Statement of Principles

Improvements to Not-for-Profit Standards

(Applicable to Private and Public Sector Not-for-Profit Organizations that Use the Not-for-Profit Standards as their Primary Source of GAAP)

Prepared by:
Accounting Standards Board
and
Public Sector Accounting Board

April 2013

Comments are requested by December 15, 2013

AcSB/PSAB

Commenting on this Statement of Principles

This Statement of Principles reflects proposals made by the Accounting Standards Board and the Public Sector Accounting Board. It presents key principles that each Board expects to include in future exposure drafts.

Individuals, governments and organizations are invited to send written comments on this Statement of Principles. Comments are most helpful if they address the expected effects of the proposals and clearly identify preferred alternatives supported by their reasoning.

All comments received will be available on each Board's website shortly after the comment deadline, unless confidentiality is requested. The request for confidentiality must be stated explicitly within the response.

For your convenience, a PDF response form has been posted with this document. You can save the form both during and after completion for future reference. You are not restricted by the size of the interactive comment fields in the response form and there is also a general comments section.

Alternatively, you may send written comments by e-mail in Word format to: ed.accounting@cpacanada.ca and/or ed.psector@cpacanada.ca

To be considered, comments must be received by December 15, 2013, addressed to:

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Highlights

The Accounting Standards Board (AcSB) and the Public Sector Accounting Board (PSAB) propose to revise Part III in the CICA Handbook – Accounting, and the CICA Public Sector Accounting (PSA) Handbook including the PS 4200 series of Sections, respectively, to improve the existing standards for financial reporting by NFPOs.

The revisions would apply to private and public sector NFPOs that use the not-for-profit standards as their primary source of generally accepted accounting principles (GAAP). The revisions would not apply to private sector NFPOs applying International Financial Reporting Standards in Part I of the CICA Handbook – Accounting and public sector NFPOs applying the CICA PSA Handbook excluding the PS 4200 series of Sections.

This Statement of Principles is the first major step in each Board's due process for developing improved standards. In light of the comments received on this Statement of Principles, the Boards will assess the expected effects of the principles. The Boards will then confirm or vary the principles they propose to adopt and determine whether the exposure process will include one or more exposure drafts. Development of exposure drafts will take into account comments about the effects the proposed principles may have on NFPOs and the quality of the information they provide to users of their financial statements.

The Boards acknowledge that the effects of the proposals are significant. The process of exposure and timing of the effective dates will be considered in the future.

Main features of this Statement of Principles

The Statement of Principles contains 15 proposed principles. They will be of varying interest to NFPOs, depending on the nature of the organization, its particular circumstances and whether it is in the private or public sector.

The principles have been developed considering the financial statement user needs in both the private and public sectors. As a result, some principles being proposed differ between the private and public sector while others are the same where user needs are considered to be consistent between the sectors. Therefore, the main features are separated between those affecting NFPOs in both the private and public sector and those affecting either private or public sector NFPOs.

The main features affecting both private and public sector NFPOs are as follows:

- A contribution would be recognized as an asset, when the NFPO has control of the contribution, would exercise that control if necessary and can reasonably estimate the amount to be received. A contribution would be revenue, except when the contribution gives rise to an obligation that meets the definition of a liability. The proposals replace the deferral and restricted fund methods and would affect the recognition of contributions by NFPOs in both the private and public sectors. The proposals could also have a significant impact on the accounting for contribution pledges and endowment contributions (Principles 1 to 3).

- A capital asset would be recognized by an NFPO on its statement of financial position regardless of the size of the NFPO, thereby removing the size exemption currently available for NFPOs in both the private and public sectors (Principle 7).

Main features affecting private sector NFPOs only are as follows:

- The accounting for tangible capital assets by a private sector NFPO would follow the standards for private enterprises in Part II of the CICA Handbook – Accounting. The proposals would add guidance on accounting for partial write-downs for both tangible and intangible capital assets (Principles 5 and 6).
- Collections of works of arts and historical treasures would be accounted for at either cost or nominal value in the statement of financial position (Principle 8).
- Controlled NFPOs would be consolidated, subject to an exclusion for a large number of individually immaterial organizations, and controlled profit-oriented enterprises would be accounted for by the equity method (Principle 10).
- Financial statement presentation by a private sector NFPO would follow the standards in Part II. The proposals would require expenses to be presented by both function and object (nature) rather than on one of the two bases (Principles 13 and 14).

Main features affecting public sector (or government) NFPOs only are as follows:

- The accounting for tangible capital assets and controlled and related entities, and financial statement presentation by a public sector NFPO would follow the standards in the CICA PSA Handbook currently followed by governments and other government organizations. The proposals would remove the current options available for reporting controlled and related entities by a public sector NFPO. The proposals would require a public sector NFPO to show the “net debt” indicator, statements of change in net debt and remeasurement gains and losses, and budget information in their financial statements (Principles 5, 10, 13 and 14).
- Intangibles, works of arts and historical treasures (including collections), and economic interests would continue to be accounted for and presented on a basis consistent with the guidance currently in the PS 4200 series of Sections until PSAB can give further consideration to these matters (Principles 6, 8, 9 and 11).

Stakeholders should read the proposed principles and supporting commentary in order to identify how the proposed changes would affect organizations they have an interest in.

Comments requested

The Boards welcome comments from individuals, governments and organizations on all aspects of the Statement of Principles.

When comments have been prepared as a result of a consultative process within an organization, it is helpful to identify generically the source of the comment in the response. This will promote understanding of how the proposals are affecting various aspects of an organization.

Comments are most helpful if they relate to a specific principle, paragraph or group of paragraphs. Any comments that express disagreement with the proposals in the Statement of Principles should clearly explain the problem and include a suggested alternative, supported by specific reasoning, for the alternative wording.

Supporting reasons for your comments are most valuable when they demonstrate how the Statement of Principles proposals, or your alternatives:

- produce more relevant information for accountability and decision-making by external users;
- improve the representation of the substance of the underlying transaction or event;
- contribute to improved measures and understanding of financial position and annual operating results;
- facilitate enhanced comparability; and
- provide sufficient information for external users to understand the financial statements.

In particular, your comments will be most valuable if they also address the expected effects of the proposals, including expected costs and benefits to both preparers and users of NFPO financial statements. This will assist the Boards in analyzing the effects as part of their process of confirming or varying the principles they each propose to adopt subject to issuing exposure drafts for further comment.

Many of the proposed principles may result in significant changes in financial reporting by private and public sector NFPOs. This factor should be taken into consideration in responding to the following questions.

For your convenience, a PDF response form has been posted with this document here. You can save the form, both during and after its completion, for future reference. Alternatively, written comments may be submitted by e-mail (Word format preferred) to: ed.accounting@cpacanada.ca or ed.psector@cpacanada.ca.

The following questions relate to matters on which the Boards wish to have input. They are not intended to limit respondents' comments or input; all comments are welcome. To assist respondents in considering the unique characteristics and user needs in each of the private and public sectors and the different proposals for private and public sector NFPOs, the questions being asked have been segregated between the sectors. Respondents are invited to respond to either or both of the series of questions and to indicate in the response which sector question is being responded to.

Questions for Private Sector NFPOs

Contributions

1. Do you agree with the proposal in Principle 1 that a contribution would be recognized as an asset when the recipient has control of the contribution and would exercise that control if necessary?

2. Do you agree with the proposals in Principles 2 and 3 that a contribution would be revenue, except when the contribution gives rise to an obligation that meets the definition of a liability?

3. Do you agree with the proposal in Principle 4 to retain the option of recognizing contributed materials and services?

Tangible capital assets

4. Do you agree with the proposal in Principle 5 that PROPERTY, PLANT AND EQUIPMENT, Section 3061, and DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475, in Part II of the CICA Handbook – Accounting apply to reporting the capitalization, amortization and disposal of tangible capital assets?

