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Highlights

The Public Sector Accounting Board (PSAB) was created to serve the public interest by establishing accounting standards for the public sector. The term “public sector” refers to governments, government components, government organizations and government partnerships. Government not-for-profit organizations (GNFPOs) are not-for-profit organizations that are controlled by the government and fit a certain criteria (please refer to page 10). The government determines through the application of the criteria of control in Section PS 1300, Government Reporting Entity, that the GNFPOs’ relationship to government are that they are “controlled” or not. PSAB also provides guidance to these groups with respect to the reporting of financial and other performance information.

In its 2017-2021 Strategic Plan, PSAB signalled its intent to:

• assess the specific needs of government not-for-profit (GNFP) stakeholders; and
• determine if some public sector accounting standards should apply differently to this group.

Purpose

The purpose of the consultation paper is to:

• inform GNFP stakeholders of the Canadian and international not-for-profit financial reporting landscape;
• communicate results of the 2017-2018 GNFP consultations; and
• request stakeholder input on key issues that will guide PSAB in determining its next steps for the GNFP Strategy.

Background

As committed under the 2017-2021 Strategic Plan, PSAB is exploring the implications of all GNFPOs following the same set of standards and considering whether its standards should provide more flexibility when applied to different stakeholder groups.

In 2017, PSAB and its staff consulted with more than 100 GNFP stakeholders to understand their financial reporting needs and concerns and the current Canadian GNFP landscape. Most interviews were conducted with stakeholders from the school, university, college and hospital/health authority subsector (SUCH sector). To expand the Board’s understanding of the GNFP landscape, a small group of stakeholders from other subsectors (e.g., museums) were also interviewed. Stakeholders included preparers, auditors, banks, government ministries and provincial controllers. The following needs and concerns were identified:

• diversity in GNFPO’s financial reporting practices in Canada;
• relevance of net debt indicator;
• need for fund accounting;
• need for specific guidance relating to endowments; and
• effect of Public Sector Accounting Standards (PSAS) on the balanced-budget mandate.

PSAB recognizes that more work needs to be done to fully understand the GNFP sector. The Board will consult extensively with the GNFP stakeholders during the comment period.

PSAB has taken a neutral approach when developing this Consultation Paper. The Board will determine next steps once it is satisfied that enough research has been completed and stakeholder feedback has been carefully considered.
Comments Requested

PSAB welcomes comments from GNFPoS, individuals, governments and other organizations on all aspects of this Consultation Paper. The Board is particularly interested in areas addressed by the following questions:

**Future trends**

1. What are the future trends specific to the GNFP sector and their impact on financial reporting?

**Other issues**

2. Are there any other significant financial reporting concerns not captured as part of the 2017-2018 GNFP consultations? Please explain.

**Uniform accounting and financial reporting**

3(a) Should governments (e.g., federal, provincial, municipal and Indigenous) and GNFPoS account for transactions similarly (i.e., using same accounting standards)? Please explain your response and its impact on financial statement users.

3(b) Should government (e.g., federal, provincial, municipal and Indigenous) and GNFPoS present information similarly in the financial statements (i.e., using same reporting model)? Please explain your response and its impact on financial statement users.

3(c) If no, what distinct needs do GNFP financial statement users have that would require GNFP specific accounting and/or presentation guidance?

**Consistency within the GNFP Sector**


**Comparability within the subsector**

5. Would financial statement users benefit (e.g., performance measurement, funding, etc.) from comparable financial information within each subsector (e.g., universities, colleges, museums, social housing, etc.)? Please explain.

6. What are the key areas where financial information comparability within each subsector would be beneficial or not for financial statement users (e.g., presentation, disclosure, revenue recognition, etc.)?

For more details on the questions, see “Comment requested” on page 20.

We value your input and look forward to your feedback on this Consultation Paper. Comment on this document by completing this online survey and/or uploading your response letter via this online form. Please address your response to:

Michael A. Puskaric, MBA, CPA, CMA
Director, Public Sector Accounting
Public Sector Accounting Board
277 Wellington Street West
Toronto, ON M5V 3H2

Comments to PSAB must be received by September 30, 2019.
Next steps

Once the responses from the stakeholders are assessed, PSAB will determine the next steps relating to the GNFP Strategy.

Abbreviation List

The following abbreviations are used in this document:

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AASB</td>
<td>Australian Accounting Standards Board</td>
</tr>
<tr>
<td>AcSB</td>
<td>Accounting Standards Board</td>
</tr>
<tr>
<td>FASB</td>
<td>Federal Accounting Standards Board</td>
</tr>
<tr>
<td>FRC</td>
<td>Financial Reporting Council</td>
</tr>
<tr>
<td>GAAP</td>
<td>generally accepted accounting principles</td>
</tr>
<tr>
<td>GASB</td>
<td>Governmental Accounting Standards Board</td>
</tr>
<tr>
<td>GNFP</td>
<td>government not-for-profit</td>
</tr>
<tr>
<td>GNFPO</td>
<td>government not-for-profit organization</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standard</td>
</tr>
<tr>
<td>IPSAS</td>
<td>International Public Sector Accounting Standard</td>
</tr>
<tr>
<td>NFPO</td>
<td>not-for-profit organization</td>
</tr>
<tr>
<td>PBE</td>
<td>public benefit entity</td>
</tr>
<tr>
<td>PSAS</td>
<td>Public Sector Accounting Standards</td>
</tr>
<tr>
<td>SOP</td>
<td>Statement of Principles</td>
</tr>
<tr>
<td>SORP</td>
<td>Statement of Recommended Practice Guidelines</td>
</tr>
<tr>
<td>SUCH</td>
<td>schools, universities, colleges and hospitals/health authorities</td>
</tr>
<tr>
<td>XRB</td>
<td>External Reporting Board</td>
</tr>
</tbody>
</table>

The body responsible for standard setting in New Zealand
Background

History of GNFPPOs – Introduction to Public Sector Accounting Standards

In 2010, PSAB directed GNFPPOs to adopt PSAS effective 2012. This decision was made on the premise that GNFPPOs would be best served by using the accounting standards applicable to the public sector. This decision recognized that the focus of GNFPPO operations is on the provision of public services and that GNFPPOs are accountable to a broad group of users such as legislators, special interest groups and the general public.

To ease the transition to PSAS, PSAB incorporated the 4400 series from Part V of the Canadian Institute of Chartered Accountants Handbook – Accounting into the Public Sector Accounting (PSA) Handbook, as Sections PS 4200 to PS 4270 (PS 4200 series). The Board then provided GNFPPOs with an option to follow PSAS with or without incorporating the PS 4200-series standard.

