We appreciate the opportunity to provide input on such an important matter having significant impact on all not-for-profit organizations ("NFPOs").

We are grateful for the work that the Accounting Standards Board is doing to address this issue. We firmly believe that revenue recognition standards need to be consistently applied across organizations. To have some organizations deferring contributions that other organizations recognize as revenue impairs the comparability of financial statements of NFPOs and the understanding that readers will gain about the underlying financial position of individual NFPOs. Fundamentally, the only way to get a realistic view of the performance of an organization during a given period is to appropriately recognize its assets and liabilities at the both the beginning and end of the period. Appropriate recognition of assets and liabilities must, in our view, be in accordance with the conceptual framework in Part II of the CPA Canada Handbook which we understand to be equally applicable to standards for not-for-profit organizations in Part III. It seems to us that if the Accounting Standards Board confirms that this conceptual framework is indeed applicable, there will be little room for doubt about the immediate revenue recognition of most restricted contributions.

Our comments on the specific questions posed in the consultation paper have been made based on this foundational belief that in most cases, contributions, including those with various restrictions and stipulations regarding their use, constitute revenue to the recipient organization. Only where the conditions and restrictions are such that they result in the contribution meeting the definition of a liability should they be deferred, in our view. Under no circumstances should a deferral be artificially created that does not meet this definition.

The key question for us in determining whether to recognize a contribution as revenue is whether the service potential and financial capacity of the organization have been enhanced as a result of receiving the contribution, regardless of whether there are restrictions around its use that have to be met to honour obligations that are either legal or ethical. It is our view that most contributions received by a NFPO should be recognized as revenue when received or receivable, whether they are considered restricted or unrestricted, as the financial position of the organization has been increased, along with its ability to fulfill its mission. In our view, it is more appropriate to recognize an expense in a later period when it has been determined that a contribution cannot be used for its intended purpose and must be returned to the contributor than to defer recognition of a contribution that does not meet the definition of a liability.

The Salvation Army is a large, diverse and complex not for profit organization with annual revenues of over $800 million. We receive thousands of restricted contributions from government, business organizations and individuals annually. Our experience is that very few of these contributions contain restrictions that would meet the definition of a liability.

Ensuring consistency in the accounting and reporting across all NFPOs will provide the most useful information to all users of the financial statements as it will allow for more appropriate comparison across the sector. Our responses to the specific questions in the consultation paper are set out below.

Q1. Are there circumstances when non-reciprocal government funding provided to a NFPO should not be considered a contribution for accounting purposes? If so, what are those circumstances?

There are no instances in which non-reciprocal government funding should not be considered as a contribution for accounting purposes.

Q2. Are you aware of any issues regarding unrestricted contributions that would warrant inclusion of this topic within the scope of this project? If so, what are the issues and how might they be addressed?

Unrestricted contributions are straight forward in the experience of our organization and as such we are not aware of any issues that would warrant inclusion within the scope of this project.

Q3. Are there circumstances under which it is difficult to determine whether a contribution is externally restricted? If so, what are those circumstances?

In the experience of our organization, provided that clear instruction and documentation is obtained from the external contributor, external restrictions are relatively straight forward to ascertain.

Q4. Are there any circumstances under which you consult the revenue recognition guidance in Section 1001 to help determine the accounting treatment for a restricted contribution? If so, what are those circumstances, and how is the Section 1001 guidance applied?

We typically do not consult section 1001 with respect to treatment of restricted contributions. We would instead consult section 4400 more frequently for this purpose for specific guidance.

Q5. Do you think applying the recognition concepts for revenue to restricted contributions (i.e., a restricted contribution should not be recognized as revenue until the performance obligations are met and measurement and collectability of the contribution is reasonably assured) provides decision-useful information in NFPO financial statements? Why or why not? If not, what characteristics or concepts to you think are important for recognizing revenue from restricted contributions?

Contributions should be recognized as revenue in the period when they are received or receivable, regardless of whether they are restricted or for general use, as the financial position of the organization has been increased, as has its ability to fulfil its mission. The only exception to this would be in cases where the funds have such specific restrictions that if not met, would require the gift to be returned to the contributor. The Salvation Army encountered such an organization in a prior fiscal year, where we received a specified contribution with the understanding that we could fulfill the associated requirements. The funds were recognized as a restricted contribution, though upon further investigation we realized that due to external circumstances we would be unable to fulfil the restrictions and the funds were returned to the donor.

