Accounting Standards Board

Exposure Draft

Proposed Accounting Standards for Not-for-Profit Organizations

Contributions – Revenue Recognition and Related Matters

March 2023

This Exposure Draft closes for comments on September 30, 2023.

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

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

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

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

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

This Exposure Draft reflects proposals made by the AcSB.

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

Helpful tips when participating in a consultation:

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

HIGHLIGHTS

The AcSB proposes, subject to comments received following exposure, to issue CONTRIBUTIONS RECEIVED BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4411, and accompanying amendments to FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4400,[1] in Part III of the CPA Canada Handbook – Accounting (the Handbook). Proposed Section 4411 provides not-for-profit organizations (NFPOs) with guidance on accounting for contributions and replaces CONTRIBUTIONS – REVENUE RECOGNITION, Section 4410, and CONTRIBUTIONS RECEIVABLE, Section 4420.

Background

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

After completing the research phase of this project, in May 2020, the AcSB issued the Consultation Paper, "Contributions – Revenue Recognition and Related Matters," to obtain input from stakeholders on the accounting for contributions and related matters. The Consultation Paper did not propose specific solutions but sought feedback from stakeholders on the issues they faced in accounting for contributions and related matters, as well as potential solutions.

In response to stakeholder input on the Consultation Paper, in March 2022, the AcSB decided to proceed with a standard-setting project to amend the guidance in Part III of the Handbook for contributions and related matters. This Exposure Draft proposes a new Section that replaces the current guidance and proposes a single approach for recognizing revenue from restricted contributions. The proposals also provide specific guidance on special types of contributions, including contributed materials and services, capital asset contributions and endowments. This Exposure Draft also proposes amendments to the current guidance on financial statement presentation by NFPOs.

The AcSB recognizes that eliminating the existing accounting policy choice for recognition of revenue from restricted contributions will result in a change in practice for many organizations. Specifically, NFPOs that currently use the restricted fund method of accounting for restricted contributions will be required to defer the recognition of revenue until restrictions are met, which will result in a change in timing of revenue recognition for certain contributions. As well, NFPOs that currently use the deferral method of accounting for restricted contributions will continue to defer restricted contributions; however, they could see a change in timing of revenue recognition for certain contributions due to proposed changes to definitions and the revenue recognition guidance. The Board thinks these proposals will result in NFPO financial statements that are less complex and more comparable for financial statement users.

Main features of the Exposure Draft

The key features of the proposals are as follows:

Scope

- Consistent with the scope of existing Section 4410, proposed Section 4411 would establish guidance for the recognition, measurement, presentation and disclosure of contributions received by NFPOs.
- Proposed Section 4411 would also establish guidance for the recognition, presentation and disclosure of net investment income earned by NFPOs.

1 Material that links to the CPA Canada Handbook is available to subscribers only. However, all information needed to respond is provided in this Exposure Draft.

- The recognition of other revenue by NFPOs, such as that arising from the sale of services and goods, and other exchange transactions, would remain in the scope of REVENUE, Section 3400 in Part II of the Handbook.

Definitions

- A **contribution** is a non-reciprocal transfer to a NFPO of cash or other assets or a non-reciprocal reduction, settlement or cancellation of liabilities.
- A **restricted contribution** is a contribution subject to an external restriction(s) that meets the following criteria:
  - the restriction has been explicitly communicated between the organization and the contributor; and
  - the restriction requires the resources be used for a designated purpose and/or within a designated period of time.
- An **endowment contribution** is a type of restricted contribution subject to an external restriction(s) specifying that the contribution must be maintained permanently, although the constituent assets may change from time to time.
- A **capital asset contribution** comprises contributions of cash or other assets subject to an external restriction(s) requiring that the contributions be used to acquire, develop or construct a capital asset. Capital asset contributions also include contributions of capital assets directly.

Recognition

- An NFPO would recognize restricted contributions in revenue when (or as) the external restriction(s) associated with the contribution is met, provided the contribution is measurable and collection is reasonably assured.
- An NFPO would defer and recognize in revenue capital asset contributions related to amortizable assets on the same basis as the amortization on the related capital asset. An organization would recognize, as direct increases in net assets, capital asset contributions related to assets that are not subject to amortization.
- An NFPO would recognize endowment contributions as direct increases in net assets.
- The proposals provide NFPOs with an accounting policy choice to recognize contributed materials and/or services when certain criteria are met. NFPOs would apply this accounting policy choice consistently to all types of contributed materials and services.
- An NFPO would recognize a pledge or bequest only when the proposed recognition criteria are met for each individual pledge or bequest, including that collection of each individual pledge or bequest is reasonably assured.

Measurement

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

Presentation and disclosure

- Proposed Section 4411 would carry forward presentation and disclosure requirements from Section 4410 and would include additional presentation and disclosure requirements relating to:
  - presenting both amortization of deferred capital contributions and revenue from contributed materials and services separately on the statement of operations;
  - disclosing the economic dependence on another party when the ongoing operations depend on a significant contribution(s) from that party;

    - disclosing the change in the deferred capital contribution balance during the period separately from other deferred contributions;
    - disclosing information about how an NFPO manages its endowments, including monitoring the fair value of its endowments and compliance with agreements related to those endowments;
    - disclosing, as applicable, quantitative information about the extent to which the fair value of endowments is less than the amount required by the donor to be maintained permanently; and
    - disclosing qualitative information about the nature of contributed materials and services not recognized in the financial statements, and an organization's dependence on contributed materials and services to achieve its future objectives.

- Proposed amendments to Section 4400 would include additional presentation and disclosure requirements for NFPOs, including:
    - an organization that uses fund accounting presentation would be required to disclose comparative period information and information about the factors used to determine the funds presented; and
    - an organization would disclose information about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those requirements.

Effective date

- Proposed Section 4411 and the proposed amendments to Section 4440 would be effective for fiscal years beginning on or after January 1, 2026. Earlier application would be permitted as long as proposed Section 4411 and the proposed amendments to Section 4400 are applied at the same time.

Transition

- Proposed Section 4411 and the proposed amendments to Section 4400 would be applied retrospectively in accordance with ACCOUNTING CHANGES, Section 1506.

- The proposals provide transition relief for capital asset contributions that had been recognized in full prior to the beginning of the earliest period presented in the financial statements first prepared in accordance with the proposed standard.

Consequential amendments

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

Plans for finalizing the proposals

The AcSB will deliberate the proposals in light of comments received. Part of the deliberation process includes consultation with the Committee. The Board will also consult with other stakeholders through outreach activities, such as holding roundtables. The Board will also consider undertaking additional field testing of the proposals.

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

Once the deliberation process is complete and the due process procedures for finalizing a standard are carried out, the AcSB plans to issue the proposed standard and proposed amendments in July 2024 if no significant changes are required to the proposals.[2] In that case, the proposed effective date of the amendments would be for fiscal years beginning on or after January 1, 2026, with earlier application permitted.

Comments requested

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

1. The AcSB proposes that 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?

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?

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?

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?

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?

2 Refer to the Due Process Specifically Related to Domestic Standards in the AcSB Standard-Setting Due Process Manual.

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?

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?

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?

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?

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?

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?

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?

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?

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?

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

PROPOSAL

SECTION 4411

contributions received by not-for-profit organizations

TABLE OF CONTENTS **Paragraph**

PURPOSE AND SCOPE

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

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

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

DEFINITIONS

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

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

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

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

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

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

There are three types of contributions identified for purposes of this Section:

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

    – the restriction has been explicitly communicated between the organization and the contributor; and

    – the restriction requires the resources be used for a designated purpose and/or used within a designated period of time.

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

  (iii) An **unrestricted contribution** is a contribution that is neither a restricted contribution nor an endowment contribution.

(d) **Capital asset contributions** comprise contributions of cash or other assets subject to external restrictions requiring that the contributions be used to acquire or develop a capital asset. Capital asset contributions also include contributions of capital assets directly.

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

Restricted contributions

.05 The distinction between restricted and unrestricted contributions is important because different reporting principles apply. A contribution that is externally restricted and meets the criteria in paragraph 4411.04(c)(i) is a restricted contribution. A contribution subject to only internal restrictions is not considered a restricted contribution for revenue recognition purposes.

.06 External restrictions must be explicitly communicated between the contributor and the organization before or at the time the contribution is made. This would typically be documented in a contribution agreement or other correspondence between the organization and the contributor.

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

.08 For a contribution to be designated for a specific purpose, the external restriction(s) must be more specific than broad limits resulting from or aligning with the nature of the organization or the environment in which it operates. A contribution that is to be used for general operations or to be put toward the organization generally achieving its mandate would not be considered externally restricted unless there is another restriction attached to the contribution, such as requiring the contribution be used within a designated period of time.

.09 An external restriction that requires the contribution be used within a designated period of time would typically require the contribution be spent in a specific year or period of time or be used before a certain point in time. For example, it may require the contribution be used by the end of the fiscal year in which the contribution is provided. Alternatively, it may require the contribution be held for a fixed period before it can be used by the organization in a future period.

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

Matching arrangements

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

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

RECOGNITION

Recognition of unrestricted contributions

.13 *Unrestricted contributions shall be recognized as revenue in the period in which the organization is entitled to the resources, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured.*

.14 An organization typically is entitled to an unrestricted contribution when a formal agreement is reached with the contributor. Entitlement typically occurs for an individual contribution when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured. Otherwise, entitlement occurs on receipt of the contribution.

.15 Contributions subject to only internal restrictions are not considered restricted contributions for revenue recognition purposes and should be recognized consistent with the requirements in paragraph 4411.13.

Recognition of restricted contributions

.16 *Restricted contributions shall be recognized as revenue when (or as) the external restriction(s) associated with the restricted contribution is met, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured.*

.17 Recognition of revenue from restricted contributions requires that an organization is entitled to the resources, the revenue is measurable and that ultimate collection is reasonably assured. When there is reasonable assurance of ultimate collection, revenue is recognized even if cash is not received. When there is uncertainty as to ultimate collection, it may be appropriate to recognize revenue only when cash is received.

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

.19 As noted in paragraph 4411.10, an administrative requirement associated with a contribution may not be considered a restriction for purposes of this Section and would therefore not preclude recognition of revenue when all other external restrictions are met.

.20 *When a contribution has been received but the recognition guidance in paragraph 4411.16 has not yet been met, revenue shall be deferred and a liability recognized. The liability represents an organization's obligation to meet the external restriction(s).*

Recognition of capital asset contributions

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

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

.23 *A contribution that is restricted for the acquisition, construction or development of a capital asset shall be deferred until the capital asset is acquired, constructed or developed. Once the capital* *asset is acquired, constructed or developed, the capital asset contribution shall be recognized in revenue or net assets in accordance with paragraphs 4411.21-.22.*

.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. For a contribution to be accounted for as a capital asset contribution, the contributor must specify the portion of the contribution that is to be used to acquire, construct or develop capital assets. If the contributor does not so specify, then the contribution would be recognized as revenue when the criteria in paragraph 4411.16 are met, regardless of whether some of the expenditures may relate to the purchase of capital assets.