5. Do you agree with the proposal in Principle 5 that TANGIBLE CAPITAL ASSETS HELD BY NFPOs, Section 4431, should be amended to take into account partial write-downs of tangible capital assets?

Intangible assets

6. Do you agree with the proposal in Principle 6 to continue to apply INTANGIBLE ASSETS HELD BY NFPOs, Section 4432, in accounting for intangible assets?

7. Do you agree with the proposal in Principle 6 that Section 4432 should be amended to take into account partial write-downs of intangible assets?

Tangible and intangible capital assets (size exemption)

8. Do you agree with the proposal in Principle 7 to eliminate the size test that currently permits qualifying NFPOs not to recognize their tangible and intangible capital assets?

Works of art, historical treasures and similar items (including collections)

9. Do you agree with the proposal in Principle 8 that works of art, historical treasures and similar items that are part of a collection should be recognized at either acquisition cost or nominal value in the statement of financial position?

10. Should the definition of a collection be improved and, if so, how?

11. Do you agree with the proposal in Principle 9 to continue to apply the existing standards for works of art and similar items not part of a collection?

Controlled and related entities

12. Do you agree with the proposal in Principle 10 to consolidate controlled NFPOs, subject to an exclusion from consolidation of a large number of individually immaterial organizations?

13. Do you agree with the proposal in Principle 10 to account for controlled profit-oriented enterprises by the equity method?

14. Should the exclusion from consolidation of a large number of individually immaterial organizations continue to be permitted?

15. Are there any other circumstances in which exclusion from consolidation should be permitted?

16. Are there circumstances in which controlled profit-oriented enterprises should be consolidated?

17. Do you agree with the proposals in Principle 11 to continue to disclose economic interests in accordance with REPORTING CONTROLLED AND RELATED ENTITIES BY NFPOs, Section 4450?

18. Do you agree with the proposal in Principle 12 to continue to disclose related party transactions in accordance with DISCLOSURE OF RELATED PARTY TRANSACTIONS BY NFPOs, Section 4460, until the AcSB has determined whether a standard for measurement of a NFPO's related party transactions should be developed?

Financial statement presentation

19. Do you agree with the proposal in Principle 13 to apply INCOME STATEMENT, Section 1520, BALANCE SHEET, Section 1521, CASH FLOW STATEMENT, Section 1540, and other appropriate Sections in Part II of the CICA Handbook – Accounting for financial statement presentation?

20. Do you agree that guidance should be retained in FINANCIAL STATEMENT PRESENTATION BY NFPOs, Section 4400, on fund accounting (including interfund transfers), disclosure of restrictions on net assets, reporting of net assets and changes in net assets balances, and reporting of revenues and expenses at gross versus net amounts?

21. Are there other financial statement presentation matters on which additional guidance should be provided?

22. Do you agree with the proposals in Principle 14 that:

    (a) information regarding expenses should be provided by function and by object (nature) in the financial statements; and

    (b) total fundraising expenses and general support expenses should be presented as a separate function in the statement of operations or disclosed in the notes to the financial statements?

23. Do you agree with the proposal in Principle 15 to continue to make prescribed disclosures when fundraising and general support expenses have been allocated to other functions in accordance with DISCLOSURE OF ALLOCATED EXPENSES BY NFPOs, Section 4470?

24. Are there any other aspects of the current financial reporting by NFPOs that require improvement?

25. Are there any other matters that should be considered by the AcSB as it proceeds to determine the manner in which it will address the implementation of the proposals in this Statement of Principles?

Questions for Public Sector (or Government) NFPOs

Contributions

1. Do you agree with the proposal in Principle 1 that a contribution would be recognized as an asset when the recipient has control of the contribution and would exercise that control if necessary?

2. Do you agree with the proposals in Principles 2 and 3 that a contribution would be revenue, except when the contribution gives rise to an obligation that meets the definition of a liability?

3. Do you agree with the proposal in Principle 4 to retain the option of recognizing contributed materials and services?

Tangible capital assets

4. Do you agree with the proposal in Principle 5 that TANGIBLE CAPITAL ASSETS, Section PS 3150, apply to reporting the capitalization, amortization, write-down and disposal of tangible capital assets?

Intangible assets

5. Do you agree with the proposal in Principle 6 to continue to apply CAPITAL ASSETS HELD BY NFPOs, Section PS 4230, in accounting for intangible properties?

6. Do you agree PSAB should consider developing a standard for the broader public sector addressing the accounting for acquired and developed intangible assets?

Tangible and intangible capital assets (size exemption)

7. Do you agree with the proposal in Principle 7 to eliminate the size test that currently permits qualifying NFPOs not to recognize their tangible and intangible capital assets?

Works of art, historical treasures and similar items (including collections)

8. Do you agree with the proposals in Principles 8 and 9 to continue to apply COLLECTIONS HELD BY NFPOs, Section PS 4240, in accounting for works of art and similar items (including collections)?

9. Should the definition of a collection be improved and, if so, how?

10. Do you agree PSAB should consider developing a standard for the broader public sector addressing the accounting for works of art and historical treasures (including collections)?

Controlled and related entities

11. Do you agree with the proposal in Principle 10 to apply GOVERNMENT REPORTING ENTITY, Section PS 1300, PORTFOLIO INVESTMENTS, Section PS 3041, GOVERNMENT PARTNERSHIPS, Section PS 3060, INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070, and

FINANCIAL INSTRUMENTS, Section PS 3450, in reporting controlled and related entities?

12. Do you agree with the proposals in Principle 11 to continue to disclose economic interests in other organizations over which they do not exercise control or significant influence in accordance with REPORTING CONTROLLED AND RELATED ENTITIES BY NFPOs, Section PS 4250?

13. Do you agree PSAB should consider developing a standard for the broader public sector addressing the reporting of economic interests?

14. Do you agree with the proposal in Principle 12 to continue to disclose related party transactions in accordance with DISCLOSURE OF RELATED PARTY TRANSACTIONS BY NFPOs, Section PS 4260, until the PSAB related party transaction project to develop a standard applicable to all public sector entities has been completed?

Financial statement presentation

15. Do you agree with the proposal in Principle 13 to apply FINANCIAL STATEMENT PRESENTATION, Section PS 1201, for financial statement presentation?

16. Do you agree guidance should be retained in FINANCIAL STATEMENT PRESENTATION BY NFPOs, Section PS 4200, on fund accounting (including interfund transfers), disclosure of restrictions on net assets, reporting of net assets and changes in net assets balances, and reporting of revenues and expenses at gross versus net amounts?

17. Are there other financial statement presentation matters on which additional guidance should be provided?

18. Do you agree with the proposal in Principle 14 that:

    (a) information regarding expenses should be provided by function and by object (nature) in the financial statements consistent with paragraph PS 1201.088; and

    (b) total fundraising expenses and general support expenses should be presented as a separate function in the statement of operations or disclosed in the notes to the financial statements?

19. Do you agree with the proposal in Principle 15 to continue to make prescribed disclosures when fundraising and general support expenses have been allocated to other functions in accordance with DISCLOSURE OF ALLOCATED EXPENSES BY NFPOs, Section PS 4270?

20. Are there any other aspects of the current financial reporting by NFPOs that require improvement?

21. Are there any other matters that should be considered by PSAB as it proceeds to determine the manner in which it will address the implementation of the proposals in this Statement of Principles?

IMPROVEMENTS TO NOT-FOR-PROFIT STANDARDS

(Applicable to Private and Public Sector Not-for-Profit-Organizations that Use the Not-for-Profit Standards as their Primary Source GAAP)

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PURPOSE AND SCOPE

.001 Accounting standards for private sector not-for-profit organizations (NFPOs) are developed by the Accounting Standards Board (AcSB) and for public sector NFPOs by the Public Sector Accounting Board (PSAB), collectively referred to herein as "the Boards".

