

Invitation to Comment

Financial Reporting by Not-for-Profit Organizations

issued jointly by:
Accounting Standards Board
and
Public Sector Accounting Board

Comments are requested by June 30, 2009



Financial Reporting by Not-for-Profit Organizations

Invitation To Comment

Responding to this Invitation to Comment

The Accounting Standards Board (AcSB) and Public Sector Accounting Board (PSAB) have jointly issued this Invitation to Comment to invite feedback on the future of financial reporting by not-for-profit organizations. In particular, it discusses how accounting standards might deal with the special needs of this sector. The AcSB is composed of people with backgrounds in business, public accounting practice and academe. The PSAB is composed of people with backgrounds in government, public accounting practice, business and academe. All members serve as individuals, not as representatives of their governments, employers or organizations and know how to prepare and use financial statements.

Individuals, governments and organizations are invited to send written comments to either Board on this important topic. Comments are most helpful if they clearly explain the issues they raise and suggest a specific course of action, supported by specific reasoning. All comments received will be available on-line in a public file within one week of receipt.

To be considered, comments must be received by June 30, 2009, addressed to either:

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or **Tim Beauchamp**
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For ease of handling, we prefer comments to be sent by e-mail (in Word format), to:
ed.accounting@cica.ca

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Introduction

This Invitation to Comment (ITC) is issued jointly by the Accounting Standards Board (AcSB) and the Public Sector Accounting Board (PSAB).

The ITC asks crucial questions about the future of financial reporting by not-for-profit organizations. In particular, it raises issues affecting how accounting standards will deal with the special needs of such organizations. The ITC is accompanied by Position Papers, prepared by each Board, that describe those issues in more detail. Readers should consider the issues identified, answer the questions raised below and explain the reasoning supporting their responses.

Diverse needs and perspectives

Canadian not-for-profit organizations are diverse in their origins, structures and objectives (as summarized in Appendix A). An overwhelming majority of not-for-profit organizations operate independently, while others, such as some schools, hospitals, colleges and universities, are controlled by governments and consolidated in government public accounts. As well, Canada has not-for-profit organizations with operations that are international in scope. For organizations

within the public sector, differences between present standards and public sector reporting standards add complexity to discussions of financial performance. Not-for-profit organizations outside the public sector generally have modest revenues and many seek standards that users are familiar with and that align with financial reporting practices of businesses.

Responsibilities for financial reporting standards

The AcSB is responsible for the standards for private sector not-for-profit organizations contained in the CICA Handbook – Accounting. The PSAB has authority for standards for not-for-profit organizations controlled by a government. The PSAB currently directs government not-for-profit organizations to adhere to standards in the CICA Handbook – Accounting. This supports comparisons between similar entities and among all not-for-profit organizations.

Change brought about by the AcSB Strategic Plan necessitates consideration of reporting by not-for-profit organizations in the future. Several paths beckon, among them: International Financial Reporting Standards (IFRSs), private enterprise standards being developed by the AcSB and public sector standards. User needs must be considered, including reporting on the discharge of stewardship responsibility. Not-for-profit organizations are expected to report clearly and comprehensively on their financial position and performance.

Approaches for consideration

One set of standards for all not-for-profits or a choice?

In developing the ITC, both Boards recognized a need to present a range of alternatives. However, a key overarching issue is whether all not-for-profit organizations should apply the same primary source of GAAP. Some users value the comparability gained from financial reports based on one primary source of GAAP. On the other hand, some have expressed the view that not-for-profit organizations should have the flexibility to choose from an acceptable set of alternative primary sources of GAAP, based on their circumstances.

Interested parties are asked to comment on this question and as to what they believe the primary source of GAAP should be. If respondents think that options should be available, they are asked to express a view on the scope of those options and factors to be considered when assessing which option to apply.

Options for a primary source of GAAP

Stakeholders of not-for-profit organizations should read the appended Position Papers developed by each Board to gain an understanding of the full range of options.

In the case of public sector not-for-profit organizations, the PSAB has tentatively concluded that public sector standards alone, or public sector standards supplemented by the 4400 series of Sections in the CICA Handbook – Accounting (4400 series), are the alternatives.

In the case of not-for-profit organizations that are not part of the public sector, the AcSB has tentatively determined that the alternatives are either IFRSs, or the private enterprise standards

currently under development supplemented by the 4400 series. An option of supplementing IFRSs with the 4400 series is not available, as explained below.

