Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Income of Not-for-Profit Entities**	**Meeting**	AASB August 2016 (M153)
Topic:	**Sweep issues – Potential AASB 10XX disclosures**	**Agenda Item:**	3.6.2
Contact(s):	Mark Shying mshying@aasb.gov.au (03) 9617 7645 Nikole Gyles ngyles@aasb.gov.au (03) 9617 7639	**Project Priority:** **Decision-Making:** **Project Status:**	High High Redeliberations

Introduction and objective of this paper

1 The objective of this paper is to seek the Board's decisions on disclosures to be included in AASB 10XX *Income of Not-for-Profit Entities*, in respect of:

(a) transfers of financial assets that must be used to acquire or construct a non-financial asset, and which must be refunded if not spent in the manner specified (referred to as 'capital grants' for the purposes of this paper);

(b) restrictions on an entity's use of an inflow of resources that it controls; and

(c) tax (non-contractual) receivables.

2 This paper is structured as follows:

(a) summary of staff recommendations (paragraph 3);

(b) tentative decisions from Board redeliberations (paragraphs 4-7);

(c) Issue 1 – Disclosure of information about capital grants (paragraphs 8-16);

(d) Issue 2 – Disclosure of information about restrictions (paragraphs 17-31);

(e) Issue 3 – Disclosure of information about tax (non-contractual) receivables (paragraphs 32-40); and

(f) Appendices A – C, which contain extracts from ED 260, AASB 15 and Standards from other jurisdictions.

Summary of staff recommendations

3 The staff recommendations are as follows:

Issue 1 – Disclosure of information about capital grants

Paragraphs 116(b), 119(a), 120(b), 123(a), 124 and 125 of AASB 15 should be incorporated into AASB 10XX, modified as appropriate to suit other requirements of AASB 10XX, to apply only to capital grants. In the main, these paragraphs would require an entity to provide information to enable a user to understand what obligations an entity has in relation to capital grants, and when the entity expects to satisfy those obligations.

Issue 2 – Disclosure of information about restrictions

The term 'restrictions' should not be defined in AASB 10XX.

AASB 10XX should include an encouragement for entities to disclose the amount of financial assets that are subject to restrictions and the nature of those restrictions.

Issue 3 – Disclosure of information about tax (non-contractual) receivables

(a) If non-contractual receivables are not to be treated subsequent to initial measurement and recognition as if financial assets – retain the disclosures in the draft AASB 10XX (paragraphs 41(a), 42(a) and 44); and

(b) If non-contractual receivables are to be treated subsequent to initial measurement and recognition as if financial assets:

   (i) delete the receivable disclosures in paragraph 42(a) but retain the income disclosures in paragraphs 41(a) and 44 of the draft AASB 10XX; and

   (ii) amend the draft AASB 10XX to specify that non-contractual receivables are to be treated as if they are financial assets for the purposes of other Australian Accounting Standards, noting that this means the disclosure requirements in AASB 7 apply in addition to the disclosure requirements in AASB 10XX.

Tentative decisions from Board redeliberations to date

4 Staff have reviewed all Board decisions in issuing ED 260 and in its redeliberations to date, including:

(a) the Board's decisions and proposals that:

   (i) AASB 10XX should not be closely based on IPSAS 23[1];

   (ii) AASB 10XX should apply to each inflow of a resource; and

   (iii) the structure of AASB 10XX should emphasise its interaction with AASB 15 *Revenue from Contracts with Customers* and other Standards; and

1 At an earlier stage of the Income of Not-for-Profit Entities project, the Board decided not to proceed with its proposals in ED 180 *Income from Non-exchange Transactions (Taxes and Transfers)*, which was closely based on IPSAS 23. ED 260 is consistent with that decision.

(iv) the general principles for the presentation of financial statements in AASB 101 *Presentation of Financial Statements* would be appropriate for the presentation of transactions within the scope of AASB 10XX; and

(b) the Board's tentative decision that the income recognition requirements in respect of a capital grant be specified by AASB 10XX, rather than AASB 15.

5 In addition, staff considered the disclosures specified by several other jurisdictions pertaining to income of not-for-profit entities (see Appendix C) for other disclosures that may be relevant to deciding which disclosure requirements to include in AASB 10XX.

6 Based on this analysis, staff have identified the three topics covered in this agenda paper for Board redeliberation on disclosures to be included in AASB 10XX. Disclosures pertaining to donated inventory, volunteer services and parliamentary appropriations are addressed in agenda papers 3.4, 3.5 and 3.6.1 respectively.

7 Staff did not identify any other disclosure areas for Board redeliberation.

Issue 1 – Disclosure of information about capital grants

8 ED 260 does not include any specific proposals related to capital grants. Accordingly, the general disclosure requirements of AASB 15, or AASB 10XX, would apply to such transfers.

9 At its June 2016 meeting, the Board considered the accounting treatment of a grant of cash that must be used to acquire or construct a non-financial asset, and which must be refunded if not spent in accordance with the terms of the arrangement (i.e. a capital grant). The Board noted it was unclear whether such grants would fall within the scope of AASB 15 (such that a contract liability, rather than revenue, would be recognised on initial recognition of the grant), or AASB 10XX, as some may argue there is no transfer of goods and services to a customer in such arrangements. Consequently, the Board tentatively decided that the income recognition requirements in respect of a capital grant should be specified by AASB 10XX, rather than AASB 15.[2]

10 The Board's tentative decision on the accounting treatment of capital grants did not address whether associated disclosure is warranted. Staff considered whether AASB 10XX should include any specific disclosure requirements for capital grants and observed the following may occur if no specific disclosures are included:

(a) there is likely to be diversity in the disclosures made of such grants, thereby reducing comparability; and

(b) a lack of guidance on disclosures to meet the disclosure objective may result in disclosures made not being sufficient to enable users of financial statements to

2 See Agenda Paper 2.1 *Draft Minutes of Meeting 21-22 June 2016*.

understand the effects of capital-grant inflows on the financial position, financial performance and cash flows of the entity.

11 Staff note that prior to the Board's tentative decision for AASB 10XX to specify the accounting for such grants, AASB 15 would have required information to be provided for such grants that were within its scope. Accordingly, staff think there is a potential disclosure gap in respect of such arrangements.

