International Financial Reporting for Non Profit Organizations

Technical Advisory Group

AGENDA ITEM: TAGCP01-9
October 3-4, 2019 - London, United Kingdom

Specific Issue – Restricted Funds (donations without stipulations)

Summary	Accounting for donations with stipulations, (conditions or restrictions) has been identified as a specific issue for the not-for profit sector. This paper brings together material gathered from previous input via IFASS and the 2014 CCAB report.
Purpose/Objective of the paper	To allow TAG members to consider the nature of the issue, the completeness of information about the issue and potential ways forward.
Other supporting items	TAGCP01 – 06 Approach to the Consultation Paper Development.
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Actions for this meeting	Advise on: • The description of the issue • The list of options to address the issue • Links to other international standard development, national standards or other guidance • The need for any further input

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Specific Issue – Restricted Funds (Donations with stipulations)

1. Description of the issue

1.1 NPOs are often the beneficiaries of donations with stipulations, conditions or restrictions. There are potential differences in how such stipulations are treated and how such constraints are presented in financial statements.

1.2 Such donations give rise to accounting issues regarding the presentation of information about assets that have stipulations within the financial statements and also the timing of recognition of the donations where conditions have to be met. These issues were both raised in section 2.5.1 of the 2014 CCAB[1] report.

1.3 Paper 10, which considers issues associated with donated capital assets, also raises the issue of the presentation of donated assets that have restrictions or conditions.

2. Current status

2.1 As part of the work performed by the IFASS Working Group, information has been collected about the accounting recognition, measurement and disclosure requirements of a number of jurisdictions. Annex A contains a summary of the positions in Australia, New Zealand, the USA, Canada and the UK. This includes references to specific standards/guidance and where they exist illustrative guidance. The feedback gathered covers a mix of guidance relating to stipulations and recognition points. The data gathered so far, set out below, does not as yet provide a comprehensive picture.

USA

2.2 In the USA, contributions received by NFPs are reported as restricted or unrestricted support. Until 2017, three classes of net assets were required: contributions received with permanent restrictions, temporary restrictions, or unrestricted. The classification of temporary restrictions was removed in response to changes in state laws and also to reduce complexity and improve understandability.

[1] CCAB – International financial reporting for the not-for-profit sector - http://www.ccab.org.uk/documents/IFRNPO-FullReport-Final-07022014.pdf

2.3 Under the three class guidance, if a contribution had a time or purpose restriction that was temporary in nature, it was recorded in temporary restricted net assets. When the purpose had been satisfied or time had passed, there was a reclassification from temporary to unrestricted net assets.

2.4 Donor-restricted contributions are reported as restricted revenue or gains (restricted support), which increase restricted net assets depending on the type of restriction. An NFP recognises the expiration of a donor-imposed restriction on a contribution in the period in which the restriction expires. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

2.5 More recently, guidance has been issued that includes the use of indicators that go to the inclusion of a measurable barrier (whether or not performance related), the extent to which stipulations limit discretion by the recipient on the conduct of an activity and whether a stipulation is related to the purpose of an agreement. Implementation guidance within the standard is provided to help distinguish between donor-imposed conditions and donor-imposed restrictions.

Australia

2.6 In Australia, AASB 1058 *Income of Not-for-Profit Entities* paragraph 10 requires that an entity shall recognise income immediately in profit or loss for the excess of the initial carrying amount of an asset over any 'related amounts' as set out in AASB 1058 paragraph 9 (contributions by owners, increases in liabilities, decreases in assets, and revenue), except for when a financial asset has been transferred for the purpose of an entity acquiring or constructing a recognisable non-financial asset that is to be controlled by the entity.

2.7 If the grantor's stipulations on how the revenue should be spent are sufficiently specific and enforceable to fall within the scope of AASB 15 *Revenue from Contracts with Customers* (IFRS 15), then the revenue shall be accounted for in accordance AASB 15 and recognised when the performance obligations are fulfilled.

