CNC
Conseil des normes comptables

Apports – Comptabilisation des produits et questions connexes

Réponses à l’exposé-sondage

Octobre 2023

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From:	no-reply@frascanada.ca
To:	info@acsbcanada
Subject:	Comment on Document: acsb-ed-contributions-2023
Date:	September 13, 2023 1:28:32 PM

A comment has been submitted:

Language: English
Board/Council: AcSB
Doc for Comment: acsb-ed-contributions-2023
Name: Amanda Carolyn Smith
Title: Principal
Organization: Bell CPA & Associates Professional Corporatio
Email: amanda@kenbell.ca
Phone: 905 453-0844
Keep Private: No
Comments: I would like to comment on and request that you please reconsider requiring capital asset contributions to be deferred and recognized on the same basis as they are amortized when fund accounting used. Although I don't like the idea at all, I can understand the need for it when not using fund accounting. My clients are all small charities, with revenues averaging slightly above $1 million and accounting staff often have little to no training in bookkeeping. Often, these small charities will have fundraising events to help with various capital expenses, and then will use surplus cash to pay for the amount that could not be fundraised. The idea of deferred revenue is purely a necessary accounting "evil" to them. As far as they are concerned, they operate much more on a cash basis and want to know the amounts that they have left to be spent. Deferred revenue for restricted donations not yet spent is fantastic – it is easy for them to see that they received $X for this purpose and still have $Y left to be spent. Tracking that requires some training, but they can understand the purpose. But when deferred revenue gets muddy between amounts they've received and haven't yet spent, and also amounts that they've received, spent, but are waiting to recognize for X years, I lose them. How do they know which is which in their accounts? How do they know how much should be brought into revenue each year when only part of the capital asset was paid for with restricted funds? Why is their revenue increased each year, when they received that amount years ago? These are all questions I try my best to help them understand, but in the end when it's just accounting rules that they have to follow and it only makes the statements more difficult for them to understand what actually happened, what they actually have left, what they actually received, and what they actually spent; they end up frustrated. There has been a steady decrease in donations that charities have been able to receive in recent years to support operations and so are rarely, if ever, able to have enough funds for capital purchases unless they are specifically raised for that purpose, but doing so, especially with these new rules, can be incredibly burdensome to small charities who would love to spend more time on their charitable activities and less time trying to figure out changing accounting regulations. Assets recorded at historical costs which no longer have any resemblance to fair market value (land/ buildings fair values almost always go up, when on the statements they stay the same (land) or decrease (building)), an arbitrary amortization expense that they have to record each year that can make their financial statements look bad to lenders and members are already some of the difficult things they have to deal with. Please don't increase the complexity of recording what is already difficult enough for small and medium-sized charities. If you must keep the requirement to defer and amortize capital contributions when fund accounting is NOT used, then you must, but PLEASE do not change it to be required by organizations that are using fund accounting to already separate out the capital revenue and expenses clearly on their income statement.

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September 19, 2023

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

Dear Ms. Christopoulos,

The Council of Ontario Finance Officers (“COFO”) is pleased to provide you with feedback on the Accounting Standards Board (“AcSB”) Exposure Draft on Contributions – Revenue Recognition and Related Matters. COFO is an affiliate of the Council of Ontario Universities, comprised of the senior financial officers from Ontario’s 24 universities that promotes communication, information exchange, and cooperation among its members. Ontario universities are autonomous not-for-profit organizations (“NFPOs”) that are financially assisted by the Province of Ontario through an operating grant and a domestic tuition setting framework. However, Ontario universities have other sources of diversified revenues not governed by the province. Further, Ontario universities operate under the formation of independent and individual university legislations. Accordingly, Ontario universities follow Part III of the CPA Canada Handbook, which falls within the AcSB oversight.

As NFPOs, university financial statements are used primarily by debt financing entities, credit-rating agencies, the Ontario Ministry of Colleges and Universities, donors, and from time to time the Ontario Ministry of Finance or other readers. Financial information is also provided to various departments in the U.S government or other foreign government granting agencies. Most financial statement readers of Ontario university financial statements are within Canada and more specifically within Ontario.

Attached are responses to the specific questions posed in the consultation paper. While we support the goal of increasing comparability of NFPO financial statements and with the need to clearly communicate the operations and financial results of the organization, we have some concerns with the changes being proposed, as noted in our responses to Questions one and six.

Sincerely,

Heather Woermke, CPA, CA
Chair, COFO
Associate Vice-Principal (Finance and Administration), Queen’s University
cc: COFO member universities

1. **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 organization and the contributor; and (b) the restriction requires the resources be used for a designated purpose and/or within a designated period of time. Do you agree with the proposed definition of a restricted contribution? If not, why not?**

   Yes, with one nuance. As currently defined, and as outlined in Example 2, a contribution received for general operating purposes, or to generally further an organization's mission would be considered restricted if it was to be used within a designated period of time. **Contributions received for general operating purposes should not be considered restricted unless:**

   - **there is a legal obligation to repay the contribution if funds are not spent within the designated period of time, or if**
   - **the funds are not accessible because the designated period of time has not yet commenced / the time period is in the future.**

   Deferring a contribution received for broad operating purposes and which are accessible for a variety of applications to the organization does not provide decision useful information unless there is recourse for not using the funds (i.e. an obligation to repay), as it impairs the ability of financial statement users to understand the resources available for an organization's operations. Without the legal obligation to repay such a broad-based contribution, the cost of tracking such information at this level of detail would exceed the benefit of doing so.

2. **The AcSB proposes that unrestricted contributions be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured (see paragraph 4411.13). Do you agree with the proposed recognition guidance for unrestricted contributions? If not, why not?**

   Yes. Unrestricted contributions should always be recognized as revenue in the year received or receivable provided that collection is reasonably assured.

3. **The AcSB proposes that an organization recognize revenue from restricted contributions 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 (see paragraph 4411.16)? If not, why not?**

   Yes. Recognizing restricted contributions when external restrictions are met provides decision useful information.

4. **Consider the following scenario: An NFPO receives a contribution that is classified as restricted, per the proposed definition. However, the organization meets the restriction and recognizes the revenue in the same reporting period, such that no remaining amount of the contribution is deferred at period end (see Illustrative Example 2 in proposed Section 4411). As proposed in paragraph 4411.44, the organization discloses the changes in the deferred contribution balance for the period, including the receipt of the restricted contribution and subsequent recognition of the**

contribution in revenue. In this scenario, is the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance relevant to users of financial statements? If not, why not?

Disclosing the amount of contributions received for restricted purposes is relevant to financial statement users. However, as noted in the response to Question 1, we have a concern with the current definition of a restricted contribution.

Capital Asset Contributions

5. **The AcSB proposes that capital asset contributions related to amortizable assets be deferred and recognized as revenue on the same basis as the amortization expense on the related acquired capital assets (see paragraph 4411.21). For indefinite-lived assets, the Board proposes recognizing them as direct increases in net assets (see paragraph 4411.22).**

   a. **Do you agree with the proposed recognition guidance for capital asset contributions related to amortizable assets?**

   Yes. Recognizing capital asset contributions related to assets that will be amortized on the same basis as the amortization expense related to the capital assets provides decision useful information and avoids the overstatement of the excess of revenues over expenses, potentially hiding structural operating deficits.

   b. **Do you agree with the proposed recognition guidance for capital asset contributions related to indefinite lived assets?**

   Yes. Recognizing capital asset contributions related to capital assets with indefinite lived assets as direct increases in net assets avoids the overstatement of the excess of revenues over expenses, potentially hiding structural operating deficits.

Endowment Contributions

6. **The AcSB proposes that endowment contributions be recognized as direct increases in net assets (see paragraph 4411.26). The Board also proposes that an organization disclose information about how it manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments (see paragraphs 4411.48-49).**

   a. **Do you agree that endowment contributions should be recognized as direct increases in net assets?**

   Yes. Recognizing endowment contributions as direct increases in net assets provides decision useful information given endowment contributions are to be held in perpetuity and cannot be used for general operations. In addition, recognizing endowment contributions in revenue would overstate the excess of revenue over expenses in the year when endowment contributions are received, producing variability that could mask other meaningful analysis, such as whether an organization has structural operating deficits.

b. **Do you agree with the nature and extent of the proposed additional disclosure requirements for endowments?**

We do not agree with the nature and extent of the proposed additional disclosure and do not agree that the benefit of the proposed additional disclosures to users would outweigh the added cost for preparers. The basis for conclusions notes the rationale for the additional disclosures is to enable contributors to be aware to what extent a general contribution to the organization might be used to fund endowments where the fair value is less than the amount required to be maintained in perpetuity.

In the University sector, the use of general contributions to replenish the capital in endowment funds would be exceedingly rare. The original endowment contribution is protected through spending policies which may be adjusted in economic downturns.

Net Investment Income

7. **The AcSB proposes that net investment income be recognized based on the nature of any restrictions on the investment income (see paragraph 4411.29). Income earned on investments would continue to be measured in accordance with guidance in other standards for the type of invested asset (see paragraph 4411.30).**

   a. **Do you agree with the proposed guidance relating to the recognition of net investment income?**

   Yes. The proposed recognition criteria for net investment income align with the revenue recognition criteria for contributions and provide decision useful information.

   b. **Do you agree with the nature and extent of the proposed disclosure requirements relating to net investment income?**

   Yes.

Contributed materials and Services

8. **The AcSB proposes continuing to allow organizations to choose to recognize contributions of materials and services that meet the criteria in paragraph 4411.32(b).**

   a. **Do you agree with the proposed criteria?**

   Yes. Recognizing contributed materials and services only when fair value can be reasonably estimated, the materials and services are used in the normal course of business, and they would otherwise have to be purchased to fulfill the organization's mandate makes sense. Because of the difficulty in determining fair value and/or the cost associated with valuing and tracking such contributions, it is essential that NFPO's continue to have an accounting policy choice to recognize contributed materials and services.

   b. **Do you think the proposed criterion would allow organizations to recognize contributions of materials and services that are critical to the organizations mandate?**

   Yes, agreed.

c. **Do you agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services?**

No comment as not applicable to the University sector. We do not recognize contributed materials and services due to the difficulty in determining fair value and/or the cost associated with valuing and tracking such contributions.

9. **The AcSB proposes that a pledge or a bequest be recognized only when the recognition criteria in paragraphs 4411.13, 4411.16 or 4411.26 are met for each individual pledge or bequest. This means that in many cases a pledge will not meet the proposed criteria for recognition until the pledge is received and collection therefore is reasonably assured. Do you agree that a pledge should generally not be recognized until collected (see paragraph 4411.36)? If not, under what scenarios would a pledge meet the recognition criteria prior to collection?**
Yes, agreed. Pledges should not be recorded until collected because pledges are not legally enforceable in Canada.

Contributions

10. **The AcSB proposes that organizations disclose contributions by major source. The Board also proposes that organizations disclose economic dependence when the ongoing operations depend on a significant contribution(s) from another party (see paragraphs 4411.40-41).**

    a. **Do you think disclosing contributions by major source provides decision useful information?**
    No comment. This is consistent with current requirements and practice.

    b. **Do you think disclosing economic dependence when ongoing operations depend on significant contributions from another party provides decision useful information?**
    Yes. This disclosure requirement is consistent with ASPE Section 3841 requirements.

Fund Accounting

11. **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, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule (see paragraph 4400.06A).**

    a. **Do you agree that when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule?**
    No comment as not applicable to the University sector.

    b. **Do you agree with other proposed amendments to Section 4400 to clarify the application of fund accounting presentation?**
    No comment as not applicable to the University sector.

Restricted contributions

12. **The AcSB proposes an amendment to Section 4400 that requires an organization to disclose information about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those restrictions (see paragraphs 4400.22A-22B).**

    a. **Do you agree with the proposed disclosure requirements?**

    Yes.

    b. **Do you think the proposed disclosure will convey decision useful information to financial statement users, related to the assets available to meet its requirements related to restricted contributions?**

    Yes.

Retrospective application

13. **The AcSB proposes that Section 4411 and proposed amendments to Section 4400 be applied retrospectively in accordance with Section 1506, with certain transition provisions.**

    a. **Do you agree that the proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively?**

       Yes.

    b. **Do you agree with the proposed optional transitional relief that an organization is not required to make retrospective adjustments in respect of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest period presented in the financial statements in which the organization first applies proposed Section 4411?**

       No comment as not applicable to the University sector.

Effective date

14. **The AcSB proposes an effective date of fiscal years beginning on or after January 1, 2026, 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?**

       We have no concerns with the proposed effective date.

    b. **Do you think the proposed effective date provides adequate time for NFPO's to adopt the proposed standard and proposed amendments?**

       Yes.

15. **Do you think the proposed illustrative examples are useful in demonstrating the application of the proposals?**

    The proposed illustrative examples are useful. As noted in our response to Question 1, contributions that would not otherwise be considered restricted should only be considered restricted if there is a legal obligation to repay the contribution if funds are not spent within the designated period of time. Therefore, we do not believe the example In Question 2 about an operating grant being restricted is appropriate.

September 21, 2023

SENT ELECTRONICALLY

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

Re: Exposure Draft – Contributions – Revenue Recognition and Related Matters (the "ED")

Dear Ms. Christopoulos,

Thank you for the opportunity to provide input to the Accounting Standards Board (AcSB) on the above noted document.

MNP LLP ("MNP") is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as pension plans, credit unions, co-operatives, First Nations, medical and legal professionals, not-for-profit organizations ("NFPO"), municipalities and government entities. In addition, our client base includes a sizable contingent of publicly traded companies. We believe that we are positioned well to provide feedback on this ED.

Comments on the move to a single method of accounting

The proposed single accounting approach would allow for comparability of NFPO financial statements. Some financial statement users may not fully understand the different accounting policy choices and how to reconcile between two sets of financial statements using the different options. Further, financial statement users may find that considerable effort is needed to reconcile the revenue figures presented under each method.

However, given the unique individual needs of NFPOs and their funders, strong arguments have been raised by NFPO financial statement users and preparers in support of each method, indicative of a preference to continue with an accounting policy choice which allows each individual NFPO to choose the most appropriate method for its financial statement users. Retaining an accounting policy choice for small to mid-sized NFPOs seems appropriate while the AcSB explores further scalability of the accounting standards. In addition to revenue, financial statement users focus on an NFPO's service delivery and expenses incurred; with consistent expense recognition, an NFPO's activities in this regard are easily comparable under both methods. Financial statement users can compare the financial position of NFPOs under both methods (i.e., unrestricted surpluses are comparable, and a comparison of deferred revenue liabilities to restricted surpluses and the assets available to support each can also be done). In many cases where an NFPO receives a substantial portion of its revenue via government funding, the funding agency dictates the accounting policy choices thus ensuring that all recipients of the same funding are preparing consistent financial statements. In cases where NFPOs receive a substantial portion of their revenue through other contributions and donations these NFPOs can choose an accounting policy which will best meet their users' needs.

The items noted in the Basis for Conclusions to the ED in support of the deferral method of accounting are consistent with our understanding of the reasons why some financial statement preparers and users prefer this accounting policy. Therefore, our comments below focus on the support for the restricted fund method and a continued accounting policy choice.

Many NFPOs prefer to have to the choice to apply the restricted fund method as they view it as simpler to implement because they do not need to track the deferral on restricted contributions. Some NFPOs also prefer the restricted fund method as the timing of when a contribution is received, or receivable, is the most relevant information for purposes of presenting revenue in the financial statements. Fund raising is a key performance indicator. Many NFPOs regularly assess whether they have achieved their goals for a period (fundraisers, pledge drives, and giving campaigns all generally have a target donations threshold). These NFPOs have determined that their users benefit from being presented with total inflows of contributions (and contributions receivable) as revenue, with the subsequent management of the restrictions over the contributed funds being best represented by the unspent surplus that is managed in each restricted fund.

For funds used to acquire, construct or develop capital assets there may be a mixture of source of contributions to achieve the funds needed, both with and without explicit restrictions for the use of the contributions. Under the deferral method, this would lead to a difference in the timing of revenue recognition for the donations even though the donations have been used for the same purpose of funding the capital assets. Some NFPOs prefer the restricted fund method to avoid this timing difference.

Many small to mid-sized organizations lack the resources to make large changes to their financial reporting and often rely on volunteers to prepare their accounting records. We expect that small to mid-sized organizations currently applying the restricted fund method will be challenged to apply the proposals in the ED. Costs to implement these amendments may be significant because changes to the financial reporting process would likely be necessary in order to bring the accounting and reporting inline with the amendments. We are of the view that the additional costs to apply these amendments would outweigh any benefits.

Overall, while there are supporting arguments both for and against the change to a single method of accounting for contributions, we do not think that that the benefits outweigh the costs of the change in accounting standards and loss of accounting policy choice for small and mid-sized organizations.

Challenges in assessing restrictions on contributions

We wanted to highlight some challenges with the lack of specific guidance on the requirements related to restricted contributions. These challenges impact entities applying both the restricted fund and deferral methods. However, given the timing of the revenue recognition, the impact is greater on those applying the deferral method.

Occasionally the terms of a funding agreement may be vague - for example, the specific nature of expenses for which the funds can be used, or the time frame, may not be clear. A contribution may not be wholly relevant to a particular restriction, as some contributions may be permitted to be utilized for purposes which relate to multiple areas (i.e., permitted expenses fall within the general expenses in addition to various restrictions; however, the proportion of funds to be spent in each area is not dictated by the funding agreement). NFPOs struggle to apply the standards related to restricted contributions when faced with vague restrictions and further specific guidance on the nature and types of restrictions would be helpful.

In addition, there is discrepancy in practice in interpreting which restrictions are internal, and which are external. We agree that if a donor specifies funds be used for a specific purpose, those funds are clearly externally restricted as the donor has restricted the use. Discrepancies arise in the manner which an organization communicates its plans and goals to potential donors (e.g., through advertising campaigns, material provided to donors, and messaging on its website). An organization may solicit donations for general purposes while also communicating its plans and goals for a period of time. Alternatively, an organization may solicit donations by communicating to the donor a specific use of the funds. While an organization can change its messaging at any time, at the time of donation specific information has been communicated, and the donor may have relied on those communications in making the decision to contribute. This communication may create an expectation by the donor that use of the funds will be restricted to only those purposes communicated. As an added complexity, some organizations communicate a specific purpose for the donated funds with a caveat that excess funds raised may be used for other purposes, or that a certain portion of the fundraising campaign funds will be used for administrative and other purposes. Further specific guidance on an NFPO's own actions which can create restrictions would be helpful.

We would be pleased to offer any additional assistance in further exploring issues raised in our response and in helping to find solutions which meet the needs of the financial statement users.

Yours truly,

MNP LLP

Jody MacKenzie

Jody MacKenzie, CPA, CA
Director, Assurance Professional Standards Group

Lakehead UNIVERSITY

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September 20, 2023

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

Dear Ms. Christopoulos,

Thank you for the opportunity to comment on the Accounting Standards Board Exposure Draft on Contributions – Revenue Recognition and Related Matters.

Lakehead University is a public research university with campuses in Thunder Bay and Orillia, Ontario, Canada. Lakehead University is supported by the province of Ontario and hosts various undergraduate and graduate programs, and the Bora Laskin Faculty of Law.

As a not-for-profit organization, the University's financial statements are used primarily by debt financing agencies, credit-rating agencies, the Ontario Ministry of Colleges and Universities, donors, and from time to time, the Ontario Ministry of Finance or other readers. Financial information is also provided to various departments in the U.S. government or other foreign government granting agencies. Most financial statement readers of Ontario university financial statements are within Canada and, more specifically, within Ontario.

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

Sincerely,

Rita Blais

Rita Blais, CPA, CA
Associate Vice-President
Financial Services
Lakehead University

1. **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 organization and the contributor; and (b) the restriction requires the resources be used for a designated purpose and/or within a designated period of time. Do you agree with the proposed definition of a restricted contribution? If not, why not?**

   Yes, with one nuance. As currently defined, and as outlined in Example 2, a contribution received for general operating purposes, or to generally further an organization's mission would be considered restricted if it was to be used within a designated period of time. **Contributions received for general operating purposes should not be considered restricted unless:**

   - **there is a legal obligation to repay the contribution if funds are not spent within the designated period of time, or if**
   - **the funds are not accessible because the designated period of time has not yet commenced / the time period is in the future.**

   Deferring a contribution received for broad operating purposes and which are accessible for a variety of applications to the organization does not provide decision useful information unless there is recourse for not using the funds (i.e. an obligation to repay), as it impairs the ability of financial statement users to understand the resources available for an organization's operations. Without the legal obligation to repay such a broad-based contribution, the cost of tracking such information at this level of detail would exceed the benefit of doing so.

2. **The AcSB proposes that unrestricted contributions be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured (see paragraph 4411.13). Do you agree with the proposed recognition guidance for unrestricted contributions? If not, why not?**

   Yes. Unrestricted contributions should always be recognized as revenue in the year received or receivable provided that collection is reasonably assured.

3. **The AcSB proposes that an organization recognize revenue from restricted contributions 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 (see paragraph 4411.16)? If not, why not?**

   Yes. Recognizing restricted contributions when external restrictions are met provides decision useful information.

4. **Consider the following scenario: An NFPO receives a contribution that is classified as restricted, per the proposed definition. However, the organization meets the restriction and recognizes the revenue in the same reporting period, such that no remaining amount of the contribution is deferred at period end (see Illustrative Example 2 in proposed Section 4411). As proposed in paragraph 4411.44, the organization discloses the changes in the deferred contribution balance for the period, including the receipt of the restricted contribution and subsequent recognition of the**

contribution in revenue. In this scenario, is the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance relevant to users of financial statements? If not, why not?

Disclosing the amount of contributions received for restricted purposes is relevant to financial statement users. However, as noted in the response to Question 1, we have a concern with the current definition of a restricted contribution.

Capital Asset Contributions

5. **The AcSB proposes that capital asset contributions related to amortizable assets be deferred and recognized as revenue on the same basis as the amortization expense on the related acquired capital assets (see paragraph 4411.21). For indefinite-lived assets, the Board proposes recognizing them as direct increases in net assets (see paragraph 4411.22).**

   a. **Do you agree with the proposed recognition guidance for capital asset contributions related to amortizable assets?**

   Yes. Recognizing capital asset contributions related to assets that will be amortized on the same basis as the amortization expense related to the capital assets provides decision useful information and avoids the overstatement of the excess of revenues over expenses, potentially hiding structural operating deficits.

   b. **Do you agree with the proposed recognition guidance for capital asset contributions related to indefinite lived assets?**

   Yes. Recognizing capital asset contributions related to capital assets with indefinite lived assets as direct increases in net assets avoids the overstatement of the excess of revenues over expenses, potentially hiding structural operating deficits.

Endowment Contributions

6. **The AcSB proposes that endowment contributions be recognized as direct increases in net assets (see paragraph 4411.26). The Board also proposes that an organization disclose information about how it manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments (see paragraphs 4411.48-49).**

   a. **Do you agree that endowment contributions should be recognized as direct increases in net assets?**

   Yes. Recognizing endowment contributions as direct increases in net assets provides decision useful information given endowment contributions are to be held in perpetuity and cannot be used for general operations. In addition, recognizing endowment contributions in revenue would overstate the excess of revenue over expenses in the year when endowment contributions are received, producing variability that could mask other meaningful analysis, such as whether an organization has structural operating deficits.

b. **Do you agree with the nature and extent of the proposed additional disclosure requirements for endowments?**

We do not agree with the nature and extent of the proposed additional disclosure and do not agree that the benefit of the proposed additional disclosures to users would outweigh the added cost for preparers. The basis for conclusions notes the rationale for the additional disclosures is to enable contributors to be aware to what extent a general contribution to the organization might be used to fund endowments where the fair value is less than the amount required to be maintained in perpetuity.

In the University sector, the use of general contributions to replenish the capital in endowment funds would be exceedingly rare. The original endowment contribution is protected through spending policies which may be adjusted in economic downturns.

Net Investment Income

7. **The AcSB proposes that net investment income be recognized based on the nature of any restrictions on the investment income (see paragraph 4411.29). Income earned on investments would continue to be measured in accordance with guidance in other standards for the type of invested asset (see paragraph 4411.30).**

a. **Do you agree with the proposed guidance relating to the recognition of net investment income?**

Yes. The proposed recognition criteria for net investment income align with the revenue recognition criteria for contributions and provide decision useful information.

b. **Do you agree with the nature and extent of the proposed disclosure requirements relating to net investment income?**

Yes.

Contributed materials and Services

8. **The AcSB proposes continuing to allow organizations to choose to recognize contributions of materials and services that meet the criteria in paragraph 4411.32(b).**

a. **Do you agree with the proposed criteria?**

Yes. Recognizing contributed materials and services only when fair value can be reasonably estimated, the materials and services are used in the normal course of business, and they would otherwise have to be purchased to fulfill the organization's mandate makes sense. Because of the difficulty in determining fair value and/or the cost associated with valuing and tracking such contributions, it is essential that NFPO's continue to have an accounting policy choice to recognize contributed materials and services.

b. **Do you think the proposed criterion would allow organizations to recognize contributions of materials and services that are critical to the organizations mandate?**

Yes, agreed.

c. **Do you agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services?**

No comment as not applicable to the University sector. We do not recognize contributed materials and services due to the difficulty in determining fair value and/or the cost associated with valuing and tracking such contributions.

9. **The AcSB proposes that a pledge or a bequest be recognized only when the recognition criteria in paragraphs 4411.13, 4411.16 or 4411.26 are met for each individual pledge or bequest. This means that in many cases a pledge will not meet the proposed criteria for recognition until the pledge is received and collection therefore is reasonably assured. Do you agree that a pledge should generally not be recognized until collected (see paragraph 4411.36)? If not, under what scenarios would a pledge meet the recognition criteria prior to collection?**
Yes, agreed. Pledges should not be recorded until collected because pledges are not legally enforceable in Canada.

Contributions

10. **The AcSB proposes that organizations disclose contributions by major source. The Board also proposes that organizations disclose economic dependence when the ongoing operations depend on a significant contribution(s) from another party (see paragraphs 4411.40-41).**

    a. **Do you think disclosing contributions by major source provides decision useful information?**
    No comment. This is consistent with current requirements and practice.

    b. **Do you think disclosing economic dependence when ongoing operations depend on significant contributions from another party provides decision useful information?**
    Yes. This disclosure requirement is consistent with ASPE Section 3841 requirements.

Fund Accounting

11. **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, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule (see paragraph 4400.06A).**

    a. **Do you agree that when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule?**
    No comment as not applicable to the University sector.

    b. **Do you agree with other proposed amendments to Section 4400 to clarify the application of fund accounting presentation?**
    No comment as not applicable to the University sector.

Restricted contributions

12. **The AcSB proposes an amendment to Section 4400 that requires an organization to disclose information about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those restrictions (see paragraphs 4400.22A-22B).**

    a. **Do you agree with the proposed disclosure requirements?**
    Yes.

    b. **Do you think the proposed disclosure will convey decision useful information to financial statement users, related to the assets available to meet its requirements related to restricted contributions?**
    Yes.

Retrospective application

13. **The AcSB proposes that Section 4411 and proposed amendments to Section 4400 be applied retrospectively in accordance with Section 1506, with certain transition provisions.**

    a. **Do you agree that the proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively?**
    Yes.

    b. **Do you agree with the proposed optional transitional relief that an organization is not required to make retrospective adjustments in respect of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest period presented in the financial statements in which the organization first applies proposed Section 4411?**
    No comment as not applicable to the University sector.

Effective date

14. **The AcSB proposes an effective date of fiscal years beginning on or after January 1, 2026, 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?**
    We have no concerns with the proposed effective date.

    b. **Do you think the proposed effective date provides adequate time for NFPO's to adopt the proposed standard and proposed amendments?**
    Yes.

15. Do you think the proposed illustrative examples are useful in demonstrating the application of the proposals?

The proposed illustrative examples are useful. As noted in our response to Question 1, contributions that would not otherwise be considered restricted should only be considered restricted if there is a legal obligation to repay the contribution if funds are not spent within the designated period of time. Therefore, we do not believe the example In Question 2 about an operating grant being restricted is appropriate.

Martha J. Tory FCPA CPA ICD.D

September 27, 2023

Ms. Katherine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario, M5V 3H2

Dear Ms. Christopoulos

Thank you for the opportunity to comment on the Accounting Standards Board (AcSB)'s Contributions – Revenue Recognition and Related Matters Exposure Draft dated March 2023.

My interest in responding is because of my longstanding involvement with organizations that have applied the existing contribution recommendations in the CPA Canada Handbook. Before my retirement from EY, I was responsible for the audits of many NFPOs, ranging from some of the largest organizations in the country to some of the smallest. I have also been involved on the boards and, in particular, finance committees of NFPOs for over 40 years. I currently chair or sit on the finance committees of 8 NFPOs and over the years approximately 20 other organizations.

I have included my responses to your specific questions in the Exposure Draft below:

1. **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 organization and the contributor; and
   (b) the restriction requires the resources be used for a designated purpose and/or within a designated period of time. Do you agree with the proposed definition of a restricted contribution? If not, why not?

   In general, I agree with the proposed definition. However, the requirement that the restriction be explicitly communicated between the organization and the contributor is problematic. Paragraph .06 further defines what support is generally considered appropriate to meet the definition of a restricted contribution – "communicated and typically documented n a contribution agreement or other correspondence between the organization and the contributor".

   There are many situations where a restriction is implicit. For example, an organization may hold a special event where all the material describing the event identifies how the funds will be used. Or the donation will be made as a result of a request for a donor to support a campaign with a specific purpose. In both these situations, there will be no documentation from the donor explicitly indicating the restriction for the donation.

   I believe the definition of a restricted contribution should be based on assessing all available information to determine what the intention is of the donor.

2. **The AcSB proposes that unrestricted contributions be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured (see paragraph 4411.13). Do you agree with the proposed recognition guidance for unrestricted contributions? If not, why not?**

   I agree with the proposed recognition guidance for unrestricted contributions. However, I am not clear why paragraph .14 indicates that an organization typically is entitled to an unrestricted contribution when a formal agreement is reached with the contributor. Except for very large donations, it would be unusual for an organization to have a formal agreement with the contributor related to an unrestricted contribution. I believe the second sentence adequately describes the criteria for recognizing an unrestricted contribution.

3. **The AcSB proposes that an organization recognize revenue from restricted contributions 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 (see paragraph 4411.16)? If not, why not?**

   I agree with proposed recognition guidance for restricted contributions.

   It might be worthwhile for the standard to address the situation where an organization has set aside unrestricted funds for a specific purpose for which they also receive restricted funds. Based on my experience, there are inconsistencies in when restricted contributions are recorded in this situation. For example, a university may budget an amount for student aid and may also get donations restricted for student aid. I have always taken the position that restricted funds need to be recognized once student aid equal to the amount of restricted contributions has been awarded and that the restricted contributions not be deferred because it is assumed that unrestricted funds have been used for that purpose.

4. **Consider the following scenario: An NFPO receives a contribution that is classified as restricted, per the proposed definition. However, the organization meets the restriction and recognizes the revenue in the same reporting period, such that no remaining amount of the contribution is deferred at period end (see Illustrative Example 2 in proposed Section 4411). As proposed in paragraph 4411.44, the organization discloses the changes in the deferred contribution balance for the period, including the receipt of the restricted contribution and subsequent recognition of the contribution in revenue. In this scenario, is the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance relevant to users of financial statements? If not, why not?**

   I do not believe that the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance is relevant to users of the financial statements. The continuity of this balance is no more relevant to a user than the continuity of any other balance sheet number. Based on my experience, this note is often not put together accurately since every restricted contribution isn't included in the continuity.

   There are some potential issues with Example 2. When an organization receives an operating grant, it is generally designed to cover a full fiscal year. There are issues when the fiscal year of the grantor and the organization receiving the grant are not the same. For example, the government might provide an operating grant on April 1 designed to cover operating expenses over the government's fiscal year which is April 1 to March 31. If the organization's fiscal year is January 1 to December 31 and they record the full amount of the grant before the end of December, they have no revenue left for the period of January to March which was part of the tine being funded by the government.

5. **The AcSB proposes that capital asset contributions related to amortizable assets be deferred and recognized as revenue on the same basis as the amortization expense on the related acquired capital assets (see paragraph 4411.21). For indefinite-lived assets, the Board proposes recognizing them as direct increases in net assets (see paragraph 4411.22). (a) Do you agree with the proposed recognition guidance for capital asset contributions related to amortizable assets? If not, why not? (b) Do you agree with the proposed recognition guidance for capital asset contributions related to indefinite-lived assets? If not, why not?**

   I agree with proposed recognition guidance for capital asset contributions for amortizable assets and indefinite-lived assets.

6. **The AcSB proposes that endowment contributions be recognized as direct increases in net assets (see paragraph 4411.26). The Board also proposes that an organization disclose information about how it manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments (see paragraphs 4411.48-49).**
   (a) Do you agree that endowment contributions should be recognized as direct increases in net assets? If not, why not?

   I agree that endowment contributions should be recognized as direct increases in net assets.

   (b) Do you agree with the nature and extent of the proposed additional disclosure requirements for endowments? If not, why not?

   I do not agree with the nature and extent of the proposed additional disclosure requirements for endowments.

   I am not clear how useful disclosure of information about how an organization manages its endowment, including how it monitors the fair value of its endowments and compliance with agreements related to its endowments would provide useful information for readers. Any disclosure is likely to be extremely generic.

   The requirement to disclose quantitative information about the extent to which the fair value of endowments is less than the amount required to be maintained permanently suggests that the writers of the standard don't understand how the amount to be maintained permanently is calculated. There is no requirement to maintain the original value of the endowment. Unless the endowment agreement provides otherwise, trust law, which generally governs the management of endowments, provides that any capital gains and losses are added/deducted to/ from the balance so that it is possible, if there are investment losses, for the balance to fall below the original donation.

7. **The AcSB proposes that net investment income be recognized based on the nature of any restrictions on the investment income (see paragraph 4411.29). Income earned on investments would continue to be measured in accordance with guidance in other standards for the type of invested asset (see paragraph 4411.30).**
   (a) Do you agree with the proposed guidance relating to the recognition of net investment income? If not, why not?

   I agree with the proposed guidance relating to the recognition of net investment income.

(b) Do you agree with the nature and extent of the proposed disclosure requirements relating to net investment income? If not, why not?

I agree with the nature and extent of the proposed disclosure requirements relating to net investment income.

8. **The AcSB proposes continuing to allow organizations to choose to recognize contributions of materials and services that meet the criteria in paragraph 4411.32(b). (a) Do you agree with the proposed criteria in paragraph 4411.32(b)? If not, why not?**

   I agree with the proposed criteria in paragraph 4411.32(b).

   (b) Do you think the proposed criterion in paragraph 4411.32(b)(iii) would allow organizations to recognize contributions of materials and services that are critical to the organization's mandate (provided the fair value can be reasonably estimated and they are used in the normal course of operations)? If not, why not?

   I agree with the proposed criterion in paragraph 4411.329b)(ii).

   (c) Do you agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services (see paragraphs 4411.51-52)? If not, why not?

   I agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services in paragraphs 4411.51-.52.

9. **The AcSB proposes that a pledge or a bequest be recognized only when the recognition criteria in paragraphs 4411.13, 4411.16 or 4411.26 are met for each individual pledge or bequest. This means that in many cases a pledge will not meet the proposed criteria for recognition until the pledge is received and collection therefore is reasonably assured. Do you agree that a pledge should generally not be recognized until collected (see paragraph 4411.36)? If not, under what scenarios would a pledge meet the recognition criteria prior to collection?**

   I agree that a pledge should generally not be recognized until collected. In Canada, pledges are not legally enforceable claims. Bequests are different. They are legally enforceable so that, if there is no reason to believe that a bequest will not be honoured, it is easier for a bequest to meet the recognition criteria for being set up as revenue before it is received .

10. **The AcSB proposes that organizations disclose contributions by major source. The Board also proposes that organizations disclose economic dependence when the ongoing operations depend on a significant contribution(s) from another party (see paragraphs 4411.40-41). (a) Do you think disclosing contributions by major source provides decision-useful information? If not, why not?**

    I agree that disclosing contributions by major source provides decision useful information.

    (b) Do you think disclosing economic dependence when the ongoing operations depend on a significant contribution(s) from another party provides decision-useful information? If not, why not?

    I agree that disclosing economic dependence when the ongoing operations depend on a significant contribution from another party provides decision-useful information.

11. **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, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule (see paragraph 4400.06A).**

    (a) **Do you agree that when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule? If not, why not?**

    I agree that when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule

    (b) **Do you agree with the other proposed amendments to Section 4400 to clarify the application of fund accounting presentation?**

    I agree with the other proposed amendments to Section 4400 to clarify the application of fund accounting presentation

12. **The AcSB proposes an amendment to Section 4400 that requires an organization to disclose information about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those restrictions (see paragraphs 4400.22A-22B).**

    (a) Do you agree with the proposed disclosure requirements (see paragraphs 4400.22A-22B)? If not, why not?

    I do not agree with the proposal to require an organization to disclose information about its requirements related to restricted contributions, including endowment contributions. It is not clear to me what the standard is suggesting be disclosed. Organizations often have many different types of restricted contributions and endowments. It would be impossible to provide any useful information about the restrictions since they are potentially very diverse. Any disclosure would have to be very generic and, I expect, not very useful information for a reader.

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

    I am not clear how useful it is for an organization to explicitly disclose the assets available to meet the restrictions. The availability of assets should be obvious from the balance sheet.

    There is one issue that I think could be addressed in the standard and would deal in part with what is being proposed. Some organizations classify cash and any short-term investments as current assets even though they are held for endowment net assets or deferred contributions classified as long-term liabilities. I believe that assets held for credit balances included in long term liabilities should be classified as long-term assets. Classifying amounts that are held for credit balances not included in current liabilities provides a misleading presentation of the organization's working capital and liquidity. Requiring that assets held for restricted credit balances be classified consistently with the credit balance would provide readers with an understanding of the assets available to meet the restrictions.

13. **The AcSB proposes that Section 4411 and proposed amendments to Section 4400 be applied retrospectively in accordance with Section 1506, with certain transition provisions. (a) Do you agree that proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively? If not, what transition approach would you recommend and why?**

    I agree with retrospective application.

    (b) Do you agree with the proposed optional transitional relief that an organization is not required to make retrospective adjustments in respect of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest period presented in the financial statements in which the organization first applies proposed Section 4411 (see paragraphs 4411.55-.56). If not, why not?

    I agree with the proposed optional transitional relief.

14. **The AcSB proposes an effective date of fiscal years beginning on or after January 1, 2026, 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?

    I agree with the proposed effective date.

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

    I agree that the proposed illustrative examples are useful in demonstrating the application of the proposals.

If you have any questions, please do not hesitate to get in touch with me.

Yours sincerely,

Martha Tory

Martha J. Tory FCPA CA ICD.D

Pennylegion | Chung LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

September 21, 2023

Ms. Katherine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario, M5V 3H2

Dear Ms. Christopoulos

Thank you for the opportunity to comment on the Accounting Standards Board (AcSB)'s Contributions – Revenue Recognition and Related Matters Exposure Draft dated March 2023. We have included our responses to your specific questions in the Exposure Draft below:

1. **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 organization and the contributor; and
   (b) the restriction requires the resources be used for a designated purpose and/or within a designated period of time.
   Do you agree with the proposed definition of a restricted contribution? If not, why not?

   We agree with the proposed definition of a restricted contribution, however we have concerns about the proposed emphasis on explicit communication between the organization and the contributor. In our experience, donors may have implicit and explicit communication with the organization regarding the restricted purpose of their contribution. For instance, an organization may have a run to fundraise for cancer research. There is no explicit written agreement with the donor and the organization as to how the funds should be spent, however, there is an implicit understanding that the donated funds will be used for cancer research. We believe that all communication, implicit or explicit, should be part of the fact pattern.

2. **The AcSB proposes that unrestricted contributions be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured (see paragraph 4411.13). Do you agree with the proposed recognition guidance for unrestricted contributions? If not, why not?**

   We agree with proposed recognition guidance for unrestricted contributions.

3. **The AcSB proposes that an organization recognize revenue from restricted contributions 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 (see paragraph 4411.16)? If not, why not?**

   We agree with proposed recognition guidance for restricted contributions.

4. **Consider the following scenario: An NFPO receives a contribution that is classified as restricted, per the proposed definition. However, the organization meets the restriction and recognizes the revenue in the same reporting period, such that no remaining amount of the contribution is deferred at period end (see Illustrative Example 2 in proposed Section 4411). As proposed in paragraph 4411.44, the organization discloses the changes in the deferred contribution balance for the period, including the receipt of the restricted contribution and subsequent recognition of the contribution in revenue. In this scenario, is the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance relevant to users of financial statements? If not, why not?**

   All of our clients present a deferred contribution continuity schedule highlighting the restricted contributions received in the year and the amount of revenue recognized in the year. We have no issues with the proposed disclosure requirement as it currently stands.

   Example 2 presents an example of a time restricted contribution. Based on the fact pattern provided in example 2, we would have expected the operating grant to be recognized on a straight-line basis for the calendar period. If the organization ceased operations in August, the funder would likely expect a portion of the operating grant to be returned because the organization was not in operations between September and December. However, if the operating grant was based on a budget of discrete operating expenses e.g. rent and administrative salaries, then recognizing the grant as the eligible expenses incur is reasonable.

5. **The AcSB proposes that capital asset contributions related to amortizable assets be deferred and recognized as revenue on the same basis as the amortization expense on the related acquired capital assets (see paragraph 4411.21). For indefinite-lived assets, the Board proposes recognizing them as direct increases in net assets (see paragraph 4411.22). (a) Do you agree with the proposed recognition guidance for capital asset contributions related to amortizable assets? If not, why not? (b) Do you agree with the proposed recognition guidance for capital asset contributions related to indefinite-lived assets? If not, why not?**

   We agree with proposed recognition guidance for capital asset contributions for amortizable assets and indefinite-lived assets.

6. **The AcSB proposes that endowment contributions be recognized as direct increases in net assets (see paragraph 4411.26). The Board also proposes that an organization disclose information about how it manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments (see paragraphs 4411.48-49).**
   (a) Do you agree that endowment contributions should be recognized as direct increases in net assets? If not, why not?

   We agree that endowment contributions should be recognized as direct increases in net assets.

   (b) Do you agree with the nature and extent of the proposed additional disclosure requirements for endowments? If not, why not?

   We believe that the proposed additional disclosure requirements only relate to externally restricted endowments and not internally restricted endowments.

   With respect to the disclosure about how an organization manages its endowments, we believe that the phrasing should be how an organization manages the underlying assets representing an endowment.

With respect to monitoring the fair value of an endowment, this would only apply to endowments with underlying assets that are subsequently measured at fair value. For instance, financial assets may be valued at amortized cost and not fair value.

With respect to compliance with agreements related to endowments, we disagree that this should be a disclosure requirement. The proposed wording does not differentiate compliance related to just the financial terms of the agreement or the entire agreement. Maintaining compliance with the endowment agreements is an internal control issue. An endowment contribution agreement is no different than a restricted contribution agreement or a sales agreement, neither of which require a similar disclosure of compliance. If the suggestion that compliance with endowment agreement is part of the organization's monitoring practice then we believe that this will lead to a generic disclosure that will not be useful information.

It would be a more useful disclosure to state whether or not the reported value of the underlying assets is less than the endowment balance, for instance, if the organization has used assets to pay for operating expenses and therefore the endowment balance (credit) exceeds the value of the underlying assets (debit).

7. **The AcSB proposes that net investment income be recognized based on the nature of any restrictions on the investment income (see paragraph 4411.29). Income earned on investments would continue to be measured in accordance with guidance in other standards for the type of invested asset (see paragraph 4411.30).**
   (a) Do you agree with the proposed guidance relating to the recognition of net investment income? If not, why not?

   We disagree with the statement in paragraph 4411.02 which states that net investment income includes investment management fees. This proposed definition is not aligned with paragraph 4400.37 which states that revenue and expenses should be recognized and presented at their gross amounts when an organization is acting as a principal in transactions.

   We agree with paragraph 4411.29.

   (b) Do you agree with the nature and extent of the proposed disclosure requirements relating to net investment income? If not, why not?

   We agree with the nature and extent of the proposed disclosure requirements relating to net investment income.

8. **The AcSB proposes continuing to allow organizations to choose to recognize contributions of materials and services that meet the criteria in paragraph 4411.32(b). (a) Do you agree with the proposed criteria in paragraph 4411.32(b)? If not, why not?**

   It is unclear what the distinction is between paragraph 4411.32 (b) (ii) and 4411.32 (b) (iii).

   (b) Do you think the proposed criterion in paragraph 4411.32(b)(iii) would allow organizations to recognize contributions of materials and services that are critical to the organization's mandate (provided the fair value can be reasonably estimated and they are used in the normal course of operations)? If not, why not?

   It is unclear how the addition of paragraph 4411.32(b)(iii) enhances the current standard.

   (c) Do you agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services (see paragraphs 4411.51-52)? If not, why not?

We disagree with the proposal to include contributed materials and services on the income statement because will overstate revenue, which may trigger an issue with revenue-based exemption rules such as the HST gross revenue test, the audit thresholds of the Canada Not-for-profit Corporations and paragraph 4433.03 which allows organizations with revenue of less than $500,000 be exempt from capitalization. We believe that a note disclosure is sufficient.

