AcSB
Accounting
Standards Board

Exposure Draft

Proposed Accounting Standards for Not-for-Profit Organizations

Contributions – Revenue Recognition and Related Matters

November 2026

This Exposure Draft closes for comments on March 31, 2027.

The Accounting Standards Board (AcSB) welcomes feedback from any interested party on any or all the questions posed in this Exposure Draft.

You can provide feedback to the AcSB on the proposals in a variety of ways:

- Participate in our Connect.FRASCanada.ca surveys.
- Connect directly with the AcSB by attending a discussion session on this Exposure Draft. Session dates and registration information will be posted on the Contributions – Revenue Recognition and Related Matters project page.
- Write a response letter and upload it via our online form. Response letters can be addressed to:

  Katharine Christopoulos, CPA, CA
  Director, Accounting Standards
  Accounting Standards Board
  145 King Street West, Suite 500
  Toronto, Ontario M5H 1J8

Note: Response letters will be posted online when this Exposure Draft closes for comment. Confidentiality can be requested when uploading letters via the online form.

This Exposure Draft reflects proposals made by the AcSB.

Comments are requested from those who agree with the Exposure Draft as well as from those who do not.

Helpful tips when participating in a consultation:

- Comments are most helpful if they relate to a specific paragraph or group of paragraphs found in the Exposure Draft.
- If a potential issue in the proposals is identified, it is encouraged to clearly explain the issue and include a suggested alternative supported by specific reasoning.
- It is important to note that the AcSB does not expect respondents to reply to every single question posed – only those that interested parties feel they can or should respond to.

HIGHLIGHTS

The AcSB proposes, subject to comments received following exposure, to issue CONTRIBUTIONS RECEIVED BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4411, and accompanying amendments to FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4400. Proposed Section 4411 provides not-for-profit organizations (NFPOs) with guidance on accounting for contributions and replaces CONTRIBUTIONS – REVENUE RECOGNITION, Section 4410, and CONTRIBUTIONS RECEIVABLE, Section 4420.

Background

In May 2015, the AcSB approved a research project to understand current Canadian and international practices for recognizing revenue from contributions. In January 2016, the Board created its Not-for-Profit Advisory Committee (the Committee) to assist with maintaining and improving accounting standards for NFPOs.

In May 2020, the AcSB issued the Consultation Paper, "Contributions – Revenue Recognition and Related Matters," to obtain input from interested and affected parties on the accounting for contributions and related matters. In March 2022, in response to feedback on the Consultation Paper, the Board decided to proceed with a standard-setting project to amend the guidance in Part III of the Handbook for contributions and related matters.

In March 2023, the AcSB issued the Exposure Draft, "Contributions – Revenue Recognition and Related Matters" (the "2023 Exposure Draft"), which proposed a single approach for recognizing revenue from restricted contributions. Under this method, restricted contributions would be recognized as the related restrictions are met. Feedback on the proposals was mixed, with a small majority of respondents supporting the proposed recognition model. However, those who disagreed with the proposals provided compelling arguments and additional information supporting the need to maintain two contribution revenue recognition methods.

The AcSB considered options to address this feedback and sought input by conducting additional targeted outreach sessions. Most outreach participants agreed that additional presentation or disclosure requirements alone would not address concerns raised on the 2023 Exposure Draft. Financial statement users continued to support a single recognition approach for restricted contributions but reaffirmed that they can navigate the two current methods and do not have concerns about comparability.

After significant consideration of both the feedback on the 2023 Exposure Draft and the additional outreach conducted, the AcSB concluded that a single recognition model may not meet the diverse needs of the not-for-profit sector and that the benefits to financial statement users may not exceed the cost to preparers. The Board decided to develop a new Exposure Draft that would continue to allow an accounting policy choice for recognizing contributions, with the objective of improving the quality and understandability of the financial statements through improved consistency in the application of the standard.

Main features of the Exposure Draft

The key features of the proposals are as follows:

Scope

- Consistent with the scope of existing Section 4410, proposed Section 4411 would establish guidance for the recognition, measurement, presentation and disclosure of contributions received by NFPOs.
- Proposed Section 4411 would provide an accounting policy choice to apply either the immediate recognition method or the deferred recognition method to recognize contributions received by NFPOs.

- Proposed Section 4411 would apply only to non-reciprocal transfers while other revenue recognized by NFPOs, such as that arising from the sale of services and goods, and other exchange transactions, would be within the scope of REVENUE, Section 3400 in Part II of the Handbook.

Definitions

- **Restrictions** are requirements imposed that specify how resources must be used. Restrictions may be external or internal.
  - (i) **External restrictions** are imposed from outside the organization and meet the criteria in the definition of a restricted contribution that requires the resources be used for a designated purpose.
  - (ii) **Internal restrictions** are imposed in a formal manner by the organization itself, for example, by resolution of the board of directors.
- A **contribution** is a non-reciprocal transfer to an NFPO of cash or other assets, or a non-reciprocal reduction, settlement or cancellation of liabilities. In a non-reciprocal transfer, the contributor often receives value indirectly by providing a societal benefit, although that benefit may not be considered commensurate value. A non-reciprocal transfer differs from an exchange transaction, where the potential public benefits are secondary to the potential direct benefits to the contributor.

  The following contributions are defined for the purposes of this Section:

  (i) An **unrestricted contribution** is a contribution that is not a restricted contribution.

  (ii) A **restricted contribution** is a contribution subject to an external restriction(s) that meets all the following criteria:

  – the restriction has been explicitly communicated between the NFPO and the contributor or another external party; and

  – the restriction requires the resources be used for a designated purpose.

  Contributions for use in a future period would not meet the definition of a restricted contribution unless the contribution is also restricted for a designated purpose.

  (iii) A **capital asset contribution** is a type of restricted contribution subject to an external restriction(s) requiring that the contribution be used to acquire, construct or develop a capital asset. Capital asset contributions also include contributions of capital assets directly.

  (iv) An **endowment contribution** is a type of restricted contribution subject to an external restriction(s) requiring that the contribution be maintained permanently, although the constituent assets may change from time to time.
- **Deferred contributions** are contributions that have been received and will be recognized in revenue in a future period.
- An **unrestricted fund** reports the recognition and use of unrestricted resources.
- A **restricted fund** reports the recognition and use of restricted resources. Only restricted contributions, other than endowment contributions, and externally restricted net investment income would be reported as revenue in the restricted fund. Allocations of resources that result from the imposition of internal restrictions are recorded as interfund transfers to the restricted fund in accordance with Section 4400.
- An **endowment fund** reports the accumulation of endowment contributions and income on endowments subject to restrictions stating that it must be maintained permanently. Only endowment contributions and externally restricted net investment income that must be added to the principal amount of resources held for endowment to be maintained permanently would be reported as revenue in the endowment fund. Allocations of resources that result from the imposition of internal restrictions are recorded as interfund transfers to the endowment fund in accordance with Section 4400.

- **Restricted net assets** are the resulting surplus or deficit in the restricted fund reflecting the balance of used and unused restricted contributions received or receivable.

Recognition

- An NFPO would make an accounting policy choice to recognize contributions in accordance with either:
  - the deferred recognition method; or
  - the immediate recognition method.
- Under both recognition methods, an NFPO would defer unrestricted contributions for use in a future period and would recognize the contribution in revenue in the period(s) the NFPO is entitled to use the resources, provided the contribution is measurable and collection is reasonably assured.
- Under the deferred recognition method, an NFPO would:
  - recognize externally restricted contributions in revenue when (or as) the external restriction(s) associated with the contribution are met, provided the contribution is measurable and collection is reasonably assured;
  - defer and recognize in revenue capital asset contributions related to amortizable assets on the same basis as the amortization of the related capital asset. An NFPO would recognize, as direct increases in net assets, capital asset contributions related to assets that are not subject to amortization; and
  - recognize endowment contributions as direct increases in net assets.
- Under the immediate recognition method, an NFPO would:
  - recognize externally restricted contributions and capital asset contributions as revenue of the restricted fund in the period in which the contribution is measurable and collection is reasonably assured.
  - recognize endowment contributions as revenue of the endowment fund in the period in which the contribution is measurable and collection is reasonably assured.

Contributed materials and services

- The proposals provide NFPOs with an accounting policy choice to recognize contributed materials and/or services when certain criteria are met. NFPOs would apply this accounting policy choice consistently to all types of contributed materials and services.

Measurement

- An NFPO would measure contributions at fair value at the date the contribution is initially recognized.

Presentation and disclosure

- Proposed Section 4411 would carry forward presentation and disclosure requirements from Section 4410 and would include additional presentation and disclosure requirements relating to:
  - presenting amortization of deferred capital contributions, revenue from capital asset contributions recognized in the restricted fund and revenue from contributed materials and services separately on the statement of operations;
  - disclosing economic dependence on another party when the ongoing operations depend on a significant contribution(s) from that party;
  - disclosing information about when restrictions related to deferred contributions or restricted net assets are expected to be met;
  - disclosing the balance and conditions under which any restricted contributions could be used without meeting the related external restrictions;

  - disclosing the change in the deferred capital asset contribution balance during the period separately from other deferred contributions;
  - disclosing the amount of unspent capital asset contributions in restricted net assets; and
  - disclosing qualitative information about the nature of contributed materials and services not recognized in the financial statements, and an NFPO's dependence on contributed materials and services to achieve its future objectives.
- Proposed amendments to Section 4400 would include additional presentation and disclosure requirements for NFPOs, including:
  - presenting only a single unrestricted, restricted and endowment fund on the face of the financial statements when an NFPO applies fund accounting presentation;
  - presenting comparative period information by fund, on the same basis as presented in the current period, when an NFPO applies fund accounting presentation;
  - disclosing information about an NFPO's requirements related to restricted contributions, including endowment contributions, and the assets the NFPO determines are available to meet those requirements;
  - disclosing information about how an NFPO manages its endowments, including monitoring the fair value of the resources held for endowment and compliance with agreements related to those endowments; and
  - disclosing, as applicable, quantitative information about the extent to which the fair value of the resources held for endowment is less than the amount required by the donor to be maintained permanently.

Effective date

- Proposed Section 4411 and the proposed amendments to Section 4400 would be effective for fiscal years beginning on or after January 1, 2029. Earlier application would be permitted.

Transition

- Proposed Section 4411 and the proposed amendments to Section 4400 would be applied retrospectively in accordance with ACCOUNTING CHANGES, Section 1506 in Part II of the Handbook, or applied using the proposed transition relief.
- The proposals provide optional transition relief for contributions that have been recognized in revenue or net assets prior to the beginning of the earliest period presented in the first financial statements prepared in accordance with the proposed standard.

Consequential amendments

This Exposure Draft also proposes consequential amendments to the following:

- Paragraph 3400.02 to include that non-reciprocal government transfers received by an NFPO are not within the scope of Section 3400 and to add a reference to proposed Section 4411 to clarify the interaction between the two Sections.
- GOVERNMENT ASSISTANCE, paragraph 3800.01, to include that non-reciprocal government transfers received by an NFPO are not within the scope of Section 3800 and to add a reference to proposed Section 4411 to clarify the interaction between the two Sections.
- FIRST-TIME ADOPTION BY NOT-FOR PROFIT ORGANIZATIONS, paragraph 1501.10, to allow a first-time adopter to apply the transition relief proposed in Section 4411 and to apply proposed Section 4411 retrospectively only to transactions recognized in revenue or net assets on or after the beginning of the earliest period presented in the financial statements.

As required, consequential amendments would be made to other standards in Parts II and III of the Handbook.

Plans for finalizing the proposals

The AcSB will deliberate the proposals in light of comments received. Part of the deliberation process includes consultation with the Board's Advisory Committees. The Board will also consult with other interested and affected parties through outreach activities, such as holding roundtables and targeted surveys.

The AcSB will provide updates about its deliberations in its decision summaries and on the Contributions – Revenue Recognition and Related Matters project page.

Once the deliberation process is complete and the due process procedures for finalizing a standard are carried out, the AcSB plans to issue the proposed standard and proposed amendments in fall 2027 if no significant changes are required to the proposals.[1] In that case, the proposed effective date of the new standard and amendments would be for fiscal years beginning on or after January 1, 2029, with earlier application permitted.

Comments requested

While the AcSB welcomes comments on any or all the proposals in this Exposure Draft, it particularly welcomes comments on the questions listed below:

1. The AcSB proposes that the scope of proposed Section 4411 include only non-reciprocal transfers received by an NFPO, and that reciprocal transfers, including reciprocal transfers from government contracts, be reported in accordance with Section 3400. Do you agree with the scope of proposed Section 4411? If not, why not?

2. The AcSB proposes that a restricted contribution be defined as a contribution subject to an external restriction(s) that meets the following criteria:

   (a) the restriction has been explicitly communicated between the NFPO and the contributor or another external party; and

   (b) the restriction requires the resources to be used for a designated purpose.

   Do you agree with the proposed definition of a restricted contribution? If not, why not?

3. The AcSB proposes that under both recognition methods, unrestricted contributions be recognized as revenue in the period in which the NFPO is entitled to use the resources, provided reasonable assurance exists regarding the measurement of the contribution, and collection is reasonably assured. Do you agree with the proposed recognition guidance for unrestricted contributions? If not, why not?

4. The AcSB proposes that under the deferred recognition method, restricted contributions be recognized as revenue when or as the external restriction(s) is met, provided reasonable assurance exists regarding the measurement of the contribution, and collection is reasonably assured. Do you agree with the proposed recognition guidance for restricted contributions under the deferred recognition method? If not, why not?

5. The AcSB proposes that under the immediate recognition method, restricted contributions be recognized as revenue of the restricted fund, provided reasonable assurance exists regarding the measurement of the contribution, and collection is reasonably assured. Do you agree with the proposed recognition guidance for restricted contributions under the immediate recognition method? If not, why not?

1 Refer to *Due Process Specifically Related to Domestic Standards* in the AcSB Standard-setting Due Process Manual.

6. The AcSB proposes that for a restricted contribution to be classified as a capital asset contribution, the contributor must specify the portion of the restricted contribution to be used to acquire, construct or develop capital assets. If the contributor does not specify the amount to be spent on capital assets, then the restricted contribution would not be considered a capital asset contribution. Do you agree with the proposed classification criteria for capital asset contributions? If not, why not?

7. The AcSB proposes that under the deferred recognition method, capital asset contributions related to amortizable assets be deferred and recognized as revenue on the same basis as the amortization expense on the related capital asset. For indefinite-lived assets, the Board proposes recognizing capital asset contributions as direct increases in net assets.

   (a) Do you agree with the proposed recognition guidance for capital asset contributions related to amortizable assets under the deferred recognition method? If not, why not?

   (b) Do you agree with the proposed recognition guidance for capital asset contributions related to indefinite-lived assets under the deferred recognition method? If not, why not?

8. The AcSB proposes that under the immediate recognition method, capital asset contributions be recognized as revenue of the restricted fund, provided reasonable assurance exists regarding the measurement of the capital asset contribution, and collection is reasonably assured. Do you agree with the proposed recognition guidance for capital asset contributions under the immediate recognition method? If not, why not?

9. The AcSB proposes an amendment to Section 4400 that requires organizations to disclose information about the requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those restrictions.

   (a) Do you agree with the proposed disclosure requirements (see paragraphs 4400.22A and 4400.22D)? If not, why not?

   (b) Do you think the proposed disclosure will convey decision-useful information to financial statement users related to the assets available to meet the requirements related to restricted contributions? If not, why not?

10. The AcSB proposes an amendment to Section 4400 that requires an organization to disclose information about how it manages its endowments, including monitoring the fair value of its resources held for endowment and compliance with agreements related to those endowments. The Board also proposes requiring disclosure, when applicable, of quantitative information about the extent to which the fair value of the resources held for endowment is less than the amount required to be maintained permanently. Do you agree with the proposed additional disclosure requirements for endowments (see paragraphs 4400.22B-.22D)? If not, why not?

11. The AcSB proposes continuing to allow an organization to choose to recognize contributions of materials and services that are used in the normal course of the organization's operations and for which fair value can be reasonably estimated.

   (a) Do you agree with the proposed criteria in paragraph 4411.25? If not, why not?

   (b) Do you agree with the proposed presentation and disclosure requirements for contributions of materials and services (see paragraphs 4411.88-.91)? If not, why not?

12. The AcSB proposes that when an organization applies fund accounting presentation, the organization shall only present three funds on the face of the financial statement: an unrestricted fund, a restricted fund and an endowment fund, if applicable.

   (a) Do you agree with the proposed fund accounting presentation requirements (see paragraphs 4400.06-.06A)? If not, why not?

   (b) Do you think that presentation of a capital fund as an additional fund on the face of the financial statements should be optional, mandatory or prohibited? Please explain your reasoning.

13. The AcSB proposes to continue to allow fund accounting presentation as an optional presentation choice in Section 4400 and proposes amendments to Section 4400 to improve the usefulness of information provided to users when fund accounting presentation is applied. This includes proposing that when fund accounting presentation is applied, comparative information should be presented on the face of the financial statements by fund in a format that is consistent with presentation for the current period (see paragraphs 4400.06B-.11). Do you agree that when fund accounting presentation is applied, comparative information should be presented on the face of the financial statements by fund in a format consistent with the current period? If not, why not?

14. The AcSB proposes several new presentation and disclosure requirements related to contributions including:

    (a) disclosures about contributions not yet recognized as revenue including when and under what conditions unspent restricted contributions and unrestricted contributions deferred for use in a future period will become available for use (see paragraph 4411.78);

    (b) disclosures about deferred contributions, including changes in deferred contributions balance, balance attributable to each major category of external restrictions and when the external restrictions are expected to be met (see paragraph 4411.80);

    (c) under the immediate recognition method, disclosures about restricted net assets including the balance attributable to each major category of external restrictions and when the external restrictions are expected to be met (see paragraph 4411.81);

    (d) under the deferred recognition method, presenting amortization of deferred capital contributions on the face of the statement of operations and disclosing the changes in the deferred capital asset contributions balance and the amount of capital asset contributions unspent at period end (see paragraphs 4411.83-.84); and

    (e) under the immediate recognition method, presenting capital contributions recognized in revenue on the face of the statement of operations and disclosing the amount of capital asset contributions unspent at period end (see paragraphs 4411.85-.86).

    Do you think these presentation and disclosure requirements provide decision-useful information? If not, why not?

15. The AcSB proposes that Section 4411 and the proposed amendments to Section 4400 be applied retrospectively in accordance with Section 1506 or applied using the proposed optional transition relief.

    (a) Do you agree that optional transition relief should be provided? If not, why not?

    (b) Do you think the proposed optional transition relief is sufficient (see paragraphs 4411.95(b)-.100)? If not, why not?

16. The AcSB proposes that Section 3400 be applied retrospectively to reciprocal government funding that meets the definition of a contribution under Section 4410 but does not meet the proposed definition of a contribution under Section 4411. Do you agree that transition guidance or transition relief in Section 3400 is not necessary? If transition guidance or relief is necessary, what type of guidance or relief should be provided?

17. The AcSB proposes an effective date of fiscal years beginning on or after January 1, 2029, with earlier application permitted provided proposed Section 4411 and proposed amendments to Section 4400 are applied at the same time.

    (a) Do you agree with the proposed effective date? If not, why not?

    (b) Do you think the proposed effective date provides adequate time for NFPOs to adopt the proposed standard and proposed amendments? If not, why not?

18. Do you think the proposed illustrative examples are useful in demonstrating the application of the proposals? If not, why not?

19. Do you have any other comments on the proposals in this Exposure Draft?

PROPOSALS

SECTION 4411, contributions received by not-for-profit organizations

TABLE OF CONTENTS	Paragraph
Purpose and scope	.01-.03
Definitions	.04-.13
Restricted contributions	.05-.09
Endowment contributions	.10-.11
Matching arrangements	.12-.13
Recognition	.14-.28
Contribution revenue recognition method	.14-.16
Deferred recognition method	.17-.20
Immediate recognition method	.21-.24
Contributed materials and services	.25-.28
Deferred recognition method	.29-.51
Recognition of unrestricted contributions	.30-.35
Recognition of restricted contributions	.36-.40
Recognition of capital asset contributions	.41-.45
Recognition of endowment contributions	.46-.48
Recognition of net investment income	.49-.51
Immediate recognition method	.52-.68
Recognition of unrestricted contributions	.53-.58
Recognition of restricted contributions	.59-.60
Recognition of capital asset contributions	.61-.62
Recognition of endowment contributions	.63-.65
Recognition of net investment income	.66-.68
Measurement	.69-.71
Presentation and disclosure	.72-.91
Deferred contributions and restricted net assets	.78-.82
Capital asset contributions	.83-.86
Net investment income	.87
Contributed materials and services	.88-.91
Effective date and transition	.92-.100
Transition requirements applicable to all organizations	.96-.97

Transition from the deferral method to the immediate recognition method .98

Transition from the restricted fund method to the deferred recognition method .99-.100

Appendix

Decision tree

Illustrative examples

PURPOSE AND SCOPE

.01 This Section establishes standards for the recognition, measurement, presentation and disclosure of contributions received by not-for-profit organizations. The recognition of other revenue by not-for-profit organizations, such as that arising from the sale of services or goods, is dealt with in REVENUE, Section 3400 in Part II of the Handbook.

.02 This Section also establishes standards for the recognition, presentation and disclosure of net investment income earned by not-for-profit organizations. For purposes of this Section, net investment income includes investment revenue (e.g., interest and dividends), realized and unrealized gains or losses on investments, and investment expenses (e.g., investment management fees). The measurement of income earned on investments is dealt with elsewhere in other Sections and depends on the nature of the underlying invested asset.

.03 Contributions can come from many sources, including individuals, corporations, governments and other not-for-profit organizations.

DEFINITIONS

.04 The following definitions have been adopted for purposes of this Section.

(a) **Not-for-profit organizations** are entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. A not-for-profit organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

(b) **Restrictions** are requirements imposed that specify how resources must be used. Restrictions may be external or internal.

(i) **External restrictions** are imposed from outside the organization and meet the criteria in paragraph 4411.04(c)(ii).

(ii) **Internal restrictions** are imposed in a formal manner by the organization itself, for example, by resolution of the board of directors.

(c) A **contribution** is a non-reciprocal transfer to a not-for-profit organization of cash or other assets, or a non-reciprocal reduction, settlement or cancellation of liabilities. In a non-reciprocal transfer, the contributor often receives value indirectly by providing a societal benefit, although that benefit may not be considered commensurate value. A non-reciprocal transfer differs from an exchange transaction, where the potential public benefits are secondary to the potential direct benefits to the contributor.

The following types of contributions are defined for the purposes of this Section:

(i) An **unrestricted contribution** is a contribution that is not a restricted contribution.

(ii) A **restricted contribution** is a contribution subject to an external restriction(s) that meets all the following criteria:

a. the restriction has been explicitly communicated between the organization and the contributor or another external party; and

b. the restriction requires the resources be used for a designated purpose.

(iii) A **capital asset contribution** is a type of restricted contribution subject to an external restriction(s) requiring that the contribution be used to acquire, construct or develop a capital asset. Capital asset contributions also include contributions of capital assets directly.

(iv) An **endowment contribution** is a type of restricted contribution subject to an external restriction(s) requiring that the contribution be maintained permanently, although the constituent assets may change from time to time.

(d) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

(e) **Deferred contributions** are contributions that have been received and will be recognized in revenue in a future period.

(f) An **unrestricted fund** reports the recognition and use of unrestricted resources.

(g) A **restricted fund** reports the recognition and use of restricted resources. Only restricted contributions, other than endowment contributions, and externally restricted net investment income would be reported as revenue in the restricted fund. Allocations of resources that result from the imposition of internal restrictions are recorded as interfund transfers to the restricted fund in accordance with Section 4400.

(h) An **endowment fund** reports the accumulation of endowment contributions and income on endowments subject to restrictions stating that it must be maintained permanently. Only endowment contributions and externally restricted net investment income that must be added to the principal amount of resources held for endowment to be maintained permanently would be reported as revenue in the endowment fund. Allocations of resources that result from the imposition of internal restrictions are recorded as interfund transfers to the endowment fund in accordance with Section 4400.

(i) **Restricted net assets** are the resulting surplus or deficit in the restricted fund reflecting the balance of used and unused restricted contributions received or receivable.

Restricted contributions

.05 The distinction between restricted and unrestricted contributions is important because different reporting requirements apply. External restrictions are imposed by an entity external to the organization and must result in the organization not having discretion over the use of the contribution. For the purpose of determining classification of contributions, related parties are considered external to the organization. A contribution subject to only internal restrictions is not considered a restricted contribution for revenue recognition purposes.

.06 External restrictions must be explicitly communicated between the contributor or another external party, and the organization before or at the time the contribution is made. This would typically be documented in a contribution agreement or other correspondence between the organization and the contributor. Communication may also include the organization's advertising and publications about the intended use of funds being collected. Additionally, restrictions may arise through and be documented in laws and regulations imposed upon the organization. When the organization reasonably thinks the intended use of the contribution is clear to both the contributor and organization, the restriction is considered explicitly communicated.