UK

2.8 In the UK, income received where the donor or grantor has stipulated how the funds should be spent will typically meet the criteria for 'restricted funds'[2]. Restrictions specify the purpose for which a charity can use the income received, and are made by the grant-maker or donor. A restriction may result from a specific appeal by the charity, or from the decision of the grant-maker or donor to support a specific purpose of the charity - rather than making funds available for the charity's general use.

2.9 In maintaining accounting records, the Charities SORP must separately identify each restricted fund and the income received and expenditure made from each restricted fund.

[2] Drawn from the UK Charities SORP.

Canada

2.10 In Canada, restrictions are defined in paragraph 2 of Section 4410 *Contributions - Revenue Recognition* of the CICA Handbook. A restricted contribution is defined 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."

2.11 An endowment contribution is defined 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."

New Zealand

2.12 In New Zealand Tier[3] 1 and Tier 2 bodies need to determine whether the stipulation is a restriction or condition. Restrictions on transferred assets do not include a requirement that the transferred asset, or other future economic benefits or service potential, is to be returned to the transferor if the asset is not deployed as specified. Therefore, gaining control of an asset subject to a restriction does not impose on the recipient a present obligation to transfer future economic benefits or service potential to third parties when control of the asset is initially gained.

2.13 Conditions on transferred assets require that the entity to either consume the future economic benefits or service potential of the asset as specified, or return future economic benefits or service potential to the transferor in the event that the conditions are breached. When a recipient initially recognises an asset that is subject to a condition, the recipient also incurs a liability.

2.14 For Tier 3 bodies, where revenue has conditions attached, it is necessary to determine whether those conditions lead to a liability. Revenue that has a "use or return" condition, shall initially be recorded as a liability until the condition has been met, at which point the revenue shall then be recorded.

France

2.15 In France donations are recognised as revenue on receipt. If the revenue is for a specific project and has not been totally used by the end of the financial year, it is deferred and recorded as a liability ('dedicated fund'). The deferred income is recognised as revenue in the period in which the corresponding expenses are incurred in carrying out the specific project.

Question 1: Does this accurately record the current state of standards / guidance issued? Is the TAG aware of any other guidance on accounting for restricted funds (donations with stipulations) issued by national standard setters or other regulatory bodies?

[3] Tiers are used in New Zealand and set with reference to the nature and size of an organisation

3. IPSAS and current developments

3.1 As noted in Papers 8 and 10, the accounting guidance for donated assets is set out in IPSAS 23 *Revenue from non-exchange transactions*. Paragraphs 14-25 consider the nature of stipulations, conditions and restrictions in relation to transferred/donated assets and also substance over form.

3.2 These paragraphs state that goods in-kind are recognised as assets when the goods are received, or there is a binding arrangement to receive the goods. They also state that if there are no stipulations in relation to the asset then revenue is recognised immediately, but if there are conditions, these are to be recognised as a liability, with the liability reduced and revenue recognised as the conditions are satisfied.

3.3 IPSAS 23 says that if an entity has not satisfied all of the present obligations related to a transfer, an asset and revenue are recognised to the extent that a liability is not also recognised and a liability to the extent that the present obligations have not been satisfied. The Standard also says that the timing of revenue recognition is determined by the nature of the conditions and their settlement.

3.4 IPSASB is currently viewing its standards on revenue including revenue from non-exchange transactions following the issue of *IFRS15 Revenue from Contracts with Customers*. The current IPSAS exchange revenue standards (*IPSAS 9, Revenue from Exchange Transactions and IPSAS 11, Construction Contracts*) are aligned with IASB standards that have been superseded by the publication of *IFRS 15 Revenue from Contracts with Customers*. This is providing the IPSASB with an opportunity to replace these standards. In addition, the approaches in IFRS 15, alongside stakeholder feedback, have acted as an impetus for the IPSASB to consider its approach to non-exchange revenue transactions and to address practical issues that have emerged in the application of IPSAS 23.