.25 Organizations that meet the criteria in TANGIBLE CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, paragraph 4433.03, or INTANGIBLE ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, paragraph 4434.02, and that expense capital assets on acquisition would defer and recognize revenue from contributed capital assets in the same period(s) as the related expenses are recognized. Restricted contributions for the purchase of capital assets that are not subject to amortization would be accounted for in accordance with paragraph 4411.22.

Recognition of endowment contributions

.26 *Endowment contributions shall be recognized as direct increases in net assets in the period in which the organization is entitled to the resources, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured.*

.27 Endowment contributions will never be available to meet expenses associated with the organization’s service delivery activities, as they must be maintained permanently. Therefore, an organization would exclude such contributions from revenue available for current expenses by recognizing them as direct increases in net assets. Net investment income earned on resources held for endowment would be accounted for in accordance with paragraph 4411.29.

.28 Contributions with an external restriction(s) requiring that the resources be maintained for a specific period of time are not considered endowment contributions, as they are not required to be maintained permanently and typically can be used by the organization once the term lapses. Such restricted contributions are recognized in revenue in accordance with paragraph 4411.16. Contributions that are subject to only internal restrictions requiring the assets to be maintained permanently are not considered endowment contributions. Such contributions are recognized in revenue in accordance with paragraph 4411.13.

Recognition of net investment income

.29 *For net investment income, an organization shall recognize:*

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

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

(c) other externally restricted net investment income in the statement of operations or in the appropriate deferred contributions balance, depending on the nature of restrictions, on the same basis as described in paragraph 4411.16.

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

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

Recognition of contributed materials and services

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

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

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

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

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

(iii) *the materials and services would otherwise have to be purchased to fulfill the organization's mandate.*

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

.33 When an organization selects an accounting policy to recognize contributions of materials and services in the financial statements, the criteria in paragraph 4411.32(b) are applied individually to all contributed materials and services the organization receives. Accordingly, some materials and services may not be recognized because these criteria are not met.

.34 Contributed materials and services that are part of constructed or developed capital assets are not subject to the accounting policy choice in paragraph 4411.32. Such contributed materials and services would be recognized and measured in accordance with TANGIBLE CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4433, or INTANGIBLE ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4434.

.35 When an organization's accounting policy is to recognize contributions of materials and services in the financial statements, and the criteria in paragraph 4411.32(b) are met, the revenue from contributed materials and services is recognized in accordance with paragraph 4411.13 unless it is determined to be a restricted contribution, in which case revenue would be recognized in accordance with paragraph 4411.16.

Pledges and bequests

.36 An organization may receive a promise to contribute cash or other assets, which is commonly referred to as a "pledge." "Bequests" are a type of pledge and are often subject to considerable uncertainty surrounding both the timing of the receipt and the amount that will actually be received. A pledge or bequest is recognized only when the recognition criteria in paragraphs 4411.13, 4411.16 or 4411.26 are met for each individual pledge or bequest.

MEASUREMENT

.37 *Contributions shall be measured at fair value at the date the contribution is initially recognized except as specified in paragraph 4411.39.*

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

.39 When the fair value of contributed capital assets cannot be reasonably determined, they should be measured in accordance with the guidance in TANGIBLE CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, paragraph 4433.07, for tangible capital assets or INTANGIBLE ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, paragraph 4434.11, for intangible capital assets.

PRESENTATION AND DISCLOSURE

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

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

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

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

Deferred contributions

.44 *An organization shall disclose:*

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

(b) the amount of deferred contributions attributable to each major category of external restrictions with a description of the restrictions.

.45 Judgment would be exercised in disclosing major categories of external restrictions. In determining how to categorize restrictions, the organization would consider the intended use of the resources and the length of time that is likely to elapse before the restrictions are complied with.

Deferred capital contributions

.46 *An organization shall separately present in the statement of operations the amortization of deferred capital contributions recognized in revenue in accordance with paragraph 4411.21.*

.47 *An organization shall disclose:*

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

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

Endowments

.48 *An organization shall disclose information about how it manages its endowments, including how it monitors the fair value of its endowments and compliance with agreements related to its endowments.*

.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.*

Net investment income

.50 *An organization shall disclose the following, as applicable, related to net investment income in the period:*

(a) the amounts recognized in the statement of operations;

(b) the amounts deferred;

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

(d) the total earned.

Contributed materials and services

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

.52 *An organization shall disclose:*

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

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

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

.53 The disclosure requirement in paragraph 4411.52(b) applies to an organization that makes an accounting policy choice not to recognize contributions of materials and services in its financial statements in accordance with paragraph 4411.32. The disclosure requirement in paragraph 4411.52(b) also applies to an organization that makes an accounting policy choice to recognize contributions of contributed materials and services in accordance with paragraph 4411.32 when such an organization receives contributions that do not meet the criteria in paragraph 4411.32(b) and, therefore, are not recognized in the financial statements.

EFFECTIVE DATE AND TRANSITION

.54 This Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2026. Earlier application is permitted as long as the amendments to FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4400, issued in July 2024 are also applied.

.55 *An organization shall apply this Section:*

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

(b) retrospectively, except for 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 the Section. If the organization applies this transitional provision, it shall disclose that fact.

.56 When an organization applies the transitional provision in paragraph 4411.55(b), the organization is not required to make retrospective adjustments with respect to capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest period presented. However, an organization would be required to retrospectively account for any capital asset contributions that were initially recognized in the comparative period presented in the first financial statements prepared in accordance with this standard.

ILLUSTRATIVE EXAMPLES

This material is illustrative only.

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

Recognition of contributions

Transition

Disclosure

Example 1 – Research grant

Fact pattern

On January 1, 20X0, XYZ University receives a research grant of $100,000 from a private contributor. As per the terms of the signed contribution agreement between XYZ University and the private contributor, the grant is to be used to advance research on a current research project – Research Project A. The contribution is received in a lump-sum payment on January 1, 20X0.

XYZ University has an April 30 fiscal year-end.

Research Project A is completed in April 20X3. XYZ University incurred annual expenses related to research activities on Research Project A as follows:

Fiscal year ended April 30:

20X0	$12,000
20X1	30,000
20X2	33,000
20X3	38,000
Total	$113,000

Is the research grant a restricted contribution?

Applying paragraph 4411.04(c)(i), XYZ University considers whether the research grant is a restricted contribution. The signed contribution agreement between XYZ University and the private contributor requires the grant be used to advance research on Research Project A. Therefore, the contribution is restricted because the restriction is explicitly communicated between the organization and the contributor, and the restriction requires the contribution be used for a designated purpose.

How much revenue should XYZ University recognize in each fiscal year?

Applying paragraph 4411.16, the restricted contribution is recognized in revenue when or as the restriction is met. The restriction is met as XYZ University advances research on Research Project A, which is demonstrated as research costs are incurred. XYZ University defers the contribution when it is received on January 1, 20X0, and recognizes revenue in each fiscal year as follows:

Year	Revenue recognized ($)	Deferred contribution balance – end of fiscal year ($)
20X0	12,000	88,000
20X1	30,000	58,000
20X2	33,000	25,000
20X3	25,000	0

Example 2 – Operating grant

Fact pattern

ABC University has a June 30 fiscal year-end. On January 15, 20X0, ABC University receives an operating grant of $100,000 from the provincial government. As per the signed contribution agreement between ABC University and the provincial government, the operating grant must be used within the calendar year (i.e., by December 31, 20X0).

The agreement also requires that ABC University submit by March 31, 20X1, an audited report summarizing how the operating grant was spent.

On average, ABC University spends $550,000 per month on general operational expenditures. During the period of January 1-June 30, 20X0, the University incurred $3,464,000 in expenditures relating to its operations.

Is the operating grant a restricted contribution?

Applying paragraph 4411.04(c)(i), ABC University considers whether the operating grant is a restricted contribution. The signed contribution agreement between ABC University and the provincial government requires the grant be used for operating expenditures during the period of January 1–December 31, 20X0. Therefore, the contribution is restricted because the restriction is explicitly communicated between the organization and the contributor, and the restriction requires the contribution be used within a designated period of time.

There is also a requirement for the organization to file an audited report by March 31, 20X1. Applying paragraph 4411.10, the requirement would not be considered a restriction because it does not specify how or when the contribution is to be used.

How much revenue should ABC University recognize in fiscal 20X0 and fiscal 20X1?

Applying paragraph 4411.16, the restricted contribution is recognized in revenue, as the restriction is met. The restriction is met, as ABC University incurs expenditures toward its operations during the designated period. ABC University defers the contribution when it is received on January 15, 20X0, and recognizes revenue as expenditures are incurred. As of the June 30, 20X0, year-end, the operating grant is fully recognized in revenue because the operating expenditures incurred exceed the amount of the operating grant. As a result, the deferred revenue balance related to this operating grant as at June 30, 20X0, is nil, and there is no revenue recognized relating to this operating grant during the fiscal year ended June 30, 20X1.

As noted above, the administrative requirement to file an audit report is not considered a restriction, and, therefore, revenue can be recognized before this requirement is met.

Example 3 – Fundraising event

Fact pattern

PDC Foundation's mission is to improve the lives of those affected by a disease, through funding research, advocacy work and providing services support to those living with the disease.

The foundation holds an annual fundraising event marketed as "Running to Cure." Donations can be made online to a participant's individual fundraising page or directly to the campaign associated with Running to Cure.

When a contributor donates online, they select from a drop-down menu how the donation is to be used by PDC Foundation. The two options are "research grants" or "where the need is the greatest."

This year's run is held on September 25, 20X0, and PDC Foundation raises $10 million from online donations. Of the $10 million, $7 million is designated by donors for research grants and $3 million is designated by donors for use where the need is greatest.

In January 20X1, PDC Foundation pays out $5 million of the donations as research grants to external parties. The signed agreements for the research grants specify that the external parties must use the grants for research aligned with the foundation's mission. The remaining donations are unspent as of the foundation's year-end of March 31, 20X1.

Are the donations raised from the fundraising event restricted contributions?

PDC Foundation considers whether the online donations raised are restricted contributions by applying the guidance paragraph 4411.04(c)(i).

With regards to the $7 million of donations designated for research grants, the contributors indicate this when they donate online, using the drop-down menu. Therefore, the donations are restricted contributions because the restriction has been explicitly communicated between the organization and the contributor, and the restriction requires the donation be used for a designated purpose (i.e., research grants).

With regards to the $3 million of donations designated for where the need is the greatest, the contributors also indicate this, using an online drop-down menu. However, these donations can be used as needed. Paragraph 4411.08 notes that for a contribution to be designated for a specific purpose, it must be more specific than broad limits resulting from or aligning with the nature of the organization or environment in which it operates. Therefore, these donations are not restricted contributions.

How much revenue should PDC Foundation recognize in fiscal 20X1?