.07 An external restriction that requires the contribution be used for a designated purpose may also require the organization to carry out a specified activity before the organization is entitled to the contribution. The restriction may include a performance-related requirement that is contingent on the organization achieving a level of service, an identified number of units of output or a specific outcome. However, a contribution may be required to be used for a designated purpose but not have specific performance requirements or outcomes that must be met. A requirement to spend or use the contribution on specific activities or items would also meet the criterion in paragraph 4411.04(c)(ii) of being restricted for a designated purpose.

.08 External restriction(s) must be more specific than aligning with the nature of the organization or the environment in which it operates in order to meet the criterion in paragraph 4411.04(c)(ii). A contribution that is to be used for general operations or to be put toward the organization generally achieving its mandate, without a requirement to carry out a specific activity or achieve a specific performance-related requirement would not be considered externally restricted. When an organization has a broad mandate, conducts multiple activities or provides multiple services, the contribution would be considered restricted for a designated purpose if the restrictions specify that contributions are to be used for a specific aspect or activity under the organization's mandate.

.09 Administrative requirements associated with a contribution do not specify how a contribution must be used and therefore these requirements typically would not be considered external restrictions. Examples of such administrative requirements include detailed reporting requirements summarizing how the contributed funds were spent, and the requirement to file an audit report or tax return.

Endowment contributions

.10 For a contribution to meet the definition of an endowment contribution in paragraph 4411.04(c)(iv), it must be subject to an external restriction(s) specifying that the contribution be maintained permanently. Contributions with an external restriction(s) requiring that the resources be maintained for a specific period of time are not considered endowment contributions, as they are not required to be maintained permanently and typically can be used by the organization once the term lapses.

.11 In some instances, professional judgment is required in determining whether a contribution must be maintained permanently. When making this assessment, the organization would consider the facts and circumstances of the contribution, including the likelihood that the contribution could be available for use by the organization. However, the organization's intention regarding the use of the contribution should not be considered as part of this assessment. For example, an organization may receive a contribution subject to an external restriction requiring that the contribution be maintained permanently. However, the contribution agreement may include a clause allowing the amount to be unendowed to avoid a liquidation. In this case, the organization may conclude that the contribution is an endowment contribution if the entity is a going concern in the period it receives the resources, since the liquidation is an extreme event. Alternatively, if a contribution must be maintained until the death of the contributor and could be accessed by the organization afterwards, the contribution is not considered to be an endowment contribution even if the organization has no intention to use the contributed amount in the future to meet expenses.

Matching arrangements

.12 Not-for-profit organizations commonly enter into matching arrangements with contributors. Such arrangements may occur where the contributor agrees to match other contributions (e.g., a contributor agrees to match all donations made during a specific campaign, up to a defined amount). Alternatively, the not-for-profit organization may match a contribution made by an external contributor (e.g., the organization is required to match an external endowment contribution with internal resources).

.13 The classification of the matched resources depends on the terms of the specific arrangement. When the matched resources are subject to external restrictions, the corresponding net assets are reclassified as externally restricted. For example, if an endowment contribution requires an internal amount to be maintained permanently under the same terms as the external endowment contribution, the internal amount is classified consistently with the endowment contribution and an interfund transfer is used to reclassify the net assets as endowments.

RECOGNITION

Contribution revenue recognition method

.14 *An organization shall make an accounting policy choice to recognize contributions in accordance with either:*

(a) the deferred recognition method (see paragraphs 4411.29-.51); or

(b) the immediate recognition method (see paragraphs 4411.52-68).

.15 *This accounting policy shall be applied consistently to all contributions. If an organization changes its method of accounting for contributions, the change would be treated as a change in accounting policy in accordance with ACCOUNTING CHANGES, Section 1506 in Part II of the Handbook.*

.16 A unique characteristic of contributions is that they are often subject to externally imposed restrictions that specify how the resources contributed are to be used or, in some cases, that they be maintained permanently. To show the extent to which the organization has been able to obtain resources to cover the expenses associated with service delivery for the period, it is necessary to report in a way that distinguishes the different types of contributions. This reporting is achieved by following either the deferred recognition method or the immediate recognition method of accounting for contributions.

Deferred recognition method

.17 The deferred recognition method presents information about the obligations to use restricted amounts by presenting restricted contributions for which external restrictions remain unmet as liabilities, while aligning revenue recognition with performance.

.18 Under the deferred recognition method, contributions for which externally imposed restrictions remain unfulfilled are accumulated as deferred contributions and presented as a liability in the statement of financial position. Restricted contributions are recognized in revenue when (or as) the external restrictions are met.

.19 Under the deferred recognition method, endowment contributions are not recognized in revenue since they must be maintained permanently. Instead, they are recognized as direct increases in net assets.

.20 Fund accounting presentation may be applied but is optional under the deferred recognition method.

Immediate recognition method

.21 The immediate recognition method presents information about the results of fundraising activities by recognizing restricted contributions immediately in the appropriate fund.

.22 Under the immediate recognition method, unrestricted, restricted and endowment contributions are recognized separately using an unrestricted, restricted and endowment fund.

.23 Under the immediate recognition method, contributions for which externally imposed restrictions remain unfulfilled and endowment contributions are recognized as revenue and presented in restricted net assets of the appropriate fund.

.24 Fund accounting presentation is mandatory under the immediate recognition method.

Contributed materials and services

.25 *An organization shall make an accounting policy choice to either:*

(a) not recognize contributions of materials and services in the financial statements; or

(b) recognize contributions of materials and services in the financial statements, but only if the following criteria are met:

(i) a fair value can be reasonably estimated; and

(ii) the materials and services are used in the normal course of the organization's operations.

This choice shall be applied consistently to all contributions of materials and services.

.26 When an organization selects an accounting policy to recognize contributions of materials and services in the financial statements, the criteria in paragraph 4411.25(b) are applied individually to all contributed materials and services the organization receives. Accordingly, some materials and services may not be recognized because these criteria are not met.

.27 Contributed materials and services that are part of constructed or developed capital assets are not subject to the accounting policy choice in paragraph 4411.25. Such contributed materials and services would be recognized in accordance with paragraph 4411.41 or paragraph 4411.61 and measured in accordance with TANGIBLE CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4433, or INTANGIBLE ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4434.

.28 When an organization's accounting policy is to recognize contributions of materials and services in the financial statements, and the criteria in paragraph 4411.25(b) are met, the revenue from contributed materials and services is recognized in accordance with the recognition guidance under this Section consistent with the organization's accounting policy choice in paragraph 4411.14.

DEFERRED RECOGNITION METHOD

.29 Organizations that apply the deferred recognition method may choose to apply fund accounting presentation in accordance with FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, paragraphs 4400.06-.11.

Recognition of unrestricted contributions

.30 *Unrestricted contributions shall be recognized as revenue in the period in which the organization is entitled to use the resources, provided:*

(a) reasonable assurance exists regarding the measurement of the unrestricted contribution; and

(b) collection is reasonably assured.

An unrestricted contribution is recognized as revenue only when the recognition criteria in paragraph 4411.30 are met for each individual unrestricted contribution.

.31 *When an unrestricted contribution has not been received but the recognition criteria in paragraph 4411.30 have been met for an individual unrestricted contribution, revenue shall be recognized and an asset recognized for the receivable.*

.32 *When an unrestricted contribution has been received but the recognition criteria in paragraph 4411.30 have not yet been met because the organization will not be entitled to use the resources until a future period, revenue shall be deferred and a liability recognized until the period in which the unrestricted contribution is available for use.*

.33 An organization may receive an unrestricted contribution before it is entitled to use the resources associated with the unrestricted contribution. For example, an organization may receive an operating grant in the current period that is to be used in a future period. In that case, the organization is entitled to use the resources in the future period(s) that is covered by the agreement.

.34 *Unrestricted contributions that require repayment of unused amounts to the contributor shall be recognized in revenue to the extent the unrestricted contribution has been used. Any amounts repayable at period end shall be recognized as a liability and shall not be recognized in revenue.*

.35 Contributions subject to only internal restrictions are not considered restricted contributions for revenue recognition purposes and should be recognized consistent with the recognition criteria in paragraph 4411.30.

Recognition of restricted contributions

.36 *Restricted contributions, except for capital asset contributions and endowment contributions, shall be recognized as revenue when (or as) the external restriction(s) associated with the restricted contribution is met, provided;*

(a) reasonable assurance exists regarding the measurement of the restricted contribution; and

(b) collection is reasonably assured.

A restricted contribution is recognized as revenue only when the recognition criteria in paragraph 4411.36 are met for each individual restricted contribution.

.37 *When a restricted contribution has not been received but the recognition criteria in paragraph 4411.36 have been met for an individual restricted contribution, revenue shall be recognized and an asset recognized for the receivable.*

.38 Revenue from restricted contributions should not be recognized until the external restrictions are met. The external restrictions are met when the resources have been used for the designated purpose. This may result in recognition of revenue over a period of time (e.g., as specific acts or services are performed). Conversely, revenue may be recognized at a point in time (e.g., if fulfillment of the requirements and obligations is met through a single act, or the contribution amount cannot be reasonably measured until all the external restrictions are met).

.39 As noted in paragraph 4411.09, an administrative requirement associated with a contribution may not be considered a restriction for purposes of this Section and would therefore not preclude recognition of revenue when all other external restrictions are met.

.40 *When a restricted contribution has been received but the recognition criteria in paragraph 4411.36 have not yet been met for an individual restricted contribution, revenue shall be deferred and a liability recognized.*

Recognition of capital asset contributions

.41 *Capital asset contributions related to assets that will be amortized shall be deferred and recognized as revenue on the same basis as the amortization expense related to the capital assets.*

.42 *Capital asset contributions related to indefinite-lived assets shall be recognized as direct increases in net assets.*

.43 *A contribution that is restricted for the acquisition, construction or development of a capital asset shall be deferred until the capital asset is acquired, constructed or developed. Once the capital asset is acquired, constructed or developed, the capital asset contribution shall be recognized in revenue or net assets in accordance with paragraphs 4411.41-.42.*

.44 A restricted contribution may be provided for a certain area of activity without the contributor specifying which portion is to be used to acquire, construct or develop capital assets. For a restricted contribution to be accounted for as a capital asset contribution, the contributor must specify the portion of the contribution that is to be used to acquire, construct or develop capital assets that will contribute to meeting the restrictions. When the contributor specifies that a portion of a restricted contribution be used to acquire, construct or develop capital assets, only the amount specified is recognized as a capital asset contribution in accordance with paragraphs 4411.41-.43. If the contributor does not so specify, then the contribution should be classified as a restricted contribution and recognized as revenue when the criteria in paragraph 4411.36 are met, regardless of whether some of the expenditures relate to the acquisition, construction or development of capital assets.

.45 Organizations that meet the criteria in TANGIBLE CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, paragraph 4433.03, or INTANGIBLE ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, paragraph 4434.02, and that expense capital assets on acquisition would defer and recognize revenue from contributed capital assets in the same period(s) as the related expenses are recognized.

Recognition of endowment contributions

.46 *Endowment contributions shall be recognized as direct increases in net assets in the period in which:*

(a) reasonable assurance exists regarding the measurement of the endowment contribution; and

(b) collection is reasonably assured.

An endowment contribution is recognized as direct increases in net assets only when the recognition criteria in paragraph 4411.46 are met for each individual endowment contribution.

.47 Net investment income earned on resources held for endowment should be accounted for in accordance with paragraph 4411.49.

.48 As noted in paragraph 4411.10, contributions with an external restriction(s) requiring that the resources be maintained for a specific period of time are not considered endowment contributions, as they are not required to be maintained permanently and typically can be used by the organization once the term lapses. Such contributions are recognized in revenue in accordance with paragraphs 4411.30-35 if they meet the definition of an unrestricted contribution or paragraphs 4411.36-.40 if they meet the definition of a restricted contribution.

Recognition of net investment income

.49 *For net investment income earned by an organization, an organization shall recognize:*

(a) net investment income that is not externally restricted in the statement of operations;

(b) externally restricted net investment income that must be added to the principal amount of resources held for endowment and maintained permanently as direct increases, or decreases, in net assets; and

(c) other externally restricted net investment income in the statement of operations or in the appropriate deferred contributions balance, depending on the nature of restrictions, on the same basis as described in paragraphs 4411.36-40.

.50 Income earned on investments is measured in accordance with the guidance in other Sections for the type of invested asset. For example, income on an asset measured at amortized cost in accordance with FINANCIAL INSTRUMENTS, Section 3856, would be recognized and measured in accordance with the guidance in that Section.

.51 Net investment income on investments would be considered externally restricted or unrestricted based on the restrictions imposed by the contributor.

IMMEDIATE RECOGNITION METHOD

.52 *Organizations that apply the immediate recognition method shall apply fund accounting presentation in accordance with FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, paragraphs 4400.06-.11.*

Recognition of unrestricted contributions

.53 *Unrestricted contributions shall be recognized as revenue of the unrestricted fund in the period in which the organization is entitled to use the resources, provided:*

(a) reasonable assurance exists regarding the measurement of the unrestricted contribution; and

(b) collection is reasonably assured.

An unrestricted contribution is recognized as revenue only when the recognition criteria in paragraph 4411.53 are met for each individual unrestricted contribution.

.54 *When an unrestricted contribution has not been received but the recognition criteria in paragraph 4411.53 have been met for an individual unrestricted contribution, revenue shall be recognized and an asset recognized for the receivable.*

.55 *When an unrestricted contribution has been received but the recognition criteria in paragraph 4411.53 have not yet been met because the organization will not be entitled to use the resources until a future period, revenue shall be deferred and a liability recognized until the period in which the unrestricted contribution is available for use.*

.56 An organization may receive an unrestricted contribution before it is entitled to use the resources associated with the unrestricted contribution. For example, an organization may receive an operating grant in the current period that is to be used in a future period. In that case, the organization is entitled to use the resources in the future period(s) that is covered by the agreement.

.57 *Unrestricted contributions that require repayment of unused amounts to the contributor shall be recognized in revenue to the extent the unrestricted contribution has been used. Any amounts repayable at period end shall be recognized as a liability and shall not be recognized in revenue.*

.58 Contributions subject to only internal restrictions are not considered restricted contributions for revenue recognition purposes and should be recognized consistent with the requirements in paragraph 4411.53.

Recognition of restricted contributions

.59 *Restricted contributions, except for capital asset contributions and endowment contributions, shall be recognized as revenue of the restricted fund in the period in which:*

(a) reasonable assurance exists regarding the measurement of the restricted contribution; and

(b) collection is reasonably assured.

A restricted contribution is recognized as revenue only when the recognition criteria in paragraph 4411.59 are met for each individual restricted contribution.

.60 *When a restricted contribution has not been received but the recognition criteria in paragraph 4411.59 have been met for an individual restricted contribution, revenue shall be recognized and an asset recognized for the receivable.*

Recognition of capital asset contributions

.61 *Capital asset contributions shall be recognized as revenue of the restricted fund in the period in which:*

(a) reasonable assurance exists regarding the measurement of the capital asset contribution; and

(b) collection is reasonably assured.

A capital asset contribution is recognized as revenue only when the recognition criteria in paragraph 4411.61 are met for each individual capital asset contribution.

.62 A restricted contribution may be provided for a certain area of activity without the contributor specifying which portion is to be used to acquire, construct or develop capital assets. For a restricted contribution to be accounted for as a capital asset contribution, the contributor must specify the portion of the contribution that is to be used to acquire, construct or develop capital assets that will contribute to meeting the restrictions. When the contributor specifies that a portion of a restricted contribution be used to acquire, construct or develop capital assets, only

the amount specified is recognized as a capital asset contribution in accordance with paragraph 4411.61. If the contributor does not so specify, then the restricted contribution should be classified as a restricted contribution and recognized as revenue when the criteria in paragraph 4411.59 are met, regardless of whether some of the expenditures relate to the acquisition, construction or development of capital assets.

Recognition of endowment contributions

.63 *Endowment contributions shall be recognized as revenue of the endowment fund in the period in which:*

(a) reasonable assurance exists regarding the measurement of the endowment contribution; and

(b) collection is reasonably assured.

An endowment contribution is recognized as revenue only when the recognition criteria in paragraph 4411.63 are met for each individual endowment contribution.

.64 Net investment income earned on resources held for endowment should be accounted for in accordance with paragraph 4411.66.

.65 As noted in paragraph 4411.10, contributions with an external restriction(s) requiring that the resources be maintained for a specific period of time are not considered endowment contributions, as they are not required to be maintained permanently and typically can be used by the organization once the term lapses. Such contributions are recognized in revenue in accordance with paragraphs 4411.53-58 if they meet the definition of an unrestricted contribution or paragraphs 4411.59-.60 if they meet the definition of a restricted contribution.

Recognition of net investment income

.66 *For net investment income earned by an organization, an organization shall recognize:*

(a) net investment income that is not externally restricted in the statement of operations in the unrestricted fund;

(b) externally restricted net investment income that must be added to the principal amount of resources held for endowment to be maintained permanently in the statement of operations in the endowment fund; and

(c) other externally restricted net investment income in the statement of operations in the restricted fund.

.67 Income earned on investments is measured in accordance with the guidance in other Sections for the type of invested asset. For example, income on an asset measured at amortized cost in accordance with FINANCIAL INSTRUMENTS, Section 3856 in Part II of the Handbook, would be recognized and measured in accordance with the guidance in that Section.

.68 Net investment income on investments would be considered externally restricted or unrestricted based on the restrictions imposed by the contributor.

MEASUREMENT

.69 *Contributions shall be measured at fair value at the date the contribution is initially recognized except as specified in paragraph 4411.71.*

.70 The fair value of a contribution of assets other than cash should be estimated using market or appraisal values. For contributed materials and services that are normally purchased, fair value should be determined in relation to the purchase of similar materials and services.

.71 When the fair value of contributed capital assets cannot be reasonably determined, they should be measured in accordance with the guidance in TANGIBLE CAPITAL ASSETS HELD BY NOT-

FOR-PROFIT ORGANIZATIONS, paragraph 4433.07, for tangible capital assets or INTANGIBLE ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, paragraph 4434.11, for intangible capital assets.

PRESENTATION AND DISCLOSURE

.72 *An organization shall disclose the policy choice followed for recognizing contribution revenue in accordance with the recognition methods in paragraph 4411.14.*

.73 *An organization shall disclose the policies followed in accounting for endowment contributions and restricted contributions.*

.74 *An organization shall present separately on the face of the financial statements or disclose in the notes to the financial statements its contribution revenue by major source.*

.75 Information about the sources of contribution revenue should be disclosed for each source of significant contributions to the organization. The sources should be grouped by major categories, such as different levels of government, foundations, corporate contributors, individuals and not-for-profit organizations.

.76 *When the ongoing operations of an organization depend on a significant contribution(s) from another party, the economic dependence on that party shall be disclosed and explained.*

.77 In determining whether an organization is dependent on another party, the organization considers the ease with which contributions from that party can be replaced by contributions from another party with similar terms and conditions.

Deferred contributions and restricted net assets

.78 *An organization shall provide information that will enable financial statement users to understand when and under what conditions unspent restricted contributions and unrestricted contributions deferred for use in a future period will become available for use.*

.79 An organization may have received contributions that are not available for use as at the end of the reporting period. This can happen when the organization has received an unrestricted contribution for use in a future period or when the restriction(s) associated with a restricted contribution has not yet been met. Information about the timing and conditions under which such contributions will become available for use is important to help financial statement users assess the economic resources the organization will be able to access in the future.

.80 *An organization reporting deferred contributions shall disclose:*

(a) the nature and the amount of change in the deferred contributions balance for the period;

(b) the balance of deferred contributions attributable to each major category of external restrictions;

(c) the balance of deferred contributions, excluding deferred capital asset contributions, attributable to each major category of external restrictions for which the restriction(s) is expected to be met within the following periods from the date of the statement of financial position:

(i) within one year;

(ii) within the next two to five years; and

(iii) for an indeterminate period of time; and

(d) the balance and conditions under which any restricted contributions could become available for use to the organization without meeting the external restriction(s), if applicable.

.81 *An organization applying the immediate recognition method of accounting for contributions as per paragraph 4411.14 shall also disclose:*

(a) the balance of net assets attributable to each major category of external restrictions;

(b) the balance of net assets, excluding those related to capital asset contributions, attributable to each major category of external restrictions for which the restriction(s) is expected to be met within the following periods from the date of the statement of financial position:

(i) within one year;

(ii) within the next two to five years; and

(iii) for an indeterminate period of time; and

(c) the balance and conditions under which any restricted contributions could become available for use to the organization without meeting the external restriction(s), if applicable.

.82 Judgment should be exercised in disclosing major categories of external restrictions. In determining how to categorize restrictions, the organization considers the intended use of the resources, the nature of the restriction in relation to the organization's mandate or activities, the source of the contribution(s) and the materiality of the restricted amounts.

Capital asset contributions

.83 *An organization applying the deferred recognition method shall separately present on the face of the statement of operations the amortization of deferred capital asset contributions recognized in revenue in accordance with paragraph 4411.41.*

.84 *An organization applying the deferred recognition method shall disclose:*

(a) the nature and the amount of change in the deferred capital asset contributions balance for the period; and

(b) the amount of deferred capital asset contributions for the acquisition, construction or development of a capital asset that are unspent at period end.

.85 *An organization applying the immediate recognition method shall separately present on the face of the statement of operations the amount of capital asset contributions for the acquisition, construction or development of a capital asset recognized in revenue in accordance with paragraph 4411.61.*

.86 *An organization applying the immediate recognition method shall disclose the amount of capital asset contributions for the acquisition, construction or development of a capital asset that are unspent at period end.*

Net investment income

.87 *An organization shall disclose the following, as applicable, related to net investment income earned on resources held for endowment in the period:*

(a) the amounts recognized in the statement of operations (in each of the unrestricted fund, restricted fund and endowment fund, if applicable, when applying fund accounting presentation);

(b) the amounts deferred;

(c) the amounts recognized as direct increases or decreases in net assets; and

(d) the total earned.

Contributed materials and services

.88 *An organization shall disclose the policy followed in accounting for contributed materials and services.*

.89 *When an organization recognizes contributed materials and services in its financial statements, an organization shall separately present on the face of the statement of operations the amount of revenue recognized from contributed materials and services.*

.90 *An organization shall disclose:*

(a) the nature and amount, by major class of transaction, of contributed materials and services recognized in the financial statements;

(b) qualitative information, by major class of transaction, about the nature of contributed materials and services received during the period but not recognized during the period; and

(c) its dependence on contributed materials and services to achieve its objectives during the reporting period or to achieve its objectives in the future. An organization shall disclose this information regardless of whether contributed materials and services are recognized in the financial statements.

.91 The disclosure requirement in paragraph 4411.90(b) applies to an organization that makes an accounting policy choice not to recognize contributions of materials and services in their financial statements in accordance with paragraph 4411.25. The disclosure requirement in paragraph 4411.90(b) also applies to an organization that makes an accounting policy choice to recognize contributions of contributed materials and services in accordance with paragraph 4411.25 when such an organization receives contributions that do not meet the criteria in paragraph 4411.25(b) and therefore are not recognized in the financial statements.

EFFECTIVE DATE AND TRANSITION

.92 This Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2029. Earlier application is permitted as long as the amendments to FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4400, issued in MONTH 2028 are also applied.

.93 For the purposes of the transition provisions in paragraphs 4411.94-.100, the date of initial application is the start of the reporting period in which an organization first applies this Section.

.94 An organization may select the policy for accounting for contributions in revenue in accordance with paragraph 4411.14 upon initial application of this Section without meeting the criterion in ACCOUNTING CHANGES, paragraph 1506.06(b) in Part II of the Handbook. Under this transitional provision, an organization that previously accounted for contributions in accordance with CONTRIBUTIONS – REVENUE RECOGNITION, Section 4410, may select either recognition method in paragraph 4411.14 upon the initial application of this Section.

.95 *Regardless of the contribution revenue recognition method selected in paragraph 4411.14, an organization shall apply this Section:*

(a) retrospectively in accordance with ACCOUNTING CHANGES, Section 1506; or

(b) retrospectively only to contributions recognized in revenue or net assets on or after the beginning of the earliest period presented in the financial statements in which the organization first applies this Section. If the organization applies this transitional provision, it shall disclose that fact.

Transition requirements applicable to all organizations

.96 If an organization applies the transitional provision in paragraph 4411.95(b), the organization is not required to make retrospective adjustments for contributions that were recognized in revenue or net assets prior to the beginning of the earliest period presented in the financial statements. However, an organization is required to apply this Section retrospectively to contributions that were initially recognized in revenue or net assets in the prior period(s) presented in the first financial statements prepared in accordance with this Section.