The following timeline details the history of GNFPPOs’ journey into the PSA Handbook and PSAB’s GNFP strategy:

- **1991**: The AcSB proposes NFP standards (4400-series standards) that will be adopted by NFPOs and GNFPPOs.
- **1997**: PSAAB (changed to PSAB in 1998) amends the introduction to PSAS and directs GNFPPOs to follow Part V of the CICA Canada Handbook – Accounting, Standards for Not-for-Profit Organizations.
- **2005**: The AcSB issues an Invitation to Comment on the future direction of standard setting in Canada and proposes different strategies for public companies, private companies and NFPOs. The proposal has significant implications for GNFPPOs. PSAB questions the appropriateness of GNFPPOs using standards that are different from those followed by other public sector entities.
- **January 2009**: AcSB and PSAB jointly issue the Invitation To Comment, “Financial Reporting by Not-for-Profit Organizations.” Each Board proposes two alternatives for NFPOs to consider. PSAB proposes the PSA Handbook and PS 4400-series standards.
- **September 2009**: PSAB and AcSB receive 150 responses indicating strong support for an Accounting Standards for Private Enterprises + 4400 and Public Sector Handbook + 4400-series standards.
- **September 2010**: PSAB approves the inclusion of 4400-series standards, as PS 4200-series standards, in the PSA Handbook. Effective 2012, the Board directs GNFPPOs to follow the PSA Handbook with or without the PS 4200-series standards.
- **April 2013**: AcSB and PSAB jointly issue the Statement of Principles, “Improvements to Not-for-Profit Standards,” proposing principles to improve the existing standards for financial reporting by NFPOs.
- **June 2013**: PSAB approves the 2013-2016 Strategic Plan (later extended to 2017). One of the strategies is to complete the GNFPPOs’ transition to PSAS. The strategy’s objective is to have one financial reporting framework used by all entities that apply the PSA Handbook.
- **September 2014**: During the implementation, stakeholders raised few concerns relating to the existing standards. After carefully reviewing the responses to the Statement of Principals, PSAB believes that the most appropriate approach is the status quo. The Board plans to add more members from GNFPPOs to the Board.
- **April 2013**: AcSB and PSAB jointly issue the Statement of Principles, “Improvements to Not-for-Profit Standards,” proposing principles to improve the existing standards for financial reporting by NFPOs.
June 2013

PSAB approves the 2013-2016 Strategic Plan (later extended to 2017). One of the strategies is to complete the GNFP Os’ transition to PSAS. The strategy’s objective is to have one financial reporting framework used by all entities that apply the PSA Handbook.

September 2014

During the implementation, stakeholders raised few concerns relating to the existing standards. After carefully reviewing the responses to the Statement of Principles, PSAB believes that the most appropriate approach is the status quo. The Board plans to add more members from GNFP Os to the Board.

March 2015

AcSB and PSAB decide that standards for NFP Os and GNFP Os should be developed and maintained by the two separate Boards.

December 2015

PSAB issues the Exposure Draft, “Withdrawal of Disclosure of Related Party Transactions by Not-for-Profit Organizations, Section PS 4260.”

May 2016

PSAB issues a draft of its 2017-2020 Strategic Plan for public comment. The draft plan states that the Board views that the timing is right to revisit GNFP accounting standards and that initial work should focus on producing a more detailed assessment of the GNFP landscape in Canada.

September 2016

Following the addition of Section PS 2200, Related Party Disclosures, PSAB approves the withdrawal of Section PS 4260, Disclosure of Related Party Transactions by Not-for-Profit Organizations.

March 2017

Responses to the draft strategic plan were largely positive and supported PSAB’s plan to renew its GNFP-related efforts.

June 2017 – December 2017

More than 100 GNFP stakeholders were consulted to understand the regulatory and fiscal requirements, financial reporting needs and perspectives.

PSAB – GNFP Strategy

**GNFP Strategy**

In its 2010-2013 Strategic Plan, PSAB stated that one of its key strategies (GNFP Strategy) is bringing those organizations (GNFP Os) into the PSA Handbook. First, by including the 4400 series of accounting standards (not-for-profit GAAP) from the Canadian Institute of Chartered Accountants Handbook – Accounting into the PSA Handbook. Second, PSAB will assess the various aspects of the 4400 series to align those requirements with the PSA Handbook while addressing certain transactions, such as endowments.

When the 4400-series standards were incorporated as PS 4200 series, PSAB was aware that not all PS 4200-series standards were aligned completely with the PSA Handbook concepts. Therefore, the Board initiated a review of the standards. Dealing with the differences between the existing public sector standards and the PS 4200 series entailed reviewing the standards for consistency, conformity with the PSA Handbook concepts and addressing the GNFO stakeholders’ needs.

**2013-2017 Strategic Plan**

One of the objectives of the 2013-2017 Strategic Plan was to have one financial reporting framework used by all entities that apply the PSA Handbook.

**Review of PSAB’s GNFP Strategy**

After consultations in 2015-2016, PSAB chose to reassess its GNFP Strategy. This involved assessing GNFP Os’ specific needs and understand if some standards should be applied differently to this group.
**2017-2021 Strategic Plan**

As committed under the 2017-2021 Strategic Plan, PSAB is exploring the implications of all GNFPs following the same set of standards and considering whether its standards should provide more flexibility when being applied to different stakeholder groups.

After deliberations and considerations, PSAB established a workplan (Figure 1) to revisit the GNFP Strategy.

**Figure 1**

![Diagram of the workplan](image)

**Accounting Standards Board – Private NFP Strategy**

The AcSB’s strategy for private sector NFPOs is outlined in its 2016-2021 Strategic Plan. The Board’s strategy is to make high-quality standards available to stakeholders on a timely basis that are reflective of the current environment. Central to these activities is a clear understanding of financial statement user needs in this sector. In support of this strategy, the Board considers global best practices when making decisions on its Canadian standards and contributes to those practices through continued dialogue with other jurisdictions.

In carrying out its Strategic Plan, the AcSB’s recent activities include:

- completing its project to improve the accounting for tangible capital assets, intangible assets and collections;
- advancing work on its Contributions – Revenue Recognition and Related Matters project by conducting extensive user outreach and consulting with its Not-for-Profit Advisory Committee; and
- approving a project to provide guidance on the accounting for combinations by NFPOs.
Interrelationship with other PSAB strategies

The GNFP project is one of the three key ongoing strategies PSAB has undertaken as part of its 2017-2021 Strategic Plan, as shown in Figure 2.

Figure 2

Concepts underlying financial performance

The Conceptual Framework focuses on the foundations and concepts used to develop PSAS. The proposed framework and reporting model would, if adopted by PSAB, affect the way public sector organizations, including GNFPs, present their general-purpose financial statements (called “financial statements” throughout this document). When the Board proposed a revised conceptual framework (in the Statement of Concepts) and a revised reporting model (in the Statement of Principles), it considered the GNFPs’ needs and proposed the following:

• relocate the net debt indicator to its own statement and refine its calculation to make it more meaningful;
• create a component of net assets or net liabilities that the Board can consider in the future as a tool for resolving standards-level issues (such as endowments); and
• restructure the statement of financial position so that all assets are presented together to make the statement more understandable to all users.

The proposals for a revised conceptual framework and a revised reporting model addressed the needs of all the stakeholders with the aim that all public sector entities, including GNFPs, would use the proposed conceptual framework and reporting model.

In 2020, PSAB plans to issue an exposure draft for a revised conceptual framework and an exposure draft for revised financial statement presentation (reporting model) standard. These will take into consideration the feedback on the Statement of Concepts and Statement of Principles.

For practical purposes, until PSAB has approved a new GNFP strategy, the Board will assume that:

• any new conceptual framework will apply to all GNFPs regardless of whether they apply the PS 4200 series; and
• any new reporting model will apply to GNFPs that follow PSAS without the PS 4200 series.
Therefore, PSAB will continue to consider the GNFPFs needs in developing its conceptual framework and reporting model exposure drafts.