3.5 IPSASB issued a Consultation Paper relating to revenues and non-exchange expenses in 2017, which raised questions about the current treatment in IPSAS 23 and whether it should be retained or amended. IPSASB is currently scheduled to issue its Exposure Draft in Quarter 1 2020. Donations and related disclosures are being considered as part this Exposure Draft. Currently, IPSASB is considering the nature of performance obligations in the public sector and the impact on the timing of revenue recognition if there is a binding arrangement as well as present obligations, rather than performance obligations, or if there is no binding arrangement IPSASB's proposals in this respect could well have an impact on donations with stipulations.

Question 2: What is the TAG's view about the extent to which the current developments might aid the discussion or resolve the issue? How should this be reflected in the Consultation Paper?

4. Options

4.1 There appears to be consensus about the definition and associated recognition of donations. The jurisdictions included within this paper have accounting standards or guidance that appear to be consistent with the following:

'Donations satisfy the definition of an asset when the entity controls the resources as a result of a past event and expects to receive future economic benefit or service potential from those resources'

'Donations satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. Donations should be recorded at fair value at date of receipt of control'

4.2 As a consequence it is proposed that these definitions/criteria are used in relation to the recognition of donations.

Question 3: What is the TAG's view on the definitions/criteria for recognition?

4.3 As noted in Paper 10 there are some differences across jurisdictions in how references are made to stipulations, conditions and restrictions.

4.4 Drawing on the definitions used in IPSAS 23[4] (paragraphs 14-25), stipulations refer to the imposition of terms on the use of a transferred asset, normally how the asset may be used, and may lead the entity to act or perform in a particular way. As such stipulations may either be conditions or restrictions.

4.5 Conditions require an entity to consume the future economic benefits or service potential of an asset as specified. Failure to do so (breach) requires the return of future economic benefits or service potential to the transferor. As a consequence the recipient incurs a present obligation to transfer future economic benefits on receipt of the asset and a resultant liability.

4.6 Restrictions do not include a requirement that the transferred asset or other future economic benefits or service potential is returned to the transferor if the asset is not deployed as specified. As a consequence there is no present obligation and therefore no liability on transfer of the asset to the recipient.

4.7 The existence of such stipulations goes to the heart of the issues about timing of revenue recognition and presentation of financial information. Paper 10 sets out two options for the presentation of donated capital assets. These options can be applied more generically to donations with stipulations and as a consequence are set out in options 4 and 5 below. A further option is included in this issue paper to provide a more granular presentation on the face of revenue and expenditure statements.

4.8 Whilst presentation issues have been included in both this paper and Paper 10, it is proposed that in the Consultation Paper, presentation of financial statements is addressed as a separate topic.

[4] https://www.ifac.org/system/files/publications/files/IPSASB-HandBook-2018-Volume-1.pdf

4.9 As regards the timing of revenue recognition, three options (1-3) are presented that reflect to greater or lesser extents the current treatment in jurisdictions. Option 1 is specifically based on IFRS 15 and the other two options although related do not draw on this specifically. Annex B summarises how the proposed options fit with current data held.

Option 1: Recognise donations in accordance with IFRS 15 *Revenue from Contracts with Customers* with further guidance about performance obligations in the context of NPOs, and with revenue recognised as performance obligations are fulfilled.

Option 2: Recognise revenue in the period in which the corresponding expenses are incurred, where the revenue relates to carrying out a specific project, otherwise recognise on receipt.

Option 3: Recognise revenue to the extent that a liability is not also recognised and a liability to the extent that the present obligations have not been satisfied, with the timing of revenue recognition to be determined by the nature of the conditions and their settlement.

Option 4: Do not separate donations between those that have restrictions or conditions and those that are unrestricted on the face of the financial statements and rely on disclosures in the notes to the accounts.

Option 5: Separate donations between those that have been made with restrictions or conditions and those that are unrestricted on the face of the financial statements and the related notes.

