MNP LLP

December 15, 2020

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

Dear Ms. Khalilieh:

Re: Contributions – Revenue Recognition and Related Matters

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

We have reviewed the Consultation Paper issued by the AcSB and set out below our response.

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

We are not aware of any such circumstances.

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

We are not aware of any such issues.

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

Occasionally the terms of a funding agreement may be vague, for example the specific nature of expenses for which the funds can be used, or the time frame, may not be clear. An increased application of professional judgment is required to adequately understand the restrictions of the contribution and assess whether these restrictions are specific enough to result in a deferral or are broad in relation to the nature of the organization and its environment (s.4410.07). Furthermore, a contribution may not be wholly relevant to a particular restricted fund, as some contributions may be permitted to be utilized for purposes which relate to multiple funds (i.e., permitted expenses fall within the general fund in addition to various restricted funds; however, the proportion of funds to be spent in each fund is not dictated by the funding agreement).

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

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

In our response to Question 3 we described the difficulties in assessing an internal versus external restriction. In some cases, an argument is raised that no external restriction exists if the NFPO is not legally obligated to use the funds for the purpose which was communicated to the donor at the time of receipt. In these situations, we would refer to Section 1001.30, which states that a liability need not be legally enforceable and can be based on equitable or constructive obligations. That is, if an NFPO has solicited funds to be used for a specific purpose (by way of messaging on its website or advertisements for a particular fundraising drive), and donors have provided funds under this context, there is a reasonable expectation by the donor that their contribution will be used for the communicated purpose and an external restriction exists.

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

We believe that a restricted contribution approach, providing information about the restrictions on the NFPO's ability to exert discretion in the use of the contributed funds is the most decision-useful information for financial statement users.

As noted in our response to Question 3, generally when difficulties arise in assessing recognition timing of restricted contributions, the difficulties relate to determining whether a restriction exists and, if so, whether it has been satisfied. Section 1001 provides limited guidance on recognition of revenue, which we do not believe addresses the difficulties expressed in our response to Question 3. Specifically, s.1001.42 recognizes revenue when performance is achieved, and reasonable assurance of measurement and collectability of consideration exists. Section 1001.43 states that restricted contributions are recognized based on the nature of the related restriction.

There are significant inherent differences between a reciprocal revenue transaction (in which the entity earning the revenue must meet performance conditions to the benefit of the party making payment) and a non-reciprocal contribution transaction (in which the contributor's concern is that funds are used for the purposes the contributor intended them to be used for). We believe restricted contribution recognition requirements under a deferral method would best meet financial statement user and preparer needs if it is focused on guidance which follows current deferral methodology and helps to establish when a restriction exists and when a restriction is satisfied (i.e., further guidance on broad vs. specific restrictions).

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

We have not identified any other aspects of accounting for restricted contributions for which we need to refer to the definitions of assets and liabilities.

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

We have not identified any additional characteristics of contributions which are relevant when considering when to recognize a contribution as revenue.

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

We believe that the two accounting policy choices currently available for restricted contributions do consider important characteristics of the contribution (type and nature of contribution, and the time or purpose requirements imposed) and provide decision-useful information needed by NFPO financial statement users.

In theory, a single accounting approach would allow for comparability of NFPO financial statements, which, under the current methods (restricted fund vs. deferral method) could look drastically different. Most financial statement users do not fully understand the different accounting policy choices and how to reconcile between two sets of financial statements using the different options.

However, given the unique individual needs of NFPOs and their funders, strong arguments have been raised by NFPO financial statement users and preparers in support of each method, indicative of a preference to continue with an accounting policy choice which allows each individual NFPO to choose the most appropriate method for its financial statement users.

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

If choosing to recognize contributions based on the characteristics of the contribution, we believe that the most relevant characteristics are the restrictions on the NFPO's ability to exercise discretion in the nature of expenditure it can utilize the funds for, and discretion over the timing of incurring the expenditure (i.e., type and nature of contribution, and time or purpose requirements). As discussed in our response to Question 5, we believe contributors are most concerned with whether the funds donated have been used for the purpose the contributor intended.

As discussed in our response to Question 33, we believe current guidance doesn't adequately address how the frequency of the contribution (one-time payment versus series of payments) impacts the timing of contribution recognition. Therefore, we agree that the frequency of a contribution is a key characteristic that should be considered when recognizing contribution revenue.