12 The draft AASB 10XX presently includes a disclosure requirement specific to capital grants, in paragraph 42(b). This requires disclosure of liabilities related to a transfer requiring the acquisition or construction of a non-financial asset.

Staff analysis

13 Staff reviewed the disclosures specified by other jurisdictions in respect of capital grants (see Appendix C). Staff note that as none of the IPSASB, New Zealand, or UK require similar reporting to the Board's tentative decision, the specific disclosure of such grants specified by these jurisdictions is limited to a requirement to disclose any unfulfilled conditions or other contingencies attaching to government grants that have been recognised in income (UK FRS 102, para 24.6).

14 To address the potential gap in disclosure of capital grants, staff think the Board could consider mirroring the disclosures specified by AASB 15 for contracts with customers, to the extent the disclosure is relevant to capital grants.

15 Staff considered the following options for achieving this:

Option 1 – AASB 10XX to require entities to present AASB 15 disclosures in respect of capital grants

Under this option, AASB 10XX would direct entities to apply the requirements of AASB 15 to capital grants, without specifying which AASB 15 disclosures are necessary.

The advantage of this option is that the finalised AASB 10XX would not replicate the required disclosures of AASB 15 and would not crowd AASB 10XX with disclosure requirements that apply only to capital grants.

One disadvantage of Option 1 is the language of the disclosures in AASB 15 is not entirely appropriate for NFP entities. Some of the language used in the disclosures in AASB 15 has a special meaning (e.g. contracts with customers and performance obligations) and is founded on the fact that there is a transfer of goods and services in a contract with customers. In its development of the accounting treatment for capital grants, the Board noted there are arguments that there is no transfer of goods and services in those arrangements. The implementation guidance to be added to AASB 15 via AASB 2016-X reflects these concerns over the relevance of some basic terminology in the Standard to NFP entities.

Option 2 – AASB 10XX to require disclosures for capital grants, equivalent to those in AASB 15

Under this option, paragraphs 116(b), 119(a), 120(b), 123(a), 124 and 125 of AASB 15[3] could be incorporated into AASB 10XX, modified as appropriate to suit other requirements of AASB 10XX. In the main, these paragraphs would require an entity to provide information to enable a user to understand what obligations an entity has in relation to capital grants, and when the entity expects to satisfy those obligations.

The advantage of Option 2 is that AASB 10XX would deal comprehensively with the recognition and measurement of and disclosures for capital grants using relevant language. A disadvantage of Option 2 is the crowding of the disclosures in AASB 10XX with disclosure requirements that apply only to capital grants.

Option 3 – Encourage entities to disclose specified information for such grants

Option 3 has the benefit of encouraging disclosures about capital grants that would enable a user to make informed judgements about the entity's capital grants. The disadvantage of Option 3 is that it reinforces a disclosure gap, as an encouragement to disclose information is different from a requirement to disclose information about capital grants (that would have been required had the Board decided that such grants were within the scope of AASB 15).

Option 4 – No additional disclosures necessary

Alternatively, Board members may consider that no additional disclosures are necessary, having regard to the extent of disclosures already specified by AASB 10XX (including paragraph 42(b)), and the general requirements for the presentation and disclosure of information in financial statements specified by AASB 101 *Presentation of Financial Statements* and AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

<u>Staff recommendation</u>

16 Staff support Option 2. Staff consider that Option 2 requires entities to provide comparable information about capital grants in a manner that is not burdensome for not-for-profit preparers.

Questions for Board members

Q1 Do Board members agree with the staff recommendation that AASB 10XX should specify additional disclosure requirements in respect of capital grants?

Q2 If the response to Q1 is yes, do Board members agree with the staff recommendation for AASB 10XX to include, as per Option 2, paragraphs 116(b), 119(a), 120(b), 123(a), 124 and 125 of AASB 15, modified as appropriate to suit other requirements of AASB 10XX, to apply only to capital grants?

3 Appendix B sets out all the requirements of AASB 15 for presentation and disclosure.

Issue 2 – Disclosure of information about restrictions

17 ED 260 did not include proposals for the definition or disclosure of restrictions on an entity's use of an inflow of a resource it controls. Staff note that the Board previously considered proposing disclosure of the amount of assets subject to restrictions imposed by regulation or other externally imposed requirements, but did not do so in ED 260.

18 In their submissions on ED 260, some constituents[4] asked that a final pronouncement require disclosure of restrictions on the use and purpose of the recognised inflow of resources (i.e. the asset). One constituent[5] noted that the terms of a bequest/donation to establish a perpetual endowment may include restrictions on the entity's use of the asset received, for example, the purpose to which those assets must be applied or the entity's ability to use the asset as security or to liquidate it. These constituents considered that the disclosure of restrictions is necessary to enable users of financial statements to understand the effects of inflows of resources on the financial position, financial performance and cash flows of the entity.

19 In July 2016, staff sought feedback from the Board's Income of Not-for-Profit Entities Project Advisory Panel members as to whether a final Standard should require the disclosure of information about the carrying amounts of assets subject to restrictions on their use. The Panel:

(a) discussed different types of restrictions, including restrictions on an entity's use of heritage assets;

(b) observed that a legal restriction on an entity's ability to access or move cash is already addressed in the disclosure requirements of AASB 107[6];

(c) noted that a definition of restrictions may be required to clarify what is a restriction. The general Panel position was that a restriction is an externally imposed restriction;

(d) noted that the approach adopted by some entities is to disclose restrictions on the inflow of cash recognised as income. Those entities disclose information about their income as being restricted or unrestricted and apply that approach to their disclosure of information about the equity section of the statement of financial position; and

(e) noted that understanding any externally imposed restrictions on the entity's use of its financial assets (stipulations imposed by the transferor) could be useful information for the users of financial statements and that preparers of financial statements could be encouraged to disclose that information. The Panel did not form a view whether an encouragement to disclose the information should be a general encouragement or whether a particular approach to making the disclosure should be identified.

