



31 March 2023

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West
Victoria 8007

Via website: www.aasb.gov.au

Dear Keith

AASB Invitation to Comment 50 *Post-implementation Review – Income of Not-for-Profit Entities* (ITC 50 PIR)

Thank you for the opportunity to comment on AASB Invitation to Comment 50 *Post-implementation Review – Income of Not-for-Profit Entities* (ITC 50).

The comments provided (see Appendix 1) are observations made when studying the 2021 financial statements, notes, and auditor report of not-for-profit Australian universities (see Appendix 2) and other relevant publicly available material and websites.¹

Motivation for the study

All (37) Australian public universities² and some (4) Australian private universities are charities. Consequently, these universities are subject to the accounting standards that are the focus of the ITC 50 PIR.

Universities are a significant part of the charity sector when measured by revenue; accounting for more than 20 per cent of all Australian charity revenue.³

¹ Other publicly available material used in the study: The University of Melbourne Annual Reports 31 December 2006 to 31 December 2018; Department of Education, Skills and Employment *Financial Statement Guidelines for Australian Higher Education Providers for the 2021 reporting period*; Department of Education and Training *Transition to new accounting standards Consultation Paper September 2018*; Department of Education *Transition to new accounting standards Advance advice/guidance paper July 2019*; Department of Education, 2020 *Higher Education Research Data Collection Specifications for the collection of 2019 data December 2019*; Department of Education, Skills and Employment, *Higher Education Research Data Collection Specifications for the collection of 2020 data November 2020*; Department of Education DRAFT *Higher Education Research Data Collection specifications for the collection of 2023 data November 2022*; VAGO *Results of 2019 Audits: Universities*.

² At the time of the study the 2021 Batchelor Institute of Indigenous Tertiary Education Financial Statements were not available and is therefore excluded from the study.

³ Australian Charities Report 8th edition, released in June 2022, showed charity revenue is \$176 billion. Finance data released by the federal Department of Education, revealed \$38.9bn in revenue across the university sector.

Revenue is largely grants for teaching (the Commonwealth Grant Scheme), student fee contributions and loans supported by a government-backed loan scheme, and grants for research.

Research is funded through a mix of contributions from the Australian Government, state and territory governments, industry partners and philanthropic sources.

Research Block Grants are an important part of grants for research and are allocated each year based on a funding formula. The National Competitive Research Grants (run principally through the Australian Research Council and the National Health and Medical Research Council) are another important grant for research.

Other revenue sources include state government funding, overseas student fees, investment income, income from contract research and consultancy.

The revenue streams of universities are many and varied; some are clearly within the scope of AASB 15, some other revenue streams are clearly within the scope of AASB 1058. For some other revenue streams significant judgement may be required to determine the applicable accounting standard.

For the reasons stated above, I consider important the current work of the Australian Accounting Standards Board include a good understanding of the financial reporting practices of Australian universities. Also, it is relevant to note all forty financial statements for the year ended 31 December 2021 received clean audit opinions.

Appendix 1 contains observations made from studying the 2021 financial statements, notes, and auditor report of not-for-profit Australian universities (see Appendix 2) and other relevant publicly available material. Observations are grouped by topic in the order used by ITC 50.

If you have any queries on the provided observations, please contact me at mshying@swin.edu.au.

Yours sincerely

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Appendix 1

Topic 1: Sufficiently specific criterion and the legal interpretation of agreements (Questions 1-4)

ARC grants

ARC grants are a good subject matter for testing application of the sufficiently specific criterion. In 2021, 1 174 ARC grant applications were successful in obtaining funding. Funding agreements contain paragraphs and wording about the research project which is not relevant in the assessment of the sufficiently specific criterion. Funding agreements also include standard paragraphs and wording replicated across all agreements. Prima facie, the application of the sufficiently specific criterion should be in the same direction for all 1 174 agreements. However, this proposition does not find support in the study.