**Review of International Strategy**

The International Strategy states PSAB’s approach to the IPSAS and may affect the future of public sector standard setting in Canada. It sets out different options that could affect all government organizations, including GNFPFs. Once the Board finalizes its International Strategy, a GNFP Strategy will be assessed based on the decision relating to the International Strategy.

As work progresses on each strategy, PSAB expects that new information and stakeholder input will inform the decision-making process of all the strategies. The Board believes that the Conceptual Framework, the International Strategy and the GNFP Strategy cannot be viewed in isolation from one another.

For this reason, PSAB has scheduled a simultaneous release of the second International Strategy and GNFP Strategy Consultation Papers. This will allow stakeholders to provide feedback and analysis based on the full scope of the work in progress.

Additional news and information will be provided through PSAB’s Twitter and LinkedIn accounts and through The Standard. (Readers can tailor their subscription to the bi-weekly newsletter.) Stakeholders are encouraged to monitor these channels for the latest updates for each strategy.
Canadian NFP Landscape

When it started its current consultation process, PSAB found a lack of thorough economic data on the overall NFP sector. Most studies reviewed are dated; data has not been collected in recent years. To develop an evidence-based sustainable strategy, this base needs to be in place.

The AcSB faces a somewhat similar challenge as it explores how to better meet its stakeholder’s needs in the long run. Both Boards are planning to work together to develop a common knowledge base that will help all stakeholders understand the makeup of this important sector of the Canadian economy. This exercise is planned for 2019 and should be available in late 2020 to inform the development of options for the GNFP strategy.

The data in this section represent PSAB’s incomplete knowledge as of March 2019 and should be read with caution. The Board intends to provide high-level understanding of the sector. The data will be refined and confirmed or modified in the coming year.

With this understanding, the NFP sector is believed to be a major sector of economic activity in Canada. Some studies estimate that over 11 per cent of the Canadian labour force (about 2 million people) is employed in this sector.¹

This sector provides services to the public and is used by government as a public service delivery instrument. NFPs help alleviate some of the biggest social issues: hunger, poverty, health care for vulnerable populations and advocacy for refugees. According to Imagine Canada’s report on charities and non-profits, it is estimated that there are more than 170,000 charitable and non-profit organizations in Canada. Some 85,000 of these are registered charities recognized by the Canada Revenue Agency (CRA).¹

Government and private NFPs provide health, educational, social and cultural services, or raise funds for others that provide services. Some are hybrid by nature; that is, they provide services and raise funds for themselves or for other NFPs. This adds a layer of complexity when reporting financial performance.

The CRA differentiates NFPs into non-profit organizations (NPOs) and registered charities. NPOs are associations, clubs or societies that are not charities and are organized and operated exclusively for social welfare, civic improvement, pleasure, recreation or any other purpose except profit.

Examples of NPOs include:

- social, recreational or hobby groups (e.g., bridge clubs, curling clubs and golf clubs);
- certain amateur sports organizations (e.g., hockey associations, baseball leagues and soccer leagues);
- certain festival organizations (e.g., parades and seasonal celebrations); and
- national membership associations (e.g., CPA Canada).

Charities are public or private organizations, public foundations or private foundations, that are created and are resident in Canada. They must use their resources for charitable activities and have charitable purposes that fall into one or more of the following categories:

- poverty relief;
- education advancement;
- religious advancement; and
- other purposes that benefit the community.²

¹ Imagine Canada, “Canada’s Charities & Nonprofits.”
² Canada Revenue Agency, “What is the difference between a registered charity and a non-profit organization?”
Examples of charities include:

- poverty relief (e.g., food banks, soup kitchens and low-cost housing units);
- education advancement (e.g., colleges, universities and research institutes);
- religious advancement (e.g., places of worship and missionary organizations); and
- other purposes that benefit the community (e.g., animal shelters, libraries and volunteer fire departments).

For CRA purposes, an organization can be registered as either a charity or an NPO.

**The GNFPO sector’s importance in the Canadian economy**

As mentioned, the makeup of the Canadian NFP sector is not well understood. The GNFP component is also not fully known because its size and mandate changes depending on policy directions chosen by various levels of governments. The frequency of these changes is a challenge to this sector. The data referred to in this section should be read with this understanding.

The number of GNFPOs is estimated between 1,500 and 2,000, approximately 1 per cent of the overall NFP sector. The revenue flowing through the GNFP subsector is estimated to be $120 billion to $140 billion, or approximately two-thirds of the overall NFP sector. These numbers should be read with caution given the hybrid nature of some of GNFPOs; fundraising and program delivery might lead to double counting of funds. This makes it challenging to determine the extent of resources used by the sector and any subsector.

Although they may be few, GNFPOs tend to be large in size. Many have hundreds to thousands of employees. The annual revenue flowing through an average GNFP is estimated to be $100 million. For example, the Alberta Health Services Agency has $15 billion of annual revenue (total assets of $11 billion), the Toronto Community Housing Corporation has $700 million of annual revenue (total assets of $4 billion) and the Canadian Museum of Nature has $10 million of annual revenue (total assets of $200 million). Some GNFPOs have many locations, many services and high media profiles. Other GNFPOs have one location, one service and low media profiles.

The GNFP landscape’s complexity is due in part to the classification of certain organizations by their sovereign governments across Canada. Although similar in nature and governance, classification of some organization within a given sector varies from one province to another. In some, the government has determined through application of the criteria of control in Section PS 1300, Government Reporting Entity, that the GNFPOs’ relationship to government is that they are “controlled”. In other jurisdictions, through application of the same criteria, the government has determined that similar types of GNFPOs have a different relationship to government and are “not controlled”.

The diversity of the GNFP component of the NFP sector should not be underestimated. An in-depth understanding of this component is required to develop a sustainable, public interest-driven strategy that meets stakeholders’ needs.

**Financial Reporting Landscape**

The NFP financial reporting landscape is diverse. For financial reporting purposes, NFPOs are classified as either:

- private sector NFPOs; or
- GNFPs.

To establish which standards to apply, a determination must be made by an NFPO whether an organization is a NFPO or a GNFP.
The Preface to Part III CPA Canada Handbook – Accounting defines a NFPO as “an entity, normally without transferable ownership interests, organized and operated exclusively for social, educational, professional, religious, health, charitable or any other not-for-profit purpose. A not-for-profit organization’s members, contributors and other resource providers do not, in such capacity, receive any financial return directly from the organization.”

The Introduction to the PSA Handbook defines a GNFPO as:

(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.
(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.

Generally, if an organization meets the definition of an NFPO and is not controlled by a government, it falls within the scope of Part III of the CPA Canada Handbook – Accounting. If an NPO is controlled by a government, it is a GNFPO and falls within the scope of the PSA Handbook. The PSA Handbook defines control as “the power to govern the financial and operating policies of another organization with expected benefits or the risk of loss to the government from the other organization’s activities.”

Figure 3 shows the details of the various financial reporting frameworks NFPOs follow.

