

SECTION 4410 contributions — revenue recognition

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PURPOSE AND SCOPE

- .01 This Section establishes standards for the recognition, measurement, presentation and disclosure of contributions, and related investment income, received by not-for-profit organizations. For purposes of this Section, contributions include contributions receivable recognized in the financial statements in accordance with CONTRIBUTIONS RECEIVABLE, Section 4420. The recognition of other revenue by not-for-profit organizations, such as that arising from the sale of services or goods, is dealt with in REVENUE, Section 3400 in Part II of the Handbook.

DEFINITIONS

- .02 The following definitions have been adopted for purposes of this Section.
- (a) **Not-for-profit organizations** are entities, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit

- purpose. A not-for-profit organization's members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.
- (b) A **contribution** is a non-reciprocal transfer to a not-for-profit organization of cash or other assets or a non-reciprocal settlement or cancellation of its liabilities. Government funding provided to a not-for-profit organization is considered to be a contribution.
- There are three types of contributions identified for purposes of this Section:
- (i) A **restricted contribution** is a contribution subject to externally imposed stipulations that specify the purpose for which the contributed asset is to be used. A contribution restricted for the purchase of a capital asset or a contribution of the capital asset itself is a type of restricted contribution.
 - (ii) An **endowment contribution** is a type of restricted contribution subject to externally imposed stipulations specifying that the resources contributed be maintained permanently, although the constituent assets may change from time to time.
 - (iii) An **unrestricted contribution** is a contribution that is neither a restricted contribution nor an endowment contribution.
- (c) **Restrictions** are stipulations imposed that specify how resources must be used. External restrictions are imposed from outside the organization, usually by the contributor of the resources. Internal restrictions are imposed in a formal manner by the organization itself, usually by resolution of the board of directors. Restrictions on contributions may only be externally imposed. Net assets or fund balances may be internally or externally restricted. Internally restricted net assets or fund balances are often referred to as reserves or appropriations.
- (d) 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. Endowment contributions are reported as direct increases in net assets. 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 would account for contributions under the deferral method.
- (e) 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. Reporting of financial statement elements segregated on a basis other than that of use restrictions (for example, by program or geographic location) does not constitute the restricted fund method. The following definitions relate to the restricted fund method of accounting for contributions:
- (i) A **restricted fund** is 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.
 - (ii) An **endowment fund** is a self-balancing set of accounts which reports 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.
 - (iii) A **general fund** is 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 that are not subject to externally imposed restrictions.
- (f) **Fair value** is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.
- .03 Contributions can come from many sources, including individuals, corporations, governments and other not-for-profit organizations. Contributions include contributions receivable that meet the criteria for recognition in the financial statements (see **CONTRIBUTIONS RECEIVABLE**, Section 4420).
- .04 Certain types of government funding are calculated and paid as if they were fees for services. However, because the services being funded are provided to the not-for-profit organization's community of service, and not directly to the government funder, government funding is considered to be a contribution for purposes of this Section.
- .05 Many not-for-profit organizations receive membership fees. Such fees are considered fees for services when members receive services having a value commensurate with fees paid. In other cases, membership fees may be in substance contributions. An organization would decide whether its membership fees are contributions or fees for services and account for them accordingly on a consistent basis. Some membership fees have characteristics of both fees for services and contributions. Such fees would be divided into the portion that relates to fees for services and the portion that is in substance a contribution.