.97 *If an organization applies the transitional provision in paragraph 4411.95(b), the organization shall assess whether the opening balance of deferred contributions in the earliest period presented includes contributions that meet the criteria for revenue recognition in accordance with this Section. For any such amounts included in deferred contributions, the organization shall make a retrospective adjustment to the opening balance of net assets in the earliest period presented.*

Transition from the deferral method to the immediate recognition method

.98 *If an organization applies the transitional provision in paragraph 4411.95(b) and changes from the deferral method in accordance with CONTRIBUTIONS – REVENUE RECOGNITION, Section 4410, to the immediate recognition method in accordance with this Section, the organization shall recognize the cumulative effect of the change at the beginning of the earliest period presented as follows:*

(a) assess the opening balance of deferred contributions by applying the transition provision in paragraph 4411.97 and adjust externally restricted contributions that meet the criteria for revenue recognition in accordance with this Section to the opening balance of externally restricted net assets in the restricted fund;

(b) adjust the opening balance of the unrestricted net assets to the opening balance of net assets in the unrestricted fund;

(c) adjust the opening balance of deferred capital asset contributions to the opening balance of externally restricted net assets in the restricted fund; and

(d) adjust the opening balance of net assets subject to external restrictions requiring that they be maintained permanently as endowments to the opening balance of externally restricted net assets in the endowment fund.

Transition from the restricted fund method to the deferred recognition method

.99 *If an organization applies the transitional provision in paragraph 4411.95(b), and changes from the restricted fund method in accordance with CONTRIBUTIONS – REVENUE RECOGNITION, Section 4410, to the deferred recognition method in accordance with this Section, the organization shall recognize the cumulative effect of the change at the beginning of the earliest period presented as follows:*

(a) adjust the opening balance of net assets in the general or unrestricted fund to the opening balance of unrestricted net assets;

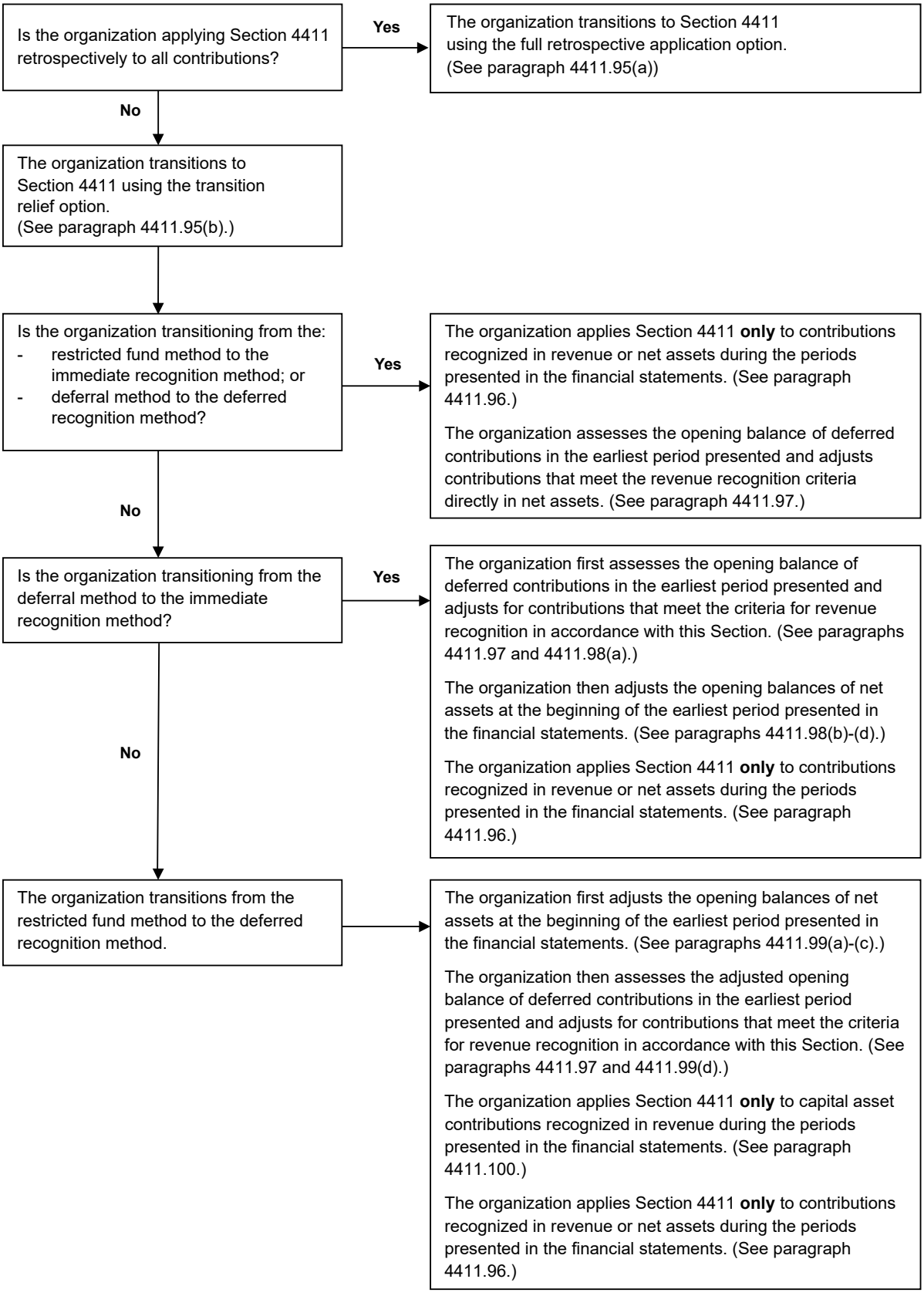
(b) adjust the opening balance of externally restricted net assets in the restricted fund to the opening balance of deferred contributions;

(c) adjust the opening balance of externally restricted net assets in the endowment fund to the opening balance of net assets subject to external restrictions requiring that they be maintained permanently as endowments; and

(d) assess the opening balance of deferred contributions, including adjustments resulting from the application of paragraph 4411.99(b), by applying the transition provision in paragraph 4411.97 and adjust contributions that meet the criteria for revenue recognition in accordance with this Section to the opening balance of unrestricted net assets.

.100 If an organization applies the transitional provisions in paragraphs 4411.95(b) and 4411.99, the organization is not required to make retrospective adjustments for capital asset contributions, as defined in paragraph 4411.04(c)(iii), recognized in revenue in full prior to the beginning of the earliest period presented. However, an organization is required to apply this Section retrospectively to capital asset contributions that were initially recognized in revenue in the comparative period(s) presented in the first financial statements prepared in accordance with this Section.

Appendix – Decision Tree: Transitional Provisions



ILLUSTRATIVE EXAMPLES

This material is illustrative only.

These examples illustrate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle related to particular situations should be decided in the context of this Section.

Example 1 – Definition of a contribution

Example 2 – Classification of a restricted contribution

Example 3 – Classification and recognition of an unrestricted contribution for use in a future period

Example 4 – Classification and recognition of a restricted contribution for which restrictions have not been met in the current period

Example 5 – Application of the recognition criteria for a restricted contribution under the immediate recognition method

Example 6 – Classification of a capital asset contribution

Example 7 – Classification and recognition of a capital asset contribution

Example 8 – Classification of an endowment contribution

Example 1 – Definition of a contribution

This example illustrates the application of the definition of a contribution in paragraph 4411.04(c) to a transaction that includes both a contribution and a fee-for-service arrangement. Other reasonable allocation methods between the reciprocal and non-reciprocal amounts could also be appropriate.

Fact pattern

Small Town Museum (STM) is a Canadian not-for-profit organization that operates a museum dedicated to the local history of Small Town. STM charges a daily admission fee of $10 and offers the following annual membership options:

(a) $100 annual membership that allows unlimited daily admission for the member and one guest for one year. STM has observed that most members visit the museum multiple times throughout the year; or

(b) $1,000 platinum membership that allows unlimited daily admission for the member and one guest for one year. The member's name is also displayed on the supporters list in the museum's entrance, which includes platinum members and major donors.

Would the membership options meet the definition of a contribution?

Applying the definition of a contribution per paragraph 4411.04(c), STM considers whether the membership fee is a non-reciprocal transfer.

Annual membership

The annual membership allows unlimited daily admission for the member and one guest, which is a service and provides value to the contributor. Since most members visit the museum multiple times per year and given that single day access for two individuals would cost $20, STM determines that it is reasonable to expect that a member would value unlimited access to the museum for the member and one guest at $100 or more. Consistent with this analysis, STM concludes that the entirety of the annual membership fee is a reciprocal transaction and does not meet the definition of a contribution.

Platinum membership

The platinum membership allows unlimited daily admission for the member and one guest, which is a service and provides value to the contributor. STM values the unlimited daily admission portion at $100 consistent with the cost of an annual membership and considers this part of the platinum membership fee to be a reciprocal transaction that does not meet the definition of a contribution. STM concludes that displaying the member's name on the supporters list does not provide any significant value to the contributor. STM considers the remaining portion of the platinum membership fee to be a non-reciprocal transaction that meets the definition of a contribution and classifies $900 as a contribution.

Example 2 – Classification of a restricted contribution

This example illustrates the application of the definitions of an unrestricted contribution in paragraph 4411.04(c)(i) and a restricted contribution in paragraph 4411.04(c)(ii), as well as the guidance in paragraphs 4411.05-.09 to determine the classification of a contribution restricted for a purpose that is more specific than achieving the organization's general mandate.

Fact pattern

Prevent & Care (P&C) is a Canadian not-for-profit organization that focuses on treatment, support and care of those affected by substance-use disorder and their families. P&C has a December 31 year-end.

Given the severity of the opioid crisis, the provincial government approved a special budget that allocates more funds to not-for-profit organizations working in this sector. P&C successfully applied for a grant under the provincial Emergency Funding Program.

On April 1, 20X0, P&C received the entirety of the emergency grant. The grant agreement refers to the Emergency Funding Program and specifies that funding must be used toward programs and activities that address the opioid crisis. The agreement does not list specific activities or objectives that the receiving organization must execute. Additionally, the grant agreement does not refer to a specific fiscal period or timeline.

Is the emergency grant a restricted contribution?

Applying paragraph 4411.04(c)(ii), P&C considers whether the emergency grant meets the definition of a restricted contribution. The grant agreement between P&C and the provincial government states that the emergency grant must be used toward programs and activities that will address the opioid crisis. Therefore, the contribution is restricted because the restriction is explicitly communicated between the organization and the contributor, and the restriction requires the grant to be used for a designated purpose. Paragraph 4411.08 also notes that, for a contribution to be designated for a specific purpose, the external restriction must be more specific than aligning with the nature of the organization or the environment in which it operates. While P&C's mandate is to provide treatment, support and care for those affected by substance-use disorder and their families, the grant must be used to address the opioid crisis, which is more specific than P&C's general mandate.

Example 3 – Classification and recognition of an unrestricted contribution for use in a future period

This example illustrates the application of the definitions of unrestricted contribution in paragraph 4411.04(c)(i) and restricted contribution in paragraph 4411.04(c)(ii), as well as the guidance in paragraphs 4411.05-.09 to determine the classification of a contribution toward the organization achieving its general mandate.

This example also illustrates the application of the contribution revenue recognition guidance for unrestricted contributions recognized under both the deferred recognition method in accordance with paragraphs 4411.30-.35 and the immediate recognition method in accordance with paragraphs 4411.53-.58. Consequently, a separate recognition analysis is provided for contribution revenue to be recognized under:

- the deferred recognition method; and
- the immediate recognition method.

Fact pattern

City Youth Services (CYS) is a Canadian not-for-profit organization that provides youth counselling services in the downtown area. CYS has a March 31 year-end.

CYS' operations are primarily funded by an annual operating grant from the government. On March 15, 20X5, CYS received a payment of $900,000 to fund operations for the period April 1, 20X5, to March 31, 20X6. The funding agreement specifies that funding is required to be used toward CYS' objectives of providing youth services within the municipality. CYS is required to submit audited financial statements for the grant period as a condition of funding. Any unspent funds at the end of the period may be either returned to the government or carried over to the following fiscal year upon approval by the government. CYS' operating expenses for the fiscal year ended March 31, 20X6, were $850,000.

Is the grant a restricted contribution?

CYS considers whether the operating grant is a restricted contribution. The funding agreement specifies that funding is required to be used toward CYS' objectives of providing youth services within the municipality. When considering paragraph 4411.04(c)(ii), there is no restriction that the funding be used for a designated purpose. Therefore, the contribution meets the definition of an unrestricted contribution in paragraph 4411.04(c)(i) because a contribution that is to be used for general operations or to be put toward the organization generally achieving its mandate would not be considered externally restricted unless there is another restriction attached to the contribution per paragraph 4411.08.

How much contribution revenue should CYS recognize in each fiscal year?

Deferred recognition method

Under the deferred recognition method, CYS applies the recognition criteria in paragraph 4411.30 for unrestricted contributions. Reasonable assurance exists regarding the measurement and collectability of the contribution since the payment was received on March 15, 20X5. However, per paragraph 4411.30, unrestricted contributions shall only be recognized as revenue in the period in which the organization is entitled to use the resources. The funding agreement indicates that the contribution is to fund CYS' operations for the 20X6 fiscal year. Since the contribution has been received in fiscal 20X5 but is not available for use until fiscal 20X6, CYS will also consider the guidance in paragraph 4411.32. Therefore, CYS defers the revenue until the future period in which the funds are available for use and does not recognize any revenue with respect to this contribution in fiscal 20X5.

In fiscal 20X6, CYS recognizes contribution revenue of $850,000 equal to the amount of operating expenses incurred during the period. Since the funding agreement indicates that any unspent funds may be returned or carried forward to the following fiscal year upon government approval, CYS does not recognize the remaining $50,000 in revenue until it receives approval to carry forward and the funds are used, per paragraph 4411.34.

Year	Revenue recognized	Deferred contribution balance – end of fiscal year
20X5	$0	$900,000
20X6	$850,000	$50,000

Immediate recognition method

Under the immediate recognition method, CYS applies the recognition criteria in paragraph 4411.53 for unrestricted contributions. Reasonable assurance exists regarding the measurement and collectability of the contribution since the payment was received on March 15, 20X5. However, per paragraph 4411.53, unrestricted contributions shall only be recognized as revenue in the period in which the organization is entitled to use the resources. The funding agreement indicates that the contribution is to fund CYS' operations for the 20X6 fiscal year. Since the contribution has been received in fiscal 20X5 but is not available for use until fiscal 20X6, CYS will also consider the guidance in paragraph 4411.55. Therefore, CYS defers the revenue until the future period in which the funds are available for use and does not recognize any revenue with respect to this contribution in fiscal 20X5.

In fiscal 20X6, CYS recognizes contribution revenue of $850,000 in the unrestricted fund equal to the amount of operating expenses incurred during the period. Since the funding agreement indicates that any unspent funds may be returned or carried forward to the following fiscal year upon government approval, CYS does not recognize the remaining $50,000 in revenue in the unrestricted fund until it receives approval to carry forward and the funds are used, per paragraph 4411.57.

Year	Revenue recognized in the unrestricted fund	Deferred contribution balance – end of fiscal year
20X5	$0	$900,000
20X6	$850,000	$50,000

Example 4 – Classification and recognition of a restricted contribution for which restrictions have not been met in the current period

This example illustrates the application of the definitions of unrestricted contribution in paragraph 4411.04(c)(i) and restricted contribution in paragraph 4411.04(c)(ii), as well as the guidance in paragraphs 4411.05-.09 to a contribution externally restricted toward a designated purpose that is more specific than the organization's general mandate.

This example also illustrates application of the contribution revenue recognition guidance for restricted contributions recognized under both the deferred recognition method in accordance with paragraphs 4411.36-.40 and the immediate recognition method in accordance with paragraphs 4411.59-.60. Consequently, a separate recognition analysis is provided for contribution revenue to be recognized under:

- the deferred recognition method; and
- the immediate recognition method.

Fact pattern

Small Town Sports (STS) is a Canadian not-for-profit organization that operates various youth sports programs in the municipality of Small Town. STS has a March 31 year-end.

On January 15, 20X5, STS organizes a fundraising event. Advertising for the event indicates that STS will use the funds raised to establish and operate a soccer program for local youth. Event attendees do not receive any significant products or services in exchange for their ticket purchases. STS raises $25,000 during the event. In June 20X5, STS begins offering a soccer program and incurs expenses of $15,000 in fiscal 20X6 to establish and operate it. During fiscal year 20X6, STS also incurs expenses of $40,000 to run its operations. In fiscal years 20X7 and 20X8, STS incurs expenses of $8,000 annually to operate the soccer program.

Are the fundraising-event proceeds a contribution?

STS considers whether the fundraising-event proceeds meet the definition of a contribution. STS applies the definition of contribution in paragraph 4411.04(c) and determines that, since event attendees do not receive any significant products or services in exchange for ticket purchases, they do not receive direct value from this transaction. STS concludes that the fundraising event is a non-reciprocal transaction and that the totality of the funds raised meets the definition of contribution.

Are the fundraising-event proceeds a restricted contribution?

STS considers whether the fundraising-event proceeds meet the definition of a restricted contribution. STS concludes that the event's advertising is an explicit communication between the contributor and the organization that the funds raised are to be used for the soccer program. STS also determines that the soccer program is a designated purpose that is more specific than the organization's general mandate. STS concludes that the event proceeds meet the definition of restricted contribution in paragraph 4411.04(c)(ii).

How much contribution revenue should STS recognize in each fiscal year?

Deferred recognition method

Under the deferred recognition method, STS applies the recognition criteria in paragraph 4411.36. STS concludes that the contribution is measurable and collection is reasonably assured because the amounts have been received. STS must determine when the external restriction associated with this contribution will be met.

Consistent with paragraphs 4411.36 and 4411.38, STS determines that the external restriction to establish and operate the soccer program will be met as expenses are incurred to provide the program.

STS will recognize in revenue a contribution amount equal to the expenses incurred in each period. The remaining unrecognized balance will be presented as deferred contributions at the end of each period. Other recognition patterns may be appropriate for other external restrictions.

Year	Revenue recognized	Deferred contribution balance – end of fiscal year
20X5	$0	$25,000
20X6	$15,000	$10,000
20X7	$8,000	$2,000
20X8	$2,000	$0

Immediate recognition method

Under the immediate recognition method, STS applies the recognition criteria in paragraph 4411.59. STS concludes that the contribution is measurable and collection is reasonably assured because the amounts have been received.

Consistent with paragraph 4411.59, STS recognizes the contribution in revenue of the restricted fund in the period it is received.

Year	Revenue recognized in the restricted fund
20X5	$25,000
20X6	$0

Example 5 – Application of recognition criteria for a restricted contribution under the immediate recognition method

Example 5A – Recognized upon entering an agreement (i.e., before receipt)

This example illustrates the application of the definitions of unrestricted contribution in paragraph 4411.04(c)(i) and restricted contribution in paragraph 4411.04(c)(ii), as well as the guidance in paragraphs 4411.05-.09 to a contribution externally restricted toward a designated purpose that is more specific than the organization's general mandate.

This example also illustrates the application of the contribution revenue recognition guidance for restricted contributions recognized under the immediate recognition method in accordance with paragraphs 4411.59-.60.

Fact pattern

Science for Kids (SFK) is a Canadian not-for-profit organization with a March 31 year-end. SFK entered into a contribution agreement on February 15, 20X5, for funding restricted for the provision of a specific educational program for preschoolers. The agreement does not specify the period in which the funds are to be used, and SFK begins offering the program in February 20X5, as soon as the agreement is reached. The funding is received in a single payment on April 15, 20X5. The funding agreement defines eligible expenses and activities but does not include performance measurements or service delivery targets that must be met. The agreement specifies that the agreement cannot be terminated after SFK begins offering the program.

When should SFK recognize the restricted contribution?

SFK concludes that this transaction meets the definition of a restricted contribution per paragraph 4411.04(c)(ii) since the restriction is explicitly communicated and the funding is designated for a specified program. At the time of signing the agreement and the beginning of the program (February 15, 20X5), SFK concludes that collection is reasonably assured since the agreement cannot be terminated once the program has commenced. In absence of this specification, SFK would need to evaluate when collection is reasonably assured.

Therefore, the criteria in paragraph 4411.59 are met upon entering into the agreement with the contributor. SFK recognizes the entire contribution in revenue of the restricted fund upon signing the contribution agreement (February 15, 20X5) even though cash has not been received and recognizes an asset for the receivable, in accordance with paragraph 4411.60.

Example 5B – Recognition when collection is reasonably assured

This example illustrates the application of the definitions of unrestricted contribution in paragraph 4411.04(c)(i) and restricted contribution in paragraph 4411.04(c)(ii), as well as the guidance in paragraphs 4411.05-.09 to a contribution externally restricted toward a designated purpose that is more specific than the organization's general mandate.

This example also illustrates the application of the contribution recognition guidance for restricted contributions recognized under the immediate recognition method in accordance with paragraphs 4411.59-.60.

Fact pattern

Seniors Activity Centre (SAC) is a Canadian not-for-profit organization with a March 31 year-end. SAC entered a contribution agreement on February 15, 20X5, for funding restricted for the provision of a specific water aerobics program that will be delivered during the period April 1, 20X5, to March 31, 20X6. The funding is received in 12 equal monthly instalments of $10,000, with the first instalment received on May 1, 20X5, and the last instalment received on April 30, 20X6. The funding agreement includes monthly performance and service delivery targets that must be met before funds are released.

When should SAC recognize the restricted contribution?

SAC concludes that this transaction meets the definition of a restricted contribution per paragraph 4411.04(c)(ii) since the restriction is explicitly communicated and the funding is designated for a specified program. At the time of signing the agreement on February 15, 20X5, and as at March 31, 20X5, SAC concludes that collection is not reasonably assured since funds will only be released when the monthly performance and service delivery targets have been met. As a result, SAC recognizes no revenue for this contribution in the financial statements for the year ended March 31, 20X5.

SAC gradually recognizes the contribution in revenue of the restricted fund upon receipt of each monthly instalment of $10,000 from May 20X5 to March 20X6. As at March 31, 20X6, SAC has provided the program and met the performance and service delivery targets for the period April 1, 20X5, through March 31, 20X6, and has received 11 of 12 instalments. SAC concludes that collection of the final instalment of $10,000 to be received in April 20X6 is reasonably assured since the performance and service delivery targets have been met. Therefore, the criteria in paragraph 4411.59 have been met for all instalments as at March 31, 20X6. SAC recognizes the entire contribution of $120,000 in revenue of the restricted fund in the financial statements for the year ended March 31, 20X6, and an asset for the receivable related to the final instalment of $10,000 as at March 31, 20X6, in accordance with paragraph 4411.60.

Example 6 – Classification of a capital asset contribution

This example illustrates the identification and classification of contributions as a capital asset contribution through application of the definition of capital asset contribution in paragraph 4411.04(c)(iii). This example also illustrates the application of the guidance in paragraphs 4411.44, if using the deferred recognition method, and 4411.62, if using the immediate recognition method, to a restricted contribution with restrictions that do not specify the amount or portion of the restricted contribution that is to be used for capital assets acquisitions.

Fact pattern

Old Town Community Centre (OTCC) is a Canadian not-for-profit organization that provides various programs for seniors including recreation, sports and health counselling in the municipality of Old Town. OTCC has a March 31 year-end.

OTCC's operations are primarily funded by annual program grants. On April 1, 20X5, OTCC received a payment of $250,000 to fund a sports program for seniors during the period April 1, 20X5, to March 31, 20X6. The funding agreement specifies that the funding is to be used toward expenditures directly incremental to providing the sports program, including:

- salaries and wages;
- trainers' and instructors' fees;
- supplies and equipment;
- rental and occupancy costs; and
- capital additions.

During the period April 1, 20X5, to March 31, 20X6, OTCC purchased capital assets totalling $40,000 for use in providing the sports program.

What amount should OTCC recognize as a capital asset contribution?

Deferred recognition method

OTCC first determines if the contribution meets the definition of a restricted contribution per paragraph 4411.04(c)(ii). OTCC concludes that this grant meets the definition of a restricted contribution since it is for a designated purpose that is more specific than the general mandate of the organization, and the restrictions are explicitly communicated by an external party.

The funding agreement does not specify the portion of the restricted contribution that is to be used to acquire, construct or develop capital assets. OTCC concludes that any portion of the contribution used for capital asset expenditures does not meet the definition of a capital asset contribution in accordance with paragraphs 4411.04(c)(iii) and 4411.44.

Applying the guidance in paragraphs 4411.36-.40 for restricted contributions, OTCC determines that the restrictions associated with the contribution are met as the sports programs are provided and recognizes the $250,000 grant in revenue over this period.

Immediate recognition method

OTCC first determines if the contribution meets the definition of a restricted contribution per paragraph 4411.04(c)(ii). OTCC concludes that this grant meets the definition of a restricted contribution since it is for a designated purpose that is more specific than the general mandate of the organization, and the restrictions are explicitly communicated by an external party.

The funding agreement does not specify the portion of the restricted contribution that is to be used to acquire, construct or develop capital assets. OTCC concludes that any portion of the contribution used for capital asset expenditures does not meet the definition of a capital asset contribution in accordance with paragraphs 4411.04(c)(iii) and 4411.62.

Applying the guidance in paragraphs 4411.59-.60 for restricted contributions, OTCC recognizes the $250,000 grant as revenue of the restricted fund when it is received.

