

Response to Invitation to Comment

***Financial Reporting by
Not-for-profit Organizations***

Submitted by:

Ontario Nonprofit Network and Imagine Canada



Together, The Ontario Nonprofit Network and Imagine Canada established an Accounting Standards Expert Committee comprised of experienced and knowledgeable individuals representing the diversity of the not-for-profit (NFP) sector in order 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.

Our response to the Invitation to Comment is followed by an overview of the two sponsoring organizations and a list of the Expert Committee members who participated in the development of the brief. The consultation process included circulating a draft of this response to the extensive and broad based networks of the Ontario Nonprofit Network and Imagine Canada as well as participating in a national webcast to solicit input from sector organizations across the country.

During our consultation process we determined that none of the options are able to fully accommodate the unique needs of the NFP sector. Moreover, changing to different financial reporting guidelines will be both costly and challenging for the sector. We have very carefully taken into consideration the needs of all NFP stakeholders; including, the readers of the financial statements, specific donors, general public, government funders, management, boards etc. While these stakeholders have very diverse needs, they share an over-riding need for transparency, consistency, and understandability of the financial records.

With these factors in mind, our submission for your consideration is as follows:

Question 1: We recommend that financial reporting for NFP organizations should be closely linked to Generally Accepted Accounting Principles (GAAP) for other sectors, rather than developing an additional set of national standards that would apply only to NFP organizations. We are assuming the continuance of the current initiatives to supplement both private enterprise and public sector accounting standards with standards specific to the issues of the NFP sector.

Most organizations in the NFP sector are quite satisfied with the current standards (general GAAP standards supplemented by standards specific to NFP organizations, i.e. 4400 series, or public sector standards for a limited number of organizations in the sector) and the cost and effort of training staff and orienting board members to a new set of accounting standards does not appear to be justified.

Key stakeholders in the NFP sector (board members, funders, clients, community leaders, as well as the general public) interact with the accounting standards used by other sectors. It would be increasingly challenging for them to understand financial statements if another set of national standards were to be created beyond general GAAP and public sector standards.

Question 2: We do not support a requirement to have all not-for-profit organizations follow one set of standards.

Not one of the options listed in the Invitation to Comment meets 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.

Mandating NFP organizations to use only one accounting standard would force a decision to choose between the two standards generally used in the sector (general standards supplemented by standards specific to NFP organizations or public sector standards). Each has serious weaknesses and issues that would be forced onto organizations currently using the standard not chosen as the go forward NFP accounting standards. Having only one standard may force NFP organizations (and indirectly their funders and stakeholders) to adopt a standard they would see as inferior to the one they currently use and would not allow organizations to take into consideration unique circumstances of their reporting needs.

Question 3: We support making options available to NFP organizations but recommend that the available options be limited to two. The choice between the two should be left to each organization. The two options we recommend are:

- 1. Private enterprise standards supplemented by standards specific to NFP organizations**
- 2. Public sector standards supplemented by standards specific to NFP organizations**

Organizations in the sector currently follow the guidance of either the general handbook with supplementation of the 4400 section series (soon to be private enterprise) or public sector standards. Private enterprise standards are currently under review by the Accounting Standards Board with a separate Invitation to Comment just recently released. If the 4400 section series is to be revised, we would urge the AcSB to ask for the participation and input of the sector before reviewing any changes. Private enterprise standards are anticipated to be most closely comparable to current practice. Features anticipated and welcome to the NFP sector include,

- New simplified financial instruments standards
- Simplified hedge accounting
- Reduced disclosures in various areas

Organizations with significant government funding or whose results are consolidated into the statements of the government should not be required to shift to public sector standards unless they deem it to be in their best interest to do so. They should be allowed to determine which standard works best for them taking into consideration points such as the following:

- The government already does an adjustment to PSAB standards where the results must be consolidated into the government accounts
- The management and boards of these organizations would be required to learn a new accounting standard
- The NFPs would bear significant cost of transitioning to a new accounting standard
- The NFPs will have other funders and stakeholders (e.g. CRA, foundations, private donors) who require statements in the current private enterprise format

We recommend that the following options not be among the options available to NFP organizations:

International Financial Reporting Standards (“IFRS”)

IFRS was not designed with the NFP sector in mind. It has yet to be implemented across the board in the Canadian private enterprise environment and represents significant transition costs considering the serious gaps in these accounting standards with regard to specific issues facing NFP organizations. Such gaps include endowment contributions, donations, collections, specific reporting entity definitions, and fund accounting, to name a few.

