



**NFP Sector Response To
Invitation to Comment
Financial Reporting by Not-For-
Profit Organizations**

Background – “Invitation to Comment” and Joint Initiative by ONN and Imagine Canada

- “Invitation to Comment” issued by Accounting Standards Board (AcSB) and Public Sector Accounting Board (PASB) early in 2009
 - Changes are being contemplated and implemented across all sectors
 - Submission deadline – June 30th, 2009
- ONN and Imagine Canada agree to joint initiative to develop a sector response
 - Accounting Standards Committee established
 - to review the Invitation to Comment
 - consult with sector stakeholders, and
 - establish responses to the questions raised in the Invitation to Comment that best reflect interests of organizations within the NFP sector.

Membership – Accounting Standards Committee

Laurie Mook	(Chair)	Social Economy Centre of the University of Toronto
Pat Bradley		Ontario Arts Council
Lynn Eakin		Ontario Nonprofit Network
Constance Exley		Ontario Nonprofit Network
Lois Fine		YWCA Toronto
Don McCreesh		Imagine Canada
Brandur Olafsson		Canadian Crossroads International
Anne Pashley		Ontario Trillium Foundation
Eric Plato		Frontier College
Bobbi-Jean White		KPMG
Heather Young		Young Associates

Committee Process

- Committee meetings and consultation (March – April)
- Develop draft Sector Response (May)
- Agree on consultation and communication process (May)
- Distribution of draft response to sector (late May)
- “Webinar” – June 2nd
- Solicit sector input / suggestions (June)
- ONN / Imagine Canada submission June 22nd
 - Individual sector organizations welcome to join ONN/Imagine Canada submission
- Individual sector organization submissions before June 30th

Invitation to Comment Presentation

Future of NPO Standards

Matters for comment / consideration

- One set of standards for all NPOs or a choice?
- What are the options?

Public Sector Accounting Board Handbook (“PSAB”)

PSAB Handbook + 4400 Series

Private business GAAP + 4400 Series

IFRS without modification

Option 1: PSAB Handbook

- PSAB standards are well suited for NPOs due to common objectives and accountabilities; however current PSAB Handbook doesn't address all matters covered by 4400 series
- PSAB standards are based on a conceptual framework, general recognition and measurement criteria similar to that in CICA Handbook – both are fundamentally accrual accounting models
- Differences are mainly associated with financial statement presentation and detailed recognition, measurement and disclosure standards

Option 1: PSAB Handbook (cont'd)

- PSAB financial statements distinguish net financial assets from non-financial assets that will be consumed in providing services
- ITC outlines areas of difference and key issues that would arise on application of PSAB standards by NPOs
 - Accounting for controlled entities
 - Reporting of intangible assets and collections (not recognized under PSAB Handbook)
 - Reporting of contributions such as endowments (not addressed in PSAB Handbook)
 - Different accounting model for retirement benefits

Option 1: PSAB Handbook (cont'd)

Benefits:

- Reporting methodology would align for entities for which the key users of the financial statements are government bodies following PSAB accounting

Challenges:

- No provisions on how to account for endowments
- Requires balance sheet to be reorganized into financial and non-financial assets and liabilities.
- Revenue and expenses would generate a change in net debt
- Potential issue with respect to timing of certain restricted contributions matching

Option 2: PSAB Handbook + 4400 Series

- Some modification may be required to conform 4400 series to PSAB's conceptual framework and other standards in the PSAB Handbook – could have implications for material in existing 4400 series
- Transitional matters would need to be addressed

Option 2: PSAB Handbook + 4400 Series (cont'd)

Benefits

- Reporting methodology would provide for specific guidance on Not-for-Profit unique items such as endowments, collections etc. and potentially eliminate some of the current differences

Challenges

- Unknown as to which sections will be adopted from PSAB and which from Section 4400 and how hierarchy will be established between the two when there are divergences.
- Reporting may not align with funder's expectations.

Option 3: Private Business GAAP + HB 4400

- AcSB developing unique standards for private businesses
- Exposure Draft has been released for comment
- This option will contain unique NPO guidance

Option 3: Private Business GAAP + HB 4400 (cont'd)

- New simplified financial instruments standards
- Simplified hedge accounting
- Reduced disclosures

Option 3: Private Business GAAP + HB 4400 (cont'd)

Benefits

- Reporting methodology would provide for specific items such as endowments, collections etc.
- Would recognize that certain entities have reporting objectives that might line up more closely with the private sector.
- Simplified disclosures

Challenges

- Private entity GAAP is being revised under the separate Invitation to Comment, which provides for an unknown component.
- Reporting may not align with funder's expectations.

Option 4: IFRS

- IFRS are designed for profit-oriented entities - do not address unique issues for NPOs
- International Accounting Standards Board is revising its conceptual framework
 - has agreed to consider application to NPOs, but only after concepts are fully developed for profit oriented entities
- Challenges arise in applying IFRS to
 - Contributions / Donations
 - Collections
 - Consolidations / reporting entity definitions
 - Capital assets and impairment
 - Matching and fund accounting

How is IFRS Applied to NPOs in Practice?