Other options

The Boards considered the option of developing a new set of stand-alone standards for not-for-profit organizations.

In considering the development of a separate set of standards solely for not-for-profit organizations, the Boards reflected on the implications of:

- (a) user needs and comprehension;
- (b) the requirements to teach and learn another set of GAAP standards;
- (c) costs of developing and maintaining a stand-alone approach; and
- (d) the likelihood that such standards, if developed, might not be much different from current standards.

The Boards have tentatively rejected developing a set of stand-alone standards.

IFRSs

The AcSB has decided, pursuant to its Strategic Plan, that GAAP for publicly accountable profit-oriented enterprises will be IFRSs. The AcSB has decided, further, that any other entity within the scope of the CICA Handbook – Accounting, including a not-for-profit organization, that wishes to adopt IFRSs may do so. In making this option available, the AcSB has sought to ensure that not-for-profit organizations in Canada that determine their users need IFRS-based reporting have access to those standards. The AcSB Position Paper in Appendix B provides further details as to the circumstances in which this reporting option may be applied.

Any application of IFRSs by not-for-profit organizations is constrained by the decision of the AcSB that interpretations, implementation guidance or other modifications of IFRSs will be provided only in very rare circumstances. The AcSB has concluded that 4400 series-type guidance cannot be added to the standards applicable to publicly accountable enterprises. Accordingly, not-for-profit organizations that wish to adopt the standards applicable to publicly accountable profit-oriented enterprises must apply the full IFRSs as issued by the International Accounting Standards Board. This will include application of the IFRSs' GAAP hierarchy in IAS 8, "Accounting Policies, Changes in Accounting Estimates and Errors," paragraphs 10-12, with respect to transactions or circumstances on which IFRSs are silent.

Although the application of IFRSs may be appropriate for some not-for-profit organizations, IFRSs have not been developed with the needs and circumstances of not-for-profit organizations in mind. The application of IFRSs would require a not-for-profit organization to make significant judgments in selecting among the options or alternatives permitted by the IFRS GAAP hierarchy in order to apply the standards to the unique transactions and circumstances that not-for-profit organizations encounter. Although the AcSB proposes to make the application of IFRSs available to not-for-profit organizations, it has tentatively concluded that standards of general application, tailored by specific guidance, would be the preferred alternative.

Private enterprise standards supplemented by standards specific to not-for-profit organizations

The AcSB has tentatively concluded that not-for-profit organizations should be able to adopt the standards presently being developed for profit-oriented private enterprises. These standards would be supplemented by specific guidance dealing with the unique circumstances of not-for-profit organizations, similar in nature to those currently provided in the 4400 series. Any 4400 series-type standards appended to the private enterprise standards will conform to the conceptual framework and other private enterprise standards. This will have implications for material in the existing 4400 series.

The proposed basis of reporting linked to private enterprise standards is similar in a number of respects to the current approach whereby reporting standards for not-for-profit organizations are closely linked with the general standards applicable to profit-oriented enterprises. The current approach is well understood in the not-for-profit environment. Based on experience and feedback received to date, the AcSB believes that the current approach of applying not-for-profit organizations standards that are substantially similar to those for profit-oriented enterprises has served the needs of the sector well.

The private enterprise standards continue to be based upon the needs of profit-oriented enterprises. As service delivery is not a primary focus, the 4400 series would be needed to support reporting on the service potential inherent in not-for-profit organizations' assets and operations.

A particular issue associated with this proposal in the case of not-for-profit organizations with a broad base of users is that those users' needs may not fully align with users of private enterprise financial statements. For example, it is expected that disclosures presently required in the current standards of general application will be significantly reduced to better reflect the needs of the sector's users having considered the cost/benefit tradeoff associated with providing the disclosures. Respondents may wish to consider this matter in responding to the questions in this ITC.

Public sector standards (PSA Handbook)

Public sector standards may well be suited to support financial reporting by not-for-profit organizations for the following reasons:

- (a) Not-for-profit organizations and government share a common objective to provide community services, rather than to generate a profit. Demonstrating accountability for resources, obligations and financial affairs and how they were administered is among the stated objectives of public sector financial reporting.
- (b) Expectations as to accountability may include measures of outcomes achieved. The PSAB offers performance reporting guidance to support those organizations that broaden their reporting to include non-financial measures.
- (c) Capital assets support service provision and are measured within this context rather than in relation to the cash flows they generate.

