

Not-for-Profit Organizations – Future Financial Reporting Directions Update

With the future financial reporting directions for Canada’s publicly accountable enterprises and private enterprises having been decided, it is now possible to move forward and provide Canadian not-for-profit organizations with clarity as to which financial reporting standards will apply in the future.

Background

The Accounting Standards Board (AcSB) and the Public Sector Accounting Board (PSAB) are working together to assess the strategic direction of financial reporting standards for not-for-profit organizations in Canada. The strategy will ensure that accounting standards for not-for-profit organizations are responsive to the diverse nature of the sector, allow for comparability between the private and public sectors and provide decision-useful financial statements for the multiple and varied users of these statements.

In December 2008, the AcSB and PSAB issued a joint Invitation to Comment asking those affected by the standards to provide input on strategic directions. Since this process began, the Boards have worked diligently to engage the many stakeholder groups. Activities have included roundtable consultation sessions across Canada and the review of more than 150 comment letters received from individuals and stakeholder groups.

At a recent public meeting, the Accounting Standards Oversight Council (AcSOC) heard from several stakeholders representing not-for-profit organizations in Canada. Presenters included: AcSB Advisory Committee chair, Paul Goodyear, Financial Secretary, The Salvation Army in Canada; PSAB Task Force chair, Archie Johnston, leader of KPMG’s not-for-profit and public sector practice in British Columbia; a representative from the Ontario Ministry of Finance; and representatives from Ontario colleges. The AcSOC also received and considered written submissions.

The facts

The AcSB and PSAB are working to ensure that the strategy adopted respects the needs of not-for-profit organizations and their stakeholders. It is reported that there are over 160,000 not-for-profit organizations in Canada and these organizations touch the lives of every Canadian, as they range from local sports and cultural associations, to more complex organizations such as hospitals and the higher education sector. Some larger entities manage annual budgets in excess of a billion dollars and receive significant public funding.

The existing accounting standards used by the not-for-profit sector — those from the CICA Handbook – Accounting— will continue to apply, unchanged, until proposed new directions for not-for-profit organizations in both the public and private sectors are developed and published for comment, consultation is conducted and the standards are finalized.

Some not-for-profit organizations are considering whether to adopt International Financial Reporting Standards (IFRSs). It is important to note that although Canadian publicly accountable enterprises are required to adopt IFRSs on January 1, 2011, not-for-profit organizations are not required to make a choice or to follow the same transition schedule. The transition to a new strategy for not-for-profit financial reporting will be based on a separate timeline that allows adequate time to plan and transition successfully.

Listening to our stakeholders

Based on stakeholder feedback, both the AcSB and PSAB have concluded that continuity is essential to the sector. Current financial reporting standards address key financial reporting issues and present information in an understandable manner. For these reasons, the core standards, often referred to as



the 4400 series of Handbook Sections, will remain the primary source of Canadian generally accepted accounting principles (GAAP) for not-for-profit organizations.

Ensuring that the needs of the users of not-for-profit organization financial statements are met is an important focus of this process. Users include members, boards, contributors, lenders, clients and the public. Tremendous diversity within the sector leads to one of the basic principles driving the process — one set of standards will not fit all circumstances.

The Boards and the Council acknowledged that finding an appropriate solution is complicated by the diversity of the organizations, which includes many that are governmental organizations as well as many that are outside the government.

“We need to address issues expeditiously and thoroughly, but not make hasty decisions,” said Doug Hyndman, chair of the AcSOC. “Two principles are defining this important process. The first is that the diversity and complexity of not-for-profit organizations demand options in financial reporting; the second is that the specific standards currently in place are well regarded.”

Next steps

The AcSB and PSAB plan to release an Exposure Draft for public comment in the first half of 2010 that proposes the possible reporting options for the sector. They encourage all organizations involved in the public and private not-for-profit sector to provide comments on the proposed reporting options. Until a new direction has been established, all organizations should continue to follow the existing accounting standards found in the CICA Handbook – Accounting.

Stay involved and up-to-date

To read the Invitation to Comment and comment letters, learn more about financial reporting for not-for-profit organizations, or be alerted when the Exposure Draft is made public, go to www.acsbcanada.org/documents-for-comment and www.psab-ccsp.ca/documents-for-comment. You can sign up for electronic updates on activities from the AcSB and PSAB, by clicking on the *Subscribe* button on the homepage of either website.

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The Accounting Standards Oversight Council (AcSOC) is an independent body established in 2000 by the Canadian Institute of Chartered Accountants. Reporting to the public and consisting of up to 25 business and government leaders, AcSOC brings a broad perspective to complex issues facing standard setters in both the private and public sectors. The Council supports the Accounting Standards Board (AcSB) and the Public Sector Accounting Board (PSAB) in setting accounting standards in Canada and in contributing to the development of internationally accepted accounting standards. The Council’s responsibilities include appointing AcSB and PSAB members, providing input on strategic priorities and evaluating the performances of the two boards. Council members include regulators, investors, preparers and auditors of financial reports. www.acsoc.ca



The Accounting Standards Board (AcSB) establishes financial accounting and reporting standards for use by Canadian companies and not-for-profit organizations and participates in the development of internationally accepted accounting standards. www.acsbcanada.org

The Public Sector Accounting Board (PSAB) establishes accounting standards for the public sector. PSAB was created to serve the public interest by setting standards and providing guidance for financial and other performance information reported by the public sector. www.psab-ccsp.ca

