

# Government not-for-profit organizations (GNFPOs): Changing financial reporting frameworks

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## Extract, PSA Discussion Group Report on the Public Meeting – November 20, 2020

The Group was asked to discuss two issues regarding the classification of government organizations as GNFPOs that could affect their financial reporting framework (i.e., the set of generally accepted accounting principles (GAAP) they use in preparing their financial statements).

The Introduction to Public Sector Accounting Standards, paragraph .07, defines GNFPOs as government organizations with all of the following characteristics:

- (a) It is a separate entity with the power to contract in its own name and that can sue and be sued.
- (b) It has counterparts outside the public sector as defined in paragraph .02.
- (c) It is an entity normally without transferable ownership interests.
- (d) It is an entity organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose.
- (e) Its members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.

### Issue 1

The first issue asked if the GNFPO definition that requires the entity to have private sector counterparts is still relevant in determining the classification of public sector entities as GNFPOs.

The Group was asked to consider three views:

- A. Yes, the requirement remains relevant. An entity with no private sector counterparts should not meet the GNFPO definition, nor be able to use the PSA Handbook's PS 4200 series of standards. Entities without private sector counterparts would be expected to be classified as other government organizations (OGOs).
- B. No, the requirement is no longer relevant. The entity's nature and purpose should determine its classification.
- C. No, the requirement is no longer relevant. However, to limit use of the PS 4200 series, the private sector counterpart criterion should be replaced with something observable yet limitative. To be classified as a GNFPO an entity would need to have registered charity charitable organization tax status (or equivalent), allowing the classification for financial reporting purposes to align with the entity's tax status.

Most Group members supported View A, while indicating that identifying private sector counterparts can be difficult for some entities with not-for-profit mandates. Some felt that this aspect of the definition should be an indicator of the entity's nature rather than a strict requirement for it to be classified as a GNFPPO. Others noted the importance of comparability in reporting across subsectors of the not-for-profit organization (NFPO) classification, such as between universities, regardless of whether they are public or private sector entities.

One Group member noted a preference for GNFPPOs using the same GAAP as the controlling government for ease of consolidation without restatement. If the "private sector counterparts" criterion in the definition allows fewer entities to use the PS 4200 series, then it should be retained as it allows more consistency in reporting up and down the consolidation ladder.

There was some support for View B, with two Group members noting the need for separate GNFPPO standards to reflect their distinct mandate from that of government organizations. As well, those Group members noted the passion of GNFPPO staff and donors for the not-for-profit objectives of their organizations. Two Group members noted the risk of a volume of entities starting to use the PS 4200 series if the "private sector counterparts" requirement was removed was likely low. However, two others noted the ongoing need to distinguish GNFPPO objectives from those of government and other types of controlled entities.

Ultimately, the Group concluded that there is merit in retaining the "private sector counterparts" aspect of the GNFPPO definition at least until PSAB decides its GNFPPO strategy. This includes amendments, if any, to the PS 4200 series or other primary Public Sector Accounting Standards (PSAS) to reflect GNFPPO-specific considerations. Changing the GNFPPO definition may be premature ahead of finalizing the overall GNFPPO strategy.

Some Group members commented that View C was more form than substance. One noted the complexities of the Canada Revenue Agency (CRA) guidance on charities should not be imported into accounting standards. Another noted that not all GNFPPOs are registered charities, so using this status as a criterion would not be appropriate.

## **Issue 2**

Issue 2 asked about the impact on classifying an entity as a GNFPPO if it has a number (or a growing number) of controlled for-profit entities.

Two views were considered:

- A. An entity should no longer be classified as a GNFPPO when the number/extent of its controlled for-profit entities or activities indicates that its mandate can no longer be considered primarily non-profit.
- B. If an entity classified as a GNFPPO has many controlled for-profit entities or undertakes significant for-profit activities, it can still be classified as a GNFPPO if those for-profit entities/activities are undertaken to finance its non-profit mandate.

Most Group members supported View B while cautioning that professional judgment is necessary when evaluating a GNFPPO's circumstances. Group members indicated there was definite merit to considering the extent to which a GNFPPO had profit-oriented activities or controlled entities but recognized that NFPOs may have a need to find outside revenue sources to support their non-profit mandate. For example, Indigenous government not-for-profit housing organizations may receive funding from other levels of government for services, but not for related administrative costs. Most Group members agreed that if profits are raised and used for funding the controlling GNFPPO's mandate, then they should not negate the entity's classification as a GNFPPO.

Some Group members noted that evaluating this classification would consider changes in the entity's mandate (by the entity or controlling government), or in the extent of its profits. One Group member noted the evaluation should also consider if the controlling government is leaving profits in the GNFPPO to help fund its mandate or taking profits out of the organization. Another indicated that the distinction between whether the GNFPPO has profit-oriented activities itself or establishes a separate corporate entity for those activities might also be a consideration, especially if the corporate entity created is a government business enterprise. However, it is possible that creating such an entity may be in order to pay taxes on its profits so that the controlling GNFPPO retains not-for-profit status. Looking through the structure to the substance of the entity's role in the mandate of the GNFPPO is important.

Two Group members noted that the CRA guidance around registered charity business activities was helpful. The CRA is generally of the view that an NFPO can engage in commercial activities and earn an unintentional profit. However, if it is unable to undertake not-for-profit activities without its profitable activities, the organization has a profit purpose and cannot be an NFPO. Two Group members indicated that guidance comparable to this in the accounting standards would be helpful. A GNFPPO may need ancillary revenues to manage long-term goals related to its non-profit mandate and to innovate future service delivery.