.002 The Boards completed the initial phase of their strategies for setting standards for private and public sector NFPOs in 2010. The AcSB established Part III of the CICA Handbook – Accounting for private sector NFPOs, which contains Sections 4400 to 4470 (the 4400 series). PSAB introduced Sections PS 4200 to PS 4270 (the PS 4200 series) into the CICA Public Sector Accounting (PSA) Handbook for public sector NFPOs. Both the 4400 series and the PS 4200 series are largely consistent with standards that NFPOs had been following previously.

.003 The AcSB instructed private sector NFPOs to follow either International Financial Reporting Standards in Part I, or Part III supplemented by accounting standards for private enterprises in Part II, effective for fiscal years beginning on or after January 1, 2012. PSAB instructed public sector NFPOs to follow the CICA PSA Handbook, either with or without the PS 4200 series, effective for fiscal years beginning on or after January 1, 2012.

.004 Part III is applicable only to private sector NFPOs. Private sector NFPOs applying Part III also apply the standards in Part II to the extent that the Part II standards address topics not addressed in Part III. The CICA PSA Handbook contains the PS 4200 series applicable only to public sector NFPOs. Public sector NFPOs applying the PS 4200 series also apply the other standards in the CICA PSA Handbook to the extent that those other standards address topics not addressed in the PS 4200 series. For purposes of the discussion in this Statement of Principles, the standards in Part II and the other public sector standards are referred to as "the reference standards".

.005 Establishing Part III and introducing the PS 4200 series into the CICA PSA Handbook supported the continuation of many previously established reporting practices of NFPOs in both the private and public sectors. It also continued some differences in accounting requirements between those in the not-for-profit Sections and those in corresponding Sections in the reference standards (for example, requirements concerning capital assets).

.006 Additionally, certain not-for-profit standards have requirements that differ from the conceptual frameworks on which Part III and the CICA PSA Handbook are based. These differences lead to the following results, amongst others:

(a) recognition (or non-recognition) of certain assets and liabilities that would not be recognized (or would be recognized) by other private sector and public sector entities;

(b) a reduction in the comparability of financial reporting by NFPOs relative to the reporting by other private sector and public sector entities; and

(c) confusion amongst some users regarding the basis on which the financial statements of NFPOs are prepared as these financial statements differ from other entities in the same sector.

.007 When the Boards adopted the current standards for NFPOs under their jurisdiction, they announced that they would be undertaking a review of those standards to see whether they should be improved. The Boards established a Joint Not-for-Profit Task Force to review the content of the 4400 series and the PS 4200 series and to recommend improvements that could be made to meet the needs of users of NFPO financial statements better.

.008 The process for developing this Statement of Principles was an unconstrained and thorough reconsideration of all significant accounting issues affecting NFPOs giving due consideration to all available alternatives. The process included considering ways to improve the consistency of financial reporting between NFPOs in the public and private sectors and between NFPOs and other entities in both the public and private sectors.

.009 The reference standards have been developed with the needs of each sector's financial statement users in mind. The Boards think that financial reporting would be improved if standards in the 4400 series and PS 4200 series did not simply reproduce or appear to interpret or explain standards otherwise contained in the reference standards. The Boards support directing NFPOs to the same financial reporting standards followed by other entities in either the private or public sector when those standards apply to circumstances and transactions that are common to all entities in the same sector. This will mean that financial statement presentation will be more consistent within each sector and more readily understood by users familiar with reporting by other entities in the sector.

.010 With respect to the 4400 series in Part III and the PS 4200 series in the CICA PSA Handbook, the principles in this document propose to:

(a) eliminate guidance that is already included in the respective reference standards;

(b) conform guidance to be consistent with the reference standards, including their conceptual frameworks;

(c) provide guidance to supplement the requirements in the reference standards to address transactions and circumstances that are unique to NFPOs; and

(d) include new or amended guidance with respect to transactions and circumstances that are unique to NFPOs to address financial statement users' needs.

CONTRIBUTIONS

.011 The current standards for contributions followed by both private and public sector NFPOs are contained in CONTRIBUTIONS — REVENUE RECOGNITION, Sections 4410/PS 4210, and CONTRIBUTIONS

RECEIVABLE, Sections 4420/PS 4220, in Part III of the CICA Handbook – Accounting/CICA PSA Handbook. Contributions are defined in paragraphs 4410.02(b)/PS 4210.02(b) as follows:

"A **contribution** is a non-reciprocal transfer to an NFPO of cash or other assets or a non-reciprocal settlement or cancellation of its liabilities. Government funding provided to an NFPO is considered to be a contribution.

There are three types of contributions identified for purposes of this Section:

(i) A restricted contribution is a contribution subject to externally imposed stipulations that specify the purpose for which the contributed asset is to be used. A contribution restricted for the purchase of a capital asset or a contribution of the capital asset itself is a type of restricted contribution.

(ii) An endowment contribution is a type of restricted contribution subject to externally imposed stipulations specifying that the resources contributed be maintained permanently, although the constituent assets may change from time to time.

(iii) An unrestricted contribution is a contribution that is neither a restricted contribution nor an endowment contribution."

.012 The existing standards are not in complete agreement with the conceptual frameworks in the two Handbooks. As a consequence, amounts may be recognized in the financial statements of NFPOs on a basis that differs from the way the definitions of assets, liabilities, revenues and expenses are applied by other entities in both the private and public sectors.

.013 Under the deferral method, contributions received for the purchase of a capital asset are recognized as revenue in the periods in which the asset is used.[1] The deferred contribution balance reported as a liability may be inconsistent with the definition of a liability in the conceptual frameworks in Part III and the CICA PSA Handbook. For example, if the contribution does not have, or no longer has, stipulations that give rise to an obligation that meets the definition of a liability, recognition of the contribution as revenue should not be deferred. The deferral method is based on an outdated notion of "matching" that is inconsistent with the conceptual frameworks in both the private and public sectors.

.014 Under the restricted fund method, externally restricted contributions are recognized immediately as revenue in the current period in a non-operating fund. Revenue may be recognized before the conditions or restrictions of the contribution have been met and a corresponding liability has been discharged. Again, this differs from the conceptual frameworks in Part III and the CICA PSA Handbook.

.015 The requirements in Sections 4410/PS 4210, for deferring revenue recognition when no liability exists and recognizing revenue that has not yet been earned,

[1] The contribution may be the capital asset itself rather than the funding for its acquisition.

also differ from revenue recognition standards followed by other entities applying the same Handbook in each of the private and public sectors. In the above examples, the not-for-profit standards differ from REVENUE, Section 3400 in Part II, and GOVERNMENT TRANSFERS, Section PS 3410 in the CICA PSA Handbook.

.016 Contributions are a key source of revenue for many NFPOs and a key financial indicator for many users of NFPO financial statements in both the private and public sectors. Users are interested in contributions received or receivable as it provides useful information on the extent to which the organization relies on those contributions.

.017 Introducing a single method of accounting for contributions for NFPOs, consistent between both sectors and with each sector's conceptual framework, will result in enhanced comparability between and within sectors. Greater consistency with the concepts and principles on which the Handbooks are based will enhance the understandability of the accounting treatment of contributions being followed by NFPOs. The proposed principles differ from, and would replace, both the deferral and restricted fund methods of accounting for contributions.

Principle 1

An NFPO should recognize a contribution as an asset (a receivable) when it has control of the contribution, when it would exercise that control if necessary, and when it can reasonably estimate the amount to be received**.**

.018 Assets are defined similarly in Part III and the CICA PSA Handbook as "economic resources controlled by an entity (government) as a result of past transactions or events and from which future economic benefits may be (are expected to be) obtained." It is important for an NFPO not to recognize a contribution as a receivable and revenue until the organization "controls" the economic resource.

