Deloitte.

Deliberation time

Improvements to Not-for-Profit Standards – Statement of Principles comments are in

The Canadian Accounting Standards Board ("AcSB") and the Public Sector Accounting Board ("PSAB") are deliberating the comments received on the Improvements to Not-for-Profit Standards – Statement of Principles ("SOP"). The SOP was issued in April of 2013 and outlines 15 key principles proposing some significant changes to not-for-profit accounting for organizations in both the private and public sectors.

Comments on the principles outlined in the SOP were due in December 2013. There were over 280 responses, an overwhelming number from a variety of interested parties. The comments vary depending on the perspective of the respondent. However, when all responses are looked at collectively, there seem to be common concerns mainly with a handful of the proposed principles.

Common concerns

Over **90%** of the respondents expressed concerns with Principles 2 & 3

Principles 2 & 3

Contributions

Private and public sector organizations

Principles 2 and 3 propose that a contribution would be recognized as revenue when the contribution is received or receivable in accordance with Principle 1, except when it gives rise to an obligation that meets the definition of an accounting liability.

Common concerns include:

- Lack of clarity in terms of the definition of a liability and how it would be applied in practice. As an example, consider deferred capital contributions – would the capital contribution be recognized on the date that the capital asset was purchased? If so, this would be a significant change from the current practice of recognizing the capital contribution over the asset's life and matching it with the amortization taken;
- If contributions, such as endowments, are no longer recorded as direct increases in net assets, this treatment will not be reflective of their nature as permanent capital;
- The volatility in the statement of operations resulting from these changes could impact the willingness of donors to provide financial support to an organization; and
- Consideration should be given to specifically defining non-reciprocal transactions which may not create a legal obligation but may result in a moral or ethical obligation. How should such transactions be accounted for?

Over **80%** of the respondents expressed concerns with Principle 10

Principle 10

Controlled and Related Entities

Private and public sector organizations

Principle 10 proposes to eliminate some of the current policy choices thereby requiring controlled not-for-profit organizations to be consolidated and controlled profit oriented organizations to be accounted for in accordance with the modified equity method.

Common concerns include:

- There is not a strong basis for justifying different accounting for controlled not-for-profit versus controlled profit oriented enterprises; and
- By eliminating policy choices, the result could be less meaningful financial statement presentation depending on individual circumstances.

* The statistics and common concerns are based on approximately the first 170 responses to the SOP posted on www.frascanada.ca website.

There were also principles with which the majority of the respondents generally seemed to agree with or did not express concerns. The following 6 principles fall into that bucket for private sector organizations:

Principle 4

Contributions of Materials and Services

An NFPO may choose to recognize contributions of materials and services at fair value when a fair value can be reasonably estimated.

Principle 5

Tangible Capital Assets

An NFPO applying Part III should apply PROPERTY, PLANT AND EQUIPMENT, Section 3061 and DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475 in Part II, in reporting the capitalization, amortization and disposal of tangible capital assets. TANGIBLE CAPITAL ASSETS HELD BY NFPOs, Section 4431 in Part III, would be amended to include write-downs to reflect a partial loss of service potential of an asset that is still being used.

Principle 6

Intangible Assets

An NFPO applying Part III of the CPA Canada Handbook – Accounting should continue to apply INTANGIBLE ASSETS HELD BY NFPOs, Section 4432. This Section would be amended to include write-downs to reflect a partial loss of service potential of an asset that is still being used.

Principle 11

Controlled and Related Entities

An NFPO applying Part III of the CPA Canada Handbook – Accounting should continue to disclose an economic interest in another NFPO over which it does not have control in accordance with REPORTING CONTROLLED AND RELATED ENTITIES BY NFPOs, Section 4450.

Principle 12

Controlled and Related Entities

An NFPO applying Part III of the CPA Canada Handbook – Accounting should continue to apply DISCLOSURE OF RELATED PARTY TRANSACTIONS BY NFPOs, Section 4460.

Over **80%** of the respondents expressed concerns with Principle 13

Principle 13

Financial Statement Presentation

Public sector organizations only

Principle 13 proposes that public sector organizations should apply *PS 1201 Financial Statement Presentation* which could introduce some significant changes to financial statement presentation including a new statement of net debt.

Common concerns include:

- Some organizations and their users lack an understanding of the net debt model in *PS 1201 Financial Statement Presentation*;
- The proposal does not acknowledge the range of users whose needs must be met by the general purpose financial statements;
- The disclosure of a budget in the financial statements may not be useful as primary users may already have access to such information and likely at a more detailed level; and
- The proposal will result in differences between the financial statements of private sector and government not-for-profit organizations. This is problematic where similar organizations fall into different categories depending on which province they are located. As an example, universities are considered private sector in some provinces and government not-for-profit organizations in others.

Over **80%** of the respondents expressed concerns with Principle 14

Principle 14

Financial Statement Presentation

Private and public sector organizations

Principle 14 proposes that expenses should be presented by function and disclosed by object (nature) in the financial statements AND total fundraising expenses and general support expenses should be presented as separate functions in the statement of operations or disclosed in the notes to the financial statements.

Common concerns include:

- It is difficult to achieve consistency in defining functions, including, fundraising and general support expenses;
- Inappropriate focus may be placed on fundraising and general support expenses as an indicator of an organization's success;
- Organizations should be able to choose the presentation of their expenses so that the approach is the most appropriate based on individual circumstances; and
- The requirement to provide this level of detail may create costs that outweigh the benefits.

Principle 13

Financial Statement Presentation

A private sector NFPO applying Part III of the CPA Canada Handbook – Accounting should apply INCOME STATEMENT, Section 1520, BALANCE SHEET, Section 1521, CASH FLOW STATEMENT, Section 1540, and other appropriate Sections in Part II in presenting their financial statements.

Interestingly, the 6 principles listed above are ones that mostly suggest that the current accounting treatment for private sector organizations be carried forward essentially unchanged. Apparently, many of the respondents are supportive of current practice in these areas. Such agreement was not as apparent when looking at the responses to the specific questions asked on the principles for public sector organizations.

At this point, it is uncertain what direction the standard setters will take with the comments received and the principles as originally proposed in the SOP. Stay tuned as the Boards work together to improve the future direction of not-for-profit accounting standards! If you are interested in reading any or all of the comments received on the SOP, visit the financial reporting and assurance standards website (www.frascanada.ca).

If you have any questions or matters that you would like to discuss, please do not hesitate to get in touch with your Deloitte contact or any of the individuals listed below.

Kerry Danyluk
Partner
416-775-7183
kdanyluk@deloitte.ca

Serge Desrochers
Partner
613-751-5234
sedesrochers@deloitte.ca

Cindy Veinot
Partner
416-643-8752
cveinot@deloitte.ca

Jennifer Millar
Senior Manager
416-601-5868
jemillar@deloitte.ca

www.deloitte.ca

Designed and produced by the Deloitte Design Studio, Canada. 14-2081T