The option to either recognize or defer dependent on whether the organization had established a restricted fund for the contribution causes undue confusion to users of the financial statements and does not appropriately reflect the increase in the overall financial position of the organization. The balance and use of restricted funds provide greater decision-useful information than the receipt of restricted funds in a given year.

Q6. Are you aware of any other aspects of accounting for restricted contributions for which the definition of assets and liabilities are relevant considerations? If so, what are they?

Within our organization from time to time we are the recipient of forgivable loans for various property related projects that we undertake. In determining the appropriate accounting treatment for this, consideration must be given to the definition of a liability, as there are times when the terms of the loan agreement would result in it being recognized as a restricted contribution and disclosed as a contingent liability as opposed to being recorded as a liability on the balance sheet.

Q7. Are there additional characteristics of contributions that are commonly seen in contribution agreements that the AcSB should consider? If so, what are they and why should they be considered?

We agree with the characteristics of a contribution outlined in point 24 of the consultation paper. One additional characteristic that is not indicated is in relation to the collectability of the contribution if it is not yet received. In addition to the other characteristics noted in point 24, a contribution should only be recorded if collectability can be reasonably assured.

Q8. Do you think an accounting approach that considers the type of contribution and its characteristics would provide decision-useful information in NFPO financial statements? If not, why not?

We agree that an accounting approach that considers the type of contribution and its characteristics provides decision-useful information in NFPO financial statements as the approach should differ dependent on the details of the contribution. For example, if the restrictions associated with the contribution are such that there are specific performance obligations associated with the contribution that create a liability, then a liability should be recognized, and revenue recognized as the performance obligations are met. Otherwise, the funds should be recognized as revenue as they are received or considered receivable by the organization.

Q9. What characteristics of contributions do you think are relevant to consider when determining when to recognize a contribution as revenue, and why?

There are several characteristics that should drive recognition of a contribution:

A) The type and nature of the contribution as defined in point 24 (a) in the consultation paper – from a restricted fund perspective this information is relevant to assist in determining when to recognize the contribution.
B) Any relevant external requirements from the contributor, such as purpose, time frame and eligibility – this information is crucial in determining when and how to recognize a contribution as these details may drive the need to record the funds in a restricted fund and would also determine reporting requirements.
C) The collectability of the contribution – this is an important characteristic for those contributions that have been pledged but not yet received.

Q10. In addition to an approach that considers the type of contributions and its characteristics, what other approaches for recognizing restricted contributions as revenue would provide decision-useful information in NFPO financial statements? What is the approach and why would the information provided by that method be useful to financial statement users?

As noted in question 5, our position is that the balance and use of restricted funds provides the greatest decision-useful information to users of financial statements. It would be our recommendation that all contributions are recognized as revenue at the time of contribution unless there is a real liability that exists requiring the refund of the contribution if some criteria are not met. This approach would see the restricted funds segregated from the unrestricted funds in the statement of changes in net assets, providing information pertaining to the balance of the restricted funds, as well as the transfer and subsequent use of those funds in a given fiscal year.

Q11. What approach for the recognition of revenue in Example 2 do you think provides financial statement users with the most decision-useful information and why?

Assuming the organization intends to carry out the audit, approach B would provide users of the financial statements with the most decision-useful information. The audit requirement is essentially a reporting requirement and should not be given the same importance as the other terms of the contribution agreement. The contributor has agreed to match donations dollar for dollar to a maximum with no minimum, so as of December 31 the performance obligations for both the dollar value received up to that date and the requirement for the number of individual donors have been met. It would also be recommended to review history with private contributors to ensure collectability. Approach A does not take these important terms into account and instead places too much emphasis on the more administrative aspect of the contribution agreement and the timing of the receipt of cash as opposed to the performance obligations. Under the accrual method of accounting these contributions should be recognizable once the material performance obligations have been met.

Q12. Considering the AcSB's possible approach to account for contributions based on their characteristics, are there other options to how the contribution in Example 2 could be recognized? If yes, what are the options? Are there circumstances where you think that some or all of the $10,000 additional contribution should be recognized before the 500th separate donation is received? If so, what circumstances?

The history of the campaign and trend of number of donors should be considered when determining when to recognize the $10k. Professional judgement should be applied based on historical trending to determine eligibility for these additional funds. At year end, estimates should be reviewed to ensure that they are still sound and there has been no material change.

Q13. Do you recognize contributed materials and/or services? If so, how do you measure them? If not, why not?