Figure 3

<table>
<thead>
<tr>
<th>Type of NFPO</th>
<th>Standard Setters</th>
<th>Framework followed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private Sector Not-for-Profit Organization</td>
<td>AcSB</td>
<td>Part III of the CPA Canada Handbook – Accounting Standards for Not-for-Profit Organizations and Part II of the CPA Canada Handbook – Accounting Standards for Private Enterprises</td>
</tr>
<tr>
<td>Government Not-for-Profit Organizations</td>
<td>PSAB</td>
<td>Public Sector Accounting Standards</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Public Sector Accounting Standards with the inclusion of PS 4200 series</td>
</tr>
</tbody>
</table>

---

3 Government Reporting Entity, Paragraph PS 1300.08.
Matters for feedback – Future trends

One of the objectives of assessing PSAB’s GNFP Strategy is to ensure that it is forward-looking. Therefore, PSAB would like to hear from the GNFP stakeholders on the upcoming trends and/or challenges.

1. What are the future trends specific to the GNFP sector and their impact on financial reporting?

International NFP Financial Reporting Landscape

This section provides an overview of the public sector and reporting requirements in other comparable countries and demonstrates diversity on an international level. The purpose of this section is to understand the financial reporting framework applicable to the government and private NFPOs in other comparable countries.

Identifying and evaluating the financial reporting practices in other jurisdictions helped PSAB learn from other standard setters’ experiences. It could also help to understand what the international NFP landscape might look like in the future.

Throughout the summer and fall of 2018, PSAB staff met with other international standard setters to learn about public sector accounting standards outside of Canada and how they apply to the GNFP sector. The staff researched the NFP financial reporting landscape of countries whose regulatory environments or financial reporting issues are comparable with Canada’s. To demonstrate diversity in this area, this section and Appendices A and B explain the NFP financial reporting landscapes of Australia, New Zealand, the United States and the United Kingdom. Figure 4 gives an overview of the public sector and NFP financial reporting landscape in these countries.

Figure 4

<table>
<thead>
<tr>
<th>Frameworks used</th>
<th>Australia</th>
<th>Canada</th>
<th>New Zealand</th>
<th>United States</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>IFRS® as adapted for the public sector and domestic Australian accounting standards developed to address public sector specific issues, including AASB 1049 Whole of Government and General Government Sector Financial Reporting</td>
<td>PSAS</td>
<td>PBE Standards This framework is a multi-standard, multi-tiered approach (4 tiers based on public accountability and annual expenses).</td>
<td>FASAB (federal) GASB (states, local and tribal governments)</td>
<td>IFRS® Standards as adapted or interpreted for the public sector</td>
</tr>
</tbody>
</table>
Do government and GNFPOs follow the same financial reporting standards?

<table>
<thead>
<tr>
<th>Do government and GNFPOs follow the same financial reporting standards?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>AASB modifies IFRS Standards and issues domestic</td>
</tr>
<tr>
<td>Australian accounting standards to address issues specific to NFP</td>
</tr>
<tr>
<td>entities, such as charities and public sector entities, to</td>
</tr>
<tr>
<td>address user needs, prevalence and magnitude of issues specific</td>
</tr>
<tr>
<td>to the NFP sector, NFP application issues and undue cost or</td>
</tr>
<tr>
<td>effort considerations.</td>
</tr>
</tbody>
</table>

| Partially                                                                 |
| GNFPOs have an option to follow PS 4200 series that address the     |
| sector’s specific needs.                                           |

| Partially                                                                 |
| PBEs are required to assess which tier they follow and apply that   |
| tier. Tiers are based on public accountability and annual expenses.  |

| Partially                                                                 |
| Governments are required to present government-wide financial       |
| statements,\(^5\) Governmental, Fiduciary and Proprietary Fund       |
| Financial Statements. Whereas most GNFPOs, such as universities,     |
| colleges, hospitals, can report as a business-type activity and      |
| have reduced presentation requirements.\(^6\)                         |

| Partially                                                                 |
| Central governments, hospitals, local governments, follow standards  |
| based on IFRS for SMEs. In addition, they also follow accounting      |
| manuals based on their sector.                                       |

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4 IFRS Standards are based on the principals of IFRS for SMEs Standard. However, standards are amended to meet the needs of the PBE sector in the UK.


6 See Statement No. 34 of the GASB, para. 138.
<table>
<thead>
<tr>
<th></th>
<th>Australia</th>
<th>Canada</th>
<th>New Zealand</th>
<th>United States</th>
<th>United Kingdom</th>
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<tr>
<td>Is there consistency within the overall GNFP sector?</td>
<td>Yes</td>
<td>Partially</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Is there comparability within the NFP subsector?</td>
<td>Yes</td>
<td>Partially</td>
<td>Partly</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Only GNFPOs that use PSAS with the inclusion of PS 4200 series are partially comparable.
Results of PSAB’s 2017-2018 GNFP Consultations

Overview
In 2017-2018, work commenced on the GNFP consultation project. PSAB’s early efforts focused on listing GNFP stakeholders and identifying key themes for the project team to explore. Stakeholders were grouped by subsector and geographic location, and specific topics were flagged for discussion with each group (see Figure 5).

Figure 5: Focus of consultations

The PSAB staff consulted with financial statement preparers, financial statement users and senior decision makers to ensure appropriate audiences had been selected. Auditing firms, PSAB members, professional associations and CPA provincial bodies were then contacted to arrange meetings with the stakeholders.

The consultations prioritized interviews over written submissions because of the time and effort stakeholders need to write comments. Given the many GNFPs operating in Canada and the project’s time constraints, PSAB decided to focus primarily on the SUCH sector for consultations.

More than 100 GNFP stakeholders were consulted between April 2017 and January 2018.

Through this consultation paper, PSAB is also consulting with all other GNFPs and their stakeholders that were not consulted as part of the 2017-2018 GNFP consultations.

Observations – Users and uses of the financial statements
GNFPs identified two broad groups that use their financial statements:

1. users who require financial statements from GNFPs and use the information for audit, consolidation, decision-making or accountability purposes.

2. users who have access to the financial statements but may rely more on other sources of information, such as the annual report, to assess a GNFP’s performance.
The users in the first category have access to – or the opportunity to request – additional information not available to external readers. For example:

- management, board members and government ministries have access to detailed financial information such as trial balances and management statements.

- banks require information based on the services they provide. For everyday banking, a bank may not require more than financial statements. However, for lending purposes, the bank could request additional information.

Most GNFPs are required to manage their actual financial results against budget. Therefore, users in the first category may have an interest in using the financial statements to review the overall surplus/deficit or to perform high-level analysis of the actual-to-budget performance. Where applicable, the reader can use the statement of operations to assess conformity to the balanced-budget requirement. Examples of these users are management, board members, board/trustees, government ministries, banks and auditors.

The users in the second category are more likely to be interested in specific information rather than information relating to the overall financial results of the organization. For example:

- prospective students or their parents may be interested in the endowment funds held by the universities and colleges in which they are considering enrolment.

- university professors may be interested in the total amount of funding provided to their institution to support faculty research.

- major donors may be interested in learning how the organization financially supports a specific cause.

Examples of these users are taxpayers, service recipients, donors, employees, unions, rating agencies, suppliers, media and advocacy groups.

Throughout the consultation process, many GNFPs believed that the use of the financial statements as a source of financial information is declining. Several contributing factors were identified as potential causes for the decline, but the most common factors noted were:

- information in the financial statements is not in an easily understandable format for non-accountants or non-financial experts; and

- amount of information presented in the financial statements, especially in the notes, is overwhelming.

**Summary of findings – Common issues**

Every GNFP has its own financial reporting challenges. Some GNFPs are required to prepare multiple sets of financial statements, while others must report on results against approved budget.

