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# Statement of Principles – Improvements to Not-for-Profit Standards

Applicable to Private and Public Sector  
Not-for-Profit Organizations

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# Presenters



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# Future changes – Statement of Principles

## Joint Task Force established by Accounting Standards Board and the Public Sector Accounting Board to consider improvements to the existing standards for Not-For-Profit Organizations

- Statement of Principles issued for comment in 2013
- After replies are received, Boards will consider the timing on changes through exposure draft

### The main topics covered by the statement of principles are:

- Contributions
- Tangible capital assets
- Intangible assets
- Works of art, historical treasures and similar items
- Controlled and related entities
- Financial statement presentation

# Definitions used in the presentation

## **NPOs – Not-For-Profit Organizations not controlled by government**

- Currently follow Accounting policies for not-for-profit organizations (Part III of the CICA Handbook – Accounting )

## **GNPOs – Government Not for Profit Organizations**

- Currently follow Public Sector Accounting Standards
- They have an option to follow PS 4200 series for government not-for-profit organizations

# Proposed future changes – Contributions

## Applies to both NPOs and GNPOs

- Removal of the restricted fund method and the deferral method
- Contributions without stipulations are to be recorded as revenue
- Contributions with stipulations that meet the definition of a liability are recorded as a liability
- Choice to record contributions of materials and services at fair value if fair value can be determined
- Contribution to be recorded when the organization has control, would exercise that control and can estimate the dollars

## What does this mean? Consider the impact on ...

- Donations
- Endowments
- Funds for specific operating purposes
- Annual government operating grants
- Grants for tangible capital assets
- Research funds

# Proposed future changes – Tangible capital assets

## Applies to both NPOs and GNPOs

- Remove the size exemption; all entities must record tangible capital assets
- Remove sections 4430 and PS4230. Entities would be referred to the standards in underlying framework

## Specific to NPOs

- NPO standards currently include standards to write down impaired tangible assets based on service potential. Underlying standards (ASPE) do not include that and they would be amended to include write down of impaired tangible capital assets for full and partial impairment

## What does this mean? Consider the impact on ...

- Organizations who previously elected not to report tangible capital assets
  - Organizations who did not previously record tangible capital assets as their average revenue was less than \$500,000 and they elected to apply that exemption
  - Required to report tangible capital assets
- Specific to NPOs
  - Change related to impairment consideration looking a service potential and consideration of both full and partial impairment
- Specific to GNPOs
  - No major changes



# Proposed future changes – Intangible assets

## Applies to both NPOs and GNPOs

- Intangible asset standards are currently applied for such items as costs related to development of performances, museum and art gallery exhibits etc.
- To conform with the underlying standards (ASPE and PSAS) there would be changes
- Similar to tangible capital assets, the exemption for smaller entities would be eliminated

## What does this mean? Consider the impact on ...

- Impact on NPOs
  - No major change, on adoption of Part III s. 4432, except for impairment consideration related to partial write downs
- Impact on GNPOs applying the 4200 series
  - Question if GNPOs should permit the retention of PS 4230 for intangible properties
  - Question if PSAB should consider a standard for the broader public sector related to acquired and internally developed intangible assets
- Potential inconsistencies could be created between NPOs and GNPOs

# Proposed future changes – Works of art, historical treasures and collections

## Applies to NPOs

- Recognize those that are part of a collection at either cost or nominal amount
- Continue to record those not part of a collection in accordance with the underlying tangible capital assets framework

## Applies to GNPOs applying the 4200 series

- The SOP is questioning if GNPOs should permit the retention of PS 4240 for collections

# Proposed future changes – Controlled and related entities

## Applies to NPOs

- Requires the consolidation of controlled not for profit entities
- Continue to have an exception for a large number of individually insignificant controlled NPOs
- Record controlled for profit enterprises using the equity method
- Retain the disclosure for economic interests in other NPOs
- Related party transactions disclosure to apply, no change to measurement except underlying framework

## Applies to GNPOs

- Require the consolidation of controlled not for profit entities
- Record controlled for profit enterprises using the equity method
- No disclosure requirements for economic interests in other NPOs or GNPOs
- Related party transactions disclosure to apply, no change to measurement except underlying framework

# Proposed future changes – Financial statement presentation

## Applies to both NPOs and GNPOs

- Financial statement format to follow the underlying standards
- Require expenses to be reported by function and by object
- Require fundraising costs and general support costs to be separate functions in expenses
- Continue to require disclosure of fundraising and general support expenses allocated to other functions
- Retain current guidelines for reporting revenue and expenses at gross versus net amounts

## Additional standards proposed for both NPOs and GNPOs

- Information on fund accounting
- Reporting of net assets, including restricted net assets
- Reporting restricted net assets and changes in net asset balances

## What does this mean?

### NPOs

- Statement format to follow the underlying standards
- Option to provide – Information on fund accounting
- Require expenses to be reported by function in the statement of operations and by object in the notes
- Require disclosure of fundraising and general support expenses as separate functions
- Continue to require disclosure of fundraising and general support expenses allocated to other functions
- Optional reporting of net assets, including restricted net assets
- Optional reporting restricted net assets and changes in net asset balances

## What does this mean?

### GNPOs

- Statement format to follow the underlying standards
  - Statement of financial position in the net debt (net financial assets) format
  - Statement of changes in net debt (net financial assets) required
  - Budget numbers to be provided on the statement of operations
- Require expenses disclosed by function in the statement of operations and object in the notes to the financial statements
- Require disclosure of fundraising and general support expenses as separate functions
- Continue to require disclosure of fundraising and general support expenses allocated to other functions
- Optional reporting – in the notes or schedules but not on the face of the financial statements
  - Reporting of net assets, including restricted net assets
  - Reporting restricted net assets and changes in net asset balances
  - Information on fund accounting



# Details about KPMG survey

KPMG is surveying all not-for-profit organizations for their input on the Statement of Principles

The Survey can be found [here](#)

We encourage all not-for-profit organizations to reply to the Statement of Principles to the Accounting Standards Board and the Public Sector Accounting Board

# Thank you

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