Four universities⁴ note re funding received from Australian Research Council (ARC), the university has determined there are no sufficiently specific performance obligations associated with ARC funding and therefore apply AASB 1058. For example, The Australian National University notes, "Funding received from Australian Research Council (ARC): The University has determined there are no sufficiently specific performance obligations associated with ARC funding. The University will recognise revenue when it obtains an enforceable right to the cash."

In contrast 25 universities⁵ consider the agreements include sufficiently specific performance obligations and therefore apply AASB 15. For example, Edith Cowan University notes, "Funding received from Australian Research Council ("ARC"): enforceable contract criteria are met and sufficiently specific performance obligations are contained in the proposal for the grant."

La Trobe University speaks directly to the difference in views re the specific performance obligation criterion. La Trobe University notes, "Funding received from Australian Research Council (ARC) ... is considered to be enforceable and the performance obligations are sufficiently specific. Revenue is recognised under AASB15 over time using the input method (i.e. as the expenses are incurred). There are differing views within the Higher Education sector as to whether ARC...funding should be recognised under AASB15 or AASB1058."

The policy of the remaining eleven universities is not clear.

NHMRC grants

NHMRC grants are also a good subject matter for testing application of the sufficiently specific criterion for the same reasons stated above. In 2021, each of the new 777 NHMRC funding agreement includes standard paragraphs and wording replicated across all agreements.

⁴ The Australian National University, Federation University Australia, The University of Melbourne, and Victoria University.

⁵ University of Canberra, Charles Sturt University, Southern Cross University, University of New England, University of New South Wales, University of Technology Sydney, University of Wollongong, Western Sydney University, Charles Darwin University, Central Queensland University, Griffith University, James Cook University, Queensland University of Technology, The University of Queensland, University of Southern Queensland, University of the Sunshine Coast, University of South Australia, University of Tasmania, Deakin University, La Trobe University, Monash University, Royal Melbourne Institute of Technology, Curtin University, Edith Cowan University, and The University of Western Australia.

The same four universities noted above determined there are no sufficiently specific performance obligations associated with NHMRC funding and therefore apply AASB 1058. For example, Federation University Australia notes, "NHMRC awards grants through several funding schemes to advance health and medical knowledge to improve the health status of all Australians. As the performance obligations are not sufficiently specific, the Group recognises income immediately when the Group has the contractual right to receive the funding." The University of Melbourne notes, "...National Health and Medical Research Council (included in Other Australian financial assistance) do not have performance obligations. These contracts contain termination for convenience clauses. On receipt or right to receive payment, the unspent funding is recognised as a financial liability in the form of a refund obligation, with income recognised once the related expenditure has been incurred."

In contrast, 16 universities⁶ consider the agreements include sufficiently specific performance obligations and therefore apply AASB 15. For example, Monash University notes, "Funding from National Health and Medical Research Council projects (NHMRC Schemes excluding postgraduate scholarships), included as part of Other Australian Government Financial Assistance (non-capital) is recognised over time under AASB 15 as the research activities are performed and measured using an input method (spend to date) and the remainder is a contract liability (refer to Note 26). There is an enforceable contract by provisions in the NHMRC funding agreement and corresponding legislation; and sufficiently specific performance obligations in the promise to undertake research activity in the form of the detailed 'mature research plan' and nature of the specific field of research, using funded fellows for a specific time, as contained in the proposal for the grant funding."

Ten universities did not report NHMRC grants (presumably because they do not have grants of this type).

The policy of the remaining ten universities is not clear.

Topic 2: Capital grants (Questions 5-8)

Two universities spoke to capital grants. The University of Queensland notes "Other capital funding (ARC Linkage Infrastructure, Equipment and Facilities Grant) represents grants provided to acquire or construct a recognisable non-financial asset (e.g. land, buildings, infrastructure, plant and equipment) to be controlled by the Group. This falls under AASB1058 and the revenue is recognised over time as the asset is acquired or constructed. Federation University Australia notes, "The Group received capital grant funding from the State Government as a reimbursement for the costs incurred in constructing the Gippsland High Tech Precinct. Income is recognised as the asset is constructed."