Restricted contributions

- .06 The distinction between restricted contributions and unrestricted contributions is important since different reporting principles apply. The fact that an organization does not expect or is unable to spend a contribution received in the current period, perhaps because the contribution was received late in the year, would not be sufficient grounds for presenting it as restricted. Most externally imposed restrictions will be explicitly stated by the contributor. However, external restrictions may also be clear from the purpose for which the contribution was solicited by the organization. Such implicit restrictions must bind the organization to use the resources contributed for the purposes specified. An organization would be considered to be bound by implicit restrictions as long as the contributor is aware of the purposes for which the contribution will be used and would have recourse if the contributed resources were not used in the ways specified. Implicit and explicit restrictions may be evident by a requirement to report to the contributor that the contribution was used in a way that fulfills the restrictions. Restricted contributions that will not be used in the manner stipulated may have to be returned, unless the contributor gives permission for another use.
- .07 Restrictions stipulate uses for the contributed resources that are more specific than broad limits resulting from the nature of the organization or the environment in which it operates. A restriction may stipulate an area of the organization's activities in which the contributed resources are to be used. Alternatively, an organization may receive a contribution subject to restrictions that the contribution be used for the organization's general operations in a future period. A contribution received with instructions that it be used for general operations and without any indication of the period in which it should be used or of the specific operating expenses it is intended to fund would not be considered restricted.

Restricted government funding — special considerations

- .08 Government funding is a significant component of many not-for-profit organizations' total contributions. The assessment of whether government funding in a particular situation represents a restricted or an unrestricted contribution depends on the characteristics of the contribution. Restrictions on government funding may be indicated by the fact that the funding is provided based on the organization's approved operating budget. Another indication that funding is restricted may be a requirement to report to the funder as to how the resources were actually used. Sometimes restricted government funding left over at the end of the period must be returned to the funder.
- .09 Some annual government funding arrangements relate more closely to time periods than to the incurring of specific expenses. For example, a funder may contribute funds for a particular period without specifically identifying the expenses towards which the contribution is to be applied. Such contributions, when received in advance of the period that is being funded, are in effect restricted contributions related to expenses of the future period being funded.

REVENUE RECOGNITION

- .10 *An organization should recognize contributions in accordance with either:*
 - (a) *the deferral method* (see paragraphs 4410.28-.56); or
 - (b) *the restricted fund method* (see paragraphs 4410.57-.77).
- .11 A unique characteristic of contributions is that they are often subject to externally imposed restrictions that specify how the resources contributed are to be used or, in some cases, that they be maintained permanently. Not-for-profit organizations have three types of contributions to report: endowment contributions, restricted contributions and unrestricted contributions. To show the extent to which the organization has been able to obtain resources to cover the expenses associated with service delivery for the period, it is necessary to report in a way that distinguishes the different types of contributions. This reporting is achieved by following either the deferral method or the restricted fund method of accounting for contributions.
- .12 An organization would select one of the methods for recognizing contributions set out in paragraph 4410.10 and apply that method consistently to all contributions received. If an organization changes its method of accounting for contributions, the change would be treated as a change in accounting policy in accordance with ACCOUNTING CHANGES, Section 1506 in Part II of the Handbook.
- .13 Under the deferral method, contributions for which externally imposed restrictions remain unfulfilled are accumulated as deferred contributions in the statement of financial position. Under this method, endowment contributions are not recognized as revenue at all since they must be maintained permanently.
- .14 The restricted fund method is a specialized use of fund accounting in which the organization presents total general funds and at least one restricted fund. Most restricted contributions and endowment contributions are reported separately from unrestricted resources by using restricted funds and an endowment fund. Contributions for which externally imposed restrictions remain unfulfilled, as well as endowment contributions, are presented in the appropriate fund balance.
- .15 Not all uses of fund accounting will meet the definition of the restricted fund method. An organization may present its financial statements on a fund accounting basis without following the restricted fund method. The restricted fund method is a specific use of fund accounting in which the various funds are used primarily to segregate restricted resources from unrestricted resources. Fund accounting may be used for purposes other than to report restrictions, for example to report on different programs in such a way that individual funds include both restricted and unrestricted resources. When fund accounting is not being used in a way that meets the definition of the restricted fund method, the organization would recognize contributions using the deferral method in the various funds reported. (A general discussion of fund accounting is presented in FINANCIAL STATEMENT PRESENTATION BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4400.)