- (d) Inflows other than those that arise from the sale of goods and services are often important to the fiscal health of the entity. Standards need to be based on a framework that focuses on accounting for non-exchange transactions.
- (e) While some not-for-profit organizations are international in their reach, many are not. The audience of financial reports issued by not-for-profit organizations and governments is primarily Canadian.

A key difference between governments and not-for-profit organizations is the source of their revenues and their ability to raise them. A not-for-profit organization's ability to raise revenue rests on its fundraising ability, whereas governments enjoy the power to tax. In both cases, stakeholders expect accountability for resources provided.

The PSAB establishes public sector GAAP in Canada. Its origins date to 1981, following an extensive consultation with governments and their auditors as to the need to improve and harmonize financial reporting by governments. Although developed primarily for use by governments, the PSAB believes its concepts and detailed standards can be readily adapted to not-for-profit financial reporting.

The PSAB has an international equivalent, the International Public Sector Accounting Standards Board. The PSAB actively contributes to the development of international standards but has not established convergence as a strategic objective. Many stakeholders support continuing standard-setting activities for the public sector at a national level.

Both the public sector and the present not-for-profit reporting models report assets and liabilities in a manner that support decision making as to financing of activities and the provision of future services. To simplify measures of available resources, the public sector financial reporting model reports on a combined funds basis. Financial statements distinguish between assets available to finance operations (such as cash and receivables) and assets that will be consumed in providing services (such as capital assets and supplies).

Users may not be familiar with public sector standards, even though they are based on a conceptual framework similar to that in the CICA Handbook – Accounting. Some training of financial statement preparers and auditors not already familiar with the PSA Handbook would be needed. There are also reporting differences between the PSA Handbook and GAAP as it is presently applied by not-for-profit organizations. These reporting differences are among the reasons that some public sector users believe basing not-for-profit standards on the PSA Handbook would alleviate present concerns that arise in communications on financial performance.

Certain topics addressed in the 4400 series are not within the scope of the present PSA Handbook. For this reason, comments are sought on a second alternative as outlined in the paragraphs that follow.

Public sector standards supplemented by standards specific to not-for-profit organizations

Interested parties are asked to comment on basing GAAP for not-for-profit organizations on the PSA Handbook supplemented by specific guidance dealing with their unique circumstances, similar in nature to those currently provided in the 4400 series. Included in the PSAB Position Paper in Appendix C is a table outlining the principal CICA Handbook – Accounting Sections used by not-for-profit organizations and the corresponding Sections within the PSA Handbook.

Equivalent detailed standards are in place for topics identified as being of general applicability or to relevant transactions or circumstances with a few notable exceptions. These exceptions include accounting for collections, certain intangible assets and specific types of contributions such as endowments. Under this alternative, the PSAB would adopt detailed standards based on the present 4400 series to address specific issues.

Transitional matters would need to be addressed. Similar to the AcSB proposal, the appended 4400 series material would conform to the PSAB's conceptual framework and other standards included in the PSA Handbook. This would have implications for material in the existing 4400 series. This transitional process would ensure that not-for-profit organizations' standards would be derived from a reporting model based on a public benefit-oriented framework tailored to address the unique circumstances of their environment.

As would be the case if the PSA Handbook option were adopted, users, preparers and auditors would face a degree of change but the adoption of elements of the 4400 series would mitigate the extent of education and training. The PSA Handbook is an accrual based accounting model with concepts and objectives generally consistent with the CICA Handbook – Accounting. The definitions of asset, liability, revenue and expenses, as well as the recognition and measurement criteria, are generally equivalent.

Comments requested

Interested parties should read the appended Position Papers before providing their comments as the proposals contained in this ITC will change the financial reporting landscape in Canada, in some cases quite significantly.

The Boards invite written comments as to the future direction of financial reporting for the not-for-profit sector in Canada.

In particular, respondents are requested to answer the following questions:

1. Do you agree that financial reporting for not-for-profit organizations should be closely linked to GAAP standards for other sectors, rather than developing an additional set of national standards that would apply only to not-for-profit organizations?
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?
 - (a) International Financial Reporting Standards (IFRSs);

- (b) private enterprise standards being developed by the AcSB supplemented by standards specific to not-for-profit organizations;
 - (c) existing public sector standards (the PSA Handbook); or
 - (d) existing public sector standards supplemented by standards specific to not-for-profit organizations.
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 or the PSAB 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?
- AcSB: (a) International Financial Reporting Standards (IFRSs); or
- (b) private enterprise standards being developed by the AcSB supplemented by standards specific to not-for-profit organizations.
- PSAB: (a) public sector standards (the PSA Handbook); or
- (b) public sector standards supplemented by standards specific to not-for-profit organizations.