Applying paragraph 4411.16, the $7 million of restricted contributions will be recognized in revenue as the restriction is met. The restriction is met, as PDC Foundation provides research grants to external parties. PDC Foundation defers the contributions as they are received and recognizes $5 million in revenue as the research grants are paid in January 20X1. As of March 31, 20X1, the deferred contribution balance relating to the donations raised for research grants is $2 million.

Applying paragraph 4411.13, the unrestricted contributions of $3 million are recognized in revenue as the donations are made online during fiscal 20X1 because at this point PDC Foundation is entitled to the donation and they are measurable and collectible.

In total, during the year ended March 31, 20X1, PDC Foundation recognizes $8 million in revenue from the event, and as of March 31, 20X1, $2 million of restricted contributions are included in the deferred contributions balance.

Example 4 – Unrestricted donations

Fact pattern

The Children's Place Museum is a not-for-profit organization that operates a museum with exhibits tailored to children. The museum also develops and runs free educational programming for children in the local community. In addition to the entrance fees, the museum relies on donations from the public to operate. On the "About Us" page of its website, the museum says it relies on donations to operate. It also notes that the entrance fees cover the museum's operating costs and donations are allocated to developing and running programs.

During the year ended March 31, 20X0, the Children's Place Museum receives $250,000 in private donations.

Are the donations restricted contributions?

The museum considers the guidance in paragraph 4411.04(c)(i) that requires the contribution be explicitly communicated between the organization and the contributor and be used for a designated purpose and/or within a designated period.

Although the "About Us" web page indicates that donations would be allocated to developing and running programs, this restriction was not explicitly communicated between the organization and the contributor. Therefore, the donations are not restricted contributions.

Example 5 – Contributed materials and services, capital asset contribution, contribution to be used for a designated purpose

Cathy's Organization provides shelter, food and clean clothes to those in need in the community. The organization is funded through private donations and grants from municipal, provincial and federal governments.

Donations include cash and in-kind items, including clothing and food. Cathy's Organization relies on these donations as well as volunteers to carry out its mission. The organization's policy is to recognize contributions of materials and services when the criteria in paragraph 4411.32(b) are met.

The organization's fiscal year-end is March 31. Cathy's receives the contributions summarized below in examples 5A-5C.

Example 5A – Contributed materials and services

Fact pattern

On March 20, 20X3, Cathy's Organization receives a contribution of canned goods from Deb's Grocer, a local grocery store, with a fair value of $18,000. The food bank was well stocked when this contribution was received, so as at March 31, 20X3, the canned-goods donation was undistributed. Cathy's Organization intends to distribute them in April and May 20X3.

Are the recognition criteria for contributed materials and services met?

As noted above, it is Cathy's policy to recognize contributed materials and services when the recognition criteria in paragraph 4411.32(b) are met. The criteria are met because the fair value of the canned goods can be reasonably estimated, the canned goods will be distributed in the course of Cathy's normal operations and they would have otherwise had to be purchased to fulfill Cathy's mandate.

Are the contributions received restricted contributions?

Applying the criteria in paragraph 4411.04(c)(i), Cathy's considers whether the contribution of materials is restricted. No external restriction is associated with the contribution of canned goods, and the contribution is therefore unrestricted.

How much revenue should be recognized in each fiscal year?

Applying paragraph 4411.13, the unrestricted contribution of canned goods is recognized when the organization is entitled to the contribution, provided it is measurable and collectible. Cathy's recognizes the contributed materials at its fair value when received on March 20, 20X3, and makes the following journal entry:

Dr. Inventory – canned goods	$18,000	
Cr. Contributed materials and services – revenue		$18,000

What information must be presented and disclosed for this contribution?

Applying paragraph 4411.51, Cathy's presents the contributed materials revenue separately on the statement of operations.

In addition, applying paragraph 4411.52, Cathy's makes the following disclosure in the notes to its financial statements for the March 31, 20X3 year-end:

Note X – Contributions of materials and services

The organization's policy is to recognize contributions of materials and services when the recognition criteria are met. If recognized, they are measured at their estimated fair value at the date of the donation.

The organization relies on the work of volunteers, contributions of goods for its food bank and contributed clothing items to carry out its mission.

During the year, volunteers provided services at the organization's food bank – collecting, sorting and distributing food to members of the community. As the fair value of the volunteer services cannot be reasonably estimated, no value has been recorded in the financial statements.

During the year, the organization received a contribution of canned goods for distribution within the community with a fair market value of $18,000. The contribution is recognized in revenue in fiscal year 20X3 in the statement of operations.

During the year, the organization received contributions of used clothing items that were distributed to members of the community. As the fair value of the used clothing items cannot be reasonably estimated, no value has been recorded in the financial statements.

Example 5B – Capital asset contribution

Fact pattern

On November 1, 20X2, Cathy's Organization received a capital asset contribution from a private donor in the amount of $2 million to acquire a residence for women and children. As per the terms of the contribution agreement dated November 1, 20X2, and signed by the private donor and Cathy's Organization, if in the opinion of the board, acting reasonably, it becomes impossible, inadvisable or impractical to use the contribution for the specified purpose, the donor will be consulted on any proposed alternative use.

- On January 15, 20X3, Cathy's Organization acquired a residence for $2,500,000.
- Based on a fair value assessment, the purchase price is allocated to the land and building as follows:
  - Land – $1,500,000
  - Building – $1,000,000
- The organization's accounting policy is to amortize buildings on a straight-line basis over their estimated useful life.
- The estimated useful life of the building is 40 years, with a residual value of $40,000.

How much revenue should be recognized in each fiscal year?

Applying the guidance in paragraph 4411.23 on November 1, 20X2, Cathy's Organization defers the contribution of $2 million to acquire the residence. The organization makes the following journal entry:

Dr. Cash	$2,000,000	
Cr. Deferred capital contributions		$2,000,000

When the residence is acquired on January 15, 20X3, Cathy's Organization applies the guidance in paragraphs 4411.22-.23. To allocate the capital asset contribution of $2 million to land and building, the organization's approach is to use a pro rata allocation based on the fair market value: $1.2 million [(1,500,000 ÷ 2,500,000) × 2,000,000] is allocated to land and $800,000 is allocated to building [(1,000,000 ÷ 2,500,000) × 2,000,000].

On January 15, 20X3, Cathy's Organization recognizes the capital contribution relating to the land of $1.2 million as direct increase to net assets and makes the following journal entry:

Dr. Deferred capital contribution	$1,200,000	
Cr. Net assets		$1,200,000

Applying paragraph 4411.21, the amortization of deferred capital contribution is determined on the same basis as the amortization expense, which is calculated as set out in the table below, based on the organization's accounting policy for buildings. Cathy's Organization recognizes the amortization of the deferred capital contribution relating to the building in revenue, as well as a corresponding amortization expense in each fiscal year as follows:

Fiscal year ended March 31	Amortization expense	Amortization of deferred capital contribution (revenue)
20X3	\$6,000 = [((\$1,000,000 − \$40,000) ÷ 40 years) × 3/12]	\$5,000 = [(\$800,000 ÷ 40 years) × 3/12]
20X4	\$24,000 = (\$1,000,000 – \$40,000) ÷ 40 years	\$20,000 = (\$800,000 ÷ 40 years)
20X5	\$24,000	\$20,000
20X6	\$24,000	\$20,000

What information must be presented and disclosed for this contribution?

Applying paragraph 4411.46, in each fiscal year, Cathy's Organization presents the amortization of the deferred capital contribution balance separately on the statement of operations.

In addition, applying paragraph 4411.47, Cathy's Organization would disclose the amount of change in the deferred capital contribution balance in each reporting period as follows:

Note X1

Deferred capital contributions

	20X4	**20X3**
	\$	**\$**
Balance, beginning of the year	795,000	–
Add: capital contributions received	–	2,000,000
Less: capital contributions recognized in net assets	–	(1,200,000)
Less: amortization of capital contributions recognized in revenue	(20,000)	(5,000)
Balance, end of year	775,000	795,000

On November 1, 20X2, Cathy's Organization received a contribution of \$2 million to acquire a residence for women and children. On January 15, 20X3, Cathy's Organization acquired a residence for \$2.5 million. Of the \$2 million contribution, \$1.2 million was allocated to land and was recognized in net assets. The remaining \$800,000 contribution was allocated to building and is being amortized in revenue over the estimated useful life of the building.

Example 5C – Contribution to be used for a designated purpose

Fact pattern

On April 1, 20X2, Cathy's Organization received a contribution from the municipal government of \$200,000 that must be used toward increasing shelter services for men at an existing residence. As specified in the signed contribution agreement between the organization and the government, Cathy's must add a minimum of two beds per year for the next four years. The agreement stipulates that if the organization does not add a minimum of two beds in one fiscal year, it must add them in the following year or return \$25,000 to the contributor for each bed not added.

- The organization added one bed in 20X3, three beds in 20X4, four beds in 20X5 and five beds in 20X6.

- The organization incurred annual expenses (not capital in nature) related to shelter services and added beds as follows:

Fiscal year ended March 31:

20X3	$80,000
20X4	210,000
20X5	325,000
20X6	405,000
Total	$1,020,000

Are the contributions received restricted contributions?

Applying paragraph 4411.04(c)(i), Cathy's Organization considers whether the contribution is a restricted contribution. The signed contribution agreement between Cathy's and the municipal government requires the contribution be used toward increasing shelter services for men at an existing residence. As per the agreement, Cathy's must add a minimum of two beds per year for the next four years. Therefore, the contribution is restricted because the restriction is explicitly communicated between the organization and the contributor, and the restriction requires the contribution be used for a designated purpose.

How much revenue should be recognized in each fiscal year?

On April 1, 20X2, when the contribution is received, Cathy's defers the restricted contribution and makes the following journal entry:

Dr. Cash	$200,000	
Cr. Deferred contributions		$200,000

Applying the guidance in paragraph 4411.16, Cathy's Organization recognizes the contribution in revenue as the restriction is met, which is as shelter beds are added.

The organization recognizes the contribution in revenue as follows:

Fiscal year	Number of beds added	Revenue recognized in year ($)	Deferred contribution balance – end of year ($)
20X3	1	25,000	175,000
20X4	3	75,000	100,000
20X5	4	50,000	50,000
20X6	5	50,000	0

In addition, applying paragraph 4411.44, Cathy's Organization would disclose the amount of deferred contributions attributable to each major category of external restrictions with a description of the restrictions as follows:

Note X2

Deferred contributions

	20X4	**20X3**
	$	**$**
Balance, beginning of the year	175,000	–
Add: contributions received	–	200,000
Less: contributions recognized in revenue	(75,000)	(25,000)
Balance, end of year	100,000	175,000

On April 1, 20X2, Cathy's Organization received a contribution from the municipal government of $200,000 to be used toward increasing shelter services. The contribution was deferred and is being recognized in revenue as beds are added at an existing shelter.