.019 An NFPO may have reason to expect that a particular contribution will be received. This may be the case when funding is provided under a contractual arrangement or when the contributor has lost its discretion to avoid proceeding with the contribution, thus passing control over access to the contribution to the recipient organization. Only when an NFPO has control over access to the contribution, and it will exercise that control if need be, should a contribution be recognized. This assumes that the amount of the contribution can be reasonably estimated.

.020 Most pledges would not meet the requirements of Principle 1. When a pledge is not legally enforceable, which is often the case, an NFPO does not have control over the contribution until received. For a variety of reasons, it is also uncommon for an NFPO to try to enforce collection of its pledges even when they may have control over access to the contribution. Hence, it would no longer be appropriate to accrue pledges based on expectations of the proportion that are likely to be honoured.

Principle 2

An NFPO should recognize a contribution as revenue when the contribution is received or receivable in accordance with Principle 1, except when, and to the extent, the contribution gives rise to an obligation that meets the definition of a liability.

.021 A contribution should be recognized as revenue in accordance with Principle 2 unless the contributor has imposed stipulations as to the use of the contribution that give rise to an obligation that meets meet the definition of a liability.

.022 Stipulations are imposed by a contributor and specify the purpose for which the contributed asset is to be used. Stipulations must be met by a recipient through the use of transferred resources or the actions the recipient must perform in order to keep the contributed resources. The nature and substance of stipulations are such that they are normally met after a contribution has been made and are terms that need to be satisfied through direct use of the contribution.

.023 Stipulations may not always give rise to an obligation that meets the definition of a liability. When stipulations do give rise to an obligation that meets the definition of a liability, the amount of the liability may be less than the total amount of the contribution. One of the implications of this Principle is that an NFPO will have to adopt procedures to determine whether a stipulation has created a liability. Guidance on determining whether a stipulation has given rise to such an obligation will be provided in an ensuing exposure draft if the Boards adopt this principle.

.024 Examples of stipulations that may be imposed by a contributor include:

(a) those that specify the purpose for which the contribution must be used such as using the resources:
   - (i) to acquire or develop a tangible capital asset;
   - (ii) to carry out a particular activity; and
   - (iii) in a specified region or location; and

(b) those that specify when the contribution must be used such as:
   - (i) a particular period of use;
   - (ii) the date when use is first permitted;
   - (iii) the start and end date of the period within which the contribution must be used; and
   - (iv) a pattern of use for the contributions in specified annual periods of time.

.025 The conceptual frameworks in Parts II and III of the CICA Handbook – Accounting and in the CICA PSA Handbook similarly describe a liability as a present obligation of an organization to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits. Liabilities have three essential characteristics, which embody:

(a) a duty or responsibility to others, leaving an organization little or no discretion to avoid settlement of the obligation;
(b) a duty or responsibility to others that entails settlement by future transfer or use of assets, provision of goods or services, or other form of economic settlement at a specified or determinable date, on occurrence of a specified event, or on demand; and
(c) transactions or events obligating the organization that have already occurred.

.026 Both Handbooks require recognition of a liability when:

(a) the item has an appropriate basis of measurement and a reasonable estimate can be made of the amount involved; and
(b) for items involving giving up future economic benefits, it is "probable" or "expected" that such benefits will be given up.

.027 When a liability arises from a contributor's stipulations, the organization should initially recognize an asset (usually cash) and a liability. Such circumstances may arise when, for example, the organization has little or no discretion to avoid repaying a contribution if the stipulations associated with it are not fulfilled.

.028 Consistent with this principle, an endowment contribution would usually be recognized as revenue when it is received or receivable. An endowment contribution is defined in the not-for-profit standards as follows: "An endowment contribution is a type of restricted contribution subject to externally imposed stipulations specifying that the resources contributed be maintained permanently, although the constituent assets may change from time to time."

.029 The requirement to retain the principal amount of the contribution permanently is not a condition that creates a liability for the recipient organization. While the NFPO is restricted in its ability to dispose of the principal of the endowment, it nevertheless controls the assets acquired and is under no obligation to return the endowment to the contributor.

.030 Accordingly, the Boards rejected the existing practice of presenting endowments as direct increases in net assets. However, endowment contributions may contain other stipulations that could give rise to a liability. Consequently, endowment contributions would be subject to the same recognition assessment procedures as all other contributions.

.031 The proposed treatment of recognizing endowment contributions as revenue when received or receivable is also consistent with the fact that endowment contributions are inflows or enhancements of assets resulting from the ordinary activities of an entity. Endowment contributions are the same as other contributions to an organization that it actively solicits, invests to produce a return and expends in accordance with its terms.

.032 Accounting and reporting issues related to endowments subsequent to their initial recognition, such as the accounting for gains and losses generated by endowment assets, are not being addressed in this Statement of Principles but will considered once the principles for initial recognition have been agreed upon.

.033 Principle 2 may result in reporting contributions as revenue in different periods than is currently required under CONTRIBUTIONS — REVENUE RECOGNITION, Sections 4410/PS 4210.

Principle 3

When a contribution's stipulations have given rise to an obligation that meets the definition of a liability, an equivalent amount of revenue should be recognized as the liability is settled. Revenue recognition should occur in a manner consistent with the circumstances and the evidence used to support the initial recognition of the liability.

.034 Depending on the stipulations that support the initial recognition of a contribution as a liability, an equivalent amount of revenue would be recognized as the related liability is settled.

.035 A contribution of a depreciable asset (such as a building) or a non-depreciable asset (such as land) would often be recognized as revenue when received or receivable under the recognition principles described above. A contribution of cash to acquire a depreciable or non-depreciable asset would often meet the definition of a liability until the asset is acquired. At the date of acquisition of the asset, the contribution would be recognized in revenue.

.036 As is the case with Principles 1 and 2, Principle 3 may result in reporting contributions as revenue in different periods than is currently required under CONTRIBUTIONS — REVENUE RECOGNITION, Sections 4410/PS 4210.

.037 Also as in Principles 1 and 2, Principle 3 is consistent with the conceptual framework in Parts II and III of the CICA Handbook – Accounting and the CICA PSA Handbook. Furthermore, REVENUE, Section 3400 in Part II, and GOVERNMENT TRANSFERS, Section PS 3410 in the CICA PSA Handbook have requirements for other private sector and public sector entities similar to those proposed in this Principle.

.038 Contributions would be recognized as revenue on a basis consistent with the concepts and principles on which the Handbooks are based, enhancing the understandability of the accounting requirements for contributions being followed by NFPOs. Revenue recognition for contributions will be consistent across and between the private and public sectors, enhancing comparability.

.039 An organization would provide sufficient information in its financial statements to clarify the nature of the different types of contributions it has received, related stipulations and restrictions, and other relevant information.

Principle 4

An NFPO may choose to recognize contributions of materials and services at fair value when a fair value can be reasonably estimated.

.040 The receipt of in-kind contributions, such as contributed materials and services, is a common situation for NFPOs. Conceptually, an organization should recognize all assets, liabilities, revenues and expenses that meet the definitions and recognition criteria. Recognition of contributions is relevant in measuring an NFPO's total increase in its economic resources and total fundraising and administrative expenses, for example. However, a requirement to recognize such contributions creates a number of issues such as whether completeness can reasonably be assured, the basis on which the contributed items should be measured and other practical issues. For example, it may be impracticable to measure and recognize the receipt of contributed services when the organization depends heavily on the use of volunteers to provide programs or services.