The other 38 universities did not provide comment.

Topic 3: Differences between management accounts and statutory accounts and alternative revenue recognition models (Questions 9 and 10)

No observation to report.

⁶ University of Canberra, University of Technology Sydney, Western Sydney University, Central Queensland University, Griffith University, The University of Queensland, University of the Sunshine Coast, University of South Australia, University of Tasmania, Deakin University, La Trobe University, Monash University, Royal Melbourne Institute of Technology, Curtin University, Edith Cowan University, and The University of Western Australia.

Topic 4: Principal v agent, including the appropriate recognition of financial liabilities (Questions 11-14)

Re discussion of principal v agent, Charles Darwin University notes, "The Department of Education Guidelines require OS-HELP to be recorded as a liability as it considers that the University acts as an agent on behalf of the Australian Government in distributing the loans to students."

The other 39 universities did not provide specific comment. However, some universities, note "...If there is a third party (such as a scholarship student) the University recognises the amount payable as a liability in the Statement of Financial Position, in accordance with AASB 9." For further observations, see AASB General Matters for Comment (Questions 22-26) below – 'Scholarships and stipends'.

Topic 5: Grants received in arrears (Questions 15 and 16)

No observation to report.

Topic 6: Termination for convenience clauses (Questions 17 and 18)

Re Termination for convenience clauses, Charles Darwin University notes, "For other research grants, those that do not have sufficiently specific performance obligations, Income is recognised immediately when Group has the contractual right to receive the grant as there are no identified sufficiently specific performance obligations. Where a refund obligation or termination for convenience clause exists revenue will be recognised to the extent of expenditure incurred."

The University of Melbourne notes, "[re] Education Research, ARC & NHMRC, Donations and Bequests: the Group recognises a refund liability where the contract contains a termination for convenience clause. As the customer can terminate the agreement without cause and require the immediate repayment of any unspent or uncommitted funding, the Group has no practical ability to avoid the grantor or customer exercising the clause. This refund liability is payable on demand should the agreement be terminated."

The other 38 universities did not provide comment.

Topic 7: Accounting for research grants (Question 19)

See response to Topics 1 and 6 above.

Topic 8: Statutory receivables (Questions 20 and 21)

No observation to report.

AASB General Matters for Comment (Questions 22-26)

Research Block Grants (RBG)

*Universities are **not** required to report Higher Education Research Data Collection (HERDC) R&D income in line with the accounting standards AASB 9 and AASB 15 that came into effect on 1 January 2018. University ARC and NHMRC grant income are important inputs into calculating RBG allocation. However, the measurement of that income in the HERDC return is **not** the accounting standards statutory number.*

Background

"Research block grants provide funding to eligible Australian higher education providers (HEPs) to support research and research training, and are established under the Higher

Education Support Act 2003 (HESA). In 2023, the [federal] Government is providing \$2.079 billion in research block grant funding to 42 HEPs:

\$1.112 billion through the Research Training Program (RTP)

\$967.5 million through the Research Support Program (RSP).⁷

The data used to calculate 2023 research block grants include: 2020 research income; 2021 research income; 2020 HDR completions; and 2021 HDR completions.⁸

Each year, the federal Department of Education uses the Higher Education Research Data Collection (HERDC) data together with data from the Higher Education Student Data Collection to determine universities' annual Research Block Grant allocations.

The DRAFT Higher Education Research Data Collection specifications for the collection of 2023 data November 2022 proposes continuing with the following approach to AASB 9 and AASB 15:

"Following consultation with the sector, the department has retained its current approach, outlined in Section 1.6, that HEPs are not required to adhere to the changed accounting standards AASB 9 and AASB 15 when reporting their HERDC R&D income."⁹

In 2019, the federal Department of Education stated:

"As a result of an earlier consultation process, the HERDC specifications for 2019 data outlined that [Higher Education Providers] HEPs would be required to adopt changes to accounting standards for the reporting of 2020 R&D income. However, sector feedback received in response to the Draft HERDC Specifications for 2020 data and through an additional consultation indicated that the majority of HEPs were not ready to adopt the new accounting standards, AASB 9: Financial Instruments and AASB 15: Revenue from Contracts with Customers.