We only recognize contributed materials in cases where a charitable tax receipt has been issued to the donor as these cases are assessed to be those in which we can reasonably estimate the fair market value and items which we would have otherwise purchased in order to carry out our charitable programming. In cases where there is no receipt issued, the materials are often difficult to value or represent materials that we would not have otherwise purchased in order to carry out our charitable activities. We do not recognize contributions of services as the fair market value can be difficult to ascertain. The Salvation Army considers the time and effort, as well as cost, to value non-receipted contributions of materials and services to be prohibitive.

Q14. For users of NFPO financial statements, under what circumstances is it useful when contributed materials and services are recognized? What, if any, disclosures would be useful when contributed materials and services are recognized?

The process of valuing all contributed materials and services is time and cost prohibitive. That said, if an NFPO was able to place value on these items, a useful disclosure would be a breakdown of the value of contributed materials and services, as well as indication of where it is reflected within the financial statements.

Q15. For users of NFPO financial statements, what, if any, disclosures related to contributed materials and/or services would be useful if contributed materials and services are not recognized?

Information relating to the types of materials and services received could prove useful to the user of a financial statement, however the difficulty of standardizing this and auditing this needs to be taken into consideration. A disclosure of the existence of such contributions, particularly in cases where volunteer time is substantial and used in place of compensated employees, should be included within the financial statement notes. Given the complexity of quantifying these contributions, the quantitative information related to this may be better presented by way of an annual report or management commentary.

Q16. What are the circumstances in which amortizing the capital asset contribution to revenue as the asset is depreciated would provide decision-useful information in NFPO financial statements? For example, does amortizing the capital asset contribution provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

Capital asset contributions should be recognized as revenue when received or receivable as with other restricted contributions. This will more appropriately reflect the overall increase in the net financial position of the organization and provide greater clarity and insight for users of the financial statements. The use of the deferral method creates difficulty in distinguishing funds held for assets not yet purchased versus those you have purchased and recognized in line with amortization.

Q17. What are the circumstances in which recognizing non-depreciable capital asset contributions as direct increases in net assets would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution as a direct increase in net assets provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

The recognition of capital asset contributions through revenue as opposed to a direct increase in net assets provides greater clarity and insight to users of the financial statements. Average users will focus primarily on the balance sheet and statement of operations as opposed to the statement of changes in fund balances and would not necessarily interpret the change in fund balances clearly.

The other element to give consideration to is that non-depreciable assets would include land and in the case where there was a contribution of both land and building, under this suggested method the land would be reflected as a direct increase while the building would flow through revenue. This would be an inconsistent approach to accounting for what should be considered a related contribution.

Q18. What are the circumstances in which recognizing the contributed capital asset immediately in revenue would provide decision-useful information in NFPO financial statements? For example, does recognizing the capital asset contribution immediately in revenue provide more decision-useful information for certain types of NFPOs or certain types of contributed capital assets? If so, which types and why?

As with question 16 above, capital contributions should be recognized as revenue when received or receivable. If the restrictions associated with the contribution cannot be fulfilled and the funds need to be returned, a liability would be created at that time. This assumes that upon receipt of the funds it can be reasonably assumed that the restrictions will be met.

Q19. Are there other methods for recognizing capital asset contributions that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of contributed capital assets for which this other method would provide more decision-useful information? If so, which types and why?

We do not have any additional suggestions for recognition of capital asset contributions.

Q20. Applying the existing definition of an endowment in Section 4410, are there circumstances under which it is difficult to determine whether a restricted contribution is an endowment for accounting purposes? If so, what are those circumstances?

While most endowment gifts are easily ascertained, the one circumstance that creates difficulty is when a restricted contribution is given with the understanding that the principal will be held for a set period, after which it may be encroached upon. This type of gift does not fall easily within the definition of an endowment and does pose some difficulty when attempting to determine the appropriate accounting treatment.

Q21. When does recognizing endowments as direct increases in net assets provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users? If so, what are they and why?

Recognizing external endowment contributions as revenue, as opposed to direct increases in net assets, provides better decision-useful information to users of NFPO financial statements. The only exception to this could be a case where an entity that controls the NFPO provides the contribution, in which case a direct increase to net assets would be more appropriate.

Q22. When does recognizing endowments immediately as revenue provide decision-useful information in NFPO financial statements? For example, are there certain characteristics of endowments or types of NFPOs where using this method for accounting for endowments would provide better information for users/ Of so, what are they and why?

Please see our response to question 21.

Q23. Are there other methods for recognizing endowments that should be considered? If so, what are they? Are there certain types of NFPOs or certain types of endowments for which this other method would provide more decision-useful information? If so, which types and why?