In posing these questions, the Boards acknowledge that the private enterprise standards are still in the process of development. Respondents are asked to consider the private enterprise standards as they have developed up to the date of [response](#). Accordingly, respondents may wish to add suitable qualifying language in answering the questions.

APPENDIX A

SUMMARY STATISTICS REGARDING THE NOT-FOR-PROFIT SECTOR

Statistics Canada, with a number of partners including the Canadian Centre for Philanthropy (now Imagine Canada), published a comprehensive study of not-for-profit organizations in Canada in 2004. Some of the summary statistics are useful in understanding not-for-profit organizations. It is also useful in understanding the effect not-for-profit organizations have on the Canadian economy. The study refers to not-for-profit organizations as the cornerstones of Canadian communities.

The study estimates there are 161,000 not-for-profit organizations reporting \$112 billion in revenues and having 139 million members. Fifty-six percent (56%), or some 90,000 organizations, are registered charities. An article published by The Philanthropist indicates that Canada has “created the second largest volunteer sector in the world.”¹

In terms of total revenue, approximately one-third is attributable to hospitals, universities, and colleges, leaving \$75 billion reported by all the other not-for-profit organizations.

Forty-nine percent (49%) of all revenues come from governments, most from provincial sources. Earned income from non-governmental sources accounts for thirty-five percent (35%); gifts and donations account for thirteen percent (13%). Larger organizations are generally more likely to depend on government funding, whereas those with relatively smaller annual revenues depend more on earned income from non-governmental sources and gifts and donations. This suggests that the governments and donors, together with lenders, are primary external users of not-for-profit organizations’ financial statements.

Revenues are earned as follows:

\$0 - \$29,999	41% of organizations
\$30,000 - \$99,999	20%
\$100,000 - \$249,999	18%
\$250,000 - \$499,999	9%
\$500,000 - \$999,999	5%
\$1,000,000 - \$9,999,999	6%
\$10,000,000+	1%

Thus, in terms of size, sixty percent (60%) of not-for-profit organizations (96,600 organizations) report less than \$100 thousand of revenue, and almost eighty percent (80% — 128,800 organizations) report less than \$250 thousand in revenue. Hospitals and universities and colleges

¹ “Supporting Financial Vibrancy in the Quest for Sustainability in the Not-For-Profit Sector” by Marilyn Struthers, Program Manager, Ontario Trillium Foundation, who conducts independent research with the support of her employer.

represent less than one percent (1%) of all organizations but account for thirty-three percent (33%) of all revenues.

According to the study, not-for-profit organizations employ just over 2 million staff and draw on 2 billion volunteer hours, the equivalent of 1 million full-time jobs, and more than \$8 billion in individual donations.

There is no definitive list of the various segments comprising the not-for-profit sector. The survey grouped not-for-profit organizations by activity as follows:

- Arts and culture
- Sports and recreation
- Education and research
- Universities and colleges
- Health
- Hospitals
- Social services
- Environment
- Development and housing
- Law, advocacy and politics
- Grant-making, fundraising, and voluntarism promotion
- International
- Religion
- Business and professional associations and unions
- Organizations not elsewhere classified

APPENDIX B

ACCOUNTING STANDARDS BOARD POSITION PAPER

Background

1. This Position Paper is written on the assumption that standards for private sector not-for-profit organizations remain with the AcSB,² and that a not-for-profit organization will be permitted to apply either the standards for publicly accountable enterprises (i.e., International Financial Reporting Standards), or the standards being developed for private enterprises together with additional standards that address the unique transactions and circumstances of the not-for-profit sector. The choice would depend on the organization's assessment of which system best meets the needs of the users of its financial reports.

