

PSAB At a Glance

Contributions

Contributions¹

Effective Date
Fiscal periods beginning on or after January 1, 2012

Scope

Applies to:

- Contributions, related investment income and contributions receivable.

Does not apply to:

- Recognition of other revenue by GNPOs, such as revenue arising from the sale of services or goods (see Section PS 1201, *Financial Statement Presentation*²).

Definitions

Contribution

- Contribution**
 - A non-reciprocal transfer to a GNPO of cash or other assets or a non-reciprocal settlement or cancellation of its liabilities.
 - Government funding provided to a GNPO is considered a contribution. Refer to paragraphs PS 4210.08-.09 for more guidance on determining whether government funding received is a restricted or unrestricted contribution.
 - There are three types of contributions:
 - Restricted contribution**
 - A contribution subject to externally imposed stipulations that specify the purpose for which the contributed asset is to be used.
 - For example, a contribution restricted for the purchase of a capital asset or a contributed capital asset is a type of restricted contribution.
 - Endowment contribution**
 - A type of restricted contribution subject to externally imposed stipulations specifying the resources contributed be maintained permanently, although the constituent assets may change from time to time.
 - Unrestricted contribution**
 - A contribution that is neither a restricted contribution nor an endowment contribution.

Restrictions

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

Revenue Recognition

- A GNPO must recognize contributions in accordance with either:
 - The deferral method; or
 - The restricted fund method.
- The method chosen must be applied consistently to all contributions received. An organization that changes its method of accounting for contributions treats that change as a change in accounting policy in accordance with Section PS 2120, *Accounting Changes*.

Contributed Materials and Services

- An organization may choose to recognize contributed materials and services, but only when:
 - The fair value can be reasonably estimated; and
 - The materials and services are used in the normal course of the organizations operations and would have been purchased otherwise.
- Contributed materials and services that are part of a constructed / developed capital asset are recognized at fair value in accordance with Section PS 4230, *Capital Assets Held by Not-for-Profit Organizations*³.

¹ Includes Section PS 4210 - *Contributions - Revenue Recognition* and Section PS 4220 - *Contributions Receivable*.

² See also our publication PSAB At a Glance: Section PS 1201 - *Financial Statement Presentation*.

³ See also our publication PSAB At a Glance: Section PS 4230 - *Capital Assets Held by Not-for-Profit Organizations*.

Measurement

- Contributions must be measured at fair value at the date of contribution if fair value can be reasonably estimated.

Deferral Method

- Under the deferral method of accounting for contributions, restricted contributions related to expenses of future periods are deferred and recognized as revenue in the period in which the related expenses are incurred.
- Restricted contributions for which related restrictions remain unfulfilled are accumulated as deferred contributions.
- All other contributions are reported as revenue of the current period.
- Organizations that use fund accounting in their financial statements without following the restricted fund method, account for contributions under the deferral method.

Recognition

- **Endowment contributions**
 - Must be recognized as direct increases in net assets in the current period.
- **Restricted contributions for expenses of one or more future periods**
 - Must be deferred and recognized as revenue in the same period / periods in which the related expenses are recognized.
- **Restricted contributions for the purchase of capital assets**
 - That will be amortized - must be deferred and recognized as revenue on the same basis as the amortization expense related to the capital assets acquired.
 - That will not be amortized - must be recognized as direct increases in net assets.
 - Refer to the guidance provided in paragraph PS 4210.37 on how to account for contributions for the purchase of capital assets when a GNPO meets the criteria outlined in paragraph PS 4230.03 and expenses capital assets on acquisition or capitalizes capital assets but does not amortize them.
- **Restricted contributions for the repayment of debt**
 - That was incurred to fund expenses of one or more future periods - must be deferred and recognized as revenue in the same period / periods in which the related expenses are recognized.
 - That was incurred to fund the purchase of capital assets that will not be amortized - must be recognized as direct increases in net assets.
 - That was incurred for purposes other than those described above - must be recognized in revenue in the current period.
- **Restricted contributions for expenses of the current period**
 - Must be recognized as revenue in the current period.
- **Unrestricted contributions**
 - Must be recognized as revenue in the current period.
- **Net investment income**
 - Not externally restricted - must be recognized in the Statement of Operations.
 - Externally restricted net investment income that must be added to the principal amount of resources held for endowment - must be recognized as direct increases / decreases in net assets.
 - Other externally restricted net investment income - must be recognized in the Statement of Operations, in the appropriate deferred contribution balances or in net assets depending on the nature of the restrictions set out in paragraphs PS 4210.31-.48 described above.