4 Group of 8 CFOs and the Institute of Public Accountants (IPA)

5 IPA

6 AASB 107 *Statement of Cash Flows*, paragraph 48: "An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the group."

Current requirements – the disclosure of restrictions in other jurisdictions[7]

20 Staff considered the extent to which other jurisdictions specified disclosures of restrictions on the use of resources transferred to the entity, including whether the specified disclosure was described in relation to assets, income arising from the inflow of the asset, or the equity section of the statement of financial position.

21 Similar to AASB 107, IPSAS 2 *Cash Flow Statements* and NZ PBE IPSAS 2 contain requirements for the disclosure of restrictions on cash and cash equivalents. IPSAS 17 *Property, Plant and Equipment* and NZ PBE IPSAS 17 require, for a class of property, plant and equipment stated at revalued amounts, any restrictions on the distribution of the revaluation surplus. This is similar to AASB 116. Restrictions are not defined in these Standards.

22 IPSAS 23 *Revenue from Non-exchange Transactions (Taxes and Transfers)* and NZ PBE IPSAS 23 require disclosure of information about restrictions on transferred assets. Restrictions are defined for the purposes of this Standard.

23 The UK *Charities SORP* specifies disclosure of information about restrictions that relate to the inflow of the asset recognised as income. In the USA, the just-revised FASB Topic 958 *Not-for-Profit Entities* requires total net assets (operating surplus and reserves) to be divided between amounts with donor restrictions and those without. This has simplified the previous disclosure basis of unrestricted, temporarily restricted and permanently restricted funds.

Defining the term 'restrictions'

24 On review of the requirements in other jurisdictions, staff observe the term 'restrictions' is used in different ways:

(a) restrictions on transferred assets are stipulations that limit or direct the purpose for which an asset may be used, but without a return obligation if not deployed as specified (IPSAS 23 and NZ PBE IPSAS 23). Stipulations on transferred assets that include a return obligation if not deployed as specified are called 'conditions';

(b) in relation to funds held on specific trusts under charity law, which establish the purpose for which the funds can be used (the UK Charities SORP); and

(c) in relation to the statement of financial position, equity with donor restrictions and equity without donor restrictions (US FASB Topic 958).

25 The term 'restrictions' is not defined by IFRS or existing Australian Accounting Standards and the Board did not continue with an earlier proposal to define the term. Feedback from Panel members was that restrictions on financial assets are stipulations imposed by the transferor. Staff think this can be expressed in any disclosure requirements or encouragements that the Board might decide to include in the finalised AASB 10XX, without formally defining 'restriction'.

7 Appendix C to this paper includes the literature referred to here.

26 The disclosure of restrictions required by AASB 107 and AASB 116 are similar to the disclosures required by IPSAS 2, PBE IPSAS 2, IPSAS 17 and PBE IPSAS 17. AASB 116 addresses restrictions related to the revaluation surplus in the equity section of the statement of financial position. Staff are not aware of any ambiguity in the use of the term when applying AASB 107 or AASB 116. Therefore, one approach is not to define 'restrictions'.

27 If a definition of 'restrictions' is needed, then it could refer to stipulations imposed by the transferor that limit the purpose to which the entity can direct those assets or the entity's ability to use the assets.

Staff recommendation

28 The staff recommendation is that a definition of the term 'restrictions' should not be included in AASB 10XX. To do so at this stage of the process runs the risk of including a definition that is too limited in some way.

Questions for Board members

Q3 Do Board members agree with the staff recommendation that a definition of the term 'restrictions' should not be included in AASB 10XX?

Q4 If not, should the term be defined along the lines suggested in paragraph 27?

<u>Disclosure of restrictions</u>

29 Having regard to the feedback received from constituents and Panel members and on consideration of the disclosures specified in other jurisdictions, staff consider that AASB 10XX should specify disclosures about restrictions. Restrictions that are enforceable and sufficiently specific will have been recognised as performance obligation liabilities. The disclosure of restrictions could encompass such restrictions, for example in relation to the corresponding assets. The disclosure would address restrictions that do not result in liability recognition but bind the entity in some way (e.g. ethically or through its customary practice) to use the funds in the specified way or for the nominated purpose.

30 Staff have identified the following options for the disclosure of restrictions. The options for disclosure are presented as encouraged disclosures rather than as requirements, since it is very late in the process to be adding significant required disclosures into AASB 10XX. If the Board supports any disclosure as a requirement, additional due process may be necessary, for example to consider more carefully the expected costs and benefits of the requirement. Encouraged disclosures permit an entity to make its own assessment of the costs and benefits of providing the disclosure.

Option 1 – Do not require or encourage disclosure of restrictions

Whilst this approach is consistent with the approach taken in ED 260, it is not consistent with views expressed by constituents or the approach taken in some other jurisdictions. This option would miss the opportunity to at least encourage useful disclosures regarding restrictions on assets.

Option 2 – Encourage disclosure of the amount of financial assets recognised that are subject to restrictions

This alternative would provide users of the financial statements with some useful information about financial assets as a class. However, it would not give any indication of the nature of the restrictions, which could be important. Option 2 is limited in its scope and only partly consistent with the views expressed by constituents responding to ED 260.

It is not clear what financial assets would actually be subject to restrictions, once the inflow of resources has been recognised. The option also does not address whether non-financial assets have "restrictions" on their use. For example, if an entity receives cash to purchase an asset that is to be used to provide ongoing services, income might be recognised immediately, although the entity might consider that this increase in resources should be reflected over the life of the asset that is to be used to provide services. Once the cash has been spent, there are no longer "restrictions" on the entity's cash balances, but the entity could consider that it has restrictions on the profits from the acquired asset.

Limiting restriction disclosures to financial assets also may not address concerns that the statement of performance can be misleading when income is recognised immediately, but the entity considers the "profit" piece to be restricted. Internationally, disclosures of restrictions are not tied to financial assets, but rather to net assets or equity, directing the disclosures towards reflecting "reserves" that are restricted in the way they can be utilised by the entity.