Contributed materials and services

- .16 An organization may choose to recognize contributions of materials and services, but should do so only when a fair value can be reasonably estimated and when the materials and services are used in the normal course of the organization's operations and would otherwise have been purchased.
- .17 Organizations may receive substantial contributed materials and services. Often these contributions are not recorded because of record-keeping and valuation difficulties. For example, it may be impractical to record the receipt of contributed services where the organization depends heavily on the use of volunteers to provide services. Where contributed materials and services meet the criteria in paragraph 4410.16, recording their value would provide useful information.
- .18 Contributed materials and services that are part of a constructed or developed capital asset would be recognized at fair value in accordance with TANGIBLE CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4433 or INTANGIBLE ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 4434.

MEASUREMENT

- .19 Contributions should be measured at fair value at the date of contribution if fair value can be reasonably estimated, except for the cash surrender value of a life insurance policy. [Former paragraph 4410.19, amended by ACCOUNTING GUIDELINE AcG-21, Accounting for Life Insurance Contracts with Cash Surrender Value, in Part II of the Handbook, retained in Archived Pronouncements.]
- .20 A contribution of assets other than cash or the cash surrender value of a life insurance policy would be measured at fair value. Fair value would be estimated using market or appraisal values. For contributed materials and services that are normally purchased, fair value would be determined in relation to the purchase of similar materials and services. An organization that receives a contribution of a life insurance policy with cash surrender value should measure the contribution at the cash surrender value on the date the organization becomes the owner and beneficiary of the insurance policy (see ACCOUNTING GUIDELINE AcG-21, Accounting for Life Insurance Contracts with Cash Surrender Value). [Former paragraph 4410.20, amended by ACCOUNTING GUIDELINE AcG-21, Accounting for Life Insurance Contracts with Cash Surrender Value, in Part II of the Handbook, retained in Archived Pronouncements.]

DISCLOSURE

- .21 An organization should disclose:
 - (a) the policy followed in accounting for endowment contributions; and
 - (b) the policies followed in accounting for restricted contributions.
- .22 An organization should disclose its contributions by major source.
- .23 An organization should disclose the policy followed in accounting for contributed materials and services.
- .24 An organization should disclose the nature and amount of contributed materials and services recognized in the financial statements.
- .25 Organizations will report contributions differently depending on whether they follow the deferral method or the restricted fund method. An organization would disclose its policies for accounting for each different type of contribution.
- .26 Information about the sources of contributions will help financial statement users to assess the organization's economic relationship with other entities and to predict its ability to generate future cash flows. This information would be disclosed for each source of significant contributions to the organization. The sources would be grouped by major categories, such as different levels of government, foundations, corporate contributors, individuals and other not-for-profit organizations. It may be desirable to name individual entities providing significant levels of support unless there is reason for them to remain anonymous.
- .27 The disclosures required by paragraphs 4410.21-.24 would be provided by all not-for-profit organizations. Specific presentation and disclosure requirements related to organizations following the deferral method and to those following the restricted fund method are discussed in paragraphs 4410.52-.56 and paragraphs 4410.73-.77, respectively.

DEFERRAL METHOD

- .28 Under the deferral method, restricted contributions for which the related restrictions remain unfulfilled are accumulated as deferred contributions. As a result, the organization's excess of revenue over expenses for the period represents the increase in resources that are not restricted to cover specific expenses of a future period. Organizations that choose to follow the restricted fund method would refer to paragraphs 4410.57-.77.

Recognition of endowment contributions

- .29 Endowment contributions should be recognized as direct increases in net assets in the current period.
- .30 Endowment contributions will never be available to meet expenses associated with the organization's service delivery activities. Therefore, an organization following the deferral method would exclude such contributions from revenue available for current expenses by recognizing them as direct increases in net assets. Net investment income earned on resources held for endowment would be accounted for in accordance with paragraph 4410.49.