IFRS is being substantially modified in other parts of the world because it does not have standards that deal with the unique issues of the NFP sector. IFRS is applied to the NFP sector in Central and Eastern Europe, South Africa and Australia, but how it is applied varies from jurisdiction to jurisdiction, creating significant inconsistencies in reporting.

In Canada, the 4400 Series of GAAP represents enhancements written specifically for the NFP sector. The 4400 series, certain aspects of private enterprise GAAP and US GAAP may not be consistent with IFRS framework. As the Canadian Accounting Standards board has stated that it will not enhance IFRS for NFP sector needs, this is not a viable alternative in the short-term.

Public sector standards – Pure with no modification (PSA handbook or PSAB)

We are not aware of any NFP organizations following PSAB except for those mandated to do so. The rules in PSAB are directed to local and federal government. As with the private enterprise standards the PSAB standards need to be supplemented to deal with issues specific to the NFP sector in order to enhance their application and use.

Except where an organization is linked to a government body who reports under PSAB, receives substantially all of its sources of revenue from that government funder and may be required to provide supplementary documentation for financial reporting purposes due to the differences in GAAP, we can see no additional value in requiring the NFP sector to transition to these standards.

Additional Recommendations:

1. Our recommendation to the NFP sector is to follow the guidance to be developed under the private enterprise standards, supplemented by the 4400 series. With that said there should be room for 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.
2. If the 4400 section series is to be revised we would urge the AcSB to consult with the sector before closing on any changes.
3. We further recommend that 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.

The above recommendations are in response to the current reality of available accounting standards. However there is a view that over time the environment will shift as more private sector organizations evaluate the potential change to IFRS. This shift will impact stakeholders who work and volunteer in both the private sector and NFP sector. We believe this will increasingly put pressure on the NFP sector and accounting standard setting bodies to transition to IFRS. That being the case we urge the AcSB to begin work now on strategies that would allow IFRS to address these NFP sector specific issues and we offer up leaders from the NFP sector to work with them on this initiative.

We appreciate the opportunity to comment and welcome further discussion.

Ontario Nonprofit Network: The Ontario Nonprofit Network is a network of networks that helps to build communication and coordination between nonprofit organizations working for the public benefit in Ontario.

Imagine Canada: Imagine Canada is a national registered charity with offices in Toronto, Calgary and Ottawa that looks into and out for Canada's charities and nonprofits. Imagine Canada conducts research and develops public policy on behalf of the sector, as well as delivering tools, resources and networking opportunities directly to nonprofits and charities.

Accounting Standards Expert Committee for the Not-For-Profit Sector

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Organizations Supporting this Response

The following organizations support the recommendations presented in this Response.

Alzheimer Society of Canada
Association of Fundraising Professionals
BC Cancer Foundation
Calgary Jewish Community Council
Canadian Diabetes Association
Canadian Women's Foundation
CARE Centre for Internationally Educated Nurses
Carousel Players
Catholic Family Services of Saskatoon
CCI - Ontario Presenting Network
Creative Trust
Dance Umbrella of Ontario
Distress Centre Calgary
J.W. McConnell Family Foundation
Kids Help Phone
LGBT Giving Network
L'Union culturelle des Franco-Ontariennes
Manitoulin and North Shore Naval Veterans
Markham Stouffville Hospital Foundation
McDonald's Restaurants of Canada
Muskoka Lakes Museum
Nanaimo & District Hospital Foundation
Ontario Association of Art Galleries
Ontario Dental Association
Ontario Nature
Orchestras Canada
Ottawa Chamber of Voluntary Organizations (OCVO)
Pillar Nonprofit Network
Professional Association of Canadian Theatres
Social Planning Network of Ontario
Sports Matters Group
The Canadian Hearing Society
The Garthson Leadership Centre
United Way Canada
YMCA Canada
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