As a result of this feedback, HEPs will not be required to report 2020 R&D data under the new accounting standards and will instead be required to continue to report 2020 data using the same approach used for 2019 data. This means that HEPs are to disregard the previous advice and guidance material on how to treat 2020 R&D income in light of AASB changes released by the department on 10 July 2019."¹⁰

Observation

*As noted above, university ARC and NHMRC grant income are important inputs into calculating RBG allocation. However, the measurement of that income in the HERDC return is **not** the accounting standards statutory number. The differing views within the Higher Education sector as to whether ARC and NHMRC funding should be recognised under*

⁷ <https://www.education.gov.au/research-block-grants> [accessed 31 March 2023].

⁸ <https://www.education.gov.au/research-block-grants/calculating-research-block-grants> [accessed 31 March 2023].

⁹ <https://www.education.gov.au/research-block-grants/resources/draft-herdc-specifications-collection-2023-data> [accessed 31 March 2023].

¹⁰ <https://www.education.gov.au/research-block-grants/resources/higher-education-research-data-collection-specifications-collection-2020-data> [accessed 31 March 2023].

AASB15 or AASB1058 may be relevant to the policy adopted by the federal Department of Education for HERDC data.

Restricted assets

Twenty-two universities spoke to restricted assets.

For example, The University of Sydney notes, "Other financial assets, the University of Sydney held financial assets subject to restrictions of \$824,520k (2020: \$638,335k). These amounts relate to donations and bequests from donors for the purpose of funding research, scholarships and prizes. The amount of cash and cash equivalents held by the University that was subject to capital preserved trust restrictions was \$30,850k (2020: \$27,963k). Equity includes Restricted funds being those funds with a capital preservation obligation."

Bond University notes, "For the purpose of the consolidated statement of cashflows, cash excludes cash balances with restrictions on their use, such as endowment fund, research and other restricted funds. Of the above balance, a total amount of \$2.77million(2020:\$2.76million) is set aside in the Endowment Fund and a total of \$20.21million(2020:\$16.11million) represents grants, donations and other funds set aside for restricted purposes.

Restricted funds include funds granted by external parties under conditions that they may only be utilised for specified expenditure purposes and cannot be allocated to general purpose expenditure. The grantor of the funds specifies how the funds are to be used. Equity ratio Modified Net Assets Cash restricted Net assets with donor restrictions 22,9821,887."

The University of Adelaide notes, "As at 31 December 2021, the University held financial assets subject to restrictions of \$473.3 million (2020: \$378.2 million). These amounts relate to donations and bequests from donors for the purpose of funding scholarships, prizes, foundations and endowments, shares held in IDP Education Ltd subject to escrow and funds set aside to meet the cost of the University's liability under superannuation schemes. Within Equity, Special Purpose Reserves Represents a number of reserves generated through a series of specific purpose transactions, that can only be used in accordance with the attributes of the generating transactions. Specific purpose reserves are created for surplus funds which will be specifically acquitted in future accounting periods. Specific purpose reserves include Bequest/donations unspent income reserves, Restricted purpose bequest capital reserves and Endowment Fund revaluation reserves. Other financial assets through fair value. The majority of specific purpose endowments received by the University to fund research activities, scholarships, prizes and lectures are included in the Endowment Fund. This Fund is invested in cash deposits and longer term investments managed by independent investment managers. These investments are reported in non-current financial assets in the Statement of Financial Position as other financial assets fair valued through profit or loss at market values obtained from the investment managers."