Option 6: As option 5 with further disclosures made on the face of revenue and expenditure statements to show the amounts of income and expenses for each restricted fund or class of restricted funds and the movements in the year.

Question 3: Does the TAG agree that the above options should be included in the Consultation Paper with presentation issues being dealt with as a separate topic?

5. Next steps

5.1 To ensure that the Consultation Paper most accurately reflects the issues being experienced globally on accounting for volunteer time, further input may be required to ensure that the issue has been correctly defined.

5.2 The options have been drawn from a limited number of jurisdictions and these may not be representative of accounting treatments embedded in standards and guidance across the world. Further information may be required to test that the agreed options take account of the issues experienced across a wider set of jurisdictions.

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Question 4: What specific input should be sought from the PAG about the issue definition and proposed options?

September 2019

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Annex A - Donor/grantor stipulations on how the revenue should be spent

Canada	**New Zealand**	**United Kingdom**	**USA**	**Australia**
Private Sector NFPOs This is covered in paragraphs 6-9 of Section 4410 Contributions- Revenue Recognition (*see attached Section*) Restrictions are defined in paragraph 2 of Section 4410 as "stipulations imposed that specify how resources must be used". A restricted contribution is defined 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." An endowment contribution is defined 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."	**Tier 1 and Tier 2 PBE Standards** Need to determine whether the stipulation is a restriction or condition. Restrictions on transferred assets do not include a requirement that the transferred asset, or other future economic benefits or service potential, is to be returned to the transferor if the asset is not deployed as specified. Therefore, gaining control of an asset subject to a restriction does not impose on the recipient a present obligation to transfer future economic benefits or service potential to third parties when control of the asset is initially gained. Conditions on transferred assets require that the entity either consume the future economic benefits or service potential of the asset as specified, or return future economic benefits or service potential to the transferor in the event that the conditions are breached. When a recipient initially recognises an asset that is subject to a condition, the recipient also	Income received where the donor or grantor has stipulated how the funds should be spent will typically meet the criteria for 'restricted funds'. Restrictions specify the purpose for which the charity can use the income received, and are made by the grant-maker or donor. A restriction may result from a specific appeal by the charity, or from the decision of the grant-maker or donor to support a specific purpose of the charity - rather than making funds available for the charity's general use. In maintaining their accounting records, charities must separately identify each restricted fund and the income received and expenditure made from each restricted fund. This is covered in paragraphs 2.8 and 5.6 of [SORP (FRS 102)] An example of how this is	Contributions received by NFPs are reported as restricted or unrestricted support. Currently, there are 3 classes of net assets: contributions received with permanent restrictions, temporary restrictions, or unrestricted (ASC 958-605-45-3). If a contribution has a time or purpose restriction that is temporary in nature, it is recorded in temporarily restricted net assets as illustrated by the definition of temporarily restricted assets in ASC 958-205-20. Donor-restricted contributions are reported as restricted revenue or gains (restricted support), which increase temporarily or permanently restricted net assets depending on the type of restriction (ASC 958-225-45-6). When the purpose has been satisfied or time has passed, there is a reclassification from temporarily to unrestricted net assets. Pursuant to ASC 958-205-45-9, an NFP recognizes the expiration of	[AASB 1058] paragraph 10 requires that an entity shall recognise income immediately in profit or loss for the excess of the initial carrying amount of an asset over any 'related amounts' as set out in AASB 1058 paragraph 9 (contributions by owners, increases in liabilities, decreases in assets, and revenue), except for when a financial asset has been transferred for the purpose of an entity acquiring or constructing a recognisable non-financial asset that is to be controlled by the entity. If the grantor's stipulations on how the revenue should be spent are sufficiently specific and enforceable to fall within the scope of AASB 15 Revenue from Contracts with Customers (IFRS 15), then the revenue shall be accounted for in accordance AASB 15 and recognised when the performance obligations are fulfilled. Illustrative Examples 6 to 8