Purpose

2. The ITC is being published pursuant to the Accounting Standards Board's (AcSB) Strategic Plan. In accordance with its Strategic Plan, the AcSB has adopted International Financial Reporting Standards (IFRSs) for publicly accountable profit-oriented enterprises and is developing standards for private profit-oriented enterprises. The AcSB is also evaluating standards that should be applicable to private sector not-for-profit organizations.
3. The ITC only deals with financial statements that are prepared in accordance with generally accepted accounting principles (GAAP) to meet the general purpose financial reporting needs of external users.
4. The AcSB understands that some not-for-profit organizations prepare non-GAAP financial statements that meet their users' needs (for example, statements of receipts and disbursements prepared by some church congregations and small sports organizations). Any such non-GAAP approaches to financial statement presentation are beyond the scope of the ITC.
5. Not-for-profit organizations that currently prepare GAAP financial statements do so in accordance with the accounting standards contained in the CICA Handbook – Accounting (Handbook). Not-for-profit organizations currently share a common conceptual framework with, and generally apply the same standards as, profit-oriented enterprises.
6. The Handbook also contains a series of standards, the 4400 series that are applicable only to not-for-profit organizations. These standards either deal with transactions that are unique to not-for-profit organizations or modify requirements in other Handbook standards for circumstances that are unique to not-for-profit organizations (for example, financial statement presentation, contributions, economic interest relationships, and collections).

² Not-for-profit organizations in the public sector are under the PSAB's mandate, and the conclusions in Appendix B do not necessarily apply to them.

7. For the reasons discussed below, and based on the assumption that standards of financial reporting for not-for-profit organizations should continue to be established by the AcSB, the AcSB has tentatively concluded that not-for-profit organizations should continue to apply standards of general application adopted by the AcSB as GAAP. It is proposed that the standards for private, profit-oriented enterprises would be supplemented by specific guidance dealing with not-for-profit organizations' unique transactions and circumstances similar in nature to those currently provided in the 4400 series.
8. It is expected that the existing 4400 series and other Handbook Sections that contain specific standards for not-for-profit organizations would be carried forward unchanged in the private enterprise standards initially. In future, the AcSB will consider whether the standards specific to not-for-profit organizations need to be amended to conform to the conceptual framework and other standards included in the private enterprise standards. This may have implications for material in the existing 4400 series, but any proposed amendments would be exposed for public comment in the future.

Application of standards developed for profit-oriented enterprises

9. A not-for-profit organization that prepares financial statements generally does so to respond to the needs of the users of its financial reports, by reporting on:
 - (a) its current financial circumstances and, therefore, its ability to continue to provide services in the future; and
 - (b) the discharge of its stewardship responsibility.
10. In considering users' needs and, in particular, reporting on the discharge of stewardship responsibility, the AcSB notes there are increasing demands on not-for-profit organizations to report activities clearly and comprehensively, and a very high level of quality in financial reporting is generally expected of them.
11. Thus, there is significant benefit to not-for-profit organizations' financial statements being prepared on a basis of accounting that is derived from a common conceptual framework, appropriately reports all transactions and circumstances of not-for-profit organizations, and meets the needs of financial statement users.
12. Not-for-profit organizations have been preparing financial statements in accordance with the accounting standards contained in the Handbook for over a dozen years. During this time, the AcSB has not become aware of significant concerns about the current arrangements.
13. Based on the above considerations, the AcSB has tentatively concluded that not-for-profit organization standards within the private sector should continue to be substantially the same as standards developed for profit-oriented enterprises except where circumstances or transactions are unique or different from those for profit-oriented enterprises. The implications of this tentative conclusion follow.

Application of IFRSs

14. Pursuant to its Strategic Plan, the AcSB has decided, that GAAP for publicly accountable profit-oriented enterprises will be IFRSs. The AcSB has decided, further, that any other entity, including a not-for-profit organization, that wishes to adopt IFRSs may do so. The Preface to International Financial Reporting Standards, paragraph 9, comments as follows with respect to the applicability of IFRSs to not-for-profit organizations:

IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. Profit-oriented entities include those engaged in commercial, industrial, financial and similar activities, whether organised in corporate or in other forms. They include organisations such as mutual insurance companies and other mutual co-operative entities that provide dividends or other economic benefits directly and proportionately to their owners, members or participants. Although IFRSs are not designed to apply to not-for-profit activities in the private sector, public sector or government, entities with such activities may find them appropriate.

15. As discussed in the ITC, the AcSB has determined that IFRSs will be adopted in their entirety as Canadian GAAP for publicly accountable profit-oriented enterprises, and that series 4400-type guidance cannot be added to those standards.
16. Accordingly, not-for-profit organizations that wish to adopt the standards applicable to publicly accountable profit-oriented enterprises must apply the full IFRSs as issued by the International Accounting Standards Board.