Option 3 – Encourage disclosure of the amount of financial assets recognised that are subject to restrictions and also of the nature of those restrictions

This alternative builds on option 2 by adding the encouragement to disclose the nature of the restrictions on the entity's use of its financial assets, in addition to the amount of restricted financial assets. This option is more consistent with the views expressed by constituents responding to ED 260 and members of the Project Advisory Panel (see paragraphs 18 and 19 in this agenda paper). It would be more costly to prepare information about the nature of the restrictions in addition to identifying the amount of restricted financial assets.

A general statement covering the range of restrictions might not be very useful. For example, universities may have many endowments subject to restrictions imposed through the terms of the bequest or donation. To require disclosure of the details of each endowment would be onerous, and the unique nature of many of the restrictions could mean that any generic narrative about the restrictions may not be very useful.

There would be greater benefits for financial statement users if the amount of restricted financial assets were classified in some way based on the type or severity of the restrictions, especially if there is a considerable range in the types of restrictions. The US FASB Topic 958 suggests that the financial statements might disclose separate line items or notes to distinguish various types of donor-imposed restrictions. Paragraph 45-9 of Topic 958 gives six examples, ranging from assets to be preserved and not sold, to assets that support particular operating activities.

Option 4 – Encourage disclosure of the amount of equity/net assets that is restricted

This approach is consistent with the approach to the disclosure of restrictions required by the UK Charities SORP and the FASB Topic 958 (although potentially an encouraged disclosure under AASB 10XX rather than a requirement). In particular, Topic 958 specifically requires disclosure of the amount of net assets with donor restrictions and the amount of net assets without donor restrictions.

AASB 116 addresses restrictions related to the revaluation surplus of the equity section of the statement of financial position, which provides some precedent for this approach to disclosures about restrictions.

This alternative has the benefit of providing users with additional information about restrictions on the entity's funds in aggregate, and would supplement any disclosure of restrictions on particular assets. The approach is also more likely to satisfy concerns regarding the statement of performance not presenting the full story of restrictions based on 'moral' limitations on the way an entity can use its resources. This disclosure is more likely to address concerns of those who take the view that AASB 10XX would still not provide enough "matching". It is also likely to require less tracking of individual assets subject to restrictions, and more scope to consider on an aggregate basis when the 'reserves' are considered unrestricted.

Option 5 – Encourage disclosure of total comprehensive income divided into restricted and unrestricted amounts on the face of the statement of performance

Instead of disclosing restricted and unrestricted income amounts in profit or loss, this option would encourage disclosure of total comprehensive income (not the components of comprehensive income) into restricted and unrestricted amounts. This would indicate the contribution of the entity's performance for the period to providing resources for general use versus restricted use. The disclosure could be made on the face of the statement of profit or loss and other comprehensive income (the performance statement) so that it is more prominent than being relegated to notes.

There could be some issues in allocating all revenues and expenses between restricted and unrestricted amounts, and if so NFP entities would have to develop their accounting policies in this respect to support the disclosure. This is particularly so if the disclosure of net assets with restrictions (option 4) is typically based on a summation of the restricted funds held by an entity at the reporting date, giving the amount of net assets without restrictions only as a residual amount.

However, this would address many constituents' concerns that the statement of performance is misleading in presenting a significant profit when the entity considers the funds generated are not freely available but instead subject to restrictions in the way the entity can use them.

This option could be applied instead of or in conjunction with disclosure of the amount of equity/net assets that is restricted (Option 4). For example, in combination with Option 4, the restricted and unrestricted total comprehensive income amounts could be presented in the statement of changes in equity to show movements in the restricted and unrestricted equity/net asset amounts. This would give a clear picture of what the entity considers unrestricted reserves and those it considers restricted in some way.

Staff recommendation

31 Staff recommend Option 3, extending AASB 10XX to encourage disclosure of the amount of financial assets that are subject to restrictions and the nature of those restrictions. A paragraph could be added to AASB 10XX along the following lines:

"An entity is encouraged, but not required, to disclose the amount of financial assets for which use of the asset has been stipulated by the transferor and information about the nature of the stipulations over the use of such financial assets. For example, an entity may be transferred cash on condition it is applied to further a specific purpose of the entity or to construct a non-financial asset. Disclosure of such amounts provides useful information to users of the financial statements."

Questions for Board members

Q5 Do Board members agree with the staff recommendation that the Standard should include an encouragement to disclose the amount of financial assets that are subject to restrictions and the nature of those restrictions?

Q6 If not, do members support extending the approach in Option 3 to encompass non-financial assets in addition to financial assets?

Q7 If not, do members support other options presented in this agenda paper, or another approach altogether?

Issue 3 – Disclosure of information about tax (non-contractual) receivables

32 Paragraph AG18 of Part B of ED 260 proposed that a taxing entity should be required to initially measure tax receivables as if the measurement principles of AASB 9 *Financial Instruments* applied, that is, as if those non-contractual receivables were financial assets (which are defined as arising from contracts). Paragraphs 35-38 of the ED (included in Appendix A of this agenda paper) proposed several disclosures relating to taxes: taxes, rates and fines as a category for income disclosures, the amount of receivables, related interest and impairment losses, and information regarding each class of taxation income that cannot be measured reliably.

33 ED 260 did not ask specifically for constituent feedback on its proposals for the disclosure of information related to taxes, and none was received.

34 The draft Standard AASB 10XX in agenda paper 3.1 (at paragraphs 18 and B15) specifies that non-contractual receivables (such as income tax receivable) are measured initially as if they are financial assets within the scope of AASB 9. The tax-related disclosures proposed in ED 260 are included in the draft AASB 10XX at paragraphs 41(a), 42(a) and 44.

35 A staff comment added at paragraph B15 in agenda paper 3.1 asks Board members whether AASB 10XX should specify that non-contractual receivables are treated as if they are financial assets for their subsequent accounting as well. If so, this would mean that the subsequent measurement, presentation and disclosure of non-contractual receivables would follow the requirements for financial assets in AASB 9, AASB 7 *Financial Instruments: Disclosures* and AASB 132 *Financial Instruments: Presentation*. The staff have mixed views about this, as noted in the staff comment.