Example 6 – Government grant

Fact pattern

CJ Charity is a Canadian NFPO that focuses on funding and supporting women-owned businesses in developing countries. CJ Charity has a March 31 year-end.

On March 22, 20X0, CJ Charity enters into a grant agreement with the federal government under the Feminist International Assistance Program. Under the agreement, CJ Charity requests $25,000 semi-annually over four years. Under the terms of the agreement, advances are received within one month after the submission of requested payments.

Under the terms of the grant agreement, CJ Charity must use the funds to make equity investments in women-owned businesses in East Africa. CJ Charity has discretion on the specific terms of the investments it makes. CJ Charity is required to provide a semi-annual report to the federal government for the six months ended December 31 and June 30 each year on the amounts spent under this agreement. Any amounts unspent by March 31, 20X8, must be returned to the federal government.

Over the term of this agreement, CJ Charity requests advances and makes qualifying equity investments as follows:

Date	Advances requested ($)	Amount invested ($)	Cash remaining on hand ($)
March 23, 20X0	25,000		25,000
Thursday, July 11, 20X0		(3,000)	22,000
Tuesday, October 15, 20X0	25,000		47,000
Monday, December 2, 20X0		(24,000)	23,000
Tuesday, February 11, 20X1	25,000		48,000
Tuesday, September 30, 20X1	25,000		73,000
Wednesday, October 8, 20X1		(12,000)	61,000
Sunday, March 15, 20X2	25,000		86,000
Sunday, May 31, 20X2		(53,000)	33,000
Saturday, October 3, 20X2	25,000		58,000
Monday, March 22, 20X3	25,000		83,000
Friday, April 2, 20X3		(69,000)	14,000
Monday, September 27, 20X3	15,000		29,000
Monday, February 22, 20X4		(39,000)	(10,000)
Monday, March 15, 20X4	10,000		–
	200,000	(200,000)	

Are the grants from the federal government restricted contributions?

Applying paragraph 4411.04(c)(i), CJ Charity considers whether the grants are restricted contributions. The agreement with the federal government requires the grant be used to make equity investments in women-owned businesses in East Africa. Therefore, the contribution is restricted because the restriction is explicitly communicated between the organization and the contributor in the grant agreement, and the restriction requires the contribution be used for a designated purpose (because the requirement to invest in East African businesses is narrower than the charity's mandate).

How much revenue should be recognized in each fiscal year?

Applying paragraph 4411.16, the restricted contributions are recognized in revenue as the restriction is met. The restriction is met, as CJ Charity makes equity investments that meet the terms of the agreement. CJ Charity defers the government advances as they are received and recognizes revenue as investments are made. The amount recognized in each fiscal year is as follows:

Fiscal year	Advances requested during year ($)	Amount invested during year ($)	Revenue recognized ($)	Deferred contributions balance – end of year ($)
20X0	25,000	0	0	25,000
20X1	50,000	27,000	27,000	48,000
20X2	50,000	12,000	12,000	86,000
20X3	50,000	53,000	53,000	83,000
20X4	25,000	108,000	108,000	0

Example 7 – Transition

Fact pattern

The Early Learning Centre (ELC) is a not-for-profit daycare centre with a March 31 year-end. Before the adoption of the new standard, Section 4411, ELC recognized revenue from contributions using the restricted fund method.

During the year ended March 31, 20X0, ELC received a contribution of a property that included a farmhouse. ELC converted the farmhouse to a second daycare location. As of the date of the contribution, the fair market value of the farmhouse was $500,000 and the fair market value of the land was $1,000,000. Using the restricted fund method, ELC recognized a capital contribution of $1,500,000 in revenue in the capital fund in fiscal 20X0.

During the year ended March 31, 20X1, on September 30, 20X0, ELC received a contribution from a local business of furniture for the second daycare centre, including cribs, toddler beds, desks and chairs. The fair market value of the furniture was $10,000. ELC estimated that the useful life of the furniture was five years. During the year ended March 31, 20X1, ELC recognized a capital contribution of $10,000 in revenue in the capital fund and amortization expense of $1,000 ($10,000 ÷ 5 × 6/12 months).

During the year ended March 31, 20X2, ELC decides to early adopt Section 4411 and apply the transitional provision in paragraph 4411.55(b).

How does ELC account for the capital asset contributions on adoption of Section 4411 in its March 31, 20X2, financial statements?

Applying paragraph 4411.55(b), the standard is applied retrospectively except for capital asset contributions recognized in full prior to the beginning of the earliest period presented in the financial statements. Therefore, ELC does not make retrospective adjustments for the capital asset contribution of $1,500,000 relating to the farmhouse property, as it was recognized in revenue prior to fiscal 20X1, which is the earliest period presented in the financial statements in the year of adoption.

ELC retrospectively accounts for the capital asset contribution of $10,000 recognized in revenue in fiscal 20X1 and records the following journal entries:

<u>20X1</u>

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

To reverse the capital asset contribution recognized in revenue and set up the deferred capital asset contribution balance.

Dr. Deferred capital contributions	$1,000	
Cr. Revenue		$1,000

To recognize revenue on the same basis as the amortization expense: ($10,000 ÷ 5) × 6/12 months.

<u>20X2</u>

Dr. Amortization expense	$2,000	
Cr. Accumulated Amortization – furniture		$2,000

To recognize amortization expense on the furniture for 20X2: $10,000 ÷ 5.*

Dr. Deferred capital contributions	$2,000	
Cr. Revenue		$2,000

To recognize revenue for 20X2 on the same basis as the amortization expense: $10,000 ÷ 5.

*ELC would also need to recognize amortization expense on the contributed farmhouse building and any other capital assets. However, these entries are not shown, as they would not be impacted on transition to the new standard.

Example 8 – Disclosure of contributions

Fact pattern

FOC Organization provides services to support the community, including youth programs, counselling, camps and childcare services. FOC receives funding from multiple sources, including an annual grant from the municipal government, donations from local corporations and individuals. The organization also raises funds from annual fundraising campaigns. FOC relies on its annual grant from the municipal government to operate. During the year ended March 31, 20X0, FOC Organization recognized the following contributions in revenue:

- An operating grant of $3 million from the municipal government.
- A bequest received of $1 million from the estate of Bob McDonald.
- A donation of $100,000 from a local business, Auto Dealer Corp.
- Donations from other corporations, ranging from $1,000 to $15,000, totalling $150,000.
- Donations from individuals totalling $120,000.
- Contributions of $25,000 from the annual fundraising golf tournament.
- Contributions of $15,000 from a special black-tie fundraising gala.

How should FOC Organization disclose its contributions for the year?

FOC Organization considers the guidance in paragraphs 4411.40-.41, which requires an organization disclose contributions by major source and disclose economic dependence when the ongoing operations of an organization depend on a significant contribution(s) from another party.

Note X

Contributions

During the year, the organization recognized contributions from the following sources:

	20X1	**20X0**
	$	**$**
Municipal government	3,000,000	3,000,000
Bequest	1,000,000	–
Local business	100,000	50,000
Fundraising events	40,000	36,000
Other contributors	270,000	290,000
	4,410,000	3,376,000

During the year, the organization received an operating grant from the municipal government, totalling $3 million (20X0 – $3,000,000) representing 68 percent (20X0 – 89%) of total contributions. The organization relies on contributions from the municipal government for ongoing operations. During the year, the organization also received a bequest from an individual donor representing 23 percent of total contributions.

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

SECTION 4400
financial statement presentation by not-for-profit organizations

TABLE OF CONTENTS **Paragraph**

PURPOSE AND SCOPE

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

DEFINITIONS

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

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

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

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

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

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

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

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

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

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

GENERAL

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

FINANCIAL STATEMENTS

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

(a) a statement of financial position;

(b) a statement of operations;

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

(d) a statement of cash flows.

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

FUND ACCOUNTING PRESENTATION

.06 *An organization that uses fund accounting presentation in its financial statements shall ~~provide~~ disclose in the notes to the financial statements:*

(a) a brief description of the purpose of each fund reported; and

(b) the factors used to determine the funds reported.

.06A *When an organization uses fund accounting presentation in its financial statements, comparative period information shall be presented on the face of the financial statements or disclosed in the notes or supporting schedules to the financial statements.*

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

.08 Each fund reported would be presented on a consistent basis from year to year. Particular revenues and expenses reported in a given fund would continue to be reported in that fund in future periods. Any change in the revenues and expenses reported in a particular fund would constitute a change in accounting policy, unless the change results from events or transactions that are clearly different from those previously occurring or from the recognition of events or transactions occurring for the first time (see ACCOUNTING CHANGES, Section 1506 in Part II of the Handbook).

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

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

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

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

Interfund transfers and balances

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

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

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

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

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

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

.17 When an organization presents its financial statements using a multi-column format, interfund loans and advances would be presented in individual funds and eliminated in the totals column of the statement of financial position. When using a single-column approach, the only disclosure of interfund loans and amounts receivable would be made in notes to the financial statements.

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

STATEMENT OF FINANCIAL POSITION

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

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

- *(a)* (deleted)
- *(b)* *net assets subject to external restrictions requiring that they be maintained permanently as endowments;*
- *(c)* *other externally restricted net assets;*
- *(d)* *unrestricted net assets;~~ and~~*
- *(e)* *total net assets; and*
- *(f)* *deferred contributions and separately, deferred capital contributions.*

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

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

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

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

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

(paragraph 4400.23 deleted)

Disclosure of restrictions

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

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

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

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

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

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

~~Disclosure of restrictions — deferral method~~

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

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

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

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

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

~~Disclosure of restrictions — restricted fund method~~

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

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

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

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

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

STATEMENT OF OPERATIONS

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

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

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

~~**Statement of operations — deferral method**~~

.33 *The statement of operations should present:*

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

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

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

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

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

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

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

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

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

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

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

Presentation of revenues and expenses

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

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

(paragraphs 4400.39-.40 deleted)

STATEMENT OF CHANGES IN NET ASSETS

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

(a) (deleted)

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

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

(d) *unrestricted net assets; and*

(e) *total net assets.*

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

(paragraph 4400.42 deleted)

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

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

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

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

(paragraph 4400.45 deleted)

STATEMENT OF CASH FLOWS

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

(paragraph 4400.47 deleted)

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

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

(paragraph 4400.50 deleted)

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

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

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

EFFECTIVE DATE AND TRANSITION

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

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

.56 New paragraphs 4400.06A, 4400.08A, 4400.14A, 4400.17A, 4400.22A-B, 4400.24C-D, 4400.33A and 4400.41A; and amendments to paragraphs 4400.02, 4400.06-.07, 4400.09-.10, 4400.15, 4400.19, 4400.21, 4400.24, 4400.24B, 4400.34, 4400.41, 4400.43 and 4400.53 issued in July 2024 apply to annual financial statements beginning on or after January 1, 2026. Earlier application is permitted provided CONTRIBUTIONS RECEIVED BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4411, issued in July 2024 is also applied.

ILLUSTRATIVE EXAMPLES

This material is illustrative only.