Recognition of restricted contributions for expenses of future periods

- .31 *Restricted contributions for expenses of one or more future periods should be deferred and recognized as revenue in the same period or periods as the related expenses are recognized.*
- .32 The deferral of restricted contributions related to expenses of future periods provides the organization with a means to segregate those contributions of resources that must be set aside to cover expenses in the future. The deferred contributions balances reported on the statement of financial position represent the amount of restricted contributions that are related to expenses of future periods. When these contributions are recognized as revenue, they will be matched with the expenses that they were intended to fund. When the only restriction on a contribution is that it cannot be used until a particular future period, the total amount of the contribution would be recognized as revenue in that future period, whether or not it has been spent.

Recognition of restricted contributions for the purchase of capital assets

- .33 *Restricted contributions for the purchase of capital assets that will be amortized should be deferred and recognized as revenue on the same basis as the amortization expense related to the acquired capital assets.*
- .34 *Restricted contributions for the purchase of capital assets that will not be amortized should be recognized as direct increases in net assets.*
- .35 The deferral of contributions restricted for the purchase of capital assets that will be amortized provides a means to match such contributions with the benefits provided by the capital assets acquired. Such contributions will be recognized as revenue over the useful life of the acquired capital asset to reflect the fact that the contribution provides benefits in all the periods in which the organization has the use of the capital asset. When the acquired capital asset will not be subject to amortization because it has an unlimited useful life, it is not possible to match the contribution with the benefits provided since these benefits are unlimited. Therefore, contributions restricted for the purchase of capital assets that will not be amortized are recognized as direct increases in net assets.
- .36 A restricted contribution may be provided for a certain area of activity, for example research, without the contributor specifying which portion is to be used to acquire capital assets. In order for a contribution to be accounted for as a contribution restricted for the purchase of a capital asset, the contributor must specify the portion of the contribution that is to be used to purchase capital assets. If the contributor does not so specify, then the contribution would be recognized as revenue when spent for the particular purpose covered by the restriction, regardless of the fact that some of the expenditures may relate to the purchase of capital assets.
- .37 Organizations that meet the criteria in TANGIBLE CAPITAL ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, paragraph 4433.03, or INTANGIBLE ASSETS HELD BY NOT-FOR-PROFIT ORGANIZATIONS, paragraph 4434.02, and that expense capital assets on acquisition would account for restricted contributions for the purchase of capital assets in accordance with paragraph 4410.31 or 4410.45, as appropriate. If capital assets are capitalized but not amortized, restricted contributions for the purchase of capital assets would be accounted for in accordance with paragraph 4410.34.

Recognition of restricted contributions for the repayment of debt

- .38 *Restricted contributions for the repayment of debt that was incurred to fund expenses of one or more future periods should be deferred and recognized as revenue in the same period or periods as the related expenses are recognized.*
- .39 *Restricted contributions for the repayment of debt that was incurred to fund the purchase of a capital asset that will not be amortized should be recognized as direct increases in net assets.*
- .40 *Restricted contributions for the repayment of debt that was incurred for purposes other than those described in paragraph 4410.38 or .39 should be recognized as revenue in the current period.*
- .41 When an organization obtains debt financing for specific purposes, contributions restricted for the repayment of that debt would be recognized as if the contribution itself were restricted for the same purpose as the debt financing was used. For example, a restricted contribution for the repayment of the mortgage on an organization's building would be recognized as revenue in the same periods as the amortization expense associated with the building. (This treatment is consistent with the accounting for restricted contributions for the purchase of capital assets set out in paragraph 4410.33.) When the restricted contribution to repay the mortgage is received as a lump sum, matching with the related amortization expense would be achieved by deferring the contribution and recognizing it as revenue over the remaining useful life of the building. When the restricted contributions for the repayment of the mortgage are received to fund the periodic mortgage repayments, matching with the related amortization expense may be achieved by recognizing the contributions as revenue when received.
- .42 In considering whether debt was incurred to fund specific expenses, the organization would consider the timing of the debt financing in relation to the incurring of the expenses. If debt financing is obtained to coincide with a particular project, then it may be linked with the expenses related to that project. Debt would likely be considered to be linked with a particular capital asset if the debt were used to finance the acquisition and the capital asset were pledged as security. Because of their current nature, most short-term operating loans would be considered to be related to expenses of the current period.
- .43 Debt financing may be incurred to fund the purchase of a capital asset that will not be amortized, such as land. Any contributions restricted for the repayment of such debt would be recognized as direct increases in net assets. This