9. **The AcSB proposes that a pledge or a bequest be recognized only when the recognition criteria in paragraphs 4411.13, 4411.16 or 4411.26 are met for each individual pledge or bequest. This means that in many cases a pledge will not meet the proposed criteria for recognition until the pledge is received and collection therefore is reasonably assured. Do you agree that a pledge should generally not be recognized until collected (see paragraph 4411.36)? If not, under what scenarios would a pledge meet the recognition criteria prior to collection?**

   We agree with the proposed recognition criteria for pledges and bequests.

10. **The AcSB proposes that organizations disclose contributions by major source. The Board also proposes that organizations disclose economic dependence when the ongoing operations depend on a significant contribution(s) from another party (see paragraphs 4411.40-41). (a) Do you think disclosing contributions by major source provides decision-useful information? If not, why not?**

    Yes we agree that the current requirement to disclose contributions by major source is useful decision making information.

    (b) Do you think disclosing economic dependence when the ongoing operations depend on a significant contribution(s) from another party provides decision-useful information? If not, why not?

    We disagree with the basis of using the dollar value of a contribution source as the only determination of economic dependence. For instance, in example 8, a bequest has been determined as a source of economic dependence. This is misleading to the reader because the bequest is not a recurring source of funding and therefore the organization does not have economic dependence on this source of funding. Also, there is a different risk profile between one significant individual donation versus a high number of low dollar valued individual donations of an equal total amount or significant government funding from one department or several departments. We believe that the disclosure of contributions by source is sufficient for the reader to determine economic dependence based on a percentage of total revenue, particularly since the table demonstrates a history of funding. If there is economic dependence because there is a single source of funding that is not transparent in the note, then professional judgment should be used.
    We have also experienced significant donors who wish to remain anonymous. We believe it would be inappropriate to disclose information related to an anonymous donor in the financial statements.

11. **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, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule (see paragraph 4400.06A).**

    (a) **Do you agree that when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule? If not, why not?**

        We agree that when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule

(b) **Do you agree with the other proposed amendments to Section 4400 to clarify the application of fund accounting presentation?**

We agree with the other proposed amendments to Section 4400 to clarify the application of fund accounting presentation

12. The AcSB proposes an amendment to Section 4400 that requires an organization to disclose information about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those restrictions (see paragraphs 4400.22A-22B).

(a) Do you agree with the proposed disclosure requirements (see paragraphs 4400.22A-22B)? If not, why not?

We believe the proposed disclosure requirements to be extremely onerous for an organization with several restricted contributions and multiple program offerings, for both the current and comparative year.

Paragraph 4411.44 (b) states that the organization shall disclose the amount of deferred contributions attributable to each major category of external restrictions with a description of the restrictions. Deferred contributions are not grouped by category of external restriction but rather funder in the accounting records. It would be onerous to disclose deferred contributions by purpose.

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

An example of the expected quantitative and qualitative information to meet the disclosure requirement in paragraph 4400.22A would be helpful.

13. The AcSB proposes that Section 4411 and proposed amendments to Section 4400 be applied retrospectively in accordance with Section 1506, with certain transition provisions. (a) Do you agree that proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively? If not, what transition approach would you recommend and why?

We agree with retrospective application.

(b) Do you agree with the proposed optional transitional relief that an organization is not required to make retrospective adjustments in respect of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest period presented in the financial statements in which the organization first applies proposed Section 4411 (see paragraphs 4411.55-.56). If not, why not?

We agree with the proposed optional transitional relief, however believe that the choice of retrospective and prospective application should also apply to organizations transitioning from recording pledge receivables.

14. The AcSB proposes an effective date of fiscal years beginning on or after January 1, 2026, 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?

We agree with the proposed effective date.

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

We believe that the examples provided should be catered to small and mid-sized not-for-profits, rather than large universities and hospitals that represent a small percentage of the sector and often are not reporting under Part III standards. The examples provided should be less complex. For instance, the fact pattern in Example 6 is overly complex to illustrate the point of deferring unspent government funding.

Another instance is Example 7, which illustrates the transition as well as the amortization of a deferred capital contribution. It would be clearer if these were presented as two separate examples.

Other comments

1) Paragraph 4411.11 and 4411.12 does not differentiate matching arrangements that are based on matching an externally restricted endowment versus a restricted contribution. The accounting treatment for the matched portion funded by internal funds would be treated differently.

Please contact Stephanie Chung at stephanie@pcaudit.ca or 416 323-1335 to discuss any comments further.

Response to Exposure Draft – Proposed Accounting Standards for Not-for-Profit Organizations, Contributions – Revenue Recognition and Related Matters – March 2023
Submitted by James Herzog, CPA, CA on September 27, 2023

Preamble

I am a sole proprietor of a firm that provides assurance services exclusively to about forty non-profit organizations that all use Part III of the CPA Handbook. Many of these organizations use the Restricted Fund Method quite extensively, and therefore will be significantly affected by the proposed changes to the standards. I am in support of the overall objectives of the proposed changes.

I have included the entire text of the questions from the exposure draft below in *italics*. My answers are in plain text after each question. Recommended changes are underlined, and I have summarized my recommended changes below for the convenience of readers.

I would like to express my thanks to the AcSB for undertaking this project, and for the care given in preparing this exposure draft.

Summary of Recommended Changes

1. Q#4: Total contributions received in the period should be disclosed somewhere in the financial statements. Doing so provides information many users, including CRA, would consider vital.
2. Q#5: Consider raising the capital asset exemption limit in Paragraphs 4434.03 and 4434.02 from $500k to a higher figure.
3. Q#7: Earnings from investments should be unrestricted, regardless of any restrictions on contributions that gave rise to the investments.
4. Q#11(b): Consider replacing the term "should" with "shall" throughout the new guidance.
5. Q#11(b): Consider removing or revising Paragraph 4400.19(c) as it may not be relevant. If it is relevant, consider adding an example.

Detailed Discussion

1. *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 organization and the contributor; and
   (b) the restriction requires the resources be used for a designated purpose and/or within a designated period of time.
   Do you agree with the proposed definition of a restricted contribution? If not, why not?

   I agree with the proposed definition of a restricted contribution. The term "explicitly" with the later clarification that the restriction be documented (not just verbal) provides an enhanced degree of clarity not found in the current standard. This is a welcome change.

2. *The AcSB proposes that unrestricted contributions be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured (see paragraph 4411.13). Do you agree with the proposed recognition guidance for unrestricted contributions? If not, why not?*

I agree with the proposed definition.

3. *The AcSB proposes that an organization recognize revenue from restricted contributions 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 (see paragraph 4411.16)? If not, why not?*

   Given the objective of the AcSB to make NPO financial statements more comparable, I agree with the proposed guidance for restricted contributions.

4. *Consider the following scenario: An NFPO receives a contribution that is classified as restricted, per the proposed definition. However, the organization meets the restriction and recognizes the revenue in the same reporting period, such that no remaining amount of the contribution is deferred at period end (see Illustrative Example 2 in proposed Section 4411). As proposed in paragraph 4411.44, the organization discloses the changes in the deferred contribution balance for the period, including the receipt of the restricted contribution and subsequent recognition of the contribution in revenue. In this scenario, is the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance relevant to users of financial statements? If not, why not?*

   Yes, the initial classification of the contribution as restricted is relevant to users of the financial statements, as is disclosure of the changes in the deferred contribution balance is relevant in understanding how much was received in the form of restricted contributions and how much of those restricted contributions were used.

   However, the proposed guidance does not appear to include a requirement or recommendation that organizations disclose the <u>total contributions received in the period</u>. The various methods recommended in the standard for recording restricted contributions would make it very difficult to calculate the total restricted contributions received in the year. Many users will find this omission to be a significant deficiency in the standards. Therefore, <u>I believe it is vital that the guidance be amended to include a requirement, or at least a recommendation, that total contributions received in the year, regardless of any restrictions, be disclosed in the financial statements, whether on the statement of operations (with adjustments for deferrals and endowments presented separately), on the cash flow statement (using the direct method), or in the notes to the financial statements.</u> This recommendation is consistent with the proposed disclosure requirements for investment income (see paragraph 4411.50(d)).

5. *The AcSB proposes that capital asset contributions related to amortizable assets be deferred and recognized as revenue on the same basis as the amortization expense on the related acquired capital assets (see paragraph 4411.21). For indefinite-lived assets, the Board proposes recognizing them as direct increases in net assets (see paragraph 4411.22).*
   (a) *Do you agree with the proposed recognition guidance for capital asset contributions related to amortizable assets? If not, why not?*

      I agree with the proposed recognition guidance for capital asset contributions related to amortizable assets, as long as the small organization exemptions at paragraph 4433.03 continue to be available.

Given the rate of inflation in recent years, it may be advisable for the AcSB to consider revisiting the $500,000 exemption limit at paragraphs 4433.03 and 4434.02 in the near future to determine whether it should be increased to $750,000 or $1,000,000.

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

I agree with the proposed recognition guidance for capital asset contributions related to indefinite-lived assets. Note: the reporting of contributions toward indefinite-lived assets as direct increases in net assets is another example of why I believe disclosure of total contributions received in the year requires special disclosure as I mentioned above in Question 4.

6. *The AcSB proposes that endowment contributions be recognized as direct increases in net assets (see paragraph 4411.26). The Board also proposes that an organization disclose information about how it manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments (see paragraphs 4411.48-49).*

(a) *Do you agree that endowment contributions should be recognized as direct increases in net assets? If not, why not?*

I agree that endowment contributions should be recognized as direct increases in net assets. This is consistent with how they were treated under the former deferral method, and thus would be readily understood by experienced financial statement users.

(b) *Do you agree with the nature and extent of the proposed additional disclosure requirements for endowments? If not, why not?*

I agree with the disclosure proposed in paragraph 4411.49. It is important for financial statement users to know whether the value of endowment assets is less than the amount required to be maintained permanently.

7. *The AcSB proposes that net investment income be recognized based on the nature of any restrictions on the investment income (see paragraph 4411.29). Income earned on investments would continue to be measured in accordance with guidance in other standards for the type of invested asset (see paragraph 4411.30).*

(a) *Do you agree with the proposed guidance relating to the recognition of net investment income? If not, why not?*

I do not agree with the proposed guidance in paragraphs 4411.29(b) and 4411.29(c). By law, an organization's obligation regarding endowments and other restricted contributions is limited to the original value of the contribution (unless otherwise stipulated by the donor). Furthermore, any gains or losses on investments made from restricted contributions is the result of investment decisions made by the recipient, not the donor, and therefore there is no reason to subject those earnings to external restriction. Similarly, if losses are incurred, the organization is ultimately obligated to compensate for those losses from unrestricted assets. It follows, then, that earnings from investments should also be unrestricted, unless the donor has explicitly communicated otherwise.

(b) *Do you agree with the nature and extent of the proposed disclosure requirements relating to net investment income? If not, why not?*

If the AcSB chooses to require that income from investments made from restricted contributions are restricted as currently proposed in paragraph 4411.29, then I agree with the disclosure requirements in paragraph 4411.50, as this would enable financial statement preparers and users to understand how restricted assets and obligations reconcile to one another. If income from investments is treated as unrestricted as I recommended above, paragraph 4411.50 should be amended or removed.

8. *The AcSB proposes continuing to allow organizations to choose to recognize contributions of materials and services that meet the criteria in paragraph 4411.32(b).*

(a) *Do you agree with the proposed criteria in paragraph 4411.32(b)? If not, why not?*

I agree with the proposed criteria in paragraph 4411.32(b), and appreciate how much clearer it is compared with the existing paragraph 4410.16.

(b) *Do you think the proposed criterion in paragraph 4411.32(b)(iii) would allow organizations to recognize contributions of materials and services that are critical to the organization's mandate (provided the fair value can be reasonably estimated and they are used in the normal course of operations)? If not, why not?*

I do believe the proposed criterion in paragraph 4411.32(b)(iii) would allow organizations to recognize contributions of materials and services that are critical to the organizations mandate. Such materials and services would be in the normal course of operations, and if they are not provided for free, the only other conceivable option would be to purchase them.

(c) *Do you agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services (see paragraphs 4411.51-52)? If not, why not?*

I agree with the enhanced disclosures required by paragraph 4411.52, as information regarding the classes of contributed materials and services is of relevance to users of the financial statements, regardless of whether they are recognized in the statements or not.

9. *The AcSB proposes that a pledge or a bequest be recognized only when the recognition criteria in paragraphs 4411.13, 4411.16 or 4411.26 are met for each individual pledge or bequest. This means that in many cases a pledge will not meet the proposed criteria for recognition until the pledge is received and collection therefore is reasonably assured. Do you agree that a pledge should generally not be recognized until collected (see paragraph 4411.36)? If not, under what scenarios would a pledge meet the recognition criteria prior to collection?*

I agree with the proposed guidance for pledges in paragraph 4411.36. Pledges, if formalized, bear no material difference from a "formal agreement" as described in paragraph 4411.14. I therefore consider it appropriate to rely on the guidance in paragraphs 4411.14, 4411.16, and 4411.26 regarding pledges.

10. *The AcSB proposes that organizations disclose contributions by major source. The Board also proposes that organizations disclose economic dependence when the ongoing operations depend on a significant contribution(s) from another party (see paragraphs 4411.40-41).*
    (a) *Do you think disclosing contributions by major source provides decision-useful information? If not, why not?*

    I agree that disclosing contributions by major source as proposed by paragraph 4411.40 provides decision-useful information.

    (b) *Do you think disclosing economic dependence when the ongoing operations depend on a significant contribution(s) from another party provides decision-useful information? If not, why not?*

    I agree that disclosing economic dependence when relevant provides decision useful information. While this disclosure is already required by 3841.02, the clarity given by adding it at paragraph 4411.41 is helpful.

11. *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, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule (see paragraph 4400.06A).*
    (a) *Do you agree that when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule? If not, why not?*

    I do agree that the comparative information should be presented somewhere in the financial statements. To my knowledge, the current guidance is not explicit enough about this. Such information would be useful to financial statement users, and it can be prepared in a cost-effective manner.

    (b) *Do you agree with the other proposed amendments to Section 4400 to clarify the application of fund accounting presentation?*

    Yes, in general. The use of the term "fund accounting presentation" is effective and elegant, and I see no significant issues with the rest of the changes to Section 4400. Some observations / questions for the AcSB to consider:
    i. The term "should" is used in many places throughout Section 4400. To be consistent with the rest of CPA Handbook – Accounting, <u>I recommend replacing the term "should" with "shall" where appropriate throughout Section 4400</u>. Paragraphs 4411.15, .18, and .39 might also benefit from a similar change.
    ii. Paragraph 4400.19(c) refers to "other externally restricted net assets." Under the proposed guidance, I am unable to think of a situation where this would exist, since unused externally restricted contributions are either presented as deferred revenue (4400.19(f)) or as endowments (4400.19(b)), and used externally restricted contributions would be brought into net income. <u>I therefore believe that paragraph 4400.19(c) should be removed. If it IS relevant and should be retained, I recommend</u>

that it be changed to "other externally restricted net assets, such as X" where "X" is an example. Also, if it is relevant, Paragraph 4400.41 should also include "other externally restricted net assets," as it is not mentioned there.

iii. Paragraph 4400.19(e) would be more elegant if it were separated into two paragraphs as follows:
   (f) deferred contributions; and
   (g) deferred capital contributions.

   A re-organization of Paragraph 19 into balance sheet order (i.e. putting deferred contributions before the components of net assets) would be even more elegant.

12. *The AcSB proposes an amendment to Section 4400 that requires an organization to disclose information about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those restrictions (see paragraphs 4400.22A-22B).*
    (a) Do you agree with the proposed disclosure requirements (see paragraphs 4400.22A-22B)? If not, why not?

    I agree with the proposed disclosure requirements in paragraphs 4400.22A-22B, as long as the term "judgment" is retained in paragraph 4400.22B. While the proposed disclosure will convey useful information to financial statement users, the disclosure must be flexible and scalable given the great variety in the size and nature of not-for-profit organizations.

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

    See above.

13. *The AcSB proposes that Section 4411 and proposed amendments to Section 4400 be applied retrospectively in accordance with Section 1506, with certain transition provisions.*
    (a) Do you agree that proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively? If not, what transition approach would you recommend and why?

    Assuming that sufficient time is available for the transition (see below), I agree that the proposed changes should be applied retrospectively, since any other approach is unlikely to be as consistent and understantable.

    (b) Do you agree with the proposed optional transitional relief that an organization is not required to make retrospective adjustments in respect of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest period presented in the financial statements in which the organization first applies proposed Section 4411 (see paragraphs 4411.55-.56). If not, why not?

    I agree with the proposed optional transitional relief. It would be prohibitively expensive for organizations to go back and recalculate deferred capital contributions from the beginning of time. This relief will be very important in ensuring a cost-effective transition to the new standard.

14. *The AcSB proposes an effective date of fiscal years beginning on or after January 1, 2026, 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?*

    Because of the complexity involved in transitioning to the new standard, especially for organizations that received restricted capital contributions, a transition window of at least two years will be needed. Since the proposed changes extend back to the beginning of the earliest comparative period presented, an effective date of January 1, 2026 means that organizations will need to start preparing for the new standard on January 1, 2024. If the AcSB is able to finalize and publish the new guidance by early 2024, the proposed effective date should be sufficient. <u>If there is a delay in releasing the new standard for any reason, an effective date of January 1, 2027 or later would be needed.</u>

    (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?*

    See my comments above.

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

    I did not have time to review the proposed illustrative examples in detail, and so I cannot comment on specifics. However, I do appreciate that there is a variety of illustrative examples, and I am sure that many practitioners, including myself, will find them useful.

September 27, 2023

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Re: Response Letter on Contributions – Revenue Recognition and Related Matters Exposure Draft

This letter is in response to the Accounting Standards Board (AcSB) Exposure Draft "Proposed Accounting Standards for Not-for-Profit Organizations (NFPO), Contributions – Revenue Recognition and Related Matters."

Noted in the Exposure Draft materials, the purpose of this proposed guidance is to reduce complexity and improve comparability of NFPO financial statements thereby providing more decision useful information to users.

As a Community Foundation, we believe Community Foundations occupy a particular space in the not-for-profit sector. We appreciate it is not practicable for the accounting standards to satisfy all needs and perspectives, however, we believe it is important that the proposed accounting standards reflect an understanding of the nuances of how Community Foundations function and the challenges we face. We are writing from this perspective, distinct from private or other public foundations.

While we appreciate the goal of reducing complexity and improving comparability, we do not believe that the new standard, as proposed, will provide more useful information to external users.

Comparability
The not-for-profit sector broadly encompasses two very different types of organizations: fundraising organizations and program service delivery organizations. The two distinct types of organizations have very different models, structures, and financial statement users. The current revenue recognition methods for contributions, being the restricted fund method and deferral method, are highly effective at reflecting the distinct structural differences and differing needs of financial statement users of these different types of organizations.

At Vancouver Foundation, at our core, we are a grant maker. In effect, we are the fundraising organization for the program service delivery organizations. We do so primarily by generating income from our endowment funds, most of which are permanent, but permanency does not define an endowment for us. In the Arthritis Society vs Vancouver Foundation, the Supreme Court of British Columbia accepted that “the most common definition of the term "endowment" is the provision of a fund which is intended to generate fixed revenue for the support of a charity”.

Whether at Vancouver Foundation or at one of the over 200 Canadian community foundations, donors’ expression of their philanthropy is complex and is becoming increasingly more complex with the changing nature of our society. As such our funds are becoming more flexible and may be established initially with the intent to generate income for a lasting impact but could shift to being paid down after a donor’s passing. This is one example of many that makes it difficult to determine the permanency of a fund given the flexibility of our fund offerings. The restricted fund method allows us to navigate this complexity by accounting for these transactions similarly whether within a restricted fund or endowment fund.

Under the proposed guidance, accounting for these in two distinct ways, with endowment contributions as direct increases to net assets and restricted contributions deferred and recognized into revenue over time, introduces a level of complexity and lack of comparability even though the intent of the contribution is similar, the long-term support of community.

Our users who are primarily donors, Community Foundations, and other charities and not-for-profits will lose the transparency of the face of our financial statements. Key information for our users is the amount of contributions received in all shapes and sizes in the year donated. Under the proposed guidance, users would need to be directed to deferred revenue, net assets and note disclosures to piece this information together. Comparability within our own organization year over year will be difficult let alone across fundraising organizations.

Complexity

Another stated goal of the proposed guidance is to reduce complexity. Vancouver Foundation believes the proposed guidance fails to reflect the complexity of our Community Foundation and would put an undue burden on our operations as it does not appear to consider the volume of funds that we manage. Vancouver Foundation currently holds over 3,000 funds with unique restrictions. We are able to navigate this complexity because of the ability to make an accounting policy choice. Removing that choice will add layers of complexity by shifting users to multiple areas of the financials to understand our contributions and requiring users to have a more sophisticated level of financial literacy. This imposes a barrier to the understandability of our financial statements.

Basis for Conclusion

In the Exposure Draft materials, the AcSB has shared their basis for conclusions. We would like to share our perspective on some of the items noted.

Point 1 - “[I]t is now more common for NFPOs to receive contributions that have specific restrictions or requirements, and contribution agreements are becoming increasingly complex.” While we agree with this point, we also believe the restricted fund method allows us to navigate this complexity. As a Community Foundation, we have over 3,000 restricted funds. It is not uncommon for organizations like us to have hundreds if not thousands of funds. The restricted fund method allows us to manage all the intricate restrictions placed upon us by a deed of gift without undue administrative burden. These are not service delivery type restrictions that the deferral method caters to but rather donor restrictions that influence how we grant out to community.

Point 3 - "Many respondents…indicated that this accounting policy choice works well and accommodates the diverse needs of NFPOs and their financial statement users" but AcSB has concluded otherwise. If we are centering users and this was indicated by many, we would appreciate further clarity on AcSB's conclusion.

Point 4 - "AcSB did not identify any other jurisdictions that provide NFPOs with an accounting policy choice for the recognition of revenue from restricted contributions." We acknowledge international accounting standards is not our area of expertise, however, we would like to highlight that our peers in the United States who follow US GAAP generally recognize revenue in two columns being with and without donor restrictions and split net assets into these same categories. They do not appear to have deferred revenue, nor do they preclude endowment contributions from being recognized into revenue. From our perspective, the financial policies and financial statements read very similar to the restricted fund method of accounting for contributions.

Points 11, 12 and 37 - "Board weighs the anticipated costs and benefits of its proposals in general terms to assess whether they are justified on cost/benefit grounds." As a fundraising organization we foresee considerable cost to implement a system that is capable of ongoing tracking and increased staff time to account for such transactions. In our opinion, the costs do not appear to outweigh the benefits. The AcSB acknowledges that this will be a "change in practice for many organizations," "this change will also result in added costs associated with the ongoing tracking of deferred contributions" and yet "the proposed definition of a 'restricted contribution' will likely result in classification of many contributions as restricted on initial recognition" and "in many cases, the restrictions will be met soon after the contribution is received and revenue therefore would be recognized almost immediately." It is unclear to us why removing a method used by many that specifically simplifies this process and eliminates this added step is beneficial for a sector that is general understaffed and underfunded. In our opinion, the AcSB has underestimated the cost versus benefit constraint for two very different types of entities and whether different requirements should apply as per paragraph 1001.13.

Point 66, Recognition of endowment contributions directly in revenue "create[s] significant volatility" and "can overstate the excess of revenue over expenditures in the year the endowment is received, hiding operating deficits." The restricted fund method coupled with fund presentation specifically requires a general or operating fund to be presented separate from an endowment fund, as such, it is unclear how this conclusion can be made as they are reportedly distinctly separate from one another. It was also noted "there is a lack of control" over endowment contributions and it does "not represent the substance of the transaction." We believe classifying endowment contributions as direct increases to net assets fundamentally undermines the substance. An endowment contribution is an inflow of resources, it is a gift, and although there is a specialized restricted on it, we have sufficient control over the funds that satisfy the legal and accounting definition of control. It is by definition revenue and belongs on the face of the financials as relevant information for our users.

It does not appear that consideration was given to the implications for registered charity information returns. Currently, our T3010 and financial statements are comparable; our tax receipted and received revenue as disclosed on the T3010 reconciles to contributions revenue per the financial statements as, under the restricted fund method, restricted revenue is recognized when received including endowment contributions. By removing this choice, the AcSB will introduce an internal administrative task to reconcile records for two distinct purposes while externally, our donors will be left comparing two documents that are materially different.

Balancing Needs

We believe that reducing complexity and improving comparability could be better achieved through additional financial statement presentation and note disclosure requirements as opposed to removing a fundamental accounting policy choice.

The new disclosure requirements recommended for endowments are welcomed additions that will provide useful information to the financial statement users. To further add transparency, we suggest the AcSB also propose organizations disclose their spending policy as part of the overall disclosure requirements in paragraph 4411.48-49. This will allow users to better understand the relationship between the endowment and investment income. We believe the improved disclosure guidance balances the principals of understandability and relevance to the users, per paragraphs 1001.15-17, without the need to fundamentally shift endowment contributions and related net investment income from revenue to net assets.

Net assets, by definition, are the residual interest in the assets after deducting liabilities. It is intended to provide information about the resources available to the organization in carrying out its purpose or service. In our opinion, the current guidance is very limited with a focus on the legal form of the assets (unrestricted, restricted, and endowed). We would suggest guidance that focuses on the substance vs the form. Disclosure of net assets on the face or notes by major category of external restrictions and descriptions of those restrictions would provide more useful information to our readers. The AcSB has suggested this for deferred contributions (paragraphs 4411.44-45), however, we would recommend this guidance be extended to net assets while still allowing the restricted fund method.

Conclusion

Vancouver Foundation believes that reducing complexity and improving comparability is an important goal. We are concerned the guidance applies one standard to two distinct types of organizations, serving very different functions within the not-for-profit sector with different user information needs. Of particular concern are the proposed changes to remove the restricted fund method of accounting for contributions and the proposed treatment of endowment contributions as increases to net assets. We believe the proposed standards place an undue cost and time burden on fundraising organizations, like Community Foundations. The cost aspect of the benefit vs cost analysis has been significantly underestimated. It is our opinion, the proposed changes will introduce complexity for our users imposing a barrier to the understandability of our financial statements.

Sincerely,

Chris Little
VP, Corporate Services

Balraj Kalkat
Director, Finance

September 27, 2023

Katharine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
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Re: Response Letter on Contributions – Revenue Recognition and Related Matters Exposure Draft

This letter is in response to the Accounting Standards Board (AcSB) Exposure Draft "Proposed Accounting Standards for Not-for-Profit Organizations (NFPO), Contributions – Revenue Recognition and Related Matters."

Community Foundations of Canada (CFC) is the national leadership organization for over 200 local Community Foundations. Together with Community Foundations across the country and a network of partners, CFC helps drive local solutions for national change on the issues that matter most to communities.

Canada's Community Foundations reach over 90% of Canadian communities and steward more than $7 billion in collective assets. Our network activates local leadership, subject-matter expertise, community data, and financial capacity to strengthen community well-being in rural communities and urban centers alike, from coast to coast to coast.

As people in Canada have navigated concurrent health, economic, social and environmental crises, community foundations and partners from across sectors—including government—have leveraged opportunities to take actions that set the stage not only for recovery but for long-term, sustainable change. We have been able to innovate and fund organizations that have historically been excluded.

We have placed equity at the heart of our efforts. We have responded to pressing issues and strengthened community resilience. We have championed a new philanthropy that shifts power, shares resources, invests for impact and mobilizes for good.

We are doing this in the midst of underinvestment in critical infrastructure, a decreasing donor base, and a lack of sector-specific leadership in government. This reality risks relegating historic cross-sector investments to bandaid solutions, undermining potential social and economic benefits and negatively impacting the millions of Canadians who rely on critical non-profit and charitable sector services. This sector contributes $192 billion in economic activity annually, Our understanding of the proposed Exposure Draft materials is to reduce complexity and improve the comparability of NFPO financial statements, thereby providing more decision-useful information to users.

Community Foundations occupy a particular space in the not-for-profit sector. Their mandate is to facilitate impactful community development through strategic philanthropic efforts, and their financial statements serve as more than mere compliance documents; they are instruments of trust, accountability, and vision. Our overall stance is that only minimal changes would be required to achieve the desired outcome. We believe that the currently proposed changes will complicate the financials for Community Foundations and their stakeholders while drastically increasing the administration and accounting complexities that will only offer minimal benefits to the reader of the financial statements.

We appreciate it is not practicable for the accounting standards to satisfy all needs and perspectives; however, it is important that the proposed accounting standards reflect an understanding of the nuances of how Community Foundations function and the challenges they face. We are writing from this perspective, distinct from private or other public foundations.

While we appreciate the goal of reducing complexity and improving comparability, we believe that the new standard, as proposed, will provide less useful information to external users.

The not-for-profit sector broadly encompasses two very different types of organizations: fundraising organizations, and program service delivery organizations. The two distinct types of organizations have very different models, structures, and financial statement users. The current revenue recognition methods for contributions, the restricted fund method and deferral method, are highly effective at reflecting the distinct structural differences and differing needs of financial statement users of these different types of organizations.

Donors of Community Foundations' expression of their philanthropy is complex and is becoming increasingly more complex with the changing nature of our society. As such, their funds are becoming more flexible. Most of the income generated from endowment funds is permanent, but permanency does not define endowment. Income is used to grant to service organizations and support operations. Funds are becoming more flexible and may be established initially to generate income for a lasting impact but could shift to being paid down during a short period. The restricted fund method allows Community Foundations to navigate this complexity by accounting for these transactions similarly, whether within a restricted fund or endowment fund.

Under the proposed guidance, accounting for these in two distinct ways, with endowment contributions as direct increases to net assets and restricted contributions deferred and recognized into revenue over time, introduces a level of complexity and lack of comparability even though the intent of the contribution is similar, the long-term support of the community.

Community Foundations and other charities and not-for-profits will lose the transparency of the face of our financial statements. Key information for users is the amount of contributions received in all shapes and sizes in the year donated. Under the proposed guidance, users would need to be directed to deferred revenue, net assets and note disclosures to piece this information together.

Another stated goal of the proposed guidance is to reduce complexity. CFC believes the proposed guidance fails to reflect the complexity of a Community Foundation and would put an undue burden on the operations of Community Foundations as it does not appear to consider the volume of funds that we manage. Foundations hold various funds, and it is not uncommon for a foundation to hold thousands of funds with unique restrictions. They navigate this complexity because of the ability to make an accounting policy choice. Removing that choice will add layers of complexity by shifting users to multiple areas of the financials to understand contributions and requiring users to have a more sophisticated level of financial literacy. This imposes a barrier to the understandability of financial statements.

To ensure the non-profit and charitable sector is strong, resilient and prepared to support communities, it is critical that the AcSB revisit the proposed changes to the restricted fund method. Community Foundations have various restricted funds. It is not uncommon for them to have hundreds, if not thousands, of funds. The restricted fund method allows them to manage all the intricate restrictions placed upon them by a deed of gift without undue administrative burden. These are not service delivery type restrictions that the deferral method caters to but rather donor restrictions that influence how they grant out to the community.

As fundraising organizations, we foresee considerable costs for Community Foundations to implement a system that is capable of ongoing tracking and increased staff time to account for such transactions. The costs do not outweigh the benefits. The AcSB acknowledges that this will be a "change in practice for many organizations," "this change will also result in added costs associated with the ongoing tracking of deferred contributions," and yet "the proposed definition of a 'restricted contribution' will likely result in classification of many contributions as restricted on initial recognition" and "in many cases, the restrictions will be met soon after the contribution is received and revenue, therefore, would be recognized almost immediately." It is unclear to us why removing a method used by many that specifically simplifies this process and eliminates this added step is beneficial for a sector that is generally understaffed and underfunded. In our opinion, the AcSB has underestimated the cost versus benefit constraint for two very different types of entities and whether different requirements should apply as per paragraph 1001.13.

Reducing complexity and improving comparability could be achieved through additional financial statement presentation and note disclosure requirements as opposed to removing a fundamental accounting policy choice.

The new disclosure requirements recommended for endowments are welcome additions that will provide useful information to the financial statement users. To further add transparency, we suggest the AcSB also propose organizations disclose their spending policy as part of the overall disclosure requirements in paragraph 4411.48-49. This will allow users to better understand the relationship between the endowment and investment income. We believe the improved disclosure guidance balances the principals of understandability and relevance to the users, per paragraphs 1001.15-17, without the need to fundamentally shift endowment contributions and related net investment income from revenue to net assets.

Net assets, by definition, are the residual interest in the assets after deducting liabilities. It is intended to provide information about the resources available to the organization in carrying out its purpose or service. The current guidance is very limited, with a focus on the legal form of the assets (unrestricted, restricted, and endowed). We suggest guidance that focuses on the substance vs. the form. Disclosure of net assets on the face or notes by major category of external restrictions and descriptions of those restrictions would provide more useful information to our readers. The AcSB has suggested this for deferred contributions (paragraphs 4411.44-45); however, we recommend extending this guidance to net assets while still allowing the restricted fund method.

Conclusion

Community Foundations of Canada is currently consulting its members on these and other regulatory considerations. It is prepared to participate in follow-up discussions and consultations into these matters.

CFC believes that reducing complexity and improving comparability is an important goal. We are concerned the guidance applies one standard to two distinct types of organizations, serving very different functions within the not-for-profit sector with different user information needs. The proposed changes to remove the restricted fund method of accounting for contributions and the proposed treatment of endowment contributions as increases to net assets are of particular concern.

We believe the proposed standards place an undue cost and time burden on fundraising organizations, like Community Foundations. The cost aspect of the benefit vs. cost analysis has been significantly underestimated. We believe the proposed changes will introduce complexity for Community Foundations and their donors, imposing a barrier to the understandability of our financial statements.

Community Foundations are on the ground in communities. They see firsthand how the dedication and work of these organizations play out at the grassroots level. With rising challenges across Canadian communities, such as housing, climate change, and inequality, charities and non-profits hold a critical role in supporting this work and finding solutions. The proposed changes to the Standards will result in a significant reduction of resources at a time when they are most needed.

Sincerely,

Andrew Chunilall

Andrew Chunilall

Chief Executive Officer

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September 27, 2023

Kelly Khalilieh, CPA, CA
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Dear Ms Khalilieh:

Thank you for the opportunity to comment on the Exposure Draft, Contributions – Revenue Recognition and Related Matters.

The University of Saskatchewan (USask) is a research intensive, medical doctorate university established in 1907. We are home to world-leading facilities such as VIDO (Vaccine and Infectious Disease Organization), the Global Institute for Food Security, the Global Institute for Water Security and the Sylvia Fedoruk Canadian Centre for Nuclear Innovation. With over 26,000 full-time and part-time students we continuously work to ensure the institution is achieving objectives in education and research.

As a not-for-profit organization, we are constantly aware of our stewardship responsibilities for the public resources entrusted to us. USask financial statements are primarily used by debt financing agencies, credit agencies, donors and other readers and of course, the Province of Saskatchewan. Our responses to the questions in the Exposure Draft, included below, have been compiled with these users and the usefulness of our financial statement to them, in mind.

Sincerely,

Sandra Baptiste, CPA, CA
Manager, Financial Reporting
People and Resources, Financial Services
University of Saskatchewan

1. 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 organization and the contributor; and
   (b) The restriction requires the resources be used for a designated purpose and/or within a designated period of time.

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

   We do not agree with (b) using a designated period of time as a criteria for defining restricted contributions, without additional parameters. Funding for general operations is often for a specific fiscal year; the funder, however, does not require residual funding to be returned. It creates a problem when proposed GAAP specifies that funding of this nature must be restricted when in actuality the nature of the funding is unrestricted because residuals can be retained and do not have to be returned to the contributor. We think that "and/or designated period of time" should be amended to include "where the unspent balance of the funding is required to be returned to the contributor".

2. The AcSB proposes that unrestricted contributions be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured (see paragraph 4411.13). Do you agree with the proposed recognition guidance for unrestricted contributions? If not, why not?

   Yes, we agree with the proposed recognition guidance for unrestricted contributions.

3. The AcSB proposes that an organization recognize revenue from restricted contributions 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 (see paragraph 4411.16)? If not, why not?

   If the deferral method is the only method of accounting allowed, then this revenue recognition guidance makes sense, although organizations will still apply their own interpretation to when external restrictions are met.

   However, fund accounting and, in particular the restricted fund method of accounting, provides better management information for users for users of the financial statements. Users of financial statements have expressed their appreciation of being able to see, clearly, the balance that is yet to be spent, which is recorded as "externally restricted fund balance" on the balance sheet. They understand that the positive balance means that the money is yet to be spent on an externally designated purpose. We also know that our researchers, who only look at the income statement, as they understand money in and money out, will struggle to understand and see how much money they still have available to spend, as this revenue will only be recognized after the related expenses were incurred.

4. Consider the following scenario: An NFPO receives a contribution that is classified as restricted, per the proposed definition. However, the organization meets the restriction and recognizes the revenue in the same reporting period, such that no remaining amount of the contribution is

deferred at period end (see Illustrative Example 2 in proposed Section 4411). As proposed in paragraph 4411.44, the organization discloses the changes in the deferred contribution balance for the period, including the receipt of the restricted contribution and subsequent recognition of the contribution revenue. In this scenario, is the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance relevant to users of financial statements? If not, why not?

Illustrative Example 2 involves an operating grant received from the provincial government and the restriction is the result of the period it needs to be used in. We do not agree with time period being a driver for defining a restricted contribution (please see our response to Question 1 above). If the contributor does not require the return of the residual balances, the contribution should be classified as unrestricted for general purpose when it is received.

If this was a contribution for a specific time period and unspent residual had to be returned to the funder, then we agree with the classification of the contribution as restricted. The disclosure requirements, however, are onerous. Users of financial statements want to know what revenue has been contributed or generated and what fund balances are available for future use as of the balance sheet date. They do not care about the mechanism of recording revenue as deferred initially and then transferring deferred revenue to revenue. This appears to be purely an accounting exercise that does not add value to the users of the financial statements.

5. The AcSB proposes that capital asset contributions related to amortizable assets be deferred and recognized as revenue on the same basis as the amortization expense on the related acquired capital assets (see paragraph 4411.21). For indefinite-lived assets, the Board proposes recognizing them as direct increases in net assets (see paragraph 4411.22).
   (a) Do you agree with the proposed recognition guidance for capital asset contributions related to amortizable assets? If not, why not?

   We do not agree with the proposed recognition guidance for capital asset contributions related to amortizable assets. Funders provide contributions that are designated per the terms of a signed agreement or award letter for either the purchase of an asset or for construction of an asset. The terms and restrictions of the agreement are satisfied once, or as, the contribution is spent on the purchase or construction of a capital asset and the contribution should be recognized as revenue. The designated purpose was met.

   The funders, who are our main users of the financial statements, want to see clearly on the face of the statements that their contribution has been spent within the project timelines on the capital asset construction and/or purchase, and is reported as revenue within our financial statements at the time of expenditure. In many cases, these are agreements for research projects where, as an integral part of the project, contributions for the purchase or construction of research capital assets are received. All obligations relating to the research project are met and the research revenue should be recognized in full once expenditures have occurred. Deferring revenue recognition for a portion of a research contribution related to research capital assets and then subsequently trying to match revenue recognition with those assets across thousands of projects adds zero value to financial statements and creates confusion for the funders, the readers of our financial statements.

Proposed GAAP does not provide useful methodology for recognizing project revenue, e.g. a research project that has capital assets. This approach tries to lump together two different things, such as us meeting restrictions on a contribution for revenue recognition and trying to track the use of the asset, which we are already tracking in the amortization expense on the income statement. This is not a value-added information for either project managers and/or users of the financial statements. Amortization expense and the "deferred value" (or unamortized value) of capital assets is readily available and well understood through inclusion of the "Invested in capital assets" line.

For tracking volatility of cash within projects, recognition of revenue equal to project expenditures, including capital assets of those projects, allows users of financial statements a clear picture about cash still available for future project expenditures.

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

We do not agree with this proposed recognition guidance. When land is contributed to the organization, donors expect to see these values reflected as part of the donation revenue within our financial statements. It does not add clarity to have a portion of donated assets reported within fund balances while a portion of donated assets continues to be reported as donation revenue.

6. The AcSB proposes that endowment contributions be recognized as direct increases in net assets (see paragraph 4411.26). The Board also proposes that an organization disclose information about how it manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments (see paragraph 4411.48-49).

(a) Do you agree that endowment contributions should be recognized as direct increases in net assets? If not, why not?

Although the endowment contributions cannot be spent, but need to be invested in perpetuity, if we go back to a recognition of restricted contributions, in this case a restriction on endowment contribution is met when we invest an endowment. Therefore, this endowment contribution can be recognized as revenue in the year it is invested in perpetuity.

Users of the financial statements are interested in information about the volume of contributions received as tracked on the income statement. Our university advancement office works hard to build relationships with donors, securing such contributions and the success of fundraising should be reflected as revenue in the financial statements for all activity. We currently track endowment contributions as donations under endowment fund on the income statement and the balance of these contributions is carried on the balance sheet on the line "externally restricted permanent endowments". To clearly show that a contribution is permanently restricted as an endowment, we think that it should continue to be carried on its own line in net assets "externally restricted permanent endowments".

(b) Do you agree with the nature and extent of the proposed additional disclosure requirements for endowments? If not, why not?

We do not agree with the proposed additional disclosure requirement for endowments. Management of endowments, monitoring of fair value and compliance with agreements is information internal management should be apprised of. While this information provides context for risk assessment external users of financial statements are not the appropriate or intended audience.

7. The AcSB proposes that net investment income be recognized based on the nature of any restrictions on the investment income (see paragraph 4411.29). Income earned on investments would continue to be measured in accordance with guidance in other standards for the type of invested asset (see paragraph 4411.30).
   (a) Do you agree with the proposed guidance relating to the recognition of net investment income? If not, why not?

   We do not agree with par. 29 (b). All endowments earn investment income and most endowment agreements stipulate that the related earnings will be used to support the designated purpose of the trust. The donor's intent is not that these earnings should be added to principal but that the growing earnings should protect principal and offset the eroding effect of inflation. The portion of investment earnings that can be spent is governed by organizational spending policy.

   Users of financial statements obtain clear financial information when investment income for endowments if reports in the statement of operations.

   The restricted fund method of accounting, which is being eliminated, provides clear and concise reporting on segregated capital (investment earnings) and contributed capital (original principal) – useful information for users of financial statements.

   (b) Do you agree with the nature and extent of the proposed disclosure requirements relating to net investment income? If not, why not?

   Net investment income is readily available information if using fund accounting, and in particular the restricted fund method of accounting. The convoluted disclosure proposed by S4411.50 when using deferral accounting does not add clarity for users of financial statements.

8. The AcSB proposes continuing to allow organizations to choose to recognize contributions of materials and services that meet the criteria in paragraph 4411.32(b).
   (a) Do you agree with the proposed criteria in paragraph 4411.32? If not, why not?
   Yes
   (a) Do you think the proposed criterion in paragraph 4411.32(b)(iii) would allow organizations to recognize contributions of materials and services that are critical to the organization's mandate (provided the fair value can be reasonably estimated and they are used in the normal course of operations)? If not, why not?
   Yes
   (b) Do you agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services (see paragraphs 4411.51-52)? If not, why not?

No. Criteria 52(b) and 52(c) requiring disclosure of qualitative information and disclosure of dependence of contributed materials and services…regardless of whether contributed materials and services are recognized in the financial statements is not value-added information to users of the financial statements,

For contributed material and supplies not recognized in financial statements, including qualitative information about them would not add any value to the users of the financial statements. As a large organization, the viability of our operations does not depend on contributed materials or services that are not critical to the organization's mandate. When qualitative information is provided, it should be what is important in decision-making for the users of the financial statements. Additionally, trying to track and provide qualitative information about contributed material and supplies that are not already recognized in the financial statements would be an onerous task that does not add value in disclosures to the financial statements to the users.

Only information defined by 4411.32 (fair value can be estimated, used in the normal course of operations and would otherwise have been purchased) should be required disclosure within the financial statements.

9. The AcSB proposes that a pledge or a bequest be recognized only when the recognition criteria in paragraphs 4411.13, 4411.16 or 4411.26 are met for each individual pledge or bequest. This means that in many cases a pledge will not meet the proposed criteria for recognition until the pledge is received and collection therefore is reasonably assured. Do you agree that a pledge should generally not be recognized until collected (see paragraph 4411.36)? If not, under what scenarios would a pledge meet the recognition criteria prior to collection?

   Yes, generally pledges should not be recognized until collected since they are not legally enforceable.

10. The AcSB proposes that organizations disclose contributions by major source. The Board also proposes that organizations disclose economic dependence when the ongoing operations depend on a significant contribution(s) from another party (see paragraphs 4411.40-41).

(a) Do you think disclosing contributions by major source provides decision-useful information? If not, why not?

Yes, disclosure of contributions by major source provides decision useful information.

(b) Do you think disclosing economic dependence when the ongoing operations depend on a significant contribution(s) from another party provides decision-useful information? If not, why not?

Yes, disclosure of economic dependence on significant contributions from another party provides decision-useful information.