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

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

Reporting revenues and expenses gross versus net

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

Example 1 – Funded development

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

Evaluation: Although the organization would not have undertaken the research project without the availability of the funding, the organization acts as the principal in contracting with the scientist. It specifies the details of the research to be carried out by the scientist and has discretion in selecting the scientist and in establishing the price to be paid. Thus, the organization concludes that the expenses incurred are obligations of the organization, the organization recognizes the expenses in the statement of operations, and the related funding is recognized as revenue.

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

Example 2 – Direct fundraising activities

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

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

Example 3 – Fundraising conducted by others

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

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

Example 4 – Disclosure of information about requirements related to restricted contributions and the assets available to meet those requirements

Fact pattern

XYZ Organization's Statement of Financial Position as at March 31, 20X1 is as follows:

XYZ Organization
Statement of Financial Position
As at March 31, 20X1

	$
Assets	
Current assets	
Cash	300,000
Contributions receivable	50,000
Short-term investments	100,000
Inventory	15,000
Prepaid expenses	25,000
	490,000
Investments	2,300,000
Capital assets	700,000
Intangible assets	50,000
	3,050,000
	3,540,000
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	50,000
Current portion of long-term debt	100,000
Deferred contributions	500,000
	650,000
Long-term debt	400,000
Deferred capital contributions[1]	600,000
	1,000,000
Total liabilities	1,650,000
Net assets	1,890,000
	3,540,000

[1] Included in the deferred capital contributions balance is a $100,000 contribution that is externally restricted for the acquisition of equipment. As of March 31, 20X1, the contribution is unspent.

XYZ Organization applies the guidance in paragraphs 4400.22A-B to disclose information about its requirements related to restricted contributions and the assets available to meet those requirements. Examples 4A and 4B below include two different approaches to meeting this disclosure requirement.

Example 4A

XYZ Organization
Notes to the Financial Statements
Year ended March 31, 20X1
Note X

	As at March 31, 20X1 $
Requirements related to restricted contributions:	
Deferred contributions	500,000
Deferred capital contributions to be spent	100,000
Endowments	2,000,000
	2,600,000
Assets available to meet requirements related to restricted contributions:	
Cash	200,000
Short-term investments	100,000
Investments	2,300,000
	2,600,000

The Organization applied judgment in determining the assets available to meet its requirements related to restricted contributions. The assets available include the Organization's financial assets, excluding cash and contributions receivable that are set aside for operations and repayment of debt.

Example 4B

ABC Organization
Notes to the Financial Statements
Year ended March 31, 20X1
Note X

	As at March 31, 20X1 $
Requirements related to restricted contributions:	
Deferred contributions	500,000
Deferred capital contributions to be spent	100,000
Endowments	2,000,000
	2,600,000
Assets available to meet requirements related to restricted contributions:	
Total financial assets as per the statement of financial position	2,750,000
Less:	
Cash set aside for repayment of current portion of long-term debt	(100,000)
Unrestricted contributions receivable to be used for operations	(50,000)
	2,600,000

BASIS FOR CONCLUSIONS

Introduction

1 The existing contributions standards for NFPOs were established in 1996. Since their issuance, the contributions standards have remained largely unchanged, even though research suggests that the landscape for many NFPOs has evolved. For example, it is now more common for NFPOs to receive contributions that have specific restrictions or requirements, and contribution agreements are becoming increasingly complex.

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

3 The current guidance provides NFPOs with an accounting policy choice for recognizing revenue from restricted contributions. Many respondents to the Statement of Principles indicated that this accounting policy choice works well and accommodates the diverse needs of NFPOs and their financial statement users. However, the AcSB thinks that the current accounting policy choice adds complexity to NFPO financial statements in an environment where financial statements are already becoming more complex due to the nature of transactions being undertaken. In addition to the complexity, the current accounting policy choice results in a lack of comparability of NFPO financial statements, as identical transactions can be recognized and presented differently depending on the accounting policy choice applied.

4 While researching this project, the AcSB did not identify any other jurisdictions that provide NFPOs with an accounting policy choice for the recognition of revenue from restricted contributions. This makes the current contribution guidance in Part III of the CPA Canada Handbook – Accounting unique among international practices. It also creates a lack of comparability for Canadian NFPOs with their international peers. The Board sees this as an issue for Canadian NFPOs that compete for funding internationally.

5 In May 2020, the AcSB issued the Consultation Paper, "Contributions – Revenue Recognition and Related Matters." The Consultation Paper sought broad input from stakeholders, including users, preparers and practitioners on the accounting for revenue from contributions and related matters. This feedback would help inform the Board on the project's direction related to accounting for contributions.

6 The AcSB received 25 comment letters in response to the Consultation Paper. The Board also held eight roundtables in which 67 stakeholders participated.

7 In March 2022, considering the input from the Consultation Paper, the AcSB approved a project proposal to develop an exposure draft on contributions and related matters. The Board decided that an exposure draft would be based on the proposed approach explored in the Consultation Paper, recognizing revenue based on the type of contribution and its characteristics.

8 The AcSB received input from its Not-for-Profit Advisory Committee on the development of an exposure draft. The Committee includes financial statement users, auditors and preparers. The Committee includes representation from across Canada, and members have diverse backgrounds and experiences, including organizations of differing sizes and in a variety of industries.

9 To test the viability of the Exposure Draft's proposals related to classifying contributions as restricted or unrestricted and to recognizing revenue from contributions, the AcSB conducted field tests with Committee members and other stakeholders in the not-for-profit sector. The field-test participants were given specific examples of contributions and asked to apply the proposals.

The field testing was designed to assess whether the proposed classification and recognition approach for contributions could be applied and interpreted consistently in practice. The proposals in the Exposure Draft related to presentation and disclosure were not included in field testing before the issuance of the Exposure Draft.

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

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

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

11 In developing the proposals, the AcSB considered the consequences of adopting new guidance relative to the objective of financial statements and the benefit versus cost constraint. As described in FINANCIAL STATEMENT CONCEPTS FOR NOT-FOR-PROFIT ORGANIZATIONS, paragraph 1001.12, the objective of financial reporting is to "communicate information that is useful to members, contributors, creditors and other users … in making their resource allocation decisions and/or assessing management stewardship." Also, as described in paragraph 1001.13, the Board considers the cost/benefit constraint, which states: "In developing accounting standards, the Board weighs the anticipated costs and benefits of its proposals in general terms to assess whether they are justified on cost/benefit grounds."

Effects analysis

Recognition of revenue from restricted contributions

12 The AcSB acknowledges that eliminating the existing accounting policy choice for recognition of revenue from restricted contributions will result in a change in practice for many organizations. NFPOs that currently use the restricted fund method of accounting for restricted contributions will be required to defer the recognition of revenue until restrictions are met, which will result in a change in timing of revenue recognition for certain contributions. This change will also result in added cost associated with the ongoing tracking of deferred contributions, particularly for organizations that are currently using the restricted fund method. NFPOs that currently use the deferral method of accounting for restricted contributions will be required to defer restricted contributions until the external restrictions are met. Although restricted contributions will continue to be deferred for these organizations, the Exposure Draft proposes new definitions and revenue recognition guidance, which, when applied, could result in a change in timing of revenue recognition for certain contributions.

13 The AcSB thinks that deferring restricted contributions until the restrictions are met will provide better information to users because the restriction represents an obligation to the contributor that the organization must fulfill. The Board recognizes that in some cases a user might expect an NFPO to include their contribution in revenue in the period in which the contribution was made. However, the Board thinks that added presentation and disclosure requirements, particularly regarding the composition of deferred contributions, will help mitigate this. The Board also notes that entities can still use fund accounting presentation on the statement of operations and the statement of financial position, which may also mitigate this concern.

14 The proposed requirement for an NFPO to defer and amortize capital asset contributions over the useful life of the related asset will not change the requirements for any organizations currently using the deferral method. Conversely, this proposal represents a significant change for organizations currently using the restricted fund method. Such organizations will also experience an increase in costs associated with tracking deferred capital contributions – particularly capital-intensive organizations. However, the Board thinks that this approach will provide more relevant information to financial statement users. Specifically, the deferral of capital contributions will result in less volatility in the statement of operations, which results in users' having a clearer picture of the financial sustainability of the organization.

15 Recognizing the significant change that the capital asset contribution proposals would have for some organizations, the AcSB proposes transition relief that will not require organizations to make retrospective adjustments in respect of capital asset contributions that were recognized in revenue in full prior to the beginning of the earliest comparative period presented. This transition relief will reduce the cost associated with implementing the proposals.

16 A primary effect of the proposals is to improve the comparability of NFPO financial statements, given that the proposals require all NFPOs to apply one method for recognizing revenue from restricted contributions. The AcSB thinks that eliminating an accounting policy choice for recognizing revenue for restricted contributions will reduce the complexity of NFPO financial statements and ultimately improve their usefulness for users.

Presentation and disclosure requirements

17 The proposals add new presentation and disclosure requirements for NFPOs, including the following:

(a) disclosure related to deferred capital asset contributions, endowments, and contributed materials and services;

(b) presentation of comparative information when fund accounting presentation is used; and

(c) disclosure of information about its requirements related to restricted contributions, including endowment contributions, and the assets the organization determines are available to meet those requirements.

18 The primary effect of the presentation and disclosure proposals is to improve the understandability of restricted contributions received and the assets available to meet the requirements related to those restrictions. The proposals will also improve the comparability of the financial statements year over year when fund accounting presentation is used.

Conclusion on effects analysis

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

Scope of the proposed standard

20 Research to date has not identified any issues with the scope of the current guidance for accounting for revenue from all the types of transactions included in the existing Sections: CONTRIBUTIONS – REVENUE RECOGNITION, Section 4410 and CONTRIBUTIONS RECEIVABLE, Section 4420. Therefore, the AcSB decided that the scope of proposed Section 4411 will be consistent with the existing Sections. The recognition of other revenue by NFPOs, such as that arising from the sale of goods, would remain in the scope of REVENUE, Section 3400 in Part II of the Handbook.

Capital asset recognition exemption

21 In developing the Consultation Paper, the AcSB sought input on whether to retain the exemption from recognizing tangible and intangible capital assets when an NFPO's average consolidated revenues for the current and preceding fiscal years are less than $500,000 (capital asset recognition exemption).

22 In response to the Consultation Paper, stakeholders stated that removing the exemption would have a disproportionate negative impact on smaller NFPOs. As part of the strategic initiatives set out in the AcSB's 2022-2027 Strategic Plan, the Board is currently undertaking a separate project

that explores scaling the standards. As part of that project, the Board will specifically consider whether the existing standards are fit for purpose for smaller NFPOs. Accordingly, the Board decided to exclude the capital asset recognition exemption from this Exposure Draft and, instead, will consider it as part of the project on scalability of the standards. Feedback on that project is currently being sought from stakeholders through the Consultation Paper I, "Exploring Scalability in Canada."