Example 7 – Classification and recognition of a capital asset contribution

This example illustrates the classification of a portion of a restricted contribution as a capital asset contribution through application of the definition of capital asset contribution in paragraph 4411.04(c)(iii). This example also illustrates the application of the recognition guidance in paragraphs 4411.41 and .44, if using the deferred recognition method, and paragraphs 4411.61-.62, if using the immediate recognition method, to a restricted contribution that includes a specified amount that differs from the actual amount of capital asset acquisitions.

Fact pattern

Downtown Youth Services (DYS) is a Canadian not-for-profit organization that provides various programs for youth including counselling, employment and learning services in the downtown area. DYS has a March 31 year-end.

DYS' operations are primarily funded by annual program grants. On March 15, 20X3, DYS received a payment of $500,000 to fund employment services for the period April 1, 20X3, to March 31, 20X4. The funding agreement specifies that funding is required to be used toward DYS' employment services program within the municipality and specifies that the funds are to be used for the following expenditures:

- Salaries and wages $300,000
- Supplies $50,000
- Occupancy costs $100,000
- Capital assets $50,000

DYS is required to submit audited financial statements for the grant period as a condition of funding. Any unspent funds at the end of the period may be returned or carried over to the following fiscal year upon approval by the government.

During the period April 1, 20X3, to March 31, 20X4, DYS purchases capital assets totalling $35,000 for use in the employment services program.

What amount should DYS recognize as a capital asset contribution?

Deferred recognition method

DYS first determines if the contribution meets the definition of a restricted contribution per paragraph 4411.04(c)(ii). DYS concludes that this grant meets the definition of a restricted contribution since it is for a designated purpose that is more specific than the general mandate of the organization, and the restrictions are explicitly communicated by an external party.

The funding agreement specifies that a portion of the restricted contribution must be used to acquire, construct or develop capital assets that will contribute to meeting the restrictions of providing the employment services program. DYS concludes the portion to be used for capital assets meets the definition of a capital asset contribution in accordance with paragraph 4411.04(c)(iii).

Applying the guidance in paragraph 4411.44, DYS initially recognizes the $50,000 specified for capital asset expenditures as a deferred capital asset contribution. DYS will recognize the $35,000 in capital asset purchases in revenue on the same basis as the amortization expense related to the capital assets as per paragraph 4411.41.

Had the funding agreement not specified the portion of the grant be used for capital assets, the entire amount of the grant would have been classified as a restricted contribution, and no amount would have been classified as a capital asset contribution.

Immediate recognition method

DYS first determines if the contribution meets the definition of a restricted contribution per paragraph 4411.04(c)(ii). DYS concludes that this grant meets the definition of a restricted contribution since it is for a designated purpose that is more specific than the general mandate of the organization, and the restrictions are explicitly communicated by an external party.

The funding agreement specifies that a portion of the restricted contribution must be used to acquire, construct or develop capital assets that will contribute to meeting the restrictions of providing the employment services program. DYS concludes the portion to be used for capital assets meets the definition of a capital asset contribution in accordance with paragraph 4411.04(c)(iii).

Applying the guidance in paragraph 4411.62, DYS recognizes the $50,000 specified for capital asset expenditures as a capital asset contribution. Since the recognition criteria in paragraph 4411.61 are met, DYS recognizes revenue of $50,000 in the restricted fund for the capital asset contribution.

Had the funding agreement not specified the portion of the grant be used for capital assets, the entire amount of the grant would have been classified as a restricted contribution, and no amount would have been classified as a capital asset contribution.

Example 8 – Classification of an endowment contribution

This example illustrates the application of the definitions of endowment contribution in paragraph 4411.04(c)(iv) and restricted contribution in paragraph 4411.04(c)(ii), as well as the guidance in paragraphs 4411.10-.11 to determine the classification of contributions as an endowment contribution or restricted contribution.

Fact pattern

University ABC has multiple endowment funds to support research activities and to fund scholarships. University ABC has an April 30 year-end.

Based on an analysis of other funds managed under the same investment policy, University ABC expects that the scholarship fund will generate returns of at least 8 per cent annually.

In May 20X1, a large family foundation donates $20 million to support research in artificial intelligence (AI). As per the agreement:

- Ten million dollars will be contributed to an AI research fund. Only the income generated on the capital can be disbursed to fund research projects in the field of AI. However, a clause in the agreement enables University ABC to distribute a portion of the capital when the fair value of the invested assets is below the donated capital and there is not sufficient accumulated investment income to fund research projects in a given year. In that case, the fund must be recapitalized to the $10 million donated capital within three years.
- Six million dollars will be set aside in a scholarship fund to support doctoral (PhD) students in the field of AI. To ensure that students get continual support to fund their studies, a clause in the agreement stipulates that 5 per cent of the scholarship-fund balance be disbursed annually as scholarships. University ABC is to invest the scholarship fund according to its established investment policy for endowment funds.
- Four million dollars will be contributed to a fund supporting the launch of the AI Institute for the Future, administered by University ABC. The capital of $4 million must remain endowed for the next 40 years. After that date, the funds can be used to support research projects in the field of engineering, at University ABC's discretion.

Is the contribution an endowment contribution?

Ten-million-dollar AI research fund

University ABC considers whether the $10-million donation meets the definition of an endowment contribution. The agreement specifies that only the income generated by the capital can be disbursed to fund research projects. While a clause in the agreement allows distribution of capital when the fair value of the endowment is below the donated amount, the requirement to recapitalize the fund to $10 million indicates that the donated amount must be maintained permanently.

University ABC therefore concludes that the $10-million contribution is subject to an external restriction requiring that the contribution be maintained permanently and that it meets the definition of an endowment contribution in paragraph 4411.04(c)(iv).

Six-million-dollar scholarship fund for PhD students

University ABC considers whether the $6-million donation meets the definition of an endowment contribution. The agreement specifies that 5 per cent of the scholarship-fund balance must be disbursed annually as scholarships and that the funds be invested according to University ABC's established investment policy for endowment funds.

In assessing whether this contribution is required to be maintained permanently, University ABC considers whether the requirement to disburse 5 per cent of the balance annually combined with the requirement to invest as per its investment policy for endowment funds indicates that the donor intends for the contribution to be maintained permanently. Based on an analysis of other funds managed under the same investment policy, University ABC expects that the scholarship fund will generate returns of at least 8 per cent annually. Consequently, the requirement to disburse 5 per cent of the scholarship-fund balance annually will not require University ABC to spend the initial $6-million contribution, which will effectively be maintained permanently. University ABC may have reached a different conclusion if expected returns were not sufficient to meet the annual disbursement requirement.

University ABC therefore concludes that the $6-million contribution is subject to an external restriction requiring that the contribution be maintained permanently and that it meets the definition of an endowment contribution in paragraph 4411.04(c)(iv).

Four-million-dollar fund for the AI Institute for the Future

University ABC considers whether the $4-million donation meets the definition of an endowment contribution. The agreement specifies that the amount can be spent on projects in the field of engineering after 40 years, at University ABC's discretion.

In assessing whether this contribution is required to be maintained permanently, University ABC considers the external restriction(s) but does not consider the university's intention regarding the future use of this fund.

Since the requirement to maintain the funds is only for a predetermined period, University ABC concludes that the $4-million contribution is not subject to an external restriction requiring that the contribution be maintained permanently and that it does not meet the definition of an endowment contribution in paragraph 4411.04(c)(iv).

University ABC then considers if the contribution meets the definition of a restricted contribution per paragraph 4411.04(c)(ii). University ABC concludes that the $4-million contribution meets the definition of a restricted contribution since the requirement to fund the AI Institute for the Future and research projects in the field of engineering is a designated purpose that is more specific than the general mandate of the organization, and the restrictions are explicitly communicated by an external party in the agreement.

PROPOSED AMENDMENTS TO SECTION 4400

SECTION 4400, FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS

TABLE OF CONTENTS	Paragraph
Purpose and scope	.01
Definitions	.02~~-.03~~
General	.04
Financial statements	.05
Fund accounting presentation	.06-~~.17~~.17A
Interfund transfers and balances	.12-~~.17~~.17A
Statement of financial position	.18~~-.29~~.24D
Disclosure of restrictions	.24-~~.25~~.24D
~~Disclosure of restrictions — deferral method~~	~~.26-.27~~
~~Disclosure of restrictions — restricted fund method~~	~~.28-.29~~
Statement of operations	.30-.38
~~Statement of operations — deferral method~~	~~.33-.34~~
~~Statement of operations — restricted fund method~~	~~.35-.36~~
Presentation of revenues and expenses	.37-.38
Statement of changes in net assets	.41-.44
Statement of cash flows	.46-.53
Effective date and transition	.54-~~.55~~.56
Illustrative examples	

PURPOSE AND SCOPE

.01 This Section establishes presentation and disclosure standards for financial statements of not-for-profit organizations. These standards supplement those in GENERAL STANDARDS OF FINANCIAL STATEMENT PRESENTATION FOR NOT-FOR-PROFIT ORGANIZATIONS, Section 1401.

DEFINITIONS

.02 The following terms are used in this Section with the meanings specified. Definitions for financial statement elements, such as assets and liabilities, are included in FINANCIAL STATEMENT CONCEPTS FOR NOT-FOR-PROFIT ORGANIZATIONS, Section 1001. Additional definitions of particular relevance to financial reporting by not-for-profit organizations are presented in CONTRIBUTIONS ~~– REVENUE RECOGNITION~~RECEIVED BY NOT-FOR-PROFIT ORGANIZATIONS, SECTION ~~4410~~4411; TANGIBLE CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4433, and INTANGIBLE ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4434.

(a) **Not-for-profit organizations** are entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious,

health, charitable or any other not-for-profit purpose. A not-for-profit organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

(b) **Restrictions** are ~~stipulations~~ requirements imposed that specify how resources must be used. Restrictions may be external or internal.

(i) **External restrictions** are imposed from outside the organization and meet the criteria in CONTRIBUTIONS RECEIVED BY NOT-FOR-PROFIT ORGANIZATIONS, paragraph 4411.04(c)(ii).

(ii) **Internal restrictions** are imposed in a formal manner by the organization itself, for example, by resolution of the board of directors.

~~imposed that specify how resources must be used. External restrictions are imposed from outside the organization, usually by the contributor of the resources. Internal restrictions are imposed in a formal manner by the organization itself, usually by resolution of the board of directors. Restrictions on contributions may only be externally imposed. Net assets or fund balances may be internally or externally restricted. Internally restricted net assets or fund balances are often referred to as reserves or appropriations.~~

(c) **Fund accounting presentation** is a form of financial statement presentation whereby certain transactions with unique characteristics are presented separately, ~~comprises the collective accounting procedures~~ resulting in a self-balancing set of accounts for each fund. ~~established by legal, contractual or voluntary actions of an organization.~~ Elements of a fund can include assets, liabilities, net assets, revenues and expenses (and gains and losses, where appropriate). Fund accounting presentation involves an accounting segregation, although not necessarily a physical segregation, of resources.

~~(d) **The restricted fund method** of accounting for contributions is a specialized type of fund accounting that involves the reporting of details of financial statement elements by fund in such a way that the organization reports total general funds, one or more restricted funds, and an endowment fund, if applicable. Reporting of financial statement elements segregated on a basis other than that of use restrictions (for example, by program or geographic location) does not constitute the restricted fund method. Other definitions related to the restricted fund method appear in CONTRIBUTIONS – REVENUE RECOGNITION, Section 4410.~~

~~(e) Under the **deferral method** of accounting for contributions, restricted contributions related to expenses of future periods are deferred and recognized as revenue in the period in which the related expenses are incurred. Endowment contributions are reported as direct increases in net assets. All other contributions are reported as revenue of the current period. Organizations that use fund accounting in their financial statements without following the restricted fund method would account for contributions under the deferral method.~~

~~.03 A not-for-profit organization would follow either the deferral method or the restricted fund method of accounting for contributions. (A detailed discussion of these two methods is presented in CONTRIBUTIONS – REVENUE RECOGNITION, Section 4410.) An organization's choice of method of accounting for contributions has implications for financial statement presentation. For example, the deferral method and the restricted fund method result in differences in the recognition of restricted contributions in the statement of operations and in the presentation of restricted resources in the statement of financial position. Most of the requirements of this Section apply to both the deferral and the restricted fund methods. Other requirements apply only to one of the deferral or the restricted fund method and are identified as such.~~

GENERAL

.04 *A clear and concise description of a not-for-profit organization's purpose, its intended community of service, its status under income tax legislation and its legal form should be included as an integral part of its financial statements.*

FINANCIAL STATEMENTS

.05 Financial statements for a not-for-profit organization normally include:

(a) a statement of financial position;

(b) a statement of operations;

(c) a statement of changes in net assets; and

(d) a statement of cash flows.

These names are used for descriptive purposes only. Organizations may use whatever titles are appropriate in the circumstances as long as each financial statement provides the information necessary to meet the requirements of this and other Sections in a manner that results in the fair presentation in accordance with generally accepted accounting principles of the organization's financial position, results of operations and cash flows. The statement of changes in net assets may be combined with the statement of operations. Notes to financial statements and supporting schedules to which the financial statements are cross-referenced are an integral part of such statements.

FUND ACCOUNTING PRESENTATION

.06 *An organization that ~~uses fund accounting in its financial statements should provide a brief description of the purpose of each fund reported.~~ applies the deferred recognition method in accordance with CONTRIBUTIONS RECEIVED BY NOT-FOR-PROFIT ORGANIZATIONS, paragraph 4411.14(a), and chooses to apply fund accounting presentation or an organization that applies the immediate recognition method in accordance with paragraph 4411.14(b) shall only present the following three funds on the face of the financial statements:*

(a) unrestricted fund;

(b) restricted fund; and

(c) endowment fund, if applicable.

.06A An organization may provide details of additional funds in the notes or schedules to the financial statements. Additional funds disclosed in the notes or schedules to the financial statements shall reconcile to each item reported in the total column presented on the face of the financial statements.

.06B *When an organization applies fund accounting presentation in its financial statements, comparative period information shall be presented by fund in accordance with paragraph 4400.06 on the face of the financial statements or disclosed in the notes or schedules to the financial statements in a format that is consistent with financial statement presentation for the current period.*

~~.07 A description of the specific purpose of each fund reported provides useful information for understanding the organization's use of fund accounting. This description would include the extent to which the particular fund is used to report restricted resources and the types of expenses that are reported in the fund.~~

.08 Each fund reported, in accordance with paragraphs 4400.06 and 4400.06A, would be presented or disclosed on a consistent basis from year to year. Particular revenues and expenses reported in a given fund would continue to be reported in that fund in future periods. Any change in the

revenues and expenses reported in a particular fund would constitute a change in accounting policy, unless the change results from events or transactions that are clearly different from those previously occurring or from the recognition of events or transactions occurring for the first time (see ACCOUNTING CHANGES, Section 1506 in Part II of the Handbook).

.08A Each fund reported, in accordance with paragraphs 4400.06 and 4400.06A, should include all related revenue, expenses, gains and losses associated with the nature of the fund. Expenses charged to a fund should include both direct and indirect costs associated with the fund. If fund accounting presentation is applied to the statement of financial position, each fund should include all associated assets and liabilities.

.09 Financial statements that are reported using fund accounting presentation may follow the multi-column format whereby ~~resources or similar groups of resources are~~ each fund presented, in accordance with paragraph 4400.06, is assigned a separate column. The multi-column format presents information about fund components together with certain totals for the organization as a whole, in accordance with this Section, to give a complete understanding of the total resources available to the organization.

.10 Other formats may be used to report using fund accounting presentation, provided that financial information about the organization as a whole is presented in the organization's financial statements in accordance with this Section.

.11 An organization may present its financial statements, using different formats for the individual statements, as long as it does so in a way that satisfies the requirements of this Section. For example, a statement of operations and changes in net assets presented in the multi-column format may be accompanied by a statement of financial position that presents assets, liabilities and net assets in a single column without presenting each financial statement item by individual fund. The formats selected for individual statements would be based on the particular circumstances of the organization.

Interfund transfers and balances

.12 *Interfund transfers should be presented in the statement of changes in net assets.*

.13 *The amount and purpose of interfund transfers during the reporting period should be disclosed.*

.14 *The amounts, terms and conditions of interfund loans outstanding at the reporting date should be disclosed.*

.14A For purposes of this Section, interfund transfers include both transfers between funds when fund accounting presentation is applied and transfers between categories of net assets in the statement of change in net assets. Similarly, interfund loans include loans between funds and loans between categories of net assets.

.15 Interfund transfers ~~Transfers between funds or between funds and reserves~~ during a reporting period do not result in increases or decreases in the economic resources of the organization as a whole and therefore are reported in the statement of changes in net assets rather than in the statement of operations. Allocations of ~~revenues and~~ expenses between funds that are made when the organization first recognizes the ~~revenue or~~ expense are not considered to be transfers. ~~Under the restricted fund method, however, unrestricted revenues would be recognized initially in the general fund and would only be allocated to restricted funds by way of interfund transfer (see CONTRIBUTIONS – REVENUE RECOGNITION, Section 4410).~~

.16 Judgment would be exercised in determining the level of disclosure to provide for interfund transfers. For example, it may not be necessary to disclose individual transfers. It may be appropriate to aggregate and disclose as a single amount interfund transfers that are similar in nature.

.17 When an organization presents its financial statements using a multi-column format, interfund loans and advances would be presented in individual funds and eliminated in the totals column of

the statement of financial position. When using a single-column approach, the only disclosure of interfund loans and amounts receivable would be made in notes to the financial statements.

.17A An example of a scenario that would require a transfer between categories of net assets is when an organization internally restricts an amount, the amount would be transferred from unrestricted to internally restricted net assets.

STATEMENT OF FINANCIAL POSITION

.18 *For each financial statement item, the statement of financial position should present a total that includes all funds reported.*

.19 *The statement of financial position should present the following, if applicable:*

(a) (deleted)

(aa) deferred contributions and, separately, deferred capital asset contributions.

(b) net assets subject to external restrictions requiring that they be maintained permanently as endowments;

(c) other externally restricted net assets;

(cc) internally restricted net assets;

(d) unrestricted net assets; and

(e) total net assets.

.20 The primary purpose of a statement of financial position is to present the organization's economic resources, obligations and net assets as at the reporting date. The statement of financial position, together with the other statements and the notes, provides useful information for assessing whether the organization will continue to be able to provide services, achieve its objectives and meet its obligations. This information is normally provided by grouping similar amounts not significant in themselves as financial statement items (e.g., cash, capital assets, accounts payable, deferred contributions) and providing totals for all funds related to each of these financial statement items reported. The statement of financial position may also be referred to as the balance sheet.

.21 Information about the organization's liquidity is presented by classifying current assets separately from non-current assets and current liabilities separately from non-current liabilities in accordance with CURRENT ASSETS AND CURRENT LIABILITIES, Section 1510 in Part II of the Handbook. Cash and other assets subject to external restrictions limiting their use to beyond one year from the date of the statement of financial position would be classified as non-current assets. For example, cash and investments held for endowments would be classified as non-current assets, as the external restriction limits their use to beyond one year from the statement of financial position.

.22 Net assets may also be referred to as fund balances or as accumulated surplus or deficit. Total net assets represents the organization's residual interest in its assets after deducting its liabilities. The net assets balance therefore provides information about the net resources the organization has available for carrying out its service delivery activities in the future. Restrictions on net assets may be externally or internally imposed. To fully understand the nature of the organization's net assets balance, financial statement users require information about the portions of net assets attributable to external restrictions requiring that they be maintained permanently as endowments, and to other external restrictions, none of which can readily be used for other purposes. Financial statement users also require information about the portions of net assets that are subject to internal restrictions.

.22A *An organization shall disclose information as at the balance sheet date about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those requirements.*

.22B *An organization shall disclose information about how it manages its endowments, including how it monitors the fair value of the resources held for endowment and compliance with agreements related to its endowments.*

.22C *An organization shall disclose, as applicable, quantitative information about the extent to which the fair value of the resources held for endowment is less than the amount required to be maintained permanently.*

.22D An organization should apply judgment in determining the extent and nature of disclosure to meet the requirement of paragraphs 4400.22A-.22C. This disclosure informs financial statement users about its requirements associated with restricted contributions, including the requirement to permanently maintain endowment contributions, and the assets that the organization determines are available to meet those requirements. The assets that the organization determines are available to meet those requirements would typically include financial assets, such as cash and cash equivalents, and investments. An organization may disclose both quantitative and qualitative information to meet the disclosure requirements in paragraphs 4400.22A.-22C. Qualitative information may include a description of how the organization manages its requirements related to restricted contributions and how it determines the assets available to meet those requirements.

(paragraph 4400.23 deleted)

Disclosure of restrictions

.24 ~~Restrictions on resources may be external or internal.~~ Externally restricted resources would be presented either as deferred contributions or as part of net assets, depending on the organization's ~~policies~~ policy choice for accounting for contributions in accordance with CONTRIBUTIONS RECEIVED BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4411. Externally restricted resources are not available for use at the organization's discretion. The existence of external restrictions can have a significant effect on the organization's financial flexibility and ability to provide certain services in the future. Therefore, it is important that users be made aware of the amounts of resources subject to external restrictions and of the nature of the restrictions.

.24A Internal restrictions can be removed by the organization and the assets can be made available for other purposes, if necessary. Therefore, it is important that users be made aware of the amounts of resources subject to internal restrictions and the nature of the restrictions.

.24B ~~Under the deferral method of accounting for contributions, one common type of internal restriction is to~~ Some organizations may present net assets invested in capital assets as a component of net assets separately from the unrestricted or restricted net assets balances. ~~Organizations that adopt this form of internal restriction consider that the internally restricted amount represents net assets that are not available for other purposes because they have been invested in capital assets. When an organization segregates the amount of net assets invested in capital assets, the organization may either present the amount as a component of net assets in the statement of financial position or disclose the amount in a note to the financial statements.~~ Under the deferred recognition method of accounting for contributions, ~~Net~~ net assets invested in capital assets are generally presented as the unamortized portion of capital assets purchased with unrestricted resources, less related ~~debt~~ liabilities, plus the carrying amount, less related ~~debt~~ liabilities, of capital assets that will not be amortized. Under the ~~restricted fund~~ immediate recognition method, net assets ~~(fund balances)~~ invested in capital assets ~~may also be internally restricted and~~ generally represent the net book value of all capital assets, less related ~~debt~~ liabilities.

.24C *When net assets invested in capital assets are not presented as a separate component of net assets, an organization shall include externally restricted capital assets in the restricted component of net assets and unrestricted capital assets in the unrestricted component of net assets. An example of an externally restricted capital asset could be land that was contributed to the organization and required to be used for a specific program as required by a contribution agreement between the organization and the contributor.*

.24D *An organization shall disclose the amount of capital assets that are externally restricted and details of the nature of the restrictions*.

~~.25 Specific requirements related to the disclosure of restrictions for organizations following the deferral method of accounting for contributions appear in paragraphs 4400.26-.27. Specific requirements for organizations following the restricted fund method appear in paragraphs 4400.28-.29. Organizations need not provide the disclosures set out below separately for each restriction. Judgment would be exercised in disclosing major categories of restrictions. In determining how to categorize restrictions, the organization would consider the intended use of the resources and the length of time that is likely to elapse before the restrictions are complied with.~~

~~**Disclosure of restrictions — deferral method**~~

~~.26 *The following should be disclosed:*~~

~~*(a) the amounts of deferred contributions attributable to each major category of external restrictions with a description of the restrictions;*~~

~~*(b) the amount of net assets subject to external restrictions requiring that they be maintained permanently as endowments; and*~~

~~*(c) the amount of net assets subject to internal restrictions and, separately, external restrictions other than those in (b) above.*~~

~~.27 Under the deferral method of accounting for contributions, endowment contributions are accumulated in the net assets balance. Internally restricted balances are reflected as appropriations of unrestricted net assets in the net assets balance. Externally restricted contributions are accumulated in the statement of financial position as deferred contributions.~~

~~**Disclosure of restrictions — restricted fund method**~~

~~.28 *The following should be disclosed:*~~

~~*(a) the amount of net assets (fund balances) subject to external restrictions requiring that they be maintained permanently as endowments;*~~

~~*(b) the amounts of net assets (fund balances) attributable to each major category of internal restrictions and, separately, external restrictions other than those in (a) above, with a description of the restrictions; and*~~

~~*(c) the amounts of deferred contributions attributable to each major category of external restrictions with a description of the restrictions.*~~

~~.29 Under the restricted fund method of accounting for contributions, endowment contributions are accumulated in the endowment fund balance. Other internally and externally restricted contributions are accumulated in the statement of financial position as part of the appropriate restricted fund balance. If there is no appropriate restricted fund, externally restricted contributions are accumulated as deferred contributions in the general fund.~~

STATEMENT OF OPERATIONS

.30 The primary purpose of a statement of operations is to communicate information about changes in the organization's economic resources and obligations for the period. Specifically, this statement provides information about the cost of the organization's service delivery activities for the period and the extent to which these expenses were financed or funded by contributions and other revenue. The information provided in the statement of operations is useful in evaluating the organization's performance during the period, including its ability to continue to provide services, and in assessing how the organization's management has discharged its stewardship responsibilities. The statement of operations may also be referred to as the statement of revenues and expenses.