The GNFP stakeholders’ feedback to PSAB identified the following areas of concern:

- **Diversity in financial reporting practices followed by GNFPs in Canada**
- **Net debt**
- **Fund accounting**
Diversity in financial reporting practices followed by GNFPDs in Canada

The financial reporting practices in Canada are diverse, with some provincial or territorial governments exercising varying degrees of influence over those practices. Some provincial governments require or recommend to GNFPDs which of the two options they should apply (i.e., PSAS with or without the inclusion of PS 4200-series standards). Some provinces require GNFPDs to include additional schedules in the notes to the financial statements containing more detailed or supporting financial information. Other provincial governments, such as British Columbia (all GNFPDs) and Ontario (school boards exclusively), require GNFPDs to follow provincial regulations. Quebec also requires all public sector entities to follow a provincial regulation for transfer payments.

Figure 6 provides an overview of the financial reporting standards used by the SUCH sector.

Figure 6: Accounting standards used by GNFPDs by region – As at December 2017

<table>
<thead>
<tr>
<th>Province</th>
<th>Schools/school boards/school authorities</th>
<th>Universities</th>
<th>Colleges</th>
<th>Hospitals/health authorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yukon</td>
<td>Information not available</td>
<td>—</td>
<td>PSAS + 4200 series</td>
<td>PSAS + 4200 series</td>
</tr>
<tr>
<td>Northwest Territories</td>
<td>PSAS</td>
<td>—</td>
<td>PSAS</td>
<td>PSAS</td>
</tr>
<tr>
<td>Nunavut</td>
<td>PSAS</td>
<td>—</td>
<td>PSAS</td>
<td>PSAS</td>
</tr>
<tr>
<td>British Columbia</td>
<td>PSAS + provincial regulation</td>
<td>PSAS + provincial regulation</td>
<td>PSAS + provincial regulation</td>
<td>PSAS + provincial regulation</td>
</tr>
<tr>
<td>Alberta</td>
<td>PSAS</td>
<td>PSAS + 4200 series</td>
<td>PSAS</td>
<td>PSAS</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>PSAS</td>
<td>Not controlled by the province</td>
<td>PSAS</td>
<td>PSAS + 4200 series</td>
</tr>
<tr>
<td>Manitoba</td>
<td>PSAS</td>
<td>PSAS + 4200 series</td>
<td>PSAS</td>
<td>PSAS</td>
</tr>
<tr>
<td>Ontario</td>
<td>PSAS + provincial regulation</td>
<td>Not controlled by the province</td>
<td>PSAS + 4200 series</td>
<td>PSAS + 4200 series</td>
</tr>
<tr>
<td>Quebec</td>
<td>PSAS</td>
<td>Part III⁹</td>
<td>PSAS + 4200 series</td>
<td>PSAS</td>
</tr>
<tr>
<td>Newfoundland and Labrador</td>
<td>PSAS</td>
<td>PSAS + 4200 series</td>
<td>PSAS + 4200 series</td>
<td>PSAS</td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>PSAS</td>
<td>Not controlled by the province</td>
<td>Not controlled by the province</td>
<td>PSAS</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>Financial statements are not prepared by schools but only by the school boards.</td>
<td>Not controlled by the province</td>
<td>PSAS + 4200 series</td>
<td>PSAS</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>PSAS</td>
<td>Not controlled by the province</td>
<td>PSAS</td>
<td>PSAS</td>
</tr>
</tbody>
</table>

---

⁷ There are no universities.
⁸ Effective April 2019, post-secondary institutions in Manitoba must follow PSAS without the inclusion of PS 4200 series.
⁹ Universities controlled by the province of Quebec are required by the Ministry of Education and Higher Education Quebec to follow Part III of the CPA Canada Handbook – Accounting. Universities that are not controlled by the province also follow Part III of the Handbook.
Financial literacy expertise of financial statements users varies from low to high. Therefore, such diversity in financial reporting and accounting practices makes comparability difficult and creates confusion among the financial statement users. Colleges and universities are particularly mindful of this issue, as they rely on financial comparisons to differentiate themselves from other post-secondary institutions and compete for funding.

For board members who serve multiple GNFP0s, diversity in financial reporting may mean having to familiarize themselves with more than one accounting framework, even if the GNFP0 operates in the same subsector but in different jurisdictions. During the consultation process, several stakeholders cited instances in which boards required management to prepare statements in non-PSAS format to address this concern. In these cases, the issue was not a matter of non-experienced financial statement users struggling to interpret financial statements but of experienced financial statement users struggling to grasp the complexities of the various accounting standards.

**Net debt**

Net debt is an indicator of financial position that focuses on an entity’s future revenue requirements based on its past spending decisions. GNFP0s typically rely on funds provided by governments and/or donors to satisfy their future revenue requirements. GNFP0s that follow PSAS with the inclusion of PS 4200 series do not present net debt.

At the adoption of PSAS, it was expected that financial statements readers would use the net debt figure to assess GNFP0’s long-term sustainability. However, feedback obtained through the 2017-2018 GNFP consultations clearly indicated that stakeholders held a different opinion of net debt as a financial indicator.

Most stakeholders consulted felt that including net debt in a GNFP0’s financial statements has no relevance to the typical user and diminishes the understanding of the statement of financial position. Stakeholders considered net debt as a confusing data point for board members to understand the organization’s financial position.

Although all ministries responsible for schools and post-secondary education confirmed they use the financial statements to evaluate a GNFP0’s overall performance, none of them indicated that the net debt figure was used – or helped – to form that assessment. Provincial and territorial health ministries also shared those views.

Stakeholders provided the following explanations on why net debt lacks usefulness as a financial metric for GNFP0s:

- In GNFP0s’ view, although net debt is an important test of sustainability for future program delivery, the continuity of most government organizations depends on their controlling government’s policy decisions and budget priorities. Many GNFP0s deliver essential public services and are unlikely to see their core funding challenged because of poor net debt performance.

- In GNFP0s’ view, most GNFP0s are fiscally dependent on their sponsoring governments. Governments are generally bound in some manner (expressed or implied) to satisfy the debt obligations of those sponsored organizations.

- In GNFP0s’ view, most GNFP0s’ net debt does not truly represent their past operations. In most cases, operational deficits of schools, post-secondary institutions, hospitals/health authorities and government organizations are a result of the controlling government’s funding decisions.
**Fund accounting**

Fund accounting comprises the collective accounting procedures, resulting in a self-balancing set of accounts for each fund established by an organization’s legal, contractual or voluntary actions. Each fund may have its own revenues and expenses, assets and liabilities, and net asset balance. When using fund accounting, the latter is called a “fund balance”. Only the GNFPFs that follow the PS 4200 series have an option to present financial statements using fund accounting.

Throughout the consultation process, some stakeholders emphasized the importance of fund accounting to allow them to present funds, such as restricted, capital, endowment and research funds, separately from their operating funds.

Fund accounting supports this “financial information through differentiation” model in the following ways:

- it allows post-secondary institutions to highlight two critical data points:
  - endowments available to students;
  - research funding available, and its capacity to raise research funds
- in certain circumstances, it might facilitate GNFPFs demonstration of compliance with the balanced-budget mandate. Fund accounting enables the separate presentation of capital and/or restricted funds from operating funds.