<u>Non-contractual receivables not to be treated subsequently as if financial assets</u>

36 If the Board takes the view that non-contractual receivables <u>should not</u> be treated as if they are financial assets for subsequent accounting as well, then the disclosures in the draft AASB 10XX (paragraphs 41(a), 42(a) and 44) can remain. No comments have been received during the exposure process that would suggest that these disclosures are not appropriate or that other disclosures should be required. Disclosure requirements in AASB 7 would not be relevant. However, the disclosures set out in AASB 10XX are significantly less than would be required under AASB 7, particularly in relation to write-downs/provisions and credit risks.

<u>Non-contractual receivables to be treated subsequently as if financial assets</u>

37 However, if the Board takes the view that non-contractual receivables <u>should</u> be treated as if they are financial assets for subsequent accounting as well, then the disclosures in the draft AASB 10XX should be reconsidered. In this case, the AASB 7 disclosure requirements would be relevant to non-contractual receivables. These disclosures potentially would include fair value, credit risk, liquidity risk and market risk information. Therefore, the disclosure requirement in paragraph 42(a) of the draft AASB 10XX (the amount of receivables, related interest and impairment losses) could be deleted. The tax income-related disclosure requirements in paragraphs 41(a) and 44 – taxes, rates and fines as a category for income disclosures, and information regarding each class of taxation income that cannot be measured reliably – could be

retained. There might be some potential overlap with the risk disclosures required under AASB 7, but this need not create any disclosure duplications.

38 This view would also require AASB 10XX to specify that non-contractual receivables are to be treated as if they are financial assets for the purposes of other Australian Accounting Standards, or else the various financial instrument Standards would have to be amended to include non-contractual receivables within their scope.

39 AASB 10XX also could note that the disclosure requirements in AASB 7 apply to non-contractual receivables as if they are financial assets.

Staff recommendations

40 Given the mixed staff views regarding treating non-contractual receivables as if they are financial assets for accounting purposes subsequent to initial measurement and recognition, the staff recommendations encompass both views. Accordingly:

(a) if non-contractual receivables are not to be treated subsequently as if financial assets – retain the disclosures in the draft AASB 10XX (paragraphs 41(a), 42(a) and 44); and

(b) if non-contractual receivables are to be treated subsequently as if financial assets:

(i) delete the receivable disclosures in paragraph 42(a) but retain the income disclosures in paragraphs 41(a) and 44 of the draft AASB 10XX; and

(ii) amend the draft AASB 10XX to specify that non-contractual receivables are to be treated as if they are financial assets for the purposes of other Australian Accounting Standards, noting that this means the disclosure requirements in AASB 7 apply in addition to the disclosure requirements in AASB 10XX.

Questions for Board members

Q8 Which view do Board members support – that non-contractual receivables should or should not be treated subsequent to initial measurement and recognition as if they are financial assets?

Q9 Do Board members support the staff recommendations set out in paragraph 40 regarding the disclosure requirements, depending on that view:

(a) if non-contractual receivables are not to be treated subsequently as if financial assets – retain the disclosures in the draft AASB 10XX; or

(b) if non-contractual receivables are to be treated subsequently as if financial assets – delete the receivable disclosures in paragraph 42(a) but retain the income disclosures in paragraphs 41(a) and 44 of the draft AASB 10XX, and amend the draft AASB 10XX to specify that non-contractual receivables are to be treated as if they are financial assets for the purposes of other Australian Accounting Standards, including AASB 7?

Appendix A
Disclosure proposals in Part B of ED 260

Disclosures

32 The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature and amount of assets, liabilities, income and cash flows arising from transactions and other events within the scope of this Standard.

33 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

34 An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.

Disaggregation of recognised income, and information about related recognised assets and liabilities

35 An entity shall disaggregate recognised income into categories that depict how the nature and amount of income and cash flows are affected by economic factors. The following are examples of types of categories of recognised income that may be appropriate to disclose:

(a) compulsory transfers, such as taxes, rates and fines; and

(b) voluntary transfers, such as:

(i) grants, bequests and donations of cash, other financial assets and goods;

(ii) volunteer services; and

(iii) for government departments and agencies, amounts drawn down under appropriations that are recognised as income.

36 Other recognised amounts that may be appropriate for an entity to disclose separately include the following, shown either in the statement of financial position or the statement of profit or loss and other comprehensive income, or in the notes:

(a) the amount of a receivable that is not a financial asset as defined in AASB 132 *Financial Instruments*: *Presentation* (eg income tax receivable from a taxpayer: see paragraph 39);

(b) the amount of any interest income recognised in relation to that receivable during the period;

(c) the amount of any impairment losses recognised in relation to that receivable during the period; and

(d) the amounts of any recognised refund liabilities and, if those refund liabilities relate to taxes or rates for which the taxable event has yet to occur, the future period(s) to which those liabilities relate.

37 Other information that may be appropriate for an entity to disclose in the notes includes, for each class of taxation income that the entity cannot measure reliably during the period in which the taxable event occurs (see paragraphs AG21-AG23):

(a) information about the nature of the tax;

(b) the reason(s) why that income cannot be measured reliably; and

(c) when that uncertainty might be resolved.

38 An example of receivables that are not financial assets [see paragraph 36(a)] are amounts of income tax receivable from taxpayers because those receivables are created as a result of statutory requirements rather than contractual requirements.

Compliance with parliamentary appropriations and other related authorities for expenditure

39 …

Appendix B
AASB 15 *Revenue from Contracts with Customers* (extract)

Presentation

105 When either party to a contract has performed, an entity shall present the contract in the statement of financial position as a contract asset or a contract liability, depending on the relationship between the entity's performance and the customer's payment. An entity shall present any unconditional rights to consideration separately as a receivable.

106 If a customer pays consideration, or an entity has a right to an amount of consideration that is unconditional (ie a receivable), before the entity transfers a good or service to the customer, the entity shall present the contract as a contract liability when the payment is made or the payment is due (whichever is earlier). A contract liability is an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer.

107 If an entity performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the entity shall present the contract as a contract asset, excluding any amounts presented as a receivable. A contract asset is an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer. An entity shall assess a contract asset for impairment in accordance with AASB 9. An impairment of a contract asset shall be measured, presented and disclosed on the same basis as a financial asset that is within the scope of AASB 9 (see also paragraph 113(b)).