.041 As a consequence, the Boards propose to continue to permit organizations a free choice as to whether or not they would recognize contributed materials and services. In making the choice, an NFPO would consider whether financial statement users would benefit significantly from the recognition of contributions of materials and services when a fair value of those contributions can be reasonably estimated and they are used in the normal course of the organization's operations (for example, free rent for premises that may be integral to an organization's operations would have otherwise been paid and is measurable). An NFPO could choose to recognize certain types of contributed materials and services but not others depending on what information it considers to be most useful to the users of its financial statements.

TANGIBLE CAPITAL ASSETS

.042 Currently, the not-for-profit accounting requirements regarding the capitalization, amortization, write-down and disposal of tangible capital assets contain requirements that are either identical, or substantially similar, to the reference standards. TANGIBLE CAPITAL ASSETS HELD BY NFPOs, Section 4431, and CAPITAL ASSETS HELD BY NFPOs, Section PS 4230, correspond closely to PROPERTY, PLANT AND EQUIPMENT, Section 3061, and DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475 in Part II of the CICA Handbook – Accounting, and TANGIBLE CAPITAL ASSETS, Section PS 3150 in the CICA PSA Handbook.

Principle 5

An NFPO applying Part III should apply PROPERTY, PLANT AND EQUIPMENT, Section 3061 and DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS, Section 3475 in Part II, in reporting the capitalization, amortization and disposal of tangible capital assets. TANGIBLE CAPITAL ASSETS HELD BY NFPOs, Section 4431 in Part III, would be amended to include write-downs to reflect a partial loss of service potential of an asset that is still being used.

An NFPO applying the CICA PSA Handbook, including the PS 4200 series, should apply TANGIBLE CAPITAL ASSETS, Section PS 3150, in reporting the capitalization, amortization, write-down and disposal of tangible capital assets.

.043 In the private sector, NFPOs use their tangible capital assets, in a manner similar to public sector organizations, for providing goods and services to the public. This differs from other private sector enterprises that use tangible capital assets for purposes of generating cash flow. While there is no need for separate reporting requirements for NFPOs in the private sector relating to the capitalization, amortization, and disposal of tangible capital assets, there is with respect to impairments.

.044 In the private sector, it is proposed that the requirements regarding the capitalization, amortization and disposal of tangible capital assets be removed from Section 4431. NFPOs in the private sector would then follow Sections 3061 and 3475 in Part II on these matters. Material in Section 4431 related to contributed capital assets would be retained.

.045 The material on write-downs of tangible capital assets by private sector NFPOs in paragraphs 4431.26-.27 in Part III would be amended to require an NFPO to reflect a decline in an asset's value. This would occur when conditions indicate a tangible capital asset no longer contributes to an NFPO's ability to provide goods and services or the value of future economic benefits associated with the tangible capital asset is less than its net book value. In such a case, the cost of the tangible capital asset would be reduced to reflect the decline in the asset's value. In developing such an amendment, the AcSB would consider existing material in paragraphs PS 3150.31-.37 in the CICA PSA Handbook. This change would reflect the unique purpose of tangible capital assets for NFPOs in the private sector and would align their accounting with organizations in the public sector. In this regard, the AcSB would monitor PSAB’s Impairment of Non-Financial Assets project.

.046 In the public sector, NFPOs use their tangible capital assets for purposes largely consistent with governments and other government organizations that are providing goods and services to the public. There does not appear to be a need for separate reporting requirements for NFPOs relating to the capitalization, amortization, write-down and disposal of tangible capital assets in the public sector, including the accounting for contributed assets.

.047 As a consequence, it is proposed that the reporting requirements regarding the capitalization, amortization, write-down and disposal of tangible capital assets in Section PS 4230 be withdrawn. NFPOs in the public sector would follow Section PS 3150 on these matters.

.048 As a result of adopting these proposals, the requirements for the capitalization, amortization, write-down and disposal of tangible capital assets for NFPOs would not differ substantially between the two sectors.

INTANGIBLE ASSETS

Principle 6

An NFPO applying Part III of the CICA Handbook – Accounting should continue to apply INTANGIBLE ASSETS HELD BY NFPOs, Section 4432. This Section would be amended to include write-downs to reflect a partial loss of service potential of an asset that is still being used.

An NFPO in the public sector applying the CICA PSA Handbook including the PS 4200 series should continue to apply CAPITAL ASSETS HELD BY NFPOs, Section PS 4230, in accounting for intangible properties.

.049 Many NFPOs hold intangible assets that are defined as identifiable non-monetary assets without physical substance. Some intangible assets held by NFPOs include patents, copyrights, and assets acquired or developed to be used directly in operations such as theatrical productions.

.050 These intangible assets are often essential for NFPOs in providing goods and services to the public or in fund-raising activities.

.051 While the objective and use of intangible assets may be similar between private and public sector NFPOs, the current accounting requirements differ between the sectors.

.052 In the private sector, NFPOs capitalize and amortize their intangible assets in accordance with Section 4432 in Part III, which includes the application of GOODWILL AND INTANGIBLE ASSETS, Section 3064 in Part II.

.053 The material on write-downs of intangible capital assets by private sector NFPOs in paragraphs 4432.07-.08 would be amended to include write-downs to reflect a partial loss of service potential of an intangible asset that is still being used in the same manner as Section 4431 will be amended as described in paragraph .045 above.

.054 The public sector does not have an accounting standard addressing intangible assets. Governments and NFPOs following the CICA PSA Handbook without the PS 4200 series do not recognize intangibles as assets, in accordance with FINANCIAL STATEMENT CONCEPTS, Section PS 1000. Public sector

NFPOs following the CICA PSA Handbook including the PS 4200 series do capitalize and amortize intangible properties, in accordance with Section PS 4230.

.055 PSAB is aware of the difference in accounting for intangibles between Sections PS 1000 and PS 4230. Accordingly, PSAB is proposing that an NFPO applying the CICA PSA Handbook including the PS 4200 series should continue to follow Section PS 4230 in accounting for intangible properties until such time as PSAB considers whether it should address the accounting for intangible assets acquired and developed by all public sector entities.

TANGIBLE AND INTANGIBLE CAPITAL ASSETS (“SIZE EXEMPTION”)

Principle 7

Regardless of its size, an NFPO should recognize its capital assets in accordance with Principles 5 and 6. There should be no arbitrarily imposed criteria or limit that permits non-recognition of capital assets.

.056 An NFPO is currently able to limit the application of CAPITAL ASSETS HELD BY NFPOs, Section PS 4230 in the CICA PSA Handbook and both TANGIBLE CAPITAL ASSETS HELD BY NFPOs, Section 4431, and INTANGIBLE ASSETS HELD BY NFPOs, Section 4432 in Part III of the CICA Handbook – Accounting, when the average of its annual revenue for the current and preceding period, including revenue from controlled entities, is less than $500,000. This size exemption permits an NFPO to choose not to recognize its capital assets.

.057 The size exemption was an arbitrary amount that was included in the not-for-profit standards when they were initially developed almost twenty years ago as an accommodation for smaller NFPOs to facilitate and encourage their adoption of GAAP. No other standard in either Handbook includes such an exemption, notwithstanding that some of the smaller entities in both the public and private sector have limited financial statement user needs and limited financial reporting capabilities similar to smaller NFPOs.

.058 It is important that all NFPOs capitalize and amortize their capital assets on a consistent basis. Recognition of capital assets ensures that an NFPO reports complete information about the discharge of its stewardship and accountability responsibilities and enhances comparability among organizations. This is important to many financial statement users who base their funding decisions on the relative effectiveness and viability of an NFPO. However, the capital assets of some NFPOs may not be material to their financial statement users. For example, an NFPO may have as its only capital asset a personal computer. Capitalizing the cost of the computer may not be material to its financial statement users. The usual materiality provisions of both Part III and the CICA PSA Handbook apply and immaterial items need not be capitalized.