**Summary of findings – Other specific issues**

**Endowments**

Canadian institutions, such as hospitals/health authorities, colleges and universities, typically receive endowment contributions from donors, including individuals, foundations, corporations and governments. Canadian institutions invest and hold endowment funds based on the conditions outlined in endowment agreements. The original donation amount is generally held in perpetuity by the institution. Income earned from investing the endowment funds is subject to restrictions and is used based on the conditions of the original endowment agreement.

At present, GNFPFs that apply PSAS (without PS 4200 series) do not receive specific guidance for accounting for endowments. Conversely, GNFPFs that apply PSAS (with PS 4200 series) can refer to Section PS 4210, *Contributions – Revenue Recognition*, for guidance on accounting and disclosure of endowments.

Institutions that apply PS 4200 series, account for endowments based on their preferred method of accounting for contributions, using either the deferral or restricted-fund method. When applying the deferral method, a GNFPF recognizes an endowment contribution as a direct increase to net assets in the year the contribution is received. When using the restricted-fund method, a GNFPF recognizes an endowment contribution as revenue when received.

Over time, the nature of endowments has evolved, and donors now place more restrictions and conditions on their donations. Due to the complexity of these arrangements, stakeholders from universities and colleges have expressed the need for further clarity on issues relating to endowments, such as subsequent measurement, accounting for investment income and other restrictions and requirements.

**Balanced budget mandate**

GNFPFs are subject to specific terms and conditions of their funding agreements with governments. Some provincial and municipal governments provide for an overriding requirement that some, or all, their GNFPFs comply with a jurisdiction-specific requirement of “balanced budget”. The definition of “balanced
budget” varies from one jurisdiction to another. Some jurisdictions call for all funds to be “balanced”, some call only for the operating funds to be “balanced”. The term “balanced” also can vary over time. This legislative requirement adds a layer of complexity in financial reporting for GNFPs.

GNFPs identified the following standards as those that present challenges to their ability to satisfy the obligations of balanced-budget mandates:

- Section PS 3255, *Post-employment Benefits and Compensation Absences and Termination Benefits*;
- Section PS 3280, *Asset Retirement Obligations*; and
- Section PS 3410, *Government Transfers*.

Some GNFPs have requested that PSAB consider the impact of its standards on the balanced-budget requirement. The Board discussed the issues stakeholders raised and concluded that influencing provincial regulatory mandates and requirements, or developing standards according to them, falls outside the scope of the Board’s standard-setting authority. Following are some of the key reasons:

- PSAB develops standards with a focus on the public accountability, not specific jurisdictional financial reporting requirements.
- The purpose of the financial statements is to provide information to fulfill the public sector entity’s duty of accountability. This requires the reporting of all financial measures and indicators that might demonstrate how a public sector entity has exercised its stewardship over public resources. This requires presenting and accounting for information that is non-cash and long-term in nature.
- Balanced budgets are specific to each jurisdiction and in some cases each subsector. Therefore, general-purpose financial statements cannot accommodate jurisdiction-specific financial reporting requirements.

**Matters for feedback – Other issues**

The 2017-2018 GNFP consultations focused on SUCH sector and museum subsector. Therefore, PSAB is seeking feedback from stakeholders and subsectors that were not consulted, such as social services and public housing. This will assist in achieving an all-inclusive view of the GNFP sector.

2. Are there any other significant financial reporting concerns not captured as part of the 2017-2018 GNFP consultations? Please explain.

**Comments Requested**

PSAB is seeking GNFP stakeholders’ feedback on the following additional topics to help it review its GNFP Strategy and determine next steps.

**Uniform accounting and financial reporting**

In 2012, PSAB allowed options to GNFPs resulting in different accounting and presentation for similar transactions as part of the GNFP transition to PSAS. Diversity in the accounting and financial reporting requires financial statement readers to be aware of the different accounting options available and its impact on the financial statements.

PSAB’s GNFP Strategy is based on the “one-size-fits-all” approach (i.e., common conceptual framework, accounting standards and reporting model). As stated in the 2013-2017
Strategic Plan, the long-term intent was to have organizations follow the PSA Handbook without the PS 4200 series after incorporating, as approved, standards and the topics in the PS 4200 series.

As committed in the 2017-2021 Strategic Plan, PSAB is reassessing the pros and cons of this approach. The Board would like to better understand the specific needs of the GNFPO stakeholders to see if some standards (e.g., accounting treatments, reporting model requirements) should be applied differently to this group.

3(a) Should governments (e.g., federal, provincial, municipal and Indigenous) and GNFPOs account for transactions similarly (i.e., using same accounting standards)? Please explain your response and its impact on financial statement users.

3(b) Should governments (e.g., federal, provincial, municipal and Indigenous) and GNFPOs present information similarly in the financial statements (i.e., using same accounting model)? Please explain your response and its impact on financial statement users.

3(c) If no, what distinct needs do GNFPO financial statement users have that would require GNF specific accounting and/or presentation guidance?

The Statement of Concepts “A Revised Conceptual Framework for the Canadian Public Sector,” defines presentation as the process by which an entity communicates information in its financial statements to meet the objective of financial reporting and the specific financial statement objectives. Presentation includes:

(a) reporting of items on the face of the financial statements;
(b) recognition of transactions and other events within the totals reported on the face of the financial statements; and
(c) disclosure in the notes and schedules to the financial statements.

**Consistency within the GNFPO Sector**

As stated earlier, there are financial reporting inconsistencies between GNFPOs due to the financial reporting options available or government regulations. Financial reporting inconsistencies challenge the users’ ability to understand the information provided in the financial statements.

Inconsistency in financial reporting by similar GNFPOs results in diverse financial statement presentation, and different accounting for similar transactions. For example, GNFPOs following PSAS with the inclusion of PS 4200 series can account for revenue through either deferral or restricted-fund method. GNFPOs following PSAS without the inclusion of PS 4200 series cannot use deferral or restricted-fund method. Consistency within the GNFPO sector might result in increased understandability of financial information, increased use of the financial statements and ease in the comparison of financial information.

4. Would financial statement users benefit from all GNFPOs using the same set of financial reporting standards? Please explain.
### Comparability within the subsector

During the 2017-2018 GNFP consultations, stakeholders from the university and college subsectors expressed the need to be comparable with their private sector counterparts. In Canada, based on who is deemed to control the GNFP, a GNFP uses one of the following frameworks to prepare their financial statements:

- PSAS;
- PSAS with the inclusion of PS 4200 series; or
- Part III of the CPA Canada Handbook – Accounting.

Government and private universities and colleges compete for donations, students, research grants and other funding opportunities. The financial statement users overlap between the government and private post-secondary subsectors. Stakeholders from the university and college subsector believe that majority of the financial statement users are identical between public and private institutions. Such users include students, professors, unions, financial institutions, special interest groups, granting councils and media. A similar dynamic might be present in other NFP subsectors, such as public housing, museums and long-term care. Therefore, diversity in the NFP sector creates hurdles when comparing financial information such as endowments and research funds.

There are subsectors, such as museums and long-term health, that consist of not-for-profit (government and private) and for-profit organizations. Therefore, financial statement users’ needs may include being comparable to other not-for-profit and for-profit organizations. Based on the nature of the organization, for-profit organizations may use IFRS Standards or Part II of the CPA Canada Handbook – Accounting Standards for Private Enterprises.

The overriding characteristics of public sector entities is the need for public accountability. Therefore, comparability with private sector accounting standards suggests an assessment from the public accountability view.