Swinburne University of Technology notes, "As at 31 December 2021 , the University held cash subject to restrictions of \$6.46 million (2020: \$5.65 million). These amounts relate to donations and bequests from donors for the purpose of funding scholarships, prizes, foundations and endowments."

Donations and bequests

Re donations and bequests, the fact pattern will determine which accounting standard is applied. For example, the University of Canberra notes, "Donations and bequests received

from the public are considered on a case by case basis as to whether it has sufficiently specific performance obligations attached to it, and therefore in the scope of AASB 15. The majority of donations received specify the area where the funds are to be spent, but there are no sufficiently specific performance obligations and the University has the discretion as to how the funds are spent; where this is the case, the revenue is recognised in accordance with AASB 1058 Income for not-for-profit entities. If there is a legally enforceable contract (such as a will) and there are sufficiently specific performance obligations within the contract, then the consolidated entity recognises the donation or bequest at the point in time or over the period when the obligations are met.”

The University of Sydney notes, “Bequests and donations are recognised on receipt as there are no enforceable contracts entered into or no sufficiently specific performance obligations between the University and the donor.”

Scholarships and stipends

Nineteen universities spoke to scholarships and stipends.

For example, University of Canberra notes, “The University considers each scholarship and prize arrangement on a case by case basis as to whether (a) there is an enforceable agreement and (b) there are sufficiently specific performance obligations attached to it, and therefore within the scope of AASB 15. If the University has the discretion as to where and how the funds are to be spent, the revenue is recognised on receipt in accordance with AASB1058 Income for not-for-profit-entities. If there is a legally enforceable contract (such as a will) and there are sufficiently specific performance obligations within the contract, the University recognises the scholarship or prize revenue at the point in time or over the period when the obligations are met in accordance with AASB 15. If there is a third party (such as a scholarship student) the University recognises the amount payable as a liability in the Statement of Financial Position, in accordance with AASB 9.”

University of Technology Sydney notes, “NHMRC amounts received for postgraduate scholarships are for the benefit of the student and are recognised under AASB 9 Financial Instruments.”

Western Sydney University notes, “Donations with donor-imposed restrictions to deliver cash scholarship payments to third parties are recognised as financial liabilities on the statement of financial position in accordance with AASB9.”

The University of Melbourne notes, “Other financial liabilities include Obligations to pay cash to third parties mostly arise where the University must administer cash scholarships by paying a stipend to students.”

Volunteer services

No university elected to recognise volunteer services received as income.

Appendix 2¹¹

Not-for-profit Australian universities

Australian Capital Territory

1. The Australian National University
2. University of Canberra

New South Wales

3. Charles Sturt University
4. Macquarie University
5. Southern Cross University
6. The University of Sydney
7. University of Newcastle
8. University of New England
9. University of New South Wales
10. University of Technology Sydney
11. University of Wollongong
12. Western Sydney University

Northern Territory¹²

13. Charles Darwin University

Queensland

14. Central Queensland University
15. Griffith University
16. James Cook University
17. Queensland University of Technology
18. The University of Queensland
19. University of Southern Queensland
20. University of the Sunshine Coast

South Australia

21. Flinders University
22. The University of Adelaide
23. University of South Australia

Tasmania

24. University of Tasmania

Victoria

25. Deakin University

26. Federation University Australia
27. La Trobe University
28. Monash University
29. Royal Melbourne Institute of Technology
30. Swinburne University of Technology
31. The University of Melbourne
32. Victoria University

Western Australia

33. Curtin University
34. Edith Cowan University
35. Murdoch University
36. The University of Western Australia

Private universities

37. Australian Catholic University
38. Bond University Limited
39. The University of Notre Dame Australia
40. University of Divinity

¹¹ Higher Education Support Act 2003 16-15 Table A providers, 16-20 Table B providers.

¹² At the time of the study the 2021 Batchelor Institute of Indigenous Tertiary Education Financial Statements were not available and is therefore excluded from the study.