treatment is consistent with the accounting for restricted contributions for the purchase of capital assets that will not be amortized (see paragraph 4410.34).

- .44 Restricted contributions for the repayment of debt that was incurred for purposes other than to fund expenses of future periods or the acquisition of capital assets that will not be amortized would be recognized as revenue in the current period. Such contributions are similar to unrestricted contributions since they effectively allow the organization the use of unrestricted resources that would otherwise have been used to repay its debt.

Recognition of restricted contributions for expenses of the current period

- .45 *Restricted contributions for expenses of the current period should be recognized as revenue in the current period.*
- .46 When a restricted contribution is received or recognized as a contribution receivable in the same period in which the related expenses are incurred, the restrictions have been complied with by the reporting date. Therefore, such restricted contributions would be recognized as revenue in the current period.

Recognition of unrestricted contributions

- .47 *Unrestricted contributions should be recognized as revenue in the current period.*
- .48 Since unrestricted contributions are for use at the organization's discretion, they are available to fund operations of current and future periods as required. This increase in economic resources is recognized when it occurs by reporting such contributions as revenue of the current period.

Recognition of net investment income

- .49 An organization should recognize:
- (a) *net investment income that is not externally restricted in the statement of operations;*
 - (b) *externally restricted net investment income that must be added to the principal amount of resources held for endowment as direct increases, or decreases, in net assets; and*
 - (c) *other externally restricted net investment income in the statement of operations, in the appropriate deferred contributions balance or in net assets, depending on the nature of restrictions, on the same basis as described in paragraphs 4410.31-48.*
- .50 Net investment income may be subject to externally imposed restrictions. In order to ensure the appropriate reporting of restricted and unrestricted resources, an organization would account for net investment income in the manner appropriate to the nature of any external restrictions imposed.
- .51 For purposes of this Section, net investment income includes revenue, gains or losses on investments. Any gains or losses on investments would be considered to be restricted or unrestricted based on the restrictions imposed on the resources originally contributed. For example, if losses were recognized on investments purchased with contributions subject to externally imposed, if any, restrictions that the related income is to be used for a particular project, the losses would be recognized as decreases in the deferred contributions balance related to that project. If there were no deferred contributions balance related to that project, such losses would be recognized in the statement of operations.

Presentation and disclosure

Deferred contributions

- .52 *Deferred contributions balances should be presented in the statement of financial position outside net assets.*
- .53 *An organization should disclose the nature and amount of changes in deferred contributions balances for the period.*
- .54 The deferral method of reporting contributions is an alternative to the restricted fund method. Disclosure of changes in deferred contributions balances permits comparisons between organizations that follow the deferral method and those that follow the restricted fund method. Increases in deferred contributions balances normally result from the receipt of restricted contributions for which the related expenses will not be recognized until a later period. Decreases normally result from the recognition in revenue of previously deferred contributions. It may be desirable to present the changes in deferred contributions balances as a separate statement.