.31 Not-for-profit organizations may classify expenses in the statement of operations by object (for example, salaries, rent, utilities), by function (for example, administrative, research, ancillary operations) or by program. Classification of expenses by function or program may be desirable when the organization operates several different programs or has different areas of interest. Classification of expenses by object can also be useful. An organization would classify its expenses in the manner that results in the most meaningful presentation in the circumstances. Whether the organization prepares its budgets by function or object would be a factor to consider in deciding which method of expense classification would be most appropriate for the organization's financial statements.

~~.32 Specific requirements related to the statement of operations for organizations following the deferral method of accounting for contributions appear in paragraphs 4400.33-.34. Specific requirements for organizations following the restricted fund method appear in paragraphs 4400.35-.36.~~

~~Statement of operations — deferral method~~

.33 *The statement of operations should present:*

(a) for each financial statement item, a total that includes all funds reported; and

(b) total excess or deficiency of revenues and gains over expenses and losses for the period.

.33A *When applying fund accounting presentation, the statement of operations shall present the following for the period:*

(a) the total for each financial statement item recognized in the unrestricted fund;

(b) the total for each financial statement item recognized in the restricted fund;

(c) the total for each financial statement item recognized in the endowment fund, if applicable; and

(d) excess or deficiency of revenues and gains over expenses and losses for each of the unrestricted fund, restricted fund and the endowment fund, if applicable.

.33B When fund accounting presentation is applied, consistent subtotals and totals should be presented on the statement of operations for each fund presented in accordance with paragraph 4400.06, including the total excess or deficiency of revenues and gains over expenses and losses for each fund.

.34 The statement of operations would present similar items of revenue and similar items of expense grouped together in meaningful categories as financial statement items. ~~Under the deferral method of accounting for contributions, total excess of revenues over expenses for all funds reports the change in the organization's unrestricted resources in the period. When an organization following the deferral method reports using a method of fund accounting other than the restricted fund method, the total for all funds related to each financial statement item presented in the statement of operations would be reported together with the total excess of revenues over expenses for all funds.~~

~~**Statement of operations — restricted fund method**~~

~~.35 *The statement of operations should present the following for the period:*~~

~~*(a) the total for each financial statement item recognized in the general fund;*~~

~~*(b) the total for each financial statement item recognized in the restricted funds, other than the endowment fund;*~~

~~*(c) the total for each financial statement item recognized in the endowment fund; and*~~

~~*(d) excess or deficiency of revenues and gains over expenses and losses for each of the general fund, restricted funds other than the endowment fund and the endowment fund.*~~

~~.36 The statement of operations would present similar items of revenue and similar items of expense grouped together in meaningful categories as financial statement items. Under the restricted fund method of accounting for contributions, the general fund presents all revenues and expenses related to unrestricted resources. The total excess of revenues over expenses in the general fund reports the change in the organization's unrestricted resources in the period. The restricted funds present revenues and expenses related to restricted resources. Endowment contributions are presented in the endowment fund. In order to understand the impact of operations for the period on the organization's financial position, financial statement readers require information about operations related to each of the general fund, the restricted funds and the endowment fund. In addition, it may be desirable to present totals that include all the funds reported for each financial statement item in the statement of operation.~~

Presentation of revenues and expenses

.37 *Revenues and expenses should be recognized and presented at their gross amounts when an organization is acting as a principal in transactions.*

.38 Information about an organization's total gross revenues and expenses is necessary for users to understand fully the organization's operations. When an organization has expenses and revenues from the provision of goods or services, acting as a principal in the transactions involved, it recognizes the expenses and the revenues on a gross basis. When an organization is not acting as a principal in the transactions, it has earned the equivalent of a commission or fee, or received the equivalent of a contribution, and recognizes only the net amount received.

(paragraphs 4400.39-.40 deleted)

STATEMENT OF CHANGES IN NET ASSETS

.41 *The statement of changes in net assets should present, at a minimum, changes in the following for the period, if applicable:*

(a) (deleted)

(b) net assets subject to external restrictions requiring that they be maintained permanently as endowments;

(bb) externally restricted net assets other than those in paragraph 4400.41(b);

(c) internally restricted net assets (including net assets subject to internal restrictions requiring that they be maintained permanently); ~~and, separately, externally restricted net assets other than those in (b);~~

(d) unrestricted net assets; and

(e) total net assets.

.41A As required by paragraph 4400.12, the statement of changes in net assets includes the amount of interfund transfers between each category noted in paragraph 4400.41.

(paragraph 4400.42 deleted)

.43 The statement of changes in net assets may be referred to as the statement of changes in fund balances when the organization ~~uses~~ applies fund accounting presentation in its financial statements. Total net assets represent the organization's residual interest in its assets after deducting its liabilities. The net assets balance therefore provides information about the net resources the organization has available for carrying out its service delivery activities in the future. To fully understand the nature of the organization's financial activities in the period, financial statement users require information about changes in the portions of net assets attributable to external restrictions requiring that they be maintained permanently as endowments and to other external and internal restrictions as well as those revenues, expenses, gains and losses that have not been included in the statement of operations. The statement of changes in net assets provides this information and shows the extent to which the organization's operations and other revenues, expenses, gains and losses that have not been included in the statement of operations have resulted in an accumulation or depletion of net assets.

.43A Consistent with the guidance provided in paragraph 4400.43, the amount of remeasurements and other items arising from defined benefit plans is required to be presented as a separately identified line item in the statement of changes in net assets (see REPORTING EMPLOYEE FUTURE BENEFITS BY NOT-FOR-PROFIT ORGANIZATIONS, Section 3463).

.43B Consistent with ~~Section~~COMBINATIONS BY NOT-FOR-PROFIT ORGANIZATIONS, paragraph 4449.47, in an acquisition of a not-for-profit organization, the difference between the fair value of the consideration transferred and the net assets acquired is recognized and presented separately in the statement of changes in net assets.

.44 The statement of changes in net assets may be combined with the statement of operations.

(paragraph 4400.45 deleted)

STATEMENT OF CASH FLOWS

.46 *The statement of cash flows should be prepared in accordance with CASH FLOW STATEMENTS, Section 1540 in Part II of the Handbook.*

(paragraph 4400.47 deleted)

.48 The information provided in the statement of cash flows helps financial statement users evaluate how management has discharged its stewardship responsibilities over the resources with which it has been entrusted.

.49 Certain resource providers to a not-for-profit organization may be particularly interested in the statement of cash flows because it shows cash received in the period and how it was used. Resource providers may look to the statement of cash flows in determining whether the cash provided to the organization was used in the manner that the resource provider intended. This statement could form the basis for supplementary schedules or reports prepared to meet resource providers' needs.

(paragraph 4400.50 deleted)

.51 Cash flows from operations include all cash receipts and disbursements resulting from the main ongoing service delivery activities of an organization and exclude cash flows from financing and investing activities. Cash receipts from operations include unrestricted contributions, restricted contributions that are to be used for operations and other revenues arising from the organization's ordinary activities, such as fees for services, proceeds on the sale of goods and unrestricted investment income. Cash disbursements for operations would comprise expenditures made by the organization in carrying out its service delivery activities.

.52 Components of cash flows from financing activities would include cash receipts related to capital asset contributions and endowment contributions~~contributed that is restricted for the purpose of acquiring capital assets and cash contributed for endowment~~. Cash receipts and disbursements related to the assumption and repayment of debt would also be presented as components of cash flows from financing activities. Components of cash flows from investing activities would include the acquisition of capital assets, the purchase of investments, and the proceeds on disposal of major categories of assets, such as capital assets and investments.

.53 An organization ~~following~~ that applies ~~the restricted fund method of accounting for contributions that~~ fund accounting presentation in its statement of operations ~~that~~ and presents its statement of cash flows using the indirect method should reconcile the excess or deficiency of revenues over expenses for the unrestricted ~~general or operating~~ fund and any restricted funds of an operating nature to cash flows from operations.

EFFECTIVE DATE AND TRANSITION

.54 Except as specified in paragraph 4400.55, this Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2012. Earlier application is permitted.

.55 Paragraph 4400.43A, issued in December 2013, applies to annual financial statements relating to fiscal years beginning on or after January 1, 2014. Earlier application is permitted.

.56 New paragraphs 4400.06A-.06B, 4400.08A, 4400.14A, 4400.17A, 4400.22A-.22D, 4400.24C-.24D, 4400.33A-.33B and 4400.41A; and amendments to paragraphs 4400.02, 4400.06, 4400.08-.10, 4400.15, 4400.19, 4400.21-.22, 4400.24, 4400.24B, 4400.34, 4400.41, 4400.43, 4400.43B, 4400.52 and 4400.53 issued in MONTH 2028 apply to annual financial statements beginning on or after January 1, 2029. Earlier application is permitted provided CONTRIBUTIONS RECEIVED BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4411, issued in MONTH 2028 is also applied.

ILLUSTRATIVE EXAMPLES

This material is illustrative only.

These examples illustrate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of this Section.

Other disclosures and methods of presentation not illustrated may also comply with this Section.

Reporting revenues and expenses gross versus net

The following examples illustrate how revenues and expenses should be reported. The determination of whether to report the revenues and expenses on a gross or net basis depends on the relative facts and circumstances and requires significant judgment. The assessment in the following examples illustrate those judgments in the given fact pattern based on the assumed facts; however, judgments will vary in different fact patterns.

Example 1 – Funded development

A not-for-profit organization receives funding to undertake a specific research project. The organization contracts with a scientist to perform the research. The organization would not have undertaken the research project had the funds not been made available.

Evaluation: Although the organization would not have undertaken the research project without the availability of the funding, the organization acts as the principal in contracting with the scientist. It specifies the details of the research to be carried out by the scientist and has discretion in selecting the

scientist and in establishing the price to be paid. Thus, the organization concludes that the expenses incurred are obligations of the organization, the organization recognizes the expenses in the statement of operations, and the related funding is recognized as revenue.

The evaluation would be the same if the reporting organization has an employee who is seconded to a second organization to work under their direction, and the reporting organization is reimbursed for all of the costs related to that employee. As the reporting organization is the employer, they would report their employee-related costs as expenses and would report the reimbursement of their costs as revenues.

Example 2 – Direct fundraising activities

A not-for-profit organization engages in several fundraising activities, including a fundraising telethon, a telephone campaign, a direct mail campaign, special events and a lottery. The organization uses an outside fundraising consultant to conduct the telethon and uses the organization's own staff and volunteers in the telethon and the other activities. Funds solicited in each of the activities are raised in the name of the organization.

Evaluation: Even though the organization uses an outside fundraising consultant to conduct the telethon, the organization is the principal in the relationship with the donors, as the funds are raised in its name. The organization has discretion in selecting the outside fundraiser, in establishing the fees to be paid and in determining the specifications of the telethon. The organization also has the credit risk if donors to the telethon do not pay according to their pledge. Thus, the organization recognizes the gross amounts fundraised in each of the activities as revenue of the organization, and the total expenses of each activity, including the fees charged by any outside party, as expenses of the organization.

Example 3 – Fundraising conducted by others

A not-for-profit organization is given the net proceeds from an event held by others to benefit the organization without having any control over, or responsibility for, the gross amounts of revenues or expenses involved.

Evaluation: The organization is not the principal in the fundraising event, as it was not involved in organizing the event and did not bear any risks in connection with it. The amount received by the organization is a donation from the organizers of the event. Neither the gross revenues nor the gross expenses of the event are recognized in the organization's financial statements. The net proceeds received are recognized as a contribution. Disclosure of gross revenues and expenses is not required.

BASIS FOR CONCLUSIONS

Introduction

1 The existing contributions standards for NFPOs were established in 1996. Since their issuance, the contributions standards have remained largely unchanged, even though research suggests that the landscape for many NFPOs has evolved and contribution agreements are becoming increasingly complex.

2 In May 2015, the AcSB approved a research project on accounting for contributions that considered the feedback received in response to the joint AcSB and Public Sector Accounting Board Statement of Principles, "Improvements to Not-for-Profit Standards." The AcSB conducted further research to understand current Canadian and international practices for recognizing revenue from contributions.

3 In May 2020, the AcSB issued the Consultation Paper, "Contributions – Revenue Recognition and Related Matters." The Consultation Paper sought broad input from interested and affected parties, including users, preparers and practitioners on the accounting for revenue from contributions and related matters.

4 The AcSB received 25 comment letters in response to the Consultation Paper. The Board also held eight roundtables, attended by 67 participants.

5 In March 2022, the AcSB approved a project proposal to develop an exposure draft on contributions and related matters. The Board decided that an exposure draft would be based on the approach explored in the Consultation Paper, recognizing revenue based on the type of contribution and its characteristics, given that this approach was supported by respondents.

6 In March 2023, the AcSB issued the Exposure Draft, "Contributions – Revenue Recognition and Related Matters" (the 2023 Exposure Draft), which closed for comment on September 30, 2023. The 2023 Exposure Draft proposed a new Section in Part III of the Handbook to replace the existing standards on contributions. The proposals included eliminating the accounting policy choice for recognizing revenue from restricted contributions and requiring that all NFPOs apply a single recognition method, consistent with the deferral method. The proposals also included specific guidance on special types of contributions, including contributed materials and services, capital asset contributions and endowment contributions. Further, the proposals included a revised definition of "restricted contribution", additional presentation and disclosure requirements for NFPOs, and amendments to Section 4400.

7 The AcSB received 34 comment letters in response to the 2023 Exposure Draft. The Board also held 18 outreach events attended by 179 participants and received 238 responses from 104 respondents across four surveys. The Board heard diverse views on the proposals in the 2023 Exposure Draft. A small majority of respondents supported the proposed single recognition model. However, those disagreeing with the proposals provided compelling arguments and additional information in support of retaining the restricted fund method for recognizing contributions.

8 The AcSB considered several options to address this feedback, including additional presentation and disclosure requirements and a modified recognition method for restricted contributions. The Board held 10 additional targeted outreach sessions with more than 70 preparers, practitioners and financial statement users from across Canada. Most participants agreed that additional presentation or disclosure requirements alone would not address the concerns raised in the 2023 Exposure Draft. Financial statement users continued to support a single approach for recognizing restricted contributions. They also reaffirmed views heard during outreach on the 2023 Exposure Draft that they can navigate the two current methods and do not have concerns

about their ability to compare financial statements prepared using two different contribution recognition methods.

9 After significant consideration of both the feedback on the 2023 Exposure Draft and the additional outreach, the AcSB concluded that a single recognition model may not meet the diverse needs of the not-for-profit sector and the benefits to financial statement users may not exceed the cost to preparers. In May 2024, the Board issued the "Contributions – Revenue Recognition and Related Matters, Exposure Draft Feedback Statement," summarizing the Board's decisions and future project direction. The Board decided to develop a new exposure draft proposing to continue allowing an accounting policy choice for recognizing contributions, with the objective of improving the quality and understandability of financial statements through improved consistency in the application of the standard.

10 The AcSB received input from its Not-for-Profit Advisory Committee on the development of this Exposure Draft. The Committee comprises financial statement users, auditors and preparers from across Canada. Its members bring diverse backgrounds and experience spanning organizations of different sizes and a wide range of industries.

11 To test the viability of the Exposure Draft's proposals, the AcSB conducted field-testing during summer 2025. Field-testing was designed to assess whether the proposed classification and recognition approaches for contributions could be applied and interpreted consistently in practice. Field-test participants were asked to apply the proposals to specific case studies to determine how contributions would be classified and recognized in revenue. The participants were also asked to recast their financial statements and to provide feedback on whether the proposed classification, recognition, presentation and disclosure requirements would provide decision-useful information. The Board received 23 responses from participants in the not-for-profit sector across Canada.

12 The AcSB also asked its Not-for-Profit Advisory Committee to perform a fatal-flaw review of the proposals to ensure the proposed principles were:

(a) clear in reflecting the Board's intent; and

(b) written in a manner that was consistent with other principles in Parts II and III of the Handbook.

Effects analysis

Scope

13 The AcSB acknowledges that the change in scope with respect to government funding will result in a change in practice for some organizations. However, the Board thinks that reporting all reciprocal transfers in accordance with Section 3400, and only non-reciprocal transfers in accordance with proposed Section 4411, will result in improved comparability and consistency as similar transactions will be reported consistently, regardless of the source of funding.

Definition of restricted contribution

14 The AcSB acknowledges that changing the definition of a restricted contribution to exclude contributions required to be used in a specified period without a restriction for a designated purpose will result in a change in classification and recognition of some contributions. The Board thinks that the definition of restricted contribution should only include contributions restricted to a specified purpose. The Board thinks that this definition will reduce complexity and improve the usefulness of the financial statements.

Recognition of revenue from unrestricted contributions

15 The AcSB thinks that the proposed recognition of unrestricted contributions will result in similar recognition patterns for contributions for use in a future period as the existing treatment under the deferral method and for similar contributions recognized in the general fund under the restricted fund method. However, the Board acknowledges that this will result in a change in revenue recognition timing for unrestricted contributions available for use in a future period that are currently recognized in the restricted fund under the restricted fund method. The Board thinks that this change will more accurately reflect the requirement to use unrestricted contributions in a future period.

Recognition of revenue from restricted contributions

16 The AcSB thinks the proposals will result in minimal disruption for organizations currently applying the deferral method that choose to adopt the deferred recognition method. The Board acknowledges that the proposal to eliminate the option of recognizing restricted contributions using the deferral method in the general fund currently allowed when applying the restricted fund method may result in a change for preparers adopting the immediate recognition method. The Board thinks that this change will result in greater consistency and reduced complexity, which will improve the usefulness of the financial statements.

Fund accounting presentation

17 The proposal to require the presentation of only three funds on the face of the financial statements when fund accounting presentation is applied will result in a change in presentation for an organization currently applying fund accounting and presenting multiple restricted funds, unrestricted or general funds, capital funds and/or endowment funds. However, the AcSB thinks this proposal will result in reduced complexity, and improved comparability and understandability of the financial statements. The Board also notes NFPOs will have the option to disclose additional funds in the notes or schedules to the financial statements.

Presentation and disclosure requirements

18 The primary effect of the proposed presentation and disclosure requirements is to improve the understandability of the nature and timing of restricted contributions received, restricted amounts that remain unspent and the assets available to meet the requirements related to those restrictions. The proposals will also improve the comparability of the financial statements across reporting periods when fund accounting presentation is applied.

Conclusion on effects analysis

19 Having considered the effects of proposed Section 4411 and the proposed amendments to Section 4400, the AcSB thinks the proposals would result in significant improvements to financial reporting in the NFPO sector.

Scope of the proposed standard

20 Currently, Section 4410 includes the statement that “government funding is considered to be a contribution for purposes of this section.” The AcSB heard that in many cases government funding should be considered non-reciprocal because the services are provided to the public and are not provided directly to the government. The Board has heard that NFPOs may enter funding arrangements with governments that have similar terms to contributions received from other sources such as individual contributors, corporate donors and foundations. However, NFPOs may also enter transactions with governments that are akin to fee-for-service arrangements, whether the NFPO provides services on behalf of the government or to the government directly.

21 Respondents to the Consultation Paper generally agreed that non-reciprocal transfers should always be treated as a contribution. However, several respondents suggested that reciprocal transactions, including government contracts, should be excluded from the definition of a contribution.

22 The 2023 Exposure Draft proposed a definition of the term "contribution" that indicated that only non-reciprocal government funding would be considered a contribution. Respondents did not raise concerns with this definition of a contribution.

23 In developing the proposals for this Exposure Draft, the AcSB sought feedback from its Not-for-Profit Advisory Committee on whether all government funding should be considered a contribution, or whether the definition of a contribution should be limited to non-reciprocal funding. The Committee agreed that only non-reciprocal transfers should be within the scope of proposed Section 4411. However, some Committee members noted that determining when government funding is non-reciprocal could prove complex and require application of professional judgment.

24 The AcSB thinks that the source of funding should not be a consideration in determining its classification by NFPOs. Additionally, the Board thinks that removing the statement that government funding is a contribution will allow NFPOs to apply professional judgment when determining whether a transaction is within the scope of Section 3400 or proposed Section 4411.

25 The AcSB also decided not to retain the guidance in paragraph 4410.05 on the treatment of membership fees. Respondents to the 2023 Exposure Draft and field-test participants did not raise significant concerns regarding the removal of this guidance. The Board's intent is to shift the behaviour of interested and affected parties to first consider whether a transaction meets the proposed definition of a contribution or whether it is a reciprocal transfer that should be accounted for under Section 3400. The Board thinks this approach will improve consistency by ensuring similar transactions will be accounted for the same way without the source of transfer determining classification.

Definitions

Restricted contributions

26 Currently, paragraph 4410.02(b)(i) defines a restricted contribution as "a contribution subject to externally imposed stipulations that specify the purpose for which the contributed asset is to be used." Under the existing standard, a contribution must be externally restricted to be considered a restricted contribution. Internally restricted contributions are considered unrestricted contributions for revenue recognition purposes.

Explicit communication

27 In developing the proposals, the AcSB discussed which characteristics of a contribution were necessary for it to be considered restricted. One factor the Board discussed was whether the restriction had to be explicitly communicated between the organization and the contributor and what type of communication would be considered explicit. Restrictions may be communicated through a written or verbal agreement, or through solicitation of the contribution. For example, contributors attending a fundraising event where the NFPO communicates that the funds raised will be used for a specified purpose would expect the contribution to be restricted for that purpose. The Board determined that a restriction would be considered explicitly communicated when the intended use of the contribution is clear to both the contributor and the organization. Respondents to the 2023 Exposure Draft did not raise concerns with the proposal that restrictions must be explicitly communicated but noted that the method of communication may take various forms.

Measurable or substantive requirements

28 Another characteristic the AcSB considered is whether it is necessary to have a measurable performance-related requirement or other measurable requirement for a contribution to be restricted. The Board discussed scenarios where a donor explicitly communicates a restriction, but it is not measurable. If restricted contributions were only those with measurable requirements, such contributions would be accounted for as an unrestricted contribution. However, in these scenarios, the Board observed that an NFPO would have a fiduciary responsibility to honour the donor's wishes. The Board thought that classifying these contributions as unrestricted would not accurately reflect the NFPO's obligations, financial results and position to financial statement users. Therefore, the Board decided not to include a measurable requirement to determine whether a contribution is restricted.

29 The AcSB also considered whether the restriction needs to be substantive. The Board discussed factors that would indicate a restriction was substantive, including whether:

(a) the contributor has direct recourse against the organization;

(b) the organization would suffer significant reputational damage if it did not meet the obligations; and

(c) the restriction was not administrative.

Through discussions with its Not-for-Profit Advisory Committee, the Board concluded that determining whether a restriction was substantive was judgmental (with the exception of when recourse exists, which may not apply in many scenarios). For example, organizations could interpret the risk of reputational damage differently and some might argue it applies in all scenarios, as there could always be a risk of reputational damage. Further, similar to the discussion on measurable requirements, the Board thought that it was not necessary for a requirement to be substantive in order for an NFPO to have an obligation to fulfill that requirement.

30 Considering the discussion on these two characteristics (i.e., measurable or substantive requirements), the AcSB decided that the criteria to determine what is restricted should instead focus on whether the restriction requires the contribution be used for a designated purpose. The Board thinks that the existence of a measurable requirement in a contribution agreement could be evidence that a contribution is for a designated purpose or activity but should not be a required criterion in the definition of restricted contributions. The Board also decided to incorporate aspects of the substantive factors in the guidance. For example, the proposed guidance explains that contributions with requirements related to administrative tasks would not be considered restricted. Examples of administrative tasks include the requirement to file an audit report or a tax return once the contribution was used. The Board notes that these are examples only and there could be other types of administrative tasks that would not be considered a restriction for revenue recognition purposes.

Level of specificity

31 The AcSB considered how specific a restriction would need to be to meet the definition of restricted contribution. The Board determined that restrictions must be more specific than achieving the NFPO's general mandate. Restrictions targeting one aspect of said mandate would be considered a designated purpose. The Board acknowledges that this approach may result in diversity since two NFPOs receiving contributions with similar restrictions may classify the contribution differently depending on each organization's mandate. However, the Board thinks that this approach will result in the most useful information to users. Respondents to the 2023 Exposure Draft generally agreed that restrictions must be more specific than the NFPO's general mandate. However, respondents suggested that additional clarity was needed

for determining when a restriction is sufficiently specific to meet the definition. Proposed Section 4411 therefore includes additional guidance and illustrative examples to clarify when a contribution would meet the definition of a restricted contribution.

For use in a designated period

32 The AcSB also discussed whether contributions that must be used within a specified period should be considered a restricted contribution. The Board heard that it is common for NFPOs to receive multi-year donations or contributions designated for use in future periods, to be used at the NFPO's discretion. For example, an individual donates $100,000 and specifies that the NFPO must spend $25,000 per year in each of the following four years.