108 A receivable is an entity's right to consideration that is unconditional. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due. For example, an entity would recognise a receivable if it has a present right to payment even though that amount may be subject to refund in the future. An entity shall account for a receivable in accordance with AASB 9. Upon initial recognition of a receivable from a contract with a customer, any difference between the measurement of the receivable in accordance with AASB 9 and the corresponding amount of revenue recognised shall be presented as an expense (for example, as an impairment loss).

109 This Standard uses the terms 'contract asset' and 'contract liability' but does not prohibit an entity from using alternative descriptions in the statement of financial position for those items. If an entity uses an alternative description for a contract asset, the entity shall provide sufficient information for a user of the financial statements to distinguish between receivables and contract assets.

Disclosure

110 The objective of the disclosure requirements is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. To achieve that objective, an entity shall disclose qualitative and quantitative information about all of the following:

- **(a) its contracts with customers (see paragraphs 113–122);**
- **(b) the significant judgements, and changes in the judgements, made in applying this Standard to those contracts (see paragraphs 123–126); and**
- **(c) any assets recognised from the costs to obtain or fulfil a contract with a customer in accordance with paragraph 91 or 95 (see paragraphs 127–128).**

111 An entity shall consider the level of detail necessary to satisfy the disclosure objective and how much emphasis to place on each of the various requirements. An entity shall aggregate or disaggregate disclosures so that useful information is not obscured by either the inclusion of a large amount of insignificant detail or the aggregation of items that have substantially different characteristics.

112 An entity need not disclose information in accordance with this Standard if it has provided the information in accordance with another Standard.

Contracts with customers

113 An entity shall disclose all of the following amounts for the reporting period unless those amounts are presented separately in the statement of comprehensive income in accordance with other Standards:

(a) revenue recognised from contracts with customers, which the entity shall disclose separately from its other sources of revenue; and

(b) any impairment losses recognised (in accordance with AASB 9) on any receivables or contract assets arising from an entity's contracts with customers, which the entity shall disclose separately from impairment losses from other contracts.

Disaggregation of revenue

114 An entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. An entity shall apply the guidance in paragraphs B87–B89 when selecting the categories to use to disaggregate revenue.

115 In addition, an entity shall disclose sufficient information to enable users of financial statements to understand the relationship between the disclosure of disaggregated revenue (in accordance with paragraph 114) and revenue information that is disclosed for each reportable segment, if the entity applies AASB 8 *Operating Segments*.

Contract balances

116 An entity shall disclose all of the following:

(a) the opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers, if not otherwise separately presented or disclosed;

(b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and

(c) revenue recognised in the reporting period from performance obligations satisfied (or partially satisfied) in previous periods (for example, changes in transaction price).

117 An entity shall explain how the timing of satisfaction of its performance obligations (see paragraph 119(a)) relates to the typical timing of payment (see paragraph 119(b)) and the effect that those factors have on the contract asset and the contract liability balances. The explanation provided may use qualitative information.

118 An entity shall provide an explanation of the significant changes in the contract asset and the contract liability balances during the reporting period. The explanation shall include qualitative and quantitative information. Examples of changes in the entity's balances of contract assets and contract liabilities include any of the following:

(a) changes due to business combinations;

(b) cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a change in the measure of progress, a change in an estimate of the transaction price (including any changes in the assessment of whether an estimate of variable consideration is constrained) or a contract modification;

(c) impairment of a contract asset;

(d) a change in the time frame for a right to consideration to become unconditional (ie for a contract asset to be reclassified to a receivable); and

(e) a change in the time frame for a performance obligation to be satisfied (ie for the recognition of revenue arising from a contract liability).

Performance obligations

119 An entity shall disclose information about its performance obligations in contracts with customers, including a description of all of the following:

(a) when the entity typically satisfies its performance obligations (for example, upon shipment, upon delivery, as services are rendered or upon completion of service), including when performance obligations are satisfied in a bill-and-hold arrangement;

(b) the significant payment terms (for example, when payment is typically due, whether the contract has a significant financing component, whether the consideration amount is variable and whether the estimate of variable consideration is typically constrained in accordance with paragraphs 56–58);

(c) the nature of the goods or services that the entity has promised to transfer, highlighting any performance obligations to arrange for another party to transfer goods or services (ie if the entity is acting as an agent);

(d) obligations for returns, refunds and other similar obligations; and

(e) types of warranties and related obligations.

Transaction price allocated to the remaining performance obligations

120 An entity shall disclose the following information about its remaining performance obligations:

(a) the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period; and

(b) an explanation of when the entity expects to recognise as revenue the amount disclosed in accordance with paragraph 120(a), which the entity shall disclose in either of the following ways:

(i) on a quantitative basis using the time bands that would be most appropriate for the duration of the remaining performance obligations; or

(ii) by using qualitative information.

121 As a practical expedient, an entity need not disclose the information in paragraph 120 for a performance obligation if either of the following conditions is met:

(a) the performance obligation is part of a contract that has an original expected duration of one year or less; or

(b) the entity recognises revenue from the satisfaction of the performance obligation in accordance with paragraph B16.

122 An entity shall explain qualitatively whether it is applying the practical expedient in paragraph 121 and whether any consideration from contracts with customers is not included in the transaction price and, therefore, not included in the information disclosed in accordance with paragraph 120. For example, an estimate of the transaction price would not include any estimated amounts of variable consideration that are constrained (see paragraphs 56–58).

Significant judgements in the application of this Standard

123 An entity shall disclose the judgements, and changes in the judgements, made in applying this Standard that significantly affect the determination of the amount and timing of revenue from contracts with customers. In particular, an entity shall explain the judgements, and changes in the judgements, used in determining both of the following:

(a) the timing of satisfaction of performance obligations (see paragraphs 124–125); and

(b) the transaction price and the amounts allocated to performance obligations (see paragraph 126).

Determining the timing of satisfaction of performance obligations

124 For performance obligations that an entity satisfies over time, an entity shall disclose both of the following:

(a) the methods used to recognise revenue (for example, a description of the output methods or input methods used and how those methods are applied); and

(b) an explanation of why the methods used provide a faithful depiction of the transfer of goods or services.