Definition of a restricted contribution

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

24 The distinction between restricted and unrestricted contributions, and therefore the definition of each, is important because different reporting principles apply. Specifically, the proposed new guidance includes distinct revenue recognition guidance for restricted and unrestricted contributions. Accordingly, the AcSB seeks to clarify the definition of a restricted contribution as part of these proposals.

25 In developing the proposals, the AcSB discussed various characteristics of contributions and considered which characteristics were necessary for a contribution to be considered restricted. One factor the Board discussed was whether the restriction had to be explicitly communicated between the organization and the contributor, or whether an implicit restriction was sufficient. Most external restrictions will be explicitly stated by the contributor and included in a contribution agreement. However, external restrictions may also be implicit – for example, from the purpose for which the contribution was solicited by the organization.

26 In discussions with the Not-for-Profit Advisory Committee, the AcSB noted that there are scenarios when a contributor may not explicitly communicate a contribution restriction to the organization, but the contributor would expect the contribution be restricted. In considering the criteria for classifying a contribution as restricted, the Committee noted that using the term "implicitly communicated" may cause confusion, since the meaning is unclear and may be interpreted differently. This could lead to a lack of consistent application of the requirements, and Committee members also highlighted concerns about the auditability of implicit restrictions. Based on this feedback, the Board decided that one of the criteria to determine whether a contribution is restricted is that the restriction has been explicitly communicated between the organization and the contributor at or before the time the contribution is made.

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

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

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

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

(c) the restriction was not administrative.

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

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

30 In discussing the characteristics, the AcSB also thinks that time is an important component to include in the criteria to determine what is a restricted contribution. Specifically, the Board thinks that when a contribution must be used within a specified period, it should be considered restricted prior to reaching that point in time. This factor is particularly relevant when an organization receives a multi-year donation. For example, a donor gives an organization a $100,000 donation and specifies that the organization must spend $25,000 per year in each of the following four years. In this scenario, each $25,000 portion for a specific year would be restricted until that year is reached and the contribution is spent. The Board agreed that in this scenario, the time component is relevant for consideration. Therefore, the criteria to determine what is a restricted contribution should include the contribution being used within a designated period of time.

31 The AcSB decided to specify in the guidance that a restriction must be more specific than being used for the general operations of the organization. Therefore, a contribution to be used generally toward the organization's mandate would not be considered restricted unless another requirement was attached to that contribution, such as to use it within a specified period. For example, an operating grant to be used within a stated calendar year would be considered externally restricted because although it is for general operations, a time restriction is attached to it.

Recognition of revenue from contributions

Unrestricted contributions

32 Currently, Section 4410 requires that an organization recognize unrestricted contributions as revenue when received. This is because unrestricted contributions are for use at the organization's discretion, and they are therefore available to fund operations of current and future periods as required.

33 The Consultation Paper noted that the AcSB's research to date has not identified any issues with the accounting for unrestricted contributions, and proposed therefore no changes to the timing of recognizing unrestricted contributions as part of this project. Most respondents to the Consultation Paper agreed there are no issues regarding the recognition of unrestricted contributions. Accordingly, the Board decided an organization should continue to recognize unrestricted contributions 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.

Restricted contributions

34 Currently, Section 4410 requires that organizations recognize contributions, based on either the deferral method or the restricted fund method. The AcSB proposes a single approach, which eliminates the existing accounting policy choice for recognition of revenue from restricted contributions. The Board thinks this proposal will result in financial statements that are less complex and more comparable for financial statement users.

35 Based on the approach proposed in the Exposure Draft, if an organization concludes a contribution is restricted, the contribution is recognized in revenue when (or as) the external restrictions are met, provided reasonable assurance exists regarding the measurement of the contribution and collection is reasonably assured. In accordance with the definition of a liability in FINANCIAL STATEMENT CONCEPTS FOR NOT-FOR-PROFIT ORGANIZATIONS, Section 1001, the AcSB thinks that a restricted contribution is a liability, and, therefore, it is appropriate to defer the contribution until the external restrictions are met. Paragraph 1001.30 states: "Liabilities do not have to be legally enforceable provided they otherwise meet the definition of liabilities; they can be based on equitable or constructive obligations. An equitable obligation is a duty based on ethical or moral considerations." The Board thinks that even if there is no legally enforceable obligation to return the funds to the contributor, an ethical and/or moral obligation may exist, which would create an equitable obligation. In these circumstances, the Board thinks it is appropriate to defer the contribution (and therefore create a liability) until the external restrictions are met.

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

37 The AcSB recognizes that the proposed definition of a "restricted contribution" will likely result in classification of many contributions as restricted on initial recognition. However, the Board thinks that, in many cases, the restrictions will be met soon after the contribution is received, and revenue therefore would be recognized almost immediately. For example, consider a contribution, such as an operating grant, given to an organization with a March 31 fiscal year-end. The restricted contribution is given to the organization on January 1 and must be used within that calendar year. Assuming no other restrictions are attached to the contribution, at the organization's year-end, the contribution would be fully recognized in revenue because the restriction is met (assuming the organization has had sufficient operating expenditures to have used the contribution prior to its fiscal year-end). There would be no need to prorate the contribution over the year if the agreement does not specify the amounts to be spent per month.

38 As another example, consider a community organization that provides shelter services and undertakes other initiatives such as community outreach and hot-meal programs. If the organization received a contribution that must be used for shelter services, it would be deemed restricted because it must be used for a specific purpose. However, the organization could conclude that the restriction is met, and the revenue is recognized almost immediately, if the contribution is significantly less than what the organization would spend on shelter services in the period. If the agreement specified that the organization must add two beds per year for the next

three years, the organization would defer the contribution and recognize the revenue over time as it reaches its required milestones (i.e., when it adds each of the two beds per year for the next three years).

Special types of contributions

Capital asset contributions

39 Currently, Section 4410 describes a capital asset contribution as a type of contribution that is restricted for the purchase or construction of capital assets or is a contribution of capital assets directly. 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. Under one existing approach, an organization would defer and amortize capital asset contributions over the useful life of the corresponding depreciable asset or would recognize them as direct increases in net assets if they are not depreciable. Under the other existing approach, an organization would recognize capital asset contributions as revenue when received if a fund has been created for that purpose.

40 In developing the proposals, the AcSB concluded that it was important to eliminate the existing accounting policy choice for contributed capital assets. Specifically, this would improve the usefulness of NFPO financial statements by improving their comparability. Therefore, the Board identified and considered various options for the singular approach to capital asset contributions:

(a) Make the accounting for capital asset contributions consistent with the guidance for other types of restricted contributions discussed above (i.e., deferred when they meet the definition of a restricted contribution and recognized in revenue once the restrictions are met).

(b) Provide an exception to the proposed approach for other types of restricted contributions and account for contributed capital assets like either one of the existing approaches for accounting for capital asset contributions (i.e., deferred and recognized in revenue over the useful life of the related asset, or recognized immediately in revenue).

(c) Recognize all capital asset contributions directly in net assets.

41 Respondents to the Consultation Paper informed the AcSB that deferring and amortizing capital asset contributions over the useful life of the asset provides decision-useful information when NFPOs do not want to present volatility in the statement of operations and when an NFPO wants to demonstrate the acquisition of assets have been funded. However, some stakeholders noted that deferring a capital asset contribution and amortizing it into revenue creates a long-term liability balance that can be difficult to explain to financial statement users, and some questioned whether it meets the definition of a liability.

42 Some respondents to the Consultation Paper also informed the AcSB that recognizing a contributed capital asset immediately in revenue would provide decision-useful information because it shows what resources were received in the year and is a concept that all users understand, and is therefore more meaningful to users.

43 Some respondents to the Consultation Paper told the AcSB that recognizing capital asset contributions directly into net assets could result in decision-useful information and would remove volatility in the statement of operations that arises with immediate recognition in revenue. However, other stakeholders noted that users primarily focus on the statement of financial position and the statement of operations, and therefore recognition direct to net assets may not be as transparent to financial statement users.

44 Considering feedback on the Consultation Paper, the AcSB discussed whether capital asset contributions should be accounted for using the same approach as proposed in this Exposure Draft for other types of restricted contributions. Under this approach, an organization would

assess whether the capital asset contribution meets the definition of a restricted contribution, and if so, recognize it in revenue when (or as) the restriction is met. For example, a contribution to acquire a capital asset would be deferred and recognized in revenue once the asset is acquired, provided there are no further external restrictions associated with the contribution.

45 The AcSB noted that if capital asset contributions are accounted for in this way, it may not be clear to users which resources are available to fund programs and operations and which have been already used to acquire capital assets. In addition, it could result in significant fluctuations in the statement of operations. For example, this could result in a surplus in the year the capital asset is acquired and deficits in subsequent periods as depreciation expense is recognized. Stakeholders have informed the Board that volatility is a concern because it can affect the users' perception of the organization's financial sustainability and the amount of funding the organization receives.

46 Considering the above, the AcSB discussed whether presentation and disclosure could help alleviate these stakeholders' concerns. One presentation option considered was presenting capital asset contributions on the statement of operations below a subtotal for operating items. However, the Board thought this presentation would be inconsistent with the approach in the Handbook for NFPOs more generally, which does not prescribe presentation on the statement of operations. This approach would also raise other questions, such as where an organization should present depreciation expense.

47 As a result of the concerns identified with applying the general approach for recognition of contributions to capital asset contributions, the AcSB considered other recognition approaches. The Board discussed the accounting alternatives and considered whether deferring and amortizing contributions of depreciable capital assets into income over the useful life of the asset and recognizing non-depreciable assets directly in net assets would result in decision-useful information for users. The Board observed that this approach results in a deferred capital contribution balance, which may not be understandable to all users. However, it would eliminate the volatility in the statement of operations that would arise by recognizing capital asset contributions in one lump sum. This approach would also result in revenue recognition that offsets depreciation expense, eliminating deficits driven purely from depreciation expense.

48 The Not-for-Profit Advisory Committee provided feedback on the accounting alternatives for capital asset contributions. The Committee supported an approach that defers and amortizes contributions of depreciable capital assets into income over the useful life of the asset and recognizes non-depreciable assets directly in net assets. A few Committee members noted that this would result in decision-useful information to users, as capital asset contributions would not skew financial results year over year.

49 Considering the feedback from the Consultation Paper and the Not-for-Profit Advisory Committee, the AcSB proposes that capital asset contributions be deferred and amortized over the useful life of the related asset. Contributions related to unamortizable assets would be recognized directly in net assets. In reaching this conclusion and considering the options, the Board acknowledged there was no perfect solution to the accounting for capital asset contributions that would address the concerns of all stakeholders. The Board proposes an approach focused on eliminating volatility and not creating persistent deficits in the statement of operations. The Board thinks the proposed approach would provide useful information about the financial operations of the organization to financial statement users.