33 The 2023 Exposure Draft proposed a definition of restricted contribution encompassing contributions subject to external restrictions requiring that they be used within a designated period of time. While some respondents agreed with this proposal, several others noted that it is common for NFPOs to receive operating funding for a specific period, and that this funding would be classified as a restricted contribution applying this proposed definition. Under some applications of fund accounting, this proposed definition may also result in such contributions being reported in a restricted fund, even if they are not restricted to purpose. Respondents noted that this presentation would not faithfully represent the resources available to the NFPO. The AcSB sought feedback on ways to address these concerns, including providing an exception to recognition in the restricted fund when fund accounting is applied or revising the definition of restricted contribution. The Not-for-Profit Advisory Committee agreed with the concerns raised by respondents to the 2023 Exposure Draft. Some Committee members noted that funding that is not available for use in the current period should be deferred and recognized in the period it becomes available for use.

34 The AcSB determined that a requirement to use funds in a particular period does not restrict how the funds are to be used and should not be included in the definition of a restricted contribution. However, the Board recognizes that a requirement to use funds in a particular period would impact the timing of recognition. As a result, the Board decided that requirements to use funds in a designated period should be treated as a recognition issue but would not affect the classification of the contribution.

Capital asset contributions

35 Currently, Section 4410 does not define the term "capital asset contribution" but clarifies that a contribution restricted for the purchase of a capital asset or a contribution of the capital asset itself is a type of restricted contribution.

36 The AcSB heard that providing a definition of a capital asset contribution would improve consistency and reduce the effort to determine whether a restricted contribution is a capital asset contribution. The Board determined that a contribution restricted for the acquisition, construction or development of a capital asset, or the direct contribution of a capital asset, would be considered a capital asset contribution. A capital asset contribution is a type of restricted contribution. Respondents to the 2023 Exposure Draft did not raise concerns with the proposed definition of a capital asset contribution and generally agreed that this definition was helpful.

37 Section 4410 also provides guidance on restricted contributions provided for a certain area of activity, where a portion is to be used to purchase capital assets and the remaining portion is restricted for other purposes. The AcSB heard that there is diversity in the application of this guidance and with the interpretation of the term "portion" (i.e., is a specific amount to be spent on capital assets required to account for the portion as a capital asset contribution).

38 The AcSB sought feedback on this issue from its Not-for-Profit Advisory Committee and through field-testing. Field-test participants emphasized the need for clarity on the accounting treatment when a restricted contribution is received and the contributor permits, but does not specify, the

amount to be used for capital assets. However, feedback on the accounting treatment was mixed. Some supported classifying the amount spent on capital assets as a capital asset contribution and recognizing the remaining amount as a restricted contribution. Others indicated that a contributor should be required to specify the amount intended for capital assets, with any unspent amount accounted for as unspent capital asset contributions.

39 The AcSB thinks that restrictions must be imposed by the contributor and that the classification of a restricted contribution should not be based on how the NFPO uses the restricted contribution. Additionally, the Board noted that no concerns were raised by respondents to the Consultation Paper and to the 2023 Exposure Draft with the existing guidance in Section 4410.

40 Therefore, the AcSB proposes retaining the current guidance but clarifying that, for a portion of a restricted contribution to be accounted for as a capital asset contribution, the contributor must specify the amount of the restricted contribution that is to be used to acquire, construct or develop capital assets. The Board thinks this approach will improve consistency of application.

Endowment contributions

41 Currently, paragraph 4410.02(b)(ii) defines an endowment contribution as "a type of restricted contribution subject to externally imposed stipulations specifying that the resources contributed be maintained permanently, although the constituent assets may change from time to time."

42 The AcSB heard that the definition of an endowment contribution in Section 4410 provides adequate guidance. However, some complexities can arise due to the varying nature of the terms and conditions associated with endowment contributions.

43 Through discussions with its Not-for-Profit Advisory Committee and targeted outreach on this project, the AcSB learned of other areas of diversity regarding the application of the current definition of an endowment contribution:

(a) Some organizations account for amounts that are subject to only internal restrictions as endowment contributions. For example, a contribution that was designated on receipt as an endowment by the NFPO's board of directors is recognized and presented consistent with externally designated endowment contributions.

(b) Some contributions that have requirements to be maintained for a long period of time (e.g., 20 years), but not in perpetuity, are classified as endowments by some organizations.

44 On the first issue, the AcSB noted that the current definition of an endowment contribution requires the amount be subject to externally imposed stipulations and therefore amounts internally designated by the NFPO's board of directors would not meet the definition of an endowment contribution. The Board decided to clarify the definition of an endowment contribution to note that the restrictions must be imposed from a party external to the organization.

45 On the second issue, the AcSB noted that, by definition, an endowment contribution must be required to be maintained permanently. Therefore, a restriction to maintain the contribution only for a limited time would not meet the definition of an endowment contribution. This type of contribution would likely be a type of restricted contribution (subject to its meeting the definition of a restricted contribution in proposed paragraph 4411.04(c)(ii)) and would be accounted for as such. The Board proposes to clarify this in proposed paragraph 4411.10.

46 The above proposals were included in the 2023 Exposure Draft and were generally supported by respondents. However, the AcSB heard that a wide variety of endowment arrangements vary in their "permanency". The Board noted that assessing whether a contribution must be maintained permanently requires professional judgment, as contribution agreements may include terms that allow access to capital in certain circumstances, such as when the NFPO is no longer a going concern or through specified annual spending provisions. Although such arrangements

create the potential for the capital to be used, the Board noted that the period over which the resources would be maintained is often indeterminate, and that in practice these contributions could be subject to a requirement to be maintained permanently depending on the facts and circumstances. Accordingly, the Board thinks that the guidance should acknowledge the role of professional judgment in determining permanency. The Board proposes to clarify this by including bookend examples in paragraph 4411.11 and illustrative examples of common fact patterns for assessing permanency.

Choice of recognition methods

47 Currently, Section 4410 requires that NFPOs recognize contributions based on either the deferral method or the restricted fund method.

48 When developing the 2023 Exposure Draft, the AcSB explored eliminating the existing accounting policy choice for recognizing restricted contributions. The Board did not identify any other jurisdictions that provide NFPOs with an accounting policy choice, which makes the guidance in Part III of the Handbook unique among international practices. The Board determined that the accounting policy choice creates a lack of comparability for Canadian NFPOs with their national and international peers. Based on this analysis, the 2023 Exposure Draft proposed eliminating the restricted fund method and requiring all NFPOs to apply a single recognition method aligning with the deferral method.

49 Many respondents to the 2023 Exposure Draft supported the proposed single recognition model. However, those who disagreed with the proposals indicated that this change would result in financial statements that are less useful and would have a significant adverse impact on many NFPOs applying the restricted fund method. The AcSB considered several approaches to address the concerns raised on the 2023 Exposure Draft's proposals, including financial statement presentation requirements and additional disclosures. The Board also conducted additional outreach to further understand these concerns as they were not raised during the Consultation Paper phase or during the development of the 2023 Exposure Draft. Outreach participants indicated that a single recognition model may not meet the diverse needs of the Canadian not-for-profit sector and that the benefits of consistency and comparability would not outweigh the cost of this change. Some participants indicated that recognition of total funds raised during the period as presented under the restricted fund method is a key indicator for some NFPOs. Conversely, other participants indicated it was important to present the obligations resulting from restricted contributions as liabilities and to recognize restricted contributions in revenue in the period the contributions are used. The Board also heard that there is significant inconsistency in the application of the restricted fund method and that presentation choices when applying this method result in inconsistent recognition of similar contributions.

50 The AcSB concluded that an accounting policy choice either to defer or to immediately recognize restricted contributions would allow organizations to present information that is most useful to their financial statement users. Additionally, the Board decided that improvements would be made to both the deferral method and the restricted fund method to improve consistency of recognition and reduce complexity of financial reporting.

51 The AcSB determined that changing the name of each recognition method to reflect the respective recognition approach would improve understanding and clarify that neither of the proposed recognition methods are carried over from the current standard. The Board sought feedback on potential terminology from its Not-for-Profit Advisory Committee and through targeted outreach. Based on feedback received, the Board proposes naming the recognition methods the deferred recognition method and the immediate recognition method. The Board also proposes to include a description of each recognition method in proposed Section 4411 to improve understanding and help NFPOs to select the accounting policy that best meets their financial statement users' needs. Additionally, the Board heard that there is confusion

between the terms “fund accounting” and “restricted fund method”, and that changing the name of the recognition method to not refer to “fund” could clarify that presentation is separate from recognition.

Recognition of revenue from contributions

Unrestricted contributions

52 Currently, Section 4410 requires the recognition of unrestricted contributions as revenue of the current period. Guidance on restricted contributions includes that contributions for use in a future period would be considered restricted. Additionally, under the deferral method, restricted contributions for expenses of a future period are deferred and recognized in the period in which the related expenses are incurred.

53 During development of the proposals, the AcSB determined that only contributions restricted for a designated purpose would meet the revised definition of a restricted contribution. Contributions for use in a specific period would not meet the definition of a restricted contribution unless the contribution was also restricted for a purpose. As a result, contributions that are not restricted to purpose would be classified as an unrestricted contribution, including those designated for use in a future period. However, the Board heard that recognizing unrestricted contributions in revenue before they are available for use would not provide useful information and could overstate the resources available to meet the organization’s operating needs.

54 Therefore, the AcSB proposes that unrestricted contributions be recognized in revenue in the period in which the organization is entitled to use the resources under both contribution revenue recognition methods. Contributions that are not restricted for a designated purpose and are available for use in the current period would be recognized in the current period if the contribution is measurable and collection is reasonably assured. Unrestricted contributions received for use in a future period would be deferred and recognized as a liability until that future period. The Board thinks that this approach will provide the most useful information about resources available for use by the organization while improving consistency and reducing complexity of financial statements.

55 The AcSB also decided that unrestricted contributions should be recognized as revenue of the unrestricted fund when fund accounting presentation is applied. The Board thinks that this presentation will communicate information about unrestricted resources recognized in revenue separately from other types of contributions when fund accounting presentation is applied.

Restricted contributions – deferred recognition method

56 The AcSB determined that one of the primary purposes of the deferred recognition method is communicating information about obligations related to restricted contributions by reporting restricted contributions with unmet restrictions as liabilities. The Board thinks this method allows an organization to report contribution revenue in a way that is meaningful to financial statement users and that aligns with its operational activities and performance.

57 The proposals for the deferred recognition method align with the deferral method under Section 4410 by requiring the deferral of restricted contributions and recognizing those contributions in revenue when or as the restrictions are met. Contributions for which restrictions remain unmet at period end would be reported as liabilities.

58 The AcSB has heard mixed feedback on whether deferred contributions always meet the definition of a liability in accordance with FINANCIAL STATEMENT CONCEPTS FOR NOT-FOR-PROFIT ORGANIZATIONS, Section 1001. Paragraph 1001.30 states, “Liabilities do not have to be legally enforceable provided 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." The Board thinks that even if there is no legally enforceable obligation to return the funds to the contributor, an ethical and/or moral obligation may exist, which would create an equitable obligation. In these circumstances, the Board thinks it is appropriate to defer the restricted contribution and recognize a liability until the external restrictions are met.

59 However, the AcSB also heard there can be situations where certain deferred contributions will not meet the definition of a liability and that existing guidance in Section 4410 is not always consistent with financial statement concepts. The Board discussed whether only deferred contributions that meet the definition of a liability should be reported as liabilities and whether a recognition method consistent with financial statement concepts would benefit interested and affected parties. The Board sought feedback on this through targeted outreach and heard that consistent recognition of restricted contributions under the deferred recognition method would provide more useful information and less complexity than separately determining if each restriction meets the definition of a liability. As a result, the Board determined that deferred contributions would continue to be an exception to financial statement concepts in some circumstances. The Board thinks this approach provides useful information to financial statement users for some NFPOs, by providing clear information on obligations related to restricted contributions.

60 An external restriction is considered to be met when the resources have been used for the designated purpose. The AcSB thinks that depending on the nature of the restriction, an organization could recognize a restricted contribution at a point in time or over time.

Capital asset contributions – deferred recognition method

61 The AcSB heard that deferring and amortizing capital asset contributions over the useful life of the asset provides decision-useful information when NFPOs do not want to present volatility in the statement operations, and when an NFPO wants to indicate that the acquisition of capital assets has been funded. Additionally, deferring and amortizing capital asset contributions communicates information about how assets are being used in the organization's operations.

62 The AcSB proposes that under the deferred recognition method, capital asset contributions be deferred and amortized over the useful life of the related asset. Contributions related to unamortizable assets would be recognized directly in net assets. This approach is aligned with the recognition of capital asset contributions under the current guidance under the deferral method. This approach was also proposed in the 2023 Exposure Draft and respondents who supported the deferral method generally agreed with it. The Board thinks this approach will provide useful information to financial statement users and is consistent with the purpose of the deferred recognition method to communicate information about obligations related to restricted contributions and align contribution revenue recognition with performance.

Endowment contributions – deferred recognition method

63 The AcSB heard that recognizing endowment contributions directly in revenue would create significant volatility in the statement of operations and can overstate the excess of revenue over expenditures in the year the endowment contribution is received, hiding operating deficits. Furthermore, since the endowment contribution will never be available for use by the NFPO as it must be maintained permanently, some NFPOs think that classifying endowment contributions as revenue would not represent the substance of the transaction.

64 The AcSB proposes that under the deferred recognition method, endowment contributions be recognized as direct increases in net assets since they must be maintained permanently. This approach is aligned with the recognition of endowment contributions under the current guidance under the deferral method. This approach was also proposed in the 2023 Exposure Draft and

was supported by respondents in favour of the deferral method. The Board thinks this approach will provide useful information to financial statement users and is consistent with the purpose of the deferred recognition method to align contribution revenue recognition with performance.

Restricted contributions – immediate recognition method

65 The AcSB determined that one of the primary purposes of the immediate recognition method is communicating information about funds raised during the period by recognizing restricted contributions immediately in revenue. The Board heard that this allows an organization to report revenue in a way that is meaningful to financial statement users by showcasing the results of fundraising efforts.

66 The AcSB thinks this information is best communicated by requiring recognition of restricted contributions in revenue immediately within an appropriate fund, which implies mandatory application of fund accounting presentation. Restricted contributions for which restrictions remain unmet at period end would be reported as restricted net assets. This recognition method is aligned with the recognition of restricted contributions in the restricted fund under the current guidance for the restricted fund method.

67 The AcSB therefore proposes that, under the immediate recognition method, restricted contributions be recognized as revenue of the restricted fund in the period in which reasonable assurance exists regarding measurement and collection is reasonably assured.

68 The AcSB recognizes that under this approach, some restricted contributions that meet the definition of a liability in Section 1001 will not be reported as liabilities. However, the Board thinks this departure from financial statement concepts is justified to provide more useful information when total funds raised is a key measure for an NFPO. The Board also thinks that consistent recognition of restricted contributions under the immediate recognition method would provide more useful information and less complexity than separately determining if each restriction meets the definition of a liability. Additionally, the Board has heard that financial statement users are able to understand and interpret restricted net assets and often consider net assets of a restricted fund and deferred contributions to be equivalent.

69 The AcSB sought feedback from its Not-for-Profit Advisory Committee on whether a restricted contribution recognized in revenue should be reclassified from net assets to liabilities if the amount becomes repayable. For example, a grant toward a specified project may become repayable if the project is not completed. The Board heard that it would be rare that restricted contributions would be repaid to the contributor. In situations where a project cannot be completed, the contribution agreement would often be revised to allow deployment of the funds to other programs. Additionally, donations for which tax receipts are issued are generally not refundable. As a result, the Board does not think guidance on the reclassification of repayable amounts under the immediate recognition method is needed. Additionally, providing guidance on subsequent reclassification of net assets would go beyond the scope of this contributions recognition project. The Board acknowledges that this approach may result in an inconsistency between repayable amounts of restricted and unrestricted contributions under the immediate recognition method. However, the Board thinks that recognizing restricted contributions in revenue provides more useful information.

Capital asset contributions – immediate recognition method

70 Under the existing guidance in Section 4410, accounting for capital asset contributions under the restricted fund method differs depending on the funds that the NFPO chooses to present. An NFPO applying the restricted fund method would recognize capital asset contributions as revenue when received if a fund has been created for that purpose or would defer and amortize the contribution in the general fund if no capital fund is presented.

71 The AcSB considered whether maintaining the existing option in the restricted fund method either to recognize capital asset contributions immediately or to defer and amortize depending on the funds presented would benefit preparers or users. The Board determined that presentation of funds should not impact recognition of a contribution. Additionally, the Board determined that consistent recognition of the same type of contributions within each recognition method would reduce complexity.

72 Consistent with the purpose of reporting information about funds raised during the period, the AcSB proposes that, under the immediate recognition method, capital asset contributions be recognized in revenue of the restricted fund in the period in which the capital asset contribution is measurable and collection is reasonably assured. The Board thinks this approach will provide useful information to financial statement users for organizations where total funds raised is an important measure. This recognition method aligns with the recognition of capital asset contributions in a restricted fund or a capital fund under the current guidance under the restricted fund method.

73 When developing the proposals, the AcSB considered whether to provide an option to recognize capital asset contributions in a separate capital fund. The Board sought feedback on the use of capital funds from its Not-for-Profit Advisory Committee. Several Committee members supported the use of a capital fund, with some recommending making its use mandatory. However, some Committee members also indicated there is significant diversity in practice as to how a capital fund is used and what transactions beyond capital asset contributions are reported in it. The Board determined that it would be necessary to provide guidance if presentation of a capital fund were allowed or required. The Board also concluded that providing guidance on use of a capital fund could have significant impacts to the financial statements of NFPOs that present transactions other than capital asset contributions in their capital fund. The Board determined that guidance on using a capital fund would be outside the scope of the Contributions – Revenue Recognition and Related Matters project. The Board therefore proposes that capital asset contributions be recognized as revenue of the restricted fund and that presentation of a separate capital fund on the face of the financial statements would not be permissible. However, using a capital fund as an additional fund disclosed in the notes or schedules to the financial statements would be allowed under the proposals.

Endowment contributions – immediate recognition method

74 The AcSB heard that some organizations prefer to recognize endowment contributions as revenue in the statement of operations to present information about the results of fundraising activities during the period. However, the Board also heard that endowment contributions must be clearly differentiated from other types of restricted contributions since the contributed resources are not available to the NFPO to use.

75 The AcSB proposes that, under the immediate recognition method, endowment contributions be recognized as revenue of the endowment fund. This recognition method is aligned with the recognition of endowment contributions under the restricted fund method. The Board thinks this approach is consistent with the purpose of the immediate recognition method to communicate information about funds raised during the period and will provide useful information to financial statement users for organizations where total funds raised is an important measure.

Special types of contributions

Contributed materials and services

Recognition of contributed materials and services

76 Currently, paragraph 4410.16 provides an option to recognize contributed materials and services, but only when:

(a) a fair value can be reasonably estimated;

(b) they are used in the NFPO's normal operations; and

(c) they would have otherwise been purchased.

77 In developing the proposals, the AcSB considered whether the existing requirements provide financial statement users with relevant information about contributed materials and services while allowing NFPOs to tell their story, or whether changes to this guidance were needed.

78 The AcSB heard that most NFPOs are not currently recognizing contributed materials and services. One of the primary reasons for not doing so is the cost associated with valuing and tracking these types of contributions. However, feedback indicated there are many circumstances when recognizing contributed materials and services provides useful information to financial statement users. This includes when such contributions are essential to the NFPO's operations and/or represent a significant portion of their resources. Considering this feedback, the Board thinks an accounting policy choice is helpful and proposes to retain the existing accounting policy choice for recognizing contributed materials and services. The Not-for-Profit Advisory Committee supported the Board's decision, noting that the existing accounting policy choice works well in practice.

79 The AcSB also considered whether changes were needed to the recognition criteria. The Not-for-Profit Advisory Committee noted that it is often challenging for entities to meet all three criteria. Specifically, some Committee members thought the application of the third criterion (i.e., the contributed materials and services "would have otherwise been purchased") is challenging for some organizations. For example, a food bank may rely on in-kind contributions that it would not have the resources to purchase otherwise.

80 The 2023 Exposure Draft proposed revising the criteria from "would otherwise have been purchased" to "would otherwise have to be purchased to fulfill the organization's mandate." Respondents to the 2023 Exposure Draft noted that some NFPOs rely on contributions of materials and services that they would not have the resources to purchase if not donated. The Not-for-Profit Advisory Committee agreed and recommended removing barriers to recognition of contributed materials and services.

81 The AcSB thinks it is important that NFPOs have an option to recognize contributed materials and services particularly when such contributions are critical to the NFPO's mandate, as in the food bank example. Accordingly, the Board proposes removing this criterion to focus on recognizing only those contributed resources being used by the NFPO to achieve its mandate, when fair value can be reasonably estimated.

Pledges and bequests

82 Currently, paragraph 4420.05 defines a pledge as "a promise to contribute cash or other assets to a not-for-profit organization." Under the existing guidance, an uncollected pledge would be recognized only if it meets the criteria for asset recognition in paragraph 4420.03. Paragraph 4420.03 states that "a contribution receivable should be recognized as an asset when the amount can be reasonably estimated, and ultimate collection is reasonably assured."

83 Through Consultation Paper feedback and other outreach, the AcSB heard that there is diversity in practice in the accounting for pledges. Specifically, while some NFPOs recognize pledges, many do not, as pledges are typically not legally enforceable in Canada should the donor not honour them. These NFPOs conclude that the criteria for recognition are not met, as the NFPO does not have reasonable assurance that the pledge will be ultimately collected.

84 Considering the definition of an asset in paragraphs 1001.24-.27, the AcSB thinks that generally, a pledge should not be recognized until the contributed assets are received, since an organization cannot control access to the benefit of the contribution until that point. The Board thinks this is the case specifically in the scenario when a contributor pledges an amount to an NFPO's campaign but there is no obligation to follow through with the donation. An individual pledge of this nature would likely not meet the proposed criteria for revenue recognition at the time the pledge was made, as collection is not reasonably assured. Instead, it would be recognized when the NFPO receives the cash. However, the Not-for-Profit Advisory Committee advised the Board that pledges come in many forms, and in some scenarios, the NFPO can control access to the benefit of the resources before they are received. For example, a donor may enter into an agreement that obligates them to contribute a series of payments over several future periods. In this scenario, the donation may be referred to as a "pledge" in the contribution agreement. Despite being called a pledge in the agreement, the substance of the transaction may create an obligation to contribute the series of payment, and therefore, recognition may be appropriate before the payments are received.

85 When developing the 2023 Exposure Draft, the AcSB discussed whether new or additional guidance was needed for pledges to ensure the recognition of pledges is consistent with the financial statement concepts in Section 1001 and to address the existing diversity in practice. The Board determined that the guidance on recognizing revenue from contributions, together with the guidance on the definition of an asset in paragraphs 1001.24-.27, is sufficient to allow NFPOs to determine when to recognize a pledge receivable and that specific guidance on when to recognize a receivable was not necessary. Accordingly, the Board proposed to withdraw Section 4420 and include guidance in the 2023 Exposure Draft on when a pledge should be recognized. Additionally, the Board proposed that the recognition guidance would be applied to individual contributions and the option to estimate collectability of a portion of pledges would be removed. Feedback on the 2023 Exposure Draft generally supported this proposal, and respondents noted that many NFPOs do not currently recognize pledges.

86 When developing the proposals for this Exposure Draft, the AcSB discussed whether separate recognition guidance for pledges is needed within proposed Section 4411. However, the recognition guidance for each type of contribution in proposed Section 4411 specifies that the recognition criteria must be met for each individual contribution. The proposals include guidance on when a contribution would be recognized in revenue before receipt and when a receivable would be recorded for each type of contribution. As a result, the Board determined that separate guidance on the recognition of pledges was not needed. Additionally, the Board thinks that separate guidance on recognition of pledges is not needed given that pledges that meet the recognition criteria would be rare.

87 For pledges that do not meet the recognition criteria, a financial statement user may find it useful for organizations to disclose information about pledges. However, feedback has informed the AcSB that many NFPOs do not track pledges and may not have this information available. Therefore, the Board has not proposed disclosure requirements for pledges not recognized in the financial statements. However, to the extent an NFPO has this information available and thinks it would be helpful to financial statement users, the Board encourages NFPOs to disclose this information. This includes total amounts pledged to the NFPO during the period, pledges uncollected at the balance sheet date and information about the estimated uncollectible pledges.

Net investment income

88 Currently, the guidance in Section 4410 for recognizing and presenting net investment income depends on an NFPO's accounting policy for the recognition of contributions. For example, net investment income earned on resources held for endowment that must be added to the principal amount is recognized in the statement of changes in net assets under the deferral method and recognized in the statement of operations in the endowment fund under the restricted fund method. Net investment income is measured based on the nature of the investment and its classification for accounting purposes. For example, net investment income earned on financial assets is measured in accordance with FINANCIAL INSTRUMENTS, Section 3856.

89 The AcSB proposes that the recognition of net investment income continue to be accounted for in a manner consistent with the approach for the recognition of similar related contributions. The Board also proposes that net investment income continue to be measured in accordance with guidance for the type of invested asset. This approach was proposed as part of the 2023 Exposure Draft and respondents did not raise concerns with the proposed guidance for recognizing, measuring and presenting investment income.