- European Union's mandate for IFRS is only for public companies
- IFRS is limited to NPOs in Central Eastern Europe, South Africa and Australia
- How IFRS is applied to NPOs varies from jurisdiction to jurisdiction
- Australia amended Australian IFRS to accommodate NPOs
- Cdn AcSB will NOT amend IFRS to accommodate NPOs

Considering Pronouncements of Other Standard Setters

- Under IFRS GAAP hierarchy, can only consider pronouncements of other standard-setting bodies with similar conceptual frameworks
- Would not be able to look to Australian guidance
 - **In many cases their amendments directly contravene IFRS**
- HB 4400, certain aspects of private business GAAP and US GAAP guidance for contributions may not be consistent with IFRS Framework

Position Paper

Questions Raised by Accounting Standards Boards & Responses Proposed for Submission

Question 1: *Do you agree that financial reporting for not-for-profit organizations should be closely linked to Generally Accepted Accounting Principles (GAAP) standards for other sectors, rather than developing an additional set of national standards that would apply only to not-for-profit organizations?*

Proposed Response:

- Financial reporting for NFP organizations should be closely linked to Generally Accepted Accounting Principles (GAAP) for other sectors
- Do not develop an additional set of national standards that would apply only to NFP organizations
 - assumes the continuance to supplement both private enterprise and public sector accounting standards with standards specific to the issues of the NFP sector

Questions Raised by Accounting Standards Boards & Responses Proposed for Submission

Question 2: *Do you support requiring all not-for-profit organizations to follow one set of standards? If so, which of the following alternatives do you support and why?*

Proposed Response:

- Not-for-profit organizations should not be required to follow one set of standards
 - None of the options listed in the Invitation to Comment meet the needs of all organizations in the NFP sector
 - Most NFP organizations feel that the accounting standards they currently use meet their needs in general and that the cost in both monetary terms and in people resources to transition to another set of standards is not warranted

Questions Raised by Accounting Standards Boards & Responses Proposed for Submission

Question 3: *Alternatively, do you support making options available to not-for-profit organizations based on an assessment of their users needs? If so, do you agree with the tentative conclusions of the AcSB as to the available options (outlined below)? Do you think rules or guidance should be developed to narrow the options? If so, what should the rules or guidance be?*

Accounting Standards Board (AcSB)

- *International Financial Reporting Standards (IFRS)*
- *Private enterprise standards being developed by the AcSB supplemented by standards specific to not-for-profit orgs.*

Public Sector Accounting Board (PSAB)

- *Public sector standards (the PSA handbook)*
- *Public sector standards supplemented by standards specific to not-for-profit organizations.*

Questions Raised by Accounting Standards Boards & Responses Proposed for Submission

Proposed Response to Question 3:

- The available options to NFP organizations be limited to two alternatives
- Private enterprise standards supplemented by standards specific to NFP organizations
- Public sector standards supplemented by standards specific to NFP organizations
- The choice between the two should be left to each organization
- Recommend that IFRS and Public sector standards (pure with no modifications) **NOT** be among the options available to NFP organizations
 - IFRS
 - Not designed with the NFP sector in mind
 - Application in other jurisdictions causing significant issues
 - Public Sector (with no modifications)
 - We are not aware of any NFP organization following PASB except those mandated to do so

Additional recommendations made by the Accounting Standards Committee

- To the NFP sector:
 - Follow the guidance to be developed under the Private Enterprise standards, supplemented by the 4400 series
 - Those required by their funders to use the PSA standards to continue to do so if necessary. There is no reason to leave the PSA option available for those who would not directly benefit from it or who are not required by their funders to do so
- To the NFP sector and the AcSB
 - Establish a NFP sector task force work with the AcSB to help shape effective sector-responsive standards that meet the needs of NFP organizations and their funders
 - This may entail the proactive assessment of IFRS in the NFP environment

Next Steps

- Sector input / suggestions
 - Send to ONN or Imagine Canada
 - Latest date for input – June 18th
 - Accounting Standards Committee will review all suggestions and consider them for inclusion in the report
- ONN / Imagine Canada submission June 22nd
 - Individual sector organizations welcome to join ONN/Imagine Canada submission and have their name attached to the submission
 - Organizations wishing to join this initiative should indicate their support to either ONN or Imagine Canada by June 18th
- Individual sector organization submissions by June 30th
 - NFP sector organizations are welcome to develop their own submission to the Acctg. Standards boards using the content of this report

Q&A

- **To ask a question use the Chat (Q&A) Pod** to the right of the slides.
- Type in your question in the window at the bottom of the pod and click the submit arrow.
- We will review questions and respond to as many questions as we can.
- We will read out the questions by the order in which they come in.