Application of private enterprise standards

17. The AcSB considered the profile of not-for-profit organizations (as summarized in Appendix A) and whether it would be necessary or desirable to have more than one set of GAAP standards apply to not-for-profit organizations. For example, the AcSB considered whether not-for-profit organizations need relief from the potential complexities associated with applying IFRSs given that the majority of not-for-profit organizations do not have complex transactions to report upon in any case. The AcSB also noted there are similarities in a number of respects in the not-for-profit organization and private enterprise sectors.
18. The AcSB has undertaken the development of GAAP standards for private enterprises that will be based on the existing Handbook and, rather than requiring all not-for-profit organizations to apply IFRSs, proposes to permit not-for-profit organizations to apply the standards being developed for private enterprises. Reference should be made to the [private enterprise GAAP strategy](#) on the AcSB's website at www.acsbcanada.org for further information.
19. Factors considered in arriving at this conclusion are described in the ITC.

20. A particular issue associated with this proposal in the case of not-for-profit organizations with a broad base of users is that those users' needs may not fully align with the focus of private enterprise financial statement users. For example, it is expected that disclosures presently required in the standards of general application will be significantly narrowed to better reflect the needs of the sector's users having considered the cost/benefit tradeoff associated with providing the disclosures. Respondents may wish to consider this matter in providing answers to the questions in the ITC.
21. Subject to comments received on the ITC, the AcSB is proposing to set not-for-profit organization accounting standards that would continue to be substantially the same as standards developed for private profit-oriented enterprises except where not-for-profit organization circumstances or transactions are unique or different from those of profit-oriented enterprises.

Choice of applying IFRSs or private enterprise standards

22. An issue that has arisen with respect to the application of IFRSs by not-for-profit organizations relates to the fact that terms such as "publicly accountable" are being used to define which profit-oriented enterprises must use IFRSs as opposed to those that may use the private enterprise standards. The terms have very different connotations when used in the not-for-profit sector.
23. The AcSB considered a number of issues arising from the use of "public accountability" as a basis for determining when IFRSs or private enterprise standards should be applied by a not-for-profit organization, such as whether:
 - (a) "non-publicly" could be adequately defined in the context of a not-for-profit organization;
 - (b) a size test should be employed; and
 - (c) permitting self-selection creates any concerns.
24. The AcSB considered whether trying to define "non-publicly accountable not-for-profit organizations" was a useful exercise. The AcSB concluded that this would likely not be a useful way of trying to determine which not-for-profit organizations should apply IFRSs and which should be eligible to apply private enterprise standards. In particular, the AcSB was influenced by the fact that all not-for-profit organizations share a commitment to public service and hence to public accountability in the broadest sense.
25. The AcSB has rejected the use of size tests in deciding on the application of the standards that it adopts, having considered the issue a number of times in various contexts. The AcSB considers size tests to be arbitrary, easily abused and not a good indicator of financial reporting needs.
26. Therefore, the AcSB has tentatively concluded that a not-for-profit organization may choose to apply either IFRSs or the private enterprise standards, depending on its assessment of which standards best meet its reporting obligation to its users. However, to ensure the choice is not purely an arbitrary one, the AcSB proposes to require that a not-for-profit organization's board of directors (or equivalent governing body) make a formal

decision and disclose in the organization's accounting policy note the standards chosen and the reason(s) for the decision.

27. This tentative conclusion would eliminate the need for the AcSB to define which GAAP alternative should be used by individual not-for-profit organizations while providing information with respect to the choice made and the relevant considerations in making the decision. The AcSB believes this information would be useful in assisting users of the financial statements, and perhaps in achieving some consistency in approach among not-for-profit organizations.

Other options

28. Some commentators dispute the view that basing not-for-profit organization standards on standards developed for profit-oriented enterprises is the most appropriate approach to setting standards for not-for-profit organizations in the future. Hence, the AcSB considered whether there were alternative approaches to setting future not-for-profit organization standards. The alternatives seem to be developing a set of stand-alone not-for-profit organization standards or associating not-for-profit organization standards with those developed for the public sector.
29. As discussed in the ITC, the AcSB considered and rejected developing a set of stand-alone standards for not-for-profit organizations.
30. The AcSB currently sets standards for not-for-profit organizations in the private sector. To date, the PSAB has taken the view that not-for-profit organizations in the public sector should also apply those standards. As a result, all not-for-profit organizations in Canada have used the same basis of financial reporting.
31. The PSAB is currently re-evaluating whether not-for-profit organizations in the public sector should report in a manner that aligns with reporting practices in the public sector. The PSAB's views are contained in Appendix C.