We do not believe that the refundability of the contribution is a key consideration in contribution recognition timing. Contributors to NFPOs are generally not expecting to have amounts refunded; rather, they are expecting the amounts to be used for the specified purpose. If the amounts have not been used for the specified purpose or within the specified time period, there is generally an expectation that the NFPO and contributor will come to an agreement on either an alternative use or timing of use.

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

Some NFPOs choose to apply the restricted fund method as the timing of when a contribution is received, or receivable, is most important for purposes of presenting revenue in the financial statements. Fund raising is a key performance indicator for many NFPOs as to whether they have achieved their goals for a period (fundraisers, pledge drives, and giving campaigns all generally have a target donations threshold).

These NFPOs have assessed that their users benefit from being presented with total inflows of contributions (and contributions receivable) as revenue, with the subsequent management of the restrictions over the contributed funds being best represented by the unspent surplus that is managed in each restricted fund.

However, one of the most substantial issues causing confusion amongst preparers and users of NFPO financial statements is that, when applying the restricted fund method, contributions which do not fall within a particular restricted fund, but which have restrictions, are recognized as a deferred liability in the general fund until the restrictions are met. This results in an inconsistent timing of revenue recognition within the same set of financial statements. This issue could be resolved through requiring an NFPO applying the restricted fund method to recognize only non-restricted contributions in the general fund, and to create a fund for “other restricted contributions” to recognize (with appropriate disclosure to the extent of materiality requirements) the many one-off or smaller restricted contributions which do not get reported in their own separate restricted fund.

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

In Example 2, there are no restrictions on the use of the funds once received. In assessing whether the criteria in Section 4420.03 to accrue a receivable have been met (amount can be reasonably estimated, and collection reasonably assured), the Section provides limited guidance. In this example, Approach B would appear to provide the most decision-useful information to users. At year-end the NFPO knows with certainty that it has met the donor’s criteria which were outside its control (dollar-for-dollar amount and number of individual donors). Given the limited fact pattern, the criteria which is within the NFPO’s control (audit requirement) is not a significant hurdle to overcome, and at year-end it would be reasonably certain the NFPO will comply with this requirement and ultimately collect the contribution from the donor which was pledged before year-end. Generally, when a fundraising campaign has secured such a matching donor, this fact is utilized in deriving contributions from the general public during the campaign. Such public contributors who subsequently read the financial statements of the NFPO would benefit from seeing their contribution along with the matching donor funding in the same fiscal period.

This analysis presumes that at December 31st it is also reasonably certain the donor will follow through with the pledge, that the NFPO has maintained appropriate audit documentation to permit an audit to be conducted, and that the NFPO has the means to engage an auditor. For example, numerous NFPOs receive periodic funding from a contributor with restrictions on nature and timing of use, in addition to a requirement to provide the funder with audited financial information as to the use of the funds. In these cases, the audit requirement is technically a requirement on use of the funds; however, NFPOs recognize the revenue in accordance the nature and timing of expenditures, not based on timing of having the audit on use of expenditures conducted.

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

We agree that the dollar-for-dollar funding should be accrued as donations are raised, up to the maximum. Each time a donation is received, as discussed in our response to Question 11, there is reasonably certainty of collection of the corresponding matching dollar-for-dollar donation. We do not believe it would be appropriate to recognize the $10,000 amount on a progress basis as individual donations come in. Each of the first 499 separate donations do not provide reasonable certainty that the 500th separate donation will be received. The NFPO has no control over how many separate donations it receives, therefore, until the 500th separate donation is received there is insufficient certainty on the collection of the $10,000 to accrue any portion of it.

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

We have various clients that recognize contributed materials and/or services. Typically, these are measured at fair value, where materials and/or services can typically be linked to an invoice, quote or market price that supports the value of said materials and/or service. For those that don't recognize contributed materials and/or services, the reasons are primarily due to onerous nature of tracking volunteer time, or an inability to determine fair value of a material or service.