Net investment income earned on resources held for endowment

- .55 An organization should disclose the following related to net investment income earned on resources held for endowment:
- (a) *the amounts recognized in the statement of operations in the period;*
 - (b) *the amounts deferred in the period;*
 - (c) *the amounts recognized as direct increases or decreases in net assets in the period; and*
 - (d) *the total earned in the period.*
- .56 Net investment income earned on resources held for endowment is in effect a contribution and would be reported based on the nature of any related externally imposed restrictions (see paragraphs 4410.49-.51). As a result, some portions of net investment income earned in the period may be recognized immediately as revenue, while other portions may be deferred or reported as direct increases in net assets. Disclosure of total net investment income will allow financial statement readers to assess the performance of investments held for endowment. This disclosure would be presented in a way that shows which portions of total net investment income appear in the financial statements as revenue, deferred contributions and direct increases in net assets. Similar disclosure may be useful for other externally restricted net investment income.

RESTRICTED FUND METHOD

- .57 The restricted fund method is a specialized use of fund accounting. Organizations using fund accounting in ways that do not meet the definition of the restricted fund method would follow the deferral method in accordance with paragraphs 4410.28-.56. When an organization follows the restricted fund method, it presents a single general fund, or the total of all general funds, and one or more restricted funds. The purpose of a restricted fund is to record the receipt and use of resources that are subject to restrictions. An organization following the restricted fund method would also present a separate endowment fund if it receives endowment contributions. All revenue reported in a restricted fund is externally restricted. Resources transferred to a restricted or endowment fund as a result of the organization imposing internal restrictions would be recognized as interfund transfers in accordance with the general requirements on fund accounting presented in FINANCIAL STATEMENT PRESENTATION BY NOT-FOR PROFIT ORGANIZATIONS, paragraphs 4400.06-.17.
- .58 The restricted fund method requires that a general fund be used to report changes in unrestricted net assets. Organizations may choose to report more than one general fund as long as a total for all general funds is presented. Restricted contributions would be recognized in the general fund using the deferral method when an appropriate restricted fund does not exist. The excess or deficiency of revenues over expenses in the general fund represents the change in net assets that are not restricted to cover future periods' expenses.
- .59 An organization following the restricted fund method of accounting for contributions would choose which restricted funds to report. Because of this choice, two organizations following the restricted fund method may each report similar kinds of restricted contributions differently. For example, one organization may present contributions restricted for research in a separate restricted research fund. Another organization may not report a separate research fund. In this case, contributions that are restricted for research purposes would be reported in the general fund using the deferral method. What is important is that all similar contributions recognized by the organization be treated in a consistent manner.

Recognition of endowment contributions

- .60 *Endowment contributions should be recognized as revenue of the endowment fund in the current period.*
- .61 The only revenue reported in the endowment fund would be endowment contributions and net investment income subject to externally imposed restrictions stipulating that it be added to the endowment fund. Any allocations of internally restricted resources to the endowment fund would be accounted for as interfund transfers. The endowment fund balance represents the accumulation of resources subject to both externally and internally imposed restrictions specifying that they be maintained permanently. Net investment income earned on resources held for endowment would be recognized in the manner appropriate to whether it is restricted or unrestricted, in accordance with paragraph 4410.70.

Recognition of restricted contributions reported in restricted funds

- .62 *Restricted contributions for which a corresponding restricted fund is presented should be recognized as revenue of that fund in the current period.*
- .63 Under the restricted fund method, an organization would report one or more restricted funds. Each restricted fund would accumulate resources that are restricted for similar purposes. Contributions subject to similar external restrictions would all be accounted for the same way on a consistent basis from year to year. For example, if an organization reports a restricted research fund, all contributions received subject to restrictions stipulating that they be used for research would be reported as revenue of the restricted research fund. A change in the restricted funds reported would be treated as a change in accounting policy in accordance with ACCOUNTING CHANGES, Section 1506 in Part II of the Handbook.
- .64 The only revenue reported in a restricted fund would be restricted contributions and other revenue subject to externally imposed restrictions, such as income earned on resources held for endowment. Any allocations of internally restricted resources to a restricted fund would be accounted for as interfund transfers. The restricted fund balance at the reporting date represents the accumulation of resources subject to internal or external restrictions that have yet to be complied with.