There are no other methods for recognizing endowments that we would suggest at this time.

Q24. Are there scenarios when it is difficult or costly to determine how to allocate the income, expenses, gains and losses (both realized and unrealized on endowments for accounting purposes? If so, what are the scenarios or factors that makes this assessment difficult?

There are no scenarios in which allocating income, expenses, gains and losses to endowments should be difficult.

Q25. Are there other issues in practice with accounting for endowments? If so, what are those issues and how might they be resolved?

Another issue in practice with accounting for endowments relates to endowments that have been in place for a long period of time for which the terms of the endowment did not provide for inflationary adjustments, such that the amount now endowed is insufficient to carry out the purpose for which the funds were given. A potential solution for this is to build in an allowance for review and adjustment of the principal amounts to reflect the impact of inflation.

Q26. Do you recognize bequests? If so, under what circumstances are they recognized? If not, why not?

We do not recognize bequests as we don't have a reliable means of determining receivables relating to this. In our previous experience, we have received very significant gifts for which we had no prior relationship with the donor and had no knowledge any intentions for a legacy gift until after the individual had passed away. In other instances, we were aware of the intention to leave a bequest, but the family of the deceased took the estate to court and our gift was reduced. As a result, we defer any recognition of these gifts until the funds are received.

Q27. As discussed above, there can be different types and characteristics of bequests. Do the characteristics of a bequest affect whether and when they are recognized? If so, what characteristics drive a different accounting treatment?

If a NFPO received sufficient information to reasonably estimate the amount of the bequest to be received and had reasonable assurance of collectability, it could be considered appropriate to recognize the bequest prior to the receipt of funds.

Q28. For financial statement users, what additional disclosures relating to bequests would be useful? Why?

The most useful disclosure with respect to bequests, outside of a receivable amount, is with respect to accounting policy.

Q29. In addition to bequests, what other types of planned-giving instruments are common? How are these other instruments different from bequests?

In addition to bequests, our organization works with donors to arrange other planned gifts such as annuities and gifts of life insurance policies and retirement funds by way of designating the organization as the beneficiary.

Q30. Do you track pledges? If so, how? If not, why not?

We do not track pledges consistently throughout our organization due to the difficulty in obtaining accurate information and the lack of appropriate systems with which to do so.

Q31. Do you accrue pledges as receivable? If so, under what circumstances? How do you estimate the amount to be recognized? Do you set up a provision for uncollectible amounts?

We do not accrue pledges within our organization.

Q32. If you previously recognized pledges but no longer do so, why did you stop?
We have not historically followed this practice.

Q33. Pledges can vary in nature. They can include cash or capital assets, and they can be received one-time or recur for a specific time period or indefinitely. Does the varying nature of pledges affect how and whether they are recognized? If so, how and what warrants different accounting treatment?

We do not accrue pledges within our organization.

Q34. For users of financial statements, under what circumstances is it useful for pledges to be recognized before they are received, and why?

If an organization can reliably track pledge information and can reasonably determine an appropriate estimate for a receivable amount, then it could be useful to recognize these within the financial statements. For such a disclosure to be considered useful however, an organization would have to be quite certain of collectability to ensure that the funds met the definition of an asset. From this perspective, we believe that the amounts would be more appropriately reflected as a note disclosure as opposed to recognizing them as revenue in the financial statements.

Q35. For users of financial statements, what if any, additional disclosures relating to pledges would be useful and why? For example, if the NFPO doesn't recognize pledges, would disclosures highlighting the existence of pledges provide more decision-useful information to users?

If pledges are not recognized as revenue in the financial statements but the organization is able to accurately and reliably track these, an appropriate closure could be the value and expected date of collection of the pledge as of the balance sheet date.

Q36. In addition to circumstances where the cost of the information outweighs the benefits to financial statement users, are there other reasons why NFPOs currently choose to apply the capital asset recognition exemption? If so, what are those reasons?

There may be other reasons that organizations currently choose to apply the capital asset recognition exemption, but we are not knowledgeable about them.

Q37. For financial statement users, when the capital asset recognition exemption is applied, is the information required to be disclosed about capital assets sufficient and decision-useful? If no, why not? If yes, is this only the case under certain circumstances? What are those circumstances?

No, we think that even the smallest organizations should be able to account for capital assets. There should be no exemption.

Q38. If an exemption is retained, should it be based on a revenue threshold as it is currently? If not, what should the metric be and why?

If an exemption is maintained, it should not be based on a revenue threshold, but based on materiality.