11. 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, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule (see paragraph 4400.06A).
    (a) Do you agree that when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule? If not, why not?

    Fund accounting should not be an optional financial statement presentation. Allowing fund accounting presentation as an optional presentation choice defeats the goal of comparability for financial statements across the not-for-profit sector. Requiring comparative information similarly adds convolution and reduces over-all comparability across the sector in "one-format" financial statements are the goal.

    (b) Do you agree with the other proposed amendments to Section 4400 to clarify the application of fund accounting presentation?

    No. The restricted fund method of accounting provides superior segmented information and greater transparency (vs deferral accounting) regarding restricted and unrestricted revenues, expenses, assets available to meet requirements for restricted contributions and available fund balances to users of financial statements.

12. The AcSB proposes an amendment to Section 4400 that requires an organization to disclose information about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those restrictions (see paragraphs 4400.22A-22B).
    (a) Do you agree with the proposed disclosure requirements (see paragraphs 4400.22A-22B)? If not, why not?

    No. Proposed disclosure requirements are simply moving what is now readily available information on the face of the balance sheet, if using the restricted fund of accounting for financial statements, into less informative disclosure buried in the notes to the financial statements. Proposed requirement will not increase understanding for financial statement users nor will it increase comparability across the not-for-profit sector.

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

    No, we do not think so. Please see above response 12(a).

13. The AcSB proposes that Section 4411 and proposed amendments to Section 4400 be applied retrospectively in accordance with Section 1506, with certain transition provisions.
    (a) Do you agree that proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively? If not, what transition approach would you recommend and why?

    Retrospective application is fine, given transitional relief provided.

    (b) Do you agree with the proposed optional transitional relief that an organization is not required to make retrospective adjustments in respect of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest period presented in the financial statements in which the organization first applies proposed Section 4411 (see paragraphs 4411.55-.56). If not, why not?

    Yes, we agree with transitional relief regarding retrospective adjustments for capital asset contributions, but we also think that transitional relief should be provided for research projects that contain a capital asset component, such as referred to in paragraph 4411.24.

14. The AcSB proposes an effective date of fiscal years beginning on or after January 1, 2026, 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?

    The proposed effective date is fine.

    (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?

    Yes

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

    Examples are extremely simplistic and will leave organizations guessing about and applying their own interpretation to specific situations.

ORDRE DES COMPTABLES PROFESSIONNELS AGRÉÉS DU QUÉBEC

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Montréal, le 28 septembre 2023

Katharine Christopoulos, CPA, CA
Directrice, Conseil des normes comptables
277, rue Wellington Ouest
Toronto (Ontario) M5V 3H2

Madame,

Vous trouverez ci-joint les commentaires du Groupe de travail technique OSBL – Comptabilité financière – Partie III, mis en place par l'Ordre des comptables professionnels agréés du Québec, concernant l'exposé-sondage intitulé « Apports – Comptabilisation des produits et questions connexes ».

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

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

Veuillez agréer, Madame Christopoulos, nos salutations distinguées.

Annie Smargiassi, CPA auditrice

Représentante du Groupe de travail technique OSBL – Comptabilité financière – Partie III, de l'Ordre des comptables professionnels agréés du Québec

p. j. Déni de responsabilité et commentaires

DÉNI DE RESPONSABILITÉ

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

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

Ni l'Ordre, ni quelque personne que ce soit ayant participé à la préparation des commentaires ne peuvent être tenus responsables relativement à l'utilisation de ces commentaires et ils ne sont tenus à aucune garantie de quelque nature que ce soit découlant de ces commentaires. Les commentaires donnés ne lient pas, par ailleurs, les membres des Groupes de travail, l'Ordre ou, de façon plus particulière, le Bureau du syndic de l'Ordre.

La personne qui se réfère ou utilise ces commentaires assume l'entière responsabilité de sa démarche ainsi que tous les risques liés à l'utilisation de ceux-ci. Elle consent à exonérer l'Ordre à l'égard de toute demande en dommages-intérêts qui pourrait être intentée par suite de toute décision qu'elle aurait pu prendre en fonction de ces commentaires. Elle reconnaît également avoir accepté de ne pas faire état de ces commentaires reçus via les Groupes de travail dans les avis exprimés ou les positions prises.

MANDAT DES GROUPES DE TRAVAIL DE L’ORDRE

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

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

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

COMMENTAIRES GÉNÉRAUX

Les membres ont soulevé ci-dessous des commentaires sur des éléments proposés dans l'exposé-sondage, mais qui n'ont pas spécifiquement été relevés dans les questions posées par le CNC dans son appel à commentaires.

Méthode de comptabilité par fonds affectés

D'abord, des préoccupations ont été soulevées relativement à l'abolition de la méthode de comptabilité par fonds affectés pour les entités qui utilisent actuellement cette méthode.

Selon les membres, beaucoup de ces organismes, souvent des fondations, font des levées de fonds pour un ou plusieurs autres organismes qui eux, n'ont pas leur propre processus de levée de fonds en interne, mais obtiennent leur financement par ces fondations, qui ont pour mission de trouver des ressources financières et donc de lever des fonds. Ils donnent l'exemple d'hôpitaux qui obtiennent des fonds par l'entremise d'une fondation. Le rôle de ces fondations est de remettre les ressources financières à des organismes qui s'en serviront pour réaliser des activités, des programmes ou encore pour acquérir des immobilisations. La fondation ne devrait pas avoir à synchroniser l'octroi d'apport à un organisme avec le moment où l'organisme qui reçoit l'apport l'utilise pour des activités, des programmes ou encore l'acquisition d'immobilisations. Il ne devrait pas y avoir une exigence d'interface entre la fondation et l'organisme qui doit utiliser les apports. Ainsi, les membres ont donné l'exemple d'une fondation qui organise une levée de fonds pour l'achat d'un équipement spécialisé pour un hôpital. Tant que les fonds ne sont pas utilisés par l'hôpital pour acquérir l'immobilisation, selon la méthode imposée par l'exposé-sondage, les apports dans la fondation seraient reportés et devraient être synchronisés avec l'acquisition de l'équipement par l'hôpital.

Des membres ont proposé de limiter la méthode de comptabilité par fonds affectés aux organismes qui n'ont pas leurs propres activités de bienfaisance (c'est-à-dire que leur rôle est de financer les activités de bienfaisance d'autres organismes), plutôt que de retirer totalement la méthode de comptabilité par fonds affectés.

Approche bilancielle

Ensuite, des membres ont souligné favorablement l'ouverture du CNC de s'écarter d'une approche bilancielle pour comptabiliser les apports, comme cela avait été présenté dans le premier document pour consultation et sur lequel ils avaient commenté cette question.

Consultation spécifique

Les membres se sont demandé si le Groupe de travail sur les petits cabinets avait été consulté à propos des propositions présentées dans l'exposé-sondage. Ils recommandent au CNC de consulter spécifiquement ce groupe de travail, car selon eux, l'avis des auditeurs chargés d'aider leurs clientèles OSBL à répondre aux exigences du CNC est important.

QUESTIONS SPÉCIFIQUES DU CNC

1. *Le CNC propose qu'un apport affecté soit défini comme étant un apport grevé d'une ou de plusieurs affectations externes qui satisfont aux deux critères suivants :*
   a) l'affectation doit avoir fait l'objet d'une communication explicite entre l'organisme et l'apporteur;
   b) l'affectation prévoit que les ressources doivent être utilisées à des fins déterminées ou au cours d'un laps de temps déterminé.
   Appuyez-vous la définition proposée d'un apport affecté? Dans la négative, pourquoi?

   Les membres sont d'avis que ces critères plus explicites permettront de clarifier certaines situations dans la pratique, notamment en réduisant les ambiguïtés lorsque les apports sont affectés à la mission globale de l'organisme.

   Toutefois, pour certains membres, le mot « explicite » pourrait amener des difficultés d'application et d'interprétation et ils suggèrent de présenter des exemples de situations pour faciliter l'interprétation du critère.

2. *Le CNC propose que les apports non affectés soient comptabilisés en produits de la période au cours de laquelle l'organisme a droit à l'apport, pourvu que celui-ci puisse être évalué de façon raisonnablement certaine et que sa réception soit raisonnablement assurée (voir le paragraphe 4411.13). Appuyez-vous les indications proposées sur la comptabilisation des apports non affectés? Dans la négative, pourquoi?*

   Les membres sont d'accord avec les propositions au paragraphe .13 et concluent que le paragraphe .14 clarifie les propositions.

3. *Le CNC propose que l'organisme comptabilise les produits tirés des apports affectés au moment où (ou à mesure que) la ou les affectations externes qui y sont associées sont respectées, pourvu que l'apport puisse être évalué de façon raisonnablement certaine et que sa réception soit raisonnablement assurée. Appuyez-vous les indications proposées sur la comptabilisation des apports affectés (voir le paragraphe 4411.16)? Dans la négative, pourquoi?*

   Les membres sont d'accord avec les propositions du paragraphe .16 tout en soulignant ci-après des changements qui selon eux sont nécessaires.

   D'abord, ils sont d'avis que la première phrase du paragraphe .18 peut donner une apparence de contradiction avec les propositions du paragraphe .16. En effet, le texte du paragraphe .16 qui indique que les apports sont comptabilisés aux produits au moment ou <u>au fur et à mesure</u> que les affectations sont respectées, fait référence à un processus similaire à la méthode de <u>l'avancement</u> des travaux du chapitre 3400 de la Partie II du Manuel. Cependant, le texte du paragraphe .18 indiquant que les produits <u>ne sont pas comptabilisés avant que les affectations externes soient respectées</u> semble faire référence à un processus de comptabilisation similaire à la méthode <u>de l'achèvement</u> des travaux. Selon eux, la première phrase du paragraphe .18 devrait être retirée pour éviter toute apparence de contradiction.

   De plus, des membres reprennent des questions soulevées lors du précédent appel à commentaires, à propos des projets financés par plusieurs sources et du besoin de clarification à propos de ces questions :

   - À quel rythme doit-on amortir les apports lorsqu'un projet est financé par plusieurs sources?

- Lorsque les sommes sont utilisées pour des activités et des immobilisations, quelle est la portion des apports à comptabiliser en produits en premier ?
- Est-ce que ce sont les fonds propres ou les apports affectés qui seront comptabilisés en premier si les sommes ne sont pas toutes dépensées dans le même exercice?
- Sur quelle base doit-on répartir les prestations?

Selon ces membres, des modalités d'application devraient être incluses dans la norme à ce sujet puisqu'ils sont d'avis qu'il est très courant que ces situations soient rencontrées en pratique. Aussi, ils proposent que la répartition des apports soit basée sur la répartition estimative du financement global.

Ils ont aussi commenté l'exemple 1 qui démontre l'utilisation de la subvention avant tout autre financement, ce qui ne ressort pas clairement des propositions.

4. *Prenons le cas suivant : un OSBL reçoit un apport considéré comme affecté selon la définition proposée. Cependant, l'organisme respecte l'affectation et comptabilise l'apport en produits au cours de la même période, de sorte qu'aucun solde de l'apport n'est reporté à la fin de la période (voir l'exemple illustratif 2 dans le chapitre 4411 [en projet]). Comme il est proposé au paragraphe 4411.44, l'organisme serait tenu d'indiquer la variation du solde des apports reportés survenue au cours de la période, ce qui comprend la réception de l'apport affecté et la comptabilisation subséquente de l'apport en produits. Dans un tel cas, le classement initial de l'apport en tant qu'apport affecté et les informations connexes à fournir sur la variation du solde des apports reportés sont-ils pertinents du point de vue des utilisateurs des états financiers? Dans la négative, pourquoi?*

Les membres ne sont pas d'accord avec les propositions. Selon eux, les informations exigées en notes devraient se limiter à la composition du solde des apports reportés pour lesquels il existe un solde à la date du bilan. Ils proposent par conséquent de retirer l'alinéa 44 a).

Si l'alinéa 44 a) est maintenu, les membres précisent que selon le texte actuel, il n'est pas explicite que l'on soit tenu d'expliquer la variation dans le cas où l'organisme respecte l'affectation et comptabilise l'apport en produits au cours de la même période. Selon eux, le texte peut être interprété à l'effet que l'exigence s'applique uniquement pour les apports où il y a un solde d'apport reporté à la date du bilan. Les membres ne sont pas d'accord que l'exigence s'applique à la situation décrite ci-dessus et ils proposent de limiter l'exigence aux apports pour lesquels il y a un solde à la date du bilan.

5. *Le CNC propose que les apports en immobilisations afférents à des immobilisations qui seront amorties soient reportés et comptabilisés en produits selon la même méthode que celle suivie pour l'amortissement de ces immobilisations (voir le paragraphe 4411.21). Pour les immobilisations à durée de vie indéfinie, il propose qu'elles soient comptabilisées à titre d'augmentations directes de l'actif net (voir le paragraphe 4411.22).*
   a) Appuyez-vous les indications proposées sur la comptabilisation des apports en immobilisations afférents à des immobilisations qui seront amorties? Dans la négative, pourquoi?
   b) Appuyez-vous les indications proposées sur la comptabilisation des apports en immobilisations afférents à des immobilisations à durée de vie indéfinie? Dans la négative, pourquoi?

Les membres se sont montrés en accord avec les paragraphes .21 et .22 proposés.

Toutefois, ils se sont montrés en désaccord avec le paragraphe .24. Selon eux, il est fréquent qu'il soit nécessaire d'acquérir des immobilisations, par exemple des équipements spécialisés, pour réaliser un projet particulier. Toutefois, les protocoles d'entente ne le précisent pas nécessairement.

Selon eux, les pourvoyeurs de fonds n'ont pas nécessairement les connaissances requises pour déterminer si l'acquisition d'un équipement particulier est requise, encore moins de pouvoir prévoir à l'avance si un tel équipement devra être comptabilisé en charge ou à l'actif au moment de son acquisition selon les critères et conditions énoncés au chapitre 4433. Ainsi, les membres proposent qu'il soit possible, <u>dans certaines situations</u>, de considérer qu'une partie des dépenses puisse avoir trait à l'achat d'immobilisations même si l'entente ne précise pas de fraction affectée à de telles acquisitions, tant que l'entente ne l'interdit pas. Ils proposent que le paragraphe se lise comme suit :

> *.24) Un apport peut être affecté à un certain domaine d'activité sans que l'apporteur précise la fraction affectée à l'acquisition, à la construction, au développement ou à la mise en valeur d'immobilisations. Dans de telles situations, il est possible d'affecter une fraction de l'apport à l'acquisition, à la construction, au développement ou à la mise en valeur d'immobilisations si*

cette dépense permet de réaliser le projet prévu à l'entente et que l'apporteur n'interdise pas de manière explicite qu'une partie des dépenses puisse avoir trait à l'achat d'immobilisations.

Les membres soulignent que dans les situations qui prévoient à la fois l'acquisition, la construction, le développement ou la mise en valeur d'immobilisations amortissables et d'actifs non amortissables, une répartition proportionnelle soit proposée.

6. *Le CNC propose que les dotations soient comptabilisées à titre d'augmentations directes de l'actif net (voir le paragraphe 4411.26). Le CNC propose aussi que l'organisme doive fournir des informations sur sa gestion de ses dotations, notamment sur le suivi qu'il fait de la juste valeur de ses dotations et du respect des ententes qui s'y rapportent (voir les paragraphes 4411.48 et .49).*
   a) Appuyez-vous la comptabilisation des dotations à titre d'augmentations directes de l'actif net? Dans la négative, pourquoi?
   b) Appuyez-vous la nature et l'étendue des nouvelles obligations d'information proposées quant aux dotations? Dans la négative, pourquoi?

Les membres sont d'accord avec les propositions et sont d'avis que les nouvelles obligations d'information seront utiles.

Toutefois, afin de régler une incohérence avec la terminologie utilisée d'un point de vue contractuel, ils proposent qu'on change le nom de ce type d'affectation pour les qualifier plutôt de « dotation perpétuelle » pour la différencier d'une dotation qui, d'un point de vue contractuel pourrait prévoir une période déterminée. Ils donnent l'exemple de certains protocoles d'entente indiquant qu'il s'agit d'une dotation alors qu'on prévoit que les fonds pourront être utilisés par l'organisme après une période de 10 ou 20 ans.

Les membres sont toutefois très heureux des informations exigées au paragraphe .49. En effet, selon eux, les informations aideront à illustrer en pratique, les situations où les placements ont perdu de la valeur et que des investissements additionnels pourraient être jugés nécessaires.

7. *Le CNC propose que les produits financiers nets soient comptabilisés selon la nature des affectations grevant les produits financiers (voir le paragraphe 4411.29). Les produits financiers tirés de placements seraient toujours évalués conformément aux indications données dans d'autres normes relatives au type de placement (voir le paragraphe 4411.30).*
   a) Appuyez-vous les indications proposées sur la comptabilisation des produits financiers nets? Dans la négative, pourquoi?
   b) Appuyez-vous la nature et l'étendue des obligations d'information proposées quant aux produits financiers nets? Dans la négative, pourquoi?

Les membres sont d'accord avec les propositions. Cependant, ils se sont questionnés sur certaines situations qui ne semblent pas être clarifiées par les propositions. Par exemple, comment un organisme qui détient un investissement global dans un fonds d'investissement pour l'ensemble de ses affectations internes, externes et dotations, devrait répartir les produits financiers entre ses différents types d'affectations? Ils proposent au CNC de préciser, qu'en l'absence d'actif distinct pour chaque affectation, que cette répartition soit faite d'une manière logique, systématique et uniforme dans le temps. Ils précisent que la situation se présente fréquemment en pratique.

De plus, ils auraient aimé des directives plus claires dans l'exemple de situation qu'ils ont décrit ci-dessous.

> Selon le protocole d'entente avec un apporteur, l'organisme aurait l'obligation d'affecter annuellement à son fonds de dotation, un rendement équivalent à l'indice des prix à la consommation. Toutefois, les placements de l'organisme ont subi une perte de valeur et les activités de l'organisme n'ont pas permis de dégager le rendement espéré. En l'absence de directives sur la comptabilisation du rendement, est-ce que l'information à fournir serait suffisante ? Est-ce qu'on devrait exiger que l'organisme capitalise un rendement minimal au moyen d'une affectation d'origine interne (et le cas échéant cette affectation à titre de dotation pourrait-elle faire l'objet d'un renversement si les pertes de valeur se renversent au cours d'un exercice ultérieur)? Qu'arrive-t-il s'il s'agit d'un fonds affecté autre qu'un fonds de dotation et qu'aucune obligation d'information à fournir n'est exigée?

8. *Le CNC propose de continuer de permettre aux organismes de choisir la méthode comptable consistant à comptabiliser les apports de biens et de services si les critères de l'alinéa 4411.32 b) sont remplis.*
   a) *Appuyez-vous les critères proposés à l'alinéa 4411.32 b)? Dans la négative, pourquoi?*
   b) *À votre avis, le critère proposé au sous-alinéa 4411.32 b)iii) permettrait-il aux organismes de comptabiliser les apports de biens et de services qui sont essentiels pour remplir leur mandat (à condition que la juste valeur des apports puisse faire l'objet d'une estimation raisonnable et qu'ils soient utilisés dans le cours normal des activités de l'or ganisme)?*
   c) *Dans la négative, pourquoi?*
   d) *Appuyez-vous la nature et l'étendue des nouvelles exigences proposées en matière de présentation et d'informations à fournir quant aux apports de biens et de services (voir les paragraphes 4411.51 et .52)? Dans la négative, pourquoi?*

Les membres sont d'accord avec les deux premiers critères énoncés au paragraphe .32 b) i) et ii). Toutefois, ils sont en désaccord avec le dernier critère de .32 b) iii) à l'effet que « les biens et services devraient être achetés à défaut d'un apport… ».

Pour expliquer leurs préoccupations, ils ont cité deux exemples dans les paragraphes suivants.

Un organisme reçoit une commandite (publicité) importante dans le cadre d'un événement de levée de fonds. À défaut d'obtenir une publicité gratuite, l'organisme n'aurait pas dépensé en publicité (ou n'aurait pas dépensé un montant équivalent à la juste valeur des commandites reçues). L'organisme ne répondrait alors pas aux critères de comptabilisation et ne pourrait pas comptabiliser l'apport sous forme de service publicitaire, car à défaut d'un apport, il n'aurait pas acheté cette publicité.

Un organisme reçoit un service de déneigement gratuit de la municipalité où il est localisé; à défaut de l'apport, l'organisme n'aurait pas engagé un déneigeur et aurait mis à contribution ses employés pour effectuer le déneigement.

Les membres proposent donc de retirer complètement le critère de l'alinéa .32 b) iii). Ils ne comprennent pas les réticences à restreindre la comptabilisation des apports sous forme de biens et de services dans le contexte où les informations à fournir permettent clairement de comprendre qu'il n'y a pas d'effet sur le résultat net.

De plus, les membres sont totalement en désaccord avec l'obligation de maintenir le même choix comptable (.32 a) ou b)) pour tous les apports de biens et de services. Selon eux, le choix devrait être fait pour chaque opération (apport).

Selon eux, il est fréquent que les apports provenant des bénévoles ne soient pas comptabilisés par les organismes, car ils ne maintiennent pas de politique de gestion du temps des bénévoles. Ainsi, si les apports provenant des bénévoles ne sont pas comptabilisés, ceci forcerait la non-comptabilisation de tous les autres apports de biens et de services, peu importe qu'on soit capable d'en évaluer la juste valeur de façon fiable. Selon eux, cette situation n'est pas acceptable.

Certains membres suggèrent d'ajouter une exception comme cela est prévu au paragraphe .07 du chapitre 4441, *Collections*, qui permet de comptabiliser, à une valeur symbolique, les collections pour lesquelles la juste valeur ne peut être déterminée au prix d'un effort raisonnable. Cette proposition aurait l'avantage de permettre d'éviter des réserves au rapport des auditeurs lorsqu'il est impossible d'obtenir des éléments probants sur la juste valeur des biens et des services, en permettant la comptabilisation à une valeur symbolique.

Les membres proposent que des modifications soient apportées aux chapitres 4441, *Collections détenues par les organismes sans but lucratif* et 4433, *Immobilisations corporelles détenues par les organismes sans but lucratif.* Ils soulèvent les contradictions qui existent entre les exigences de ces deux chapitres ayant trait à la comptabilisation de pièces de collection ou d'immobilisations corporelles reçues en apport et les propositions du chapitre 4411. Les membres sont d'avis que les pièces de collection ou les immobilisations corporelles reçues en apport devraient être comptabilisées selon les mêmes exigences que tout autre apport de biens reçus par l'organisme, en bénéficiant des choix énoncés aux alinéas .32a) et .32b), tandis que les chapitres 4411 et 4433 respectivement requièrent que ces apports soient comptabilisés par l'organisme (en précisant que leur comptabilisation doit être pour une valeur nominale si leur juste valeur ne peut pas faire l'objet d'une estimation raisonnable).

Finalement, à propos du paragraphe .51, les membres demandent au CNC de préciser que la contrepartie doit se retrouver dans les charges. Il est fréquent que les auditeurs soient confrontés à des questionnements de la part d'administrateurs d'OSBL à ce sujet qui demandent de présenter les montants au net dans les états financiers. Le manque d'indication dans la norme sur la présentation au brut des produits et charges de cette nature nuit à leur travail.

9. *Le CNC propose que chaque promesse d'apport ou legs soit comptabilisée uniquement s'il satisfait aux critères de comptabilisation des paragraphes 4411.13, 4411.16 ou 4411.26. Ainsi, dans bien des cas, une promesse d'apport ne remplira pas les critères de comptabilisation jusqu'à ce que l'apport soit reçu et que sa réception soit donc raisonnablement assurée. Êtes-vous favorable à ce qu'une promesse d'apport ne soit généralement pas comptabilisée avant que l'apport soit reçu (voir le paragraphe 4411.36)? Dans la négative, dans quels cas une promesse d'apport remplirait-elle les critères de comptabilisation avant la réception de l'apport?*

   Les propositions en français semblent faire une distinction entre un apport à recevoir et une promesse d'apport, toutefois on ne définit pas ce qu'est une promesse d'apport par opposition à un apport à recevoir. Les membres sont d'avis qu'il existe une plus grande incertitude à propos des dons et des legs en particulier par conséquent, selon eux, le paragraphe .36 devrait être reformulé pour revoir l'expression française « promesse d'apport » pour s'assurer qu'on vise exclusivement des promesses de dons et des legs.

10. *Le CNC propose que les organismes soient tenus de présenter leurs produits tirés d'apports par sources principales. Il propose aussi que si les activités courantes de l'organisme dépendent d'un ou de plusieurs apports importants provenant d'une autre partie, il doive mentionner et expliquer sa dépendance économique envers cette partie (voir les paragraphes 4411.40 et .41).*
    a) *À votre avis, la présentation des apports par sources principales permettrait-elle de procurer des informations utiles à la prise de décisions? Dans la négative, pourquoi?*
    b) *À votre avis, l'obligation de mentionner et d'expliquer la dépendance économique si les activités courantes de l'organisme dépendent d'un ou de plusieurs apports importants provenant d'une autre partie permettrait-elle de procurer des informations utiles à la prise de décisions? Dans la négative, pourquoi?*

    La majorité des membres n'est pas d'accord avec la présentation des produits par sources principales. Les membres proposent plutôt que les produits soient présentés par nature ou par catégorie. D'ailleurs, pour les entreprises à capital fermé, les produits sont présentés par catégorie selon le paragraphe 3400.33. Les membres sont d'avis que la source des apports n'est pas toujours pertinente et que les registres comptables des organismes ne prévoient pas nécessairement une telle ventilation. Ils demandent au CNC de revoir les exigences, notamment d'ajouter des modalités d'application qui pourraient ressembler au texte présenté dans le paragraphe 3400.35 de la Partie II. Ils précisent également que l'amortissement d'un apport reporté ne devrait pas être considéré comme une source distincte. Par exemple, l'amortissement d'une subvention reportée devrait être présenté dans la même rubrique que les subventions reçues et constatées au cours de l'exercice.

Les membres ne sont pas d'accord avec la nouvelle obligation d'informations à fournir du paragraphe .41 et 52 c) à propos de la dépendance économique. Selon eux, une présentation détaillée des produits à l'état des résultats permet facilement de conclure à la dépendance économique en donnant l'information à propos des principaux bailleurs de fonds. Si le CNC décidait de maintenir ces exigences, les membres proposent d'ajouter dans le chapitre 4411 une définition de "dépendance économique" qui serait spécifique aux OSBL. Cette définition devrait uniquement être basée sur l'importance des apports reçus d'un même apporteur (ou d'un même groupe d'apporteurs). Les membres sont d'avis que de référer aux définitions et aux précisions du chapitre 3841 sur la dépendance économique rendraient ces exigences d'informations à fournir difficiles à appliquer en pratique, plus spécifiquement en ce qui concerne les précisions énoncées au paragraphe 3841.05 qui requerraient notamment qu'un OSBL porte un jugement sur la possibilité de remplacer facilement les apports de biens et services reçus auprès d'un autre apporteur. À titre d'exemple, les membres ont noté les situations où la contribution de bénévoles est primordiale pour la continuité des activités d'un organisme : il serait relativement facile de conclure à une dépendance économique basé sur l'ampleur ou l'importance de ces apports, il est toutefois beaucoup plus difficile de déterminer si l'organisme serait facilement en mesure de trouver d'autres bénévoles.

11. *Le CNC propose de continuer de permettre, sur la base facultative, la présentation selon la comptabilité par fonds dans le chapitre 4400, et propose des modifications de ce chapitre dans le but d'accroitre l'utilité des informations communiquées aux utilisateurs lorsque la présentation selon la comptabilité par fonds est utilisée. Il propose aussi que lorsque la comptabilité par fonds est utilisée, les informations comparatives doivent être présentées dans le corps des états financiers ou fournies dans les notes ou tableaux complémentaires (voir le paragraphe 4400.06A).*

a) *Êtes-vous favorable à ce que, lorsque la présentation selon la comptabilité par fonds est utilisée, les informations comparatives doivent être présentées dans le corps des états financiers ou fournies dans les notes ou tableaux complémentaires? Dans la négative, pourquoi?*
b) *Appuyez-vous les autres modifications qu'il est proposé d'apporter au chapitre 4400 pour clarifier l'application de la présentation selon la comptabilité par fonds?*

Certains membres ont soulevé des préoccupations d'ordre pratique liée à l'exigence de présenter des informations comparatives pour tous les fonds. Ils proposeraient plutôt que cette présentation soit facultative.

12. *Le CNC propose d'apporter une modification au chapitre 4400 pour exiger des organismes qu'ils fournissent des informations sur les exigences liées à leurs apports affectés, y compris leurs dotations, et sur les actifs qu'ils considèrent comme disponibles pour respecter ces exigences (voir les paragraphes 4400.22A et .22B).*
    a) *Appuyez-vous les obligations d'information proposées (voir les paragraphes 4400.22A et .22B)? Dans la négative, pourquoi?*
    b) *À votre avis, l'obligation d'information proposée permettra-t-elle de fournir aux utilisateurs des états financiers des informations utiles à la prise de décision sur les actifs qui sont disponibles pour respecter les exigences liées aux apports affectés? Dans la négative, pourquoi ?*

Les membres se sont montrés favorables aux propositions. Toutefois, certains membres considèrent l'information redondante lorsque les libellés identifient clairement les exigences liées aux apports affectés ou identifient clairement les actifs réservés à cette fin. D'autres membres ont soulevé qu'il est parfois difficile d'identifier les actifs disponibles pour respecter les exigences d'apports reportés spécifiques, lorsque les actifs de l'organisme sont gérés collectivement.

13. *Le CNC propose que le chapitre 4411 [en projet] et les modifications proposées du chapitre 4400 s'appliquent rétrospectivement selon le chapitre 1506, et propose certaines dispositions transitoires.*
    a) *Êtes-vous favorable à ce que le chapitre 4411 [en projet] et les modifications proposées du chapitre 4400 s'appliquent rétrospectivement? Dans la négative, quelle approche recommanderiez-vous pour la transition et pourquoi?*
    b) *Appuyez-vous l'allégement transitoire facultatif qui est proposé, selon lequel les organismes ne seraient pas tenus d'apporter d'ajustements rétrospectifs relativement aux apports en immobilisations qui ont entièrement été comptabilisés en produits avant le début de la première période présentée dans les états financiers pour lesquels l'organisme applique le chapitre 4411 [en projet] pour la première fois (voir les paragraphes 4411.55 et .56)? Dans la négative, pourquoi?*

Certains membres proposent que des allégements soient ajoutés aux dispositions transitoires pour permettre aux organismes sans but lucratif de ne pas retraiter les apports qui ont été comptabilisés comme revenu avant le début de la première période présentée. Des allégements similaires ont été notamment accordés aux entreprises à but lucratif lors de l'entrée en vigueur des nouvelles exigences du chapitre 3400, « Produits », et ces membres sont d'avis qu'un allégement similaire devrait être accordé aux organismes sans but lucratif à l'égard des apports.

14. *Le CNC propose que le chapitre 4411 [en projet] et les modifications proposées du chapitre 4400 s'appliquent aux états financiers des exercices ouverts à compter du 1er janvier 2026; une application anticipée serait permise à condition que le chapitre 4411 [en projet] et les modifications proposées du chapitre 4400 soient appliqués simultanément.*
    a) *Appuyez-vous la date d'entrée en vigueur proposée? Dans la négative, pourquoi?*
    b) *À votre avis, la date d'entrée en vigueur proposée donnerait-elle suffisamment de temps aux OSBL pour la mise en œuvre de la norme et des modifications proposées? Dans la négative, pourquoi?*

Les membres sont en accord avec les propositions.

15. À votre avis, les exemples illustratifs proposés sont-ils utiles pour expliquer l'application des propositions? Dans la négative, pourquoi?

Les membres sont en accord avec les propositions.

AUTRES COMMENTAIRES

- **Modifications corrélatives au chapitre 4400 :**
  Les membres soulèvent des difficultés liées à l'application des paragraphes .37 et .38 du chapitre 4400, qui traitent de la présentation des produits et des charges sur la base des montants bruts ou du montant net. Ils soulèvent les enjeux d'application liés à ces paragraphes en raison du manque de directives explicites applicables aux organismes sans but lucratif. Bien que le chapitre 3400, *Produits*, de la Partie II du Manuel fournisse des indications sur cette question celles-ci ne sont pas adaptées à la constatation des apports, par exemple dans le contexte d'un organisme qui perçoit et gère des sommes qui sont destinées à être distribuées à d'autres organismes sans but lucratif en vertu d'une affectation d'origine externe imposée par l'apporteur. Des indicateurs adaptés devraient être ajoutés au chapitre 4400 pour permettre d'analyser si un organisme agit pour son propre compte ou à titre de mandataire dans le cadre de telles ententes.

- **Des membres ont soulevé ci-dessous des erreurs dans les exemples présentés dans les propositions du CNC.**

  Page 16 - Exemple 5B – Apports en immobilisations

  À l'écriture présentée dans le bas de la page 16, on débite le poste « Trésorerie » alors qu'il ne s'agit pas d'un apport sous forme de trésorerie mais plutôt d'un apport en immobilisations. On aurait dû plutôt débiter le poste « Immobilisations ».

  Page 22 - Exemple 7 – Dispositions transitoires

  Des membres auraient aimé qu'un exemple additionnel soit présenté pour illustrer la disposition transitoire selon le paragraphe .55 a), alors que seule la disposition transitoire du paragraphe .55 b) est illustrée.

Page 38 et 39 – Exemples 4A et 4B – Informations à fournir

Les dotations totalisant 2 000 000$ n'apparaissent pas dans les états financiers présentés à la page 37. On devrait les ajouter, car elles doivent être présentées distinctement en vertu du paragraphe 4400.19b).

- **Produits financiers nets :**
  Pour certains membres, les exigences du paragraphe .50 ne sont pas claires, car on ne définit pas dans les propositions, ce qui constitue les « produits financiers nets » visés par ce chapitre. Pour certains, les informations à fournir en vertu du paragraphe .50 n'incluent que les produits financiers nets tirés du placement des apports, alors que pour d'autres, il s'agit de présenter tous les produits financiers nets que ceux-ci résultent du placement des apports ou non.

ORDRE DES COMPTABLES PROFESSIONNELS AGRÉÉS DU QUÉBEC

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Montreal, September 28, 2023

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

Dear Ms. Christopoulos:

You will find enclosed the comments of the Technical working group on NFPO – Financial Accounting – Part III, set up by the Ordre des comptables professionnels agréés du Québec (the Order), regarding the exposure draft entitled, *Contributions – Revenue Recognition and Related Matters*.

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

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

Yours truly,

Annie Smargiassi, CPA auditor

Representative of the Technical working group on NFPO – Financial Accounting – Part III of the Ordre des comptables professionnels agréés du Québec

Encl. Disclaimer and comments

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TERMS OF REFERENCE OF THE ORDER'S WORKING GROUPS

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

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

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

GENERAL COMMENTS

Comments were raised below on items proposed in the exposure draft but not specifically identified in the questions posed by the AcSB in its requests for comments.

Restricted fund method

First, concerns were raised regarding the elimination of the restricted fund method for entities currently using the method.

According to the members, many of these organizations, often foundations, raise funds for one or more other organizations that do not have their own internal fundraising process but who obtain their funding from these foundations, whose mission is to find financial resources and therefore to raise funds. They give the example of hospitals that obtain funds through a foundation. The role of these foundations is to provide financial resources to organizations that will use them to carry out activities, programs or to acquire capital assets. The foundation should not have to synchronize the granting of a contribution to an organization with the time when the organization receiving the contribution uses it for activities, programs or the acquisition of capital assets. There should not be an interface requirement between the foundation and the organization that is to use the contributions. The members gave the example of a foundation that organizes a fundraiser for the purchase of specialized equipment for a hospital. As long as the funds are not used by the hospital to acquire the capital asset, in accordance with the method imposed by the exposure draft, the contributions to the foundation would be deferred and should be synchronized with the hospital's equipment acquisition.

Some members suggested limiting the restricted fund method to organizations that do not have their own charitable activities (i.e., their role is to fund the charitable activities of other organizations), rather than removing the restricted fund method altogether.

Balance sheet approach

Subsequently, members welcomed the AcSB's willingness to move away from an asset and liability model for accounting for contributions, as presented in the first document for comments in which they had commented on this issue.

Specific consultation

The members questioned whether the Small Practitioners Working Group had been consulted on the proposals presented in the exposure draft. They recommend that the AcSB specifically consult with this working group because, in their view, the opinion of the auditors responsible for helping their NFPO client bases meet the AcSB's requirements is important.

ACSB'S SPECIFIC QUESTIONS

1. *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 organization and the contributor; and
   (b) the restriction requires the resources be used for a designated purpose and/or within a designated period of time.
   Do you agree with the proposed definition of a restricted contribution? If not, why not?

   The members felt that these more explicit criteria would clarify certain situations in practice, in particular by reducing ambiguities when contributions are restricted to the organization's overall mission.

   However, for some members, the word "explicit" could result in application and interpretation difficulties, and they suggested presenting examples of situations to make the criterion easier to interpret.

2. *The AcSB proposes that unrestricted contributions be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured (see paragraph 4411.13). Do you agree with the proposed recognition guidance for unrestricted contributions? If not, why not?*

   The members agreed with the proposals in paragraph .13 and concluded that paragraph .14 clarified the proposals.

3. *The AcSB proposes that an organization recognize revenue from restricted contributions 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 (see paragraph 4411.16)? If not, why not?*

   The members agreed with the proposals in paragraph .16 while highlighting below changes that they felt were necessary.

   First, they consider that the first sentence of paragraph .18 may be perceived as contradictory with the proposals in paragraph .16. The wording of paragraph .16, which states that contributions shall be recognized as revenue when or <u>as</u> restrictions are met, refers to a process similar to the <u>percentage</u> of completion method in Section 3400 of Part II of the Handbook. However, the wording of paragraph .18, which states that the revenue <u>is not recognized until the external restrictions are met</u>, appears to refer to a recognition process similar to the <u>completed</u> contract method. In their view, the first sentence of paragraph .18 should be removed to avoid any perception of a contradiction.

   In addition, members reiterated questions raised during the previous request for comments, about projects funded by multiple sources and the need for clarification regarding these questions:

   - How quickly should contributions be amortized when a project is funded by multiple sources?
   - When the monies are used for activities and capital assets, what is the portion of contributions to be recognized as revenue first?

- Is it the equity or restricted contributions that will be recognized first if the monies are not all spent in the same fiscal year?
- On what basis should benefits be allocated?

According to these members, application guidance should be included in the standard on this subject, as they consider these situations to be very commonly encountered in practice. In addition, they propose that the distribution of contributions be based on the estimated allocation of overall funding.

They also commented on Example 1, which demonstrates the use of the grant before any other funding, which is not clear from the proposals.

4. *Consider the following scenario: An NFPO receives a contribution that is classified as restricted, per the proposed definition. However, the organization meets the restriction and recognizes the revenue in the same reporting period, such that no remaining amount of the contribution is deferred at period end (see Illustrative Example 2 in [proposed] Section 4411). As proposed in paragraph 4411.44, the organization discloses the changes in the deferred contribution balance for the period, including the receipt of the restricted contribution and subsequent recognition of the contribution in revenue. In this scenario, is the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance relevant to users of financial statements? If not, why not?*

The members did not agree with the proposals. In their view, the required note disclosures should be limited to the composition of the deferred contribution balance for deferred contributions that have balance at the balance sheet date. Accordingly, they propose to remove paragraph 44(a).

If paragraph 44(a) is retained, the members clarify that under the current wording, it is not explicit that there is an obligation to explain the change if the organization meets the restriction and recognizes the revenue contribution during the same period. In their view, the wording can be interpreted to the effect that the requirement applies only to contributions where there is a deferred contribution balance at the balance sheet date. The members do not agree that the requirement applies to the situation described above and propose to limit the requirement to contributions for which there is a balance at the balance sheet date.

5. *The AcSB proposes that capital asset contributions related to amortizable assets be deferred and recognized as revenue on the same basis as the amortization expense on the related acquired capital assets (see paragraph 4411.21). For indefinite-lived assets, the Board proposes recognizing them as direct increases in net assets (see paragraph 4411.22).*

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

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

   The members agreed with the proposed paragraphs .21 and .22.

   However, they disagreed with paragraph .24. In their view, it is often necessary to acquire capital assets, such as specialized equipment, to carry out a particular project. However, the MOUs do not necessarily specify this.

   In their view, funders do not necessarily have the knowledge to determine whether the acquisition of a particular piece of equipment is required, let alone the ability to predict whether such equipment will have to be expensed or capitalized at the time of acquisition in accordance with the criteria and conditions set out in Section 4433. As a result, the members propose that it may be possible, <u>in certain situations</u>, to consider that a portion of the expenses may relate to the purchase of capital assets even if the MOU does not stipulate a portion to be restricted to such acquisitions, provided that the agreement does not prohibit it. They proposed that the paragraph should read as follows:

   > *.24 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. In such situations, it is possible to restrict a portion of the contribution to the acquisition, construction or development of capital assets if this expenditure makes it possible to carry out the project provided for in the agreement and the contributor does not explicitly prohibit that a portion of the expenditure may relate to the purchase of capital assets.*

   The members emphasize that in situations that provide for the acquisition, construction and development of depreciable and non-depreciable capital assets, a proportionate restriction is proposed.

6. *The AcSB proposes that endowment contributions be recognized as direct increases in net assets (see paragraph 4411.26). The Board also proposes that an organization disclose information about how it manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments (see paragraphs 4411.48-49).*

   (a) Do you agree that endowment contributions should be recognized as direct increases in net assets? If not, why not?

   (b) Do you agree with the nature and extent of the proposed additional disclosure requirements for endowments? If not, why not?

   The members agree with the proposals and consider that the new disclosure requirements will be helpful.

   However, in order to resolve an inconsistency with the terminology used from a contractual standpoint, they propose that the name of this type of restriction be changed to qualify it as a "perpetual endowment" to differentiate it from an endowment that, from a contractual standpoint, could provide for a fixed period. They give the example of certain MOUs that stipulate that it is an endowment when it is expected that the funds may be used by the organization after a period of 10 or 20 years.

   However, the members are very pleased with the disclosures required in paragraph .49. In their view, the disclosures will help to illustrate in practice situations in which investments have lost value and additional investments may be deemed necessary.

7. *The AcSB proposes that net investment income be recognized based on the nature of any restrictions on the investment income (see paragraph 4411.29). Income earned on investments would continue to be measured in accordance with guidance in other standards for the type of invested asset (see paragraph 4411.30).*

   (a) Do you agree with the proposed guidance relating to the recognition of net investment income? If not, why not?

   (b) Do you agree with the nature and extent of the proposed disclosure requirements relating to net investment income? If not, why not?

   The members agree with the proposals. However, they questioned certain situations that do not appear to be clarified by the proposals. For example, how should an organization that holds an overall investment in an investment fund for all of its internal and external restrictions, and endowments allocate financial income to the various types of restrictions it has? They propose that the AcSB specify that, where a separate capital asset does not exist for each restriction, this allocation is to be made in a logical, systematic and consistent manner over time. They state that the situation occurs frequently in practice.

   In addition, they would have liked clearer guidance in the example situation they have described below.

   > In accordance with the MOU with a contributor, the organization would be required to annually restrict a return equivalent to the consumer price index to its endowment fund. However, the organization's investments have been impaired and the organization's operations have not yielded the expected return. In the absence of guidance on how its return is to be accounted for, would the disclosure be sufficient? Should the organization be required to capitalize a minimum return through an internal restriction (and if so, could this endowment restriction be reversed if the impairment losses reverse in a subsequent year)? What happens if it is a restricted fund other than an endowment fund and no disclosure is required?

8. *The AcSB proposes continuing to allow organizations to choose to recognize contributions of materials and services that meet the criteria in paragraph 4411.32(b).*

   a) Do you agree with the proposed criteria in paragraph 4411.32(b)? If not, why not?

b) Do you think the proposed criterion in paragraph 4411.32(b)(iii) would allow organizations to recognize contributions of materials and services that are critical to the organization's mandate (provided the fair value can be reasonably estimated and they are used in the normal course of operations)?

c) If not, why not?

d) Do you agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services (see paragraphs 4411.51-52)? If not, why not?

The members agreed with the first two criteria set out in paragraph .32(b)(i) and (ii). However, they disagree with the last criterion of paragraph .32(b)(iii) that "the materials and services would otherwise have to be purchased to fulfill the organization's mandate…."

To explain their concerns, they cited two examples in the following paragraphs.

> An organization receives significant sponsorship (advertising) as part of a fundraising event. Were it not to have obtained free advertising, the organization would not have spent on advertising (or would not have spent an amount equivalent to the fair value of the sponsorships received). The organization would then not meet the recognition criteria and could not account for the contribution in the form of an advertising service, because if no contribution had been made, it would not have purchased this advertising.
>
> An organization receives a free snow removal service from the municipality in which it is located; were it not for the contribution, the organization would not have hired a snow removal firm and would have used its employees to carry out snow removal.

As a result, the members proposed that the criterion in paragraph .32(b)(iii) be completely removed. They do not understand the reluctance to restrict the recognition of contributions in the form of materials and services in a context in which it can be clearly ascertained from the disclosures that there is no effect on net income.

