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Comments on Financial Reporting Standard (Fred 48)

This response is submitted by the National Council of YMCAs representing the YMCA Movement in England. Founded 168 years ago, the YMCA in England is made up of 135 local YMCAs working to ensure that young people have opportunities to thrive and contribute positively to their communities. The YMCA operates in over 250 communities and covers four key areas of work namely: offering a safe place to stay; giving young people a fresh start through training and other opportunities; providing vital support to families; and helping communities to get active.

We recognise the considerable developments made since FRED 45 but still have a number of concerns on the proposals which in several key areas depart from current accounting practice for charities.

1) Definition of a restricted fund
   We are concerned that the current definition of a restricted fund is a significant departure from well recognised principals of charity accounting and charity law. This confusion then causes significant departures in the proposed recognition of income that can easily be avoided by using the existing definition of restricted funds from the Charities SORP or the earlier ASB publication "Interpretation for Public Benefit Entities of the Statement of Principles for Financial Reporting".

   The proposed treatment of restricted funds (to be held as a liability until all the conditions have been met) creates several anomalies. For example it is not uncommon for a funder to require an audit certificate that the funds have been used for the intended purpose. This will always be prepared after the event and could result in the income being recognised in the following accounting period!

   We would also contend that the deferral of this income is in conflict with the proposed definition of a liability ". . . expected to result in an outflow . . . of economic benefits". This income is not being deferred due to it being expected to be repaid but simply because not all the conditions have been satisfied. There is no contention that if it is <u>probable</u> that the funds will have to be returned then they should be recognised as a liability but if it is expected that the funds will be retained then they should be recognised as restricted income in the financial period in which they are received.

2) Recognition of grant income
   We are concerned at the different treatment of grant income and donations. It

is often very difficult to separate grant from a donation. We are also surprised that the proposed Financial Reporting Standard highlights government grants for different treatment from grants arising from other sources.

We recognise that there are differing treatment of capital grants in the housing and charity sectors and suggest that this is covered in the sector specific SORPs rather than prescribed in the Financial Reporting Standard.

3) Gifts in kind
Charities regularly receive donations in kind, for example office space at low rent, secondment of staff or per-bono professional services. We content that these should be valued at the value to the charity as there is no real market value ie a charity cannot usually sell on the donated service. This should be recognised at the value the charity would have had to pay to purchase a similar service recognising that they might have chosen offices in another location or a cheaper firm of professional advisors.

We hope you find these comments useful.

On behalf of YMCA England,

RS Lock

Richard Lock – Acting Director of Finance