Presentation

- **Deferred contributions**
 - Deferred contribution balances must be presented in the Statement of Financial Position outside of net assets (i.e. as a liability).

Restricted Fund Method

- The restricted fund method of accounting for contributions is a specialized type of fund accounting which involves the reporting of details of financial statement elements by fund in such a way that the organization reports total general funds, one or more restricted funds, and an endowment fund, if applicable.
- All similar contributions recognized by an organization are to be treated consistently.

General Fund

- A self-balancing set of accounts which reports all unrestricted revenue and restricted contributions for which no corresponding restricted fund is presented.
- The fund balance represents net assets not subject to externally imposed restrictions.

Restricted Fund

- A self-balancing set of accounts the elements of which are restricted or relate to the use of restricted resources.
- Only restricted contributions, other than endowment contributions, and other externally restricted revenue would be reported as revenue in a restricted fund.
- Allocations of resources that result from the imposition of internal restrictions are recorded as interfund transfers to the restricted fund.

Endowment Fund

- A self-balancing set of accounts which report the accumulation of endowment contributions.
- Only endowment contributions and investment income subject to restrictions stipulating that it be added to the principal amount of the endowment fund would be reported as revenue of the endowment fund.
- Allocations of resources to the endowment fund that result from the imposition of internal restrictions are recorded as interfund transfers.

Recognition

- **Endowment contributions**
 - Must be recognized as revenue of the endowment fund in the current period.
- **Restricted contributions reported in restricted funds**
 - When a GNPO presents a corresponding restricted fund for the type of restricted contribution received, the restricted contribution must be recognized as revenue of that specific restricted fund in the current period.
- **Restricted contributions reported in the general fund**
 - When a GNPO does not present a corresponding restricted fund for the type of restricted contribution received, the restricted contribution must be recognized in the general fund in accordance with the deferral method depending on the nature of the restriction imposed (refer to paragraphs PS 4210.31, .33, .34, .38, .39, .40, .45).
 - If a GNPO receives a restricted contribution and the organization does not currently present a corresponding restricted fund the organization may decide to establish such a fund. This represents a change in accounting policy and would be accounted for in accordance with Section PS 2120, *Accounting Changes*, with restatement of prior periods. Any similar restricted contributions received in the future would be accounted for in this new fund.
- **Unrestricted contributions**
 - Must be recognized as revenue of the general fund in the current period.
- **Net investment income**
 - Not externally restricted - must be recognized in the Statement of Operations in the general fund.
 - Externally restricted net investment income that must be added to the principal amount of resources held for endowment - must be recognized in the Statement of Operations in the endowment fund.
 - Other externally restricted net investment income - must be recognized in the Statement of Operations, in the appropriate restricted fund, or if no such fund exists, in the general fund on the same basis as described in paragraph PS 4210.65.

Presentation

- **Deferred contributions**
 - Deferred contribution balances must be presented in the Statement of Financial Position outside of net assets (i.e. as a liability) when restricted contributions are recognized in the general fund in accordance with paragraph PS 4210.65.

Contributions Receivable

Recognition

- A contribution receivable must be recognized as an asset when it meets the following criteria:
 - The amount to be received can be reasonably estimated; and
 - Ultimate collection is reasonably assured.

Pledges and Bequests

- A promise to contribute cash / other assets to a GNPO is a pledge.
 - An uncollected pledge would only be recognized if the recognition criteria described above for contributions receivable are met.
 - Often, pledges are not recognized until the pledged assets are received, as whether or not a pledge will be collected depends on factors outside the GNPO's control and thus in many cases the pledge does not meet the criteria for recognition as a contribution receivable.
- Bequests are often not recognized until received, as they are often subject to considerable uncertainty regarding both the timing and amount that will be received and thus do not meet the recognition criteria for contributions receivable.

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