In addition, the members strongly disagree with the requirement to maintain the same accounting policy choice (paragraph .32(a) or (b)) for all contributed materials and services. In their view, the choice should be made for each transaction (contribution).

In their view, contributions from volunteers are often not accounted for by organizations because they do not maintain a volunteer time management policy. Accordingly, if contributions from volunteers are not recognized, this would force the non-recognition of all other contributed materials and services, regardless of whether their fair value can be reliably measured. In their view, this situation is not acceptable.

Some members suggested adding an exception as set forth in paragraph .07 of Section 4441, *Collections…*, which allows collections for which fair value cannot be reasonably determined to be recognized at nominal value. This proposal would have the advantage of avoiding reservations in the auditors' report when it is not possible to obtain audit evidence on the fair value of materials and services, by allowing recognition at nominal value.

The members proposed amendments to Section 4441, *Collections Held by Not-for-Profit Organizations*, and Section 4433, *Tangible Capital Assets Held by Not-for-Profit Organizations.* They highlight the contradictions that exist between the requirements of these two sections with respect to accounting for items held as part of a collection or contributed tangible assets and the proposals of Section 4411. The members consider that items held as part of a collection or contributed tangible assets should be accounted for under the same requirements as any other contributed materials received by the organization, taking advantage of the accounting policy choices set out in paragraphs .32(a) and .32(b), while sections 4411 and 4433, respectively, require that such contributions be accounted for by the organization (specifying that their recognition is to be at nominal value if their fair value cannot be reasonably estimated).

Lastly, with regard to paragraph .51, the members asked the AcSB to specify that the consideration must be expensed. It is common for auditors to face questions from NFPO directors on this subject who ask that the amounts be presented on a net basis in the financial statements. The lack of guidance in the standard regarding the presentation of revenues and expenses of this nature on a gross basis is detrimental to their work.

9. *The AcSB proposes that a pledge or a bequest be recognized only when the recognition criteria in paragraphs 4411.13, 4411.16 or 4411.26 are met for each individual pledge or bequest. This means that in many cases a pledge will not meet the proposed criteria for recognition until the pledge is received and collection therefore is reasonably assured. Do you agree that a pledge should generally not be recognized until collected (see*

paragraph 4411.36)? If not, under what scenarios would a pledge meet the recognition criteria prior to collection?

The proposals in French appear to distinguish between a contribution receivable and a pledge; however, there is no definition of what constitutes a pledge as opposed to a contribution receivable. The members consider that there is greater uncertainty regarding donations and bequests in particular; as a result, in their view, paragraph .36 should be reworded to revise the French expression “promesse d’apport” to ensure that “promesses de dons” (pledges) and bequests are exclusively referred to.

10. *The AcSB proposes that organizations disclose contributions by major source. The Board also proposes that organizations disclose economic dependence when the ongoing operations depend on a significant contribution(s) from another party (see paragraphs 4411.40-41).*
    a) *Do you think disclosing contributions by major source provides decision-useful information? If not, why not?*
    b) *Do you think disclosing economic dependence when the ongoing operations depend on a significant contribution(s) from another party provides decision-useful information? If not, why not?*

Most members do not agree with the requirement to present revenues by major source. Instead, the members propose that revenues be presented by nature or by category. Furthermore, for private enterprises, revenues are presented by category according to paragraph 3400.33. The members consider that the source of the contributions is not always relevant and that the organizations’ accounting records do not necessarily provide for such a breakdown. They ask the AcSB to revisit the requirements, including adding application guidance that could be consistent with the wording presented in Part II, paragraph 3400.35. They also specify that the amortization of a deferred contribution should not be considered to be a separate source. For example, the amortization of a deferred grant should be presented in the same line item as grants received and recognized in the year.

The members did not agree with the new disclosure requirement in paragraphs .41 and 52(c) regarding economic dependence. In their view, a detailed presentation of revenues in the statement of operations makes it easy to conclude that there is economic dependence by providing disclosures regarding the main funders. Should the AcSB decide to maintain these requirements, the members propose to add a definition of "economic dependence" in Section 4411 that would be specific to NFPOs. This definition should be based solely on the significance of the contributions received from the same contributor (or group of contributors). The members consider that referring to the Section 3841 definitions and clarifications regarding economic dependence would make these disclosure requirements difficult to apply in practice, more specifically with regard to the clarifications set out in paragraph 3841.05, which would require in particular that an NFPO make a judgment on the possibility of readily replacing the contributed materials and services received from another contributor. For example, the members noted situations in which contributions from volunteers are critical to an organization's ability to continue a going concern: it would be relatively easy to conclude that there is economic dependence based on the extent or significance of these contributions, but it is much more difficult to determine whether the organization would be readily able to find other volunteers.

11. *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 is applied, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule (see paragraph 4400.06A).*
    a) *Do you agree that when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule? If not, why not?*
    b) *Do you agree with the other proposed amendments to Section 4400 to clarify the application of fund accounting presentation?*

Some members raised practical concerns related to the requirement to present comparative information for all funds. Rather, they would propose that this presentation be optional.

12. *The AcSB proposes an amendment to Section 4400 that requires an organization to disclose information about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those restrictions (see paragraphs 4400.22A-22B).*
    a) *Do you agree with the proposed disclosure requirements (see paragraphs 4400.22A-22B)? 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 its requirements related to restricted contributions? If not, why not?*

The members supported the proposals. However, some members consider the information to be redundant when the wording clearly identifies the requirements related to the restricted contributions or clearly identifies the assets reserved for this purpose. Other members noted that it is sometimes difficult to identify the assets available to meet the specific deferred contribution requirements when the organization’s assets are collectively managed.

13. *The AcSB proposes that Section 4411 and proposed amendments to Section 4400 be applied retrospectively in accordance with Section 1506, with certain transition provisions.*
    a) *Do you agree that proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively? If not, what transition approach would you recommend and why?*
    b) *Do you agree with the proposed optional transitional relief that an organization is not required to make retrospective adjustments in respect of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest period presented in the financial statements in which the organization first applies proposed Section 4411 (see paragraphs 4411.55-.56). If not, why not?*

Some members propose that relief be added to the transitional provisions to allow not-for-profit organizations not to restate contributions that were recognized as revenue before the beginning of the earliest period presented. Similar relief was provided, for example, to for-profit enterprises when the new requirements of Section 3400, Revenue, became effective, and these members are of the view that similar relief should be provided to not-for-profit organizations regarding contributions.

14. *The AcSB proposes an effective date of fiscal years beginning on or after January 1, 2026, 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?*

The members agree with the proposals.

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

The members agree with the proposals.

OTHER COMMENTS

- **Consequential amendments to Section 4400:**

  The members raise difficulties related to the application of paragraphs .37 and 38 of Section 4400, which address presenting revenue and expenses on a gross or net basis. They raise application issues related to these paragraphs owing to the lack of explicit guidance applicable to not-for-profit organizations. Although Section 3400, *Revenue*, of Part II of the Handbook provides guidance on this issue, it is not appropriate for the recognition of contributions, for example within the context of an organization that collects and manages monies that are intended to be distributed to other not-for-profit organizations under an externally imposed restriction by the contributor. Adapted indicators should be added to Section 4400 to provide a basis for analyzing whether an organization is a principal or an agent under such MOUs.

- **Some members flagged errors in the examples presented in the AcSB proposals below.**

  Page 16 – Example 5B – Capital asset contribution

  At the entry presented at the bottom of page 16, the item "Cash" is debited, whereas the contribution is not a cash contribution but rather a capital asset contribution. Rather, the item "Capital assets" should have been debited.

  Page 22 – Example 7 – Transition

  Some members would have appreciated an additional example to be presented to illustrate the transitional provision under paragraph .55(a), whereas only the transitional provision under paragraph .55(b) is illustrated.

Page 38 and 39 – Examples 4A and 4B – Disclosures

Endowments totalling $2,000,000 are not reflected in the financial statements presented on page 37. They should be added, as they must be presented separately under paragraph 4400.19(b).

- **Net investment income:**
  For some members, the requirements of paragraph .50 are unclear, as the proposals do not define what constitutes "net financial income" referred to in this section. For some, the disclosures under paragraph .50 include only net financial income from the investment of the contributions, while for others, it is a matter of presenting all net financial income whether or not it results from the investment of the contributions.

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Giving Hope Today

September 28, 2023

Katharine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontairo M5V 3H2

Dear Ms. Christopoulos:

CONTRIBUTIONS – REVENUE RECOGNITION AND RELATED MATTERS

We have reviewed the Exposure Draft and other documents related to the Exposure Draft on Contributions. Our responses to the questions posed are set out in the document attached.

While we agree with the elimination of choice of financial statement presentation and the elimination of choice with respect to revenue recognition of restricted contributions, we think the proposed revisions contained in this exposure draft represent an inappropriate emphasis on 'smoothing' and 'matching', both of which we understand to be irrelevant as financial reporting objectives.

The proposed revisions appear to reach the conclusion that deferred revenue recognition for restricted contributions is the only or best way to simply financial statement presentation. We believe that hypothesis needs further consideration and debate.

We urge the Accounting Standards Board to review these issues carefully and reconsider what is proposed, which, in our view, contradicts our conceptual framework.

Thank you for considering these comments.

Sincerely yours,

Paul Goodyear

R. Paul Goodyear, *BCom, MBA, FCPA, FCMA*
Chief Financial Officer

Patricia O'Malley

Patricia L. O'Malley, *BCom, FCPA, FCA*
Chair, Audit Committee

RESPONSE TO THE EXPOSURE DRAFT:

CONTRIBUTIONS – REVENUE RECOGNITION AND RELATED MATTERS

1. *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 organization and the*
   b) *contributor; and*
   c) *the restriction requires the resources be used for a designated purpose and/or within a designated period of time.*

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

   Response:

   Yes.

2. *The AcSB proposes that unrestricted contributions be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured (see paragraph 4411.13). Do you agree with the proposed recognition guidance for unrestricted contributions? If not, why not?*

   Response:

   Yes.

3. *The AcSB proposes that an organization recognize revenue from restricted contributions 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 (see paragraph 4411.16)? If not, why not?*

   Response:

   No.

   We believe that both restricted and unrestricted contributions increase the service potential and net financial position of not-for-profit organizations and should, as a result, be reflected in revenue and net assets when they are received.

We do not believe the nature of most external restrictions imposed on not-for-profit organizations meet the definition of a liability.

The exposure draft suggests that while there may not be a legal liability, there is a moral and/or ethical obligation. That is true, but it is equally true of unrestricted contributions. For a not-for-profit organization, there is in practical terms very little difference in the obligation imposed with respect to unrestricted or restricted contributions. Both types of contributions must be used to fulfil the mission of the organization and, for a not-for-profit organization that is also a registered charity, its charitable objects. In adopting this line of reasoning, we believe that the AcSB is applying the notion of a "constructive obligation" inappropriately. For such an obligation to exist, the other party must suffer some kind of detriment if it relies on the entity's "customary practices, published policies or specific statements" and the entity does not perform as it has previously done. It is difficult to determine what economic detriment would arise in the case of a contribution if the restriction was not satisfied.

While some contributions are restricted by donors for certain purposes or for use in certain time periods, in most cases they do not result in a repayment if the purpose intended by the donor cannot be fulfilled. In fact, for registered charities, there are legal impediments to returning donations for which official receipts for tax purposes have been provided.

When a for-profit organization receives payment for goods or services that have yet to be provided, it makes sense to defer the revenue and recognize it when that performance obligation has been met. In most cases, failure to provide the goods or services results in the requirement to provide a refund to the customer. The key obligation is to fulfil the customer's order or refund their payment.

When a not-for-profit organization receives a contribution that has been designated by the donor to be used for certain purposes, there is no similar obligation. The obligation that is created is to use the funds to meet the mission of the organization, albeit in keeping with the donor's particular specifications if possible. If there is an obligation, that obligation is primarily to the beneficiaries of the NFPO's programs and services who will be helped by the funds that have been contributed.

From a balance sheet perspective, the proposed approach will result in a significant move from restricted net assets to liabilities, negatively impacting the assessment of a not-for-profit organization's ability to borrow, if required, and as well as donors' conclusions about ongoing solvency of the organization. The reality is that restricted contributions on hand improve the financial position of the organization and should be considered as net assets rather than liabilities in evaluating the organization's financial position.

In revenue recognition, we talk about the critical event that leads to recognition. In the case of a not-for-profit organization, the critical event is the receipt of the contribution, not fulfilling the purpose for which it was contributed. While some restricted contributions result in special reporting requirements to keep the contributor informed, many restricted contributions come with no such requirements; the contributor states his/her specification for use of the donation and trusts the charity to fulfil it without any further reporting required. The critical event is the receipt of the contribution, and this is when revenue should be recognized.

Underlying the proposed approach appears to be a desire for 'matching' and 'smoothing', two concepts that we think should have little bearing on the issue of revenue recognition for contributions. The world is volatile, and the financial statements should reflect that volatility which arises from changes in the underlying economic circumstances faced by the organization. It is this fundamental belief that led the AcSB to adopt fair value accounting for financial instruments. We would argue that going back to 'matching' and 'smoothing' as an objective for revenue recognition flies in the face of the improvements that accounting standards have made in recent years with respect to the conceptual framework and the notion that if you get the balance sheet right, the statement of operations will be right, too.

We believe that the AcSB should give further consideration to this matter. We would note that the goal appears to be to simplify the presentation, but we would urge the AcSB not to adopt the deferral method as the only means of achieving a simplified presentation in the financial statements. We readily admit that the present restricted fund presentation is confusing to readers and could be simplified without changing the revenue recognition policy. In our view, improving this presentation would be a more productive way of achieving the desired simplification. This particularly true as the AcSB proposes to continue to permit the use of fund accounting presentation.

4. *Consider the following scenario: An NFPO receives a contribution that is classified as restricted, per the proposed definition. However, the organization meets the restriction and recognizes the revenue in the same reporting period, such that no remaining amount of the contribution is deferred at period end (see Illustrative Example 2 in proposed Section 4411). As proposed in paragraph 4411.44, the organization discloses the changes in the deferred contribution balance for the period, including the receipt of the restricted contribution and subsequent recognition of the contribution in revenue. In this scenario, is the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance relevant to users of financial statements? If not, why not?*

Response:

We would argue that this disclosure is not particularly relevant to users. For organizations that receive a significant number of restricted contributions that meet the definition, the disclosure will have to be summarized in such a fashion --- one could not practically disclose such contributions individually --- that the resulting information will be of little use to readers. It will only really be of use for an organization that receives a small number of restricted contributions.

5. *The AcSB proposes that capital asset contributions related to amortizable assets be deferred and recognized as revenue on the same basis as the amortization expense on the related acquired capital assets (see paragraph 4411.21). For indefinite-lived assets, the Board proposes recognizing them as direct increases in net assets (see paragraph 4411.22).*
   a) *Do you agree with the proposed recognition guidance for capital asset contributions related to amortizable assets? If not, why not?*
   b) *Do you agree with the proposed recognition guidance for capital asset contributions related to indefinite-lived assets? If not, why not?*

Response:

a) We fundamentally disagree with the matching of the revenue from restricted contributions for the acquisition of capital assets to the amortization of those assets. As noted in our response to question #3, we believe the critical event takes place when the contribution is received, and recognition should take place then. If, however, accounting standards require deferral of the restricted contribution for capital assets, recognition should then take place when the capital assets have been acquired.

   Matching the revenue from the contribution to the amortization of the capital asset confuses the economic reality of what has transpired. While the organization has an obligation to use the capital asset for which the contributor has contributed, the reality is that contributor has funded acquisition or development of the capital asset, they have not provided a contribution to fund the erosion of the asset's service potential (i.e., amortization). Amortization of the capital asset is an expense to the organization that reflects the fact that the underlying service potential of the asset has been consumed. It is a cost to the organization and should be reflected in the accounts, without being offset by revenue that was provided to construct or acquire the capital asset in the first place.

b) No. We believe that all contributions should be reflected in revenue. We do not accept the notion that to avoid volatility in the financial statements some revenues and expenses should be reflected directly in net assets. Any change that impacts the financial position of the organization should flow through revenue and expenses and impact the excess (deficiency) of revenue over expenses and thus net assets.

6. *The AcSB proposes that endowment contributions be recognized as direct increases in net assets (see paragraph 4411.26). The Board also proposes that an organization disclose information about how it manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments (see paragraphs 4411.48-49).*

   a) *Do you agree that endowment contributions should be recognized as direct increases in net assets? If not, why not?*
   b) *Do you agree with the nature and extent of the proposed additional disclosure requirements for endowments? If not, why not?*

Response:

a) No, as noted in our response to question #5 (b), we start from the premise that no changes in financial position should be reflected directly in net assets. Rather, all changes should flow through revenue and expenses and the net excess or deficiency that results. Reflecting certain changes 'below the line' only serves to confuse readers of financial statements and acquiesces to a view that is anachronistically stuck in a 'matching' and 'smoothing' mindset.

b) Yes.

7. *The AcSB proposes that net investment income be recognized based on the nature of any restrictions on the investment income (see paragraph 4411.29). Income earned on investments would continue to be measured in accordance with guidance in other standards for the type of invested asset (see paragraph 4411.30).*
   a) *Do you agree with the proposed guidance relating to the recognition of net investment income? If not, why not?*
   b) *Do you agree with the nature and extent of the proposed disclosure requirements relating to net investment income? If not, why not?*

Response:

a) Yes.
b) Yes.

8. *The AcSB proposes continuing to allow organizations to choose to recognize contributions of materials and services that meet the criteria in paragraph 4411.32(b).*
   a) *Do you agree with the proposed criteria in paragraph 4411.32(b)? If not, why not?*
   b) *Do you think the proposed criterion in paragraph 4411.32(b)(iii) would allow organizations to recognize contributions of materials and services that are critical to the organization's mandate (provided the fair value can be reasonably estimated and they are used in the normal course of operations)? If not, why not?*
   c) *Do you agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services (see paragraphs 4411.51-52)? If not, why not?*

Response:

a) Yes.
b) No. This criterion adds nothing to the decision. One could well argue that that all materials and services used in the normal course of operations would have to be purchased if they were not contributed. A food bank, for example, may in normal circumstances, distribute only donated food, but at certain times, when food donations are low, they may have to resort to purchasing food. Anything that is donated and would not have to be purchased if it were not donated is not needed in the organization.

9. *The AcSB proposes that a pledge or a bequest be recognized only when the recognition criteria in paragraphs 4411.13, 4411.16 or 4411.26 are met for each individual pledge or bequest. This means that in many cases a pledge will not meet the proposed criteria for recognition until the pledge is received and collection therefore is reasonably assured. Do you agree that a pledge should generally not be recognized until collected (see paragraph 4411.36)? If not, under what scenarios would a pledge meet the recognition criteria prior to collection?*

Response:

On the one hand, we think this seems reasonable to our organization as we do not recognize pledges; however, we appreciate that some organizations have significant experience with pledges and can accurately forecast the amounts that will be collectible. Such organizations should have the freedom to recognize pledges to the extent that they can satisfy their auditors that the estimates are reasonable. In our view, restricting recognition based on an individual pledge and an assessment of its collectability individually will, in fact, impair, rather than improve financial reporting.

10. *The AcSB proposes that organizations disclose contributions by major source. The Board also proposes that organizations disclose economic dependence when the ongoing operations depend on a significant contribution(s) from another party (see paragraphs 4411.40-41).*

a) *Do you think disclosing contributions by major source provides decision-useful information? If not, why not?*
b) *Do you think disclosing economic dependence when the ongoing operations depend on a significant contribution(s) from another party provides decision-useful information? If not, why not?*

Response:

a) Yes.
b) Yes.

11. *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, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule (see paragraph 4400.06A).*

a) *Do you agree that when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule? If not, why* *not?*

b) *Do you agree with the other proposed amendments to Section 4400 to clarify the application of fund accounting presentation?*

Response:

a) Yes.
b) Yes.

12. *The AcSB proposes an amendment to Section 4400 that requires an organization to disclose information about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those restrictions (see paragraphs 4400.22A-22B).*

    a) *Do you agree with the proposed disclosure requirements (see paragraphs 4400.22A-22B)? 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 its requirements related to restricted contributions? If not, why not?*

Response:

a) Yes.
b) Yes.

13. *The AcSB proposes that Section 4411 and proposed amendments to Section 4400 be applied retrospectively in accordance with Section 1506, with certain transition provisions.*
    a) *Do you agree that proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively? If not, what transition approach would you recommend and why?*
    b) *Do you agree with the proposed optional transitional relief that an organization is not required to make retrospective adjustments in respect of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest period presented in the financial statements in which the organization first applies proposed Section 4411 (see paragraphs 4411.55-.56). If not, why not?*

Response:

a) Yes.
b) From a cost-benefit perspective, yes, but this will impair the reader's ability to understand what is happening with capital assets that have been at least partially funded from restricted contributions. How will the reader be able to understand the significance of some contributions being recognized over the life of the capital asset and others having already been recognized? We would simply point out that recognizing restricted capital contributions immediately on receipt or on acquisition of the asset avoids this impairment of the financial statements.

14. *The AcSB proposes an effective date of fiscal years beginning on or after January 1, 2026, 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?*

Response:

a) Yes.
b) Yes.

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

Response:

Yes.

AcSB Exposure Draft – Contributions – March 2023 document Comments requested

The comments in this letter were gathered from the following hospital foundations (Foundations) by answering each question requested by the Accounting Standards Board (AcSB):

- The Jewish General Hospital Foundation
- The Montreal General Hospital Foundation
- The McGill University Health Centre Foundation
- Foundation CHU Sainte-Justine
- The Montreal Children's Hospital Foundation

In addition, in July 2023, a few members of the Foundations attended the virtual roundtable discussion on the Contributions Exposure Draft offered by the AcSB. At this meeting, it became evident when hearing from all the other organizations that the proposed changes would create significant issues for the fundraising organizations that are mostly all using the restricted method of accounting for contributions. We also noticed a lack of understanding and most importantly representation from the AcSB of the Fundraising NFPOs and its nature of business, for example we were asked if our donors cared to see a year-end surplus, something that would be eliminated with the proposed changes. We advised the AcSB, that donors do not care, they are interested in seeing the total fundraising revenues, fundraising expenses and our spending ratio.

Our Foundations are not operating organizations but rather fundraising organizations. We receive contributions on an annual basis, hold fund balances and eventually allocate funds to supporting qualified donees. Recognizing all contributions received in a specific year in the Statement of Operations and reporting any excess of contributions over allocations in our fund balances is very important to our stakeholders. This allows them to see the full financial picture of the organization's fundraising efforts for the year (both revenues and fundraising expenses) and the fund balances. It is important that donors have visibility on those projects which they can follow by looking at their cumulative given contributions as well as the cumulative expenditures on a real-time basis (not on a deferred basis). Stewardship with the donors is a key for a success for foundations. Being transparent on the real-time financial information is part of this success.

We strongly disagree with the proposed changes. In our opinion, in order to justify a change, there must be a rationale that will lead users of financial statements to better understand the results or performance of an organization and to improve the understanding or transparency of the organization's financial results. The suggested changes in the Exposure Draft are more likely to lead to confusion and unnecessary complexity for the users and the preparers of the financial statements of Not-for-Profit Organizations (NFPO). We strongly believe there is no added value to impose a specific method of accountancy to an organization.

Recommendation: As hospital foundations, fundraising organizations, we request **not to change** the current Accounting Standards for Not-for-Profit Organizations (ASNPO), and keep the rules that allows NFPOs to choose their contributions' accounting method i.e., either the restricted fund method of accounting for contributions or the deferral method of accounting for contributions.

The restricted fund method of accounting should remain an option since it is particularly useful to organizations that have long time horizons for spending and receive contributions where the eventual timing of their expenditure is flexible and varying in amount. It is useful for fundraising organizations such as community, educational institutions, hospital foundations, faith-based organizations and other foundations. This accounting method is designed with a focus of making clear to readers what restricted funds have been received, how they are being managed and how they are spent.

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 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 organization and the contributor; and
   (b) the restriction requires the resources be used for a designated purpose and/or within a designated period of time.

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

   Comments: Even though the definitions seem correct, we would prefer to keep the current definitions of "restricted contribution", "endowment contribution" and "unrestricted contribution" since for the section 1b), there is not always a defined period determined for a restricted contribution.

2. The AcSB proposes that unrestricted contributions be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured (see paragraph 4411.13). Do you agree with the proposed recognition guidance for unrestricted contributions? If not, why not?

   Comment: We do agree with this proposal since our organizations have long time horizons for spending and receiving contributions and the spending of expenditures is flexible and based on priorities.

3. The AcSB proposes that an organization recognize revenue from restricted contributions 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 (see paragraph 4411.16)? If not, why not?

   Comments: we recommend to keep the current rules specifically the restricted fund method of accounting for the restricted contributions for the following reasons:
   - **Hospital foundations are primarily fundraisers**; therefore, the credibility and performance of a hospital foundation is based on how much was raised during the fiscal year. By using the Deferral method of accounting for restricted contributions, the users, the public, the donors, potential donors lose the clear and simple visibility on the amount raised by the hospital foundations on an annual basis. The donations are in majority major gifts from other foundations or personal wealth. We received very few grants. Hospital foundations do not provide a service but rather financial support to health institutions in great majority for mid-long-term projects that has a positive impact on patient care by innovative solutions. Generally. hospital

foundations have few capital assets or inventory. Hospital foundations manage hundreds of funds with very limited human resources/team.

- **The hospital foundations fundraising ratios** need to reflect the effort of fundraising during the fiscal year. the Foundations collect revenues from multiple sources: major donors, planned giving, annual giving, events, tributes etc. Foundations are evaluated based on different rations, such as:
    - spending ratio
    - administration expenses over revenues from fundraising
    - revenues from fundraising over Full Time Employee, and others.

  These ratios are important key factors for donors when evaluating the strength of an organization before choosing which organization to contribute to.
- **Loosing clarity and visibility** by reporting revenue slowly over time instead of reporting actual annual revenue in the current year. This makes the financial statement presentation more complex and creates a new challenge (generating more questions and misunderstanding) of having to explain to our end users the full picture. Stewardship with our donors is a key to the success of our foundations. Being transparent on the real-time financial information is part of this success. Also, when a foundation manages multi projects with multiple funds, this deferral accounting methodology will increase complexity and decrease clarity to the users. Most of the donors or future potential donors (financial statements are public to the population) are not that knowledgeable on accounting rules. Therefore, the financial statements need to be user friendly to the majority of the stakeholders. Users do not usually read notes to the financial statements.
- **Adding more human resources and time to develop a tool** to support deferred revenues reporting method as proposed knowing that foundations mostly have limited human resources and time. We support lots of projects for which start time and ending time are different from one another.
- Manual work would be expected to track and manage deferred revenues over time leading to **inaccuracy, potential errors and misrepresentation** which creates increased cost to the foundations with additional complexity (human resources, technical challenges).
- **Adding reporting complexity** in our financial statements presentation and reviews by splitting revenue income in two buckets and explaining the deferred recognition methodology to end users. This would bring more confusion and no added value for the users.
- **Adding transactional complexity** will require NFPO to ensure the proper management of each transaction – donations received to meet this new technical standard. Most hospital foundations have a small team with limited resources and time. Additional complexity will increase investment in time and dollars therefore will reduce the direct support amount to the qualified donees especially with managing hundred (or thousands) of funds by each of our foundations, most of them being restricted and endowed funds.
- **Adding more value to our financial statements**. Instead of just providing a high-level summary, the breakout of fund activity under the restricted fund method offers much more insight and transparency. It also paints a better picture of the usage of

the different funds hence a better picture to our donors- one of our main contributors and the existence of a NFPO. It is crucial for them to understand the financial statements and the efficiency, performance of the foundation to raise contributions.

- **Score in the Charity Intelligence Canada:** Charity Intelligence Canada is a go to for our donors and funders: website visits are the most important metric that contributes to Charity Intelligence Canada's results and impact. Charity Intelligence Canada website is the "go-to trusted source for information on Canadian charities". By adding complexity and confusion reducing revenues, reducing transparency, risk of error (manual work to track and manage the deferred revenue) all could impact our Score in the Charity intelligence. Our Foundations are based on a fundraising score and not a service fundraising ratio. The proposal of the AcSB to use uniquely the deferral method adds the complexity of the financial statements. It takes away the actual annual revenues received by the foundations which impact greatly their grade therefore an impact on the actual donors and future donors as they see that our grade is not representative of the annual actual fundraising effort. The ratio results will be deficient and therefore the percentage will be higher and the majority of users will not take the time to understand why and will judge without understanding the new rules. They will think that the foundations are less effective and this could have an impact on their future contributions. Donors judge a foundation's performance by the total amount of contributions it collects, regardless of the nature of those contributions.

We request to **maintain the current accounting standards** which leave the choice of methods of accounting for contributions up to organizations. We have many projects to follow and the nature of the restrictions are large and would be complex to follow with very little added value. We want to steward donors on projects and impacts on the community and re-engage them without explaining a complex accounting as proposed in the new rules of the Exposure Draft.

4. Consider the following scenario: An NFPO receives a contribution that is classified as restricted, per the proposed definition. However, the organization meets the restriction and recognizes the revenue in the same reporting period, such that no remaining amount of the contribution is deferred at period end (see Illustrative Example 2 in proposed Section 4411). As proposed in paragraph 4411.44, the organization discloses the changes in the deferred contribution balance for the period, including the receipt of the restricted contribution and subsequent recognition of the contribution in revenue. In this scenario, is the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance relevant to users of financial statements? If not, why not?

   Comment: Since we do not agree to remove the restricted fund method of accounting for restricted contributions as proposed in this Exposure Draft and for the reasons mentioned above, we will not comment on the proposed Illustrative Example 2 and paragraph 4411.44.

5. The AcSB proposes that capital asset contributions related to amortizable assets be deferred and recognized as revenue on the same basis as the amortization expense on the related acquired capital assets (see paragraph 4411.21). For indefinite-lived assets, the Board proposes recognizing them as direct increases in net assets (see paragraph 4411.22).
   (a) Do you agree with the proposed recognition guidance for capital asset contributions related to amortizable assets? If not, why not?

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

   Comment for a) and b): The majority of foundations have few or no capital assets contributions. However, we believe that these contributions should be treated in the same way as any other contribution i.e., that contributions be reported in income when received.

6. The AcSB proposes that endowment contributions be recognized as direct increases in net assets (see paragraph 4411.26). The Board also proposes that an organization disclose information about how it manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments (see paragraphs 4411.48–49).
   (a) Do you agree that endowment contributions should be recognized as direct increases in net assets? If not, why not?
   (b) Do you agree with the nature and extent of the proposed additional disclosure requirements for endowments? If not, why not?

   Comments for a) and b): We do not agree to remove the restricted fund method of accounting for endowment contributions as proposed in this Exposure Draft. Again, hospital foundations are fundraisers and therefore, it is important to show clearly the fundraising efforts for all types of contributions by recording the contributions at the time they are received in the Statement of Operations during the fiscal year. Also, an endowment is to ensure the sustainability and the support of hospital foundations. If endowment contributions are never recorded as revenue, organizations will always show a high spending ratio (efficiency rate). This is because organizations incur fundraising expenses to collect these endowment contributions. We need visibility of our efforts to fundraise. Endowment funds are restricted funds specifying that contribution be maintained permanently.

7. The AcSB proposes that net investment income be recognized based on the nature of any restrictions on the investment income (see paragraph 4411.29). Income earned on investments would continue to be measured in accordance with guidance in other standards for the type of invested asset (see paragraph 4411.30).
   (a) Do you agree with the proposed guidance relating to the recognition of net investment income? If not, why not?
   (b) Do you agree with the nature and extent of the proposed disclosure requirements relating to net investment income? If not, why not?

   Comment for a) and b): Since we do not agree to remove the Restricted fund method of accounting for restricted contributions as proposed in this Exposure Draft, we recommend to keep the current restricted fund method and the current accounting method for the investment income avoiding recording deferred amounts and to maintain the clarity on what invest income was earned during year, how the portfolio has performed.

8. The AcSB proposes continuing to allow organizations to choose to recognize contributions of materials and services that meet the criteria in paragraph 4411.32(b).
   (a) Do you agree with the proposed criteria in paragraph 4411.32(b)? If not, why not?
   (b) Do you think the proposed criterion in paragraph 4411.32(b)(iii) would allow organizations to recognize contributions of materials and services that are critical to the organization's mandate (provided the fair value can be reasonably estimated and they are used in the normal course of operations)? If not, why not?
   (c) Do you agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services (see paragraphs 4411.51-52)? If not, why not?

   Comment for a), b) and c) Keep the current rules event if it is rare that foundations receive material and services.

9. The AcSB proposes that a pledge or a bequest be recognized only when the recognition criteria in paragraphs 4411.13, 4411.16 or 4411.26 are met for each individual pledge or bequest. This means that in many cases a pledge will not meet the proposed criteria for recognition until the pledge is received and collection therefore is reasonably assured. Do you agree that a pledge should generally not be recognized until collected (see paragraph 4411.36)? If not, under what scenarios would a pledge meet the recognition criteria prior to collection?

   Comments: We recommend to maintain the current Canadian accounting principles for pledges and bequests. Useful to disclose pledges (as a note to the audited financial statements) since it is an important indicator of the financial strength of the organizations. It shows the stability of the organizations. Pledges are also disclosed in the organizations' annual report, outside of the audited financial statement as a note.

10. The AcSB proposes that organizations disclose contributions by major source. The Board also proposes that organizations disclose economic dependence when the ongoing operations depend on a significant contribution(s) from another party (see paragraphs 4411.40-41).
    (a) Do you think disclosing contributions by major source provides decision-useful information? If not, why not?

    Comment: This is more management reporting. This information is presented in our annual report and it depends of the risk. It could an option. Depending on how each organization wants to disclose this type of information.

    (b) Do you think disclosing economic dependence when the ongoing operations depend on a significant contribution(s) from another party provides decision-useful information? If not, why not?

    Comment: As a note in the audited financial statements but again as a judgement call (for example: 1 donor represents +50% amount of overall donations). It could an option on the decision to how each organization wants to disclose this type of information

11. 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, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule (see paragraph 4400.06A).

    (a) Do you agree that when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule? If not, why not?

    Comment: We do not agree for applying either the comparative information or the note since we do not agree with the proposed changes of the Exposure Draft. We also feel like it would be too much information that our users are not looking for and therefore would not be useful.

    (b) Do you agree with the other proposed amendments to Section 4400 to clarify the application of fund accounting presentation?

    Comment: For the additional information on *.06 b) the factors used to determine the funds reported* and explained further under *.07 The factors used to determine the funds reported may include, for example, whether the organization has chosen to report funds based on programs, geographical areas or a combination of factors;* we do not agree that this type of information would be pertinent for donors, the public.

12. The AcSB proposes an amendment to Section 4400 that requires an organization to disclose information about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those restrictions (see paragraphs 4400.22A-22B).

    (a) Do you agree with the proposed disclosure requirements (see paragraphs 4400.22A-22B)? 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 its requirements related to restricted contributions? If not, why not?

    Comment for a) and b): We do not agree for disclosing this new information since we do not agree with the proposed new rules.

13. The AcSB proposes that Section 4411 and proposed amendments to Section 4400 be applied retrospectively in accordance with Section 1506, with certain transition provisions.

    (a) Do you agree that proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively? If not, what transition approach would you recommend and why?

    (b) Do you agree with the proposed optional transitional relief that an organization is not required to make retrospective adjustments in respect of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest period presented in the financial statements in which the organization first applies proposed Section 4411 (see paragraphs 4411.55-.56). If not, why not?

Comment for a) and b): We do not agree for applying the new rules retrospectively since we do not agree with the proposed changes.

14. The AcSB proposes an effective date of fiscal years beginning on or after January 1, 2026, 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?

    Comment: We do not agree for proposing an effective date for applying the new rules since we do not agree with the proposed changes.

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

    Comment: Since we do not agree with the proposed new rules and for the reasons mentioned above, we will not comment on the proposed illustrative examples.

Montreal, Canada
September 26, 2023

Audrey Hadida
Audrey Hadida (Sep 28, 2023 14:08 EDT)

Audrey Hadida
Vice-President, Finance & Administration
The Jewish General Hospital Foundation

Julie Denis, CPA

Julie Denis
Senior Vice President, Finance & Administration
The Montreal General Hospital Foundation

Harris Poulis
Harris Poulis (Sep 28, 2023 14:20 EDT)

Harris Poulis
Interim President & CEO
The McGill University Health Centre Foundation

Genevieve Provencher
Genevieve Provencher (Sep 28, 2023 15:35 EDT)

Genevieve Provencher
Vice-presidente Operations
Fondation CHU Sainte-Justine

Hugo Rivard-Royer
Vice President, Operations
The Montreal Children's Hospital Foundation

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

Dear Ms Christopoulous,

I will preface my response by saying that I agree that it would be a good practice if all not-for-profit organizations followed one form of accounting, and I appreciate all the work that has been done by so many people to get to this point of having an Exposure Draft (ED) to help solve the problem of multiple accounting methods.

However, I feel the incorrect form was chosen. I strongly feel that the Restricted Fund Method would have been a more appropriate method for all not-for-profit organizations, and is indeed the method preferred by the main users of our financial statements - the government agency providing our operating and capital grants.

For anyone who stops to think about it, it is actually very easy and intuitive to understand the Restricted Fund Method of accounting and presentation. A fund balance in the Restricted Research Fund or the Restricted Trust fund means that those amounts are restricted and not to be spent on operations. Also, revenues and contributions recorded in Restricted funds cannot be used for operations because they are restricted. The fund balances in the General Funds are not externally restricted. It is easy to tell what money is available for operations, or is internally restricted (and possibly still available for operations). The only error in the current Restricted Fund Method is the requirement to add up all the restricted and unrestricted funds and have one total for the organization. The restricted funds and the endowment fund should have been left on their own with their own set of self-balancing financial statements.

This new method proposed in the ED takes away all this ease of understanding, turns the statements themselves into useless reports for the real users, and then tries to make up for the uselessness by adding a whole bunch more note disclosure for users to plow through.

Regardless, I'm pretty sure that this particular ship has sailed, and the new form of presentation is set. It looks like the intent of exposure draft is to determine if any tweaks are needed to the new presentation and disclosure model. I will provide my thoughts on the 15 questions asked on pages iv to vi of the ED, and about some things not asked.

1. ***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 organization and the contributor; and
   (b) The restriction requires the resources be used for a designated purpose and/or within a designated period of time.

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

I agree with both restrictions noted in (b) but feel more clarification is needed on the "be used within a designated period of time". Our Provincial Government funding agency provides annual operating grants. There is no explicit stipulation that it must be spent by the end of each year. However, because the grants are "appropriated" by the government in that year, and provided with a fiscal year attached to the name of the grant (ie the 2023 University Operating Grant), there might be an assumption that it should be spent by the end of the year, which means it is time restricted even if there is no statement saying it must be spent. Please clarify.

2. ***The AcSB proposes that unrestricted contributions be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured (see paragraph 4411.13). Do you agree with the proposed recognition guidance for unrestricted contributions? If not, why not?***

I agree with the proposed recognition guidance for unrestricted contributions.

3. ***The AcSB proposes that an organization recognize revenue from restricted contributions 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 (see paragraph 4411.16)? If not, why not?***

I totally disagree with the usefulness of this method. However, if we are going this way, I suggest there needs to be some consideration of large organizations with hundreds of separate restricted funds, each with its own restriction. Just because an organization is large with many funds, it does not go hand-in-hand that the organization has unlimited administrative staff, especially in a University setting where the focus is on Teaching and Research, not Admin. Yes, the ED acknowledges that these standards will increase the cost of preparing financial statements for those who currently use the Restricted Fund Method. Not-for-profits and Charities are supposed to keep their administrative costs down. New accounting standards like these do not support that mandate. It is nonsense to increase costs in order to prepare financial statements that are less useful (and they certainly will be). Scalability in accounting standards is being discussed or will be discussed, but seems to about the "small organizations". A standard like the one in this question won't be a problem for a small organization with maybe 2 restricted funds. It's a real problem for large ones like the University with hundreds of different restricted funds. It is likely that large organization will use a simplified approach anyway, such as "the restrictions are met when the money is spent" for everything, because the cost of looking at and documenting for each fund the restrictions and when they are met for financial reporting purposes far outweighs the benefits (if there actually are any) for a large organization. Our funders, donors etc, as users of our financial statements, will not think it is wonderful or "worth it" for us to spend a bunch of their money creating less understandable financial statements for them.

4. Consider the following scenario: An NFPO receives a contribution that is classified as restricted, per the proposed definition. However, the organization meets the restriction and recognizes the revenue in the same reporting period, such that no remaining amount of the contribution is deferred at period end (see Illustrative Example 2 in proposed Section 4411). As proposed in paragraph 4411.44, the organization discloses the changes in the deferred contribution balance for the period, including the receipt of the restricted contribution and subsequent recognition of the contribution revenue. In this scenario, is the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance relevant to users of financial statements? If not, why not?

Yes. This is relevant to the users. It is the only way they will be able to see the amount they would have previously easily been able to see as revenue in a restricted fund under the Restricted Fund Method. Now they will have to look to a Deferred Contribution Reconciling Schedule, and find this "increase in Deferred Contributions" number to know how much "Restricted Revenue" was received during the year. That is what our users what to know. How much Research Revenue did we bring in? How much capital funding did we get? They don't want to know a faked up research revenue or amortized capital revenue number based on how much we spent or how we amortize our assets.

5. The AcSB proposes that capital asset contributions related to amortizable assets be deferred and recognized as revenue on the same basis as the amortization expense on the related acquired capital assets (see paragraph 4411.21). For indefinite-lived assets, the Board proposes recognizing them as direct increases in net assets (see paragraph 4411.22).

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

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

With respect to capital asset contributions related to amortizable assets, we request that more thought be put into this and more clarification provided. Again this would be doable by small organizations. For large organizations, there is a real problem with this proposed standard. **First:** there is a conflict with restrictions. The same piece of money can be restricted for Research and treated as a capital asset contribution. We can't apply two different standards (restricted contribution AND capital asset contribution) to one piece of money. Many of research projects come with agreements containing budgets where, for example, $10K is for salaries, $22K for contractual services, $3K for admin overhead, and $15K for assets to support the research project. Does this mean that $15K is considered a contribution restricted for the purchase of capital assets, and requires tracking and disclosure as such, instead of being tracked as a restricted research contribution along with the remaining $35K of the grant? How would a large organization EVER pick through its hundreds of research funds' spending and break it into asset spending and other spending, or track by individual project each research asset to match that piece of revenue? Impossible! Also, the granting agencies consider the conditions of the grant met when the money is spent in accordance with the budget. The assets remain the property of the University even after the research project is done, and will likely still be amortizing after the project (restriction) is done.

I suggest a clarification: "Where a contribution restricted for specific research allows for the purchase assets with that money in order to conduct that research, this money will be considered a restricted contribution and not a capital asset contribution, since the main purpose of the money is to conduct research and not to support the general organizational operations." **Second:** The University of Regina never found any problems caused by "persistent deficits in the statement of operations" due to amortization (contribution previously recorded) while using the Restricted Fund method. Everything to do with capitalized assets is kept in the Restricted Capital Asset fund. Amortization expense was totally comprehendible. Users understand that this relates to money already spent, and that the money was spent from money previously received. Cash flow statement shows the cash flowing. The fund balance category of "Invested in Capital Assets" made it clear there wasn't a large fund balance available for spending and that the money is already spent. So the organizations with the problem with "persistent deficits in the statement of operations" are those who are not following the intuitive Restricted Fund method and are treating their restricted funds as part of operations. With respect to contributions related to indefinite-lived assets, I suppose it would have to be this way to keep it consistent with how endowment contributions are handled. But isn't it just a bit strange that money coming in to an organization is just hidden away now instead of showing as revenue. It really doesn't make sense. But when a whole method doesn't make sense, I guess the little parts of it also won't make sense.

6. ***The AcSB proposes that endowment contributions be recognized as direct increases in net assets (see paragraph 4411.26). The Board also proposes that an organization disclose information about how it manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments (see paragraph 4411.48-49).***
   (a) Do you agree that endowment contributions should be recognized as direct increases in net assets? If not, why not?
   (b) Do you agree with the nature and extent of the proposed additional disclosure requirements for endowments? If not, why not?

Because I disagree with moving away from the Restricted Fund Method of accounting, I also disagree with running endowment contributions directly through net assets and then having to provide a whole bunch more disclosure. A self-balancing set of financial statements for the Endowment fund (as done in the Restricted Fund method, except NOT totalled in with the general unrestricted funds) would provide all the information needed, and would show the cash and investments on the Endowment balance sheet that support the amount required to be maintained permanently. However, as this will no longer be allowed given the whole new proposed way of accounting, yes, endowment contributions should be plugged directly to net assets. I agree with providing a small amount of disclosure about how the organization manages its endowments and monitors fair value and compliance. I don't agree with extensive disclosure in an organization's annual financial statements as that is just a way to obscure other important disclosure. Organizations with large Endowment funds most likely prepare an entire annual report around these funds and how they manage them, and publish this report. Section 4411.49 "An organization shall disclose, as applicable, quantitative information about the extent to which the fair value of endowments is less than the amount required to be maintained permanently". I think the standard should say “the extent to which the fair value of investments supporting the endowments is less than…” I’m not sure how we would be able to provide this disclosure. Our investments support the combined total of the endowment amounts and the related expendable trust amounts. The fair value of our investments will always be much greater than the amount required to be maintained permanently because the investments include the expendable portions. Maybe that just means we would never have anything to disclose for 4411.49.