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

Current disclosures are adequate (i.e., accounting policy, nature and amount of contributed materials and/or services recognized in the financial statements). However, disclosure of how fair value was determined could be beneficial to financial statement users. For example, in many routine situations we would expect such methodology to be consistent amongst NFPOs; however, in situations where significant estimation uncertainty exists, this fact and the estimation methodology would be useful to financial statement users.

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

In theory, disclosure of the nature and amount of the contributed materials and services would be useful to users as it provides information about the amount of operations for which the NFPO did not have to use cash or funds. However, this information may be difficult or onerous for some NFPOs to track. Therefore, limiting disclosure requirements to the nature of donations for which recognition has not occurred would provide balance between user information needs and financial reporting effort.

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

We agree with Section 4410.35, that the deferral of contributions restricted for the purchase of capital assets that will be amortized provides an appropriate means to match such contributions with the benefits provided by the capital assets acquired. Financial statement users are concerned with an NFPO's ability to use their capital assets to perform services. Reflecting the capital contributions and expense of capital assets with concurrent timing provides this decision-useful information to users. Contributors may also be concerned with the expenditure of the contributed funds. However, we do not believe that the large operating surplus that would result from recognizing revenue on acquisition of the capital asset would provide decision-useful information. The information pertaining to the timing of the acquisition of the capital asset is provided to users in the statement of cash flows, changes in net assets and note disclosures.

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

Please refer to our response to Question 16 for additional context. We agree with Section 4410.35 that when a capital asset will not be subject to amortization because it has an unlimited useful life, it is not possible to match the contribution with the benefits provided since these benefits are unlimited.

Therefore, we agree that contributions restricted for the purchase of capital assets that will not be amortized should be recognized as direct increases in net assets. This method allows the financial statements to present the asset on the statement of financial position, while not impairing a user's understanding of current year operations by excluding the inflow from current year income. The magnitude of donations of this kind are adequately presented to users in the statement of changes in net assets.

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

The current methods for recognizing capital asset contributions are appropriate and provide sufficient decision-useful information to the users of the financial statements.

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

The current methods for recognizing capital asset contributions are appropriate.

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

Endowments are uncommon within our client base. More typically, we have seen clients with investments that are required to be held in perpetuity to generate investment income. We have not noted any specific circumstances in which it is difficult to determine whether a restricted contribution is an endowment.

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

In theory, as endowment funds are not available for use, presenting them as a direct increase in net assets will provide decision-useful information to users that the organization has those assets, but those inflows are not a current period revenue available to cover expenses. However, in practice, the flexibility of an accounting policy choice (i.e., reporting endowments as revenue in an endowment fund) should be maintained. As described in our response to Question 10, this alternative method also provides decision-useful information.

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

As described in our response to Question 10, the flexibility of an accounting policy choice should be maintained. One method does not necessarily provide more reliable or relevant decision-useful information than the other, as this determination would be highly dependent on the NFPO's nature, extent of operations and financial statement users' needs.

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

We have not identified any other methods for recognizing endowments we believe should be considered.

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

Generally, when we do encounter NFPOs with endowments, the endowment funds are held in a separate investment account from the NFPO's other investments, resulting in minimal effort to allocate income and costs to the endowment funds.

The difficulty and cost of tracking unrealized gains is largely dependant on the types of investments made by the NFPO and the reporting provided by the investment manager. In some scenarios where the investment statements indicate only a current market value and do not provide the original cost of the investments, the tracking can be onerous for the NFPO's accounting staff.

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

Other than the issues raised in the questions above, we have not frequently encountered any other issues in practice with accounting for endowments.

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

Some of our clients do recognize bequests while many others do not. NFPO clients who do not recognize bequests often lack the necessary information to assess bequests given that they are uncertain by nature. Significant judgement is required to assess a bequest, and we concur with the existing standard that in many cases, since the amount to be received and the timing of receipt is often uncertain, bequests may not meet the criteria to be recognized as a receivable and as such should be recognized as revenue when and if received.

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

Bequests by nature are significantly different than pledges. Bequests are often larger, infrequent, and the experience of one bequest does not necessarily translate to the next. For pledges, many NFPOs have significant experience in pledge drives – individual donations are relatively small per individual, and past pledge experience generally translates to the outcome of the current population of pledge receivables.