125 For performance obligations satisfied at a point in time, an entity shall disclose the significant judgements made in evaluating when a customer obtains control of promised goods or services.

Determining the transaction price and the amounts allocated to performance obligations

126 An entity shall disclose information about the methods, inputs and assumptions used for all of the following:

(a) determining the transaction price, which includes, but is not limited to, estimating variable consideration, adjusting the consideration for the effects of the time value of money and measuring non-cash consideration;

(b) assessing whether an estimate of variable consideration is constrained;

(c) allocating the transaction price, including estimating stand-alone selling prices of promised goods or services and allocating discounts and variable consideration to a specific part of the contract (if applicable); and

(d) measuring obligations for returns, refunds and other similar obligations.

Assets recognised from the costs to obtain or fulfil a contract with a customer

127 An entity shall describe both of the following:

(a) the judgements made in determining the amount of the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95); and

(b) the method it uses to determine the amortisation for each reporting period.

128 An entity shall disclose all of the following:

(a) the closing balances of assets recognised from the costs incurred to obtain or fulfil a contract with a customer (in accordance with paragraph 91 or 95), by main category of asset (for example, costs to obtain contracts with customers, pre-contract costs and setup costs); and

(b) the amount of amortisation and any impairment losses recognised in the reporting period.

Practical expedients

129 If an entity elects to use the practical expedient in either paragraph 63 (about the existence of a significant financing component) or paragraph 94 (about the incremental costs of obtaining a contract), the entity shall disclose that fact.

Appendix C
Disclosures – other jurisdictions

International Public Sector Accounting Standards Board (IPSASB)

IPSAS 2 *Cash Flow Statements*

Other Disclosures

59 An entity should disclose, together with a commentary by management in the notes to the financial statements, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the economic entity.

60 There are various circumstances in which cash and cash equivalent balances held by an entity are not available for use by the economic entity. Examples include cash and cash equivalent balances held by a controlled entity that operates in a country where exchange controls or other legal restrictions apply when the balances are not available for general use by the controlling entity or other controlled entities.

61 Additional information may be relevant to users in understanding the financial position and liquidity of an entity. Disclosure of this information, together with a description in the notes to the financial statements, is encouraged and may include:

(a) …

(c) The amount and nature of restricted cash balances.

…

IPSAS 17 *Property, Plant and Equipment*

92 If a class of property, plant and equipment is stated at revalued amounts, the following shall be disclosed:

(a) …

(e) The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders or other equity holders;

…

IPSAS 23 *Revenue from Non-exchange Transactions (Taxes and Transfers)*

Definitions

7 Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

<u>Restrictions on transferred assets</u> are stipulations that limit or direct the purpose for which a transferred asset may be used but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

<u>Stipulations on transferred assets</u> are terms in law or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

Disclosures

106 An entity shall disclose either on the face of, or in the notes to, the general purpose financial statements:

(a) …

(c) The amount of liabilities recognized in respect of transferred assets subject to conditions.

(d) The amount of assets recognized that are subject to restrictions and the nature of those restrictions.

…

111 Conditions and restrictions impose limits on the use of assets, which impacts the operations of the entity. Disclosure of the amount of liabilities recognized in respect of conditions and the amount of assets subject to restrictions assists users in making judgments about the ability of the entity to use its assets at its own discretion. Entities are encouraged to disaggregate by class the information required to be disclosed by paragraph 106(c).

New Zealand

PBE IPSAS 2, PBE IPSAS 17 and PBE IPSAS 23 replicate the paragraphs of the IPSASB Standards quoted above.

United Kingdom

<u>FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*</u>

7.2.1 An entity shall disclose, together with a commentary by management, the amount of significant cash and cash equivalent balances held by the entity that are not available for use by the entity. Cash and cash equivalents held by an entity may not be available for use by the entity because of, among other reasons, foreign exchange controls or legal restrictions.

Section 24 *Government Grants*

24.6 An entity shall disclose the following:

…

(c) unfulfilled conditions and other contingencies attaching to grants that have been recognised in income;

…

<u>The Charities SORP</u>

The Charities SORP supplements FRS 102 includes general principles for fund accounting[8] that affect the reporting of restrictions. FRS 102 does not deal with fund accounting by charities, therefore the Charities SORP states the requirements of charity law and current accounting practice which charities adopting this SORP must follow:

Unrestricted funds

2.6 Unrestricted funds are spent or applied at the discretion of the trustees to further any of the charity's purposes. Unrestricted funds can be used to supplement expenditure made from restricted funds. For example, a restricted grant may have provided part of the funding needed for a specific project. In this case unrestricted funds may be used to meet any funding shortfall for that project.

2.7 Trustees may choose during the reporting period to set aside a part of the unrestricted funds to be used for a particular future project or commitment. By earmarking funds in this way, the trustees set up a designated fund that remains part of the unrestricted funds of the charity. This is because the designation has an administrative purpose only and does not legally restrict the trustees' discretion in how to apply the unrestricted funds that they have earmarked. Identifying designated funds may be helpful when explaining the charity's reserve policy and the level of reserves it holds.

Restricted funds

2.8 Funds held on specific trusts under charity law are classed as restricted funds. The specific trusts may be declared by the donor when making the gift or may result from the terms of an appeal for funds. The specific trusts establish the purpose for which a charity can lawfully use the restricted funds. It is possible that a charity may have several individual restricted funds, each for a particular purpose of the charity.

2.9 In certain circumstances the donor may express a form of non-binding preference as to the use of the funds, which falls short of imposing a restriction in trust law. In which case the charity will include the funds as part of its unrestricted funds. To respect these non-binding donor wishes, trustees may decide to designate those funds to reflect the purposes which the donor had in mind.

Fund disclosures in the notes to the accounts

2.27 For the proper administration of charitable funds, the accounting records of a charity must identify the transactions for each of the funds held. This SORP requires that items recorded in the SoFA [Statement of Financial Activities] must be analysed

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8 Fund accounting distinguishes between two primary classes of fund: those that are unrestricted in their use, which can be spent for any charitable purposes of a charity, and those that are restricted in use, which can only be lawfully used for a specific charitable purpose. (The Charities SORP, paragraph 2.1)

between unrestricted funds, restricted income funds and endowment funds. The information for endowment funds provided in the SoFA should combine the presentation of permanent and expendable endowment.