7. ***The AcSB proposes that net investment income be recognized based on the nature of any restrictions on the investment income (see paragraph 4411.29). Income earned on investments would continue to be measured in accordance with guidance in other standards for the type of invested asset (see paragraph 4411.30).***
   (a) Do you agree with the proposed guidance relating to the recognition of net investment income? If not, why not?
   (b) Do you agree with the nature and extent of the proposed disclosure requirements relating to net investment income? If not, why not?

I agree that investment income would continue to be measured in accordance with the Financial Instruments section. I disagree with breaking up investment income into 3 different ways of recording it, and then having a requirement to reconcile it all in a note so people can understand the amount of investment income earned by the organization (because the Restricted Fund Method wouldn’t need this extra confusion). However, if we’re going that way, there are some considerations. First, what actually determines how much investment income should be recorded directly to net assets (related to endowments) and how much becomes deferred contributions because it can be spent. As noted above in response #6, like other universities, we add together amounts held in Trust (expendable) and amounts held as endowments (often sister funds), and invest these amounts jointly. The donors do not permanently restrict the investment income, only the original donation amount. They agree to the University’s policy on how much of the investment income can be treated as expendable for the donor’s “cause”, but the University can adjust that global policy without getting each donor to sign a new gift agreement. Note that we are dealing with hundreds of separate endowed funds, each with a different purpose. Each one does not have it’s own chosen rules around how much of the income can be spent and how much must be retained to maintain the earning power of the original donation. Clarification is needed in this area, and might include a comment that the investment income related to endowments, to be added directly to net assets, may be determined by the organization’s endowment income spending policy.

8. ***The AcSB proposes continuing to allow organizations to choose to recognize contributions of materials and services that meet the criteria in paragraph 4411.32(b).***
   (a) Do you agree with the proposed criteria in paragraph 4411.32? If not, why not?
   (b) Do you think the proposed criterion in paragraph 4411.32(b)(iii) would allow organizations to recognize contributions of materials and services that are critical to the organization’s mandate (provided the fair value can be reasonably estimated and they are used in the normal course of operations)? If not, why not?

(c) Do you agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services (see paragraphs 4411.51-52)? If not, why not?

Regarding contributed materials and services, I agree the choice should remain. I agree with the criteria for recognizing the contribution, should an organization wish to. I strongly disagree with the disclosure requirement for non-recorded contributed materials and services. For many organizations, they may chose to not record contributed materials and supplies for the express reason that they don't track this and don't know, especially for very large organizations where the contribution can be in any area of the organization as they take care of their business. This would an a large administrative burden to now have to annually survey every area on campus to ask them to tell central accounting if they received any contributed materials and supplies and to describe them all.

9. The AcSB proposes that a pledge or a bequest be recognized only when the recognition criteria in paragraphs 4411.13, 4411.16 or 4411.26 are met for each individual pledge or bequest. This means that in many cases a pledge will not meet the proposed criteria for recognition until the pledge is received and collection therefore is reasonably assured. Do you agree that a pledge should generally not be recognized until collected (see paragraph 4411.36)? If not, under what scenarios would a pledge meet the recognition criteria prior to collection?

I agree. Pledges should not be recorded.

10. The AcSB proposes that organizations disclose contributions by major source. The Board also proposes that organizations disclose economic dependence when the ongoing operations depend on a significant contribution(s) from another party (see paragraphs 4411.40-41).

(a) Do you think disclosing contributions by major source provides decision-useful information? If not, why not?

(b) Do you think disclosing economic dependence when the ongoing operations depend on a significant contribution(s) from another party provides decision-useful information? If not, why not?

I agree that disclosing contributions by source and disclosing economic dependence will provide useful information.

11. 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, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule (see paragraph 4400.06A).

(a) Do you agree that when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule? If not, why not?

(b) Do you agree with the other proposed amendments to Section 4400 to clarify the application of fund accounting presentation?

If we are going this direction of moving away from Restricted Fund Method, there should no longer be a choice to show fund accounting in the financial statements. Why allow this choice that might only confuse all the apparently uninformed users of NPO statements? The numbers in these funds will also be misleading to readers who are used to the Restricted Fund method. There is definitely not the "real estate" available to show a comparative for every fund. And again, this just adds bulk to the financial statements. Any financial statement user who actually needs to see and understand an organization's funds will likely have the ability to get the real fund information, undistorted by all the deferrals and deferral reversals and strange amortization of revenue, directly from the organization in a format that makes sense to them.

12. The AcSB proposes an amendment to Section 4400 that requires an organization to disclose information about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those restrictions (see paragraphs 4400.22A-22B).

(a) Do you agree with the proposed disclosure requirements (see paragraphs 4400.22A-22B)? 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 its requirements related to restricted contributions? If not, why not?

None of this disclosure would be needed if we keep the Restricted Fund method of reporting. Under that method, we must describe each fund, including restricted funds, and what is recorded in it. It describes what restrictions cause us to record the money in that fund. Each Restricted Fund could also have its own Balance Sheet, which would show which assets are available to meet those restrictions. So, sure, if we are going away from Restricted Fund reporting (and we would also go away from Fund reporting altogether as noted above), then we won't need the previous disclosure, and will want to have the proposed new disclosure which would definitely be of value to users (which is why it is currently required under the Restricted Fund method).

13. The AcSB proposes that Section 4411 and proposed amendments to Section 4400 be applied retrospectively in accordance with Section 1506, with certain transition provisions.

(a) Do you agree that proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively? If not, what transition approach would you recommend and why?

(b) Do you agree with the proposed optional transitional relief that an organization is not required to make retrospective adjustments in respect of capital asset contributions that

were recognized in revenue in full prior to the beginning of the earliest period presented in the financial statements in which the organization first applies proposed Section 4411 (see paragraphs 4411.55-.56). If not, why not?

Yes. I agree that the new section 4411 and the amendments to Section 4400 be applied retrospectively and agree with the transitional relief for capital asset contributions. We would not be able to apply the capital asset contributions retrospectively without the transitional relief. The transitional relief means organizations don't have to go way back in time to find which assets were donated or purchased with contributions restricted for that purpose. So I think the disclosure requirement in 4400.24D also needs to fall under this transitional provision, or better yet, be removed altogether as it is irrelevant for financial statement purposes. The money is spent. All the way through this standard we are concerned about restricted contributions. Then suddenly there is a requirement talking about Restricted Assets, without any real definition, but only one example. That requirement states "An organization shall disclose the amount of capital assets that are externally restricted and details of the nature of the restrictions". Section 4400.24C states "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." Without the transitional relief being applied to this disclosure or the disclosure requirement removed, an organization still would have to go back through all its prior year records, even into past accounting systems if that is even possible, and try to determine which of it's 10,000 or so recorded assets might be considered restricted under the new definitions. We can't do that, and therefore have no way of providing the new required disclosure. And, how would we figure this out for a single asset funded both by a restricted government grant, 25 smaller donations, unrestricted funds, and maybe some debt? Who has the data to be able to disclose a piece of an asset restricted because of how it was funded? What about assets purchased with Research Funding? Are they restricted while the 3-year research project is going, but then unrestricted once the project is done because the university is now using the asset for whatever it wants? Yes, they would change from restricted to unrestricted. This can't be done retroactively. How would we ever determine this for each research asset we have ever bought and still use? We cannot, and no amount of extra time to implement this standard would ever allow us to be able to do this. We don't track assets by each research project. The tracking for each research project is around the spending of the money earmarked for assets compared to the amount allowed to be spent and what it is allowed to be spent on. The assets themselves are capitalized and amortized along with the rest of all the assets purchased on campus from every source of money. If this disclosure requirement remains, it needs to be scoped into the transitional relief so that new assets can be tracked differently going forward (ie starting a year before the effective date year).

14. ***The AcSB proposes an effective date of fiscal years beginning on or after January 1, 2026, 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?

Yes. I agree with the effective date in general, but wonder if large organizations using Restricted Fund Method should maybe get an extra year as these changes affect those organizations a great deal.

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

Yes. The Illustrative examples are useful, especially to small, non complex NPO's. But how about some examples for large NPO's with hundreds of separate restricted research funds, trust funds, capital funds and endowment fund? We can't follow these new rules one fund at a time. There is no way. Give us some illustrative examples of how we can generalize the requirements across all funds of a similar type.

Now for some additional comments not related to any of the 15 questions. Proposed Section 4411. 11 and .12 talk about Matching Arrangements, and provides an example when an endowment contribution requires an internal amount to be "matched". This is all fine and good, but rare for us. What is not rare is that we get capital asset contributions to upgrade a building and are required to provide internal matching funds. How would this work? For the endowment example, we transfer from our unrestricted net assets to the permanently restricted endowment net assets. If we do that for Capital, are we transferring it from unrestricted net assets to Deferred capital contributions, and then amortizing it through revenue (again, because it would have already run through revenue in an unrestricted fund) in order to correctly follow the standards and smooth the statement of operations as the asset amortizes? (it's now a restricted contribution not yet spent, but will be spent on an asset). Doesn't make sense of course. If we just transfer the amount from unrestricted net assets to restricted net assets, or actually for us, "invested in capital assets", then there is no matching of revenue to the amortization. I think more clarification is needed when the matching arrangement is related to asset purchases.

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

September 28, 2023

Dear Katharine,

RE: EXPOSURE DRAFT: CONTRIBUTIONS – REVENUE RECOGNITION AND RELATED MATTERS

Thank you for the opportunity to provide our comments on the Accounting Standards Board ("AcSB") exposure draft with respect to Contributions – Revenue Recognition and Related Matters. We have read the above-mentioned exposure draft which was issued in March 2023 and we are pleased to respond to your specific questions as outlined.

Sincerely,

Bobbi White

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

KPMG

Opening Comments:

The underlying foundation of Accounting Standards for Not-for-Profit Organizations of enforcing understandability, relevance, reliability, comparability are all critical to stakeholders.

Although the existing framework provides the option of two methods of revenue recognition, we concur with the AcSB's observation that the current options related to revenue recognition methodology give rise to complexity, lack of comparability and lack of understanding for many of the diverse users of financial statements. Therefore, moving to a common set of recognition criteria will provide consistency across the sector. It will require that organizations evaluate their existing financial reporting systems, provide education regarding the impact of the change to the readers of their financial statements and consider support materials for those in their organization that align financial reporting to underlying operational activities such as fundraising campaigns.

Our response to specific questions posed in the exposure draft are as follows:

Question 1: We concur with the definition of a restricted contribution as proposed in the exposure draft. We would recommend that the standard replace the word "explicitly communicated" with "communicated in writing". Being clear to indicate the restriction is required to be communicated in writing will reduce accounting inconsistencies for those contributions that are subject to interpretation. In practice, for contributions that are not accompanied by written documentation, we see interpretation differences that arise upon audit of a transaction, between parties within an entity, between the contributor and the entity, and/or upon a change in management team members.

In 2020, we undertook a national poll related to the Consultation Paper – Revenue Recognition and Related Matters, 26% of respondents indicated that there are certain situations whereby management teams are challenged in determining if a contribution is restricted. These tend to be in situations whereby the contribution is received as a direct result of an event or verbal exchange whereby certain purposes are described to the donor that are other than general to the organization's mission. Examples, relevant to this question include the following comments:

- *soft restrictions that are not written, verbal commitments when fundraising such as through an annual campaign that focuses on both general giving and capital campaign solicitation,*
- *where the restricted purpose appears to align closely with the organization's general purpose,*
- *lack of clarity within written contribution agreements which then require interpretation by the Finance team,*
- *when donors verbally or passively indicate their expectations over the use of the contributions,*

- *ambiguity related to which appeal the donor directed their funding towards if there were multiple appeals ongoing.*

It is based upon this feedback, and our observations in practice, that we encourage the AcSB to consider clarifying the word "explicitly", as appropriate.

In addition, entities that are applying the amended standard may benefit from additional examples in the appendix that depict contributions for a designated purpose as compared to a contribution that is directed to general operations. In our feedback, we received comments from fundraising foundations specifically related to more complex examples such as donor advised funds or circumstances, although rare, when there are legislated requirements to unendow funds or return capital.

Question 4: We do concur with this disclosure requirement, although recognize that it will require organizations to track contributions on a more granular level then may currently be the practice.

Question 6 (a), (b):

(a) We do agree that endowment contributions be recognized direct to net assets, inclusive of preservation of capital requirements. We also recommend that additional detail be added to the exposure draft to further describe the treatment of realized and unrealized gains/losses. Currently we see variance in practice related to how realized and unrealized gains/losses are recognized. Some organizations view the endowment fund as a self-balancing fund whereby all transactions related to increases and decreases are recorded direct to endowments. Including preservation of capital that is at the discretion of the Board of Directors as opposed to the underlying endowment agreements. Comparatively others record realized, unrealized and other investment income in accordance with the underlying restriction criteria in Section 4410 *Contributions – Revenue Recognition* in accordance with either the restricted fund method or deferral method guidance. Providing examples as part of the guidance may be helpful to illustrate the treatment of recapitalization of income earned on endowments.

(b) We do concur and would recommend that an example of adequate and appropriate disclosure be included in the appendix to the revised section when released. In order to meet the disclosure requirements, there are organizations that may have a significant number of endowment agreements subject to review, and potentially significantly aged agreements which will require incremental investment of time.

Question 8(a), (b), (c): We do concur with the proposed criteria related to recognition of contributions of materials and services. However, we would recommend clarification related to two areas. First, related to contributions of good and services for the purpose of fundraising efforts such as an auction or for sale, not the entity's use in general operations. In practice, management may interpret contributions similar to the examples above, are for the ultimate purpose to generate funds for use in operations and hence report the contributions in the statement of financial position or operations.

Second, the criteria that the organization would otherwise have purchased the donated item to fulfill the mandate. Perhaps the following language would provide additional clarity, "…..otherwise would be required to purchase in order to fulfill the mandate", or "…..is similar in nature to items that the organization already purchases to fulfill the mandate".

The proposed language is not clear on these common types of contributions.

We do not concur with the proposed presentation and disclosure requirements in 4411.53 specifically for contributions and services for which an entity adopts a policy to not recognize such contributions in the financial statements. Often this policy choice is due to the additional administrative burden to track and report. In order to provide a meaningful disclosure, the proposed disclosure would increase administrative burden. Any less tracking and reporting would, in our opinion, not provide additional meaningful information for readers that they could not otherwise obtain from other reporting mechanisms such as the annual report. As such, we recommend that this be an option, not a requirement. The option would be appropriate for organizations that have the capacity to track and report the information in a meaningful way.

Question 9: We concur that pledges should generally not be recognized until collected. We recommend that "generally" be removed from the amended language due to the fact that pledges are not legally binding, and the entity has no control over the ultimate asset until received.
Similar, bequests are often brought to the attention of an entity, however, conditions such as measurability, timing of or ultimate collection criteria may not be assured until such time the organization receives the funds. More importantly an organization may not have sufficient information to determine if the ultimate bequest contribution will or will not be restricted, and as such should not be recognized until received.

Question 12 (b): We do concur that providing readers with information related to assets available to meet underlying requirements of restricted contributions is important. As such we would recommend that 4400.22(b) be amended to require that available assets first be allocated in the disclosure to restricted contributions to enable the reader to clearly understand the residual funds available for on-going operations. Currently 4400.22(b) allows for a range of judgement which may result in disclosures that do not meet the spirit intended, or alternatively are not useful to readers of the statements.

Question 13: It is expected that many organizations will be challenged in investigating certain aged contribution agreements to allow for a complete and accurate retrospective application of the standards. For instance, an organization may have commingled internally and externally endowed funds. Alternatively, they may have recorded realized, unrealized gains/losses and net investment income related to endowments direct to net assets. We have encountered instances in practice whereby an entity is unable to bifurcate direct endowment contributions from the other transactions recorded direct to net assets.

In addition, certain transitional requirements may be warranted for organizations that opt to continue to present using fund accounting presentation in order to comply with 4400.08(a) for historical transactions that may have not been consistently recorded in the appropriate fund.

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In addition to our responses to the exposure draft questions, we provide the following related comments for consideration:

We recommend that the AcSB consider touching on the recognition treatment of forgivable loans within the sector, or consider cross reference to the relevant handbook section. There are wide variations of treatment of forgivable loans in practice, in particular forgivable loans provided for the acquisition of capital.

We further encourage the AcSB to clarify Section 4420 Contributions Receivable to provide guidance for organizations that record a contribution receivable with an off-setting entry to deferred revenue/deferred contributions. Deferred revenue and/or deferred contributions are reported as a liabilities, which implies a liability to a third party should a restriction not be met. As such, amounts that have not yet been received do not meet the definition of a liability in Section 1001 Financial Statement Concepts for not-for-profit organizations, paragraph 29. The language in 4411.20 is clear regarding the treatment of restricted contributions that have been received, for which restrictions have not yet been met. We recommend that Section 4420 be revisited to provide guidance specific to amounts not yet received which are restricted.

Canadian Cancer Society

September 29, 2023

Danielle MacLeod, CPA, CA
Principal, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

Via email: DMacleod@acsbcanada.ca

Re: Accounting standards for not-for-profit organizations (NFPOs) Part III – CPA Canada Handbook – proposed changes to standard – Section(s) 4411 – Revenue Recognition and other Related Matters

The Canadian Cancer Society (CCS) is generally supportive of the changes being proposed in section 4411 of part III of the CPA Canada Handbook. The following provides specific feedback to five main categories of proposed changes:

1. Definition of a restricted contribution

CCS supports the definition of a restricted contribution and the related criteria for recognition.

2. Recognition of revenue from restricted contribution

CCS supports deferring the recognition of restricted contributions until the restrictions have been fulfilled and as progress to the milestones have been met. We believe that this treatment accurately reflects the intent of the restriction by the donor and aligns revenue recognition with the use of the associated resources.

In addition, the liability created reflects the definition of liabilities (pg. 1001.28) as "obligations of an entity arising from past transactions or events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future".

3. Accounting for endowment contributions

CCS understands the need for consistent application of the principles related to revenue recognition across all revenue types, including endowment contributions, and therefore supports the treatment of recognizing endowment contributions as a direct increase to net assets. It is noted however, that by not recognizing endowment revenue in the period that it is received does not fully represent the fundraising activity of that period which has a impact for those in the sector that receive significant endowment contributions.

4. Contributions of amortizable capital assets

CCS supports the deferral of contributions of amortizable capital assets or cash contributions to specifically acquire capital assets and the recognition of the revenue on the same basis as the amortization of the related asset. We believe this reflects the accounting principles for capital asset amortization and aligns revenue recognition with the use of the associated resources.

5. Accounting for non-amortizable capital asset contributions

CCS understands the need for the consistent application of the principles related to revenue recognition across all revenue types, including non-amortizable assets, and therefore supports the recognition of these contributions directly to net assets.

As general feedback, we suggest that any new disclosure requirements not be onerous to the preparers of the financial statements with a focus on providing useful information to the readers of the financial statements.

Thank you for this opportunity to provide feedback on this exposure draft.

Best regards,

Cheryl Swallow
VP, Finance

cc. Sara Oates, Executive Vice President; Finance, People and Operations

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September 29, 2023

Ms. Christopoulos:

Ernst & Young LLP ("EY" or "we") welcome the opportunity to provide comments to the Accounting Standards Board ("AcSB" or the "Board") on the March 2023 Contributions – Revenue Recognition and Related Matters Exposure Draft (the "Exposure Draft"). Our responses to the specific questions posed in the Exposure Draft are included below.

Comments on Specific Questions Requested by the AcSB

1. 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 organization and the contributor; and
   (b) the restriction requires the resources be used for a designated purpose and/or within a designated period of time.

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

   We agree with the proposed definition of a restricted contribution. However, we find that the proposed wording around explicitly communicated restrictions remains unclear. As per the proposed definition, we understand that the explicit communication can be between the organization and the contributor, and not necessarily only in the direction of the contributor to the organization. For example, we would interpret this as meaning that an organization that runs a capital campaign that solicits funds from contributors for the purpose of purchasing a specific piece of equipment would recognize the contributions received under that campaign as restricted contributions, since we believe that the restriction that the funds be used to purchase that equipment has been explicitly communicated between the organization and the contributors. However, we note that, in the last sentence of paragraph 25 of the Basis for Conclusions, an example similar to the one that we have outlined above is described as being an implicit external restriction, leading to confusion as to what the distinction is between the "explicit" requirement of the proposed definition and the "implicit" example in the Basis for Conclusions. We do believe that the example we have provided above should lead to the contributions thus received being restricted.

   Additionally, the proposed standard does not specifically reference the impact, if any, of a restriction being placed on a contribution by a related party, and whether that would or would not be considered an external restriction. For example, consider a not-for-profit organization ("NFPO") controlled by another NFPO by virtue of the fact that its board is mostly composed of board members of the controlling NFPO; the controlled NFPO prepares separate financial statements but is also consolidated within the financial statements of the controlling NFPO. The controlled NFPO could receive a contribution that is restricted by the controlling NFPO. In its separate financial statements, it is unclear whether the controlled NFPO should consider that contribution to be externally restricted since, while the restriction did come from another entity, that entity has many of the same board *members as the recipient organization and both entities are part of the same consolidation group, so the controlled NFPO may not view the controlling NFPO as being external to itself. We believe that the controlling entity should be viewed as an external entity in this case, but there could be varying interpretations of this, leading to diversity in practice, since the proposed standard does not address this or similar situations where restrictions arise from related parties.*

2. The AcSB proposes that unrestricted contributions be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured (see paragraph 4411.13). Do you agree with the proposed recognition guidance for unrestricted contributions? If not, why not?

   We agree with the proposed recognition guidance for unrestricted contributions.

3. The AcSB proposes that an organization recognize revenue from restricted contributions 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 (see paragraph 4411.16)? If not, why not?

   We agree with the proposed recognition guidance for restricted contributions. However, we do understand that this may represent a significant change for those organizations that are currently following the restricted fund method of contribution recognition. There could be a more significant negative impact on organizations, especially foundations, that are primarily playing the role of fundraisers but that do not run operational programs themselves. The use of the restricted fund method allowed these organizations to demonstrate the total contribution revenue that they brought in, and they may have a more challenging time under the proposed recognition guidance in painting a picture of what they had accomplished during the year in their principal fundraising role.

4. Consider the following scenario: An NFPO receives a contribution that is classified as restricted, per the proposed definition. However, the organization meets the restriction and recognizes the revenue in the same reporting period, such that no remaining amount of the contribution is deferred at period end (see Illustrative Example 2 in proposed Section 4411). As proposed in paragraph 4411.44, the organization discloses the changes in the deferred contribution balance for the period, including the receipt of the restricted contribution and subsequent recognition of the contribution in revenue. In this scenario, is the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance relevant to users of financial statements? If not, why not?

   The requirement to present the change in the deferred contribution balance exists in the current Section 4410, so this is not a new requirement for those NFPOs following the deferral method. We believe that most NFPOs currently following the deferral method disclose the change in their deferred contribution balance; however, several omit amounts that are received and recognized as revenue within the same year, leading to issues with the completeness of the amounts disclosed, whereas this requirement prescribes the disclosure of the total restricted contributions received in the year. Since the proposed standard clarifies the definition of what constitutes a restricted contribution and thus should be included in this disclosure, this should help reduce the diversity currently observed in practice. We also see some additional value to this disclosure given the removal of the restricted fund method, as the disclosure of the receipt of the restricted contributions during the year will allow NFPOs to disclose the total restricted contributions brought in during the year, since that information is no *longer able to be presented in the statement of operations as it previously was under the restricted fund method (however, endowment contributions and unrestricted contributions would obviously not be included).*

However, we also believe that there are limits to the usefulness of this information to users. Contributors interested in the use of their restricted contributions by the NFPO would only be interested in their own contributions, so presenting amounts in aggregate would not be useful to them. Also, we believe that amounts, such as the restricted contribution received by the NFPO in the question, that are received and recognized as revenue within the same year are less relevant to financial statement users than the deferred contributions ending balance, since these represent future obligations of the NFPO. We also believe that some NFPOs may experience practical challenges in compiling this information for note disclosure purposes when some restricted contributions will likely be recorded directly as revenue when received, given the certainty the NFPO may have upon initial receipt around satisfying the restriction before year-end. This administrative burden will be heavier for those entities receiving a large volume of such restricted contributions. We have observed that many NFPOs currently following the deferral method either omit this disclosure entirely, or present the information but omit restricted contributions that are received and recognized as revenue within the same year; while these omissions give rise to disclosure deficiencies in their financial statements, we do not generally consider them to be material in our role as auditor. Given this, we anticipate that this practice will continue, leading to continued diversity in practice. Also, based on our understanding from our clients and our own experience, we believe that such disclosure deficiencies are generally regarded as immaterial and this would suggest that the disclosed information is not considered very useful to financial statement users.

5. The AcSB proposes that capital asset contributions related to amortizable assets be deferred and recognized as revenue on the same basis as the amortization expense on the related acquired capital assets (see paragraph 4411.21). For indefinite-lived assets, the Board proposes recognizing them as direct increases in net assets (see paragraph 4411.22).
   (a) Do you agree with the proposed recognition guidance for capital asset contributions related to amortizable assets? If not, why not?
   (b) Do you agree with the proposed recognition guidance for capital asset contributions related to indefinite-lived assets? If not, why not?

We agree with the proposed recognition guidance for capital asset contributions related to both amortizable and indefinite-lived assets.

However, we do find that the wording in paragraph 4411.23 could be initially misleading if one misses the necessity of adding "in accordance with paragraphs 4411.21-.22" after the word "revenue" in the last sentence. A cursory read of this sentence could lead one to believe that cash contributions restricted for the acquisition of a capital asset would be recognized as revenue when the capital asset is acquired, instead of the Board's intention to say that such a contribution would be recognized as revenue in accordance with paragraphs 4411.21-.22, which specify that the revenue recognition is on the same basis as the amortization expense. As this is a very important nuance, we suggest that the Board clarify the wording so as to not leave it as open to misinterpretation as we believe that it is currently.

In considering our response to this question, we also contemplated a situation where an NFPO could receive a non-financial asset that it was not required to keep and use in its operations. For example, a bequest could be made by an individual with an illiquid estate to donate their principal residence to *a charity, where the charity has no use for a personal residence in its operations but is free to immediately sell the property and use the proceeds as it sees fit. The property would not generally be regarded as a capital asset because it does not meet all of the criteria in the definition of a tangible capital asset under Section 4433.06(b), so some may see this as an unrestricted contribution that could be recorded as revenue when the revenue recognition criteria are met for the bequest, likely upon receipt. However, some may see the form of the donation – the non-financial and physical nature of the asset – to be a restriction of some kind analogous to the proposed capital asset contribution accounting as per paragraphs 4411.21-.22. A second situation that we contemplated was a hospital foundation that received a donation of a piece of medical equipment. In this case, the hospital foundation itself has no use for the equipment but it would be a valuable capital asset for the related hospital and thus meet the definition of a tangible capital asset. However, the foundation would likely not consider that donation to be a capital asset donation and record it as per paragraphs 4411.21-.22 since it will not keep the capital asset for its own use, but rather donate it in turn to the hospital. The proposed Section 4411 has no specific guidance on these types of situations, in which non-cash contributions are received that are neither materials/services nor tangible capital assets for the NFPO that is directly receiving them.*

6. The AcSB proposes that endowment contributions be recognized as direct increases in net assets (see paragraph 4411.26). The Board also proposes that an organization disclose information about how it manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments (see paragraphs 4411.48-49).
   (a) Do you agree that endowment contributions should be recognized as direct increases in net assets? If not, why not?

   We agree that endowment contributions should be recognized as direct increases in net assets.

   (b) Do you agree with the nature and extent of the proposed additional disclosure requirements for endowments? If not, why not?

   We generally agree with the nature and extent of the proposed additional disclosure requirements for endowments. However, we suggest clarifying that, in paragraphs 4411.48 and .49, when the term "endowments" is used in the current proposed wording, the standard is specifically referring to the "externally restricted endowment assets". This clarification would avoid confusion as to which endowments specifically are being referred to here, as the term "endowments" would often be interpreted as the credit in the net assets side of the statement of financial position and not the related assets.

   We also would like to comment on the use of "fair value" of the endowment assets in these two paragraphs. Under Parts II and III of the CPA Canada Handbook, not all endowment assets are required or even allowed to be subsequently recorded at fair value; for example, term deposits would be recorded at amortized cost while still representing endowment assets, and the fair value of such deposits could differ from their carrying value on the financial statements, especially for long-term fixed rate term deposits in an environment of rapidly changing interest rates such as the one we are experiencing currently. The fair value of these deposits is not always readily available from the issuer as they are often required to be held until maturity and is not available from a market as they are not generally traded. As a result, it may be onerous for NFPOs to obtain this information. It may also be of limited relevance, as NFPOs with these types of endowment assets use the carrying value of these types of instruments internally to manage their endowments, since the fair value is not readily available.

We would also like to make an additional comment on endowments, which relates to the concept of compliance with agreements that is mentioned in paragraph 4411.48 and also the comparison that is required in paragraph 4411.49 between the fair value of the endowment assets and the amount required to be maintained permanently. Some NFPOs and practitioners believe that, under the concept of trust law in Canada, the capital preservation required by an endowment includes preserving the purchasing power of that capital and so there is an inflationary component to be considered such that, unless the terms of the endowment require that all of the earned income is to be disbursed, it is normal that a portion of the income be reinvested so that the capital of the endowment will at least keep up with inflation. While trust law is a provincial/territorial responsibility in Canada and so each province/territory has its own legislation on the matter, in Ontario, for example, paragraph 27(5) of the Trustee Act *requires a trustee to consider "the possible effect of inflation or deflation", "the expected total return from income and the appreciation of capital" and the "needs for liquidity, regularity of income and preservation or appreciation of capital" in planning the investment of trust property. As a result, some NFPOs adopt an investment or a spending policy that requires them to maintain the capital on an inflationary basis, and not just the amount that was originally received as an externally restricted endowment contribution. We understand that there is diversity in practice on this issue, as not all NFPOs and practitioners share this view. As a result, we believe that there will be some amount of uncertainty as to what compliance with an endowment agreement means and what amount the fair value of the endowment assets should be compared against, and this could result in some NFPOs regarding amounts added to an endowment fund under such a policy as continuing to be externally restricted endowments, while others would regard the same transaction to be an internally restricted endowment. This difference would have an important impact on the NFPO's financial statements as to the presentation of the endowment contributions as well as potentially to the presentation of the related investment income, in addition to the disclosure in paragraphs 4411.48-.49.*

7. The AcSB proposes that net investment income be recognized based on the nature of any restrictions on the investment income (see paragraph 4411.29). Income earned on investments would continue to be measured in accordance with guidance in other standards for the type of invested asset (see paragraph 4411.30).
   (a) Do you agree with the proposed guidance relating to the recognition of net investment income? If not, why not?

   Regarding paragraph 4411.29(b), we believe that, similarly to the last paragraph of our response to question #6 above, there could be various interpretations of what investment income "must be" added to the principal amount of endowment assets, depending on whether the stakeholder follows the trust law concept of capital preservation or not. We agree with the remainder of the proposed guidance relating to the recognition of net investment income.

   (b) Do you agree with the nature and extent of the proposed disclosure requirements relating to net investment income? If not, why not?

   We agree with the nature and extent of the proposed disclosure requirements relating to net investment income.

8. The AcSB proposes continuing to allow organizations to choose to recognize contributions of materials and services that meet the criteria in paragraph 4411.32(b).
   (a) Do you agree with the proposed criteria n paragraph 4411.32(b)? If not, why not?
   (b) Do you think the proposed criterion in paragraph 4411.32(b)(iii) would allow organizations to recognize contributions of materials and services that are critical to the organization's mandate (provided the fair value can be reasonably estimated and they are used in the normal course of operations)? If not, why not?
   (c) Do you agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services (see paragraphs 4411.51-52)? If not, why not?

   We generally agree with the proposals in questions (a) and (b). However, we also considered the example of a hospital foundation that could receive a contribution of medical supplies, which it then transfers to the hospital to be used. The fair value of these supplies could be reasonably estimated; however, the foundation itself would neither have used the supplies in its own normal course of operations nor would it have otherwise purchased them to fulfill its mandate, since its operations and its mandate include raising cash donations to transfer to the hospital, and it is only the hospital that will in turn purchase what it needs. As a result, we do not believe that this contribution would clearly meet the criteria in paragraph 4411.32(b)(ii) and (iii), though we are inclined to believe that it should, since we believe that it could be considered part of the foundation's mandate to assist the hospital in procuring needed medical supplies, even though it usually does this by transferring cash that the hospital can then use to purchase supplies, as opposed to providing the hospital with the supplies directly. As a result, the foundation would likely believe that recognizing these donations should be reflected in its financial statements in order to show a more complete picture of its fundraising and support efforts to benefit the hospital and because transferring such resources to the hospital is indirectly part of its mandate.

   As for question (c), we generally agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services; however, we disagree with the proposal in paragraph 4411.51 that the contributed materials and services be separately presented in the statement of operations. We believe that the contributed materials and services should be disclosed; however, we do not believe that it is necessary for that disclosure to be on the face of the statement of operations. For NFPOs for which this amount is significant, presentation on the face of the statement of operations may be relevant; however, for NFPOs with less significant contributions of this nature, we believe that they should have the flexibility to present this amount in the notes or in a related schedule without being required to present it on the face of the statement of operations.

9. The AcSB proposes that a pledge or a bequest be recognized only when the recognition criteria in paragraphs 4411.13, 4411.16 or 4411.26 are met for each individual pledge or bequest. This means that in many cases a pledge will not meet the proposed criteria for recognition until the pledge is received and collection therefore is reasonably assured. Do you agree that a pledge should generally not be recognized until collected (see paragraph 4411.36)? If not, under what scenarios would a pledge meet the recognition criteria prior to collection?

   We agree that a pledge should generally not be recognized until collected. However, we would not always group bequests and pledges together. We believe that a "living bequest" (where the contributor is still alive) should be treated as a pledge; however, we do not believe that bequests after the contributor has passed away should be considered together with pledges, as these bequests are legally enforceable and cannot be changed, unlike pledges. As a result, we believe that the recognition *criteria on a bequest after death could be met prior to collection. We believe that the last sentence in paragraph 4411.36 is appropriate and would permit recognition prior to collection in such a case; however, we find that the second sentence of paragraph 4411.36 is too conservative for a bequest after death and incorrectly groups these bequests with pledges, which may lead some NFPOs to only record bequests following the contributor's death upon receipt of the contribution, even though we believe that the revenue recognition criteria may be met prior to that (provided reasonable assurance exists regarding its measurement).*

10. The AcSB proposes that organizations disclose contributions by major source. The Board also proposes that organizations disclose economic dependence when the ongoing operations depend on a significant contribution(s) from another party (see paragraphs 4411.40-41).
    (a) Do you think disclosing contributions by major source provides decision-useful information? If not, why not?

    We agree that disclosing contributions by major source provides decision-useful information. However, in Example 8 – Disclosure of contributions, while we acknowledge that the example is not intended to be prescriptive, we do find that the breakdown in the table presented in the example is more detailed than we would generally expect most NFPOs to provide, specifically by separately presenting a single bequest as well as singling out the contribution by one local business. Consequently, we are concerned that some financial statement preparers may think that this example is intended to represent the level of detail required by this disclosure. The Board may wish to consider whether to modify this example to be less unnecessarily detailed, to add wording to the effect that such details are not required but are to be determined by the NFPO, or to provide additional examples with more summarized but still compliant disclosure (for example, grouping contributions from the general public (both corporate and individual) as one major source while identifying various levels of government as other major sources).

    (b) Do you think disclosing economic dependence when the ongoing operations depend on a signification contribution(s) from another party provides decision-useful information? If not, why not?

    We generally agree that disclosing economic dependence when the ongoing operations depend on a significant contribution(s) from another party provides decision-useful information.

    However, in Example 8 – Disclosure of contributions, while we agree with the first part of the paragraph at the end of the example disclosing economic dependence on contributions from the municipal government, we disagree with the bequest disclosure in the second part of this paragraph. Since paragraph 4411.41 specifies that the disclosure only relates to "the ongoing operations of an organization", we do not believe that a single bequest received during the year would necessitate disclosure under this paragraph, since a bequest can only be received once and would thus not be able to part of an NFPO's ongoing operations. We suggest that this last part of the paragraph either be removed or modified to a more appropriate example that would represent a dependence of the ongoing operations on the disclosed contribution.

    Also, if a contribution that meets the definition of economic dependence is received from an individual by a public foundation or any NFPO other than a private foundation, we wonder whether there could be privacy considerations to this disclosure. In a private foundation, it is generally known who the corporate entity or individual who is sponsoring or who founded the private foundation is; however, in other NFPOs, this is not necessarily the case and some contributors may wish to have their *contribution remain anonymous. While the proposed disclosure does not require disclosing the contributor's name, it may go beyond with what the contributor would be comfortable.*

11. 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, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule (see paragraph 4400.06A).
    (a) Do you agree that when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule? If not, why not?

    We agree that, when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule. However, we find that proposed paragraph 4400.06A is still not entirely clear that it requires the comparative period information to contain the same level of detail as the current period information, since it only refers to "comparative information", which could also be interpretated as summarized comparative information.

    (b) Do you agree with the other proposed amendments to Section 4400 to clarify the application of fund accounting presentation?

    We agree with the other proposed amendments to Section 4400 to clarify the application of fund accounting presentation.

12. The AcSB proposes an amendment to Section 4400 that requires an organization to disclose information about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those restrictions (see paragraphs 4400.22A-22B).
    (a) Do you agree with the proposed disclosure requirements (see paragraphs 4400.22A-22B)? 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 its requirements related to restricted contributions? If not, why not?

    We agree with the proposed disclosure requirements as they relate to restricted endowment contributions and their related assets, and we agree that the proposed disclosure will convey decision-useful information to financial statement users. However, we are unsure that this disclosure is needed or would provide decision-useful information as it relates to other, non-endowment restricted contributions. We do not believe that most NFPOs compile this information internally as they do not find it to be relevant information, leading to an increased administrative burden to compile this information solely for note disclosure purposes. Also, the restrictions related to most of these other, non-endowment restricted contributions would generally be settled over a relatively short timeframe, so the disclosure is less relevant than it would be for permanent endowments. Lastly, NFPOs with multiple restricted contributions may find this disclosure more onerous as they might be unable to summarily disclose the requirements related to all of the various restrictions.

13. The AcSB proposes that Section 4411 and proposed amendments to Section 4400 be applied retrospectively in accordance with Section 1506, with certain transition provisions.
    (a) Do you agree that proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively? If not, what transition approach would you recommend and why?

    We agree that the proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively.

    (b) Do you agree with the proposed optional transitional relief that an organization is not required to make retrospective adjustments in respect of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest period presented in the financial statements in which the organization first applies proposed Section 4411 (see paragraphs 4411.55-.56). If not, why not?

    We agree with the proposed optional transitional relief relating to capital asset contributions.

14. The AcSB proposes an effective date of fiscal years beginning on or after January 1, 2026, 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?

    We agree with the proposed effective date and believe that it provides adequate time for NFPOs to adopt the proposed standard and proposed amendments.

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

    We have noted in our responses above the examples that we believed were incorrect, unnecessary or required modification. With the exception of those discussed above, we believe that the proposed illustrative examples are useful.

We would be pleased to discuss our comments with members of the AcSB or its staff. If you wish to do so, please contact Adam Rybinski, Associate Partner, Professional Practice, at 416-943-2711 (Adam.C.Rybinski@ca.ey.com) or Janice Rath, Professional Practice Director, at 403-206-5398 (Janice.Rath@ca.ey.com).

Yours sincerely,
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September 28, 2023

Katharine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto ON M5V 3H2

Dear Ms. Christopoulos,

We appreciate the AcSB's invitation to respond to the Exposure Draft on Proposed Accounting Standards for Not-for-Profit Organizations with respect to Contributions – Revenue Recognition and Related Matters.

We have reflected on all questions listed in the Exposure Draft with respect to the proposed changes and are in agreement with all of them, with the exception of the following.

3. *The AcSB proposes that an organization recognize revenue from restricted contributions when (or as) the external restriction is met, provided reasonable assurance exists regarding the measurement of the contribution, and collection is reasonably assured*.

We understand that this requirement would result in the elimination of the restricted fund method of revenue recognition. While we are theoretically supportive of a unified approach to accounting for restricted contributions, we have obtained a significant amount of feedback from clients who would be impacted by this change and who have shared concerns about the elimination of the restricted fund method. The most prominent reason for opposing the change is that the users of the financial statements have become familiar with the restricted fund method of presentation, and these users (as well as management) find that this method provides the necessary information to support their decision making.

Rather than eliminating the restricted fund method, we would encourage the AcSB to consider enhancing the current disclosure requirements when this method is applied. Specifically, the standard could require that management disclose the nature of the restrictions that apply to each restricted fund presented on the financial statements. We believe that this would enhance both the users' understanding of the financial statements and comparability of statements prepared using the two available revenue recognition methods.

7. *The AcSB proposes that net investment income be recognized based on the nature of any restrictions on the investment income. Income earned on investments would continue to be measured in accordance with guidance in other standards for the type of invested asset*.

Further to this requirement, we would like to request that the standard provide more clarity with respect to how investment income should be allocated between the restricted, unrestricted, and endowment funds for entities that apply fund accounting. The current standard has resulted in a wide variety of income allocation methods, leading to inconsistent accounting practices within the NPO sector.

11. *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, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule*.

We strongly support continuing to allow fund accounting. However, we interpret this requirement to mean that comparative information would need to be disclosed following the same format and fund allocation as the current year figures, rather than presenting the comparative figures on a combined basis. While we appreciate the usefulness of the added information, we are concerned that the cost of adding this information to the financial statements would exceed its benefit to the users when they should already have access to this information in the prior period financial statements.

……………………………………………………………………………………………………

We would also like to highlight certain proposed changes that we strongly believe will result in more robust and consistent financial statements presentation.

1. *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 organization and the contributor; and*
   b) *the restriction requires the resources be used for a designated purpose and/or within a designated period of time.*

We strongly support refining the concept of an external restriction to clarify the two criteria that must be met for the classification to apply. The requirements of the current standard are broad and result in inconsistent interpretation and application by NPOs.

4. *Consider the following scenario: An NFPO receives a contribution that is classified as restricted, per the proposed definition. However, the organization meets the restriction and recognizes the revenue in the same reporting period, such that no remaining amount of the contribution is deferred at period end. As proposed in paragraph 4411.44, the organization discloses the changes in the deferred contribution balance for the period, including the receipt of the restricted contribution and subsequent recognition of the contribution in revenue.*

We believe that this disclosure requirement will result in meaningful information to the users of the financial statements because it provides information about the restricted contributions that were received and the fact that related obligations were met during the year.

6. *The AcSB proposes that endowment contributions be recognized as direct increases in net assets. The Board also proposes that an organization disclose information about how it manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments*.

We agree with the nature and extent of the proposed additional disclosure requirements for endowments. The recent economic events that resulted in significant fluctuations in fair values of investment portfolios have demonstrated a need for more robust disclosures in order to highlight the governance measures entities have implemented to ensure that their endowed funds are maintained in perpetuity.

Thank you again for the opportunity to respond to the published Exposure Draft.

Yours truly,

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

September 29, 2023

Dear Ms. Christopoulos:

SUBJECT: Contributions – Revenue Recognition and Related Matters (March 2023)

Grant Thornton LLP and Raymond Chabot Grant Thornton LLP (hereinafter "we") would like to thank you for the opportunity to provide comments on the Accounting Standards Board's (hereinafter the "AcSB" or the "Board") Exposure Draft entitled *Contributions – Revenue Recognition and Related Matters* (hereinafter the "ED"). We agree with many of the proposals within the ED; however, the AcSB needs to understand the tremendous impact of the proposals on a certain segment of not-for-profit organizations ("NPOs"). The restricted fund method of accounting is often used by foundations or other organizations whose mission is to raise funds through fundraising campaigns as this method provides useful information to financial statements users about the organization's ability to raise funds, regardless of whether the funds were used for the specific project to which the funds were allocated by the year end date. Under the proposed contributions revenue recognition method, the financial statements of these organizations will be less useful to their users since they will not be able to easily assess, in the statement of operations, the success of fundraising for restricted funds and endowment funds during the period. We strongly believe disclosure is not sufficient to address their needs as users of financial statements of foundations do not expect to look to multiple financial statement notes just to understand the amount of funding raised. For example, a user may have to look at the notes relating to contributions and the reconciliation of deferred contributions, in addition to the statement of changes in net assets to understand the full extent of the funds raised during a period.

We also question how the elimination of an accounting policy choice (that allows NPOs to pick the best reporting option for their users) aligns with the AcSB's project to investigate whether there should be more scalability in Canada. The *Exploring Scalability in Canada* Consultation Paper considers whether additional policy options or frameworks would make the financial statements more useful to users, whereas this Contributions project looks to require one single method of revenue recognition for all restricted contributions to increase comparability. We believe the AcSB should consider developing a methodology for deciding when comparability should take precedence over scalability in its projects. We believe financial statement users should be able to decide which characteristics are most important to them (e.g., comparability between all NPOs, comparability between fundraising NPOs and other types of NPOs).