Recognition of restricted contributions reported in the general fund

- .65 *Restricted contributions for which no corresponding restricted fund is presented should be recognized in the general fund in accordance with the deferral method (see paragraphs 4410.31, 4410.33, 4410.34, 4410.38, 4410.39, 4410.40 or 4410.45).*
- .66 Organizations following the restricted fund method would present a general fund, the purpose of which is to account for both unrestricted revenues and restricted contributions for which there is not a corresponding restricted fund. For example, core operating funding that is provided to fund specifically identified expenses would be considered to be a restricted contribution. An organization may prefer to report core operating funding in the general fund. The same recognition principles that apply to an organization using the deferral method apply to the general fund. Therefore, a restricted contribution reported in the general fund would be accounted for in accordance with paragraph 4410.31, 4410.33, 4410.34, 4410.38, 4410.39, 4410.40 or 4410.45, depending on the nature of the restrictions imposed on the contribution.
- .67 When an organization receives a restricted contribution for which it does not present a corresponding restricted fund, it may decide to establish such a fund. All subsequent restricted contributions for similar purposes would be reported in the restricted fund established for that purpose. Since such a change represents a change in accounting policy, prior

years' financial statements would be retroactively restated if similar contributions had been reported in the general fund in prior periods (see ACCOUNTING CHANGES, Section 1506 in Part II of the Handbook). Any resources allocated to the new fund based on internal restrictions would be recorded as interfund transfers.

Recognition of unrestricted contributions

- .68 *Unrestricted contributions should be recognized as revenue of the general fund in the current period.*
- .69 Unrestricted contributions are available for use at the organization's discretion. When all such contributions are reported as revenue of the general fund, the excess of revenues over expenses in the general fund represents the increase in unrestricted net assets after deducting the expenses of the current period. Unrestricted resources may be allocated to a restricted fund but this allocation would be reported as an interfund transfer.

Recognition of net investment income

- .70 *An organization should recognize:*
- (a) *net investment income that is not externally restricted in the statement of operations in the general fund;*
 - (b) *externally restricted net investment income that must be added to the principal amount of resources held for endowment in the statement of operations in the endowment fund; and*
 - (c) *other externally restricted net investment income in the statement of operations in the appropriate restricted fund or, if there is no appropriate restricted fund, in the general fund on the same basis as that described in paragraph 4410.65.*
- .71 Net investment income may be subject to externally imposed restrictions. In order to ensure the appropriate reporting of restricted and unrestricted resources, an organization would account for net investment income in the manner appropriate to the nature of any external restrictions imposed.
- .72 For purposes of this Section, net investment income includes revenue, gains or losses on investments. Any gains or losses would be considered to be restricted or unrestricted based on the restrictions imposed on the resources originally contributed. For example, losses recognized on investments purchased with contributions subject to externally imposed, if any, restrictions that the related income be used for research would be recognized in the statement of operations in the research fund.

Presentation and disclosure

Deferred contributions

- .73 *When restricted contributions are recognized in the general fund in accordance with paragraph 4410.65, any deferred contributions balances should be presented in the statement of financial position outside net assets.*
- .74 *When restricted contributions are recognized in the general fund in accordance with paragraph 4410.65, the nature and amount of changes in deferred contributions balances for the period should be disclosed.*
- .75 Deferred contributions may be recognized in the general fund related to restricted contributions for which no corresponding restricted fund is reported. Increases in deferred contributions balances normally result from the receipt of restricted contributions for which the related expenses will not be recognized until a later period. Decreases normally result from the recognition in revenue of previously deferred contributions. It may be desirable to present the changes in deferred contributions balances as a separate statement.

