

4 May 2006

The Chairman  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
Victoria 8007

Dear Sir

**Comments on ED 147 "Revenue from Non-Exchange Transactions (Including Taxes and Transfers)"**

We thank you for the opportunity to comment on the proposals contained in the abovementioned exposure draft.

**Our background and potentially applicable circumstances**

Anglicare Victoria is a not-for-profit agency that exists to resource and empower children, young people and families to achieve their full potential through the promotion of social justice, the strengthening of local communities and the provision of quality innovative services. Our major source of funding is through government funding and service agreements.

Other important sources of funding to supplement our income from government and support our various service programs include fundraising and bequests. In many instances, funding providers, such as charitable trusts, providing these resources/grants do so subject to certain requirements which are normally referred to as conditions. These arrangements may often be referred to as "tied fundraising". The requirements/conditions may include:

- Using the grant exclusively for the nominated project(s)/program(s);
- Using best endeavours to complete the nominated project, or stage of the project, to which the grant specifically relates, by a nominated date;
- Advising the funding provider of any material change which may effect the grantee's ability to undertake or complete the project by the nominated date;
- Expending the grant in a specific location;
- Showing the grant separately in the grantee's books of account and keep records adequately to enable the use of the grant funds to be checked readily;
- Acknowledging the assistance of the funding provider in any promotional material relating to the project;

- Providing the funding provider with a final report on or before a nominated date which includes:
  - A brief description of the nominated project;
  - A brief description of the project at the time of the final report;
  - A brief outline of any changes which were made to the original project and reasons for those changes;
  - A statement of expenditure showing the amount received, details of the amounts expended on the project, and the balance remaining.

There is usually no explicit condition to return the funding in any circumstance. It may be necessary from time to time to agree with the funding provider either an extension to the nominated date to complete the project or to change the project/services to be undertaken by the agency for any number of reasons (which may or may not be within the control of the agency). The funding provider has provided the grant, not for personal gain, but so that services can be provided to help others in less fortunate circumstances. Given this motivation, and the vision of our agency (and probably most others in the not-for-profit sector) there exists a very high certainty that grants would be expended for the purpose they were provided.

Our agency continues to seek funding to pursue the various aspects of its abovementioned vision. Given the usual conditions attached to tied fundraising it may be possible that a funding provider could commence legal action to have the grant moneys returned in certain circumstances (despite the lack of a specific condition to that effect). It may also be possible for the funding provider to take legal action for, say, specific performance. However, our agency, and probably most, if not all, other not-for-profit agencies, strive to maintain good relationships with funding providers. Failure to do so would result in relationships with a funding provider breaking down to a point where the not-for-profit agency would lose the ability to obtain future funding from that provider (and perhaps other providers known to that provider) as its reputation becomes severely compromised.

#### **Adoption of the “matching of related cost” method is appropriate**

The nominated date for completing a project relating to a grant is often in a reporting period subsequent to the reporting period in which it is probable that the grant will become available. In our very strong view, it is entirely appropriate and realistic to defer the recognition of revenue from the grant and match it with the related expenditure. Furthermore, this matching of related costs or percentage of completion principle is adopted, for example, in *AASB 118 Revenue*, *AASB 111 Construction Contracts* and *AASB 120 Accounting for Government Grants and Disclosure of Government Assistance*.

The recognition of tied funds received as an asset in the balance sheets of not-for-profit entities whilst ignoring the offsetting liability that exists at the relevant date due to "stipulations" (which may be seen as merely "restrictions" in *ED 147*) to expend those funds in a specific way over a specific period of time (even if changes can be negotiated) clearly overstates the net financial resources of an agency to undertake other activities or meet other obligations, which it could do in the absence of these "stipulations". This could then lead to a view by government and other funding providers that such "well resourced" agencies do not require as much financial support and could potentially lead to such agencies having insufficient resources to continue their services to the detriment of those receiving their services. In this way the proposals set out in *ED 147* may not be in the best interests of the Australian economy, in particular to the community services sector.

We note, too, that the concept of recognising an asset without recognising what is very arguably a liability tied to its use is inconsistent with *AASB Framework for the Presentation and Presentation of Financial Statements*. Specifically, the need to exercise prudence to ensure that assets or income are not overstated and liabilities or expenses are not understated is critical to the viability of the not-for-profit agencies as most of them operate at break-even, small surpluses or deficits.

The proposals set out in *ED 147* are not only too restrictive, but we fail to understand why our agency, and the not-for-profit sector generally, should be exempted from *AASB 118*. We believe *AASB 118* should override *AASB 1004* and apply in the abovementioned circumstances as "the rendering of services".

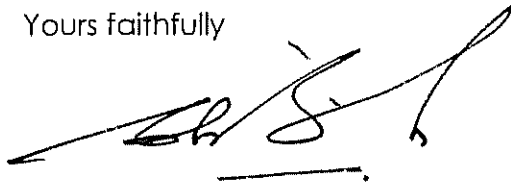
Furthermore, we would argue that if *AASB 1004 Contributions* is to apply to the not-for-profit sector, it should equally apply to the for-profit sector. Substance over form is a good rule to apply to transactions irrespective of the legal structures or industries of the entities engaged in these transactions.

If *AASB 1004 Contributions* is to be revised and is to apply to not-for-profit entities, a significant loosening of the requirements in *ED 147* is required. In the current proposal articulated in *ED 147*, an offsetting liability (i.e. best estimate of amount required to settle the obligations attached to a transferring asset) is recognised in the balance sheet when there is a "stipulation" (performance obligation) on a transferred asset that is a "condition" and not merely a "restriction". We would argue, for the reasons provided above, that the requirement for a specific legally enforceable return obligation which would be enforced by the "transferor" before any "stipulation" can be regarded as a "condition" is too onerous. To recognise an offsetting liability, the requirements of a material "restriction", when

combined with some requirement to report to the transferor (as in the example given above), should be adequate.

Please do not hesitate to contact me on (03) 9321 6101 or Howard Hamlyn on (03) 9321 6109 should you wish to discuss our comments.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Chris Baring-Gould', written over a horizontal line.

Chris Baring-Gould  
CFO  
Anglicare Victoria