Our comments on the specific questions in the ED can be found in Appendix A.

If you wish to discuss our comments or concerns, please contact Melanie Joseph (Melanie.Joseph@ca.gt.com, 416-607-2736) or Stéphane Landry (landry.stephane@rcgt.com, 418-647-5008).

Yours sincerely,

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Appendix A
Responses to Exposure Draft questions

Question 1: 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 organization and the contributor; and**
> **b) the restriction requires the resources be used for a designated purpose and/or within a designated period of time.**

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

Generally, we agree with the proposed definition because the more explicit criteria; however, we have some concerns as expressed below:

- It is not entirely clear what the threshold is for an entity to conclude that a restriction is "explicitly communicated" in situations where funds are requested from a contributor for a specific project, but the confirmation of the contribution is not accompanied by any documentation. The Board should provide an example of when communication other than documentation would be considered explicit. Illustrative Example 4 concludes that the contributions are not restricted because the statement that "*donations are allocated to developing and running programs*" is on the "About Us" web page instead of being explicitly communicated to each contributor. Assuming the statement was explicitly communicated to the contributors, we question whether the restriction is sufficiently specific to be classified as an external restriction, or whether it is too broad and relates to the organization's overall mandate to provide "*programming for children in the local community*". Would the contribution need to be for a specific program for it to be considered externally restricted? Unless more guidance is provided, we believe there is too much room for judgment, which may lead to frequent inconsistent application in practice.

- We do not believe the conclusion in Illustrative Example 5A that the donation of canned goods to a food bank has no external restriction is as clear as the Illustrative example conveys. While not stated in the example, this conclusion appears to be an application of paragraph 4411.08. Although the food bank's mission is to provide food to the community, we would assume it is understood that the contribution is for the specific activity/purpose of distributing the canned goods to those that need it. We believe it would be helpful to clarify how this situation is similar to (or different from) a contribution towards the organization's general operations or to achieve the organization's mandate since we believe some entities would arrive at a different answer given the current guidance. We also believe that the conclusion in Illustrative Example 5A contradicts paragraph .38 of the Basis for Conclusions (BOC) which indicates that, for a community organization that provides shelter services, "*a contribution that must be used for shelter services…would be deemed restricted because it must be used for a specific purpose*".

- Paragraph 4411.07 indicates that restrictions may include specific performance requirements or outcomes that must be met. An issue arises when there are both performance requirements and outcomes; the proposed guidance does not convey which takes precedence when determining when to recognize the revenue. For example, consider a contribution to purchase a building and provide affordable housing over 20 years. Is the recognition of the revenue for the restricted contribution tied to the act of acquiring a building, or providing affordable housing over 20 years? The definition of a restricted contribution in 4411.04(c)(i) only states that the restriction must require the resources be used for a "*designated purpose and/or used within a designated period of time*" without reference to performance requirements or outcomes. We strongly believe the Board should clarify the issue as it arises often in practice.

- We believe the wording on restricted contributions in paragraphs 4411.08 and .09 should be clarified to ensure consistent application of these important requirements. For example, paragraph PS 3410.37 under Public Sector Accounting Standards (PSAS) provides well organized and clear examples (only some of which are contained in the proposed guidance) on what a "stipulation" is:

  a) *Stipulations set out by the transferring government that specify the purpose(s) for which transferred resources must be used (i.e., purpose stipulations). Examples include:*
     i. *use the resources to acquire or develop a tangible capital asset;*
     ii. *use the resources to carry out a particular activity; and*
     iii. *use the resources for relocation to a specified region or for hiring a specified number of new employees.*

  b) *Stipulations set out by the transferring government that specify when transferred resources must be used (i.e., time stipulations). Examples include:*
     i. *a particular period of use;*
     ii. *the date when use is first permitted;*
     iii. *the start and end date of the period within which the transferred funds must be used; and*
     iv. *a pattern of use for the transferred funds in specified annual periods of time.*

Question 2: The AcSB proposes that unrestricted contributions be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured (see paragraph 4411.13). Do you agree with the proposed recognition guidance for unrestricted contributions? If not, why not?

Instead of introducing new and undefined terms such as "entitled" and "formal agreement", we believe the guidance on recognition should also tie into the definition of an asset in Section 1001 *Financial statement concepts for not-for-profit organizations*. We strongly believe the proposals focus too extensively on revenue, without placing emphasis on the balance sheet and the fundamental question of whether an asset exists.

Paragraph 14 refers to a "formal" agreement" which could lead to NPOs incorrectly concluding that pledges qualify for earlier recognition. Pledges come in many forms, and often there is some sort of communication or documentation of a promise to make the contribution to an NPO, even when it is not enforceable. Tying the guidance back to the definition of an asset and the control concept will help ensure consistent treatment of pledges between NPOs and reduce ambiguity.

Question 3: The AcSB proposes that an organization recognize revenue from restricted contributions 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 (see paragraph 4411.16)? If not, why not?

Like our response to Question 2, we believe the recognition requirements should be linked to the definition of an asset to clarify recognition, since "entitled" and "formal agreement" are somewhat confusing terms to apply and the focus on revenue recognition versus asset recognition could lead to confusion.

Overall, we agree with the proposals in paragraph .16; however, we have identified the changes below that we believe are necessary.

The Board should make amendments to paragraphs .16 and .18 to ensure consistency. The wording in paragraph .16 ("*when or as*") seems to imply that the contribution may be recognized over time, but paragraph .18 only uses the wording "*when external restrictions are met*" and excludes the wording "or as", which hints at recognition at only a point in time. For example, if a contribution's restriction is for the creation of 20 new beds in a homeless shelter, would 1/20th of the contribution be recognized as revenue when each new bed is created or should only 100% of the revenue be recognized when all 20 beds have been created?

As part of the new Section, we believe the AcSB should address other issues noted below:

- Funding received to disburse to other parties – Many NPOs receive funding, generally from governments under formal agreements, which specify the purposes for which the funding must be used with the understanding that those funds are then disbursed to other parties. Assuming the guidance for gross presentation is met, it can be unclear when the restriction is met. Is it met when the disbursement occurs to a qualified recipient, or when the recipient itself has used for funds in line with the specific activity or purpose?

- Forgivable loans – The accounting for forgivable loans is not clear in the proposed guidance (nor is it clear under the current guidance); this has resulted in inconsistent accounting in practice. Some entities treat forgivable loans as loans until they are forgiven, while others treat them as contributions (looking to paragraph 3800.25 in Part II of the CPA Canada Handbook – Accounting – Accounting Standards for Private Enterprises ("ASPE")), which indicates that a forgivable loan is accounted for as a grant when the enterprise becomes "entitled" to receive it. Proposed paragraph 4411.04(c) states that non-reciprocal government funding provided to an NPO is considered a contribution, but it does not provide explicit guidance related to forgivable loans. We highly recommend the Board should consider the following:

    - Include clear guidance on forgivable loans within Section 4411 itself. Is it a contribution on day one or a loan until forgiven, or does it depend on certain facts and circumstances? We propose guidance consistent with Section 3800 in ASPE that treats them as contributions.

    - Forgivable loans, when considered restricted contributions, can also demonstrate the issue we discuss in our answer to Question 1 pertaining to which restrictions take precedence. For example, consider a forgivable loan to purchase a building and provide affordable housing over 20 years; the loan is forgiven equally over the twenty years. Is the restriction related to the act of acquiring an appropriate building, or is the restriction related to providing affordable housing over 20 years? The definition of a restricted contribution in 4411.04(c)(i) only states that the restriction must require the resources be used for a "*designated purpose and/or used within a designated period of time*" without reference to performance requirements or outcomes. The forgiveness of the loan will occur over 20 years, but the loan was given to finance the purchase of the building which could result in revenue recognition over a longer period (depending on the amortization period of the building). More guidance in this area is beneficial and needed.

Question 4: Consider the following scenario: An NFPO receives a contribution that is classified as restricted, per the proposed definition. However, the organization meets the restriction and recognizes the revenue in the same reporting period, such that no remaining amount of the contribution is deferred at period end (see Illustrative Example 2 in proposed Section 4411). As proposed in paragraph 4411.44, the organization discloses the changes in the deferred contribution balance for the period, including the receipt of the restricted contribution and subsequent recognition of the contribution in revenue. In this scenario, is the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance relevant to users of financial statements? If not, why not?

We disagree with the proposed disclosure requirements. We believe the required disclosures should be limited to deferred contributions for which there is a balance on the balance sheet at the beginning and/or end of the year. It will be quite common for funding received by NPOs to qualify as restricted under the new proposals in that the resources must be used or will be used over a specific period, the ending of which coincides with the NPO's fiscal year. The disclosures as proposed under paragraph .44 are not useful to most NPOs and would require additional administrative tracking. We believe this disclosure should be voluntary, if an organization believes such disclosure to be useful, not mandatory.

Also, the disclosures required under paragraphs .40 and .44 should be harmonized. Paragraph .40 refers to "by major source" and paragraph .44 refers to "each major category". We believe the disclosure should be required by "major category", not "major source".

Question 5: The AcSB proposes that capital asset contributions related to amortizable assets be deferred and recognized as revenue on the same basis as the amortization expense on the related acquired capital assets (see paragraph 4411.21). For indefinite-lived assets, the Board proposes recognizing them as direct increases in net assets (see paragraph 4411.22).

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

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

We agree with the proposals. However, we believe guidance should be added to clarify how adjustments to the carrying amount of capital assets acquired with restricted contributions would affect the related deferred contribution balance (for example, impairment or sales of the related capital asset). The guidance should address whether and how the related deferred contributions revenue balance should reflect the changes to the capital asset balance.

Paragraph .24 has not significantly changed from the prior requirements; however, the Board should be aware that some NPOs enter into agreements with funders knowing that they will have to acquire capital assets to fulfil the requirements of the funding agreement. Some NPOs believe that not being able to treat the contributions received as capital contributions when they were used for capital because the agreement was not entirely explicit as to the exact amount for capital can lead to a misleading picture in their financial statements.

Question 6: The AcSB proposes that endowment contributions be recognized as direct increases in net assets (see paragraph 4411.26). The Board also proposes that an organization disclose information about how it manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments (see paragraphs 4411.48-49).

a) Do you agree that endowment contributions should be recognized as direct increases in net assets? If not, why not?

b) Do you agree with the nature and extent of the proposed additional disclosure requirements for endowments? If not, why not?

Regarding the proposal that endowment contributions should be recognized as direct increases in net assets, we believe the AcSB should consider whether this should be an area for an accounting policy choice, in line with its project on scalability. For organizations who primarily receive endowment contributions, the current proposals will provide less useful information to financial statements users by presenting little or no contribution revenue.

We also suggest that the terminology should be changed to "perpetual endowment" from "endowment" because the definition of an endowment according to Section 4411 differs from the definition of an endowment from a legal point of view and how many NPOs view an endowment. To avoid any form of confusion in accounting for arrangements that may legally bear the name of endowment (for example, a 10-year endowment), the terminology in Section 4411 should be changed.

We disagree with the proposed disclosure requirements as follows:

- When considering scalability under the Strategic Plan, we question whether the disclosure requirement in paragraph 4411.48 will result in useful information or if it will result in boilerplate disclosures, like capital disclosures under old Canadian GAAP or financial instruments risk disclosures. In many cases, managing the investments may be a routine or non-complex exercise, such as using investment advisors, and the disclosures would not provide useful information.
- Paragraph .49 refers to "*fair value of endowments*"; we believe the Board should revise the wording to "*fair value of endowment assets*" to provide clarity. This requirement may also require additional efforts to obtain the fair value (e.g., if investments measured at cost or amortized cost); the Board should consider this when assessing the cost of this added disclosure.

Lastly, we believe the AcSB should also use this opportunity to address how an endowment should be accounted for when, at a later date, the donor provides permission to unendow or draw down the endowment balance in certain circumstances.

Question 7: The AcSB proposes that net investment income be recognized based on the nature of any restrictions on the investment income (see paragraph 4411.29). Income earned on investments would continue to be measured in accordance with guidance in other standards for the type of invested asset (see paragraph 4411.30).

a) Do you agree with the proposed guidance relating to the recognition of net investment income? If not, why not?

We believe clarification should be provided on the recognition of investment income when contributions from numerous sources (restricted and unrestricted) are pooled by the organization (for example, in an investment portfolio made up of numerous investments, some of which may be accounted for at cost and some at fair value). In practice, and for economic reasons, there are generally no specific securities or specific investments linked to each type of contribution; there is only a pool of securities. The standard should state that in such a situation that the NPO allocate the income in a logical and systematic manner that is applied consistently from year to year.

The Board should also address how to account for unrealized gains or losses earned on investments that are subsequently measured at fair value. In practice, endowment agreements most often will not specify how gains or losses impact endowment balances—for example, whether unrealized losses on investments made using endowment contributions should draw down the endowment balance past the principal balance--and this can result in diversity in practice. At a minimum, we suggest that the AcSB address whether any unrealized gains or losses should follow the restrictions (if any) that apply to realized gains or losses or whether the NPO should consider if it is required to make whole the principal on an endowment.

b) Do you agree with the nature and extent of the proposed disclosure requirements relating to net investment income? If not, why not?

Yes, we agree.

Question 8: The AcSB proposes continuing to allow organizations to choose to recognize contributions of materials and services that meet the criteria in paragraph 4411.32(b).

a) Do you agree with the proposed criteria in paragraph 4411.32(b)? If not, why not?

Yes, we agree with the proposed criteria in paragraph 4411.32(b).

b) Do you think the proposed criterion in paragraph 4411.32(b)(iii) would allow organizations to recognize contributions of materials and services that are critical to the organization's mandate (provided the fair value can be reasonably estimated and they are used in the normal course of operations)? If not, why not?

Regarding paragraph .32(b)(iii), we suggest that the phrase "*have to be purchased to fulfill*" be replaced by "*have been used to fulfill*". Consider the example where an NPO receives free TV advertising from a donor to promote a fundraising event. It is likely that the organization would have advertised the event, if it had not received the advertisement for free, but it may not have been able to spend the same sum on advertising or it may have only advertised in newspapers or on social media. In other words, the NPO would have procured advertising services but not necessarily of the same type or for an equivalent amount. Using the wording "*have been purchased*" complicates the accounting and will lead to too much judgment and inconsistency. We believe changing the guidance as we have suggested will avoid this complexity and confusion.

c) Do you agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services (see paragraphs 4411.51-52)? If not, why not?

If the disclosures in paragraph .52 are required, we do not believe that the separate presentation required by paragraph .51 would be useful or necessary.

We disagree with the disclosure requirements in .52c) because dependence is very judgmental and may not be easy to assess, especially if contributions in the form of goods and services are not recognized. The cost to make the judgment as to the possibility of easily replacing contributions of goods and services received from another contributor (e.g., ability to recruit new volunteers) would likely not produce comparable disclosures between entities or provide useful information to financial statement users; it would also increase the costs to obtain assurance (e.g., audit or review) over whether the NPO's assessments of dependence were appropriate.

Question 9: The AcSB proposes that a pledge or a bequest be recognized only when the recognition criteria in paragraphs 4411.13, 4411.16 or 4411.26 are met for each individual pledge or bequest. This means that in many cases a pledge will not meet the proposed criteria for recognition until the pledge is received and collection therefore is reasonably assured. Do you agree that a pledge should generally not be recognized until collected (see paragraph 4411.36)? If not, under what scenarios would a pledge meet the recognition criteria prior to collection?

As mentioned in our responses to Questions #2 and 3, instead of introducing new and undefined terms (e.g., "entitled" and "formal agreement"), the guidance on recognition should tie into the definition of an asset in Section 1001. It would then be much clearer that many pledges would not be recognized until received because many are not controlled prior to the receipt of the cash.

We believe the statements in paragraph .80 of the BOC that "th*e 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*" and in paragraph .81 that "*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*" should form part of the actual guidance in Section 4411, because, as currently written, paragraph .36 does not demonstrate why the vast majority of pledges should no longer be recognized. The Basis for Conclusions is clearer as to what the Board's position is on the recognition of pledges (that it is rare, as the control criteria in the definition of an asset is generally not met until the pledge is received).

In the French version of the ED, the title “*Promesses d’apports et legs*” should be renamed to refer to “*Promesses de dons et legs*”. The term "apports" refers to any form of contribution received by the organization. Pledges and bequests are types of contributions (“apport”) that have very specific characteristics.

Question 10: The AcSB proposes that organizations disclose contributions by major source. The Board also proposes that organizations disclose economic dependence when the ongoing operations depend on a significant contribution(s) from another party (see paragraphs 4411.40-41).

a) Do you think disclosing contributions by major source provides decision-useful information? If not, why not?

We disagree with requiring disclosure by major source. Instead, we believe that the disclosure should be provided “by nature or main category”. "By source" refers to the type of contributor. According to paragraph .42, it is required to distinguish between contributions received from individuals, companies, etc. This disclosure is not, in our opinion, useful for many users of NPO financial statements and many NPOs may not track this information. The disclosure of contributions by nature or main category would be consistent with the requirements of 3400.33 and allows NPOs to decide what groupings are most useful to their financial statement users. We would also propose that the Board include the guidance on the use of judgment that is included in paragraph 3400.35 into Section 4411.

b) Do you think disclosing economic dependence when the ongoing operations depend on a significant contribution(s) from another party provides decision-useful information? If not, why not?

Paragraph .41 requires disclosure of dependence on significant contributions from “another party” which implies a single party. We believe dependence can also exist on contributions from more than one party (such as a small number of recurring donors) and that disclosure should also be required in those cases.

Question 11: 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, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule (see paragraph 4400.06A).

a) Do you agree that when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule? If not, why not?

b) Do you agree with the other proposed amendments to Section 4400 to clarify the application of fund accounting presentation?

We strongly disagree that comparative information should be required when fund accounting presentation is applied because it should be left up to the NPO to decide what is best for its financial statement users. Financial statement users can request this information, if desired, and it would be an excessive burden to report additional information that, in our experience, users are not requesting. If not desired by the financial statement users, this additional information would add to the bulk of financial statements, add to information overload, and reduce the usefulness of the financial statements. We have been informed that some organizations would consider forgoing fund accounting presentation solely to avoid the excessive effort of providing comparative information.

The following are our other comments on the proposed changes to Section 4400:

- Paragraph .06(b) & .07 - Rather than disclosing the factors used to determine funds (the wording of which is confusing to understand), we believe the organization should disclose the nature of the financial statement elements presented in each fund so that users can understand what revenues and expenses are consistently reported in each fund. The user should be able to understand why certain revenues, expenses or gains or losses are recognized in a particular fund. This includes whether elements are being allocated amongst funds (e.g., rent).
- Paragraph .08A - The NPO's accounting policy disclosures should also include how indirect costs are allocated between funds.
- Paragraph .19(f) - We believe that deferred capital contributions should not be required to be presented separately from other deferred contributions on the face of the financial statements if they are disclosed separately in the notes to the financial statements. This would be consistent with net assets invested in capital assets, where separate presentation is optional (paragraphs 4411.24B - .24D).
- Illustrative Example 4A - We believe the AcSB should also include an example of a deficiency in the assets available to meet requirements related to restricted contributions, especially given the current economic conditions.
- Paragraph .41 - We believe paragraph .41(c) should separate the presentation requirement for "*externally restricted net assets other than those in (b)*" into its own bullet, rather than include it with the requirement for internally restricted net assets in (c).

Question 12: The AcSB proposes an amendment to Section 4400 that requires an organization to disclose information about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those restrictions (see paragraphs 4400.22A-22B).

a) Do you agree with the proposed disclosure requirements (see paragraphs 4400.22A-22B)? If not, why not?

We do not agree with the disclosure requirements given the very judgmental ways to provide the disclosure, including the ability of NPOs to include virtually any assets in the "*assets available to meet restrictions*" to avoid showing a deficiency. Paragraph .110 of the BOC states that "*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 such as inventory or capital assets*". We cannot think of scenarios in which this would be the case. We believe further explanation is warranted in both the basis and the proposed guidance in the Section as to when other assets such as inventory or capital assets can, or should, be included in the assets available to meet requirements related to restricted contributions. We believe that the level of judgment and ability to include virtually everything as an asset available to meet the requirements related to contributions renders the disclosure useless to financial statement users. Also, for NPOs where there may be a deficiency, this may create conflicts with their auditors/accountants as to what assets should be included as being available to meet restricted contributions. Financial statement users can assess for themselves from the statement of financial position as to what assets may be available rather than having to include the current proposed disclosures, which allow significant judgments.

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

No, we do not for the reasons noted in our answer to Question 12a) above.

Question 13: The AcSB proposes that Section 4411 and proposed amendments to Section 4400 be applied retrospectively in accordance with Section 1506, with certain transition provisions.

a) Do you agree that proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively? If not, what transition approach would you recommend and why?

Yes, we agree that proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively.

b) Do you agree with the proposed optional transitional relief that an organization is not required to make retrospective adjustments in respect of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest period presented in the financial statements in which the organization first applies proposed Section 4411 (see paragraphs 4411.55-.56). If not, why not?

Yes, we agree with the proposed optional transitional relief.

Question 14: The AcSB proposes an effective date of fiscal years beginning on or after January 1, 2026, 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?

We agree with the proposed effective date. We believe it provides adequate time for NPOs to adopt the proposed standard and amendments.

Question 15: Do you think the proposed illustrative examples are useful in demonstrating the application of the proposals? If not, why not?

We agree that the proposed illustrative examples are useful, but we have the following comments to clarify application and improve the examples:

- <u>Illustrative Example 2</u>: If the Board retains the proposed disclosure requirements related to the changes in the deferred contribution balances, we believe this example should also include the disclosure so that preparers can understand whether the disclosure is required for all restricted contributions during period, or only the deferred contribution balances outstanding at the beginning and/or end of the period. The Board should likewise provide further clarification in the narrative disclosure in Note X1 of Example 5B to convey whether NPOs would reconcile all restricted contributions received during the period, or only amounts for which there is a deferred contribution balance at the beginning and/or end of the period. As a reminder, in with our response to Question #4, we propose that the required disclosures should be limited to deferred contributions for which there is a balance on the balance sheet at the beginning and/or end of the year.

- Illustrative Example 5A: Consistent with our response to Question #1 which raised some concerns with the determination of whether a contribution is restricted, we believe clarification is needed in the example as to why the contributed canned goods are considered unrestricted.
- Illustrative Example 5C: The narrative disclosure in Note X2 only provides the disclosure for deferred contributions for a single source and single type of restriction. We believe there should be an illustrative example of the disclosure required under 4411.44(b) when there are multiple major categories.
- Illustrative Example 6: We believe the example is missing the discussion on the timing of when to accrue a receivable, not just when to recognize the revenue. Consistent with our response to Question #2, we believe recognition of the receivable should be tied to the definition of an asset. The example should answer: when is the organization "entitled" to the contribution? Is it when it is requested, when it is approved, or at some other point in time?

Other comments

Two additional comments we have are as follows:

- Paragraph .02 of proposed Section 4411 should specify the Sections of the CPA Handbook that would apply for investment income, similar to what is done in paragraph .01 which refers to Section 3400 *Revenue*. Paragraph .01 should also refer to the Section 3065 *Leases*.
- Overall, the proposed new Section and amendments to Section 4400 are adding a significant number of additional disclosures to NPO financial statements. We believe the AcSB should reconsider whether all are decision-useful and the costs of providing each of these additional disclosures by NPOs, with limited resources, truly exceed the benefits to the financial statement users.

Comments on the proposed Basis for Conclusions (BOC)

Although not specifically requested, below are our comments on the BOC:

- Paragraph .25: We disagree with the statement that "*Most external restrictions will be explicitly stated by the contributor and included in a contribution agreement*". Consistent with our response to Question #1, in practice, we believe the restriction it is not always clearly stated, and this is an area that requires additional guidance to determine when communication of the restriction is explicit.
- Paragraph .38: This paragraph indicates that, for a community organization that provides shelter services, "*a contribution that must be used for shelter services… would be deemed restricted because it must be used for a specific purpose*". The conclusion in the BOC in this paragraph appears to contradict the assessment in Illustrative Example 5A that indicates that a donation of canned goods to a food bank has no external restriction. As such, it is unclear how to determine when similar contributions are or are not part of an NPO's general mandate.
- Paragraph .69: Consistent with our response to Question #6(b), we do not agree that contributors of endowments look to the financial statements to obtain information on the NPO's satisfaction of fiduciary duties with respect to their individual endowment. Nor do we agree that all NPOs use fair value to account for or manage their endowment. There appears to be an assumption that fair values are most important to endowment contributors who view the financial statements, which in our experience is not always the case.

Fondation du Grand Montréal

28 septembre 2023

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Objet : Réponse à l'exposé-sondage Apports – Comptabilisation des produits et questions connexes

La présente lettre fait suite à l'exposé-sondage du Conseil des normes comptables (CNC) « Normes comptables pour les organismes sans but lucratif (OSBL), Apports – Comptabilisation des produits et questions connexes ».

Comme l'indiquent les documents de l'exposé-sondage, les directives proposées ont pour but de réduire la complexité et améliorer la comparabilité des états financiers des OSBL en vue de fournir aux utilisateurs des informations plus utiles à la prise de décision.

Nous pensons que les fondations communautaires comme la nôtre occupent une place particulière dans le secteur à but non lucratif. Nous sommes conscients que les normes comptables ne peuvent pas répondre à tous les besoins et à toutes les perspectives, mais il demeure tout de même important, selon nous, que les normes comptables proposées reflètent une bonne compréhension des nuances du fonctionnement de ce type de fondations et des défis auxquels elles sont confrontées. La présente réponse s'inscrit dans cette perspective, qui n'est pas identique à celle des fondations privées ou publiques.

Bien que nous comprenions l'objectif de réduire la complexité et d'améliorer la comparabilité, nous ne croyons pas que la nouvelle norme, telle qu'elle est proposée, parviendra à fournir des informations plus utiles aux utilisateurs externes.

Comparabilité

Le secteur à but non lucratif englobe deux types d'organismes très différents : les organismes de collecte de fonds et les organismes de prestation de services. Ces deux types d'organismes ont des modèles, structures et utilisateurs d'états financiers bien distincts. Les méthodes actuelles de comptabilisation des produits tirés d'apports, à savoir la méthode par fonds affectés et la méthode du report, sont très efficaces pour refléter les différences structurelles distinctes et les besoins variés des utilisateurs des états financiers de chaque type d'organismes.

À la Fondation du Grand Montréal, nous sommes avant tout des subventionnaires. En fait, nous sommes le collecteur de fonds pour les organismes de prestation de services. Nous le faisons principalement en générant des revenus à partir de nos fonds de dotation, dont la majorité sont permanents, mais un fonds de dotation n'est pas synonyme de permanence pour nous. Dans l'affaire opposant la Société de l'arthrite à la

Vancouver Foundation, la Cour suprême de la Colombie-Britannique a reconnu que la définition la plus courante du terme *dotation* est la constitution d'un fonds destiné à générer des revenus fixes pour le soutien d'un organisme de bienfaisance. La manière dont les donateurs expriment leur philanthropie, que ce soit à la Vancouver Foundation ou à l'une des 200 fondations communautaires liées à une localité, est complexe et se complexifie encore à mesure que notre société évolue. Pour s'y adapter, nos fonds deviennent plus flexibles et peuvent être établis initialement dans le but de générer des revenus et d'avoir une incidence durable, mais peuvent aussi se transformer en cours de route pour être déboursés en entier après le décès du donateur. Il s'agit là d'un exemple parmi d'autres qui illustre la difficulté à déterminer la permanence d'un fonds étant donné la flexibilité de nos offres de fonds. La méthode par fonds affectés nous permet de gérer cette complexité en comptabilisant ces transactions de manière similaire, qu'il s'agisse d'un fonds affecté ou d'un fonds de dotation.

Selon les directives proposées, une comptabilisation de deux manières distinctes, c'est-à-dire en considérant les dotations comme des augmentations directes de l'actif net et en reportant et comptabilisant les apports affectés comme des produits au fil du temps, introduit de la complexité et nuit à la comparabilité, alors que l'intention de l'apport est similaire, à savoir le soutien à long terme de la communauté.

Nos utilisateurs, principalement des donateurs et donatrice, des organismes culturels caritatifs et sans but lucratif et des fondations publiques, vont y perdre en transparence dans nos états financiers. L'information principale dont ils ont besoin, c'est le montant des apports reçus, sous toutes leurs formes et tailles, au cours de l'année où ils ont été versés. Or, si l'on suit les nouvelles directives proposées, les utilisateurs devront naviguer entre les produits reportés, l'actif net et des notes d'informations et rapiécer ces données pour obtenir l'information recherchée. La comparabilité au sein même de notre organisme sera difficile d'une année sur l'autre, sans parler de la comparabilité entre les organismes de collecte de fonds.

Complexité

Un autre objectif mentionné dans les directives proposées est de réduire la complexité. La Fondation du Grand Montréal estime que ces directives ne tiennent pas compte de la complexité de notre fondation communautaire et imposeraient plutôt un fardeau indu à nos activités. En effet, les directives ne semblent pas tenir compte du volume de fonds que nous gérons. La Fondation du Grand Montréal s'occupe actuellement de plus de 750 fonds, chacun ayant ses affectations propres. Nous arrivons à faire face à cette complexité grâce à la possibilité de choisir une méthode comptable. En supprimant ce choix, les utilisateurs devront consulter plusieurs passages distincts des états financiers pour arriver à comprendre quels sont nos apports, et l'opération exigera d'eux des connaissances financières plus poussées. C'est un obstacle direct à la compréhensibilité de nos états financiers.

Base des conclusions

Le CNC expose les bases de ses conclusions dans les documents de l'exposé-sondage. Nous aimerions exprimer notre point de vue sur certains des éléments mentionnés.

> Point 1 – « [I]l est aujourd'hui plus courant pour les OSBL de recevoir des apports assortis d'affectations ou d'exigences précises, et les ententes d'apport deviennent de plus en plus complexes. » Même si nous sommes d'accord avec cette affirmation, nous pensons également que la méthode par fonds affectés nous permet de gérer cette complexité. En tant que fondation

communautaire, nous nous occupons de plus de 750 fonds affectés. Il n’est pas rare que des organismes comme le nôtre aient des centaines, voire des milliers de fonds. La méthode par fonds affectés nous permet de gérer toutes les exigences complexes que peut nous poser une convention de donation sans créer un fardeau administratif indu. Ces contraintes n’ont pas avoir avec la prestation de services, un élément pour lequel la méthode du report convient bien, mais plutôt aux restrictions posées par les donateurs, qui influencent la manière dont nous versons ensuite des subventions dans la communauté.

Point 3 – On dit que « plusieurs répondants [...] ont affirmé que ce choix fonctionne bien en pratique et répond aux besoins divers des OSBL et des utilisateurs de leurs états financiers », et pourtant, le CNC pose des conclusions faisant fi de ce commentaire. S’il était question de placer les utilisateurs au centre (comme l’ont indiqué plusieurs répondants), nous aimerions que le CNC explique plus en détail sa conclusion afin de clarifier comment il y parvient.

Point 4 – « Le CNC n’a trouvé aucun autre pays qui donne un choix de méthode comptable aux OSBL quant à la comptabilisation des produits tirés des apports affectés. » Nous reconnaissons que les normes comptables internationales ne sont pas notre domaine d’expertise, mais nous aimerions souligner que nos homologues aux États-Unis, qui appliquent les PCGR américains, comptabilisent généralement les produits en deux colonnes, à savoir les produits avec restrictions des donateurs et les produits sans, et répartissent l’actif net dans ces mêmes catégories. Leurs produits ne semblent pas avoir été reportés et les apports aux fonds de dotation ne semblent pas non plus exclus de la comptabilisation à titre de produits. De notre point de vue, leurs politiques financières et les états financiers ressemblent beaucoup à la méthode de comptabilisation des apports par fonds affectés.

Points 11, 12 and 37 – « [L]e Conseil soupèse de façon générale les coûts et les avantages prévus de ses propositions pour déterminer si elles sont justifiées sous l’angle du rapport coûts-avantages. » En tant que collecteur de fonds, nous prévoyons des coûts considérables pour la mise en œuvre d’un système capable d’assurer un suivi continu et une augmentation des heures de travail du personnel afin de rendre compte de ces transactions. À notre avis, ces coûts ne justifient pas les avantages entrevus. Le CNC a dit reconnaître qu’il s’agira d’« un changement dans les pratiques de beaucoup d’organismes », que « [c]e changement entraînerait aussi des coûts supplémentaires associés au suivi continu des apports reportés », que « la définition proposée d’“apport affecté” entraînerait probablement le classement de beaucoup d’apports en tant qu’apports affectés au moment de leur comptabilisation initiale » et que « dans bien des cas, les affectations seront respectées peu après la réception des apports, et donc que les produits tirés de ceux-ci seront comptabilisés quasi immédiatement ». Nous ne voyons pas bien en l’occurrence en quoi la suppression d’une méthode utilisée par beaucoup, qui simplifie précisément ce processus et élimine cette étape supplémentaire, peut venir aider un secteur qui manque généralement de personnel et de fonds. À notre avis, le CNC a sous-estimé le rapport coûts-avantages de deux types d’organismes très différents, notamment en ne s’interrogeant pas à savoir si des exigences différentes devaient s’appliquer en vertu du paragraphe 1001.13.

Point 66 – On y lit que comptabiliser les dotations directement dans les produits « entraînerait une volatilité importante » et « risquerait d’exagérer l’excédent des produits sur les charges pour l’exercice au cours duquel la dotation est reçue, ce qui pourrait camoufler des déficits de fonctionnement ». La méthode par fonds affectés combinée à la présentation des fonds exige précisément de présenter le fonds d’administration générale ou de fonctionnement séparément du fonds de dotation; il n’est donc pas clair comment on a pu arriver à cette conclusion. Il est également signalé qu’il y a une « absence de contrôle à l’égard de la dotation » et qu’elle « ne refléterait pas la substance de l’opération ». Nous pensons que le fait de classer les dotations comme une augmentation directe de l’actif net altère fondamentalement la substance de l’opération. Une dotation est une entrée de ressources, bref c’est un don, et bien qu’une affectation particulière lui soit attribuée, nous avons suffisamment de contrôle sur les fonds pour satisfaire à la définition légale et comptable du contrôle. Il s’agit par définition d’un produit qui doit figurer dans les états financiers en tant qu’information pertinente pour nos utilisateurs.

Les conséquences pour les déclarations de renseignements des organismes de bienfaisance enregistrés ne semblent pas avoir été prises en considération. À l’heure actuelle, notre formulaire T3010 et nos états financiers sont comparables; les produits pour lesquels des reçus ont été délivrés aux fins de l’impôt, tel qu’il est indiqué dans le formulaire T3010, concordent avec les produits tirés d’apports écrits dans les états financiers, car selon la méthode par fonds affectés, ces apports affectés sont comptabilisés au moment où ils sont reçus, y compris les apports aux fonds de dotation. En supprimant ce choix, le CNC forcera à l’interne une tâche administrative de rapprochement des registres pour deux objectifs distincts, tandis qu’à l’extérieur, nos donateurs devront comparer deux documents fondamentalement différents pour s’y retrouver.

Équilibrer les besoins

Nous croyons qu’il serait préférable de réduire la complexité et d’améliorer la comparabilité en imposant plutôt des exigences supplémentaires de présentation des états financiers et d’informations à fournir dans les notes, et non en supprimant carrément un choix fondamental de méthode comptable.

Les nouvelles exigences d’information recommandées pour les dotations sont des ajouts bienvenus qui fourniront des informations utiles aux utilisateurs des états financiers. Pour plus de transparence, nous suggérons que le CNC propose également aux organismes de divulguer leur politique de distribution dans le cadre des exigences générales de divulgation énoncées aux paragraphes 4411.48-49. Cela permettra aux utilisateurs de mieux comprendre la relation entre les dotations et les revenus de placement. Selon nous, les nouvelles directives concernant l’information à fournir concilient les principes de compréhensibilité et de pertinence pour les utilisateurs, conformément aux paragraphes 1001.15-17, sans qu’il soit nécessaire de modifier fondamentalement les dotations et les revenus de placement nets correspondants en les faisant passer de produits à actif net.

L’actif net, par définition, est l’intérêt résiduel dans les actifs après déduction des passifs. Il est destiné à fournir de l’information sur les ressources dont dispose l’organisme pour mener à bien sa mission ou offrir ses services. Selon nous, les directives actuelles sont très limitées et mettent l’accent sur la forme juridique des actifs (non affectés, affectés et mis en dotation). Nous suggérons des directives qui mettent l’accent sur la substance plutôt que sur la forme. La divulgation de l’actif net au recto ou dans les notes, par grande catégorie d’affectations externes, et la description de ces affectations fourniraient des informations plus utiles à nos lecteurs. Le CNC l’a suggéré pour les apports différés (paragraphes 4411.44-45), mais nous recommandons d’étendre ces directives à l’actif net tout en autorisant la méthode par fonds affectés.

Conclusion

La Fondation du Grand Montréal estime que la réduction de la complexité et l’amélioration de la comparabilité sont des objectifs importants. Nous sommes cependant préoccupés par le fait que les directives appliquent une seule norme à deux types distincts d’organismes remplissant des fonctions très différentes au sein du secteur sans but lucratif et ayant des besoins distincts en termes d’information pour les utilisateurs. En particulier, nous nous inquiétons des changements proposés menant à supprimer la méthode de comptabilisation des apports par fonds affectés, de même que du traitement proposé pour les dotations, vues comme des augmentations de l'actif net. Nous pensons que les normes proposées imposent des coûts et des délais excessifs aux organismes de collecte de fonds telles les fondations communautaires. Le coût financier de l'analyse avantages-coûts a été largement sous-estimé. Nous sommes d'avis que les changements proposés introduiront de la complexité pour nos utilisateurs, ce qui constituera un obstacle à la compréhensibilité de nos états financiers.

Lise Charbonneau, CPA, CA
Vice-présidente, Administration, finance et placements

Fondation du Grand Montréal

September 28, 2023

Katharine Christopoulos, CPA, CA
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Subject: Response to the exposure draft, *Contributions – Revenue Recognition and Related Matters*

This letter is in response to the Accounting Standards Board (AcSB) Exposure Draft, Accounting Standards for Not-for-Profit Organizations (NFPOs), *Contributions – Revenue Recognition and Related Matters*.

As indicated in the exposure draft documents, the proposed guidance is intended to reduce the complexity and improve the comparability of the NFPO financial statements with a view to providing users with more decision-useful information.

We believe that community foundations like ours hold a special place in the not-for-profit sector. We recognize that accounting standards cannot meet all needs and perspectives, but we believe it is still important that the proposed accounting standards reflect a sound understanding of the nuances of how such foundations operate and the challenges they face. This response is part of this perspective, which is not identical to the perspectives of private or public foundations.

While we understand the objective of reducing complexity and improving comparability, we do not believe that the proposed new standard will succeed in providing more useful disclosures to external users.

Comparability
The not-for-profit sector encompasses two very different types of organizations: fundraising organizations and service delivery organizations. These two types of organizations have distinct financial statement models, structures and users. The current methods of recognizing contribution revenue, namely the restricted fund method and the deferral method, are very effective in reflecting the distinct structural differences and varying needs of financial statement users of each type of organization.

At The Foundation of Greater Montreal, we are first and foremost a provider of grant funding. In fact, we are the fundraiser for service delivery organizations. We do this primarily by generating revenue from our endowment funds, the majority of which are permanent, but we do not see an endowment fund as synonymous with being permanent. In Arthritis Society v. Vancouver Foundation, the British Columbia Supreme Court recognized that the most common definition of the term *endowment* is the provision of a fund which is intended to generate fixed revenue for the support of a charity. The way in which donors express their philanthropy, whether at the Vancouver Foundation or at one of the 200 community foundations linked to a locality, is complex and becomes even more complex as our society evolves. To adapt to this, our funds become more flexible and can be established initially with the aim of generating revenue and having a lasting impact, but can also be transformed along the way to be disbursed in full after the donor's death. This is just one example of how difficult it is to determine whether a fund is permanent given the flexibility of our fund offerings. The restricted fund method allows us to manage this complexity by accounting for these transactions in a similar manner, whether it is a restricted fund or an endowment fund.

Under the proposed guidance, recognizing endowments as direct increases in net assets and deferring and recognizing restricted contributions as revenue over time introduces complexity and impairs comparability, whereas contributions have a similar intent, namely long-term community support.

Our users, mainly donors, charitable and not-for-profit cultural organizations and public foundations, will lose transparency in our financial statements. The main information they need is the amount of contributions received, in all their forms and sizes, during the year in which they were paid. That being said, if we follow the proposed new guidance, users will have to navigate between deferred revenues, net assets and note disclosures and patch this data together to obtain the desired information. Comparability within our organization will be difficult from year to year, not to mention comparability between fundraising organizations.

Complexity

Another objective mentioned in the proposed guidance is to reduce complexity. The Foundation of Greater Montreal believes that these guidelines do not take into account the complexity of our community foundation and would instead place an undue burden on our operations. The guidance does not seem to take into account the volume of funds we manage. The Foundation of Greater Montreal currently handles more than 750 funds, each with their own restrictions. We are able to cope with this complexity owing to the possibility of choosing an accounting method. By removing this choice, users will have to consult several separate passages of the financial statements to understand what our contributions are, and the operation will require them to have more in-depth financial knowledge. This is a direct barrier to the understandability of our financial statements.

Basis for Conclusions

The AcSB sets out the basis for its conclusions in the exposure draft documents. We would like to express our views on some of the elements mentioned.

> Item 1 – "[I]t is now more common for NFPOs to receive contributions that have specific restrictions or requirements, and contribution agreements are becoming increasingly complex." While we agree with this statement, we also believe that the restricted fund method allows us to manage this complexity. As a community foundation, we handle more than 750 restricted funds. It is not uncommon for organizations like ours to have hundreds or even thousands of funds. The restricted fund method allows us to manage all the complex requirements that a donation agreement can impose on us without creating an undue administrative burden. These limitations are not tied to service delivery, an element for which the deferral method is well suited, but rather to donor-imposed restrictions, which influence the way in which we then pay grants in the community.
>
> Paragraph 3 – It is stated that "[m]any respondents…indicated that this accounting policy choice works well and accommodates the diverse needs of NFPOs and their financial statement users" and yet, the AcSB draws conclusions that ignore this comment. If it were a matter of making users the central concern (as multiple respondents indicated), we would like the AcSB to explain its conclusion in greater detail to clarify how it achieves this.
>
> Paragraph 4 – "[T]he AcSB did not identify any other jurisdictions that provide NFPOs with an accounting policy choice for the recognition of revenue from restricted contributions." We acknowledge that international accounting standards are not our area of expertise, but we would

like to underscore that our counterparts in the United States, which apply U.S. GAAP, generally recognize revenue in two columns, namely donor-restricted revenue and non-restricted revenue, and allocate net assets using these same categories. Their revenue does not appear to have been deferred, nor do contributions to endowment funds appear to be excluded from revenue recognition. In our view, their financial policies and financial statements closely resemble the restricted fund method of accounting for contributions.

Paragraphs 11, 12 and 37 – "[T]he Board weighs the anticipated costs and benefits of its proposals in general terms to assess whether they are justified on cost/benefit grounds." As a fundraiser, we anticipate considerable costs for the implementation of a system capable of ensuring ongoing tracking and an increase in staff working hours to report on these transactions. In our view, these costs do not justify the anticipated benefits. The AcSB acknowledged that this will result in "a change in practice for many organizations," that "[t]his change will also result in added cost associated with the ongoing tracking of deferred contributions," that "the proposed definition of a 'restricted contribution' will likely result in classification of many contributions as restricted on initial recognition" and that "in many cases, the restrictions will be met soon after the contribution is received, and revenue therefore would be recognized almost immediately." In this case, it is not clear to us how removing a method used by many, which specifically simplifies this process and eliminates this additional step, can help an industry that is typically understaffed and underfunded. In our view, the AcSB underestimated the cost/benefit constraint of two very different types of organizations, particularly by failing to scrutinize whether different requirements should apply under paragraph 1001.13.

Paragraph 66 – It is stated that accounting for endowments directly in revenue "would create significant volatility" and "can overstate the excess of revenue over expenditures in the year the endowment is received, hiding operating deficits." The restricted fund method combined with fund accounting presentation specifically requires presenting the general or operating fund separately from the endowment fund; as a result, it is not clear how this conclusion was reached. It also states that there is a "lack of control over the endowment contribution" and that it "would not represent the substance of the transaction." We believe that classifying endowments as a direct increase in net assets fundamentally alters the substance of the transaction. An endowment is an economic inflow. In short, it is a donation, and although a particular restriction is assigned to it, we have sufficient control over the funds to satisfy the legal and accounting definition of control. This is by definition revenue that must be reflected in the financial statements as relevant information for our users.

The implications for Registered Charity Information Returns do not appear to have been considered. At present, our Form T3010 and financial statements are comparable; revenue for which receipts have been issued for tax purposes, as reported on Form T3010, is consistent with revenue from contributions recognized in the financial statements because under the restricted fund method, such restricted contributions are recognized at the time they are received, including contributions to endowment funds. By removing this accounting policy choice, the AcSB will force an internal administrative task to reconcile records for two separate purposes, while externally, our donors will have to compare two fundamentally different documents to find their way around.

