

ASSURANCE AND ACCOUNTING

NOT-FOR-PROFIT ORGANIZATIONS:

NEW DIRECTIONS

In March 2010, the Accounting Standards Board (AcSB) and the Public Sector Accounting Board (PSAB) each issued an Exposure Draft containing their proposals on the future of accounting for Not-for-Profit Organizations (NPOs). Which options are available to your NPO will depend on whether or not it meets the definition of a government not-for-profit organization.

Are You a Government Not-for-Profit (GNPO)?

A GNPO is defined in the proposed Public Sector Accounting Standards as an organization that has all of the following characteristics:

1. It has counterparts outside the public sector;
2. It is an entity normally without transferable ownership interests;
3. It is an entity organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose; and
4. Its members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

The NPO would also have to be controlled by a government to be considered a GNPO¹. Determining if your organization is a GNPO will determine which standards they will be required to use in the future.



The Proposals

Type of Not-for-Profit Organization	Which Board	Proposed Generally Accepted Accounting Principles (GAAP) Options
All NPOs other than Government NPOs	Accounting Standards Board	Choice of ² : <ol style="list-style-type: none"> 1. International Financial Reporting Standards (IFRS); or 2. Accounting Standards for Private Enterprises (ASPE) plus the current Section 4400 series of standards (with minor modifications)
Government NPOs	Public Sector Accounting Board	Public Sector Accounting Standards plus the current Section 4400 series of standards (with some modifications)

¹ This requirement is from PS1300.

² The AcSB has stated in its Exposure Draft that it will consider adding Public Sector Accounting Standards including PSAB's 4400 series as an option once PSAB's standards are finalized.

The Sections 4400 to 4470 series of standards that NPOs currently follow contain guidance that is only relevant and applicable to NPOs (such as accounting for contributions). These standards are listed in Appendix A.

All Not-for-Profit Organizations Other than Government Not-for-Profit Organizations

Your NPO may be considering which set of standards you should adopt (IFRS or ASPE with the 4400 series). Below summarizes some of the pros and cons of adopting either set of standards:

	Pros	Cons
International Financial Reporting Standards (IFRS)	<ul style="list-style-type: none"> The financial statements are more useful to the users of your financial statements if: <ul style="list-style-type: none"> Your NPO is compared to other international NPOs who use IFRS; Your NPO is part of a larger NPO that wants to use IFRS; Your donors are outside of Canada and may better understand financial statements prepared using IFRS 	<ul style="list-style-type: none"> The disclosures required under IFRS are extensive (the total required disclosures in IFRS are approximately 3000 while the current standards for NPOs require less than 700). IFRS would require additional resources to gather this information and perhaps a change in information systems to track this information; The Preface to IFRS specifically states that IFRS is designed for financial reporting of <u>all profit-oriented entities</u> and although it is not designed to apply to NPOs, entities with similar activities may find them appropriate. As a result, there will be no guidance for NPOs in a number of areas specific to them (e.g. contribution revenue or impairment from a NPO perspective). The standards will have a profit-oriented user in mind at all times; NPOs will not be able to use the same fund accounting presentation they use now
Accounting Standards for Private Enterprises (ASPE)	<ul style="list-style-type: none"> The standards are fairly similar to those which NPOs are following currently, thus less change; More accounting policy choices provided (e.g. simplified method of accounting for defined benefit employee future benefit plans); NPOs can continue to use their current financial statement presentation format (e.g. fund accounting); Disclosures required are significantly less than IFRS (approximately 700 versus 3000); Contains standards dealing specifically with NPO issues (e.g. contributions, inventory) 	<ul style="list-style-type: none"> Less disclosure for private enterprises may result in insufficient disclosure for NPO financial statement users (although NPOs have the option of disclosing more); The financial instrument model is simpler, but it may result in more gains and losses going through the statement of operations for NPOs

What are the Differences between Current Canadian Accounting Standards and IFRS / ASPE?

BDO Canada has prepared a number of Publications in our IFRS Comparison Series³ that explains the differences between current Canadian Accounting standards and IFRS. If you are interested in more information on the differences, please look [here](#).

BDO Canada has also issued a publication describing the differences between current Canadian GAAP and the Accounting Standards for Private Enterprises. If you are interested in what has changed, look [here](#).