Public Sector NFPOs The guidance under PSA Handbook – Not-for-Profit ("NFP") Accounting sections (Sections PS 4200 to PS 4270) is similar to Part III of the CPA Handbook. For Government Not-for-profit Organizations that do not follow the NFP specific sections, the guidance is different.	incurs a liability. Please refer to PBE IPSAS 23 for requirements. **Tier 3 Simple Format Reporting Standard – Accrual (NFP)** Where revenue has conditions attached, it is necessary to determine whether those conditions lead to a liability. Revenue that has a "use or return" condition, shall initially be recorded as a liability until the condition has been met, at which point the revenue shall then be recorded. This is covered under paragraph A62-A67 of Public Benefit Entity Simple Format Reporting – Accrual (Not-for-profit).	accounted for in a set of example accounts can be found in Page 19 [Note 1(h)] and Page 32 [Note 25] in the following set of accounts: http://www.charitysorp.org/media/632825/arts_theatre_trust_frs102.pdf	a donor-imposed restriction on a contribution in the period in which the restriction expires. A restriction expires when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. An example of this reclassification can be found in ASC 958-205-55-10. An example of a reclassification from temporarily restricted to unrestricted net assets can be found in ASC 958-205-45-10 and ASC 958-20-55 paragraphs 3-7. Examples of illustrative financial statements reflecting the three net asset classifications can be found in ASC 958-205-55 paragraphs 2-5. Effective fiscal years beginning after December 15, 2017, net assets will be reported in two groups: net assets with donor restrictions and net assets without donor restrictions (ASC 958-205-45-2) In accordance with ASC 958-225-45-7, expenses are reported as decreases in unrestricted net assets on the statement of activities.	of AASB 1058 gives an example.

			Implementation guidance related to distinguishing between donor-imposed conditions and donor-imposed restrictions can be found in ASC 958-605-55 paragraphs 15-17. ***All Codification references mentioned below can be found by clicking here and creating a basic account***	

Annex B – Restricted Funds (Donations with stipulations) - Analysis to support options[1]

	UK	Australia	New Zealand	Canada	USA	IPSASB
Recognition timing						
Option 1: Recognise donations in accordance with IFRS 15 *Revenue from Contracts with Customers* with further guidance about performance obligations in the context of NPOs, with revenue recognised as performance obligations are fulfilled.		If grantor's stipulations are sufficiently specific, they may fall within the scope of AASB 15 *Revenue from contracts with customers*				
Option 2: Recognise revenue in the period in which the corresponding expenses are incurred, where the revenue relates to carrying out a specific project, otherwise recognise on receipt.				As an accounting policy. restricted contribution related to expenses of future periods can be deferred and recognised in the period of the related expenses		

[1] Except for IPSAS analysis is based on data provided to the IFASS working group, which may as yet not address all the points

Option 3: Recognise revenue to the extent that a liability is not also recognised and a liability to the extent that the present obligations have not been satisfied, with the timing of revenue recognition to be determined by the nature of the conditions and their settlement.	A grant that is subject to performance-related conditions is accounted for as deferred income and released as conditions are met		Where a donation has conditions attached a liability is recognised for the unexpired present obligation		An NFP recognizes the expiration of a donor-imposed restriction in the period in which the restriction expires	Where a donation has conditions attached a liability is recognised for the unexpired present obligation
Presentation						
Option 4: Separate donations between those that have been made with restrictions or conditions and those that are unrestricted on the face of the financial statements and the related notes.				Required to present net assets split between restricted and unrestricted and net assets subject to restrictions requiring they be maintained permanently as endowments	US Standards require separation of restricted assets	
Option 5: Do not separate donations between those that have restrictions or conditions and unrestricted on the face of the financial statements and rely on disclosures in the notes to the accounts.		Sector neutral approach does not require a split				

Option 6: As option 4 with further disclosures made on the face of the operating statement to show the amounts of income and expenses for each restricted fund or class of restricted funds and the movements in the year.	Required per the UK Charities SORP					