90 The AcSB recognized that based on this proposed approach, net investment income earned on resources held for endowment could be reported in the statement of operations, deferred on the statement of financial position or recognized directly in the statement of changes in net assets. To allow a financial statement user to easily identify the total net investment income earned during the period, the proposals require an NFPO to disclose the amounts reported on each of these statements during the period.

Presentation and disclosure

Contributions by major source and economic dependence

91 Currently, paragraph 4410.22 requires an NFPO to disclose contributions by major source. The AcSB heard that the disclosure of contributions by major source provides decision-useful information. Therefore, the Board decided to maintain this disclosure requirement to help financial statement users understand the NFPO's relationship with other entities and predict whether those contributions would recur in the future.

92 The AcSB also proposes that an organization disclose and explain economic dependence when an organization depends on a significant contribution(s) from another party. The proposed disclosure requirements are similar to the current requirements in ECONOMIC DEPENDENCE, Section 3841 in Part II of the Handbook, but have been modified to relate to contributions received by NFPOs. These disclosure requirements were proposed as part of the 2023 Exposure Draft.

93 Some respondents to the 2023 Exposure Draft thought that the disclosure of contributions by major source and the disclosure of economic dependence provide the same information and are therefore redundant. However, the AcSB observed that these disclosures serve different but complementary purposes. The Board noted that these disclosures are not interchangeable as information about major sources of contributions does not, on its own, convey economic dependence.

94 The AcSB discussed that economic dependence disclosures are intended to highlight an NFPO's potential vulnerability arising from reliance on a particular funder or limited group of funders when the source of funding cannot be easily replaced. The focus is on the nature of the funding relationship and the risk to the NFPO's ability to continue its activities if that support were reduced or withdrawn. In contrast, disclosures about contributions by major source provide quantitative information about how an NFPO obtains its funding, such as from governments,

individual donors or foundations. These disclosures enhance transparency regarding the composition of contribution revenue for the period, rather than indicating reliance or funding risk. Accordingly, the Board concluded that economic dependence disclosures provide insight into an NFPO's financial sustainability and exposure to funding risk, whereas disclosures about contributions by major source provide information about the sources and composition of funding.

95 The AcSB also heard concerns from respondents to the 2023 Exposure Draft regarding donor anonymity in preparing the economic dependence disclosure. However, the disclosure does not require information that would allow a financial statement user to identify a specific contributor. The Board expects professional judgment to be applied when preparing the economic dependence disclosure.

Deferred contributions and restricted net assets

96 Currently, Section 4410 and Section 4400 require disclosure of:

(a) the nature and the amount of change in the deferred contributions balance for the period (paragraphs 4410.53 and 4410.74);

(b) the balance of deferred contributions attributable to each major category of external restrictions (paragraphs 4400.26(a) and 4400.28(c)); and

(c) the balance of net assets (fund balances) attributable to each major category of external restrictions (paragraph 4400.28(b)).

97 The AcSB heard from financial statement users that increased transparency for unspent restricted contributions and unrestricted contributions deferred for use in a future period would be useful to understand the timing and nature of the related future cash outflows. Accordingly, the Board considered whether additional disclosure requirements would improve financial statement users' understanding of unspent contributions without causing undue costs and complexity to NFPOs.

98 The AcSB initially considered requiring disclosure of deferred restricted contributions and restricted net assets with restrictions expected to be met in each of the next five years, after five years and for an indeterminable amount of time. The Board noted that such information would provide insight into the NFPO's future obligations and the available resources to meet them in each period. However, concerns were raised by the Not-for-Profit Advisory Committee and through targeted outreach regarding the usefulness, complexity and cost of complying with this requirement for "each of the next five years."

99 In balancing these considerations, the AcSB proposes a simplified approach to disclose deferred restricted contributions and restricted net assets with restrictions expected to be met within one year, within two to five years and for an indeterminate period of time for each major category of external restriction(s). The Not-for-Profit Advisory Committee's feedback indicated it would not be burdensome for an NFPO to prepare the disclosure requirements for these periods. Additionally, the Board expects professional judgment to be applied in preparing this disclosure, particularly when there is uncertainty in the timing of when restrictions are expected to be met.

Capital asset contributions

100 The AcSB discussed presentation and disclosure requirements for capital asset contributions under both recognition methods, given the specific nature of these contributions. The Board noted that separate presentation of amortization of deferred capital contributions and information about unspent capital asset contributions enhances transparency and comparability. The Board heard from its Not-for-Profit Advisory Committee that disclosure of unspent capital asset

contributions is useful regardless of the contribution recognition method applied. Accordingly, the Board proposes separate presentation and disclosure requirements that provide information about the nature, unspent balance and recognition of capital asset contributions for the deferred recognition method and the immediate recognition method.

Contributed materials and services

101 Currently, paragraphs 4410.23-.24 require an organization to disclose the policy followed in accounting for contributed materials and services, as well as the nature and value of contributed materials recognized in the financial statements.

102 Respondents to the Consultation Paper noted that the following disclosures would be useful when contributed materials and services are recognized in the financial statements:

(a) details of the entity or individual that contributed the materials and services;

(b) the purpose for which the contributed materials and services are to be used, if applicable;

(c) the value of the contributed materials and services, how the value was determined and where it is reflected in the financial statements;

(d) the accounting policy for contributed materials and services, including disclosure of the amounts, if any, recognized in operations for the current year and the preceding year; and

(e) the nature and significance of contributed materials and services not recognized in the financial statements.

103 The AcSB considered the feedback to the Consultation Paper and acknowledges that the landscape for NFPOs is changing. The Not-for-Profit Advisory Committee specifically noted that more NFPOs are receiving non-cash contributions. More transparency may be required, and the disclosures in the financial statements could be improved, particularly when contributed materials and services are significant.

104 The AcSB proposes that NFPOs disclose qualitative information about the nature of contributed materials and services received during the period but not recognized in the financial statements. Additionally, the Board proposes that NFPOs disclose their dependence on contributed materials and services for the achievement of their objectives during the reporting period. The Board also thought that separate presentation requirements may be needed for contributed materials and services recognized as revenue during the period under both recognition methods, given the unique nature of this revenue type. Therefore, the Board proposes that contributed materials and services be presented separately in the statement of operations.

105 The above presentation and disclosure requirements for contributed materials and services were proposed as part of the 2023 Exposure Draft. Respondents to the 2023 Exposure Draft were generally supportive. However, some respondents raised concerns that the proposed disclosure requirements could increase administrative burden and costs without providing commensurate benefits to financial statement users. Respondents noted that NFPOs often do not recognize contributed materials and services because of the challenges associated with measurement, and that information about unrecognized contributions may be available through other sources, such as annual reports. Some respondents also expressed concerns that disclosures relating to unrecognized contributions and an NFPO's dependence on contributed materials and services could be highly subjective.

106 The AcSB acknowledges the concerns raised by respondents but emphasizes that the intention of the disclosure is not to provide detailed qualitative information on every unrecognized transaction. The intention is to inform financial statement users of significant classes of

unrecognized contributed materials and services and to provide information to identify reliance or dependence on contributed materials and services. The Board thinks that the level of information provided in the disclosure will require professional judgment depending on the specific facts and circumstances of each NFPO.

Other presentation and disclosure requirements

Fund accounting presentation

107 Paragraph 4400.02(c) currently defines fund accounting as "the collective accounting procedures resulting in a self-balancing set of accounts for each fund established by legal, contractual or voluntary actions of an organization."

108 The Consultation Paper noted that, historically, there has been confusion between the restricted fund method as an accounting policy choice for the recognition of contribution revenue under existing Section 4410 and fund accounting as a presentation choice. The Consultation Paper clarified that organizations may apply fund accounting presentation regardless of the recognition method applied.

109 The AcSB considered whether the scope of the Contributions project should include fund accounting or whether it should be considered in a future project. The Board discussed that when proposed Section 4411 is applied, there could be many benefits to fund accounting in conveying decision-useful information to financial statement users. Therefore, the Board decided that this Exposure Draft should consider how fund accounting can be used to complement the proposals related to the recognition of contributions.

110 The AcSB considered the feedback that many preparers and users associate fund accounting with the restricted fund method. Therefore, the Board discussed whether the term "fund accounting" is clear or whether an alternative term should be used in the standard to improve understandability. The Not-for-Profit Advisory Committee advised the Board against using a significantly different term but thought that "fund accounting presentation" would clarify that fund accounting is a presentation method and not a recognition method. The Board received positive feedback from respondents to the 2023 Exposure Draft and from field-test participants on changing the term to "fund accounting presentation". The Board also considered that the term "fund accounting" is commonly used and understood internationally. Considering these factors, the Board decided to use the term "fund accounting presentation" throughout proposed Section 4411 and amended Section 4400.

111 Based on the feedback received on the 2023 Exposure Draft and through additional outreach, the AcSB also decided that fund accounting presentation would continue to be mandatory when using the immediate recognition method and available as an optional presentation choice when using the deferred recognition method.

112 However, based on the feedback to the Consultation Paper and to the 2023 Exposure Draft, the AcSB identified certain areas where clarifications could be made to Section 4400 to improve the understandability and application of fund accounting presentation. They include clarifying the definition of fund accounting presentation and specifying that, when fund accounting presentation is applied, each fund must include all revenue, expenses, gains and losses associated with the nature of the fund.

Funds presented

113 The AcSB discussed that, when fund accounting presentation is applied, there is significant diversity in practice resulting in a lack of comparability among NFPOs' financial statements. The Board heard concerns regarding the allocation of expenses covered by restricted contributions, the understandability of the surpluses or deficits of funds and the presentation of significant amounts of funds on the statement of operations. Based on this feedback, the Board considered

whether Section 4400 should be amended to include guidance on how funds are established and reported on in an NFPO's financial statements, such as prescribing the funds presented on the face of the financial statements.

114 The AcSB sought feedback through additional targeted outreach after issuing the 2023 Exposure Draft on the most common and useful funds presented on the statement of operations. Feedback indicates that the most common funds presented include a general or unrestricted fund, multiple or a single restricted fund, an endowment fund and a capital fund. Financial statement users noted that if funds were to be prescribed, the most useful funds presented would be a single unrestricted fund, a restricted fund and an endowment fund. Users indicated that consistent fund presentation would reduce complexity and result in financial statements that are more useful and easier to understand. Users also noted it is important that the presentation clearly distinguish contributions that are externally restricted from resources that are not. The Board consulted its Not-for-Profit Advisory Committee, which supported limiting the funds presented on the face of the financial statements, but advised the Board that flexibility is needed to allow an NFPO to tell its story and provide useful information to financial statement users. Additionally, the Board heard that some NFPOs applying fund accounting present many funds on the face of the financial statements, resulting in diversity in presentation and financial statements that are complex and difficult for users to understand. Allowing discretion over fund presentation can also result in additional costs to NFPOs, as they need to determine which funds should be presented in the financial statements.

115 Based on the feedback received, the AcSB proposes to only allow the presentation of three funds on the face of the financial statements when fund accounting presentation is applied (i.e., a single unrestricted fund, a restricted fund and an endowment fund if applicable). However, to allow flexibility and enable organizations to present funds in a useful way for financial statement users, additional funds may be disclosed in the notes or schedules, provided they clearly reconcile to each financial statement item reported in the total column presented on the face of the financial statements. The Board thinks that mandating funds presented on the face of the financial statements will improve consistency and reduce complexity, resulting in financial statements that are more useful and understandable for financial statement users.

116 The AcSB also considered presentation of a separate capital fund on the face of the financial statements, as discussed in paragraph 73 of the Basis for Conclusions. However, the Board heard there is significant diversity in practice as to how a capital fund is used and what transactions beyond capital asset contributions are reported in it. The Board determined that it would be necessary to provide guidance if presentation of a capital fund were allowed or required on the face of the financial statements, which is beyond the scope of this project.

117 The AcSB also decided to continue allowing an organization to present its financial statements using different formats for the individual statements. For example, a statement of operations and changes in net assets presented in the multi-column format may be accompanied by a statement of financial position that presents assets, liabilities and net assets in a single column without presenting each financial statement item by individual fund.

Comparative figures

118 The AcSB also discussed whether the comparative period should be presented by fund (i.e., a single unrestricted fund, a restricted fund and an endowment fund if applicable) when fund accounting presentation is applied. Currently, Section 4400 does not require presentation of comparatives by fund. The Not-for-Profit Advisory Committee informed the Board that when fund accounting presentation is applied, it would be useful for financial statement users to have the comparative period presented in the same format. Some Committee members thought that presenting comparatives could result in a financial statement that is busy or cumbersome to read. The Board considered this feedback and proposes amendments to Section 4400 that require presenting comparatives on the face of the financial statements or disclosed in a note or schedule.

119 Presenting comparative period information by fund was also proposed in the 2023 Exposure Draft. Respondents generally supported the proposals and noted that presenting comparative information in the same format as the financial statements would be useful and would not be onerous to prepare.

Statement of changes in net assets – net assets invested in capital assets

120 Currently, paragraph 4400.41 requires a breakdown of resources that are externally restricted, internally restricted, permanently restricted as endowments or unrestricted in the statement of changes in net assets.

121 Respondents to the Consultation Paper noted that the link between restricted net assets and the corresponding assets and liabilities on the balance sheet is not clear and that transfers between categories of net assets are not accounted for consistently. With regards to net assets invested in capital assets, the AcSB heard that when the amounts are not presented separately, it can create the impression that there are resources that can be used for operations when, in fact, they are invested in capital assets. Other respondents noted that when net assets invested in capital assets are presented separately, it is unclear whether all associated liabilities have been included.

122 The AcSB considered this feedback and whether Section 4400 should be amended to require net assets invested in capital assets to be presented separately in the statement of changes in net assets. The Not-for-Profit Advisory Committee had mixed views on this topic. Some Committee members advised the Board that not all NFPOs are capital intensive and separate presentation may not be necessary in all scenarios. Other Committee members advised that these amounts should be presented separately because otherwise it can be misleading to users for them to be grouped into another category of net assets.

123 Considering these factors, the AcSB decided that flexibility would be helpful to allow an NFPO to convey information that is useful to financial statement users. When an NFPO's balance of net assets invested in capital assets is significant, users might find it useful to separately present this balance. However, in other scenarios, when the balance is not significant, it might not be useful.

124 The AcSB decided that when an NFPO chooses not to present net assets invested in capital assets separately, the amount of net assets invested in capital assets should be included in restricted net assets if the underlying capital asset is restricted based on the proposed definition of a restricted contribution in proposed paragraph 4411.04(c)(ii) or capital asset contribution in proposed paragraph 4411.04(c)(iii).

125 The AcSB also decided that, regardless of whether net assets invested in capital assets are presented separately in the statement of changes in net assets, the notes to the financial statements should clearly disclose the nature of any restrictions on capital assets. Therefore, this Exposure Draft proposes amendments to Section 4400 requiring disclosure in this regard.

126 The above presentation and disclosure requirements for net assets invested in capital assets were proposed as part of the 2023 Exposure Draft and no significant concerns were raised by respondents.

Statement of changes in net assets – restricted contributions and endowment contributions

127 As discussed above, the AcSB heard that currently the link between restricted net assets and the corresponding assets and liabilities on the balance sheet is unclear. The Consultation Paper asked whether users think it is important to be able to reconcile restricted net assets to the corresponding assets and liabilities on the balance sheet. Most respondents did not think this was important. However, their rationale was often that it may be challenging and that many NFPOs may not have the information available.

128 The Not-for-Profit Advisory Committee informed the AcSB that disclosure of a full reconciliation of assets and liabilities to the corresponding category of net assets may be onerous for many NFPOs. However, the Committee agreed that disclosures allowing a financial statement user to understand the availability of assets to meet requirements related to restricted contributions are important.

129 The AcSB considered this feedback and proposes an amendment to Section 4400 that would require an NFPO to disclose information about its requirements related to restricted contributions, including endowment contributions, and about the assets the NFPO determines are available to meet those requirements. The Board discussed that an NFPO will need to apply judgment in determining the assets available to meet its requirements related to restricted contributions and endowments. The Board thinks that typically the assets available to meet requirements related to restricted contributions would include financial assets, but in some scenarios, there could be other assets included, such as inventory or capital assets. In addition, the Board recognizes that there may be different approaches to disclosing this information and that an NFPO should provide disclosures in a way that allows it to tell its story to financial statement users. In doing so, an NFPO should disclose qualitative information that would allow a user to understand the process, judgments and other considerations the NFPO applied in preparing the disclosure.

130 The AcSB also discussed ways to improve the current guidance related to disclosure of resources held for endowment and endowment contributions to provide decision-useful information to financial statement users. The Board noted that an endowment contribution's key characteristic, that it must be maintained permanently, represents an important fiduciary duty for NFPOs. Information about the management of this fiduciary duty provides important information to contributors. For example, contributors should be aware to what extent an unrestricted contribution to the NFPO might be used to fund resources held for endowment where the fair value is less than the amount required to be maintained permanently.

131 Accordingly, to add transparency in the financial statements, the AcSB proposes that NFPOs disclose:

(a) information about how the NFPO manages its endowments, including monitoring the fair value of the resources held for endowment and compliance with agreements related to those endowments; and

(b) as applicable, quantitative information about the extent to which the fair value of resources held for endowment is less than the amount required to be maintained permanently.

132 These disclosure requirements were proposed as part of the 2023 Exposure Draft. In discussing the feedback received, the AcSB specifically considered whether fair value is appropriate for measuring resources held for endowment in all circumstances. The Board thinks that while fair value often provides the most relevant information for financial statement users, it may not always be appropriate. In some cases, an alternative measurement basis may provide more reliable information for financial statement users. Accordingly, NFPOs are expected to apply professional judgment in determining the most appropriate measurement basis when quantifying the extent to which the resources held for endowment are less than the amount required to be maintained permanently.

133 The AcSB also considered that the proposed additional disclosure requirements related to endowments may create additional costs for preparers. The Board notes that NFPOs should apply professional judgment in determining the extent of the qualitative and/or quantitative information provided to meet these proposed requirements. In addition, the Board expects that many NFPOs will have information on the fair value of their endowments, such as reports from external fund managers, readily available. Considering the importance of the fiduciary duty to maintain endowment contributions permanently, the Board concluded the added benefit to financial statement users of the proposed note disclosures outweigh the costs to preparers.

Transition

134 In developing this Exposure Draft, the AcSB discussed whether the proposals may cause some organizations to consider a change in contribution revenue recognition method on adoption of proposed Section 4411 and whether an exception is needed for meeting the requirements in paragraph 1506.06(b) in Part II of the Handbook. To address this, the Board decided to provide transitional relief through a "free choice" of contribution recognition method on adoption of proposed Section 4411. This transitional provision would allow an NFPO to change its accounting policy without meeting the criterion in paragraph 1506.06(b), but only in the year an organization adopts proposed Section 4411 or when proposed Section 4411 becomes effective.

135 In the absence of specific transitional provisions, Section 1506 requires changes in accounting policies to be applied retrospectively, except if impracticable. The AcSB thinks retrospective application of proposed Section 4411 would provide the most useful information. However, the Board acknowledges retrospective application could be onerous for some NFPOs because the necessary information for all contributions received may not be readily available.

136 Therefore, the AcSB decided to propose optional relief on transition. This optional transitional relief would allow an NFPO to apply proposed Section 4411 retrospectively only to contributions recognized in revenue or net assets on or after the beginning of the earliest period presented in the financial statements in which the NFPO first applies this Section. The Board acknowledges that the transitional relief may result in inconsistencies in the balances of restricted and unrestricted net assets. However, the Board weighed the overall cost versus benefit and determined that transitional relief was warranted. Additionally, full retrospective application remains an option for organizations that have the information available.

137 The AcSB also discussed whether the transitional relief should apply to deferred contributions. However, the Board notes that, since deferred contributions are expected to affect future revenue, NFPOs should assess whether existing deferred contributions meet the criteria for deferral in accordance with proposed Section 4411. The Board heard that many contribution agreements do not extend beyond a few years and therefore reviewing the contributions included in the deferred contributions balance would not be onerous. Additionally, the Board heard that in some instances, deferred contributions may contain legacy amounts that have not been recognized in revenue even if the restrictions have been met and that these amounts would otherwise remain on the balance sheet indefinitely. The transitional provisions for assessing the deferred contributions balance provide an opportunity for NFPOs to eliminate these balances.

138 The AcSB acknowledges that retrospective application of the requirements for capital asset contributions when an NFPO transitions from the restricted fund method to the deferred recognition method will be a significant change. The information needed to apply the proposed requirements to capital asset contributions may not be readily available for such entities – particularly for contributed capital assets with long useful lives, such as buildings. Accordingly, the Board proposes optional transitional relief allowing NFPOs to not apply the proposals to capital asset contributions that have been recognized in full prior to the beginning of the earliest period presented under proposed Section 4411. NFPOs would still have the option to apply the proposed requirement for capital asset contributions retrospectively.

139 In developing the transitional relief, the AcSB considered the overall adjustments NFPOs may be required to make when applying the transitional relief and decided that additional guidance would be helpful. The Board proposes additional guidance within the transitional provisions to assist with the adjustments required to the opening balances of net assets in the earliest period presented when an NFPO has transitioned to a contribution recognition method that does not align with the recognition method previously applied under Section 4410. However, the Board acknowledges that a wide range of scenarios is possible and that the transitional provisions cannot cover all cases.

140 The AcSB also observed that the transitional provisions may result in some contributions continuing to be classified incorrectly (e.g., a material contribution classified as an endowment contribution where such classification may be inappropriate as the amount is not expected to be maintained permanently). The Board noted that the transitional relief is not intended to permit the retention of known material accounting errors. Accordingly, any identified material accounting errors discovered during transition should be corrected in accordance with paragraphs 1506.26-.29.

Effective date

141 Selecting an effective date for amendments is an important step in the AcSB's due process. Considering the proposed transitional provisions, the Board thinks that the proposed effective date (fiscal years beginning on or after January 1, 2029) will provide NFPOs sufficient time to implement the proposals. The proposals will also allow for earlier application, provided proposed Section 4411 and the proposed amendments to Section 4400 are applied at the same time.

Dissenting view on Exposure Draft, "Contributions – Revenue Recognition and Related Matters"

D1. A Board member dissents from the issuance of this Exposure Draft. They do not support the proposal to present only an unrestricted fund, a restricted fund and, where applicable, an endowment fund on the face of the financial statements for organizations that use fund accounting presentation or apply the immediate recognition method.

D2. The Exposure Draft intends to reduce diversity in practice and improve comparability. The dissenting Board member believes this purpose is achieved with the proposals on recognition and measurement, combined with conventional presentation and existing disclosure requirements. Sufficient information about the type of contributions can be obtained through row disaggregation in the primary financial statements. Further isolating restricted contributions in prescribed columns is redundant and occupies a dimension of financial reporting that could be used to meet various users' needs. Accordingly, the Board member wants to limit the scope of the Exposure Draft to recognition and measurement.

D3. The Board member does not believe the evidence demonstrates that the current flexibility in fund presentation is causing a problem that can justify a prescriptive presentation requirement. Not-for-profit organizations (NFPOs) vary significantly in their size, funding structures, activities and reporting obligations. As a result, a presentation approach that appropriately reflects one organization's financial position and performance may not do so for another.

D4. In this Board member's view, fund accounting presentation is intended to communicate how resources are managed. In many cases, presenting separate funds provides users with information about the organization's operations, stewardship of resources and accountability to donors, grantors and other funders. Requiring NFPOs to aggregate distinct activities into a single restricted fund, or to disaggregate distinct activities between restricted and unrestricted funds, may reduce transparency and obscure information that is relevant to users' understanding of the organization. Users may find information about an organization's programs, activities, internally restricted resources, or operating and capital activities useful when presented on the face of the financial statements. However, such presentations would be inconsistent with the proposals in this Exposure Draft.

D5. Although the Exposure Draft permits additional disclosures in the notes or supplementary schedules, the Board member thinks that such disclosures should supplement, not substitute for, relevant and understandable presentation in the primary financial statements. The Board member is concerned that the proposals may increase, rather than reduce, complexity. Any simplification achieved in the primary financial statements may be offset by additional reconciliations, schedules and reporting processes, resulting in greater reliance on notes and supplementary disclosures.

D6. In this Board member's view, a principles-based approach is preferable. Rather than prescribing how funds must be presented, the standard should acknowledge that fund accounting presentation can reflect the organization's circumstances and should be designed to communicate information that is relevant to users.

D7. Overall, the Board member thinks there are improvements to the recognition and measurement of contributions in this Exposure Draft. However, the Board member thinks the scope should be limited to recognition and measurement, and not include changes to Section 4400, FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, other than consequential amendments.

D8. Notwithstanding this opinion, the Board member thinks that improvements to presentation standards are possible, merely that these are best contemplated in a future project after improvements to recognition and measurement have been adopted.