APPENDIX C

PUBLIC SECTOR ACCOUNTING BOARD POSITION PAPER

Background

1. This Position Paper sets out alternative options for the future direction of standards for not-for-profit organizations based on the public sector financial reporting model.

Purpose

2. In considering the impact of the AcSB Strategic Plan, the PSAB invites the broader community of not-for-profit organizations to comment on the alternative of applying public sector standards. Two options are advanced by the PSAB. Financial reporting standards for not-for-profit organizations could be based on:
 - (a) public sector standards (the PSA Handbook); or
 - (b) public sector standards supplemented by standards specific to not-for-profit organizations.
3. To assist those not already familiar with public sector standards, this paper provides a summary of the public sector reporting model.
4. Comments on the ITC will assist the PSAB in evaluating the future direction it will establish for financial reporting by government not-for-profit organizations through its project to review the Introduction to Public Sector Accounting Standards.

The public sector financial reporting model

5. Many aspects of the conceptual frameworks in the CICA Handbook – Accounting and the PSA Handbook are analogous. The definitions of asset, liability, revenue and expense, as well as the recognition and measurement criteria, are generally equivalent. As such, understanding the basic fundamentals should not give rise to education or training needs. Both are fundamentally accrual accounting models.
6. Differences are mainly associated with financial statement presentation and the detailed recognition, measurement and disclosure standards. In the area of financial statement presentation, the reporting model developed for governments combines the traditional operating, capital and other fund balances to condense information presented to users, allowing them to readily grasp overall measures of financial position and results of operations. Reporting entities may supplement the required financial statements with notes or schedules, tailored by the preparer to suit the needs of their financial statement users.
7. Financial statements distinguish between assets available to finance operations (such as cash and receivables) and assets that will be consumed in providing services (such as capital assets and supplies). As non-financial assets represent “service potential,” they are not economic resources readily available to meet liabilities or that can be committed to new spending.

8. Budgets serve as important accountability documents for not-for-profit organizations both within and outside of the public sector. In the case of governments, budgets serve as statements of public policy and are given added prominence. Under public sector financial reporting, budget amounts are included in statements reporting on financial performance.

Application of the public sector standards to not-for-profit organizations

9. If not-for-profit organizations were to adopt the existing PSA Handbook, prepared for reporting by governments, key issues that would arise in the application of the detailed standards are as follows:
 - (a) the requirement to consolidate all controlled entities;
 - (b) the reporting of intangible assets (other than software) and collections of art and historical treasures, as they are not among the types of assets that are recognized in public sector financial reporting;
 - (c) the recalculation of reported amounts for retirement benefits and post-employment benefits; and
 - (d) the reporting of certain types of contributions such as endowments not presently addressed in the PSA Handbook.
10. As part of its deliberation of responses to the ITC, the PSAB would expect to outline a transition plan. Current projects to develop financial instruments standards and to improve reporting of transfers from governments are expected to be completed during the transition period and not-for-profit organizations would move to the new standards.
11. A list of equivalent standards is provided in the table that follows. The list comprises standards specifically for not-for-profit organizations (NFPOs), and topics identified in the Introduction to those standards as being of “general applicability,” “applicable to not-for-profit organizations with relevant transactions or circumstances,” or that “contain guidance that may be relevant.”³ The column labeled “PSA HB” identifies one or more Sections within the PSA Handbook that address similar issues (see the Key to equivalency codes). Comments provided are intended to assist readers by identifying key aspects when PSA Handbook requirements vary. It is not a list of GAAP differences and should not be relied upon in this regard.

³ Based on the CICA Handbook – Accounting as of August 2008.

Key to equivalency codes:

- E Generally equivalent
- D Scope or requirements differences – see comments
- N No equivalent existing standard – see comments