.059 The Boards expect that removing the existing exception from the general principles for capital assets will result in greater consistency in reporting across the public and private sectors.

WORKS OF ART, HISTORICAL TREASURES AND SIMILAR ITEMS

Principle 8

An NFPO applying Part III of the CICA Handbook – Accounting should continue to apply COLLECTIONS HELD BY NFPOs, Section 4440, in reporting its collections and should recognize its collections at either cost or nominal value in the statement of financial position.

An NFPO in the public sector applying the CICA PSA Handbook including the PS 4200 series should continue to apply COLLECTIONS HELD BY NFPOs, Section PS 4240, in reporting its collections.

.060 In both Section 4440 in Part III and Section PS 4240 in the CICA PSA Handbook, collections are defined as follows:

"**Collections** are works of art, historical treasures or similar assets that are:
(i) held for public exhibition, education or research;
(ii) protected, cared for and preserved; and
(iii) subject to an organizational policy that requires any proceeds from their sale to be used to acquire other items to be added to the collection or for the direct care of the existing collections."

.061 Collections are commonly held by NFPOs such as museums and galleries and consist of such items as paintings, writings, sculptures, artifacts and specimens. The organization acts as a custodian to protect and preserve the collection for public exhibition, education or research.

.062 Owing to the nature of collections and the constraints on their use, it seems appropriate that the unit of account is the collection as a whole rather than the individual items in it. The AcSB notes that the historical cost of a collection is not necessarily reflective of the value of, or the benefits to be received from, a collection. Similarly, any attempt to ascertain current market values for most collections, comprising thousands of unique items, is simply impracticable.

.063 Accordingly, the AcSB is proposing to permit an NFPO in the private sector to recognize a collection at either cost or nominal value. The AcSB proposes to provide guidance for applying the cost basis of measurement by organizations that choose that accounting policy. It is expected that application of the cost basis would, in each case, be consistent with principles applied by other entities in the private sector. Such guidance may result in some change in current practices by NFPOs applying the cost basis in the private sector.

.064 In the public sector, governments and NFPOs following the CICA PSA Handbook without the PS 4200 series do not recognize works of art and historical treasures as tangible capital assets in accordance with TANGIBLE CAPITAL ASSETS, Section PS 3150. NFPOs following the CICA PSA Handbook including the PS 4200 series may capitalize their collections but are not required to do so in accordance with Section PS 4240.

.065 PSAB is aware of the difference in accounting for collections of works of art and historical treasures between Sections PS 3150 and PS 4240. Accordingly, PSAB is proposing that an NFPO in the public sector applying the CICA PSA Handbook including the PS 4200 series should continue to follow Section PS 4240 in accounting for works of art and historical treasures until such time as PSAB considers whether it should address the accounting for works of art and historical treasures by all public sector entities.

.066 Some stakeholders have suggested that the definition of a collection poses difficulties for some organizations in determining whether an assets or group of assets is a collection for the purposes of the standard. Accordingly, the Boards are interested in respondents' views as to whether and how the definition of a collection might be improved.

Principle 9

An NFPO applying Part III of the CICA Handbook – Accounting should continue to account for works of art, historical treasures and similar items being held as capital assets that are not part of a collection by applying TANGIBLE CAPITAL ASSETS HELD BY NFPOs, Section 4431. Assets acquired with the intention of selling them would continue to be accounted for in accordance with INVENTORIES HELD BY NFPOs, Section 3032.

An NFPO in the public sector applying the CICA PSA Handbook including the PS 4200 series should continue to account for works of art, historical treasures and similar items being held as capital assets that are not part of a collection by applying CAPITAL ASSETS HELD BY NFPOs, Section PS 4230.

.067 Occasionally a private sector NFPO may acquire works of art, historical treasures and similar items to be used as a tangible capital asset or for sale. For example, the organization may acquire a work of art to be used as an office furnishing or receive a work of art that will be sold. An NFPO may also acquire such an asset to be used as an office furnishing and subsequently decide to sell it.

.068 The intended use of these items is consistent with those of other assets held or used by an NFPO and should be recognized in the same manner (i.e., as a capital asset or as an inventory type item). Thus, a private sector NFPO would continue to apply Section 4431and Section 3032 in Part III.

.069 A public sector NFPO applying the CICA PSA Handbook including the PS 4200 series would continue to account for works of art, historical treasures and similar items that are not part of a collection and being held as capital assets by continuing to apply Section PS 4230.

.070 In the public sector, governments and NFPOs following the CICA PSA Handbook without the PS 4200 series do not recognize works of art and historical treasures as tangible capital assets, in accordance with TANGIBLE CAPITAL ASSETS, Section PS 3150.

.071 PSAB is aware of the difference in accounting for works of art and historical treasures between Section PS 3150 and the PS 4200 series. Accordingly, PSAB is proposing that an NFPO in the public sector applying the CICA PSA Handbook including the PS 4200 series should continue to recognize works of art and historical treasures based on their intended use until such time as PSAB considers whether it should address the accounting for works of art and historical treasures by all public sector entities.

CONTROLLED AND RELATED ENTITIES

Principle 10

An NFPO applying Part III of the CICA Handbook – Accounting should:

(a) consolidate controlled NFPOs, subject to an exclusion from consolidation of a large number of individually immaterial organizations; and
(b) account for controlled profit oriented enterprises in accordance with the equity method.[2]

NFPOs in the public sector should apply GOVERNMENT REPORTING ENTITY, Section PS 1300, PORTFOLIO INVESTMENTS, Section PS 3041, GOVERNMENT PARTNERSHIPS, Section PS 3060, INVESTMENTS IN GOVERNMENT BUSINESS ENTERPRISES, Section PS 3070, and FINANCIAL INSTRUMENTS, Section PS 3450 in the CICA PSA Handbook to account for their controlled and related entities.

.072 Financial statements should provide an accounting of the full nature and extent of the financial affairs and resources that a reporting entity controls. Those financial statements are a principal means by which an entity demonstrates its accountability for the financial affairs and resources entrusted to it, and provide information useful in evaluating the entity's performance in the management of its financial affairs and resources. The reporting entity should comprise the

[2] The equity method proposed would not require that the accounting principles of the subsidiary be conformed with those of the parent.

organizations that are controlled by the entity, recognizing that the separate legal entities are components of one economic unit.

.073 The Boards considered direct adoption of the reference standards in each sector for controlled and related entities and whether to eliminate the majority of the requirements and guidance in REPORTING CONTROLLED AND RELATED ENTITIES BY NFPOs Sections 4450/PS 4250.

.074 For private sector NFPOs, Section 4450 prescribes certain accounting options in accounting for controlled and related entities that are generally consistent with accounting options included in Part II although Section 4450 does not permit a free choice from among all of the options available in Part II. However, the AcSB notes that the accounting policy choice in Part II to consolidate or not is based on the assumption that the typical "user" of private enterprise financial statements is a lender that has the power to request more information (including requiring consolidated financial statements). This is often not the case with NFPOs. Accordingly, the AcSB thinks that the financial reporting requirements for a private sector NFPO may not necessarily be the same as those for a profit-oriented enterprise.

.075 As a consequence, the AcSB intends to retain Section 4450 rather than adopting the reference standards for private sector NFPOs. However, the AcSB proposes to amend Section 4450 to:

(a) require an NFPO to consolidate a controlled NFPO, subject to an exclusion from consolidation of a large number of individually immaterial organizations; and
(b) require an NFPO to apply the equity method of accounting for its interests in a controlled profit-oriented enterprise.

.076 The AcSB thinks it is more appropriate to account for a controlled profit-oriented enterprise by an equity method rather than consolidating the enterprise and co-mingling its assets, liabilities, revenues and expenses with those of the organization's not-for-profit role. Conversely, the AcSB thinks that consolidating all of an NFPO's not-for-profit assets, liabilities, revenues and expenses is the appropriate presentation, subject to the proposed exclusion noted in paragraph .075.