Balancing needs

We believe that it would be preferable to reduce complexity and improve comparability by imposing additional financial statement presentation and note disclosure requirements, rather than by removing a fundamental accounting policy choice altogether.

The new recommended disclosure requirements for endowments are welcome additions that will provide useful information to financial statement users. For greater transparency, we suggest that the AcSB also propose that organizations disclose their distribution policy in connection with the general disclosure requirements set out in paragraphs 4411.48–49. This will allow users to better understand the relationship between endowments and investment income. In our view, the new disclosure guidance reconciles the principles of understandability and relevance for users, consistent with paragraphs 1001.15–17, without the need to fundamentally change the corresponding endowments and net investment income from revenue to net assets.

Net assets, by definition, are the residual interest in the assets after deducting liabilities. It is intended to provide information about the resources available to the organization to achieve its mission or provide its services. In our view, the current guidance is very limited and focuses on the legal form of assets (unrestricted, restricted and endowed). We suggest guidance that focuses on substance rather than form. Presenting net assets on the face of the financial statements by major category of external restrictions category or disclosing this information in the notes with a description of the restrictions would provide our readers with more useful information. The AcSB has suggested this for deferred contributions (paragraphs 4411.44–45), but we recommend extending this guidance to net assets while allowing the restricted fund method.

Conclusion

The Foundation of Greater Montreal believes that reducing complexity and improving comparability are important objectives. However, we are concerned that the guidance applies a single standard to two separate types of organizations with very different functions within the not-for-profit sector and with separate information needs for users. In particular, we are concerned about the proposed changes to remove the restricted fund method of accounting for contributions, as well as the proposed treatment of endowments as increases in net assets. We consider that the proposed standards impose unreasonable costs and delays on fundraising organizations such as community foundations. The financial cost under the benefit-cost analysis was largely underestimated. We consider that the proposed changes will introduce complexity for our users, which will be a barrier to the understandability of our financial statements.

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September 29, 2023

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Subject: Invitation to Comment - Exposure Draft: Contributions – Revenue Recognition and Related Matters

Dear Ms. Christopoulos:

We thank you for the opportunity to provide comments on the above noted Exposure Draft regarding Contributions – Revenue Recognition and Related Matters.

We recognize the issues raised by stakeholders and are in general, supportive of the Accounting Standard Board's proposed amendments to *Contributions Received by Non-For-Profit Organizations*, Section 4411, and its accompanying amendments to *Financial Statement Presentation By Not-For-Profit Organizations*, Section 4400. Our response was developed with input from a number of practitioners from across the country that have a deep knowledge of the application of accounting standards for not-for-profit organizations ("ASPNO").

Please find attached our comments to the specific questions raised in the Exposure Draft. If you have any questions, please contact Patrick Ho (patho@deloitte.ca) at 604-640-4907.

Yours truly,

Deloitte LLP

Chartered Professional Accountants

Appendix
Contributions – Revenue Recognition and Related Matters

1. **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 organization and the contributor; and**

   b) **the restriction requires the resources be used for a designated purpose and/or within a designated period of time.**

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

   We agree with the proposal in paragraph 4411.04(c)(i) to clarify the definition of a restricted contribution and believe the proposal will ultimately improve the consistency of the financial statements prepared. However, we also note that there are several application challenges that are not addressed within the proposed amendments. We believe additional guidance in the following areas would be helpful to preparers of financial statements and would reduce potential diversity in practice:

   - Definition of “explicitly communicated” and “other correspondence” as it is unclear if this strictly refers to written communications, or if the Board also considers verbal communications, as well as non-direct or individualized communications from fund raising campaigns, between the not-for-profit organization (“NFPO”) and the contributor to be “explicit” communications;
   - If restrictions communicated by a related party (e.g. a restriction communicated by a parent organization) constitutes an “external restriction”; and
   - If restrictions required by local laws and regulations constitutes an “external restriction”.

   From an application perspective, we have also heard that some entities may have challenges maintaining records of explicit communications. Further, this will result in a change of process and internal operations for finance teams and fundraising teams. This may also result in potential inspection and audit challenges related to evidencing the explicit communications.

2. **The AcSB proposes that unrestricted contributions be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured (see paragraph 4411.13). Do you agree with the proposed recognition guidance for unrestricted contributions? If not, why not?**

   We agree whereby the NFPO receives an unrestricted contribution and reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured, that the unrestricted contribution be recognized as revenue in the period in which the organization is entitled to the contribution. This approach is consistent with the accrual basis of accounting, which recognizes revenue when it is earned, rather than when cash is received and helps to ensure that the financial statements accurately reflect the organizations financial position and performance by recognizing the contribution in the period it is earned.

3. **The AcSB proposes that an organization recognize revenue from restricted contributions 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 (see paragraph 4411.16)? If not, why not?**

   Under the proposed recognition guidance, for NFPOs currently using the restricted fund method of accounting for restricted contributions, the recognition of revenue for restricted contributions will be required to be deferred until the restrictions are met, thereby significantly impacting the timing of revenue recognition for certain contributions. The proposed recognition guidance for restricted contributions will have a pronounced impact for NFPO's using the restricted fund method. We likewise anticipate initial challenges around the understandability of the financial statements by users who are less familiar with accounting standards, such as donors. The deferral of a contribution and creation of a liability until the external restrictions are met, may not be intuitive to donors who may be used to seeing donations being recorded as revenue. An increasing liability balance may also create a negative perception of the organization amongst donors. We have heard from certain organizations that they anticipate the deferred liability balance to grow year over year, as restricted contributions outpace fund expenditures based on the nature and mandate of the organization. We have also heard that the concept of deferred contributions is currently not fully understood and this will be compounded as the restricted fund method is eliminated.

   We believe that concerns around the understandability of the financial statements by users not familiar with accounting standards can be rectified through education, supplementary reporting, and fundraising impact reports. However, there will be initial upfront costs associated with education incurred by organizations. This may also have an initial adverse impact on fund raising along with costs associated with education.

   We understand the proposed recognition guidance will provide consistency and clear criteria for recognizing revenue from restricted contributions, which can enhance consistency and comparability in financial reporting across NFPO's. Further, the proposed guidance better aligns with Section 3400, *Revenue*, Accounting Standards for Private Enterprises in Part II of the CPA Canada Handbook ("ASPE"), whereby revenue will not be recognized until the restrictions imposed by the donors are met.

   Despite the significant impacts to organizations currently using the restricted fund method, we agree with the proposed guidance.

4. **Consider the following scenario: An NFPO receives a contribution that is classified as restricted, per the proposed definition. However, the organization meets the restriction and recognizes the revenue in the same reporting period, such that no remaining amount of the contribution is deferred at period end (see Illustrative Example 2 in proposed Section 4411). As proposed in paragraph 4411.44, the organization discloses the changes in the deferred contribution balance for the period, including the receipt of the restricted contribution and subsequent recognition of the contribution in revenue. In this scenario, is the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance relevant to users of financial statements? If not, why not?**

   It is our view that the initial contribution should be classified as a restricted contribution at initial recognition. Having met the criteria to recognize revenue does not negate the fact that the contribution is restricted at the time of receipt. We also believe that the related disclosure of the change in the deferred contribution balance is relevant to the users of the financial statements. Certain users of the financial information may want to understand the proportion of restricted versus unrestricted contributions an organization receives during a period. User requirements will ultimately depend on the nature of the organization and sources of funding. However, we believe that disclosing the gross movements presents more accurate and relevant information.

In practice, we expect the requirement of this disclosure to result in a change of process for certain organizations. For organizations where the period between receipt of the restricted contribution and meeting the restriction is short, the organization may recognize contributions directly to revenue and perform a period end adjustment to determine the ending deferred contribution balance. However, in order to satisfy the related disclosure requirements, the entity will likely need to change their process or perform a period end reconciliation to track the gross amounts of restricted contributions received during the period. Conversely, for organizations that are recognizing high volumes of restricted contributions on an annual basis where the restriction period is greater than a year, the process may involve recognizing all restricted contributions initially to the deferred contribution account. In these instances, the organization will likely use the gross debit and credits in the account to prepare the disclosure. In this instance, the organization would need to identify the balance of restricted contributions that were received and recognized in the same period which may also require reconciliation. In either case, we expect that organizations may need to change their existing processes and systems in order to meet the proposed disclosure obligations.

5. **The AcSB proposes that capital asset contributions related to amortizable assets be deferred and recognized as revenue on the same basis as the amortization expense on the related acquired capital assets (see paragraph 4411.21). For indefinite-lived assets, the Board proposes recognizing them as direct increases in net assets (see paragraph 4411.22).**

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

   We agree with the proposed guidance to defer and amortize contributions of depreciable capital assets into income over the useful life of the asset.

   It is our understanding that one of the principal concepts of the proposals to result in NFPO financial statements that are less complex and more comparable for financial statement users. Under the existing guidance in Section 4410, an NFPO's accounting for capital asset contributions differs depending on the organization's accounting policy for contributions. This results in divergence of application. Therefore, we believe the proposed amendment best reflects the intent of the proposal, as it eliminates the existing accounting policy choice for contributed capital assets and improves the comparability of financial statements across organizations. Further, amortizing the capital contributions as the underlying capital assets are amortized eliminate volatility in the statement of operations and will help financial statement users better understand the costs associated with the programs, and better relate them to budgets established by NFPO's. In other words, it is in our view that the matching of the contribution against the amortization expense of the asset best reflects the substance of the transaction whereby the costs associated with the asset has been paid for and therefore in the periods in which the asset is used, there is a reduction on cost associated with the asset's usage.

   In practice, we do not expect organizations to be highly impacted by the proposals, as most organizations are already applying this accounting method under the existing accounting policy choice to eliminate statement of operations volatility by matching revenue recognized to amortization expense.

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

   We agree with the proposed guidance to recognize indefinite-lived assets as direct increases in net assets. This again is for the reason that we believe the proposal achieves the intent of the proposal which will result in NFPO financial statements that are less complex and more comparable for financial statement users by eliminating volatility in the statement of operations.

6. **The AcSB proposes that endowment contributions be recognized as direct increases in net assets (see paragraph 4411.26). The Board also proposes that an organization disclose information about how it manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments (see paragraphs 4411.48-49).**

   a) **Do you agree that endowment contributions should be recognized as direct increases in net assets? If not, why not?**

   We note that the AcSB heard from some respondents that for some organizations, including foundations, recognizing endowment contributions directly in revenue provides decision useful information as many foundations have a primary objective of accumulating endowments with the intent of disbursing the investment income.

   It is in our view that recognizing endowment contributions directly in revenue creates significant volatility in the statement of operations and does not provide useful information for decision making as this presentation would create a distortion between revenue recognized and the funds available for the organizations operating activities. As endowment contributions are a type of restricted contribution that must be maintained permanently, recognizing the endowment directly in net assets would most accurately reflect the economics of the contribution.

   However, we have also heard that certain users use the revenue recognized on the statement of operations as a performance indicator on the organizations success in growing its endowment fund and fulfilling its mandate. These users will lose the direct ability to match the endowment funds raised each period to the associated fundraising efforts (fundraising and operating expenses) from the statement of operations. We note that endowment contributions received during the period would continue to be identifiable on the statement of change in net assets while reducing the volatility in the statement of operations. Although this adds a layer of complexity for users to assess an organizations performance, we believe that these user concerns can be addressed through education.

   We agree with the proposal for endowment contributions to be recognized as direct increases in net assets and believe users of financial statements would become familiar with the single approach to recognition through education and familiarity over time.

   b) **Do you agree with the nature and extent of the proposed additional disclosure requirements for endowments? If not, why not?**

   We agree that the proposal will provide users of the financial statements with a more robust understanding of the organization's stewardship of these funds and hold organizations accountable for their management of endowment funds.

   We understand the proposed disclosure requirements are aimed at enhancing transparency and providing stakeholders with information about how an organization manages its endowment funds, however, we note the additional disclosure requirements could be burdensome in terms of collecting and providing the necessary information. Further, there are concerns that the additional disclosures could become generic and boilerplate, and not provide additional benefits to users of the financial statements as intended. We therefore believe more specific guidelines on critical areas to enhance the additional requirements for endowments would further contribute to more robust and informative disclosures.

7. **The AcSB proposes that net investment income be recognized based on the nature of any restrictions on the investment income (see paragraph 4411.29). Income earned on investments would continue to be measured in accordance with guidance in other standards for the type of invested asset (see paragraph 4411.30).**

   a) **Do you agree with the proposed guidance relating to the recognition of net investment income? If not, why not?**

   On the basis that an organization is required to disclose the total investment income earned during the period, we agree with the proposed guidance relating to the recognition of net investment income to continue to be accounted for in a manner consistent with the approach for the recognition of similar contributions.

   b) **Do you agree with the nature and extent of the proposed disclosure requirements relating to net investment income? If not, why not?**

   We have considered the benefit versus cost constraints of the proposed disclosure requirements relating to net investment income and we believe the proposal aligns with the principles of paragraph 1000.13.

   We note that disclosure requirements from Section 3856, *Financial Instruments*, requires disclosure around categories of investment an organization holds, as well as exposure of those investments to significant risks and uncertainties. We do not believe the proposals are duplicative of the existing disclosure requirements and in combination provides sufficient information to users to assess the nature and sources of investment income as well as the risks around the investments that generate the income.

   We have noted some users of financial statements are often interested in non-GAAP measures such as the return-on-investment. As these would be non-GAAP measures and goes beyond the scope of other sections of the CPA Handbook, we believe it is most appropriate to not include such level of disclosure within the financial statements although these are key performance indicators used by management.

8. **The AcSB proposes continuing to allow organizations to choose to recognize contributions of materials and services that meet the criteria in paragraph 4411.32(b).**

   a) **Do you agree with the proposed criteria in paragraph 4411.32(b)? If not, why not?**

   In practice, we note most organizations 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. We therefore agree with the proposed criteria in paragraph 4411.32(b) to retain the policy choice to recognize contributed materials and services.

   b) **Do you think the proposed criterion in paragraph 4411.32(b)(iii) would allow organizations to recognize contributions of materials and services that are critical to the organization's mandate (provided the fair value can be reasonably estimated and they are used in the normal course of operations)? If not, why not?**

   As noted above, we have heard that the most significant application challenge is the cost associated with tracking and identifying the fair value of contributed materials and services. Provided that the fair value can be reasonably estimated and they are used in the normal course of operations, we believe the proposed criterion in paragraph 4411.32(b)(iii) would allow organizations to recognize contributions of materials and services that are critical to the organization's mandate.

However, in consideration to the following example, we believe additional clarification would be helpful to preparers of financial statements and would reduce potential diversity in practice.

- Suppose an organization hosts a fundraising activity, such as a gala, which includes a silent auction. Many items at the gala are provided to the organization for auction by donors. The auction items include hockey tickets. The hockey tickets that will be auctioned, are not critical to the organizations mandate, and it is unlikely the organization would have purchased the tickets themselves to auction.

In this example, it is unclear if the hockey tickets would be determined to be critical to the organizations mandate and if it can be recognized as a contribution.

c) **Do you agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services (see paragraphs 4411.51-52)? If not, why not?**

We agree with the nature and extent of the proposed presentation and disclosure requirements for contributions and services. We believe the proposed requirement in paragraph 4411.53 for an organization that makes an accounting policy choice not to recognize contributions of materials and services in its financial statements, to still be required to disclosure qualitative information, is pertinent, especially when the organization would have otherwise purchased the contributed materials and services to fulfill the organizations mandate. This allows for better comparability between organizations and allows users of the financial statements to understand what costs would have to be incurred if the donated items were no longer received.

9. **The AcSB proposes that a pledge or a bequest be recognized only when the recognition criteria in paragraphs 4411.13, 4411.16 or 4411.26 are met for each individual pledge or bequest. This means that in many cases a pledge will not meet the proposed criteria for recognition until the pledge is received and collection therefore is reasonably assured. Do you agree that a pledge should generally not be recognized until collected (see paragraph 4411.36)? If not, under what scenarios would a pledge meet the recognition criteria prior to collection?**

As it is difficult to conclude that a pledge will be ultimately collected, we agree that a pledge should generally not be recognized in the financial statements, until the pledge is received and collection is reasonably assured. However, we note that there are instances where revenue recognition prior to receipt of the pledge may be appropriate. For example, we note that for some large organizations, collection of pledges is through an intermediary, often time an employer, who deducts pledges directly from the donors (their employees) payroll distribution. There is often a long history of collection patterns and evidence of collectability. In other instances, established businesses or high net worth donors may pledge to donate to an organization over a period of time and have entered into an agreement with the organization outlining the terms of the pledge. Similarly, there is historical evidence of these pledges being collected. We have heard that most organizations would conclude that a collection of the pledge is reasonably assured and further the entity would be entitled to the pledge. We believe that these are common examples where a pledge may meet the recognition criteria prior to collection.

We note that it would be too restrictive if the Board were to decide to not allow for recognition of pledges prior to collection. Furthermore, we draw comparison of a pledge to government assistance. Under Section 3800, *Government Assistance*, entities are permitted to accrue for government assistance under paragraph 26 and 27 so long as an entity has complied and is anticipated to comply with conditions of the government assistance. As noted above, we believe that the appropriate portion of the estimated total pledge to be received shall be accrued, provided that there is reasonable assurance that the organization has complied and will continue to comply with all the restrictions imposed by the pledger.

10. **The AcSB proposes that organizations disclose contributions by major source. The Board also proposes that organizations disclose economic dependence when the ongoing operations depend on a significant contribution(s) from another party (see paragraphs 4411.40-41).**

    a) **Do you think disclosing contributions by major source provides decision-useful information? If not, why not?**

    We agree that disclosing contributions by major sources allows financial statement users to understand the organization's relationship with other entities or individuals and predict the likelihood of whether those contributions would recur in the future. We believe entities will apply judgement in determining the level of aggregation of major sources that are relevant to the organization. Furthermore, we do not believe that this will require significant effort or cost and many organizations are already disclosing this information at various levels of aggregation.

    b) **Do you think disclosing economic dependence when the ongoing operations depend on a significant contribution(s) from another party provides decision-useful information? If not, why not?**

    We support disclosing economic dependence when ongoing operations depend on a significant contribution(s) from another party will provide users with decision-useful information. Users need to be informed of the economic dependence, in scenario's where the contributions are from another party and are significant, to a point that the viability of the NFPO depends on the continuation of such contributions.

11. **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, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule (see paragraph 4400.06A).**

    a) **Do you agree that when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule? If not, why not?**

    We agree that when fund accounting presentation is applied, the comparative information should be presented either on the face of the financial statements or disclosed in a note or supporting schedule.

    We note the AcSB received feedback that presenting comparatives could result in a financial statement that is busy or cumbersome to read, however, we believe the comparative information allows for the comparability of financial results period to period and provides better understandably of financial information.

    b) **Do you agree with the other proposed amendments to Section 4400 to clarify the application of fund accounting presentation?**

    We agree with the proposed amendments to Section 4400 to improve the consistency of application of fund accounting presentation in the financial statements of NFPO's.

12. **The AcSB proposes an amendment to Section 4400 that requires an organization to disclose information about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those restrictions (see paragraphs 4400.22A-22B).**

    a) **Do you agree with the proposed disclosure requirements (see paragraphs 4400.22A-22B)? If not, why not?**

    Yes, we agree with the proposed disclosure requirements in Section 4400 for reasons discussed below.

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

    We believe the proposed disclosure to require an organization to disclose information about its requirements related to restricted contributions, including the assets the organization determines are available to meet those restrictions provides pertinent information to financial statement users to make informed decisions around the maintenance of assets, and ensure its objective to have sufficient liquidity to meet its operating requirements. However, we have concerns that the disclosures will become generic and boilerplate, and not provide additional benefits to users of the financial statements. Therefore, we believe clarification to make paragraph 4411.22B more specific with specific qualitative and quantitative examples would be beneficial.

13. **The AcSB proposes that Section 4411 and proposed amendments to Section 4400 be applied retrospectively in accordance with Section 1506, with certain transition provisions.**

    a) **Do you agree that proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively? If not, what transition approach would you recommend and why?**

    We agree with the proposed Section 4411 and proposed amendments to Section 4400 in that they should be applied retrospectively. We believe this provides more relevant information and ensures the comparability of an organization's financial statements when comparing period-over-period results in the year of application.

    We considered the benefit versus cost constraint under the principles of paragraph 1000.13. We understand that the requirement to retrospectively restate all prior periods, however, this will pose challenge and unnecessary burden for preparers, especially for organization's that previously applied the restricted fund method. We believe that the overall transition to the amendments would be simplified by providing optional transitional relief whereby the organization would not be required to make retrospective adjustments in respect to the accounting for restricted contributions and reassess if historical contributions meet the revised definition of a restricted contribution.

    b) **Do you agree with the proposed optional transitional relief that an organization is not required to make retrospective adjustments in respect of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest period presented in the financial statements in which the organization first applies proposed Section 4411 (see paragraphs 4411.55-.56). If not, why not?**

    Yes, we agree with the proposed optional transition relief.

14. **The AcSB proposes an effective date of fiscal years beginning on or after January 1, 2026, 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?**

    No, we do not agree with the proposed effective date. Please see our response to question 14(b).

    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?**

    We believe that the effective date of January 1, 2026 will lead to undue stress and challenge on certain organizations. In particular, we have heard from certain organizations that they will need to change their existing processes and IT infrastructure in order to appropriately meet the requirements of the proposed standard. Furthermore, there may be internal and external education and training required. There will be significant costs associated with these activities which will require fund raising, planning and implementation. We believe that the proposed effective date does not leave sufficient time for impacted entities that require significant process and system changes to prepare for adoption.

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

Yes, the proposed illustrative examples are useful in demonstrating the application of the proposals, however, we believe additional clarification in the following areas would be helpful to practitioners in understanding the proposals:

Section 4411, Example 8:

The fact pattern reads, "During the year ended March 31, 20x0, FOC Organization recognized the following contributions in revenue…", however, we noted that the contributions included in the sample note disclosure, does not agree to the 20x0 comparative information included in the note table. We believe this should read "During the year ended March 31, 20x**1**, FOC Organization recognized the following contributions in revenue…".

Section 4400, Example 4A:

NFPO's are required to disclose the changes in the deferred contribution balance on a year-over-year basis (S.4411.47(a)). To ensure completeness of the illustrative example, we recommend this be added to the sample note disclosure.

Additionally, it is not clear why the sample note disclosures outlining requirements related to restricted contributions includes the $2,000,000 endowment balance when the amendments propose that endowment contributions be recognized as direct increases in net assets. The values included in the example are further unclear as the fact pattern shows a net asset balance of $1,890,000. We question if it is appropriate that the endowment balance per the sample disclosure exceeds the net asset balance per the fact pattern.

Lastly, to ensure the illustrative example is in accordance with presentation requirements per Section 4400.19, we suggest the Statement of Financial Position included in the fact pattern of example 4 to be disaggregated into its required disclosure categories: unrestricted endowments, etc.

Our comments to example 4A, likewise apply to example 4B.

Other considerations:

Additionally, irrelevant to the illustrative examples, we identified a grammatical difference between the proposed English and French amendments. This discrepancy relates to Section 4400.02(b).

The English version reads as follows: “Restrictions are stipulations requirements imposed that specify when **or** how resources must be used. Restrictions may be external or internal.” In the French version of the amendments, instead of the use of the word “ou” meaning “or”, we noted the use of the word “**et**” meaning and. This changes the significance of the criteria and should be aligned.

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September 29, 2023

Re: AcSB Exposure Draft – Contributions – Revenue Recognition and Related Matters

Dear Ms. Christopoulos,

We have read the above-mentioned Exposure Draft that was issued in March 2023. We would like to express our appreciation for the time and effort the Board has invested in this project. In general, we agree with the proposals outlined in the Exposure Draft. We believe the proposals will result in financial statements that provide relevant, clear, and more comparable information to the wide range of users of private sector not-for-profit organization (NFPO or organization) financial statements. We also believe the proposal to have one method of revenue recognition and clearer guidance on how that method is to be applied, will reduce complexity for preparers in applying the guidance, while still allowing organizations to tell their story in the financial statements. We also believe having one clear method of revenue recognition, along with the disclosures proposed, will enhance information organizations will be required to provide, which will make it easier for financial statement users to understand an NFPO's financial health and the funds available to carry out the organizations mandate and will ultimately provide more decision useful information to users. We are pleased to have the opportunity to provide responses to your specific questions as outlined below.

In preparing our response to this Exposure Draft, we reached out to a large number of partners and staff across our firm to obtain feedback from those who work directly with NFPOs and to understand what they were hearing from NFPOs and their stakeholders. Our outreach included hosting a well-attended live webinar on the proposals where we used polling questions to gather feedback from over 170 attendees on a number of the specific questions. We also met with partners and staff in smaller group settings to gather additional feedback on the proposals. The following response includes the feedback obtained through this process.

1. *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 organization and the contributor; and (b) the restriction requires the resources be used for a designated purpose and/or within a*

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

We agree with the proposed definition of a restricted contribution. We believe the revised definition is much clearer than the previous definition of a restricted contribution and that the additional guidance provided in proposed new Section 4411, *Contributions Received by Not-for-Profit Organizations,* on what would meet the definition of a restricted contribution and the difference between a restricted and unrestricted contribution will assist preparers in applying this guidance consistently.

2. *The AcSB proposes that unrestricted contributions be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured (see paragraph 4411.13). Do you agree with the proposed recognition guidance for unrestricted contributions? If not, why not?*

   We agree with the proposed recognition guidance that unrestricted contributions be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured.

3. *The AcSB proposes that an organization recognize revenue from restricted contributions 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 (see paragraph 4411.16)? If not, why not?*

   We agree with the proposed recognition guidance that an organization recognize revenue from restricted contributions when (or as) the external restriction(s) is met, provided reasonable assurance exists regarding the measurement of the contribution, and collection is reasonably assured. We believe this method of recognition will provide better information to financial statement users as the restriction represents an obligation to the contributor that the organization must fulfill in order to be entitled to recognize the revenue. We believe this method of recognition will meet the needs to financial statement users.

4. *Consider the following scenario: An NFPO receives a contribution that is classified as restricted, per the proposed definition. However, the organization meets the restriction and recognizes the revenue in the same reporting period, such that no remaining amount of the contribution is deferred at period end (see Illustrative Example 2 in proposed Section 4411). As proposed in paragraph 4411.44, the organization discloses the changes in the deferred contribution balance for the period, including the receipt of the restricted contribution and subsequent recognition of the contribution in revenue. In this scenario, is the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance relevant to users of financial statements? If not, why not?*

In the scenario described above, we believe the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance is relevant to users of the financial statements and assists in providing transparency on how much of an organization's revenue is restricted vs how much is unrestricted and available for other users, such as financing administrative costs.

We also believe this disclosure could be particularly useful for financial statement users of NFPOs that engage in significant fundraising activities and currently follow the restricted fund method under Section 4410, such as foundations. Such organizations want to ensure the financial statements provide information on the amount of funds raised during the year as this is information donors are interested in. This note disclosure would provide those organizations with a way to show the total funds received in the year, the amount recognized as revenue in the year and the amount deferred at year end. Such organizations could also consider incorporating this disclosure with the disclosure of contributions by major source (see our response to question 10(b)) if they wanted to provide financial statement users with information on revenue received in the year by major source (e.g. government funding, corporate donations, fundraising events, etc.). If desired, such organizations could then go on to provide further information on funds raised during the year in their annual report.

5. *The AcSB proposes that capital asset contributions related to amortizable assets be deferred and recognized as revenue on the same basis as the amortization expense on the related acquired capital assets (see paragraph 4411.21). For indefinite-lived assets, the Board proposes recognizing them as direct increases in net assets (see paragraph 4411.22).*

    a. *Do you agree with the proposed recognition guidance for capital asset contributions related to amortizable assets? If not, why not?*

       We agree with the proposed recognition guidance for capital asset contributions related to amortizable assets. While this will be a significant change for organizations currently using the restricted fund method, we believe this approach will result in less volatility in the statement of operations and will provide relevant and useful information about the financial operations of the organization to financial statement users.

       Additionally, the proposed additional disclosures related to the deferred capital contributions balance will help financial statement users understand the make-up and impact of this amount on the organization's financial position.

       As noted in our response to question 13(b), we believe the proposed transitional relief provides a practical approach for organizations currently following the restricted fund method to make the transition to this new method.

    b. *Do you agree with the proposed recognition guidance for capital asset contributions related to indefinite-lived assets? If not, why not?*

       We agree with the proposed recognition guidance for capital asset contributions related to indefinite-lived assets. We believe this approach will result in less volatility in the statement of operations and will provide relevant and useful information about the financial operations of the organization to financial statement users

6. *The AcSB proposes that endowment contributions be recognized as direct increases in net assets (see paragraph 4411.26). The Board also proposes that an organization disclose information about how it manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments (see paragraphs 4411.48-.49)*

    a. *Do you agree that endowment contributions should be recognized as direct increases in net assets? If not, why not?*

    We agree that endowment contributions should be recognized as direct increases in net assets as they are resources an organization cannot access and use for its own benefit.

    b. *Do you agree with the nature and extent of the proposed additional disclosure requirements for endowments? If not, why not?*

    We agree with the nature and extent of the proposed additional disclosure requirements for endowments. We believe these additional disclosures on how an organization manages endowments and the extent to which the fair value of endowments is less than the amount required to be maintained permanently will provide decision useful information for financial statement users.

7. *The AcSB proposes that net investment income be recognized based on the nature of any restrictions on the investment income (see paragraph 4411.29). Income earned on investments would continue to be measured in accordance with guidance in other standards for the type of invested asset (see paragraph 4411.30).*

    a. *Do you agree with the proposed guidance relating to the recognition of net investment income? If not, why not?*

    We agree with the proposed guidance relating to the recognition of net investment income.

    b. *Do you agree with the nature and extent of the proposed disclosure requirements relating to net investment income? If not, why not?*

    We agree with the nature and extent of the proposed disclosure requirements relating to net investment income.

8. *The AcSB proposes continuing to allow organizations to choose to recognize contributions of materials and services that meet the criteria in paragraph 4411.32(b).*

a. *Do you agree with the proposed criteria in paragraph 4411.32(b)? If not, why not?*

In general, we agree with the proposed criteria in paragraph 4411.32(b). However, we do not believe the current wording for the criteria in subparagraph 4411.32(b)(iii) captures the Board's intent as outlined in our response to question 8(b) below.

b. *Do you think the proposed criterion in paragraph 4411.32(b)(iii) would allow organizations to recognize contributions of materials and services that are critical to the organization's mandate (provided the fair value can be reasonably estimated and they are used in the normal course of operations)? If not, why not?*

We do not think that the current wording of the proposed criterion in paragraph 4411.32(b)(iii) would allow organizations to recognized contributions of materials and services that are critical to the organization's mandate (provided the fair value can be reasonably estimated and they are used in the normal course of operations). Proposed paragraph 4411.32(b)(iii) states:

> (iii) the materials and services would otherwise have to be purchased to fulfill the organization's mandate.

However, we believe the words "have to be purchased" may be problematic as organizations may still interpret this to mean that if they did not have the funds available to purchase the items had they not been donated, the organization would not meet the criteria to recognize the items. Based on paragraph .54 of the Basis of Conclusions to the Exposure Draft we do not believe that this was the Board's intent, since the Board was trying to address this same issue with the existing guidance in paragraph .16 of Section 4410. As a result, we believe the Board should change the wording of this criterion to be in line with its intent by replacing the words "have to be purchased" with the term "be required" or words to that effect. Note that if the Board updates the wording of paragraph 4411.32(b)(iii) the terminology in illustrative example 5A would also need to be updated.

c. *Do you agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services (see paragraphs 4411.51-52)? If not, why not?*

We agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services and believe they will provide decision useful information to users. Additionally, we appreciate that illustrative example 5A provides an example of the proposed presentation and disclosure, as we believe this will be useful for organizations when preparing their financial statements.

9. *The AcSB proposes that a pledge or a bequest be recognized only when the recognition criteria in paragraphs 4411.13, 4411.16 or 4411.26 are met for each individual pledge or bequest. This means that in many cases a pledge will not meet the proposed criteria for recognition until the pledge is received and collection therefore is reasonably assured. Do you agree that a pledge should generally not be recognized until collected (see paragraph 4411.36)? If not, under what scenarios would a pledge meet the recognition criteria prior to collection?*

   We agree that a pledge or a bequest should generally not be recognized until collected and agree that the recognition criteria in paragraphs 4411.13, .16 and .26 would need to be assessed on an individual pledge or bequest basis. We appreciate the Board providing clear guidance in proposed Section 4411 around pledges and bequests as it has been an area of diversity in the past.

10. *The AcSB proposes that organizations disclose contributions by major source. The Board also proposes that organizations disclose economic dependence when the ongoing operations depend on a significant contribution(s) from another party (see paragraphs 4411.40-41).*

    a. *Do you think disclosing contributions by major source provides decision-useful information? If not, why not?*

       We believe disclosing contributions by major source will provide decision-useful information to financial statement users. Additionally see our response to question 4 on how some organizations may want to incorporate this disclosure into their disclosure of restricted contributions.

    b. *Do you think disclosing economic dependence when the ongoing operations depend on a significant contribution(s) from another party provides decision-useful information? If not, why not?*

       We believe disclosing economic dependence when an organization's ongoing operations depend on significant contributions from another party provides decision useful information to financial statement users.

11. *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, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule (see paragraph 4400.06A).*

    a. *Do you agree what when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule? If not, why not?*

       We agree that when fund accounting presentation is applied, comparative information should be presented on the face of the financial statements or disclose in a note or supporting schedule. We believe presenting comparative information in this manner is important for transparency as financial statement users will be able to easily see the change in funds year over year. We also believe this requirement, along with the disclosure of the factors used to determine the funds reported and the clarification on what is included in each fund (as noted our response to question 11(b) below), may prompt organizations to consider carefully when a separate fund is truly needed and may result in some streamlining of funds, which could result in financial statements that include the benefits of fund accounting presentation but more understandable and user friendly.

b. *Do you agree with the other proposed amendments to Section 4400 to clarify the application of fund accounting presentation?*

We agree with the other proposed amendments to Section 4400 to clarify the application of fund accounting presentation. In particular, we believe that the terminology change from "fund accounting" to "fund accounting presentation"; the requirement to disclose the factors used to determine the funds an organization reports; the clarification that when fund accounting presentation is used each fund should include all assets, liabilities, revenue, expenses, and other income and losses associated with the activities reported in that fund; and the clarification around treatment of interfund transfers will help reduce diversity in practice and result in financial statements that are more informative to a user.

12. *The AcSB proposes an amendment to Section 4400 that requires an organization to disclose information about its requirements related to restricted contributions, including endowment contribution, and the assets the organization determines are available to meet those restrictions (see paragraphs 4400.22A-22B).*

a. *Do you agree with the proposed disclosure requirements (see paragraphs 4400.22A-22B)? If not, why not?*

We agree with the proposed disclosure requirements in paragraphs 4400.22A-.22B. We believe this is important information for a financial statement reader to be aware of and will assist them in understanding whether an organization has the assets available to meet these restrictions and in assessing an organization's financial health. We appreciate that paragraphs 4400.22A-.22B provide flexibility for each organization to determine the assets it has available to meet its requirements related to restricted contributions, including endowment contributions, and that an organization has the ability to describe how it manages its requirements and determines the assets available to meet those requirements, as different organizations have different management policies so it would be difficult to have one size fits all prescriptive disclosure requirements. We also appreciate the addition of proposed illustrative example 4 in Section 4400, which provides examples of how an organization could disclose this information. However, we do have some suggestions for the Board to consider related to the decision usefulness of this information for financial statement users as explained in our response to question 12(b) below.

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

As noted in our response to questions 12(a) above, we believe the proposed disclosure will convey decision useful information to financial statement users in regards to drawing attention to the requirements an organization has related to restricted contributions and the assets an organization has available to meet those requirements. However, we have some concerns over the level of judgment an organization could apply when determining the assets it has available to meet restricted contributions vs the assets it needs to set aside for general operations and repayment of debt. While we agree with the comments in paragraphs .107-.109 of the Basis of Conclusions to the Exposure Draft that a full reconciliation of assets and liabilities to the corresponding category of net assets may be onerous for many organizations and are not suggesting the Board implement such a requirement, we believe it may be helpful if the Board considered adding some additional application guidance for organizations on what it should be considering when determining its disclosures to encourage organizations to use a consistent process from year to year.

13. *The AcSB proposes that Section 4411 and proposed amendments to Section 4400 be applied retrospectively in accordance with Section 1506, with certain transition provisions.*

a. *Do you agree that proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively? If not, what transition approach would you recommend and why?*

We generally support that proposed Section 4411 and the proposed amendments to Section 4400 should be applied retrospectively. However, based on our outreach we have received mixed views on whether a full retrospective approach can be achieved for all entities. We appreciate and agree with the proposed optional transitional relief for capital asset contributions as outlined in our response to question 13(b) below. We would encourage the Board to consider whether additional transitional relief could be added for restricted contributions and endowment contributions and the full benefit vs cost of implementation for organizations and the users of their financial statements.

b. *Do you agree with the proposed optional transitional relief that an organization is not required to make retrospective adjustments in respect of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest period presented in the financial statements in which the organization first applies proposed Section 4411 (see paragraphs 4411.55-.56). If not, why not?*

We agree with the proposed optional transitional relief that an organization is not required to make retrospective adjustments in respect of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest period presented in the financial statements in which the organization first applies proposed Section 4411. We believe this proposed transitional relief is practical and very necessary, as the cost for organizations transitioning from the restricted fund method to the new proposed guidance without the transitional relief would not outweigh the benefits. We also appreciate that the Board has added illustrative example 7 to assist organizations in understanding how the transitional relief is applied.

14. *The AcSB proposes an effective date of fiscal years beginning on or after January 1, 2026, 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?*

    In general, we agree with the proposed effective date of fiscal years beginning on or after January 1, 2026. However, please see our response to questions 14(b) for the circumstances in which we think the effective date may need to be extended.

    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?*

    We think the proposed effect date provides adequate time for NFPOs to adopt the proposed new standard and proposed amendments if the new/amended guidance is issued in the Handbook by July 2024 as estimated on page iv of the Exposure Draft. However, if there are significant changes to the proposals and the amendments are issued later than July 2024, we believe the Board would need to extend the effective date to give NFPOs enough time to adopt new Section 4411 and the amendments to Section 4400.

    However, no matter when the effective date is, under the proposals this will be a significant change for organizations currently following the restricted fund method and could result in some changes for organizations currently following the deferral method as well. As a result, we believe it would be important for the Board to undertake an educational awareness process after the new standard is issued to ensure stakeholders, specifically funders, understand the changes in how contributions are accounted for to ensure this does not cause negative implications for NFPOs in relation to funding arrangements. Additionally, we have heard that some organizations following the restricted fund method are concerned about how CRA will react to the changes the revenue recognition method will have on form T3010. Since the proposals are similar to the deferral method currently used by many NFPOs that file a T3010 we do not think CRA will take issue with the revenue recognition method. However, as CRA is another key stakeholder, the Board should ensure it is aware of this change since it will impact numerous NFPOs.

    We also believe the Board should consider working with CPA Canada to issue practical non-authoritative resources for NPFOs to assist them with this transition to the new standard, since many small NFPOs do not have significant resources and could benefit from such guidance. A briefing publication with examples similar to the one that was issued by CPA Canada for Section 4449, *Combinations by Not-for-Profit Organizations*, and that also included practical information on how to approach the transition and how to explain the changes to donors and financial statement users could be a useful approach.

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

In our response to the Board's previous Consultation Paper on contributions we had encouraged the Board to consider including illustrative examples when developing the Exposure Draft. We appreciate the Board taking the time to develop the proposed illustrative examples in the Exposure Draft. We appreciate that there is a wide variety of examples covering the major application areas of the proposals, including some on presentation and disclosure, and we think they are useful in demonstrating application of the proposals. We believe these will be very helpful to organizations and users of the Handbook when adopting these changes.

One additional illustrative example we think the Board should consider including in proposed Section 4411 is related to transition. Illustrative example 7 currently provides an example of applying the transitional relief related to capital asset contributions. However, we have received feedback that an example illustrating a foundation transitioning from the restricted fund method to the revenue recognition model proposed under Section 4411 and applying the changes retrospectively to its restricted contributions would be helpful for foundations as they undertake the adoption of these changes. Alternatively, if such an example was not included within Section 4411 itself, it would be useful for such an example to be included in a non-authoritative resource such as the one suggested in our response to question 14(b) above.

Thank you for your consideration of the above-noted responses. We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Craig Cross, Partner National Accounting Standards (647-798-1331 or via email at ccross@bdo.ca).

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Re: Proposed Changes to ASNPO Standards Contributions – Revenue Recognition and Related Matters

Hello;

This letter is to comment on the proposed changes to the Accounting Standards for Not for Profit Organizations. I have worked as a CPA in the not for profit sector for 24 years and have used both deferred fund and restricted fund method accounting. Both accounting treatments have their positives and negatives.

Deferred fund accounting works very well for organizations where fundraising is a minor activity and most revenue transactions are annual in nature. It does not work as well for Foundations whose main activity is fundraising for other organizations and it can be as much as 10 years before a restricted donation's purpose is met.

In the interests of brevity I have addressed the comments that I would like to challenge or discuss.

Comment 3.

- The biggest issue that I see is in the statement of operations and in evaluating how a Foundation is performing in the current year in comparison to budget and to the prior year.
- In a Foundation the restricted fund is usually the largest segment of the financial statements. In restricted fund method accounting, the current year can be evaluated against the Foundation's annual goals, which is its budget, and it can be evaluated in comparison to the prior year. It can be clearly seen if the organization has met it's annual goals.
- In deferred fund accounting the budget for any restricted funds whose purpose has been met and can therefore recorded as revenue would have to be an estimate of what was received in the past and is expected to be earned that year. The stakeholders would be evaluating revenue results on funds that were received years ago. If the vast amount of transactions are being recorded in the deferred fund account on the balance sheet, it becomes very difficult to evaluate if the Foundation is performing well. It is just a large number.

Comment 6.

- Part a) The difficulty that I have with recognizing endowment funds as direct increases in net assets, is the lack of transparency. It becomes difficult to distinguish what is a new external contribution to an endowment fund and what is income earned on an endowment. With restricted fund accounting there is an income statement for endowments and the transactions are very easy to distinguish.

- Part b) I have no difficulty with the additional disclosure regarding how the endowments are managed, monitored and if they are in compliance with restrictions.

Comment 7.

- Net investment income that needs to be recognized based on the nature of some restricted donations are recorded very easily in restricted fund method accounting. Where, if deferred fund accounting is used, then additional note disclosure would be necessary.

Comment 11.

- Part a) Yes I am in agreement with this. My organization already provides comparative information on our restricted funds in the notes based on activity.

Comment 12.

- Part a) Yes, this additional note disclosure would be needed if deferred fund accounting standards are used. The additional disclosure requirements are not needed if restricted fund method of revenue recognition and fund accounting presentation is used. Whether or not assets are available to meet the requirements of the restricted contributions and endowments is recorded in the change in fund balances on the income statement.

I have reviewed the comments at the end of the exposure draft and I can see that most of my reservations are mentioned. The one comment that I did not see was how this change would affect the behaviour and the morale of fundraising professionals.

If one of my fundraisers has worked hard for a large restricted donation, they have the expectation that it will be recorded in the income statement. So that they and the management that evaluates them can see how well they have done compared to budget and compared to last year. So that the board of trustees can see how well the Foundation has done overall compared to budget and the prior year. With this change that donation is dropped into the huge deferred income bucket never to be seen for years. The fundraisers that used my deferred fund financial statements were quite demoralized by this treatment. If fundraising isn't a big part of what your not for profit does; this can be explained to management and the board and additional reports can be made that show how they are meeting their goals. If fundraising is all your not for profit does; the financial statements are no longer useful to them or the people that evaluate them.

Thank you for giving me the opportunity to comment. If you wish to reach me my email is rfehr@telusplanet.net and my cell is 587-338-4614.

Sincerely,

Ramona Fehr

Ramona Fehr, CPA, CGA

September 29, 2023

Ms. Katharine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, Ontario M5V 3H2

Dear Ms. Christopoulos:

Re: Contributions - Revenue Recognition and Related Matters (the *"Exposure Draft"*)

We welcome the opportunity to comment on the Accounting Standards Board's ("AcSB" or the "Board") Exposure Draft, *Contributions - Revenue Recognition and Related Matters*.

We support the Board's efforts to bring more consistency and comparability in revenue recognition and financial statement presentation to the not-for-profit sector. Our understanding is that the direction of the project was determined after extensive consultations over the past ten years, starting with the joint *Statement of Principles - Improvements to Not-for-Profit Standards* in 2013, and is based on the financial statements concepts in Section 1001. We recognize, however, that the proposals will bring significant change and transition costs to a subset of entities that prepare financial statements using Accounting Standards for Not-for-Profit Organizations; specifically, those that currently use the restricted fund method. These entities will bear the costs of transition and communicating the changes with their stakeholders, while the benefit of consistent and comparable reporting is seen only on the sector level and may not be felt directly by these entities. Our responses below are based on the understanding that the Board has already considered the impact to these entities in their cost / benefit analysis in determining the direction of this project.