APPENDIX A – TRANSITION ILLUSTRATIVE EXAMPLES

This appendix provides illustrative examples to assist with understanding and applying the transitional provisions in proposed Section 4411. The examples are intended to explain how the AcSB expects the requirements to be applied in practice and do not form part of the Section. The examples do not establish additional requirements, exceptions or authoritative guidance and should not be used as a substitute for applying the requirements set out in the Section. The examples will not be provided as part of the CPA Canada Handbook but will be included as non-authoritative guidance on the FRAS Canada website.

Deferral method to deferred recognition method

Example A1 – Assessing the opening balance of deferred contributions

This example illustrates the application of the transition guidance in proposed paragraph 4411.97 for organizations transitioning from the deferral method to the deferred recognition method, applying the transitional provision in proposed paragraph 4411.95(b).

Fact pattern

Evergreen Community Services (ECS) previously applied the deferral method and is transitioning to the deferred recognition method in accordance with proposed Section 4411. ECS has an opening balance of deferred contributions of $250,000 in the earliest period presented in the financial statements.

The opening balance of deferred contributions consists of the following:

Description	Amount
Ongoing programs for which the restrictions are not yet met	$240,000
Unspent amounts for programs with restrictions that have been fully met in previous periods	10,000
Opening balance of deferred contributions	**$250,000**

What adjustments are required?

Applying proposed paragraph 4411.97, ECS reviews the opening balance of deferred contributions in the earliest period presented in the financial statements for contributions that meet the criteria for revenue recognition under proposed Section 4411.

ECS determines that $240,000 relates to externally restricted contributions received for ongoing programs where the restrictions will be met in future periods. Therefore, the revenue recognition criteria in proposed paragraph 4411.36 have not been met. The restricted contributions continue to be deferred, and a liability recognized, in accordance with proposed paragraph 4411.40.

ECS determines that $10,000 relates to an externally restricted contribution received but that remains unspent. ECS concludes the restrictions related to the $10,000 contribution have been met in prior periods. Therefore, the revenue recognition criteria in proposed paragraph 4411.36 have been met. ECS applies the proposed guidance in paragraph 4411.97 and adjusts $10,000 to the opening balance of unrestricted net assets in the earliest period presented.

ECS' adjusted opening balance of deferred contributions in the earliest period presented is $240,000.

Restricted fund method to immediate recognition method

Example A2 – Assessing the opening balance of deferred contributions

This example illustrates the application of the transition guidance in proposed paragraph 4411.97 for an organization transitioning from the restricted fund method to the immediate recognition method, applying the proposed transitional provision in paragraph 4411.95(b).

Fact pattern

The DMK Foundation (DMK) previously applied the restricted fund method and is transitioning to the immediate recognition method in accordance with proposed Section 4411. DMK has an opening balance of deferred contributions of $100,000 in the earliest period presented in the financial statements.

The opening balance of deferred contributions consists of the following:

Description	Amount
Contributions restricted under existing Section 4410 for use in a future period only with no corresponding restricted fund and deferred using the deferral method	$55,000
Contributions restricted for a purpose with no corresponding restricted fund and deferred using the deferral method	45,000
Opening balance of deferred contributions	**$100,000**

What adjustments are required?

Applying proposed paragraph 4411.97, DMK reviews the opening balance of deferred contributions in the earliest period presented in the financial statements for contributions that meet the criteria for revenue recognition under proposed Section 4411.

DMK determines that $55,000 relates to contributions for use in a future period that do not meet the new definition of a restricted contribution per proposed paragraph 4411.04(c)(ii). Therefore, the contributions are unrestricted and can only be recognized in revenue in the period DMK is entitled to use the resources per proposed paragraph 4411.53. Applying the guidance in proposed paragraph 4411.55, DMK continues to defer the $55,000 unrestricted contributions and recognizes a liability until the period in which the unrestricted contributions are available for use.

DMK determines that $45,000 relates to externally restricted contributions with no corresponding fund and deferred using the deferral method previously allowed under existing Section 4410. Applying proposed paragraph 4411.59, DMK concludes that the revenue recognition criteria have been met in prior periods. DMK applies the proposed guidance in paragraph 4411.97 and adjusts $45,000 to the opening balance of externally restricted net assets in the earliest period presented.

DMK's adjusted opening balance of deferred contributions in the earliest period presented is $55,000.

Deferral method to immediate recognition method

Example A3 – Transition from the deferral method to immediate recognition method

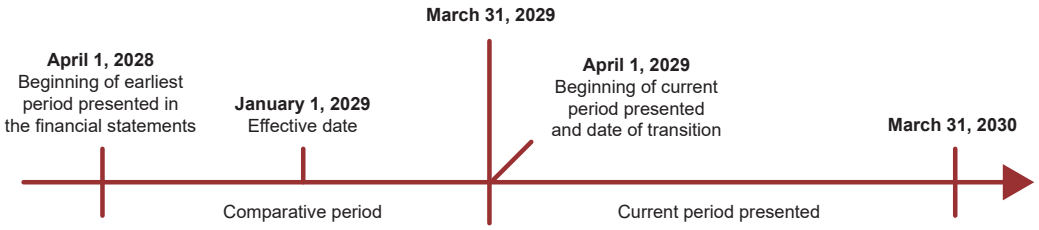
This example illustrates the application of the proposed transition guidance in paragraphs 4411.96 and 4411.98 for organizations transitioning from the deferral method to the immediate recognition method, applying the transitional provision in proposed paragraph 4411.95(b). Angina Pectoris Research (APR) is

a not-for-profit organization that provides health and medical research programs across Canada. APR's fiscal year-end is March 31.

Prior to the adoption of the proposed standard Section 4411, APR recognized revenue from contributions using the deferral method and did not apply fund accounting presentation. When applying proposed paragraph 4411.94, APR may select either contribution recognition method upon the initial application of proposed Section 4411 without meeting the criterion in ACCOUNTING CHANGES, paragraph 1506.06(b). APR selects the immediate recognition method for recognizing contribution revenue.

Examples A3.1 and A3.2 follow the timeline and fact pattern below.

Timeline



1. APR transitions to proposed Section 4411 on April 1, 2029 (the first day of fiscal year ended March 31, 2030), applying the transitional provision in paragraph 4411.95(b).

2. APR is required to retrospectively adjust contributions received in fiscal year ended March 31, 2029, the only prior period presented in the financial statements.

Fact pattern

APR's opening balances of deferred contributions, deferred capital asset contributions and unrestricted net assets as at April 1, 2028 (i.e., the opening balances in the earliest period presented in the financial statements for the year ended March 31, 2029) are as follows:

	Opening balances as of April 1, 2028
Deferred contributions	$21,350,000
Deferred capital asset contributions	$575,000
Unrestricted net assets	$13,200,000

During the year ended March 31, 2029, the earliest and only prior period presented in the first financial statement prepared in accordance with proposed Section 4411, APR recognized the following:

Source	Unrestricted contributions received	Restricted contributions received	Total contribution revenue recognized	Total deferred contributions recognized	Total deferred capital asset contributions recognized
Government funding	$2,000,000	$18,000,000	$20,000,000	$0	$0
Charitable donations from individuals	9,500,000	22,500,000	32,000,000	0	0

Source	Unrestricted contributions received	Restricted contributions received	Total contribution revenue recognized	Total deferred contributions recognized	Total deferred capital asset contributions recognized
Provincial government grant restricted for a research project on women's health*	0	2,000,000	0	2,000,000	0
Capital asset contributions received and used to purchase capital assets on September 1, 2028, with a cost of $25,000 and a five-year useful life restricted for a research project on children's mental health**	0	25,000	2,917 [($25,000÷5) × (7÷12)]	0	22,083
Total recognized under the deferral method, applying Section 4410 before transition, for the year ended March 31, 2029	**$0**	**$0**	**$52,002,917**	**$2,000,000**	**$22,083**

*APR did not record contribution revenue since the research project on women's health has not started and no expenses have been incurred. Therefore, the restricted contribution did not meet the criteria for revenue recognition under the deferral method in Section 4410.

**APR's accounting policy is to amortize capital assets on a straight-line basis over their estimated useful life.

Example A3.1 – Adjusting opening deferred contributions and net asset balances

This example illustrates the application of the proposed transition guidance in paragraph 4411.98 to adjust the opening balances of deferred contributions, deferred capital asset contributions and net assets in the earliest period in the first financial statements presented under proposed Section 4411.

How will APR adjust its opening balances in the earliest period presented under the immediate recognition method?

Applying the proposed guidance in paragraph 4411.98(a), APR first assesses the opening balance of deferred contributions in the earliest period present for contributions that met the criteria for revenue recognition in accordance with proposed Section 4411. APR determines that the entire deferred contribution balance of $21,350,000 consists of externally restricted contributions that meet the criteria for revenue recognition under the immediate recognition method per proposed paragraph 4411.59. APR adjusts the entire balance to the opening balance of externally restricted net assets in the restricted fund in the earliest period presented.

Applying the guidance in proposed paragraph 4411.98(b), the opening balance of unrestricted net assets in the earliest period presented is adjusted to become the opening balance of net assets in the unrestricted fund in the earliest period presented.

Applying the proposed guidance in paragraph 4411.98(c), the opening balance of deferred capital asset contributions in the earliest period presented is adjusted to the opening balance of externally restricted net assets in the restricted fund in the earliest period presented.

The adjustments required under proposed paragraph 4411.98 are shown in the table below.

Net asset and deferred contributions opening balances, beginning of year before transition adjustments (i.e., April 1, 2028)	Unrestricted net assets: $13,200,000	Restricted net assets: $0	Deferred contributions: $21,350,000	Deferred capital asset contributions: $575,000
Transition adjustments:				
Deferred contributions opening balance adjusted to the opening balance of restricted fund net assets	0	21,350,000	(21,350,000)	0
Deferred capital asset contributions opening balance adjusted to the opening balance of restricted fund net assets	0	575,000	0	(575,000)
Adjusted net assets and deferred contributions opening balances, beginning of year after transition adjustments (i.e., April 1, 2028)	**Unrestricted Fund: $13,200,000**	**Restricted Fund: $21,925,000**	**$0**	**$0**

Example A3.2 – Retrospectively accounting for contribution revenue in the prior period presented

This example illustrates the application of the transition guidance in proposed paragraphs 4411.95(b) and 4411.96 to retrospectively account for any contributions that were initially recognized in revenue or net assets in the prior period(s) presented in the first financial statements prepared in accordance with this proposed Section.

How much contribution revenue should be retrospectively adjusted and recognized in the prior year presented?

Using the proposed guidance in paragraphs 4411.95(b) and 4411.96, the standard is applied retrospectively only to contributions recognized on or after the beginning of the earliest period presented in the financial statements in which the organization first applies this proposed Section. Since APR adopted proposed Section 4411 on April 1, 2029, APR has applied the requirements under proposed Section 4411 to all contributions received after this date and no adjustments are required for the current period ended March 31, 2030.

However, APR will need to retrospectively adjust contributions received during the prior period ended March 31, 2029 (i.e., contributions received between April 1, 2028, and March 31, 2029, listed in the fact pattern for Example A3). APR determines the restricted contributions received and deferred during the prior period meet the definition of a restricted contribution per proposed paragraph 4411.04(c)(ii) and a capital asset contribution per proposed paragraph 4411.04(c)(iii). APR retrospectively recognizes the restricted contributions in revenue and adjusts the deferred contributions and deferred capital asset

contributions in accordance with the revenue recognition criteria for the immediate recognition method during the fiscal year ended March 31, 2029.

APR records the following journal entries:

Dr. Deferred contributions	$2,000,000	
Cr. Revenue – restricted fund for women's health research project		$2,000,000

To recognize restricted provincial government grant in revenue of the restricted fund in 2029.

Dr. Deferred capital asset contributions	$22,083	
Dr. Revenue – capital asset contributions amortized	2,917	
Cr. Revenue – restricted fund for children's mental health research project		$25,000

To reverse the contribution revenue recognized through amortization of deferred capital asset contributions and recognize the entire restricted contribution in revenue of the restricted fund: $2,917 = ($25,000÷5) × (7÷12).

APR must apply fund accounting presentation when using the immediate recognition method. APR recognizes and presents restricted and unrestricted contributions received that meet the criteria for revenue recognition in accordance with proposed Section 4411 in the restricted fund and unrestricted fund, respectively.

Under the immediate recognition method, after the adjusting entries listed above, APR recognizes the following contribution revenue during the year ended March 31, 2029:

	Unrestricted fund	Restricted fund	Total as at March 31, 2029
Revenue from contributions:			
Government	$2,000,000	$20,000,000*	$22,000,000
Charitable donations	9,500,000	22,500,000	32,000,000
Capital asset contributions	0	25,000	25,000
Total revenue from contributions	**$11,500,000**	**$42,525,000**	**$54,025,000**

*$20,000,000 = $18,000,000 restricted contributions + $2,000,000 restricted contribution (provincial government grant) originally deferred before transition but retrospectively adjusted per the journal entries listed above.

Restricted fund method to deferred recognition method

Example A4 – Transition from the restricted fund method to deferred recognition method

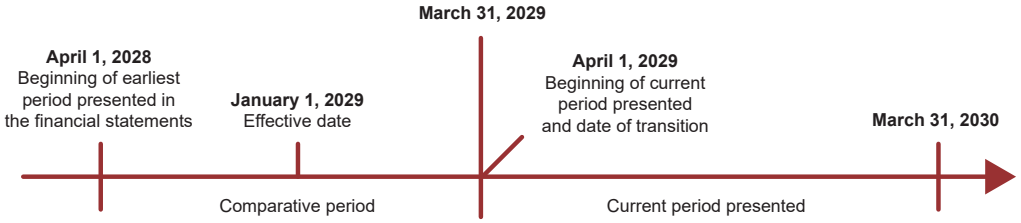
This example illustrates the application of the proposed transition guidance in paragraphs 4411.96 and 4411.99-.100 for organizations transitioning from the restricted fund method to the deferred recognition method, applying the transitional provision in paragraph 4411.95(b).

Maple Leaf Social Services (MLSS) is a not-for-profit organization that provides social services in the community, including food security assistance, housing and shelter, and counselling services. MLSS' fiscal year-end is March 31.

Prior to adopting proposed Section 4411, MLSS recognized revenue from contributions using the restricted fund method. When applying proposed paragraph 4411.94, MLSS may select either contribution recognition method upon the initial application of proposed Section 4411 without meeting the criterion in ACCOUNTING CHANGES, paragraph 1506.06(b). MLSS selects the deferred recognition method for recognizing contribution revenue.

Examples A4.1, A4.2 and A4.3 follow the timeline and fact pattern below.

Timeline



1. MLSS transitions to proposed Section 4411 on April 1, 2029 (the first day of fiscal year ended March 31, 2030) applying the proposed transitional provision in paragraph 4411.95(b).

2. MLSS is required to retrospectively adjust contributions received in fiscal year ended March 31, 2029, the only prior period presented in the financial statements.

Fact pattern

MLSS' opening balances for net assets as at April 1, 2028 (i.e., the opening balances in the earliest period presented in the financial statements for the year ended March 31, 2029) are as follows:

	Opening balances as at April 1, 2028
General fund net assets	$408,000
Restricted fund net assets:	
Endowment fund*	53,500
Other fund**	855,000

*Entire balance of $53,500 relates to externally restricted net assets.

**Of the $855,000, $165,000 relates to externally restricted net assets and the remaining balance of $690,000 relates to internally restricted net assets.

On April 15, 2027, MLSS received capital asset contributions used to purchase capital assets with a cost of $20,000 and a five-year useful life for a specific program. MLSS recognized the capital asset contribution in revenue of the restricted fund when received.

During the year ended March 31, 2029, the earliest and only prior period presented in the first financial statement prepared in accordance with proposed Section 4411, MLSS recognized the following:

Source	Restricted contributions received	Expenses for restricted programs	Unrestricted contributions received
Provincial government grant restricted for operating a hot meal program over the next four years	$400,000	$100,000 per year	$0
Restricted contribution from a private donor to be spent on establishing and operating a new shelter for three years, of which a portion may be spent on capital assets as needed	200,000	Year 1: 70,000	0
Unrestricted charitable donations	0	0	240,000
Unrestricted operating funding from the municipal and federal governments	0	0	440,000
Capital asset contributions received and used to purchase capital assets on June 25, 2028, with a cost of $10,000 and a five-year useful life	10,000	0	0

MLSS' accounting policy is to amortize capital assets on a straight-line basis over their estimated useful life.

Example A4.1 – Adjusting opening net asset balances

This example illustrates the application of the proposed transition guidance in paragraph 4411.99 to adjust the opening balances of net assets and deferred contributions in the first financial statements presented under proposed Section 4411.

How will MLSS adjust its opening net assets and deferred contributions balances in the earliest period presented under the deferred recognition method?

Applying the proposed guidance in paragraph 4411.99(a), the opening balance of the general fund is adjusted to become the opening balance of unrestricted net assets in the earliest period presented.

Applying the proposed guidance in paragraph 4411.99(b), the opening balance of other restricted net assets is first assessed for internally restricted versus externally restricted net assets. Externally restricted net assets are adjusted out of the other restricted fund balance in the earliest period presented to the opening balance of deferred contributions in the earliest period presented. The remaining balance in the fund consists of only internally restricted contributions and is adjusted to the opening balance of internally restricted net assets in the earliest period presented.

Applying the proposed guidance in paragraph 4411.99(c), the opening balance of externally restricted net assets in the endowment fund is adjusted to become the opening balance of net assets subject to external restrictions requiring that they be maintained permanently as endowments in the earliest period presented.

The adjustments required under proposed paragraphs 4411.99(a)-(c) are shown in the table below.

Net asset and deferred contributions balances, beginning of year, before transition adjustments (i.e., April 1, 2028)	General fund net assets: $408,000	Restricted fund net assets: $855,000	Endowment fund net assets: $53,500	Deferred contributions: $0
Transition adjustments:				
Externally restricted net assets adjusted to deferred contributions	0	(165,000)	0	165,000
Adjusted net assets and deferred contributions balances, beginning of year after transition adjustments (i.e., April 1, 2028)	**Unrestricted net assets: $408,000**	**Internally restricted net assets: $690,000**	**Externally restricted net assets held for endowment: $53,500**	**Deferred contributions: $165,000**

Example A4.2 – Assessing the opening balance of deferred contributions

This example illustrates the application of the proposed transition guidance in paragraphs 4411.99(d) and 4411.97 to assess and adjust the opening balance of deferred contributions in the earliest period presented in the financial statements.

MLSS adjusted $165,000 of externally restricted contributions to the opening balance of deferred contributions in the earliest period presented (see Example A4.1).

The $165,000 balance of externally restricted deferred contributions relates to:

- ongoing programs for which the restrictions are not yet met: $155,000; and
- unspent amounts for programs with restrictions that have been fully met in previous periods: $10,000.

What adjustments are required?

Proposed paragraphs 4411.99(d) and 4411.97 require MLSS to assess the adjusted opening balance of deferred contributions in the earliest period presented for contributions that meet the criteria for revenue recognition under this proposed Section.

MLSS reviews the adjusted deferred contributions opening balance for contributions that meet the criteria for revenue recognition in accordance with proposed Section 4411. During the review, MLSS determines that $155,000 relates to externally restricted contributions received for ongoing programs where the restrictions have not yet been fully met. Therefore, the revenue recognition criteria in proposed paragraph 4411.36 have not been met, and the restricted contributions continue to be deferred, and a liability recognized in accordance with proposed paragraph 4411.40.

MLSS determines that $10,000 relates to an externally restricted contribution received but that remains unspent. MLSS concludes the restrictions have been met in prior periods with respect to the $10,000 contribution. Therefore, the revenue recognition criteria in paragraph 4411.36 have been met. MLSS applies the proposed guidance in paragraphs 4411.99(d) and 4411.97 and adjusts $10,000 to the opening balance of unrestricted net assets in the earliest period presented.

The adjusted opening balance of deferred contributions in the earliest period presented (i.e., April 1, 2028) is $155,000.

Example A4.3 – Retrospectively accounting for contribution revenue in the prior period presented

This example illustrates the application of the proposed transition guidance in paragraphs 4411.95(b), 4411.96 and 4411.100 to retrospectively account for any contributions, including capital asset contributions, that were initially recognized in revenue or net assets in the prior period(s) presented in the first financial statements prepared in accordance with this proposed Section.

How much contribution revenue, deferred contributions and deferred capital asset contributions should be retrospectively adjusted and recognized in the prior period presented?

Under the restricted fund method, MLSS recognized the following contribution revenue during the year ended March 31, 2029:

		Restricted funds			Total as at March 31, 2029
	General fund	Endowment	Other	Capital	
Revenue from contributions:					
Charitable donations	$240,000	$0	$200,000	$0	$440,000
Government funding	440,000	0	400,000	0	840,000
Total contribution revenue	**$680,000**	**$0**	**$600,000**	**$0**	**$1,280,000**

Using the proposed guidance in paragraphs 4411.95(b) and 4411.96, the standard is applied retrospectively only to contributions recognized in revenue or net assets on or after the beginning of the earliest period presented in the financial statements in which the organization first applies this proposed Section. Since MLSS adopted proposed Section 4411 on April 1, 2029, MLSS has applied the requirements under this proposed Section to all contributions received after this date, and no adjustments are required for the current period ended March 31, 2030. However, MLSS will need to retrospectively adjust contributions received during the prior period ended March 31, 2029 (i.e., contributions received between April 1, 2028, and March 31, 2029).

MLSS does not make retrospective adjustments for the $240,000 unrestricted charitable donations and the $440,000 unrestricted operating funding recognized in revenue during fiscal 2029 as the unrestricted contributions meet the criteria for revenue recognition in the current period in accordance with proposed paragraph 4411.30.

MLSS determines the restricted contributions received during the prior period meet the definition of a restricted contribution in accordance with proposed paragraph 4411.04(c)(ii). MLSS retrospectively accounts for the restricted contributions recognized in revenue in accordance with the revenue recognition criteria for the deferred recognition method during fiscal 2029 and records the following journal entries:

Dr. Revenue – government funding	$300,000	
Cr. Deferred contributions		$300,000

To defer portion of grant for which the restrictions have not yet been met (MLSS has determined that the restrictions will be met as the hot meal program is delivered over the four years: $400,000÷4 years = $100,000 contribution revenue recognized in 2029 and remaining $300,000 deferred).

Dr. Revenue – charitable donations	$130,000	
Cr. Deferred contributions		$130,000

To defer portion of restricted contribution for the shelter project received from a private donor for which the restrictions have not yet been met (MLSS has determined that the restrictions are met as the expenses on this project are incurred: $200,000 – $70,000 contribution revenue recognized in 2029 = $130,000 deferred).

Dr. Deferred contributions	$10,000	
Cr. Deferred capital asset contributions		$10,000

To adjust amounts deferred for capital assets purchased for shelter project in 2029.

Dr. Deferred capital asset contributions	$1,500	
Cr. Revenue – amortization of deferred capital asset contributions		$1,500

To recognize amounts amortized into revenue for deferred capital assets purchased in 2029 ([($10,000÷5 years) × (9÷12 months)] = $1,500).

Under the deferred recognition method, MLSS recognizes the following contribution revenue, deferred contributions and deferred capital asset contributions during the year ended March 31, 2029.

Contribution revenue recognized:

	Fiscal year ended March 31, 2029
Revenue from contributions:	
Charitable donations ($240,000 unrestricted + $70,000 for shelter project)	$310,000
Government funding ($440,000 unrestricted + $100,000 restricted government grant)	540,000
Total contribution revenue	**$850,000**

Deferred contributions recognized as a liability:

	Fiscal year ended March 31, 2029
Deferred contributions, adjusted opening balance (see Example A4.2)	$155,000
Contributions received ($200,000 charitable donations + $400,000 government funding)	600,000
Contributions recognized as revenue ($70,000 for shelter project + $100,000 restricted government grant)	(170,000)
Contributions adjusted to deferred capital asset contributions	(10,000)
Deferred contributions, ending balance	**$575,000**

Deferred capital asset contributions recognized as a liability:

	Fiscal year ended March 31, 2029
Deferred capital asset contributions, opening balance	$0
Deferred contributions spent on capital assets	10,000
Amortized into revenue during the year	(1,500)
Deferred capital asset contributions, ending balance	**$8,500**

When MLSS applies proposed paragraph 4411.100, the opening balance of deferred capital asset contributions in the earliest period presented is nil. MLSS only adjusts capital asset contributions (as defined in proposed paragraph 4411.04(c)(iii)) recognized in each period presented in the first financial statements presented in accordance with this Section. Capital asset contributions recognized prior to the earliest period presented are not adjusted. Therefore, the capital asset contributions received on April 15, 2027, and recognized in full in revenue in fiscal year ended March 31, 2028, under the restricted fund method are not adjusted to deferred capital asset contributions since this period is not presented in the financial statements after the adoption of proposed Section 4411.

Copyright © 2026 Financial Reporting & Assurance Standards,
Chartered Professional Accountants of Canada

All rights reserved. This publication is protected by copyright and written permission is required to reproduce, store in retrieval system or transmit in any form or by any means (electronic, mechanical, photocopying, recording or otherwise).

For information regarding permission, please contact info@frascanada.ca.