Bequests which indicate a certain percentage of an individual's estate will be donated have a large amount of uncertainty in determining the amount of the ultimate donation. Those which specify a dollar amount also have uncertainty in the amount that will be donated, as information regarding the available funds in the donor's estate and the priority of distribution may be unknown. Situations in which a bequest can arise may also be susceptible to legal dispute, creating further uncertainty regarding the amount and collectability of the contribution.

If an NFPO chooses to record bequests, we believe that the revenue recognition criteria for a bequest should follow the existing contributions receivable guidance. However, financial statement preparers and auditors would benefit from additional guidance as to the indicators to assess whether the amount and collectability are reasonably certain.

Given the complexity and the difficulty recognition of bequests creates for some NFPOs, it would be beneficial to provide an accounting policy choice to choose not to recognize bequests receivable. Instead, information could be disclosed about this policy choice and the information about bequests which is available to the NFPO, with recognition of bequest revenue occurring upon collection.

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

Current disclosures are adequate because they allow financial statement users to understand the nature and significance of these uncollected amounts to the organization's financial position.

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

Among our clients, other planned-giving instruments would include pledges discussed in the next section, and instances where an NFPO will be named as the beneficiary of a life insurance policy.

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

Some of our clients do recognize pledges while others do not. Because of the non-reciprocal nature of contributions, there may considerable uncertainty surrounding collectability.

Generally, NFPOs that recognize pledge receivables perform large pledge drives regularly and have historical experience to assess the ultimate collectability of the population of pledges. These NFPOs have fundraising targets and view the amount that was pledged in a certain period to be decision-useful information to users. When canvasing for pledges in the current year, it is beneficial for an NFPO to be able to present in its most recent financial statements the amount of pledges that resulted from the prior year's campaign.

For other NFPOs where pledges occur on a more ad-hoc basis, they do not have the resources nor historical trend or other information to track or adequately estimate collectability of pledges. Therefore, for these NFPOs, recognition of pledges would not be reliable information for financial statement users.

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

Please refer to our response for Question 30.

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

We understand that many, particularly small, NFPOs lack the resources to adequately track pledges.

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

Some larger NFPOs may have pledges which are received in monthly payments. Where the use of the funds is not restricted, a question arises as to timing of revenue recognition. For example, in a pledge drive two donors commit to a $120 donation each, one committing to mail in a cheque, the other donor opting for a $10 monthly direct debit over the next 12 months. Financial statement preparers would benefit from guidance which ties together Section 4420 and Section 4410. While a donation paid over time may have reasonably certain collection under Section 4420, is the agreed timing of donation an inherent restriction on the timing of its use under Section 4410?

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

As discussed in our response to Question 30, in practice it is more likely that it is useful for pledges to be recognized before they are received for larger NFPOs, that have the resources to track, and sufficient experience and expertise to assess, whether a pledge can be recognized. These larger NFPOs conduct large pledge drives and the amount pledged (if amount and collectability are reasonably certain) is decision-useful information for users of financial statements.

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

As pledges receivable are a significant estimate, in addition to the amount of assets and revenue recognized for pledges receivable, it would be useful to provide financial statement users with the details of the total amount of uncollected pledges in current year, the allowance for uncollectible pledges, and the amount of revenue/expense recognized in current year for the difference between the prior year's allowance and the ultimate collection.

Where an NFPO does not recognize pledges receivable, it would be useful to inform readers of financial statements that the NFPO recognizes pledges receivable when collected. However, as these NFPOs do not recognize pledges receivable due to the inherent uncertainty of them, the disclosure should not provide any amount of unrecognized pledges. Disclosure of total amount of unrecognized pledges without reliable information about the expected allowance for uncollectible pledges would be misleading to financial statement readers.

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

We concur with the position of the Advisory Committee and other stakeholders that removing the capital asset recognition exemption would disproportionately negatively impact smaller NFPOs that lack the resources to perform such a financial reporting analysis for their few assets.

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

The current disclosure requirements are sufficient.

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

The current revenue threshold is appropriate.

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

The current revenue threshold of $500,000 is appropriate. In practice, organizations that have proportionately more revenue are more likely to have more and/or complex assets for which recognition in the financial statements provides more useful information to financial statement users.

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

Most small NFPOs would apply the Sections prospectively, and not apply the option to make an adjustment to opening net assets at the date the Section is first applied. Some NFPOs however, may choose, and benefit from, the adjustment to opening net assets.