50 The proposed approach for capital asset contributions aligns with the existing deferral method. While it noted that using an existing approach would reduce the amount of change for some organizations, the AcSB is also aware that this approach will be a significant change for many organizations that currently use the restricted fund method and do not therefore have deferred capital asset contributions recognized in their financial statements. The Board proposes additional disclosure related to the deferred capital contribution balance to help address the concerns that financial statement users may be unfamiliar with deferred capital contributions.

In addition, the Not-for-Profit Advisory Committee informed the Board that many organizations currently using the restricted fund method are not capital intensive. However, for those organizations that are, transition relief relating to capital asset contributions would be helpful. The Board considered this in developing the transition guidance discussed below.

Contributed materials and services

Recognition of contributed materials and services

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

(a) a fair value can be reasonably estimated;

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

(c) they would have otherwise been purchased.

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

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

54 The AcSB also considered whether changes were needed to the recognition criteria. The Not-for-Profit Advisory Committee noted that it is often challenging for entities to meet all three criteria. Specifically, some Committee members thought the application of the third criterion (i.e., the contributed materials and services "would have otherwise been purchased") was challenging for some organizations. For example, a food bank relies on in-kind contributions that it often would not have the resources to purchase. The Board thinks it is important that organizations have an option to recognize contributed materials and services particularly when such contributions are critical to the organization's mandate, as in the food bank example. Accordingly, the Board proposes revising this criterion to note that the contributed material or service "would otherwise have to be purchased to fulfill the organization's mandate." This criterion therefore focuses on those contributed resources being critical to the NFPO's achieving its mandate.

Disclosure of contributed materials and services

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

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

(a) Details of the entity/individual that contributed the materials and services.

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

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

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

57 Some respondents noted that it would be useful to disclose the nature and significance of contributed materials and services not recognized in the financial statements. For example, they noted that this would be important in cases where volunteer time is substantial and used in place of compensated employees. Respondents also said this would be important in scenarios when contributed goods are not recognized in the financial statements, but an organization relies on them to fulfill its mandate, as not disclosing them could understate the impact the NFPO has on the community.

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

59 Therefore, the AcSB proposes that organizations disclose qualitative information about the nature of contributed materials and services received during the period but not recognized in the financial statements. In addition, the Board proposes that organizations disclose their dependence on contributed materials and services for the achievement of their objectives during the reporting period or in the future.

Endowment contributions

Definition of an endowment contribution

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

61 The Consultation Paper asked stakeholders to identify concerns with applying the definition of an endowment, including circumstances where it was difficult to determine whether a contribution is an endowment for accounting purposes. Respondents generally thought that the definition of an endowment in Section 4410 provided adequate guidance. However, some complexities can arise due to the varying nature of the terms and conditions associated with endowment contributions.

62 Through discussion with the Not-for-Profit Advisory Committee and other research on this project, the AcSB learned of other areas of diversity regarding the application of the current definition of an endowment contribution:

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

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

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

64 On the second issue, the AcSB noted that by definition, an endowment contribution must be required to be maintained permanently. Therefore, a restriction to maintain the contribution only for a limited time would not meet the definition of an endowment. This type of contribution would likely be a type of restricted contribution (subject to its meeting the definition of a restricted

contribution in proposed paragraph 4411.04(c)(i)) and would be accounted for as such. The Board proposes to clarify this in proposed paragraph 4411.28.

Recognition of endowment contributions

65 The AcSB considered various options for recognizing endowment contributions, including recognizing the endowment directly in net assets and recognizing the endowment as revenue when received.

66 Respondents to the Consultation Paper noted that for some organizations, including foundations, recognizing endowment contributions directly in revenue provides decision-useful information. This is because many foundations have a primary objective of accumulating endowments with the intent of disbursing the investment income. Conversely, respondents also highlighted concerns with recognizing endowment contributions directly in revenue. Specifically, this approach would create significant volatility in the statement of operations and can overstate the excess of revenue over expenditures in the year the endowment is received, hiding operating deficits. Furthermore, there is a lack of control over the endowment contribution because, by definition, the initial endowment contribution is not available for use by the organization. Therefore, the Board thinks classifying the endowment contribution as revenue would not represent the substance of the transaction.

67 With respect to recognizing endowment contributions directly in net assets, many respondents to the Consultation Paper thought that approach provides the most relevant information to financial statement users because the endowment contribution represents resources that the organization will never be able to access and use for their own benefit.

68 Considering the Consultation Paper feedback, in particular the concerns noted above with recognizing endowment contributions directly in revenue, the AcSB proposes recognizing endowment contributions directly in net assets when received.

Disclosure of endowments

69 The AcSB discussed how to improve the current guidance related to disclosure of endowments to provide decision-useful information to financial statement users. The Board noted that an endowment's key characteristic, that it must be maintained in perpetuity, represents an important fiduciary duty to NFPOs. Information about the management of this fiduciary duty provides important information to contributors. For example, contributors should 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 perpetually.

70 Accordingly, to add transparency in the financial statements, the AcSB proposes that organizations disclose:

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

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

71 The AcSB considered that there may be an added cost for preparers to the proposed additional disclosure requirements related to endowments. However, the Board concluded the added benefit to users would outweigh the costs.

Net investment income

72 Currently, the guidance in Section 4410 for recognizing and presenting investment income depends on an organization's accounting policy for the recognition of contributions. For example, investment income earned on endowments that must be added to the principal amount of resources held for endowments is recognized in the statement of net assets under one policy

and recognized in the statement of operations in the endowment fund under the other policy. Investment income is measured based on the nature of the investment and its classification for accounting purposes. For example, investment income earned on financial assets is measured in accordance with FINANCIAL INSTRUMENTS, Section 3856.

73 The AcSB proposes that the recognition of investment income should continue to be accounted for in a manner consistent with the approach for the recognition of similar contributions. For example, investment income that must be added to the principal amount of resources held for endowments should be accounted for consistently with endowment contributions, as a direct increase in net assets in the statement of net assets.

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

75 The AcSB discussed that investment income would continue to be measured in accordance with guidance for the type of invested asset. For example, income on a financial asset measured at amortized cost would be measured in accordance with Section 3856.

76 The AcSB also discussed whether investment income should be presented net of investment management fees or if these amounts should be separately presented or disclosed on a gross basis in the financial statements. Some Board members thought it would be useful to disclose gross fees in the financial statements, as it would provide transparency over investment fees and allow financial statement users to better assess the investments' overall performance. The Not-for-Profit Advisory Committee advised the Board that organizations often view the investment management fee as part of their net return, and it therefore should not be separately disclosed. The Committee also noted that the portfolio of investments and risk may also impact the fee charged. Therefore, disclosing the fee without considering the mix of investments may not result in comparable information. Lastly, Committee members observed that in some scenarios, depending on the nature of the investment, the fee is embedded in the return. Therefore, it can be challenging to identify the gross fee component of the return. The Board considered this input and decided not to require separate disclosure of investment management fees in the financial statements.

77 The Consultation Paper also sought input on scenarios when it can be costly or difficult to allocate the income, expenses, gains and losses on endowments for accounting purposes. Many of the examples respondents raised relate to the way in which an organization invests its endowed assets. Specifically, endowments are not always invested separately from other assets, which can make the allocation of investment income difficult. The Not-for-Profit Advisory Committee advised the Board that further guidance in this area is not needed – although it may be challenging for some NFPOs, organizations typically do have this information available. The Board considered this feedback and decided not to propose additional guidance related to the allocation of investment income.

Pledges and bequests

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

79 Stakeholders, through Consultation Paper feedback and other outreach, have informed the AcSB that there is diversity in practice in the accounting for pledges. Specifically, while some NFPOs

recognize pledges, many do not, as pledges are typically not legally enforceable in Canada should the donor not honour them. These NFPOs conclude that the criteria for recognition are not met, as the organization does not have reasonable assurance that the pledge will be ultimately collected.

80 Considering the definition of an asset in paragraphs 1001.24-.27, the AcSB thinks that generally, a pledge should not be recognized until the contributed assets are received, since an organization cannot control access to the benefit of the contribution until that point. The Board thinks this is the case specifically in the scenario when an individual pledges an amount to an organization's campaign, but there is no obligation to follow through with the donation. An individual pledge of this nature would likely not meet the proposed criteria for recognition at the time the pledge was made, as collection is not reasonably assured. Instead, it would be recognized when the organization receives the cash. However, the Not-for-Profit Advisory Committee advised the Board that pledges may come in many forms, and in some scenarios, the NFPO can control access to the benefit of the resources before they are received. For example, a donor may enter into an agreement that obligates them to contribute a series of payments over a number of periods. In this scenario, the amount may be referred to as a "pledge" in the contribution agreement. Despite being called a pledge in the agreement, the substance of the transaction may create an obligation to contribute the amounts pledged, and therefore recognition may be appropriate before the amounts are received. Considering this, the Board discussed whether new or additional guidance was needed for pledges to ensure the recognition of pledges is consistent with the financial statement concepts in Section 1001 and to address the existing diversity in practice.

81 The AcSB thinks that the guidance on recognizing revenue from contributions, together with the guidance on the definition of an asset in paragraphs 1001.24-.27, is sufficient to allow NFPOs to determine when to recognize a pledge receivable. Specific guidance on when to recognize a receivable is not necessary. Accordingly, the Board proposes to withdraw Section 4420 and include guidance in proposed Section 4411 that notes that a pledge should be recognized when the revenue recognition criteria are met for each individual pledge. As a result, an organization will need to apply the recognition criteria individually to each pledge rather than, for example, applying the recognition criteria to total amounts pledged through one campaign.

82 The AcSB acknowledges that given the diversity in the types of pledges an organization may receive, judgment will be required to determine when to recognize a pledged amount. The Board notes that different types of pledges may be accounted for differently, based on the facts and circumstances of a particular contribution.

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

Disclosure of contributions

Other presentation and disclosure requirements

Presentation and disclosure of contribution revenue

84 Currently, paragraph 4410.22 requires organizations to disclose contributions by major source. The AcSB considered whether disclosure of contribution revenue by type of contribution rather than by major source would provide more useful information to financial statement users.

However, the Board observed that based on the proposed Section 4411, certain types of contributions would be separately presented or disclosed in the financial statements, based on the nature of the contributions. For example, a restricted contribution would be recognized as a deferred contribution and would be disclosed in the continuity of the deferred contribution balance in the notes to the financial statements. Endowment contributions would be recognized as direct increases in net assets on the statement of changes in net assets. Therefore, a financial statement user would be able to separately identify these types of contributions in the financial statements when the draft proposals are applied.

85 However, the AcSB thought that separate presentation requirements may be needed for contributed materials and services recognized as revenue during the period and the amortization of capital asset contributions in the period, given the unique nature of these revenue types. Therefore, the Board proposes that these items be presented separately in the statement of operations.

86 The AcSB also decided that organizations should continue to disclose their contributions by major source to help financial statement users understand the organization's relationship with other entities and predict whether those contributions would recur in the future. In addition, when an organization depends on a significant contribution(s) from another party, the Board proposes that an organization disclose and explain the economic dependence on that party. The proposed disclosure requirements are similar to the current requirements in ECONOMIC DEPENDENCE, Section 3841 in Part II of the Handbook but have been modified to relate to contributions received by NFPOs.