PSAB seeks feedback from the GNFP stakeholders regarding financial information comparability with their private sector counterparts (both for-profit and not-for-profit organizations). The feedback on this topic would help the Board to explore the benefits to the financial statements users in having comparable financial information.

<table>
<thead>
<tr>
<th>Subsector</th>
<th>GNFPs</th>
<th>Private sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>School</td>
<td></td>
<td>Comparability</td>
</tr>
<tr>
<td>College</td>
<td></td>
<td>Comparability</td>
</tr>
<tr>
<td>University</td>
<td></td>
<td>Comparability</td>
</tr>
<tr>
<td>Hospital/health authority</td>
<td></td>
<td>Comparability</td>
</tr>
<tr>
<td>Other subsectors</td>
<td></td>
<td>Comparability</td>
</tr>
</tbody>
</table>

5. Would financial statement users benefit (e.g., performance measurement, funding, etc.) from comparable financial information within each subsector (e.g., universities, colleges, museums, social housing, etc.)? Please explain.

6. What are the key areas where financial information comparability within each subsector would be beneficial or not for financial statement users (e.g., presentation, disclosure, revenue recognition, etc.)?
Appendix A – In-depth International Financial Reporting Landscape

This section describes reporting requirements in other countries. The purpose is to understand the financial reporting framework (FRF) applicable to the public sector of other countries. The scope of the in-depth research is limited to the United States, Australia, the United Kingdom and New Zealand. These countries demonstrate diversity in the financial reporting practices.

United States

More than 950,000 NFPs operate in the United States.\textsuperscript{10} The sector accounts for USD $2.16 trillion in annual revenue and holds USD $4.84 trillion in net assets.\textsuperscript{11} As of 2013, these organizations were believed to employ more than 10 million full-time, part-time and volunteer workers to conduct their activities.

Financial reporting oversight in the United States closely resembles the Canadian regulatory model with a few minor exceptions. Like Canada, the United States delegates authority for private and public sector accounting to different standard-setting bodies. FASB is responsible for private sector standards (including non-governmental NFPs).

Unlike Canada, the United States divides its public sector accounting authority between two separate standards-setting bodies. FASAB oversees standards applicable to government and government organizations at the national level, while GASB issues standards applicable to governments and government organizations at the state, local and tribal levels.

Standards issued by these public sector boards apply to the various government enterprises, joint ventures and public benefit corporations of their respective levels of government. Entities that generally meet the definition of a government and are generally obliged to follow their standards include:

- public employee retirement systems;
- government utilities;
- government hospitals and other health-care providers;
- government colleges and universities; and
- component units or subsidiaries of governments and government ventures.

In the United States federalist system, the responsibility for education and health care resides with state governments and thereby delegate to its instrumentalities such as local authorities. Because these and other core services typically associated with the GNFP sector generally fall within the purview of state and local governments, GASB effectively functions as the standard setter for the GNFP sector overall. Figure 7 shows the financial reporting structure in the United States.

\textsuperscript{10} McLeod, \textit{The New Zealand Cause Report}, 10.
\textsuperscript{11} Ibid.
GASB-issued standards use financial accountability as the primary test for establishing responsibility for the preparation of financial statements. Responsible organizations are referred to as “reporting entities” and are defined by GASB as being:

- the primary government;
- organizations for which the primary government is financially accountable; and
- other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.\(^\text{12}\)

In addition, the financial accountability criteria are further detailed into specific provisions. GASB identifies several circumstances in which a primary government would be financially accountable for a legally separate organization. These secondary criteria generally relate to circumstances in which the primary government appoints the entity’s boards or the legally separate organization is fiscally dependent on the primary government.

GASB-issued standards dictate that the basic financial statements and required supplementary schedules should consist of:

- management discussion and analysis (MD&A);
- basic financial statements, including:
  - government-wide financial statements;
  - fund financial statements;
  - notes to the financial statements; and
- required supplementary schedules.

Reduced disclosure requirements are permitted for government organizations engaged only in “business-type activities”, that is, activities for which the government charges a fee. The applicable reporting requirements for such organizations are to produce enterprise fund financial statements. Universities and colleges are provided an option to present as if they are involved in the business-type activities.

Australia

More than 55,000 NFPs operate in the country. The sector accounts for AUD $107 billion in annual revenue and holds AUD $176 billion in assets. As of 2013, these organizations employ more than 1 million full-time, part-time and volunteer workers to conduct their activities.

The Australian Accounting Standards Board (AASB), a federal government agency under the Treasury department, develops and maintains financial reporting standards applicable to entities in both the private and public sectors. The AASB defines an NFP entity as “an entity whose principal objective is not the generation of profit. A not-for-profit entity can be a single entity or a group of entities comprising the parent entity and each of the entities that it controls.” Both public sector entities (local governments, state and territorial governments, the federal government, government departments, etc.) and private sector entities (charities, incorporated associations, etc.) are captured by this definition.

Since 2005, Australia has applied IFRS Standards in all sectors with the view that like transactions and events should be accounted for in a like manner by all types of entities. The AASB refers to this as “transaction neutrality”. Domestic NFP standards are developed and applied only in circumstances where NFP issues have not been comprehensively or appropriately dealt with in existing IFRS Standards, including where no relevant IFRS Standard exists. The AASB also modifies IFRS Standards for NFP entities to address issues specific to the NFP sector, in accordance with its standard-setting framework policy.

Modifications to address Australian-specific requirements are identified by “Aus” paragraphs in the standards or additional Australian appendices (mandatory requirements) or other guidance. For-profit entities complying with Australian Accounting Standards (Tier 1) will simultaneously comply with IFRS Standards. Domestic AASB pronouncements developed to address specific NFP issues are applicable only to the NFP entities explicitly identified in the pronouncement document. NFP entities complying with Australian Accounting Standards (Tier 1) typically are not able to claim IFRS Standards compliance, as there are some differences in recognition and measurement requirements.

Australian-specific requirements for for-profit entities are limited under Tier 1 to additional disclosures, to maintain IFRS Standards compliance. For-profit and NFP entities complying with Tier 2 (Australian Accounting Standards – Reduced Disclosure Requirements) are not able to claim IFRS Standards compliance.

Figure 8 shows how Australian Accounting Standards are applied.

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Figure 8: AASB accounting standards

<table>
<thead>
<tr>
<th></th>
<th>Tier 1</th>
<th>Tier 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>For-profit Private Sector Entities</td>
<td>Publicly accountable entities</td>
<td>Non-publicly accountable entities</td>
</tr>
<tr>
<td>Not-for-profit Entities</td>
<td>Choice of applying Tier 1 or Tier 2 requirements</td>
<td></td>
</tr>
<tr>
<td>Public Sector Entities</td>
<td>Federal, state, territorial and local governments</td>
<td>All other public sector entities</td>
</tr>
<tr>
<td></td>
<td>&quot;General government sectors&quot;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Federal, state and territorial</td>
<td></td>
</tr>
</tbody>
</table>

Tier 1

Australia Accounting Standards — incorporates IFRS issued by IASB and includes requirements specific to Australian entities

Tier 2

Reduced disclosure requirement

Note: Entities that are not required to apply Tier 1 can still choose to comply with Tier 1, and many do so. Therefore, non-publicly accountable for-profit entities and other public sector entities also have the choice of applying Tier 1 and Tier 2. In the public sector, most states and territories require their departments and agencies to comply with Tier 1.
United Kingdom

More than 160,000 NFPs operate in the United Kingdom. The sector accounts for £69 billion in annual revenue and holds £235 billion in net assets. As of 2013, these organizations were believed to employ more than 900,000 full-time, part-time and volunteer workers to conduct their activities.