2.28 This SORP requires that the notes to the accounts must provide information on material individual fund balances, movements in the reporting period and the purposes for which the funds are held. The notes must differentiate unrestricted funds (both general and designated), restricted income funds, permanently endowed funds and expendable endowments. Table 1, 'Outline summary of fund movements' gives an example of how the movements in material funds may be shown.

2.29 In particular, this SORP requires that notes to the accounts must disclose:

(a) a summary of the assets and liabilities of each category of fund of the charity, if not provided by presenting this information in a columnar balance sheet;

(b) details of the purposes and trust law restrictions imposed on each material individual fund;

(c) …

2.30 In deciding on the most suitable form of presentation, the charity should consider:

(a) the complexity of the fund structure; and

(b) the need for any separate fund statement(s) or note(s) to agree with the charity's SoFA and balance sheet.

United States of America

FASB *Accounting Standards Codification, Topic 958 Not-for-Profit Entities*
Section 210 (amended August 2016)

45-1 A statement of financial position shall focus on the not-for-profit entity as a whole and shall report all of the following amounts:

(a) Total assets

(b) Total liabilities

(c) Total net assets

(d) Total net assets with donor restrictions

(e) Total net assets without donor restrictions

(f) Subparagraph superseded by Accounting Standards Update No. 2016-14

45-6 Assets may be restricted by donors. For example, land could be restricted to use as a public park. Generally, however, restrictions apply to net assets, not specific assets. Assets need not be disaggregated on the basis of the presence of donor-imposed restrictions on their use; for example, cash available for current use and without donor restrictions need not be reported separately from the cash received with donor-imposed restrictions that is also available for current use. However, cash or other assets received with a donor-imposed restriction that limits their use to long-term purposes shall not be classified with cash or other assets that are without donor restrictions and are available for current use. The kind of asset whose use is limited either by a donor-imposed restriction or by governing body restrictions shall be described in the notes to the financial statements if the nature of the restriction or designation (that is, amount and purpose) is not clear from the description on the face of the statement of financial position.

Classification of Net Assets

45-9 The amounts of each of the two classes of net assets – with donor restrictions and without donor restrictions – are based on the existence or absence of donor imposed restrictions. Information about the nature and amounts of different types of donor-imposed restrictions shall be provided either by reporting their amounts on the face of the statement of financial position or by including relevant details in notes to financial statements. Additionally, separate line items may be reported within net assets with donor restrictions or in notes to financial statements to distinguish between various types of donor-imposed restrictions, such as the following examples:

(a) Assets, such as land or works of art, donated with stipulations that they be used for a specified purpose, be preserved, and not be sold.

(b) Assets donated with stipulations that they be invested to provide a permanent source of income. These result from gifts and bequests that create a donor-restricted endowment that is perpetual in nature.

(c) Support of particular operating activities.

(d) Investment for a specified term.

(e) Use in a specified period.

(f) Acquisition of long-lived assets.

45-10 A donor-imposed restriction may require that resources be used in a later period or after a specified date (time restrictions), or that resources be used for a specified purpose (purpose restrictions), or both. For example, gifts of cash and other assets with stipulations that they be invested to provide a source of income for a specified term and that the income can be used for a specified purpose are both time and purpose restricted. These gifts are often called term endowments.

A few examples drawn from the latest revision to Topic 958 are presented on the following pages, for members' information.

Illustration of the requirements of Topic 958

[958-205-55-14]
Not-for-Profit Entity A
Statement of Activities
Year Ended June 30, 20X1
(in thousands)

	Without Donor Restrictions $	**With Donor Restrictions $**	**Total $**
Revenue, gains and other support			
Contributions	8,640	8,390	17,030
Fees	5,200		5,200
Investment return, net	6,650	18,300	24,950
Gain on sale of equipment	200		200
Other	150		150
Net assets released from restrictions (Note D)			
Satisfaction of program restrictions	8,990	(8,990)	
Satisfaction of equipment acquisition restrictions	1,500	(1,500)	
Expiration of time restrictions	1,250	(1,250)	
Appropriation from donor endowment and subsequent satisfaction of any related donor restrictions	7,500	(7,500)	
Total net assets released from restrictions	*19,240*	*(19,240)*	
Total revenues, gains, and other support	**40,080**	**7,450**	**47,530**
Expenses and losses			
Program A	13,296		13,296
Program B	8,649		8,649
Program C	5,837		5,837
Management and general	2,038		2,038
Fundraising	2,150		2,150
Total expenses (Note F)	*31,970*		*31,970*
Fire loss on building	80		80
Actuarial loss on annuity trust obligations		30	30
Total expenses and losses	***32,050***	***30***	***32,080***
Change in net assets	**8,030**	**7,420**	**15,450**
Net assets at beginning of year	84,570	186,070	270,640
Net assets at end of year	**92,600**	**193,490**	**286,090**

Note D [958-205-55-21]
Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors.

[Note F – not provided here]

	Total $
Purpose restrictions accomplished	
Program A expenses	4,350
Program B expenses	3,450
Program C expenses	1,190
	8,990
Program A equipment acquired and placed in service	*1,500*
Time restrictions expired	
Passage of specified time	850
Death of annuity beneficiary	400
	1,250
Release of appropriated endowment amounts without purpose restrictions	4,500
Release of appropriated endowment amounts with purpose restrictions	3,000
Total restrictions released	**19,240**

NOTE X: ENDOWMENT [958-205-55-37]
NFP B's endowment consists of approximately 100 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law [958-205-55-38 in part]
NFP B is subject to the State Prudent Management of Institutional Funds Act (SPMIFA) and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Trustees appropriates such amounts for expenditure. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Trustees of NFP B has interpreted SPMIFA as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, NFP B considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity. NFP B has interpreted SPMIFA to permit spending from underwater funds in accordance with the prudent measures required under the law. Additionally, in accordance with SPMIFA, NFP B considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of NFP B.