Government Not-for-Profit Organizations

Under PSAB's Exposure Draft, government Not-for-Profit Organizations (GNPOs) will be required to transition to the Public Sector Accounting Handbook. Their reason for this move is that PSAB believes GNPOs are better served by using public sector reporting standards because the focus of operations for these government organizations is on the provision of public services. They are accountable to a broad group of users including legislators, investors and the general public and, in many provinces, these government organizations disburse a majority of the service delivery expenditures.

What are the Differences between Current Canadian Accounting Standards and PSAB?

The Canadian Institute of Chartered Accountants recently released a publication comparing Public Sector Accounting Standards to current Canadian accounting standards; for the publication please look [here](#). There are fewer standards in the Public Sector Accounting Handbook; for example, there is no asset retirement obligation standard. Some of the changes for GNPOs that move to the Public Sector Handbook are as follows:

- A different model for accounting for financial instruments and foreign currency transactions such as a move back to a cost-based model (no fair value options) and defer and amortize treatment for foreign exchange gains or losses relating to a long-term foreign currency denominated monetary items⁴;
- Adjustments to employee future benefits accounting policies. Public Sector standards require use of a different discount rate, a different method of accounting for actuarial gains and losses,

past service costs and curtailments and recording of a liability for benefits that accumulate but do not vest; and

- Minor adjustments to accounting within the 4400 series. For example, GNPOs will have to move to the modified equity method from the equity method, if they previously used the equity method to account for any of their controlled / related entities. Under the modified equity method, the investee's accounting principles are not adjusted to conform to those of the investor. Application of the modified equity method will avoid the need to restate the reports of the investee when its basis of GAAP is other than the Public Sector Handbook.

Effective Date

Both of the Exposure Drafts propose that all organizations would transition to their new standards for year ends beginning on or after January 1, 2012. Early adoption is allowed for NPOs other than GNPOs.

Transitional Guidance

No matter what GAAP your NPO will follow, the adoption of any of these new standards will generally require retrospective / retroactive treatment; in other words, prior years' figures will have to be restated as if the Handbook had always been applied. The good news is IFRS, ASPE and Public Sector Accounting Standards have or will have first-time adoption standards that provide relief to entities that elect specific exemptions on the initial adoption of their new GAAP⁵.

Conclusion

Changes are coming for all NPOs. If you are interested in further information on how these changes may affect your organization, contact your BDO advisor.

The AcSB and PSAB are looking for comments on their Exposure Drafts. To read the actual Exposure Drafts from the two Boards look [here](#) and [here](#). We would strongly encourage stakeholders in this sector to thoroughly review and respond to the Exposure Drafts to make sure their opinions are heard. The deadline to provide comments is July 15, 2010.

³ As of April 7, 2010 there are 18 publications in this series. Not all publications will be relevant for NPOs (e.g. Oil and Gas) but quite a few are relevant (e.g. Employee Future Benefits, Hedging etc.).

⁴ As at April 7, 2010, PSAB is reviewing responses to its Exposure Drafts on Financial Instruments and Foreign Currency Translation which, if approved, would be effective for fiscal years beginning on or after April 1, 2012 (early adoption would be allowed). The standards would bring in fair value accounting requirements for certain investments, remove any hedging accounting rules and change the requirements for foreign exchange gains and losses.

⁵ For IFRS, it is the Standard IFRS 1 – First-time Adoption of International Financial Reporting Standards; for ASPE, it is Section 1500 – First-time Adoption; for PSAB, it is an Exposure Draft entitled "First-time Adoption of Public Sector Accounting Standards by Government Organizations".

APPENDIX A

List of Current 4400 Series of Standards Specifically for Not-for-Profit Organizations

Section 4400 - Financial Statement Presentation by Not-for-Profit Organizations

Section 4410 – Contributions — Revenue Recognition

Section 4420 - Contributions Receivable

Section 4430 - Capital Assets Held by Not-for-Profit Organizations

Section 4440 - Collections Held by Not-for-Profit Organizations

Section 4450 - Reporting Controlled and Related Entities by Not-for-Profit Organizations

Section 4460 - Disclosure of Related Party Transactions by Not-for-Profit Organizations

Section 4470 - Disclosure of Allocated Expenses by Not-for-Profit Organizations

The information in this publication is current as of April 17th, 2010.

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