Net investment income earned on resources held for endowment

- .76 *An organization should disclose the following related to net investment income earned on resources held for endowment:*
- (a) *the amounts recognized in the general fund in the period;*
 - (b) *the amounts recognized in each restricted fund in the period;*
 - (c) *the amounts recognized in the endowment fund in the period;*
 - (d) *any amounts deferred in the period; and*
 - (e) *the total earned in the period.*
- .77 Net investment income earned on resources held for endowment is to be reported based on the nature of any associated restrictions (see paragraphs 4410.70-72). As a result, some portions of net investment income earned in the period may be reported in the general fund while other portions would be reported in the appropriate restricted fund or in the endowment fund. Disclosure of total net investment income will allow financial statement readers to assess the performance of investments held for endowment. This disclosure would be presented in a way that shows which portions of total net investment income appear in the general, restricted and endowment funds. Similar disclosure may be useful for other externally restricted net investment income.

EFFECTIVE DATE

- .78 This Section applies to annual financial statements relating to fiscal years beginning on or after January 1, 2012. Earlier application is permitted.
- .79 Amendments to paragraphs 4410.19 and 4410.20, issued in September 2024, apply to annual financial statements relating to fiscal years beginning on or after January 1, 2026. Earlier application is permitted.

DECISION TREES

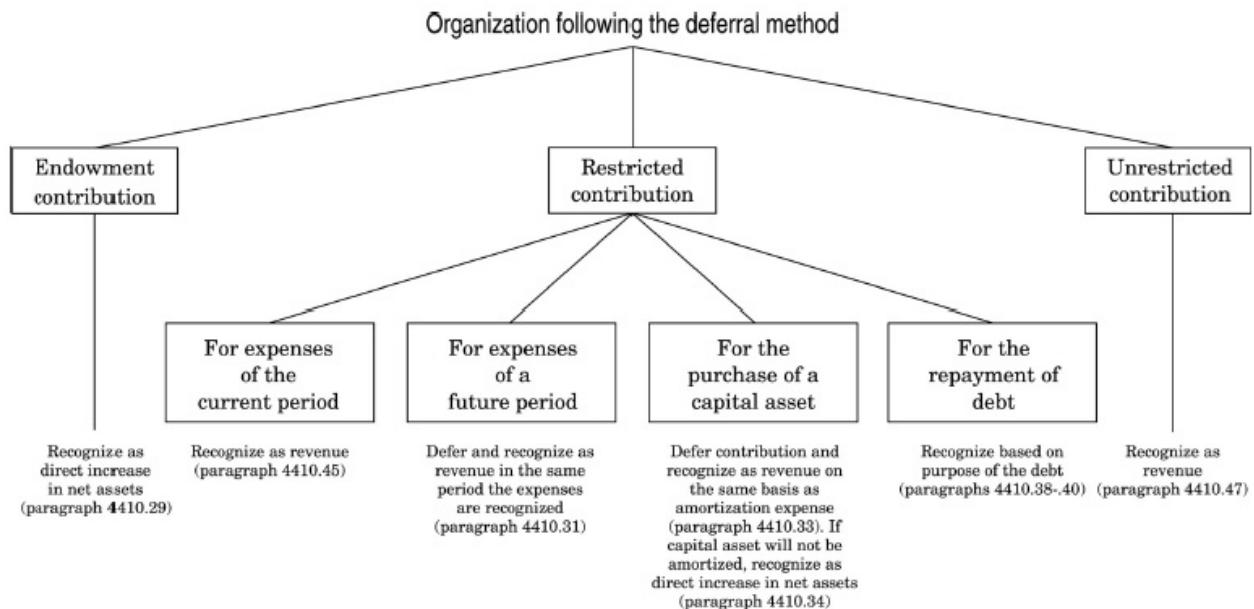
These Decision Trees are illustrative only.

The following Decision Trees illustrate how the accounting treatment specified in this Section might be applied in particular situations. Matters of principle relating to particular situations should be decided in the context of this Section.

Decision tree 1 — Organization following the deferral method

Decision tree 2 — Organization following the restricted fund method

Decision tree 1



Decision tree 2