Q39. If revenue is the appropriate metric to be used for an exemption, what is an appropriate dollar threshold to apply and why?

We do not agree that revenue should be the appropriate metric.

Q40. Under the existing guidance, when an organization that previously applied the capital asset recognition exemption has revenues in excess of $500,000, capital assets must be recognized for the first time in accordance with Sections 4433 and 4434. How do organizations currently account for this transition? Are Sections 4433 and 4434 applied prospectively, retrospectively or is another transition approach used?

We do not know the answer to this question.

Q41. What are the benefits to fund accounting presentation, and what are the limitations?

Fund accounting presentation is beneficial to the users of financial statements as it provides greater insight into the differing nature of operations and programs within the organization.

In many instances there are multiple users of a single set of financial statements, many of whom require differing types of information. A financial statement prepared using fund accounting allows us to meet the needs of these stakeholders with a single set of statements. This increases the level of efficiency of the NFPO as compared to an alternative situation whereby the organization is required to prepare many differing sets of statements to meet these various needs.

A limitation of fund accounting is with respect to allocation of expenses between funds, as the guidance on this is not quite as clear as other forms of guidance. In addition, it does create additional complexities and could be more difficult to understand for financial statement users who are not familiar with NFPO statements.

Q42. Under what circumstances does fund accounting provide information to financial statement users that is more useful than financial statements not prepared using fund accounting?

See response to question 41.

Q43. What challenges exist for NFPOs that prepare financial statements using fund accounting presentation?

As noted above, the allocation of expenses between funds can pose challenges at times. It would be beneficial to have clearer guidance on this to ensure a more standardized approach to cost allocation.

Q44. Are there any issues in practice with the current classification of net assets into endowments, externally restricted, internally restricted and unrestricted? If so, what?

We do not experience any issues with this due to the way in which we have established our internal accounting and reporting.

Q45. For financial statement users, what information about classes of net assets is useful?

Its beneficial to financial statement users to see how the NFPO has allocated their funds beyond external restrictions. The ability to continue to present a further breakdown of internally restricted funds beyond the requirement to present externally versus internally restricted funds is beneficial.

Q46. Do users think it is important to be able to reconcile restricted net assets to the corresponding restricted assets on the balance sheet? If not, why not?

It is not necessarily important to present a reconciliation of restricted net assets to the corresponding restricted assets on the balance sheet as savvy users of the financial statements would be able to ascertain material information related to this using the breakdown of net assets. Generally, any differences from this would be related to cash and are likely immaterial overall. The statement of operation tends to provide more relevant and current information for the users of financial statements.

Q47. Do you disclose any items as restricted cash and cash equivalents? If so, what is the nature of the restrictions for the disclosed items? How do you distinguish between items that are disclosed as restricted cash and cash equivalents, and those that are not?

We do not currently disclose any items as restricted cash and cash equivalents within our organization.

Q48. For users of NFPO financial statements, under what circumstances is information regarding restricted cash and cash equivalents useful? What type of restrictions on cash and cash equivalents do users of financial statements want to be aware of?

This information could be useful in cases where a NFPO had significant amounts of restricted cash in comparison to unrestricted cash. It may be helpful for users of financial statements to understand that although an organization may appear to have significant resources, a large portion is restricted and unavailable for general use. It may also be useful for users to understand what portion of the restricted funds are internally restricted versus externally restricted as those that are internally restricted could potentially be made available for use by the NFPO.

Q49. For users of NFPO financial statements, under what circumstances is information regarding restricted investments useful? What type of restrictions on investments do users of financial statements want to be aware of?

If there are significant restrictions on the use of investment funds it would be helpful to the users of financial statements if those restrictions were clearly disclosed. As with above, if there are significant funds that are not available for general use, this is beneficial for financial statement users. These restricted investments would be considered an unusual item that they would not be able to glean information from by reading the financial statements if there was no additional disclosure. It may also be useful for users to understand what portion of the restricted funds are internally restricted versus externally restricted as those that are internally restricted could potentially be made available for use by the NFPO.

I wish to acknowledge the significant contributions of my colleagues, Samantha Moss, Assistant Chief Financial Officer and Rob Holton, Senior Director, Accounting in the preparation of this response.

We would be happy to respond to any issue that requires clarification.

We wish the Accounting Standards Board well as it reviews the feedback received and considers appropriate next steps.

Thank you for the opportunity to participate in the standard-setting process in this way.

Sincerely yours,

R. Paul Goodyear, *FCPA, FCMA, MBA*
Chief Financial Officer