Topic	Acctg HB – NFPOs	PSA HB – PS		Comments regarding when PSA Handbook requirements vary
GAAP	1100	1150	E	
Presentation	1400 1540 4400	1200 3100	D	Several key reporting differences as summarized above (see The Public Sector Reporting Model).
Controlled and Related Entities	4450	1300	D	Control is the power to govern the financial and operating policies of another organization. The option to exclude controlled and jointly controlled entities is not provided. ⁴ There is no equivalent concept of significant influence. A government business enterprise (GBE) is reported on applying modified equity accounting.
Policies	1505	2100	E	
Changes	1506	2120	E	
Uncertainty	1508	2130	E	
Current Assets Current Liabilities	1510		D	Permits classification of items based on the operating cycle but does not require it.
Acquisitions	1581	2510	E	When purchase cost exceeds the identifiable assets and liabilities assumed, based on their fair values, the excess is not accounted for as goodwill, it is expensed.
Capital Disclosures	1535		N	Not-for-profit organizations could continue to disclose this information when relevant.
Subsidiaries	1590	1300	D	A GBE is reported on applying the modified equity basis of accounting.
Consolidation	1600	2500 2510	D	Proportionate consolidation is used to account for the government's interest, when a non-controlling interest exists.
Foreign Currency	1651	2600	D	Presently requires amortization of gains/losses associated with long-term monetary items. PSAB project in progress.
Segment Disclosures	1701	2700	E	Optional for government organizations. Professional judgment applies in defining

⁴ The August 2007 AcSB Exposure Draft proposed to eliminate this option. However, the AcSB decided not to amend REPORTING CONTROLLED AND RELATED ENTITIES BY NOT-FOR-PROFIT ORGANIZATIONS, CICA HANDBOOK – ACCOUNTING Section 4450, pending the outcome of its deliberations on the future basis of setting standards for the not-for-profit sector.

Topic	Acctg HB – NFPOs	PSA HB – PS		Comments regarding when PSA Handbook requirements vary
				segments.
Cash	3000	3100	E	Cash-based availability for use in current operating cycle not classified. Externally restricted assets disclosed.
Contributions Receivable	4420		N	No detailed PSAB standard for pledges and bequests.
Accounts And Notes Receivable	3020	1200 3050	E	Loans with concessionary and forgivable terms are addressed.
Impaired Loans	3025	3050	E	Comparable requirements for transactions likely to be encountered by not-for-profit organizations are addressed.
Inventories	3031	1200	E	No equivalent detailed standard. Inventories for consumption are classified as non-financial.
Prepays	3040	1200	E	Classified as non-financial.
Interests In Joint Ventures	3055	3060	D	Applies a partnership perspective. The share of an interest in a jointly controlled business partnership is reported applying proportionate modified equity accounting. Other joint partnership interests are proportionately consolidated.
Capital Assets	4430	3150	D	Definition of capital assets has comparable elements. However, intangible assets other than software are not recognized. Small entities are not exempt from reporting on their capital assets. Contributed capital assets are recorded unless estimate of value cannot be made.
Leases	3065	PSG-2 PSG-5	E	
Collections	4440		N	Works of art and historical treasures are not recognized as assets because a reasonable estimate of the future benefits associated with such assets cannot be made.
Asset Retirement Obligations	3110		N	
Liabilities		3200	E	Liability definition supported with a detailed standard.
Long-Term Debt	3210	3230	E	
Contractual Obligations	3280	3390	E	
Contingencies	3290	3300	E	

Topic	Acctg HB – NFPOs	PSA HB – PS		Comments regarding when PSA Handbook requirements vary
Revenue	3400	1200	E	No equivalent detailed standard. Concepts equivalent.
Contributions (including Government Grants)	4410	3100 3410	D	Externally restricted inflows are deferred. Notes are used to inform as to designation of assets. PSAB model does not permit a “policy choice” as to recognition and presentation. Government transfers are recognized as revenues in the period of the transfer when authorized, the recipient is eligible and the amount can be reasonably estimated. This applies to transfers received for both operating and capital purposes.
Employee Future Benefits	3461	3250 3255	D	Immediate recognition of costs associated with plan amendments is required. Actuarial gains/losses are generally recognized over EARSL, recognition of amounts that fall within the “corridor” is not optional.
Discontinued Operations	3475	1200	E	Reporting of discontinued operations separately is not required, but not prohibited. Assets held for sale are reported as financial assets in specific circumstances.
Extraordinary Items	3480	1200	E	Presentation of unusual items is permitted. As measurement of EPS is irrelevant, reporting of extraordinary items is not considered an issue.
Subsequent Events	3820	2400	E	
Non-monetary Transactions	3831	2500	D	When gains/losses arise on transfers of assets between entities within a reporting entity, gains/losses are eliminated until realized. Losses may indicate impairment.
Interest Capitalized	3850	3150	E	
Financial Instruments	3855 3862 3863		N	PSAB project in progress.
Hedge Accounting	3865	2600	D	PSAB project in progress.