.077 Some types of organizations have been relying on the exclusion from consolidation of a large number of individually immaterial organizations. The AcSB asks respondents, in particular financial statement users, to address whether:

(a) the exclusion in paragraphs 4450.26-.29 should continue to be permitted;
(b) there are other circumstances in which exclusion should be permitted; and
(c) there are circumstances in which controlled profit-oriented enterprises should be consolidated.

.078 Public sector organizations following the CICA PSA Handbook without the Section PS 4200 series are required to consolidate all controlled entities, except that controlled government business enterprises are accounted for by the modified equity method. Similarly, all government partnerships are proportionately consolidated, except for government business partnerships, which are accounted for by the modified equity method. Consolidation and proportionate consolidation provides financial statement users with the full nature and extent of the financial affairs and resources that the public sector entity controls or shares control.

.079 PSAB supports requiring public sector NFPOs to consolidate or account on the modified equity basis for their controlled entities and proportionately consolidate or account on a modified equity basis for their shared control entities, as is required of governments and other government organizations. Enhanced comparability, stewardship and accountability will result. PSAB proposes that public sector NFPOs rely on the reference standards in the CICA PSA Handbook to account for their controlled and related entities together with the disclosure of economic interests described in Principle 11 below.

.080 The Boards think that applying Principle 10 would enhance the comparability of the financial reporting by organizations within each sector and best address the needs of financial statement users in both the public and private sectors.

Principle 11

An NFPO applying Part III of the CICA Handbook – Accounting should continue to disclose an economic interest in another NFPO over which it does not have control in accordance with REPORTING CONTROLLED AND RELATED ENTITIES BY NFPOs, Section 4450.

An NFPO applying the CICA PSA Handbook including the PS 4200 series should continue to disclose an economic interest in another NFPO over which it does not have control in accordance with REPORTING CONTROLLED AND RELATED ENTITIES BY NFPOs Section PS 4250.

.081 NFPOs currently provide specific disclosures with respect to economic interests in other NFPOs that they do not control in accordance with Sections 4450/PS 4250. Those Sections define an economic interest as existing “if the other organization holds resources that must be used to produce revenue or provide services for the reporting organization; or the reporting organization is responsible for the liabilities of the other organization.” The disclosures required under Sections 4450/PS 4250 provide information that enables users of an organization’s financial statements to evaluate the nature and extent of this interest.

.082 Part II does not address economic interests of the type addressed by Sections 4450 as such interests do not arise amongst profit-oriented enterprises. The CICA PSA Handbook also does not address economic interests of this type.

.083 The AcSB considers economic interest relationships of the kind described in Section 4450 to be particularly significant among NFPOs in the private sector. To the extent those relationships are not specifically dealt with in Part II, the AcSB proposes to retain the requirement to disclose information about them. The AcSB considers this to be valuable information to the users of NFPO financial statements.

.084 In the public sector, governments and NFPOs following the CICA PSA Handbook without the PS 4200 series do not report their economic interests. NFPOs following the CICA PSA Handbook including the PS 4200 series report their economic interests in accordance with PS 4250.

.085 An "economic interest" relationship is a difficult concept for the public sector. Depending on how such relationships are defined, governments can have economic interests in many non-controlled entities because of their transfer programs, legislative requirements directing the use of certain funds (municipalities, for example), and guarantees of liabilities (the reporting entity standard, GOVERNMENT REPORTING ENTITY, Section PS 1300, may require different disclosures). It is common practice for provinces to guarantee the debt of all municipalities and their related entities. The economic interest disclosures in FINANCIAL STATEMENT PRESENTATION BY NFPOs, Sections 4400/PS 4200 were intended to address non-controlled foundations related to NFPOs (for example, a hospital and a separate foundation not controlled by the hospital but established to provide funding for it). Such relationships exist in both the private and public sectors.

.086 PSAB is aware of the difference in reporting requirements amongst different public sector entities regarding their economic interests. Accordingly, PSAB is proposing that an NFPO in the public sector applying the CICA PSA Handbook including the PS 4200 series should continue to report its economic interests in accordance with PS 4250 until such time as PSAB considers whether it should address the reporting of economic interests by all public sector entities.

Principle 12

An NFPO applying Part III of the CICA Handbook – Accounting should continue to apply DISCLOSURE OF RELATED PARTY TRANSACTIONS BY NFPOs Section 4460.

An NFPO applying the CICA PSA Handbook including the PS 4200 series should continue to apply DISCLOSURE OF RELATED PARTY TRANSACTIONS BY NFPOs, Section PS 4260, pending completion of PSAB's Related Party Transactions project.

.087 The disclosure requirements in Section 4460 are virtually identical to those in the reference standard, RELATED PARTY TRANSACTIONS, Section 3840 in Part II. Therefore, the AcSB proposes to amend Section 4460 to require NFPOs applying Part III to follow the requirements of Section 3840 with the exception of the measurement provisions of that standard. That exception was made when Section 4460 was originally adopted (i.e., effective April 1, 1997) and the AcSB proposes to retain the exception because of the difficulty in applying the commercially oriented criteria in Section 3840 to not-for-profit related party transactions. Section 4460 would also modify the definition of a related party to include an entity with which an NFPO has an economic interest relationship.

.088 The CICA PSA Handbook does not have a related party transaction standard. However, a project to develop such a standard for all public sector entities is currently under way. PSAB proposes to retain Section PS 4260 until this project has been completed. NFPOs following the CICA PSA Handbook are encouraged to monitor the status of this ongoing project and respond to opportunities to comment.

.089 The AcSB notes that PSAB project contemplates the measurement of related party transactions as does Section 3840 in Part II. The AcSB intends to monitor PSAB project in order to determine whether measurement standards should be developed for private sector NFPOs.

FINANCIAL STATEMENT PRESENTATION

Principle 13

A private sector NFPO applying Part III of the CICA Handbook – Accounting should apply INCOME STATEMENT, Section 1520, BALANCE SHEET, Section 1521, CASH FLOW STATEMENT, Section 1540, and other appropriate Sections in Part II in presenting their financial statements.

A public sector NFPO should apply FINANCIAL STATEMENT PRESENTATION, Section PS 1201, and other appropriate Sections of the CICA PSA Handbook in presenting their financial statements.

Both Boards propose to retain certain of the guidance material in the existing not-for-profit standards that address unique financial statement presentation issues faced by NFPOs. The Boards do not intend to be any more prescriptive regarding the format of presentation or line items to be presented in the financial statements of an NFPO than the reference standards for each sector.

.090 In presenting their financial statements, NFPOs in both the private and public sectors were directed historically to apply FINANCIAL STATEMENT PRESENTATION BY NFPOs, Section 4400 in Part V. Section 4400 in Part V primarily provided guidance on the presentation of financial statements that reflect an NFPO's choice to apply either the deferral or restricted fund method of accounting for contributions.

.091 While applying the same standard enhanced comparability of financial reporting amongst NFPOs, the number of accounting and reporting options available under the previous standard limited the extent to which that objective could be achieved. In addition, the financial statement presentation of NFPOs was not consistent with that of other private and public sector entities. As a result, many financial statement users had difficulty fully understanding financial reporting by NFPOs.

.092 As was noted in Principles 1 to 3 of this Statement of Principles, both Boards are proposing to eliminate the deferral and restricted fund methods of accounting for contributions. Both Boards need to consider the appropriate presentation model to be followed by NFPOs in their sector by considering their financial statement users' needs and the proposed principles for recognizing contributions. The Boards encourage NFPOs to continue reporting activities of various funds if this is appropriate for their user needs.