In the U.K., there are two financial reporting boards:

• Financial Reporting Advisory Board (FRAB); and
• Financial Reporting Council (FRC) (an independent regulator).

The FRAB’s role is to promote the highest possible standards in financial reporting by the government. FRC is the U.K.’s regulator for the accounting, audit and actuarial professions. It sets the U.K.’s and Ireland’s accounting standards, except for the public sector.

In the United Kingdom, a PBE is defined as “an entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity has been provided with a view to supporting the entity’s primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members.” PBEs may also be referred to as “NFP entities”, meaning charities, housing associations, universities and colleges are captured by the definition.

In the U.K., public sector entities include:

• central government departments;
• local authorities;
• devolved administrations;
• the National Health Service (NHS);
• academy schools; and
• public corporations.

The central government follows the Governmental Financial Reporting Manual (FReM). FReM is the technical accounting guide for the preparation of financial statements issued by the Treasury. It applies to all entities that are prepared on an accrual basis and consolidated within the whole of government accounts. FReM does not apply to local government or NHS trusts, NHS foundation trusts or clinical commissioning groups.

The local authorities are required to keep their accounts in compliance with the terms of the Code of Practice on Local Authority Accounting in the U.K. (the Code). The Code is developed by the Chartered Institute of Public Finance and Accountancy and Local Authority Accounts Advisory Committee.

The SORP issued by the relevant authorities determines the financial reporting practices of public sector in the U.K. Some of the examples are:

• NHS: Manual for accounts issued by Department of Health.
• Higher Education Institutions: Manual of Accounts issued by BUFDG.

17 Ibid.
The private NFP sector in the U.K. follows accounting standards issued by the FRC. In 2015, the FRC issued **FRS 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland**, which is the centrepiece of the current U.K. framework. FRS 102 replaces the old U.K. GAAP standards, statements of standard accounting practice and urgent issues task force abstracts. FRS 102 is a single financial reporting standard, based on **IFRS for SMEs**, that applies to the financial statements of U.K. entities that do not already apply:

- EU-adopted IFRS Standards;
- **FRS 101, Reduced Disclosure Framework** disclosure exemptions from EU-Adopted IFRS Standards for Qualifying Entities; or
- **FRS 105, The Financial Reporting Standard applicable to the Micro-entities Regime**.

Under FRS 102, any guideline applicable to PBEs exclusively is identified using the “PBE” prefix. Guidance for financial reporting by charities and other sector-driven recommendations are provided in SORPs. These statements provide guidance on the application of FRS 102 to charities or other organizations with specific needs. For example, charities in the U.K. will apply FRS 102 using guidelines established by the Charities SORP. Universities, which are not considered public sector organizations in the U.K., will apply FRS 102 using guidelines established by the Further and Higher Education SORP. Figure 9 shows how FRC accounting standards are applied.

*Figure 9: FRC Accounting Standards*

Source: Based on email interaction with Jenny Carter, FRC, April 4, 2018.
New Zealand

More than 25,000 NFPs operate in New Zealand. The sector accounts for NZD $17 billion in annual revenue and holds NZD $40 billion in net assets. As of 2013, these organizations were believed to employ more than 100,000 full-time, part-time and volunteer workers to conduct their activities.

The External Reporting Board (XRB) is an independent Crown entity responsible for accounting, auditing and assurance standards. The XRB delegates its standard-setting authorities to the New Zealand Accounting Standards Board, which develops and issues the country’s accounting standards. The New Zealand Auditing and Assurance Standards Board maintains a similar relationship.

Since July 2014, New Zealand has adopted a tiered approach to financial reporting. In 2013, the XRB completed a comprehensive review of its previous accounting standards for entities required to report in accordance with New Zealand GAAP. The review concluded that financial statement users’ needs would be better addressed if accounting standards were specifically tailored to the unique size and nature of the reporting entity. As a result, two new suites of standards were introduced, leading to the creation of New Zealand’s existing four-tier reporting model. Figure 10 shows how XRB accounting standards are applied.

In making these changes, New Zealand introduced the term “public benefit entity” (PBE). The XRB defines a PBE as any entity “whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than a financial return to equity holders.”

Under the XRB model, there are two types of PBEs:

- public sector PBEs – any PBE defined as “public” by the Public Audit Act 2001, as well as all Offices of Parliament; and
- not-for-profit PBEs – any PBE that is not considered a public sector PBE.

XRB bases its PBE standards on IPSAS, but retains flexibility to modify its standards to ensure their relevance in the New Zealand context. Similar adaptations have been used to broaden the scope of International Public Sector Accounting Standards (IPSAS) to include considerations for NFP entities.

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20 Ibid.
Figure 10: XRB Accounting Standards

<table>
<thead>
<tr>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
<th>Tier 4</th>
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<td>Not-for-profit PBEs</td>
<td>Public Sector PBEs</td>
<td>Accounting Standard Type Qualification criteria</td>
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<td>PBE IPSAS Public accountability OR &quot;large&quot; (expense &gt; $30M)</td>
<td>PBE IPSAS Public accountability OR &quot;large&quot; (expense &gt; $30M)</td>
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<td>PBE IPSAS No public accountability AND not large Elect to be in Tier 2</td>
<td>PBE IPSAS No public accountability AND not large Elect to be in Tier 2</td>
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<tr>
<td>Tier 3</td>
<td>Tier 4</td>
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<td>Simple Format (Cash) Entities allowed by law to use cash accounting Elect to be in Tier 4</td>
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</table>

Adapted from Deloitte, *PBE Standards in Your Pocket.*

An entity has public accountability if:

(a) it meets the IASB definition of public accountability as specified; or

(b) it is deemed to have public accountability in New Zealand.

In accordance with the IASB definition, an entity has public accountability if:

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance providers, securities brokers/dealers, mutual funds and investment banks.

Some entities may also hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business (e.g., travel or real estate agents, schools, charitable organizations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies), that does not make them publicly accountable.

An entity is deemed to have public accountability in New Zealand if:

(a) it is an FMC-reporting entity or a class of FMC-reporting entities that is considered to have a higher level of public accountability than other FMC-reporting entities under section 461K of the Financial Markets Conduct Act 2013; or

(b) it is an FMC-reporting entity or a class of FMC-reporting entities that is considered to have a higher level of public accountability by a notice issued by the Financial Markets Authority under section 461L(1)(a) of the Financial Markets Conduct Act 2013.

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22 Deloitte, *PBE standards in Your Pocket.*

23 External Reporting Board, *New Zealand Accounting Standards Framework.*
Appendix B – Comparison of financial reporting framework used by SUCH sector internationally

This section compares the framework used by SUCH sector in Canada with other countries.

<table>
<thead>
<tr>
<th>Schools/ school boards/ school authorities</th>
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<th>United Kingdom</th>
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<table>
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\(^24\) Universities controlled by the Province of Quebec use Part III of the Handbook.
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<td>government</td>
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GOVERNMENT NOT-FOR-PROFIT CONSULTATION PAPER

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