87 The AcSB discussed that an organization will need to apply judgment in determining whether an organization depends on another party. In making this assessment, the organization considers the ease with which contributions from that party can be replaced by contributions from another party with similar terms and conditions. For example, if an organization relies on government funding to run its operations and that funding could not be easily replaced, then the organization would be dependent on the government funding and should disclose that fact.

Fund accounting

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

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

90 Respondents to the Consultation Paper cited numerous benefits to using fund accounting, such as providing more transparent information to financial statement users about the various segments within an organization. Respondents also noted that when fund accounting is used, a user can clearly see the resources available for general operations.

91 Respondents to the Consultation Paper also noted that there can be limitations to fund accounting, as it can result in more complexity in the financial statements, which some users may find difficult to understand. Other respondents noted the limited guidance in this area results in significant diversity in practice, decreasing comparability of NFPO financial statements when fund accounting is used.

92 The AcSB considered whether the scope of the Contributions project should include fund accounting or whether it should be considered in a future project. The Board discussed that when proposed Section 4411 is applied, there could be many benefits to fund accounting in conveying decision-useful information to financial statement users. As such, the Board decided that the

Exposure Draft should consider how fund accounting can be used to complement the proposals related to the recognition of contributions.

93 The AcSB considered the feedback that many stakeholders associate fund accounting with the restricted fund method of recognizing revenue. Therefore, the Board discussed whether the term “fund accounting” is clear or whether an alternative term should be used in the standard to improve the understandability and consistency in application. The Not-for-Profit Advisory Committee advised the Board against using a significantly different term but thought that “‘fund accounting presentation” might be clearer. The Board also considered that internationally the term “fund accounting” is commonly used and understood. Considering these factors, the Board decided to use the term “fund accounting presentation” throughout proposed Section 4411 and amended Section 4400.

94 The AcSB decided that fund accounting presentation would continue to be available as an optional presentation choice. However, based on the stakeholder feedback on the Consultation Paper, the Board identified certain areas where clarifications could be made to Section 4400 to improve the understandability and application of fund accounting presentation. This includes clarifying the definition of fund accounting presentation and clarifying that when fund accounting presentation is used, it must contain all expenses and other income and losses associated with the activities reported in that fund.

95 The AcSB also discussed whether presentation of the comparative period by fund should be required when fund accounting presentation is applied. Currently Section 4400 does not require presentation of the comparatives by fund. The Not-for-Profit Advisory Committee informed the Board that when fund accounting presentation is used, it would be useful for financial statement users to have the comparative period in the same format. Some Committee members thought that presenting comparatives could result in a financial statement that is busy or cumbersome to read. The Board considered this feedback and proposes amendments to Section 4400 that require presenting comparatives on the face of the financial statement or disclosed in a note or supporting schedule.

96 The AcSB also discussed the feedback that when fund accounting presentation is used, there is significant diversity in practice resulting in a lack of comparability of NFPO financial statements. Based on this feedback, the Board considered whether Section 4400 should be amended to include guidance on how funds are established and reported on in an organization’s financial statements. This could include considering how management runs the organization and setting up funds that align with management’s view. Another option could be prescribing the funds that can be used.

97 The Not-for-Profit Advisory Committee advised the AcSB that given the diversity of organizations in the sector, the guidance should not be too prescriptive. The Committee also noted that it would be difficult to enhance comparability here, given the diverse sector, and that flexibility is needed to allow organizations to provide useful information to their financial statement users.

98 Based on the feedback, and to allow each organization to tell its story, the AcSB proposed to continue to allow flexibility in determining the funds presented when fund accounting presentation is applied. The Board also decided to continue to allow an organization to present its financial statements, using different formats for the individual statements. For example, a statement of operations and changes in net assets presented in the multi-column format may be accompanied by a statement of financial position that presents assets, liabilities and net assets in a single column without presenting each financial statement item by individual fund. However, the Board proposes amendments to Section 4400 to help users understand how the organization has applied fund accounting presentation in its financial statements by disclosing the factors used to determine the funds reported and continuing to require organizations to disclose the purpose of each fund reported.

Statement of net assets

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

100 When the Consultation Paper was being developed, the Not-for-Profit Advisory Committee advised the AcSB of issues in practice with the current presentation requirements. Specifically, Committee members noted that the link between restricted net assets and the corresponding assets and liabilities on the balance sheet is not clear and that transfers between categories of net assets are not accounted for consistently.

101 Respondents to the Consultation Paper noted additional concerns related to the presentation requirements. With regards to net assets invested in capital assets, respondents noted that when the amounts are not presented separately, it can create the impression to financial statement users that there are resources that can be used for operations when, in fact, they are invested in capital assets. Other respondents noted that when net assets invested in capital assets are presented separately, it is unclear whether all associated liabilities have been included.

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

103 The AcSB also considered the composition of net assets invested in capital assets. Specifically, the Board noted that for many organizations, this balance may be nil because when the proposals in the Exposure Draft for capital asset contributions are applied, contributions of capital assets will be deferred and recognized in income on the same basis as the related depreciation expense. Therefore, the net assets invested in capital asset balance arising from contributions of depreciable capital assets would be nil because the net book value of the contributed capital asset would equal the deferred capital contribution balance. However, contributions of indefinite-lived assets would be recognized in net assets rather than deferred liabilities. Therefore, there would be a balance included in net assets invested in capital assets. Similarly, capital assets purchased by the organization and not contributed would also have a residual balance in net assets.

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

105 The AcSB also decided that when an organization chooses not to present net assets invested in capital assets separately, they should be included in restricted net assets if the underlying capital asset is restricted based on the proposed definition of a restricted contribution in proposed paragraph 4411.04(c)(i).

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

Statement of net assets – other disclosure considerations

107 As discussed above, feedback to the Consultation Paper indicated that currently the link between restricted net assets and the corresponding assets and liabilities on the balance sheet is not

clear. The Consultation Paper asked stakeholders whether users think it is important to be able to reconcile restricted net assets to the corresponding net assets on the balance sheet. Most respondents did not think this was important. However, the rationale given was often that it may be challenging, and many organizations may not have the information available.

108 The AcSB thought that although a full reconciliation could be challenging, it would be helpful for a user to understand the availability of unrestricted assets and when restricted funds are not sufficient to meet the organization's requirements related to restricted contributions. The Board also thought that additional disclosure in this area would add more transparency to NFPO financial statements.

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

110 The AcSB considered this feedback and proposes an amendment to Section 4400 that would require 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 requirements. The Board discussed that an organization will need to use judgment in determining the assets available to meet its requirements relating to restricted contributions and endowments. The Board thinks that typically the assets available to meet requirements related to restricted contributions would include financial assets, but in some scenarios, there could be other assets such as inventory or capital assets. In addition, the Board recognizes that there may be different approaches to disclosing this information and that an organization should disclose it in a way that allows an organization to tell its story to the financial statement users. In doing so, an organization should disclose qualitative information that would allow a user to understand the process, judgments and other considerations the organization applied in preparing the disclosure. The Exposure Draft proposes new illustrative examples 4A and 4B in Section 4400, which includes two different approaches to the note disclosure.

Restricted cash

111 CASH FLOW STATEMENT, Section 1540, in Part II of the Handbook, requires enterprises to disclose the amount of cash and cash equivalents for which use is restricted.

112 Most respondents to the Consultation Paper disclose restricted cash and cash equivalents. However, respondents noted that there is diversity in practice regarding the way in which NFPOs identify and disclose restricted cash. Respondents also noted that the current disclosure requirements in Section 1540 apply to cash and cash equivalents. However, it is useful for financial statement users to understand any externally or internally imposed restrictions on investments and the nature of the restrictions.

113 As discussed above, the Exposure Draft proposes amendments to Section 4400 that would require disclosure of information about an organization's requirements related to restricted contributions and the assets available to meet those requirements. In addition to quantitative information, qualitative information may be disclosed. The Board discussed that depending on the nature of the organization and how it presents its balance sheet, judgment will be needed in determining the nature and extent of disclosure. The Board thinks that this note disclosure would convey to financial statement users any assets, including cash, cash equivalents and/or investments that are restricted. Accordingly, additional disclosure requirements specifically for restricted cash have not been proposed.

Transition

114 The AcSB proposes that proposed Section 4411 and proposed amendments to Section 4400 be applied retrospectively. In making this decision, the Board notes that NFPOs currently have an

accounting policy choice for the recognition of restricted contributions. As such, retrospective application of the proposals is important to ensure the comparability of NFPO financial statements, both across organizations and in comparing the period-over-period results of the same organization in the year of initial application.

115 The AcSB acknowledges that retrospective application of the new requirements for capital asset contributions, which require all organizations to defer recognition of depreciable capital asset contributions over the asset's useful life, will be a significant change for NFPOs that previously applied the restricted fund method. The information needed to apply the proposed requirements to capital asset contributions may not be readily available for such entities – particularly for contributed assets with long useful lives, such as buildings. Accordingly, the Board proposes to provide optional transition relief that would allow NFPOs not to apply the proposals to capital asset contributions that had been recognized in full prior to the beginning of the earliest period presented under the new and amended standards.

116 The AcSB considered whether additional transitional relief is required for other types of contributions, including restricted contributions. All NFPOs are expected to incur costs on transition to consider how the new requirements apply to their existing contributions, but NFPOs that previously applied the restricted fund method are likely to be most impacted. However, the Not-for-Profit Advisory Committee recommended that transitional relief was not required for other types of contributions. While some information will be required to determine the transition adjustments, Committee members thought this information would be available, as many contribution agreements do not extend beyond a few years. In addition, when the resources are still restricted, the Committee thought the organization would have the information available to adjust retrospectively, as the restriction represents a commitment that the organization has, and it should therefore be aware of it. Accordingly, the Committee thought the benefit of full retrospective application for restricted contributions would outweigh the cost of gathering and analyzing the required information.

117 The AcSB also considered whether transition relief was needed relating to the amendments to Section 4400, particularly related to presentation of the comparative period when fund accounting presentation is used. The Board noted that the proposals related to recognition of revenue may require an organization to reconsider the funds that it has previously reported. For example, under the proposals an organization may no longer have a restricted fund on its statement of operations because restricted contributions are deferred and recognized in revenue once the restriction is met. The Board thought that the presentation of the comparative period when fund accounting presentation is used would be useful to financial statement users and decided therefore not to propose any additional transition relief.

Effective date

118 Selecting an effective date for amendments is an important step in the AcSB's due process. Considering the proposed transitional provisions, the Board thinks that the proposed effective date (fiscal years beginning on or after January 1, 2026) will provide NFPOs sufficient time to implement the proposals. The proposals will also allow for earlier application, provided proposed Section 4411 and the proposed amendments to Section 4400 are applied at the same time.