The choice made would depend on how material or significant to the entity the capital assets are, as well as the amount and reliability of information which is available. Lastly, the effort and resources available to the NFPO to compile the information would weigh into the decision.

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

The benefits and limitations of fund accounting presentation are discussed in Questions 42 and 43, respectively.

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

Fund accounting is most beneficial when an NFPO is operating significantly different programs or divisions and the presentation assists users in assessing the management and governance of those programs or divisions and stewardship over their assets. In many other cases, the use of fund accounting is driven by funders requesting the NFPO apply fund accounting for ease of the funder identifying the resources they have contributed and the use thereof separately from the remainder of the NFPOs operations.

Some financial statement users are interested only in segregation into funds on the statements of operations and changes in net assets, while others are also interested in information regarding fund segregation on the statement of financial position.

In instances where an NFPO does not have significantly different programs or divisions, or specific reporting requirements from funders, fund accounting is generally not utilized.

Therefore, we maintain that one method does not necessarily provide more useful information than the other, and as such the accounting policy choice should be maintained.

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

In practice, the most apparent challenge is assessing which aspects of the NFPO to aggregate into funds for financial statement presentation. Too many funds presented provides information overload for users and creates difficulty in assessing the overall position and performance of the NFPO, while too few funds does not provide financial statement users with the key segregations which governance and management of the NFPO use for key strategic decision making.

We agree with the current approach, whereby an organization self-assess which funds to present and which information to aggregate as the key factors in making such decisions can vary from NFPO to NFPO.

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

We believe that the current segregations provide decision-useful information regarding the governance of the NFPOs resources.

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

Financial statement users need to be able to understand the restrictions on use of the net assets which have been segregated into classes. This information is useful to determine an NFPO's ability to conduct its mandate in the future.

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

As described in our response to Question 42, depending on the nature of the NFPO and its financial statement user's need, segregating the balance sheet items by restriction, beyond the total restricted net assets in each category, would have a varying degree of importance. Where specific assets have specific restrictions, reconciliation may provide some added benefit to allow users to understand the restrictions on each specific asset. However, in practice, such reconciliation may not add sufficient value to the users' understanding of the financial statements in comparison to the added effort this will require in financial statement preparation.

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

Restricted cash and cash equivalents are disclosed when there is an external restriction on the use of the cash – for example, cash related to a deferred contribution liability, or to externally restricted net assets. In some cases, NFPOs also disclose the amount of cash and cash equivalents which is restricted for and supports the internally restricted net assets, such as internal reserve funds.

Restricted cash and cash equivalents may be distinguished through disclosure in the notes to the financial statements or presented as separate line items on the financial statements with appropriate note disclosure. The note disclosure which explains the restrictions on the cash provides reference to the additional information elsewhere in the financial statements relating to the restriction (e.g., deferred contribution liability disclosure, or the statement/schedule of net assets).

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

Information regarding the amount and nature of restrictions over cash and cash equivalents is useful for readers. Readers of financial statements are most concerned with external restrictions which the NFPO must follow. Readers would have a secondary concern with internal restrictions on cash and cash equivalents which, while they can be changed by the entity, are representative of the NFPO's goals and governance process.

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

Financial statement readers have the same concerns and information requirements for restricted investments as they do restricted cash and cash equivalents, as described in our responses to Questions 47 and 48. In addition, restricted investments are commonly in the form of endowments for which current disclosure requirements are appropriate. These disclosures provide users with information about the amount of restricted investments and the nature of the investment, which allows the user to assess how much income the restricted investment may expect to generate on an annual basis. This information helps users make decisions on how that income can be spent, and the quantity of other contributions the organization requires in the future.

We would be pleased to offer our assistance to the AcSB in further exploring issues raised in our response or in finding alternative solutions to meet financial statement users' needs.

MNP LLP is one of Canada's largest chartered professional accountancy and business advisory firms. Our clients include small to mid-size owner-managed businesses in agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, Indigenous, medical and legal professionals, not-for-profit organizations, municipalities and other public sector entities. In addition, our client base includes a sizable contingent of publicly traded companies.

Yours truly,

MNP LLP

Jody MacKenzie

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