.093 Both Part II and the CICA PSA Handbook have financial reporting standards applied by various types of entities in the private and public sectors, respectively. The general financial statement standards in Part II include Sections 1520, 1521 and 1540, and in the CICA PSA Handbook include Section PS 1201. In addition, other relevant presentation matters are addressed in some of the other Sections of both Handbooks that need to be considered by NFPOs. These standards are based on the specific needs of users in each sector. The Boards think that these financial reporting standards are equally applicable to NFPOs as to other entities in their respective sectors. By directing NFPOs to the same financial reporting standards applied by other entities in the private and public sectors, financial statement presentation will be more consistent within each sector and more readily understood by financial statement users familiar with the reporting by other entities in that sector.

.094 The Boards are aware that a consequence of the proposed principle is less comparability of financial statement presentation between NFPOs in the public sector and those in the private sector, as there are differences between the reporting requirements in Part II and those in the CICA PSA Handbook. For example, Part II requires the presentation of assets, liabilities and shareholders' equity ("net assets" in the case of NFPOs) on the face of the balance sheet (statement of financial position). The CICA PSA Handbook requires presentation of a key public sector indicator called "net debt or net financial assets" on the face of public sector statements of financial position. Budget information is required in certain financial statements under the CICA PSA Handbook but not under Part II. A statement of remeasurement gains and losses is required under the CICA PSA Handbook but not under Part II.

.095 The Boards think that the fundamental financial statement principles reflected in Part II and in the CICA PSA Handbook are as appropriate for NFPOs as they are for other entities following the same set of standards. In at least some cases, the requirements may differ between the sets of standards but are not totally incompatible. For example, a private sector organization could provide budget information as additional information. Analysis on a comparable basis of a net debt and net asset presentation is still possible as the same elements appear in both statements of financial position albeit in a different format. A public sector NFPO could disclose the amount payable at the end of the period in respect of government remittances (other than income taxes) — for example, federal and provincial sales taxes, payroll taxes, health taxes, and workers' safety insurance premiums — as is required by Part II.

.096 The following matters specific to NFPOs are discussed in FINANCIAL STATEMENT PRESENTATION BY NFPOs, Sections 4400/PS 4200:

(a) reporting fund activities (including interfund transfers);
(b) disclosure of restrictions on net assets;
(c) reporting of components of net assets and changes in net assets balances; and
(d) reporting of revenues and expenses at gross versus net amounts.

.097 The AcSB proposes to retain material related to those matters in essentially the same format as they currently appear in Section 4400 in Part III. This is particularly important in order to present properly the transactions that relate to, and affect, permanently restricted, temporarily restricted and unrestricted net assets.

.098 PSAB proposes that public sector NFPOs be provided with the explicit choice of whether to present information on fund accounting, restriction of net assets (accumulated surplus/deficit), reporting of net assets (accumulated surplus/deficit) and changes in net assets balances (accumulated surplus/deficit). A public sector NFPO that chooses to provide such information would do so in the notes or schedules to the financial statement, thereby maintaining the comparability of its financial statements with the financial statements of other public sector entities. This is consistent with the presentation of restricted assets and revenues (for example, as indicated in RESTRICTED ASSETS AND REVENUES. Section PS 3100). The reporting of revenues and expenses at gross versus net amounts by a public sector NFPO would be consistent with the guidance in Section PS 4200.

Principle 14

A private sector NFPO with more than one function should present its expenses by function in its financial statements and disclose its expenses by object (nature) in the notes to the financial statements.

A public sector NFPO would apply FINANCIAL STATEMENT PRESENTATION, paragraph PS 1201.088 in the CICA PSA Handbook.

An NFPO should present total fundraising expenses and general support expenses as separate functions in the statement of operations or disclose them in the notes to the

financial statements.

.099 The not-for-profit financial statement presentation standards — Sections 4400/PS 4200 in Part III of the CICA Handbook – Accounting and the CICA PSA Handbook respectively — allow an NFPO to classify expenses in the statement of operations by object (nature), for example, salaries, rents, utilities, or by function, for example, administration, fundraising, programs. Reportable functions are identified by an NFPO by the way it manages its operations.

.100 Section PS 1201 requires governments and most other government organizations in Canada to report expenses by function in the statement of operations and disclose expenses by object in the notes or schedules to the financial statements. Reporting expenses by function supports analysis of the social effect of the expenses as well as disclosing the economic effect of those expenses. Functional reporting of expenses is preferred as it better reflects the social orientation of government operations, such as health, welfare and education.

.101 Support for disclosing expenses by object is provided in paragraph PS 1201.088 of the CICA PSA Handbook, which states, in part:

> "Disclosure in the notes or schedules of expenses by object provides information that is useful in evaluating the major types of expenses incurred by a government in the period. This disclosure supports the functional display of expenses provided in the statement of operations by offering a different perspective of the expenses of the period."

.102 The AcSB agrees with PSAB that requiring NFPOs to present their expenses by function and disclose them by object (nature) will assist in addressing their accountability and stewardship responsibilities. It will also enhance the comparability of reporting amongst NFPOs and with other entities in both the private and public sectors. However, in order to comply with Principle 14, an organization is not expected to create "functions" that are not considered to be, or are not managed as, separate activities of the organization.

.103 The AcSB notes, as well, that many NFPOs' operations consist of only one function or program. In such a case, the NFPO may consider presenting expenses by object in its statement of operations and disclosing its function or program in the notes or schedules to its financial statements. An NFPO would adopt this approach when it is the more relevant and meaningful information for its financial statement users. Hence, Principle 14 is not expected to increase substantially the reporting requirements for NFPOs with only one function or program.

.104 The Boards also think that the aggregate amounts of fundraising expenses and general support expenses should be presented in the statement of operations or disclosed in the notes to an NFPO's financial statement. Those two expense categories are highly scrutinized and important measures to users of financial statements.

.105 An NFPO would present or disclose those direct costs incurred in carrying out fundraising and general support activities. An organization that receives minimal miscellaneous contributions may incur no direct fundraising expenses and would report none. However, all organizations have general support costs that enable them to carry out their activities.

.106 This principle would impose additional reporting requirements for NFPOs relative to those presently in the 4400 series in Part III and the PS 4200 series in the CICA PSA Handbook.

Principle 15

An NFPO applying Part III of the CICA Handbook – Accounting should continue to apply DISCLOSURE OF ALLOCATED EXPENSES BY NFPOs, Section 4470.

An NFPO applying the CICA PSA Handbook including the PS 4200 series should apply DISCLOSURE OF ALLOCATED EXPENSES BY NFPOs, Section PS 4270.

.107 An NFPO may incur both fundraising and general support expenses that support a variety of functions undertaken by the organization (for example, research, education, ancillary operations). Accordingly, in determining expenses by function, some organizations allocate some or all of their fundraising and general support expenses to other functions rather than reporting the full amounts as separate functions.

.108 Fundraising expenses may occasionally include amounts that are incurred specifically in support of another function (for example, education). General support expenses enable the organization to undertake all of its functions, including fundraising. General support expenses may include expenses for corporate governance, general management, payroll administration, budgeting and accounting, information technology, human resources, and financing.

.109 Disclosure of the policy for allocating fundraising and general support expenses to other functions, and the amounts allocated, would assist financial statement users of an NFPO to understand the level of fundraising and general support expenses incurred by the organization to support its various other functions. Such information is significant to many financial statement users.

.110 Therefore, the Boards think that an NFPO should continue to disclose the policies adopted for allocating fundraising and general support expenses amongst functions, the nature of the expenses being allocated and the basis on which such allocations have been made, the related amounts so allocated and the total amounts of fundraising and general support expenses. This disclosure is currently required by both Section 4470 in Part III, and Section PS 4270 in the CICA PSA Handbook.