Our responses to the specific questions in the Exposure Draft are included below.

Question 1: *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 organization and the contributor; and*
> *(b) the restriction requires the resources be used for a designated purpose and/or within a designated period of time.*

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

We generally agree with the proposed definition. However, to avoid uncertainty, we believe it would be useful to clarify that external restrictions could also be imposed by related parties.

Question 2: *The AcSB proposes that unrestricted contributions be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured (see paragraph 4411.13). Do you agree with the proposed recognition guidance for unrestricted contributions? If not, why not?*

Yes, we agree with the proposed recognition guidance for unrestricted contributions.

We do note that the proposed guidance aligns with the recognition criteria for contributions receivable in paragraph 4420.03. From our experience, we note that there has been diversity in practice when recognizing contributions receivable with respect to these long-term contribution agreements. For example, an organization may enter into a signed agreement to receive a specified amount from a donor each year over the next 5 years. In Canada, we understand that these agreements are not legally enforceable. There is significant judgment involved in assessing whether the contributions expected to be received meet the definition of an asset at the time the agreement is signed. We recommend adding an illustrative example outlining how an entity might apply the revenue recognition guidance to a long-term contribution agreement, showing a circumstance where the contribution does meet the criteria to be recognized as a receivable.

Question 3: *The AcSB proposes that an organization recognize revenue from restricted contributions 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 (see paragraph 4411.16)? If not, why not?*

Given the previous decision of the Board to move to a single revenue recognition model for restricted contributions, we agree with the proposed recognition guidance for restricted contributions in paragraph 4411.16.

Paragraph 4411.14 provides guidance on when an organization can recognize a contribution receivable for unrestricted contributions, being when a formal agreement is reached with the contributor, the amount to be received can be reasonably estimated and ultimate collection is reasonably assured. We believe this guidance should apply consistently to all contributions, as the entitlement to the contribution exists at the same point, regardless of whether the contribution is restricted or unrestricted. Specifically, an organization should recognize a contribution receivable for a restricted contribution when a formal agreement is reached with the contributor provided that the amount to be received can be reasonably estimated and ultimate collection is reasonably assured. However, in the case of a restricted contribution, this would be recognized as deferred revenue rather than revenue at the time the receivable is recognized. To avoid diversity in practice as a result of some, but not all, entities applying the guidance in paragraph 4411.14 to restricted contributions, we recommend amending the standard to clarify this.

As outlined above, we believe the timing of recognition of a contribution receivable should apply consistently to both restricted and unrestricted contributions. In Example 6, during 20X0, CJ charity entered into a grant agreement with the federal government. Based on the guidance in paragraph 4411.14, the total advances of $200,000 over the term of the agreement ($25,000 semi-annually over 4 years) might be recognized as a contribution receivable with an offset to deferred contributions at the inception of the agreement provided that the ultimate collection is reasonably assured. We recommend adding specific consideration of whether or not the receivable should be recognized as part of the illustrative example.

Question 4: *Consider the following scenario: An NFPO receives a contribution that is classified as restricted, per the proposed definition. However, the organization meets the restriction and recognizes the revenue in the same reporting period, such that no remaining amount of the contribution is deferred at period end (see Illustrative Example 2 in proposed Section 4411). As proposed in paragraph 4411.44, the organization discloses the changes in the deferred contribution balance for the period, including the receipt of the restricted contribution and subsequent recognition of the contribution in revenue. In this scenario, is the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance relevant to users of financial statements? If not, why not?*

We believe that most users of the financial statements will not use or benefit from the disclosure of the movement in deferred contribution balance in the specific scenario provided, as ultimately the restricted contribution was received and fully spent in the same reporting period. We believe that the deferred contribution balance at the end of the reporting period is what the users of the financial statements would be most interested in. Additionally, we note that it requires significant effort for some organizations to track the movement in the deferred contribution balance with respect to restricted contributions that are received and spent within the same reporting period.

Question 5: *The AcSB proposes that capital asset contributions related to amortizable assets be deferred and recognized as revenue on the same basis as the amortization expense on the related acquired capital assets (see paragraph 4411.21). For indefinite-lived assets, the Board proposes recognizing them as direct increases in net assets (see paragraph 4411.22).*

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

Given the previous decision of the Board to move to a single method of revenue recognition for restricted contributions, we generally agree with the proposed recognition guidance for capital asset contributions related to amortizable assets.

However, we note that there is no definition of “capital assets” within the standards. We believe it would be helpful to clarify that capital assets include both tangible capital assets as well as intangible assets.

In addition, we recommend the AcSB consider the interaction with Accounting Guideline AcG-20, *Customer’s Accounting for Cloud Computing Arrangements*. AcG-20 provides accounting policy choices in accounting for expenditures of various elements in a cloud computing arrangement. Specifically, under AcG-20 paragraph 24, an enterprise that recognizes a software service has a choice to capitalize the expenditures on implementation activities that are directly attributable to preparing the software service for its intended use as an asset (such as a prepaid expense). However, this asset would not be a capital asset. When an organization has received contributions restricted for the purchase of such implementation activities, and they have chosen to capitalize expenditures on implementation activities, we believe it would be appropriate to recognize revenue from these contributions on a basis consistent with the amortization of the asset recognized using the alternative provided under AcG-20. Therefore, we recommend that specific guidance is added which would permit the entity to recognize revenue in this manner.

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

Yes, we agree that this initial recognition guidance makes sense as the assets are funded and will be available for indefinite use by the entity. However, we note that events or transactions involving indefinite-lived assets may have an impact on the statement of operations in periods subsequent to their initial recognition, for example due to write-downs, disposals, or indefinite-lived intangibles being reassessed as having a finite life due to changes in circumstances. Unlike the model proposed for funded depreciable capital assets that permits recognition of revenues to show that an expense (e.g. depreciation in paragraph 4411.21) has been funded by restriction contributions, it is unclear whether this concept should be applied to expenses recognized in the statement of operations related to indefinite-lived capital assets. We recommend the Board clarify under what circumstances, if any, an entity could subsequently recognize as revenue a contribution that had been originally recognized directly into net assets.

Question 6: *The AcSB proposes that endowment contributions be recognized as direct increases in net assets (see paragraph 4411.26). The Board also proposes that an organization disclose information about how it manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments (see paragraphs 4411.48-49).*
(a) Do you agree that endowment contributions should be recognized as direct increases in net assets? If not, why not?

Yes, we agree.

(b) Do you agree with the nature and extent of the proposed additional disclosure requirements for endowments? If not, why not?

Yes, we agree.

Question 7: *The AcSB proposes that net investment income be recognized based on the nature of any restrictions on the investment income (see paragraph 4411.29). Income earned on investments would continue to be measured in accordance with guidance in other standards for the type of invested asset (see paragraph 4411.30).*
(a) Do you agree with the proposed guidance relating to the recognition of net investment income? If not, why not?

We generally agree with the proposed guidance relating to the recognition of net investment income.

In practice, we often see challenges with respect to the application of the recognition principles to unrealized gains and losses on investments measured at fair value. While a donor may explicitly restrict realized gains, often the contribution agreement is silent with respect to unrealized gains and losses, due to the fact that unrealized amounts cannot be spent, and therefore restrictions cannot be met. Accordingly, it is often unclear whether the unrealized gains and losses would be accounted for in accordance with the restrictions imposed on the original contributions, or whether they should be accounted for in accordance with the restrictions imposed on the realized gains and losses because fundamentally, they are fair value changes and the difference between the two is due to timing. In addition, given that paragraph 4411.04(c)(i) requires that a restriction be explicitly communicated, it's unclear whether unrealized gains and losses would even be considered restricted under the new requirements, where donor agreements do not address unrealized gains or losses (and we observe in practice they commonly do not). Further we believe the lack of an explicit acknowledgement in many agreements as to whether unrealized gains or losses form part of an endowment principal may make it challenging in practice to apply proposed Section 4411 paragraph 29(b) unless additional guidance is provided.

We suggest adding specific guidance clarifying that unrealized gains and losses should be considered to have the same restrictions as realized gains and losses on the sale of investments, unless the contribution agreement specifies an alternative treatment. For example, if realized investment gains are restricted, unrealized investment gains would be restricted and accounted for in the same manner as realized investment gains. Based on our experience, most NFPOs carry their investments at fair value so the clarification over the accounting treatment of the unrealized gains and losses would impact many entities.

(b) Do you agree with the nature and extent of the proposed disclosure requirements relating to net investment income? If not, why not?

Yes, we agree.

Question 8: *The AcSB proposes continuing to allow organizations to choose to recognize contributions of materials and services that meet the criteria in paragraph 4411.32(b).*
(a) Do you agree with the proposed criteria in paragraph 4411.32(b)? If not, why not?
(b) Do you think the proposed criterion in paragraph 4411.32(b)(iii) would allow organizations to recognize contributions of materials and services that are critical to the organization's mandate (provided the fair value can be reasonably estimated and they are used in the normal course of operations)? If not, why not?

We agree with the proposed criteria in paragraphs 4411.32(b)(i) and 4411.32(b)(ii). However, we are concerned that the proposed criterion in paragraph 4411.32(b)(iii) where the organization would have to otherwise purchase the materials and services to fulfill their mandate is too restrictive. For example, if certain food contributions are not made to a food bank, the food bank would not <u>have</u> to purchase more food to fulfill their mandate. Rather, they may distribute less food to the families in need, or purchase only an amount sufficient to meet any minimum operating thresholds or targets. We recommend removing the proposed criterion in paragraph 4411.32(b)(iii) and expanding on the proposed criterion in paragraph 4411.32(b)(ii) to require that the materials and services are used in the normal course of an organization's operations, to fulfill its mandate.

(c) Do you agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services (see paragraphs 4411.51-52)? If not, why not?

Yes, we agree.

Question 9: *The AcSB proposes that a pledge or a bequest be recognized only when the recognition criteria in paragraphs 4411.13, 4411.16 or 4411.26 are met for each individual pledge or bequest. This means that in many cases a pledge will not meet the proposed criteria for recognition until the pledge is received and collection therefore is reasonably assured. Do you agree that a pledge should generally not be recognized until collected (see paragraph 4411.36)? If not, under what scenarios would a pledge meet the recognition criteria prior to collection?*

Yes, we agree.

Question 10: *The AcSB proposes that organizations disclose contributions by major source. The Board also proposes that organizations disclose economic dependence when the ongoing operations depend on a significant contribution(s) from another party (see paragraphs 4411.40-41).*
(a) Do you think disclosing contributions by major source provides decision-useful information? If not, why not?

Yes, we agree.

(b) Do you think disclosing economic dependence when the ongoing operations depend on a significant contribution(s) from another party provides decision-useful information? If not, why not?

Yes, we agree.

Question 11: *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, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule (see paragraph 4400.06A).*
(a) Do you agree that when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule? If not, why not?

Yes, we agree.

(b) Do you agree with the other proposed amendments to Section 4400 to clarify the application of fund accounting presentation?

Yes, we agree.

Question 12: *The AcSB proposes an amendment to Section 4400 that requires an organization to disclose information about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those restrictions (see paragraphs 4400.22A-22B).*
(a) Do you agree with the proposed disclosure requirements (see paragraphs 4400.22A-22B)? If not, why not?

We agree with the objective of the disclosure requirements in paragraphs 4400.22A-22B to improve the understandability of restricted contributions received and the assets available to meet the requirements related to those restrictions as explained in paragraph 18 in the Basis for Conclusions.

Examples 4A and 4B provide examples of quantitative disclosures to meet the disclosure requirements. We believe that in preparing the proposed quantitative disclosures, an organization will have to review its cash forecasts to determine the assets available to meet the requirements related to the restrictions (as illustrated by the disclosure of cash and receivables expected to be used for operations and debt repayments). For smaller NFPOs where the budgeting or forecasting processes are not as robust, it can be challenging to prepare and meet the quantitative disclosure requirement.

We also believe the quantitative disclosures could be challenging to audit as they would potentially involve the audit of cash forecasts to determine whether the assets recognized on the balance sheet are available to meet the requirements related to the restrictions rather than being required to meet other recognized operating liabilities or unrecognized contractual obligations. For example, this might involve evaluating the validity of the sources of cash available for other specific purposes such as the repayment of the current portion of long-term debt presented in Example 4B. The assessment of data and assumptions used in the cash flow forecasts could require significant audit effort, depending on the size and complexity of the NFPO, in order to evaluate the appropriateness of the quantitative balances disclosed.

In our view, a qualitative discussion of how management manages its obligations with respect to restricted contributions in a narrative format similar to capital management qualitative disclosure requirements in IAS 1 paragraph 135(a) would be more appropriate and easier to audit while still achieving the intended objective of the proposed disclosure requirements in paragraphs 4400.22A-22B.

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

As discussed in (a) above, we agree with the objective of the disclosure requirements. Additional information on the organization's requirements related to restricted contributions, including endowment contributions, and how the organization expects to meet those requirements will be decision-useful to financial statement users. However, as discussed in (a), we believe a qualitative analysis would be more appropriate.

Question 13: *The AcSB proposes that Section 4411 and proposed amendments to Section 4400 be applied retrospectively in accordance with Section 1506, with certain transition provisions.*
(a) Do you agree that proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively? If not, what transition approach would you recommend and why?

In general, we agree with the proposed approach.

We do note that the proposed amendments to paragraph 4400.19 now require separate presentation of externally restricted net assets and externally restricted endowment net assets on the statement of financial position, whereas previously entities were required to disclose restricted net assets (which might have included those that had been either internally or externally restricted). We believe it is possible that some organizations may not have all the information to distinguish between internal and external restrictions on historical inter-fund transfers that occurred prior to the transition date. We recommend that the AcSB also considers transitional relief in this area.

(b) Do you agree with the proposed optional transitional relief that an organization is not required to make retrospective adjustments in respect of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest period presented in the financial statements in which the organization first applies proposed Section 4411 (see paragraphs 4411.55-.56). If not, why not?

Yes, we agree.

Question 14: *The AcSB proposes an effective date of fiscal years beginning on or after January 1, 2026, 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?

Yes, we agree.

(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?

Yes, we think the proposed effective date provides adequate time for NFPOs to adopt the proposed standard and proposed amendments.

Question 15: *Do you think the proposed illustrative examples are useful in demonstrating the application of the proposals? If not, why not?*

We believe the examples provided are useful in demonstrating the application of the proposals. We recommend certain amendments to the examples which we believe would make them even more helpful, as summarized below:

1) The fact pattern in Example 5C provides a list of annual expenses incurred that are not capital in nature. However, the example does not discuss how this information has been considered, or excluded, in the determination of revenue to be recognized. We recommend that the AcSB consider clarifying this, or removing the information if it is not relevant.

2) In Example 5C, it would be helpful to show the mathematical computation and add an explanation to explain the determination of revenue recognized in each year. For example, in fiscal year 20X3, only $25,000 in revenue was recognized as the organization did not meet the stipulation of adding a minimum of two beds and was only able to add one bed but make up for it in the following year. Accordingly, in fiscal year 20X4, the organization recorded a revenue of $75,000 (= $25,000 for the missed bed from fiscal year 20X3 + $50,000 from meeting the stipulation of adding a minimum of two beds for each fiscal year).

3) The fact pattern in Example 6 requires the organization to request the funds (advances) under the terms of the grant agreement. From our experience, such requests for funds are not common. Typically, under the terms of a grant agreement, an organization receives the funds semi-annually, or requests reimbursement based on expenditures made. We believe it would be easier for organizations to understand the application guidance if the fact pattern reflects a more common practice of the organizations receiving the funds upfront without having to request advances. However, if the AcSB was intending to illustrate certain application nuances as a result of arrangements involving requests, we believe the nuance could be more clearly articulated.

4) In Example 8, from the fact pattern provided, we believe an organization could also group a $100,000 donation from a local business with $150,000 donations from other corporations together and present them as “corporate donors”. We recommend that a note is added to indicate that an alternative format of presentation is also acceptable.

In addition, it may be helpful to provide an illustrative example on how to apply the revenue recognition guidance to a multi-year contract, as discussed in our response to Question 2.

pwc

Ms. Katharine Christopoulos, CPA, CA
Director, Accounting Standards
September 29, 2023

Additional comments

We have certain additional comments and recommendations with respect to the proposed amendments. We have summarized these below.

Proposed Section 4411 Contributions Received by Not-for-Profit Organizations

1. Paragraph 4411.37 requires that “contributions shall be measured at fair value”, but paragraph 4411.38 requires the fair value of a contribution of assets other than cash to be estimated using market or appraised values. We believe it is important to clarify whether the measurement is the fair value of the contribution as a whole, as indicated by paragraph .37, or the fair value of the component assets or settlement of liabilities that are being donated, as implied by paragraph .38 (i.e. clarifying the unit of account for the fair value measurement). For example, in a contribution of a portfolio of real estate properties, the fair value of the individual properties may be, say, $20 million, but because of a portfolio premium there may be evidence that an arm’s length transaction for the three properties as a group would be $21 million. It is not clear whether an NFPO would recognize this contribution at $20 million or $21 million. Similarly, an NFPO might receive a contribution of publicly traded equity shares, but the donor places a restriction on the timing of the sale of those shares, because to do otherwise would move the market. The fair value of *each individual share* would be quoted market price in an active market at the date of the donation, but the fair value of the *contribution* as a whole would have to consider the contractual restriction on sale as this impacts the value of the contribution through impacting the timing of when the NFPO can realize the value of the donation.

2. Paragraphs 4411.11 and .12 provide guidance on the presentation of net assets based on the classification of matched resources, specifically when the matched resources are subject to external restrictions. As the guidance addresses a matter related to financial statement presentation, we believe it would be more appropriate to include the guidance in Section 4400 *Financial Statement Presentation by Not-for-Profit Organizations*.

3. The proposed paragraphs 4411.40 and 4411.42 describe the presentation and disclosure requirements of contribution revenue by major source and the proposed paragraphs 4411.41 and 4411.43 describe the presentation and disclosure requirements of economic dependence. Based on this, we believe it would be helpful for the requirements to be reordered such that paragraphs regarding the same topic are grouped together.

Proposed amendments to Section 4400 Financial Statement Presentation by Not-for-Profit Organizations

1. Proposed paragraph 4400.14A refers to loans between categories of net assets. As this is something we have not observed in practice, we believe it would be helpful to clarify this requirement with examples of when this would apply.

2. Proposed amendments to paragraph 4400.19 does not specifically require separate disclosure of internally restricted net assets. We believe this is inconsistent with paragraph 4400.22 which indicates that financial statement users also require information about the portions of net assets that are subject to internal restrictions, and paragraph 4400.41(c) which requires the statement of changes in net assets to present changes in internally restricted assets for the period. We recommend updating paragraph 4400.19 to also require separate disclosure of net assets subject to internal restrictions.

3. Proposed amendments to paragraph 4400.41(c) appear to combine the requirements for separate presentation of changes in internally restricted net assets and externally restricted net assets other than those discussed in the proposed amendment to paragraph 4400.41(b). Since there is a clear distinction between external and internal restrictions under the new definitions in paragraph 4411.04(b), we recommend splitting the requirements in paragraph 4400.41(c) into two separate bulleted requirements (i.e. (c) and (d)).

4. The objective of paragraph 4400.53 prior to the proposed amendments was to simplify the preparation of the cash flow statement for entities using the restricted fund method, such that they would not need to adjust net income for capital and endowment contributions that had been recognized as revenue. Given that the restricted fund method is no longer an alternative, we believe the amended paragraph 4400.53 is not useful and, in fact, will create confusion and diversity in the preparation of cash flow statements. We recommend removing this paragraph.

   If this paragraph is retained, we recommend removing the reference to "restricted funds" within the wording, as this is no longer relevant.

5. Paragraph 4400.14A clarifies that inter-fund transfers include both transfers between funds when fund accounting presentation is used and transfers between categories of net assets in the statement of changes in net assets. We believe it would be helpful to have an illustrative example showing how an entity might present the statement of changes in net assets when that entity uses fund accounting presentation and has both inter-fund transfers and transfers between categories of net assets.

We would be pleased to respond to any questions you might have. Questions can be addressed to Celeste Murphy (celeste.k.murphy@pwc.com), Lucy Durocher (lucy.durocher@pwc.com), and/or Sean Cable (sean.c.cable@pwc.com).

Yours very truly,

PricewaterhouseCoopers LLP

Chartered Professional Accountants

HOSPITALS OF REGINA®
FOUNDATION

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September 30, 2023

Katharine Christopoulos, CPA, CA
Director, Accounting Standards
Accounting Standards Board
277 Wellington Street West
Toronto, ON M5V 3H2

RE: Comments for Proposed Accounting Standards for Not-for-Profit Organizations
Contributions – Revenue Recognition and Related Matters

Dear Ms. Christopoulos:

The following is taken from our December 31, 2022 Audited Financial Statements. This provides background on the Foundation and a context for our comments.

1. Nature of the Organization

The Hospitals of Regina Foundation Inc. (the "Foundation") was incorporated in 1987 under the provisions of the Non-Profit Corporations Act (Saskatchewan). The Foundation solicits, manages and distributes funds for the purchase of medical equipment, education and research to the benefit of patients served by the Regina General Hospital, the Pasqua Hospital and the Wascana Rehabilitation Centre, all of which operate under the authority of the Saskatchewan Health Authority (the "Authority").

2. Significant Accounting Policies

The financial statements of the Foundation have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. The most significant policies are as follows:

(a) Fund Accounting and Reserves:
The accounts of the Foundation are reported in accordance with the restricted fund method. A fund is defined as a self-balancing accounting entity established to report the assets held against the capital of the fund or against monies received for specific designated purposes. The following funds are maintained by the Foundation:

***The General Fund** accounts for the Foundation's fundraising, administrative and capital asset activities. The fund reports unrestricted resources and designated funds that are to be used for the purposes of which the funds were given.*

***The Endowment and Special Purpose Fund** reports donations contributed for endowment and donations allocated for long-term special purposes, less authorized withdrawals for equipment, educational or research purposes.*

Reserves
Within the General Fund, externally restricted funds received from donors are shown as designated funds.

The operating reserve is set aside to stabilize the Foundation's finances by providing a cushion against unexpected events, losses of revenue, and large unbudgeted expenses. Fund balances and their adequacy will be reviewed on an annual basis. This internally restricted amount is not available for other purposes without approval by the Board of Directors.

(b) Revenue Recognition:

The Foundation records donor pledges and irrevocable bequests as assets in the General Fund representing the right to receive funds at a future date as specified by the donor. Amounts are recognized in revenue when received.

Gifts-in-kind are recorded in revenue at fair value as at the date tendered by the donor. Donations of materials are recorded in revenue at fair value when they otherwise would have been purchased and when fair value can reasonably be estimated, as at the date received.

Contributions for endowments are recognized as revenue in the Endowment and Special Purpose Fund. Investment income that is earned on assets of the Endowment and Special Purpose Fund and that must be used in accordance with conditions imposed by the donor is recognized as revenue of the donor-restricted fund the date it was earned.

The Foundation raises funds through two lotteries conducted under lottery licenses issued by the Saskatchewan Liquor and Gaming Authority. These financial statements reflect the results of the lotteries which ended within the fiscal year 2021.

Special event revenue is recognized on completion of the event and reported under charitable giving.

Planned gifts include insurance policies irrevocably pledged to the Foundation and bequests. Insurance policies of which the Foundation is the irrevocable beneficiary are recorded at the fair value of the policy. Funds to be received through bequests are recognized at fair value upon receipt of formal legal notification.

All of the Foundation's investments have been measured at fair value, whereby changes in fair value are recognized immediately in revenue. Investment income is recognized on the accrual basis.

The Foundation has reviewed Exposure Draft Proposed Accounting Standards for Not-for-Profit Organizations, Contributions – Revenue Recognition and Related Matters. We are responding to question 3 listed under the "Comments Requested" section of the exposure draft which states:

The AcSB proposes that an organization recognize revenue from restricted contributions when (or as) the external restriction is met, provided reasonable assurance exists regarding the measurement of the contributions and collection is reasonably assured. Do you agree with the proposed recognition guidance for restricted contributions? If not, why not?

The Hospitals of Regina Foundation raises funds for Regina's three hospitals to benefit residents of southern Saskatchewan. In our General Fund, as referenced above, from our audited December 31, 2022 financial statements, we have undesignated contributions and designated contributions. We have over one hundred (100) designated funds reported on in our General Fund. These are contributions from corporations, individuals or through a third party special fundraising event that are for health care related areas such as pediatrics, cardiac, palliative care, cancer etc. They are not donated to a specific project within that healthcare specialty area, they are just to be used within that healthcare area.

We receive a listing of prioritized requests from the Saskatchewan Health Authority each year and the Foundation chooses which projects to support and notifies the health region. The Foundation does not provide funds in advance. The SHA must pay for the request, invoice and provide proof of payment to the Foundation and the Foundation provides reimbursement. Reimbursement made to the health region during the year is shown on the income statement as a reduction to net assets.

Under the proposed exposure draft, our understanding is that all of these specific funds would be considered restricted funds and all contributions made to these funds would be deferred and recognized as revenue when the reimbursement is made to the health region. Some of these funds may have a small balance of under $10 thousand others may have a balance of over $1 million. Depending on what needs the health region identifies, we may not support an area, for example Palliative Care in one year and therefore none of the funds would be spent. To defer all of these contributions and recognize them in revenue when expended would be a very onerous and labor intensive task. Our financial statement users are generally our Board if Directors, donors and the CRA. Our board of directors is interested in our investments and reserve balances to know we can meet our current commitments to the health region and other partners. Donors who are looking at our financial statements on our website are more interested in our expense ratio. The Foundation does not believe that deferring the contributions for almost 100 funds would make the financial statements easier to understand for our users, in fact we believe this change would make them more difficult to understand as it is information that the financial statement users are not looking for.

We do have a small amount of designated funds that are related to a specific campaign, for example an Urgent Care Centre or to purchase a new imaging suite. The Foundation would agree that these funds are for a specific project or item and would be considered restricted funds. The same argument would apply for these funds, our financial statement users would not benefit from the deferral of these contributions and recognition as revenue when the funds are reimbursed to the health region. We believe that this complicates our financial statements and they become more difficult to understand. The majority of the users of our financial statements are not professionally trained and would not recognize the impact this exposure draft would have on the Foundation's financial statements. This is not information that we are being asked to provide to users of our financial statements and as such, the Foundation does not agree with proposed recognition guidance for restricted contributions.

Yours truly,

Kara Marchand

Kara Marchand, CPA, CMA
Vice President, Finance & Administration

Toronto Metropolitan University

Chief Financial Officer
Financial Services

September 30, 2023

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

Dear Ms. Christopoulos:

Thank you for the opportunity to comment on the Accounting Standards Board Exposure Draft on Contributions – Revenue Recognition and Related Matters.

Toronto Metropolitan University (the "University") was incorporated in 1948 under the laws of the Province of Ontario. Toronto Metropolitan University (TMU) is Canada's leader in innovative, career-oriented education. Urban, culturally diverse and inclusive, the university is home to more than 46,000 students, including 2,900 Master's and PhD students, 4,000 faculty and staff, and over 225,000 alumni worldwide.

As a not-for-profit organization the University's financial statements are used primarily by debt financing agencies, credit-rating agencies, the Ontario Ministry of Colleges and Universities, donors, and from time to time the Ontario Ministry of Finance or other readers. Financial information is also provided to various departments in the U.S government or other foreign government granting agencies. Most financial statement readers of Ontario university financial statements are within Canada and more specifically within Ontario.

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

Sincerely,

Joanne McKee
Chief Financial Officer
Toronto Metropolitan University

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1. **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 organization and the contributor; and (b) the restriction requires the resources be used for a designated purpose and/or within a designated period of time. Do you agree with the proposed definition of a restricted contribution? If not, why not?**

   Yes, with one nuance. As currently defined, and as outlined in Example 2, a contribution received for general operating purposes, or to generally further an organization's mission would be considered restricted if it was to be used within a designated period of time. **Contributions received for general operating purposes should not be considered restricted unless:**

   - **there is a legal obligation to repay the contribution if funds are not spent within the designated period of time, or if**
   - **the funds are not accessible because the designated period of time has not yet commenced / the time period is in the future.**

   Deferring a contribution received for broad operating purposes and which are accessible for a variety of applications to the organization does not provide decision useful information unless there is recourse for not using the funds (i.e. an obligation to repay), as it impairs the ability of financial statement users to understand the resources available for an organization's operations. Without the legal obligation to repay such a broad-based contribution, the cost of tracking such information at this level of detail would exceed the benefit of doing so.

2. **The AcSB proposes that unrestricted contributions be recognized as revenue in the period in which the organization is entitled to the contribution, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured (see paragraph 4411.13). Do you agree with the proposed recognition guidance for unrestricted contributions? If not, why not?**

   Yes. Unrestricted contributions should always be recognized as revenue in the year received or receivable provided that collection is reasonably assured.

3. **The AcSB proposes that an organization recognize revenue from restricted contributions 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 (see paragraph 4411.16)? If not, why not?**

   Yes. Recognizing restricted contributions when external restrictions are met provides decision useful information.

4. **Consider the following scenario: An NFPO receives a contribution that is classified as restricted, per the proposed definition. However, the organization meets the restriction and recognizes the revenue in the same reporting period, such that no remaining amount of the contribution is deferred at period end (see Illustrative Example 2 in proposed Section 4411). As proposed in paragraph 4411.44, the organization discloses the changes in the deferred contribution balance for the period, including the receipt of the restricted contribution and subsequent recognition of the**

contribution in revenue. In this scenario, is the initial classification of the contribution as restricted and the related disclosure of the change in the deferred contribution balance relevant to users of financial statements? If not, why not?

Disclosing the amount of contributions received for restricted purposes is relevant to financial statement users. However, as noted in the response to Question 1, we have a concern with the current definition of a restricted contribution.

Capital Asset Contributions

5. **The AcSB proposes that capital asset contributions related to amortizable assets be deferred and recognized as revenue on the same basis as the amortization expense on the related acquired capital assets (see paragraph 4411.21). For indefinite-lived assets, the Board proposes recognizing them as direct increases in net assets (see paragraph 4411.22).**

   a. **Do you agree with the proposed recognition guidance for capital asset contributions related to amortizable assets?**

   Yes. Recognizing capital asset contributions related to assets that will be amortized on the same basis as the amortization expense related to the capital assets provides decision useful information and avoids the overstatement of the excess of revenues over expenses, potentially hiding structural operating deficits.

   b. **Do you agree with the proposed recognition guidance for capital asset contributions related to indefinite lived assets?**

   Yes. Recognizing capital asset contributions related to capital assets with indefinite lived assets as direct increases in net assets avoids the overstatement of the excess of revenues over expenses, potentially hiding structural operating deficits.

Endowment Contributions

6. **The AcSB proposes that endowment contributions be recognized as direct increases in net assets (see paragraph 4411.26). The Board also proposes that an organization disclose information about how it manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments (see paragraphs 4411.48-49).**

   a. **Do you agree that endowment contributions should be recognized as direct increases in net assets?**

   Yes. Recognizing endowment contributions as direct increases in net assets provides decision useful information given endowment contributions are to be held in perpetuity and cannot be used for general operations. In addition, recognizing endowment contributions in revenue would overstate the excess of revenue over expenses in the year when endowment contributions are received, producing variability that could mask other meaningful analysis, such as whether an organization has structural operating deficits.

b. **Do you agree with the nature and extent of the proposed additional disclosure requirements for endowments?**

We do not agree with the nature and extent of the proposed additional disclosure and do not agree that the benefit of the proposed additional disclosures to users would outweigh the added cost for preparers. The basis for conclusions notes the rationale for the additional disclosures is to enable contributors to be aware to what extent a general contribution to the organization might be used to fund endowments where the fair value is less than the amount required to be maintained in perpetuity.

In the University sector, the use of general contributions to replenish the capital in endowment funds would be exceedingly rare. The original endowment contribution is protected through spending policies which may be adjusted in economic downturns.

Net Investment Income

7. **The AcSB proposes that net investment income be recognized based on the nature of any restrictions on the investment income (see paragraph 4411.29). Income earned on investments would continue to be measured in accordance with guidance in other standards for the type of invested asset (see paragraph 4411.30).**

   a. **Do you agree with the proposed guidance relating to the recognition of net investment income?**

   Yes. The proposed recognition criteria for net investment income align with the revenue recognition criteria for contributions and provide decision useful information.

   b. **Do you agree with the nature and extent of the proposed disclosure requirements relating to net investment income?**

   Yes.

Contributed materials and Services

8. **The AcSB proposes continuing to allow organizations to choose to recognize contributions of materials and services that meet the criteria in paragraph 4411.32(b).**

   a. **Do you agree with the proposed criteria?**

   Yes. Recognizing contributed materials and services only when fair value can be reasonably estimated, the materials and services are used in the normal course of business, and they would otherwise have to be purchased to fulfill the organization's mandate makes sense. Because of the difficulty in determining fair value and/or the cost associated with valuing and tracking such contributions, it is essential that NFPO's continue to have an accounting policy choice to recognize contributed materials and services.

   b. **Do you think the proposed criterion would allow organizations to recognize contributions of materials and services that are critical to the organizations mandate?**

   Yes, agreed.

c. **Do you agree with the nature and extent of the proposed presentation and disclosure requirements for contributions of materials and services?**

No comment as not applicable to the University sector. We do not recognize contributed materials and services due to the difficulty in determining fair value and/or the cost associated with valuing and tracking such contributions.

9. **The AcSB proposes that a pledge or a bequest be recognized only when the recognition criteria in paragraphs 4411.13, 4411.16 or 4411.26 are met for each individual pledge or bequest. This means that in many cases a pledge will not meet the proposed criteria for recognition until the pledge is received and collection therefore is reasonably assured. Do you agree that a pledge should generally not be recognized until collected (see paragraph 4411.36)? If not, under what scenarios would a pledge meet the recognition criteria prior to collection?**
   Yes, agreed. Pledges should not be recorded until collected because pledges are not legally enforceable in Canada.

Contributions

10. **The AcSB proposes that organizations disclose contributions by major source. The Board also proposes that organizations disclose economic dependence when the ongoing operations depend on a significant contribution(s) from another party (see paragraphs 4411.40-41).**

    a. **Do you think disclosing contributions by major source provides decision useful information?**
    No comment. This is consistent with current requirements and practice.

    b. **Do you think disclosing economic dependence when ongoing operations depend on significant contributions from another party provides decision useful information?**
    Yes. This disclosure requirement is consistent with ASPE Section 3841 requirements.

Fund Accounting

11. **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, the comparative information should be presented on the face of the financial statements, in a note, or in a supporting schedule (see paragraph 4400.06A).**

    a. **Do you agree that when fund accounting presentation is applied, the comparative information should be presented on the face of the financial statements or disclosed in a note or supporting schedule?**
    No comment as not applicable to the University sector.

    b. **Do you agree with other proposed amendments to Section 4400 to clarify the application of fund accounting presentation?**
    No comment as not applicable to the University sector.

Restricted contributions

12. **The AcSB proposes an amendment to Section 4400 that requires an organization to disclose information about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those restrictions (see paragraphs 4400.22A-22B).**

    a. **Do you agree with the proposed disclosure requirements?**

    Yes.

    b. **Do you think the proposed disclosure will convey decision useful information to financial statement users, related to the assets available to meet its requirements related to restricted contributions?**

    Yes.

Retrospective application

13. **The AcSB proposes that Section 4411 and proposed amendments to Section 4400 be applied retrospectively in accordance with Section 1506, with certain transition provisions.**

    a. **Do you agree that the proposed Section 4411 and proposed amendments to Section 4400 should be applied retrospectively?**

        Yes.

    b. **Do you agree with the proposed optional transitional relief that an organization is not required to make retrospective adjustments in respect of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest period presented in the financial statements in which the organization first applies proposed Section 4411?**

        No comment as not applicable to the University sector.

Effective date

14. **The AcSB proposes an effective date of fiscal years beginning on or after January 1, 2026, 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?**

       We have no concerns with the proposed effective date.

    b. **Do you think the proposed effective date provides adequate time for NFPO's to adopt the proposed standard and proposed amendments?**

       Yes.

15. Do you think the proposed illustrative examples are useful in demonstrating the application of the proposals?

The proposed illustrative examples are useful. As noted in our response to Question 1, contributions that would not otherwise be considered restricted should only be considered restricted if there is a legal obligation to repay the contribution if funds are not spent within the designated period of time. Therefore, we do not believe the example In Question 2 about an operating grant being restricted is appropriate.

October 3, 2023

Not-for-Profit Advisory Committee
Accounting Standards Board

Sirs/Mesdames:

Re: AcSB's Exposure Draft, "Contributions – Revenue Recognition and Related Matters."

Thank your for inviting feedback on the above Exposure Draft. I'm currently the treasurer of the Army Cadet League of Canada (the "**League**"). The League is the supervisory sponsor for more than 400 cadet corps across Canada. With the aid of each provincial branch office, the League ensures financial, accommodations and transportation support for programs and services not provided by the Department of National Defence to more than 18,000 Army cadets. As a registered charity any proposed changes to accounting standards would naturally be of considerable interest to our organization.

I have compared and contrasted the proposed changes in the Exposure Draft and I will say that I support the general thrust of the proposed changes. I completely agree that the existing policy choice of accounting for contributions can result in identical transactions being recognized and presented differently thereby creating a lack of comparability. The League and its provincial branches receive various types of types of contributions, including restricted and endowment contributions, and it utilizes the deferral method of accounting for contributions it receives.

Although I support the general thrust of the Exposure Draft I do have some concerns regarding specific proposed changes that I would like see addressed:

Restricted Contributions – Definition

It appears to me that the most noteworthy change in the definition provided in the Exposure Draft from the definition provided in HB 4410.02(d) is that a restriction must be **explicitly** communicated by the contributor to the organization. The existing definition merely states that a restricted contribution would be subject to "externally imposed stipulations" and this suggests to me that the restriction could be implicitly stated, depending on the context of the contribution.

For example, an organization could conduct a fundraiser to generate funds for a specific purpose – such as financially supporting an international cadet exchange trip whereby a group of army cadets could travel outside Canada to meet with similar cadets from other countries. If I were a contributor I would naturally expect my contribution to be used to fund the exchange trip, and would in effect consider it a "restricted contribution", and I would expect the organization to treat it as such. Under the proposed rules it's seems like the organization would need to explicitly obtain (written?) directions from contributors in order to classify the contribution as a restricted contribution. It's possible to do that but it seems like it would just create extra work for the organization with no little to no value added. I would think that the definition would be improved if the proposed definition is changed from "…restriction has been **explicitly** communicated" to "restriction has been **clearly** communicated".

The other noteworthy change in the definition provided in the Exposure Draft involves the addition of a time element: "resources be used for a designated purpose **and/or** within a designated period of time".

It's not clear to me why this is necessary. For example, the British Columbia Branch of the Army Cadet League of Canada received a bequest from a contributor who stipulated that the funds be used to support the army cadet program in a specific community. The bequest was relatively large, particularly in relation to the size of the army cadet corps in that community, and clearly the funds would not likely be expensed in the current period they were received, or even in the near future. The contribution was accounted for a restricted contribution on the basis that the funds were specifically earmarked for a particular community and therefore could not be used to support League activities elsewhere. However, this contribution would not meet the definition of a Restricted Contribution as proposed by the Exposure Draft simply because the contributor did not specify a date that the funds needed to be expensed by. Clearly the contribution would be regarded as a restricted contribution by informed users and so the addition of the time element to the definition appears to have the effect of impairing comparability of similar transactions.

Endowment Contributions – Recognition

I note that the definition in the Exposure Draft is quite similar to the existing definition in the CICA Handbook but it clarifies that the contribution is recognized "… in the period in which the organization is entitled to the resources, provided reasonable assurance exists …". I like this addition because it makes sense to me there could be a material delay in receiving funds that it was legally entitled to. For example, the organization could be informed that it was named as a beneficiary of Will after a contributor died and would be receiving a fixed amount but the Estate Trustee might not actually release the funds until a subsequent fiscal year. It makes sense to me that if the organization is legally entitled to the funds it should recognize in the financial statements the contribution in the period when it was legally entitled to the funds regardless of when the funds were actually received.

Endowment Contributions – Disclosure Requirements

The Exposure Draft states: "Disclose information about how an NFPO manages its endowments, including the fair value of its endowments and compliance with agreements related to those endowments.". I certainly agree that users need to know the fair value of endowments and whether or not the organization is in compliance with agreements related to those endowments but I'm somewhat concerned by the requirement to disclose "how" the organization manages its endowments. That part is too vague, in my opinion. When I read that I immediately referred back to how the League handles disclosures and wondered if it meant we had to disclose the exact nature of related investments. As a matter of practice the League discloses certain information in its financial statements over and above the strict CICA Handbook for transparency purposes but I'm not sure what information the League would be required to disclose by the proposed wording. I think it needs to be clarified.

Capital Asset Contribution – Presentation and disclosure requirements

The Exposure Draft recommends that amortization of deferred capital contributions be disclosed separately on the statement of operations. I don't see how that adds anything of value to users interpreting the financial statements. When I think of a situation where an organization has a donated computer and a computer it acquired directly I don't see the value in seeing two amortization costs for that computer. I think it unnecessarily adds to the complexity of the financial statements and I'm particularly aware that most of the users who are looking at the financial statements of the League are not generally sophisticated investors: they are most likely donors and supporters who want to be sure that the organization continues to be run efficiently and effectively. They are not likely to care if a portion of the amortization cost of the computers (in my example) relate to donated equipment. They would be more interested to know that the computers were donated to begin with.

Contributed Materials and Services – Recognition

The Exposure Draft proposes that the accounting policy choice for contributed materials and services would henceforth be applied consistently to all contributed materials and services. I understand why this would be suggested but I note that the proposed Exposure Draft envisions a material change in that respect from the current CICA Handbook advice regarding pledges. The CICA Handbook specifically states in 4420.06 that certain "… organizations may therefore conclude that reasonable assurance exists that a certain proportion of the total amount pledged will be collected…". If that is truly the case it seems reasonable to me to expect that organizations that do have a history of large, annual fundraising campaigns would be a position to fairly ascertain the collectability of pledges. In those cases, I would defer to their professional judgement and leave the existing wording with regards to pledges.

Thanks, again, for your ongoing work in this matter.

Respectfully,

Michael R. Johnson CPA, CA
Treasurer – The Army Cadet League of Canada
ectreasurer@aclc-lcac.ca

South Saskatchewan Community Foundation
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September 20, 2023

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

Re: Exposure Draft on Not-for-Profit Accounting Standards

The South Saskatchewan Community Foundation appreciates the opportunity to provide feedback on the Exposure Draft concerning Not-for-Profit accounting standards. With a mandate to facilitate impactful community development through strategic philanthropic efforts, our financial statements serve as more than mere compliance documents; they are instruments of trust, accountability, and vision. It is our overall stance that only minimal changes would be required to gain the desired outcome. We believe with the currently proposed changes, it will impact and complicate the financials for our users while drastically increasing the administration and accounting complexities that will only offer minimal benefits to the reader of the financial statements.

- Endowment Contributions: While recognizing endowment contributions as direct increases in net assets (Paragraph .26) is laudable, we emphasize the need for additional guidance. As Community Foundations often hold multiple endowment funds (hundreds to thousands) with varying degrees of donor guidance, we ask for nuanced provisions that allow us to capture the complexity of these funds or to allow additional information to be recorded through the financial notes.
- Net Investment Income: We commend the draft's clarity on the recognition of net investment income (Paragraph .29). However, as a Community Foundation with diversified investment income, we find it challenging to match restricted and unrestricted net investment income with the multitude of donor intents. A more flexible approach would be beneficial or perhaps no change at all to be more appropriate.
- Deferred Contributions: The requirement for disclosure of the nature and amount of deferred contributions (Paragraph .44) is appreciated but can be cumbersome. Simplified reporting options should be considered, especially for smaller NPOs and Community Foundations with limited administrative capacity.
- Effective Date and Transition: The proposed effective date (Paragraph .54) is feasible; however, we would benefit from transitional guidance that specifically addresses the unique challenges

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faced by Community Foundations, particularly in managing existing endowments and long-term pledges.

- Overall Complexity: Given our multi-faceted roles in serving the community, we're concerned about the draft's complexity and its potential to impose an administrative burden. We suggest the inclusion of practical examples tailored to the diverse needs of Community Foundations and our unique model. We are were built and are exist primarily to protect and celebrate legacies for generations to come. Within the past four years, even with the market losses of 2022, our Foundation with close to 150 funds, have made approximately $33 million that has been distributed back to community. This is new money created for the charitable sector that would not have existed without our Foundation and the donors that believe in the concept of legacy giving. We wish to remain flexible and nimble without substantial administrative burden for very little increase in benefits.

To sum it up, we're thrilled about the advancements in transparency and already go above the standard levels required. We do not believe in-depth consultations took place with Community Foundations as we are unique in the charitable sector and believe there should be adjustments to accommodate a unique subset of the non-for-profit sector. We look forward to participating in the ongoing dialogue to refine these accounting standards, ensuring they serve as effective tools for stewardship and community impact.

Sincerely,

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